JSC Halyk Bank

Consolidated Financial Statements
and Independent Auditors' Report
For the Years Ended 31 December 2018,
2017 and 2016

JSC Halyk Bank

Table of contents

JSC Halyk Bank

Statement of Management's Responsibilities
For the Preparation and Approval of the Consolidated Financial Statements
For the years ended 31 December 2018, 2017 and 2016

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of JSC Halyk Bank ("the Bank") and its subsidiaries (collectively – "the Group") as at 31 December 2018, 2017 and 2016, the related consolidated statements of profit or loss, comprehensive income for the years then ended, changes in equity and cash flows for the years then ended, and of significant accounting policies and notes to the consolidated financial statements (the "consolidated financial statements") in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated 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 Group's consolidated financial position and financial performance; and
- making an assessment of the Group'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 Group;
- maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group 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 Group; and
- preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the years ended 31 December 2018, 2017 and 2016 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 consolidated financial statements of JSC Halyk Bank and its subsidiaries ("the Group"), which comprise the consolidated statements of financial position as at 31 December 2018, 2017 and 2016, the consolidated statements of profit or loss, consolidated statements of other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects the consolidated financial position of the Group as at 31 December 2018, 2017 and 2016 and its consolidated financial performance and its consolidated cash flows for the years 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 Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Kazakhstan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

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 Group reported total gross loans of KZT 3,890,872 million, including KZT 1,256,758 subject to collective impairment assessment, which comprise 32% of total gross loans. The expected credit losses ("ECL") resulting from this assessment amounted to KZT 183,364 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 36 to the consolidated financial statements for the description of the Group'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 Group'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 consolidated 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 Group's gross loans assessed for impairment on an individual basis amounted to KZT 2,634,114 million, which accounts for the remaining 68% of total gross loans. The related ECL comprised KZT 226,429 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 Group. 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 36 to the consolidated 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 Group'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 Group'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 Group'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.

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

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 Consolidated Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 consolidated 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
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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

Consolidated Statements of Financial Position
As at 31 December 2018, 2017 and 2016
(Millions of Kazakhstani Tenge)

	Notes	31 December 2018	31 December 2017	31 December 2016
ASSETS				
Cash and cash equivalents	5	1,755,138	1,780,548	1,774,519
Obligatory reserves	6	115,741	111,039	76,122
Financial assets at fair value through profit or loss	7	186,836	144,976	328,737
Amounts due from credit institutions	8	55,035	87,736	35,542
Available-for-sale investment securities	9	n/a	2,565,425	599,624
Financial assets at fair value through other comprehensive income	9	1,765,933	n/a	n/a
Debt securities at amortised cost, net of allowance for expected credit losses	10	1,055,907	n/a	n/a
Precious metals		3,496	5,111	1,684
Investments in associate	17	20,437	-	-
Loans to customers	11, 40	3,481,079	3,251,102	2,319,583
Investment property	12	58,868	37,517	30,146
Commercial property	13	70,318	48,774	10,202
Current income tax assets	25	34,478	15,320	3,222
Deferred income tax assets	25	323	517	831
Property and equipment	14	130,987	137,684	94,897
Intangible assets	15	8,435	8,251	9,179
Goodwill		3,085	3,085	4,954
Insurance assets	19	65,651	40,162	28,354
Other assets	20	91,148	68,129	20,590
		8,902,895	8,305,376	5,338,186
Assets classified as held for sale	16, 18	56,129	552,405	10,297
TOTAL ASSETS		**8,959,024**	**8,857,781**	**5,348,483**
LIABILITIES AND EQUITY				
LIABILITIES				
Amounts due to customers	21, 40	6,526,930	6,131,750	3,820,662
Amounts due to credit institutions	22	168,379	255,151	162,134
Financial liabilities at fair value through profit or loss	7	7,022	5,831	2,841
Debt securities issued	23	900,791	962,396	584,933
Current income tax liability	25	126	2,720	3,311
Deferred tax liability	25	66,188	8,789	23,181
Provisions	24	2,546	16,098	987
Insurance liabilities	19	182,441	139,543	64,374
Other liabilities	26	38,955	66,419	20,467
		7,893,378	7,588,697	4,682,890
Liabilities directly associated with assets classified as held for sale	16, 18	-	334,627	-
Total liabilities		**7,893,378**	**7,923,324**	**4,682,890**
EQUITY				
Share capital	27	209,027	143,695	143,695
Share premium reserve		1,839	1,839	1,911
Treasury shares		(111,441)	(104,234)	(103,121)
Retained earnings and other reserves		966,215	820,716	623,108
		1,065,640	862,016	665,593
Non-controlling interest		6	72,441	-
Total equity		**1,065,646**	**934,457**	**665,593**
TOTAL LIABILITIES AND EQUITY		**8,959,024**	**8,857,781**	**5,348,483**

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 16 to 126 form an integral part of these consolidated financial statements.

JSC Halyk Bank

Consolidated Statements of Profit or Loss
for the years ended 31 December 2018, 2017 and 2016
(Millions of Kazakhstani Tenge, Except for Earnings per Share which is in Tenge)

	Notes	Year ended 31 December 2018	Year ended 31 December 2017	Year ended 31 December 2016
CONTINUING OPERATIONS				
Interest income calculated using the effective interest method	29, 40	675,699	497,597	306,557
Other interest income	29, 40	6,342	8,731	26,006
Interest expense	29, 40	(333,772)	(257,805)	(160,549)
NET INTEREST INCOME BEFORE CREDIT LOSS EXPENSE	29	348,269	248,523	172,014
Credit loss expense	24	(31,995)	(67,302)	(25,308)
NET INTEREST INCOME		**316,274**	**181,221**	**146,706**
Fee and commission income	30	113,241	87,640	57,697
Fee and commission expense	30	(39,006)	(26,732)	(11,295)
Fees and commissions, net		74,235	60,908	46,402
Net gain/(loss) on financial assets and liabilities at fair value through profit or loss	31	114,158	31,423	(12,710)
Net realised gain from financial assets at fair value through other comprehensive income (IAS 39 – available-for-sale investment securities)		2,428	1,064	2,623
Net foreign exchange (loss)/gain	32	(64,577)	(4,949)	18,506
Insurance underwriting income	33	67,315	55,108	28,071
Share in profit of associate	17	2,899	-	-
Other income		21,765	23,618	6,486
OTHER NON-INTEREST INCOME		**143,988**	**106,264**	**42,976**
Operating expenses	34	**(137,223)**	**(105,797)**	**(66,341)**
Loss from impairment of non-financial assets		(27,308)	(6,533)	(2,218)
Recoveries of other credit loss expense/ (other credit loss expense)	24	15,951	1,737	(44)
Insurance claims incurred, net of reinsurance	19, 33	(59,986)	(48,615)	(24,799)
NON-INTEREST EXPENSES		**(208,566)**	**(159,208)**	**(93,402)**
INCOME BEFORE INCOME TAX EXPENSE		325,931	189,185	142,682
Income tax expense	25	(82,474)	(25,598)	(22,183)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		243,457	163,587	120,499
DISCONTINUED OPERATIONS				
Profit for the year from discontinued operations	16	9,974	9,876	10,913
NET PROFIT		**253,431**	**173,463**	**131,412**
Attributable to:				
Non-controlling interest		(807)	101	-
Common shareholders		254,238	173,362	131,412
		253,431	**173,463**	**131,412**
EARNINGS PER SHARE	35			
(in Kazakhstani Tenge)				
Basic and diluted earnings per share		22.75	15.77	11.96
Basic and diluted earnings per share from continuing operations		21.86	14.88	10.99

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 16 to 126 form an integral part of these consolidated financial statements.

JSC Halyk Bank

Consolidated Statements of Other Comprehensive Income for the years ended 31 December 2018, 2017 and 2016

(Millions of Kazakhstani Tenge)

	Year ended 31 December 2018	Year ended 31 December 2017	Year ended 31 December 2016
Net profit	**253,431**	**173,463**	**131,412**
Other comprehensive income:			
Items that will not be subsequently reclassified to profit or loss:			
Gain/(loss) on resulting on revaluation of property and equipment (2018, 2017, 2016 – net of tax – KZT 56 million, KZT 222 million, KZT 192 million)	2,151	(113)	539
Gain on revaluation of equity financial assets at fair value through other comprehensive income	558	n/a	n/a
Items that may 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, 2016 – net of tax – KZT nil)	(6,456)	32,592	6,348
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) (net of tax – KZT nil)	(2,428)	(1,064)	(2,623)
Share of other comprehensive loss of associate	(167)	-	-
Exchange differences on translating foreign operations (2018, 2017, 2016 – net of tax – KZT nil)	2,784	1,473	402
Other comprehensive (loss)/income for the year	(3,558)	32,888	4,666
Total comprehensive income for the year	**249,873**	**206,351**	**136,078**
Attributable to:			
Non-controlling interest	(1,954)	2,942	-
Common shareholders	251,827	203,409	136,078
	249,873	**206,351**	**136,078**

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 16 to 126 form an integral part of these consolidated financial statements.

Consolidated Statements of Changes in Equity
for the years ended 31 December 2018, 2017 and 2016
(Millions of Kazakhstani Tenge)

	Share capital Common shares	Share premium reserve	Treasury common shares	Cumulative translation reserve*	Revaluation reserve of financial assets at fair value through other comprehensive income*	Property revaluation reserve*	Retained earnings*	Total equity	Non-controlling interest	Total equity
31 December 2017	**143,695**	**1,839**	**(104,234)**	**6,570**	**13,008**	**15,470**	**785,668**	**862,016**	**72,441**	**934,457**
Impact of adopting IFRS 9	-	-	-	-	(9,539)	-	(33,467)	(43,006)	(11,857)	(54,863)
Restated opening balance under IFRS 9	143,695	1,839	(104,234)	6,570	3,469	15,470	752,201	819,010	60,584	879,594
Net income	-	-	-	-	-	-	254,238	254,238	(807)	253,431
Other comprehensive income/(loss)	-	-	-	2,784	(7,346)	2,087	64	(2,411)	(1,147)	(3,558)
Total comprehensive income/(loss)	**-**	**-**	**-**	**2,784**	**(7,346)**	**2,087**	**254,302**	**251,827**	**(1,954)**	**249,873**
Treasury shares purchased	-	-	(935)	-	-	-	-	(935)	-	(935)
Treasury shares sold	-	-	1,119	-	-	-	-	1,119	-	1,119
Effect from exchange of preferred shares of JSC Kazkommertsbank	-	-	-	-	-	-	(817)	(817)	6,175	5,358
Dividends – common shares	-	-	-	-	-	-	(69,363)	(69,363)	-	(69,363)
Change in share due to the legal merger with JSC Kazkommertsbank	65,332	-	(7,391)	303	(927)	4,127	3,355	64,799	(64,799)	-
Release of property and equipment revaluation reserve on depreciation and disposal of previously revalued assets	-	-	-	-	-	(714)	714	-	-	-
31 December 2018	**209,027**	**1,839**	**(111,441)**	**9,657**	**(4,804)**	**20,970**	**940,392**	**1,065,640**	**6**	**1,065,646**

Consolidated Statements of Changes in Equity (Continued)
for the years ended 31 December 2018, 2017 and 2016
(Millions of Kazakhstani Tenge)

	Share capital Common shares	Share premium reserve	Treasury shares	Cumulative translation reserve*	Revaluation reserve of available-for-sale investment securities*	Property revaluation reserve*	Retained earnings*	Total equity	Non-controlling interest	Total equity
31 December 2016	**143,695**	**1,911**	**(103,121)**	**5,097**	**(15,679)**	**16,609**	**617,081**	**665,593**	**-**	**665,593**
Net income	-	-	-	-	-	-	173,362	173,362	101	173,463
Other comprehensive income	-	-	-	1,473	28,687	(113)	-	30,047	2,841	32,888
Total comprehensive income	**-**	**-**	**-**	**1,473**	**28,687**	**(113)**	**173,362**	**203,409**	**2,942**	**206,351**
Treasury shares purchased	-	(72)	(1,675)	-	-	-	-	(1,747)	-	(1,747)
Treasury shares sold	-	-	562	-	-	-	-	562	-	562
Insurance bonuses to the insured	-	-	-	-	-	-	(171)	(171)	-	(171)
Purchase of additional share capital of JSC Kazkommertsbank	-	-	-	-	-	-	(1,387)	(1,387)	7	(1,380)
Sale of shares in JSC Kazkommertsbank to JSC HG ALMEX (See note 2)	-	-	-	-	-	-	(4,243)	(4,243)	69,492	65,249
Release of property and equipment revaluation reserve on depreciation and disposal of previously revalued assets	-	-	-	-	-	(1,026)	1,026	-	-	-
31 December 2017	**143,695**	**1,839**	**(104,234)**	**6,570**	**13,008**	**15,470**	**785,668**	**862,016**	**72,441**	**934,457**

JSC Halyk Bank

Consolidated Statements of Changes in Equity (continued)
for the years ended 31 December 2018, 2017 and 2016
(Millions of Kazakhstani Tenge)

	Share capital				Treasury Shares						
	Common Shares	**Non-convertible preferred shares**	**Convertible preferred shares**	**Share premium reserve**	**Common shares**	**Preferred shares**	**Cumulative translation reserve***	**Revaluation reserve of available-for-sale investment securities***	**Property revaluation reserve***	**Retained earnings***	**Total equity**
31 December 2015	**83,571**	**46,891**	**13,233**	**2,039**	**(39,974)**	**(63,201)**	**4,695**	**(19,404)**	**16,416**	**485,662**	**529,928**
Net income	-	-	-	-	-	-	-	-	-	131,412	131,412
Other comprehensive income	-	-	-	-	-	-	402	3,725	539	-	4,666
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**402**	**3,725**	**539**	**131,412**	**136,078**
Treasury shares purchased	-	-	-	(32)	(427)	-	-	-	-	-	(459)
Treasury shares sold	-	-	-	-	481	-	-	-	-	-	481
Dividends – preferred shares	-	-	-	-	-	-	-	-	-	(333)	(333)
Exchange of preferred shares to common shares	60,124	(46,891)	(13,233)	(96)	(63,201)	63,201	-	-	-	-	(96)
Insurance bonuses to the insured	-	-	-	-	-	-	-	-	-	(6)	(6)
Release of property and equipment revaluation reserve on depreciation and disposal of previously revalued assets	-	-	-	-	-	-	-	-	(346)	346	-
31 December 2016	**143,695**	**-**	**-**	**1,911**	**(103,121)**	**-**	**5,097**	**(15,679)**	**16,609**	**617,081**	**665,593**

* These amounts are included within Retained earnings and other reserves in the consolidated 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 16 to 126 form an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows
For the years ended 31 December 2018, 2017 and 2016
(Millions of Kazakhstani Tenge)

	Notes	Year ended 31 December 2018	Year ended 31 December 2017	Year ended 31 December 2016
CASH FLOWS FROM OPERATING ACTIVITIES:				
Interest received from financial assets at fair value through profit or loss		3,849	2,348	124
Interest received from cash equivalents and amounts due from credit institutions		36,435	23,610	13,732
Interest received on available-for-sale investment securities		n/a	23,730	17,684
Interest received on financial assets at fair value through other comprehensive income		84,013	n/a	n/a
Interest received on debt securities at amortised cost, net of allowance for expected credit losses		93,426	n/a	n/a
Interest received on investments held to maturity		n/a	-	1,201
Interest received from loans to customers		422,865	315,392	255,539
Interest paid on amounts due to customers		(217,606)	(201,006)	(116,406)
Interest paid on amounts due to credit institutions		(3,635)	(4,213)	(7,596)
Interest paid on debt securities issued		(55,730)	(63,365)	(47,828)
Fee and commission received		110,754	86,662	58,498
Fee and commission paid		(39,263)	(26,214)	(12,009)
Insurance underwriting income received		63,535	49,056	23,994
Ceded reinsurance share received/(paid)		669	(2,374)	(2,660)
Receipts/(payments for) from financial derivatives		17,812	11,955	(10,592)
Other income received		21,765	23,618	6,384
Operating expenses paid		(117,397)	(87,001)	(67,580)
Insurance claims paid		(50,064)	(34,553)	(16,602)
Cash flows from operating activities before changes in net operating assets		371,428	117,645	95,883
Changes in operating assets and liabilities:				
(Increase)/decrease in operating assets:				
Obligatory reserves		(4,656)	(31,604)	(7,733)
Financial assets at fair value through profit or loss		59,389	408,395	(127,891)
Amounts due from credit institutions		54,826	(26,757)	9,082
Precious metals		2,131	(168)	997
Loans to customers		(157,296)	(311,999)	(126,924)
Assets classified as held for sale		10,427	(2,219)	-
Insurance assets		(1,097)	12,493	(1,100)
Other assets		23,212	(3,472)	(6,269)
(Decrease)/increase in operating liabilities:				
Amounts due to customers		(20,599)	48,893	750,365
Amounts due to credit institutions		(89,881)	37,972	(9,224)
Financial liabilities at fair value through profit or loss		1,162	(187)	(2,755)
Insurance liabilities		10,588	(6,454)	7,944
Other liabilities		(32,986)	(67,957)	(133)
Net cash inflow from operating activities before income tax		226,648	174,581	582,242
Income tax paid		(46,633)	(52,365)	(20,331)
Net cash inflow from operating activities		180,015	122,216	561,911

Consolidated Statements of Cash Flows
For the years ended 31 December 2018, 2017 and 2016
(Millions of Kazakhstani Tenge)

	Notes	2018	2017	2016
CASH FLOWS FROM INVESTING ACTIVITIES:				
Cash (outflow)/inflow on disposal/acquisition of a subsidiary (2018 – JSC Altyn Bank, 2017 – JSC Kazkommertsbank)	2, 16	(110,175)	678,622	-
Purchase and prepayments for property and equipment and intangible assets		(9,199)	(13,862)	(15,386)
Proceeds on sale of property and equipment and intangible assets		3,611	1,403	2,859
Proceeds on sale of investment property		2,809	-	1,695
Proceeds on sale of commercial property		19,952	3,918	2,247
Proceeds from sale of financial assets at fair value through other comprehensive income (IAS 39 - available-for-sale investment securities		54,421	1,244,554	34,196
Purchase of financial assets at fair value through other comprehensive income (IAS 39 - available-for-sale investment securities		(219,839)	(1,753,899)	(186,905)
Proceeds from sale of debt securities at amortised cost, net of allowance for expected credit losses		56,544	-	-
Purchase of debt securities at amortised cost, net of allowance for expected credit losses		(66,583)	-	-
Capital expenditures on commercial property		(973)	(830)	(2,817)
Purchase of investments held to maturity		-	-	(43,601)
Net cash (outflow)/inflow from investing activities		**(269,432)**	**159,906**	**(207,712)**
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from sale of shares in JSC Kazkommertsbank to JSC HG ALMEX	2	-	65,249	-
Purchase of additional share capital of JSC Kazkommertsbank	2	-	(4,940)	-
Payment of compensation for exchange of preferred shares to common shares		-	-	(96)
Proceeds on sale of treasury shares		1,119	562	481
Purchase of treasury shares		(935)	(1,747)	(459)
Purchase of shares by subsidiary		(6,984)	-	-
Dividends paid – common shares		(69,363)	-	-
Dividends paid – preferred shares		-	-	(333)
Proceeds on debt securities issued		-	-	25,888
Redemption and repayment of debt securities issued	23	(167,463)	(197,892)	(43,561)
Net cash outflow from financing activities		(243,626)	(138,768)	(18,080)
Effect of changes in foreign exchange rates on cash and cash equivalents		164,897	5,411	33,720
Net change in cash and cash equivalents		(168,146)	148,765	369,839
CASH AND CASH EQUIVALENTS, beginning of the year	5	**1,923,284**	**1,774,519**	**1,404,680**
CASH AND CASH EQUIVALENTS, end of the year*	5	**1,755,138**	**1,923,284**	**1,774,519**

* As at 31 December 2017, cash and cash equivalents includes cash and cash equivalents of asset held for sale of KZT 142,736 million.

During the years ended 31 December 2018, 2017 and 2016 there were non-cash transfers, which were excluded from the consolidated statements of cash flows and disclosed in Notes 12, 13, 18 and 27.

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 16 to 126 form an integral part of these consolidated financial statements.

1. Principal activities

JSC Halyk Bank ("the Bank") and its subsidiaries (collectively, "the Group") provide corporate and retail banking services principally in Kazakhstan, Russia, Kyrgyzstan, Tajikistan and Georgia, leasing services in Kazakhstan and Russia, as well as asset management, insurance and brokerage services in Kazakhstan. The primary state registration of the Bank with the authorities of justice 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, collecting deposits, trading in securities and foreign currencies, executing transfers, cash and payment card operations, as well as rendering other banking services to its customers. In addition, the Bank acts as a non-exclusive agent of the Government of the Republic of Kazakhstan in channeling 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 Group 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 – 23, 122 and 532, respectively, 31 December 2016 – 22, 122 and 365, respectively) located throughout Kazakhstan. The address of the Bank's registered office is: 40 Al-Farabi Avenue, Almaty, A26M3K5, Republic of Kazakhstan.

As at 31 December 2018, the number of the Group's full-time equivalent employees was 16,131 (31 December 2017 – 18,410, 31 December 2016 - 11,402).

The consolidated financial statements of the Group for the years ended 31 December 2018, 2017 and 2016 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 Group 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 consolidated 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 Group is monitoring developments in the current environment and taking measures it considers necessary in order to support the sustainability and development of the Group's business in the foreseeable future. However, the impact of further economic developments on the future operations and financial position of the Group is at this stage difficult to determine.

(Millions of Kazakhstani Tenge)

Ownership

As at 31 December 2018, 2017 and 2016, the Group was owned by the following shareholders, which own individually more than 5% of the issued shares of the Group:

31 December 2018

	Total shares	Stake in total shares in circulation	Common shares	Stake in common shares in circulation
JSC HG Almex	8,756,202,348	75.0%	8,756,202,348	75.0%
Unified Accumulative Pension Fund Joint Stock Company	718,054,740	6.1%	718,054,740	6.1%
GDR holders	1,840,105,600	15.8%	1,840,105,600	15.8%
Other	365,393,741	3.1%	365,393,741	3.1%
Total shares in circulation (on consolidated basis)	**11,679,756,429**	**100%**	**11,679,756,429**	**100%**

31 December 2017

	Total shares	Stake in total shares in circulation	Common shares	Stake in common shares in circulation
JSC HG Almex	8,086,451,772	73.6%	8,086,451,772	73.6%
Unified Accumulative Pension Fund Joint Stock Company	716,281,746	6.5%	716,281,746	6.5%
GDR holders	1,852,878,720	16.8%	1,852,878,720	16.8%
Other	338,204,581	3.1%	338,204,581	3.1%
Total shares in circulation (on consolidated basis)	**10,993,816,819**	**100%**	**10,993,816,819**	**100%**

31 December 2016

	Total shares	Stake in total shares in circulation	Common shares	Stake in common shares in circulation
JSC HG Almex	8,086,451,772	73.6%	8,086,451,772	73.6%
Unified Accumulative Pension Fund Joint Stock Company	716,281,746	6.5%	716,281,746	6.5%
GDR holders	1,853,975,480	16.8%	1,853,975,480	16.8%
Other	336,910,333	3.1%	336,910,333	3.1%
Total shares in circulation (on consolidated basis)	**10,993,619,331**	**100%**	**10,993,619,331**	**100%**

2. Basis of presentation

Statement of compliance

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

These consolidated financial statements have been prepared assuming that the Group is a going concern, as the Group 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 consolidated financial statements are presented in millions of Kazakhstani Tenge ("KZT" or "Tenge"), except for earnings per share amounts and unless otherwise indicated.

These consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are accounted for at fair value and insurance liabilities which are accounted for based on actuarial calculations and certain property and equipment which are carried at revalued cost less depreciation and impairment as explained 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 Group 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 consolidated 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 Group presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the date of the consolidated statement of financial position (current) and more than 12 months after the date of the consolidated statement of financial position (non-current) is presented in Note 36.

Functional currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of the Bank is KZT. The presentation currency of the consolidated financial statements is KZT.

(Millions of Kazakhstani Tenge)

Consolidated subsidiaries

These consolidated financial statements include the following subsidiaries:

Subsidiaries	Holding % 31 December 2018	Holding % 31 December 2017	Holding % 31 December 2016	Country	Industry
JSC Halyk-Leasing	100	100	100	Kazakhstan	Leasing
JSC Kazteleport	100	100	100	Kazakhstan	Telecommunications
OJSC Halyk Bank Kyrgyzstan	100	100	100	Kyrgyzstan	Banking
JSC Halyk Finance	100	100	100	Kazakhstan	Broker and dealer activities
LLC Halyk Collection	100	100	100	Kazakhstan	Cash collection services
JSC Halyk-Life	100	100	100	Kazakhstan	Life insurance
JSC Kazakhinstrakh	99.99	100	100	Kazakhstan	Insurance
JSC Halyk Bank Georgia	100	100	100	Georgia	Banking
LLC Halyk Project	100	100	100	Kazakhstan	Management of doubtful and loss assets
JSC Commercial Bank Moskommertsbank*	100	100	-	Russia	Banking
CJSC Kazkommerstbank Tajikistan*	100	100	-	Tajikistan	Banking
JSC Kazkommertsbank Securities*	100	100	-	Kazakhstan	Broker and dealer activities
LLP KUSA KKB-1*	100	100	-	Kazakhstan	Management of doubtful and loss assets
LLP KUSA KKB-2*	100	100	-	Kazakhstan	Management of doubtful and loss assets
LLP KUSA KKB-3*	100	100	-	Kazakhstan	Management of doubtful and loss assets
JSC QPayments*	100	100	-	Kazakhstan	Payment card processing and other related services
JSC Life Insurance Company Kazkommerts Life*	-	100	-	Kazakhstan	Life insurance
JSC Insurance Company Kazkommerts-Policy*	-	99.97	-	Kazakhstan	Insurance
Kazkommerts Finance 2 B.V.*	-	100	-	Kingdom of the Netherlands	Raising funds for the Bank on international capital markets
Kazkommerts International B.V.*	-	100	-	Kingdom of the Netherlands	Raising funds for the Bank on international capital markets
JSC Kazkommertsbank	-	74.72	-	Kazakhstan	Banking
OJSC NBK-Bank	-	100	100	Russia	Banking
JSC Altyn Bank (SB of JSC Halyk Bank) (Note 16)	-	100	100	Kazakhstan	Banking

* As at 31 December 2017, the ownership is held by subsidiary undertaking – JSC Kazkommertsbank ("KKB").

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%.

(Millions of Kazakhstani Tenge)

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. 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 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.

Acquisition

The Group acquired the following subsidiary during the year ended 31 December 2017.

	Principal activity	**Date of acquisition**	**Proportion of shares acquired (%)**	**Consideration transferred in KZT**
2017				
JSC Kazkommertsbank	Banking	5 July 2017	96.81%	2

KKB was consolidated from 5 July 2017, on which date the control was transferred to the Group. The assets and liabilities of KKB were recognized at fair value. The income statement of KKB up to acquisition was not recognized.

	Fair value at acquisition
Assets	
Cash and cash equivalents	678,622
Obligatory reserves	3,313
Financial assets at fair value through profit or loss	197,071
Amounts due from credit institutions	24,675
Available-for-sale investment securities	1,434,422
Precious metals	3,065
Loans to customers	780,866
Assets held-for-sale	138,568
Property and equipment	49,009
Intangible assets	3,199
Deferred income tax assets	1,779
Insurance assets	15,211
Other assets	99,811
TOTAL ASSETS	**3,429,611**
Liabilities	
Amounts due to customers	2,584,187
Amounts due to credit institutions	70,650
Financial liabilities at fair value through profit or loss	3,132
Debt securities issued	579,662
Provisions	17,362
Deferred tax liability	200
Insurance liability	66,931
Other liabilities	107,487
TOTAL LIABILITIES	**3,429,611**
Total identifiable net assets at fair value	-
Non-controlling interest measured at fair value	7

(Millions of Kazakhstani Tenge)

Fair value of cash and cash equivalents received at acquisition amounted to KZT 678,622 million as disclosed in the table above.

The assets acquired and liabilities assumed are assessed at fair value as at the acquisition date in accordance with IFRS 3 requirements.

Management considered that the carrying amounts of cash and cash equivalents and obligatory reserves approximate their fair values at acquisition date due to its short-term maturity.

Property and assets held for sale were assessed using market comparable approach that reflects transaction prices for similar properties at acquisition date.

For 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 of date of acquisition. For loans where such estimation was not applicable, the estimate was made based on the discounting of future cash flows from realization of collateral.

For amounts due from credit institutions and amounts due to credit institutions 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 as of date of acquisition using market rates.

Interest rates charged to customers closely approximate market interest rates and, accordingly, the carrying amount of customers' accounts approximate its fair value.

To determine the fair value of the bonds issued by KKB, the Group used the relevant KASE quotes. Where the Group believes that KASE quotes do not reflect actual price of the securities (in case of low volume speculative transactions at non-market price) it uses different valuation methods. For example, to determine the fair value of some securities issued by KKB the Group based its valuation on the current yield to maturity (using base rate and credit spread). Other similar valuation methods would include such criteria as maturity, cash flow structure, currency and credit risk.

On acquisition date, net deferred tax assets of KKB included deductible temporary difference amounted to KZT 44,013 million of recognized tax losses carried forward and taxable temporary difference of KZT 44,013 million related to the fair value adjustment on customer accounts.

Impact of acquisitions on the results of the Group

Given the system limitations in allocating the significant impairment losses on financial assets between accounting periods, recorded by KKB during the year ended 31 December 2017, it was impracticable to determine the pro forma impact to the 2017 revenues and net income if the acquisition had occurred on 1 January 2017.

As at 31 December 2017, the portion of non-controlling interest in KKB was 25.28%, which is considered as a significant non-controlling interest for the Group.

As at 31 December 2017, there were no dividends declared by this subsidiary.
The summarised financial information of KKB below represents the amounts before intragroup eliminations.

	31 December 2017
Total assets	3,574,378
Total liabilities	3,306,238
Total equity	268,140
Net cash inflow from operating activities	1,793,933
Net cash outflow from investing activities	(1,379,162)
Net cash outflow from financing activities	(1,823)

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 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 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 Group sold its 60% shareholding in the subsidiary JSC Altyn Bank. As at 31 December 2018, the Group remains a 40% shareholder of JSC Altyn Bank, which is accounted for as an investment in associate (Note 17). In relation to the Group's equity investment in JSC Altyn Bank, the Group has the right to designate three members out of nine of JSC Altyn Bank's Board of Directors.

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.

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

On 29 August 2018, the Group 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.

3. Significant accounting policies

Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Bank and entities (including structured entities) controlled by the Bank and its subsidiaries. Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Bank and to any non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to any non-controlling interests even if this results in any non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full upon consolidation.

Non-controlling interests

Non-controlling interest represent the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Bank.

Non-controlling interests are presented separately in the consolidated statement of profit or loss and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Group. Transactions with non-controlling shareholders are presented as financing activities in the consolidated statement of cash flows.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- Deferred tax assets or liabilities are recognised and measured in accordance with IAS 12 "Income Taxes" ("IAS 12");
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 "Share-based Payment" ("IFRS 2") at the acquisition date; and
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" ("IFRS 5") are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

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 Group 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 Group's consolidated financial statements, merger-related transaction costs are expensed in the consolidated 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 consolidated financial statements) shall be recognized in equity of the acquirer.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see above) less accumulated impairment losses, 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 National Banks of Kazakhstan, Kyrgyzstan, Georgia, Tajikistan and the Central Bank of the Russian Federation and cash which are not available to finance the Group's day to day operations and, hence, are not considered as part of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

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 Group 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 amortised 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 Group recognises financial assets and liabilities on its consolidated 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 recognised using settlement date accounting. Where regular way purchases of financial instruments will be subsequently measured at fair value, the Group 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 recognised 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 derecognized 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 amortised 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 Group 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 Group'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 consolidated 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 fair value through other comprehensive income ("FVTOCI")

The Group assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Group'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 Group determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Group'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 Group has more than one business model for managing its financial instruments that reflect how the Group manages its financial assets in order to generate cash flows. The Group's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

The Group considers all relevant information available when making the business model assessment. However, this assessment is not performed based on scenarios that the Group does not reasonably expect to occur, such as so-called 'worst case' or 'stress case' scenarios. The Group 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 Group 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 Group 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 Group 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 amortised 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 Group 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 Group 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 amounts due to customers, amounts due from credit institutions and other assets in the consolidated statement of financial position.

Investments held to maturity

Investments held to maturity are debt securities with determinable or fixed payments. The Group has the positive intent and ability to hold them to maturity. Such securities are carried at amortised cost using the effective interest method, less any allowance for impairment. Amortised discounts and premiums are recognised in interest income over the period to maturity using the effective interest method.

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 consolidated statement of profit or loss. However, interest calculated using the effective interest method and foreign exchange movements for debt securities are recognised in the consolidated statement of profit or loss. Dividends declared are included in other income in the consolidated 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 Group 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 Group a claim on these assets for both existing and future customer liabilities.

Reclassification of financial assets

If the business model under which the Group 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 Group'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 Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. 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 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 Group 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 Group has an established forbearance policy, which applies for corporate and retail lending.

When a financial asset is modified the Group assesses whether this modification results in derecognition. In accordance with the Group'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 Group 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 Group 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 derecognized 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 Group under the contract and the cash flows that the Group 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 Group'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 24.

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 Group if the holder of the commitment draws down the loan and the cash flows that the Group 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 Group expects to receive from the holder, the debtor or any other party.

The Group 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 effective interest rate (“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). The definition of default under IFRS 9 as at 31 December 2018 did not change in comparison with the definition under IAS 39 as 31 December 2017 and 2016.

For the details of supportable forward-looking information, please refer to Note 36 for more details.

Impairment of financial assets prior to 1 January 2018

As at 31 December 2017 and 2016, the Group 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 consolidated statement of profit or loss.

The factors the Group 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 Group'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 consolidated 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 Group 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 Group 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 Group, and after the Group 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 consolidated 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 consolidated statement of profit or loss, is transferred from equity to the consolidated statement of profit or loss. In respect to AFS equity securities, impairment losses previously recognised in the consolidated statement of profit or loss are not reversed through the consolidated 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 Group 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 utilised by the Group as an element of its treasury management.

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

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

The Group 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 Commonwealth of Independent States ("CIS"), 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 consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for derecognition, the Group does not offset the transferred asset and the associated liability. Income and expense is not offset in the consolidated 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 Group.

Derivative financial instruments

The Group 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 Group 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 Group 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 Group 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 Group 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 Group purchases and sells options through regulated exchanges and in the over-the-counter markets.

Options purchased by the bank provide the Group 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 Group 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 Group 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 Group 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 (Note 7).

The Group's exposure under derivative contracts is closely monitored as part of the overall management of the Group's market, credit, and liquidity risks (Note 36).

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 Group assesses whether debt instruments that are financial assets measured at amortised cost or FVTOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Group 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 client's 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 Group 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 Group 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 Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Group may apply enforcement activities to financial assets written off. Recoveries resulting from the Group's enforcement activities will result in impairment gains. Where loans are secured, they are generally written off after receipt of any proceeds from the sale of collateral. When such net realizable value of collateral has been determined and no reasonable expectation of further recovery, write off may be earlier.

Derecognition of financial assets and liabilities

Financial assets

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

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

A financial asset is derecognised when it has been transferred and the transfer qualifies for derecognition. A transfer requires that the Group 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 Group 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 consolidated statement of financial position. If substantially all of the risks and rewards have been transferred, the asset is derecognised. If substantially all the risks and rewards have been neither retained nor transferred, the Group assesses whether or not it has retained control of the asset. If it has not retained control, the asset is derecognised. Where the Group has retained control of the asset, it continues to recognise the asset to the extent of its continuing involvement.

Modification and derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

When the Group exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognised in profit or loss as the modification gain or loss within other gains and losses.

Taxation

The current income tax expense is calculated in accordance with the regulations of Kazakhstan and other countries where the Group operates.

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 utilised. 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 year when the asset is realised 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 tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 consolidated statement of financial position if:

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

Kazakhstan and other countries where the Group operates also have various operating taxes that are assessed on the Group's activities. These taxes are recorded as taxes other than income tax.

The Group records a provision for uncertain tax positions if it is probable that the Group will have to make a payment to tax authorities upon their examination of a tax position. This provision is measured at the Group's best estimate of the amount expected to be paid. Provisions are reversed to income in provision for (recovery of) income taxes in the period in which management determines they are no longer required or as determined by statute.

Property and equipment

Property and equipment are carried at cost less accumulated depreciation and any accumulated impairment, except for any buildings and construction which are carried at revalued amount, being the 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 amortised 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 capitalisation.

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 recognised in the respective year and is included in operating expenses.

Buildings and construction held for use in supply of services, or for administrative purposes, are stated in the consolidated 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 revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the consolidated statement of profit or loss to the extent of the decrease previously charged. A decrease in the 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 revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings and construction is charged to the consolidated statement of profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the property 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 Group'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 acquired separately

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 year, 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 amortisation.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

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

	Years
Customer deposit intangibles	5
Software	10
Licensing agreements for the right to use the software	10
Other	10

Assets held for sale

Non-current assets and the liabilities 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 recognised in profit or loss. Any subsequent increase in an asset's fair value less costs to sell is recognised to the extent of the cumulative impairment loss that was previously recognised in profit or loss in relation to that specific asset.

Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the year in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year in which the property is derecognised.

Commercial property

In certain circumstances, the Group may foreclose commercial properties as part of the settlement of loan agreements with customers. The Group intends to sell these properties in the normal course of business and therefore these are initially measured at fair value including transaction costs and subsequently measured at the lower of cost or net realisable value. Estimates of net realisable value are based on the most reliable evidence available at the time the estimates are made, of the amount the commercial property is expected to be realised for. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the year to the extent that such events confirm conditions existing at the end of the year.

Amounts due to customers and credit institutions

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

Debt securities issued

Debt securities issued represent bonds issued by the Group, 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 recognised in the consolidated statement of profit or loss over the period of the borrowings using the effective interest method.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group 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 Group does not have any pension arrangements separate from the state pension system of Kazakhstan and other countries where the Group operates, which requires current withholdings by the employer calculated as a percentage from current gross salary payments; such expense is charged in the year the related salaries are earned and included in operating expenses in the consolidated statement of profit or loss. The Group contributes social tax to the budget of Kazakhstan and other countries where the Group operates for its employees. In addition, the Group has no post-retirement benefits.

Equity

The Group 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 Group, after the deduction of liabilities.

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

Share capital

External costs directly attributable to the issue of new shares, other than in 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 recognised as share premium reserve. Effective 13 May 2003, upon a change in the 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 Group 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 Group 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 on shares purchased by the Group's subsidiaries are eliminated upon consolidation.

Dividends

Dividends are recognised 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 consolidated financial statements are authorised for issue.

Equity reserves

The reserves recorded in equity (other comprehensive income) on the Group's consolidated 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 recognised in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

Contingent liabilities acquired in a business combination

Contingent liabilities acquired in a business combination are initially measured at fair value at the acquisition date. At the end of subsequent reporting years, such contingent liabilities are measured at the higher of the amount that would be recognised in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and the amount initially recognised less cumulative amortisation recognised in accordance with IFRS 15 "Revenue from Contracts with Customers" ("IFRS 15").

Recognition of income and expense

Interest income and expense for all financial instruments, except for financial assets measured or designated at fair value through profit or loss are recognized in 'Net interest income' as 'Interest income calculated using the effective interest method' 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 amortised 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 effective interest rate 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.

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

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 Group 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 Group 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 Group'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 IFRS 15 "Revenue from Contracts with Customers", whereas for the years ended 31 December 2017 and 2016 according to IAS 18 "Revenue".

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

Foreign currency translation

The consolidated financial statements are presented in KZT, which is the functional currency of the Bank and each of its subsidiaries, except for foreign subsidiaries. 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 recognised in the consolidated 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.

As at the reporting date, the assets and liabilities of overseas subsidiaries are translated into the Group's presentation currency at the exchange rates as at the consolidated statement of financial position date, and their statements of profit or loss are translated at the average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity. On disposal of a foreign subsidiary, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated statement of profit or loss.

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 – KZT 384.20 to USD 1 (at 31 December 2017 – KZT 332.33; at 31 December 2016 – KZT 333.29).

Insurance

Insurance contracts are those contracts which transfer significant insurance risk from another party by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. The Group utilises accounting policies determined by NBRK for insurance companies of Kazakhstan.

In accordance with the Kazakhstan regulations, when insurance contracts contain a discretionary participation feature with no guaranteed element, such additional payments to the insured are contingent on a decision reached at the annual general shareholders' meeting and should be presented as an allocation of retained earnings and not as an expense.

The Group offers various insurance products in property and casualty, liability, personal, and life insurance.

Underwriting income

Underwriting income includes net written insurance premiums and commissions earned on ceded reinsurance, reduced by the net change in the unearned premium reserve.

Upon inception of a contract, premiums are recorded as written and are earned on a pro rata basis over the term of the related policy coverage. The unearned insurance premium reserve represents the portion of the premiums written relating to the unexpired terms of coverage and is included within insurance liabilities in the consolidated statement of financial position.

Losses and loss adjustments are charged to the statement of profit or loss as incurred through the reassessment of the reserve for claims and loss adjustment expenses, and included within insurance claims incurred, net of reinsurance in the consolidated statement of profit or loss.

Commissions earned on ceded reinsurance contracts are recorded as income at the date the reinsurance contract is written and deemed enforceable.

Policy acquisition costs, comprising commissions paid to insurance agents and brokers, which vary with and are directly related to the production of new business, are capitalised and recorded in the accompanying consolidated statement of financial position within insurance assets. The asset related to deferred acquisition costs is subsequently amortised over the period in which the related written premiums are earned and is reviewed for impairment in circumstances where its carrying amount may not be recoverable. If the asset is greater than the recoverable amount, it is written down immediately. All other costs are recognised as expenses when incurred.

Reserve for insurance losses and loss adjustment expenses

The reserve for insurance losses and loss adjustment expenses is included in insurance liabilities in the consolidated statement of financial position and is based on the estimated amount payable on claims reported prior to the reporting date, which have not yet been settled, and an estimate of incurred but not reported claims relating to the reporting year.

The incurred but not reported reserve ("IBNR") for motor, hull and liability insurance is actuarially determined and is based upon statistical claim data for the year typical for loss development of the classes and sub-classes of business and the Group's previous experience.

Due to the lack of historical the Group specific data and comparable industry data for other lines of business, the reserve for IBNR claims is determined by applying current government guidance as provided by NBRK. Under this guidance, the IBNR reserve is calculated in an amount of 5% of the insurance premiums written during the last twelve months preceding the settlement date in this class of insurance.

The methods for determining such estimates and establishing the resulting reserves are continuously reviewed and updated. Resulting adjustments are reflected in the consolidated statement of profit or loss in the year in which they are determined.

Reinsurance

In the ordinary course of business, the Group cedes reinsurance risk to reinsurers. Such reinsurance arrangements provide for greater diversification of risks, allow management to control exposure to potential losses arising from insured risks and provide additional capacity for growth.

Reinsurance assets include balances due from reinsurance companies for paid and unpaid losses and loss adjustment expenses, and ceded unearned premiums. Amounts receivable from re-insurers are estimated in a manner consistent with the claim liability associated with the reinsured policy.

Payables to reinsurers for ceded premium are recorded gross when due, unless a right of offset exists against commission receivable from the reinsurer and are included in the consolidated statement of financial position within insurance assets.

Reinsurance contracts are assessed to ensure that underwriting risk, defined as the reasonable possibility of significant loss, and timing risk, defined as the reasonable possibility of a significant variation in the timing of cash flows, are both transferred by the Group to the re-insurer.

The Group regularly assesses its reinsurance assets for impairment. A reinsurance asset is impaired if there is objective evidence that the Group may not receive all amounts due to it under the terms of the contract and that event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.

Segment reporting

A segment is a distinguishable component of the Group 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 and letters of credit issued

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

- IFRS 9 Financial Instruments;
- IFRS 15 Revenue from Contracts with Customers (and the related Clarifications);
- Amendments to IAS 40 Transfers of Investment Property;
- 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 Group 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 consolidated 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.

Reclassifications represent movements of the carrying amount of financial assets and liabilities, which have changed their classification. Below is explanation of the change in the valuation categories of financial assets in accordance with IAS 39 on 31 December 2017 to the new valuation categories in accordance with IFRS 9 on 1 January 2018.

(Millions of Kazakhstani Tenge)

Certain financial assets (Treasury bills of the Ministry of Finance of Kazakhstan) that were classified as available-for-sale investment securities as at 31 December 2017 were reclassified to debt securities at amortised cost under IFRS 9, due to that the Group hold them for long-term investment purposes, under the "hold to collect" business model.

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 Measure-ment category	**As at 31 December 2017, IAS 39 Carrying Amount**	**Reclassifi-cation**	**Remeasu-rement (ECL and other)**	**As at 1 January 2018, IFRS 9 Carrying Amount**	**IFRS 9 Measure-ment category**
Cash and cash equivalents	Loans and receivables	1,780,548	-	(10)	1,780,538	Amortised cost
Amounts due from credit institutions	Loans and receivables	87,736	-	(334)	87,402	Amortised cost
Financial assets at fair value through other comprehensive income (2017: available-for-sale investment securities)	AFS*	2,565,425	(1,006,110)	(15,503)	1,543,812	FVOCI**
Debt securities at amortized cost, net of allowance for expected credit losses (2017: available-for-sale investment securities)	AFS*	-	1,005,817	(8)	1,005,809	Amortised cost
Loans to customers	Loans and receivables	3,251,102	-	(38,008)	3,213,094	Amortised cost
Other assets	Loans and receivables	68,129	293	(1,825)	66,597	Amortised cost
Provisions on commitments and contingencies	-	(16,098)	-	(2,353)	(18,451)	-
Current income tax asset related to IFRS 9 adoption				3,178		
Total after-tax impact of IFRS 9 adoption				**(54,863)**		

*Available-for-sale investment securities
**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	-	(10)	(10)
Amounts due from credit institutions	-	(334)	(334)
Financial assets at fair value through other comprehensive income (2017: available-for-sale investment securities)	(2,453)	(246)	(2,699)
Debt securities at amortized cost, net of allowance for expected credit losses (2017: available-for-sale investment securities)	-	(8)	(8)
Loans to customers	(317,161)	(38,008)	(355,169)
Other assets	(5,921)	(1,825)	(7,746)
Provisions on commitments and contingencies	(16,098)	(2,353)	(18,451)

The main increase in allowance for expected credit losses on 1 January 2018 is due to the recognition of expected credit losses on Stage 1 and Stage 2 loans to customers.

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 amortised over the period when the benefits of the contract are consumed.

In the current year, the Group 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.

Amendments to IAS 40 *Transfers of Investment Property*.

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that situations other than the ones listed in IAS 40 may evidence a change in use, and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

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

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

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

IFRS 16 *Leases*

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related Interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. The date of initial application of IFRS 16 for the Group will be 1 January 2019.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

The Group will make use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.
- The Group will apply the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2019, (whether it is a lessor or a lessee in the lease contract).

Operating leases

IFRS 16 will change how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

On initial application of IFRS 16, for all leases (except as noted below), the Group will:

a) Recognise right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;
b) Recognise depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;
c) Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated cash flow statement.

Lease incentives (e.g. rent-free period) will be recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease liability incentive, amortised as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This will replace the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Group will opt to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

As at 31 December 2018, a preliminary assessment indicates that the Group will recognise a right-of-use asset of KZT 3,077 million and a corresponding lease liability of KZT 3,077 million in respect of all these leases. The impact on profit or loss is to increase depreciation by KZT 68 million and to increase interest expense by KZT 15 million.

IFRS 17 *Insurance Contracts*

The new Standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts.

The Standard outlines a General Model, which is modified for insurance contracts with direct participation features, described as the Variable Fee Approach. The General Model is simplified if certain criteria are met by measuring the liability for remaining coverage using the Premium Allocation Approach.

The General Model will use current assumptions to estimate the amount, timing and uncertainty of future cashflows and it will explicitly measure the cost of that uncertainty, it takes into account market interest rates and the impact of policyholders' options and guarantees.

The Standard is effective for annual reporting periods beginning on or after January 1, 2021, with early application permitted. It is applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied.

For the purpose of the transition requirements, the date of initial application is the start if the annual reporting period in which the entity first applies the Standard, and the transition date is the beginning of the period immediately preceding the date of initial application.

The management of the Group do not anticipate that the application of the Standard in the future will have an impact on the Group's consolidated financial statements as the Group does not have instruments in scope of this standard.

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 Group do not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated 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 Group do not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated 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 Group do not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements.

IFRS 10 *Consolidated Financial Statements and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors'interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The management of the Group anticipate that the application of these amendments may have an impact on the Group's consolidated financial statements in future periods should such transactions arise.

The management of the Group do not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated 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 Group do not anticipate that the application of the amendments in the future will have a significant impact on the Group's consolidated financial statements.

4. Significant accounting estimates

The preparation of the Group's consolidated 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 year. 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 Group'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 Group 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 Group monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognized 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 Group'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 Group takes into account qualitative and quantitative reasonable and supportable forward-looking information (Refer to Note 36 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 Group 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 36 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 Group'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 Group 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 36 for details of the 5characteristics considered in this judgement. The Group 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 Group 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 24 and 36 for more details on allowances for ECL and Note 39 for more details on fair value measurement.

The allowances for ECL of financial assets in the consolidated financial statements have been determined on the basis of existing economic and political conditions. The Group 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 409,793 million (31 December 2017 is KZT 317,161 million, 31 December 2016: KZT 284,752 million).

Fair value measurement and valuation process

In estimating the fair value of a financial asset or a liability, the Group uses market-observable data to the extent it is available. Where such Level 1 inputs are not available, the Group uses valuation models to determine the fair value of its financial instruments. Refer to Note 39 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 Group 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.

Management has concluded that all deferred tax assets are properly recognized as it is probable that sufficient future taxable income will exist to fully utilize the assets.

As at 31 December 2018, management believes that its interpretation of the relevant legislation is appropriate and that the Group'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 Group's reported net income.

Claims liability and reserves arising from insurance contracts

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of IBNR claims at the reporting date. For certain lines of business, IBNR claims form the majority of insurance liabilities in the consolidated statement of financial position. It can take a significant period of time before the ultimate claims cost can be established with certainty. For hull, property, accident and liability insurance, the Group actuarially determines the liability using past claims settlement trends to predict future claims settlement amounts. In estimating the cost of reported and IBNR claims for certain other lines of business, management applies current government guidance, as provided by NBRK, due to the absence of sufficient historical data. Under this guidance, the IBNR reserve is calculated using the expected loss ratio for each line of business, less the cumulative losses actually reported. General insurance claims provisions are not discounted for the time value of money.

The gross reserves for claims and the related receivables for reinsurance recoveries are based on information available to management and the ultimate amounts may vary as a result of subsequent information and events and may result in adjustments to the amounts recovered. Actual claims experience may differ from the historical pattern on which the estimate is based and the cost of settling individual claims may differ from costs previously estimated. Any adjustments to the amount of reserves will be reflected in the consolidated financial statements in the year in which the necessary adjustments become known and estimable.

(Millions of Kazakhstani Tenge)

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	31 December 2018	31 December 2017	31 December 2016
Cash on hand	196,266	190,396	149,124
Correspondent accounts with Organization for Economic Co-operation and Development countries (the "OECD") based banks	120,096	214,596	181,144
Short-term deposits with OECD based banks	248,038	150,656	428,526
Overnight deposits with OECD based banks	2,396	36,584	79,992
Correspondent accounts with NBRK	935,757	699,256	915,675
Short-term deposits with NBRK	153,975	61,378	4,002
Short-term deposits with Kazakhstan banks (incl. loans under reverse repurchase agreements)	65,036	373,956	2,592
Correspondent accounts with non-OECD based banks	10,745	20,439	11,459
Short-term deposits with non-OECD based banks	22,657	33,233	2,005
Overnight deposits with NON-OECD based banks	172	54	-
	1,755,138	**1,780,548**	**1,774,519**
Cash and cash equivalents of JSC Altyn Bank	-	142,736	-
Total per consolidated statement of cash flows	**1,755,138**	**1,923,284**	**1,774,519**

As at 31 December 2018, cash and cash equivalents allowance for expected credit losses comprised KZT 9 million (Note 24).

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

	31 December 2018		31 December 2017		31 December 2016	
	KZT	**Foreign currencies**	**KZT**	**Foreign currencies**	**KZT**	**Foreign currencies**
Short-term deposits with OECD based banks	-	2.0%-2.8%	-	0.8%-1.8%	-	0.7%-1.5%
Overnight deposits with OECD based banks	-	1.5%	-	1.4%-1.5%	-	0.5%-0.7%
Short-term deposits with NBRK	8.3%	6.8%-7.7%	9.3%	-	11.0%	-
Short-term deposits with Kazakhstan banks	8.3%-13.5%	3.0%-10.0%	9.0%-12.3%	-	12.5%	-
Short-term deposits with non-OECD based banks	-	0.2%-7.5%	-	1.7%	-	6.6%-7.0%
Overnight deposits with NON-OECD based banks	7.0%	-	-	1.7%-1.8%	-	-

(Millions of Kazakhstani Tenge)

Fair value of assets pledged and carrying amounts of loans under reverse repurchase agreements as at 31 December 2018, 2017 and 2016, are as follows:

	31 December 2018		**31 December 2017**		**31 December 2016**	
	Carrying amount of loans	**Fair value of collateral**	**Carrying amount of loans**	**Fair value of collateral**	**Carrying amount of loans**	**Fair value of collateral**
Treasury bills of the Ministry of Finance of Kazakhstan	19,154	19,695	228,642	228,516	1,591	1,519
Notes of NBRK	19,816	20,422	132,879	132,791	-	-
Treasury bills of the Ministry of Finance of Russian Federation	21,462	22,755	-	-	-	-
Equity securities	4,503	7,240	11,122	11,080	-	-
Bonds of international financial organizations	101	102	-	-	-	-
	65,036	**70,214**	**372,643**	**372,387**	**1,591**	**1,519**

As at 31 December 2018, 2017 and 2016, maturities of loans under reverse repurchase agreements are less than one month.

6. Obligatory reserves

Obligatory reserves comprise:

	31 December 2018	**31 December 2017**	**31 December 2016**
Cash and due from banks allocated to obligatory reserves	115,741	111,039	76,122
	115,741	**111,039**	**76,122**

The obligatory reserves represent the minimum reserve deposits and cash on hand balances required by the National Banks of the Republic of Kazakhstan, Kyrgyzstan, Georgia, Tajikistan and Central Bank of the Russian Federation and used for calculation of the minimum reserve requirements. As at 31 December 2018, obligatory reserves of the Bank's subsidiaries – OJSC Halyk Bank Kyrgyzstan, JSC Halyk Bank Georgia, JSC Commercial Bank Moskommertsbank and CJSC Kazkommertsbank Tajikistan comprised KZT 9,885 million (31 December 2017 – KZT 48,196 million, 31 December 2016 – KZT 12,767 million).

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**	**31 December 2016**
Financial assets held for trading:			
Derivative financial instruments	97,853	39,723	77,776
Corporate bonds	29,987	21,212	743
Equity securities of Kazakhstan corporations	14,800	14,478	88
Treasury bills of the Ministry of Finance of Kazakhstan	11,759	44,171	-
Bonds of Kazakhstan banks	11,453	5,547	137
Bonds of JSC Development Bank of Kazakhstan	6,491	5,252	215
Bonds of foreign organizations	6,293	5,126	102
Notes of NBRK	4,462	8,310	249,574
Equity securities of foreign organizations	3,738	675	102
Equity securities of Kazakhstan banks	-	482	-
	186,836	**144,976**	**328,737**

(Millions of Kazakhstani Tenge)

Financial liabilities at fair value through profit or loss comprise:

	31 December 2018	31 December 2017	31 December 2016
Financial liabilities held for trading:			
Derivative financial instruments	7,022	5,831	2,841

Interest rates on financial assets at fair value through profit or loss 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 financial assets:

	31 December 2018	31 December 2017	31 December 2016
Corporate bonds	11.2%	8.6%	6.6%
Treasury bills of the Ministry of Finance of Kazakhstan	7.7%	5.6%	-
Bonds of Kazakhstan banks	10.8%	11.1%	9.7%
Bonds of JSC Development Bank of Kazakhstan	9.2%	7.1%	5.9%
Bonds of foreign organizations	7.9%	7.0%	6.9%
Notes of NBRK	7.3%	10.3%	**13.2%**

Derivative financial instruments comprise:

	31 December 2018			31 December 2017			31 December 2016		
	Notional amount	Fair value Asset	Fair value Liability	Notional amount	Fair value Asset	Fair value Liability	Notional amount	Fair value Asset	Fair value Liability
Foreign currency contracts									
Swaps	1,221,331	97,709	6,998	1,172,217	39,671	5,828	228,905	77,655	2,833
Spots	27,266	144	16	10,309	23	3	3,583	14	8
Forwards	326	-	8	4,085	29	-	4,644	107	-
		97,853	**7,022**		**39,723**	**5,831**		**77,776**	**2,841**

On 3 July 2018, KKB and NBRK closed a one-year cross-currency swap deal existing as at 31 December 2017 and at the same concluded another one-year cross-currency swap deal for the notional amount of KZT 699,000 million. The purpose of the deal is the placement of excess foreign currency liquidity.

As at 31 December 2018, 2017 and 2016, the Group used quoted market prices from independent information sources for all of its financial assets at fair value through profit or loss, except for derivative financial instruments, which are valued using valuation models based on observable and unobservable market data.

8. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	31 December 2018	31 December 2017	31 December 2016
Term deposits	37,365	59,711	11,256
Deposit pledged as collateral for derivative financial instruments	9,512	9,306	5,608
Loans to credit institutions	8,390	18,719	18,678
	55,267	**87,736**	**35,542**
Less - Allowance for expected credit losses (Note 24)/(2017-2016: Allowance for impairment)	(232)	-	-
	55,035	**87,736**	**35,542**

(Millions of Kazakhstani Tenge)

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

	31 December 2018		31 December 2017		31 December 2016	
	Interest rate, %	**Maturity, year**	**Interest rate, %**	**Maturity, year**	**Interest rate, %**	**Maturity, year**
Term deposits	2.7%-14.0%	2023	0.4%-15.0%	2018	0.5%-18.0%	2017-2018
Deposit pledged as collateral for derivative financial instruments	0.2%-3.0%	2046	1.1%-1.8%	2046	0.2%-1.8%	2018
Loans to credit institutions	2.0%-7.5%	2019	8.5%-16.0%	2018	8.2%-10.3%	2017

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**	**31 December 2016**
Notes of NBRK	756,652	459,895	199,390
Treasury bills of the Ministry of Finance of Kazakhstan*	408,508	1,366,494	138,018
Treasury bills of the USA	249,142	264,821	91,534
Corporate bonds	202,923	280,106	103,464
Bonds of JSC Development Bank of Kazakhstan	75,190	66,792	37,640
Bonds of foreign organizations	44,283	82,935	3,138
Bonds of Kazakhstan banks	18,023	25,017	10,223
Treasury bills of Hungary	8,757	7,987	7,762
Treasury bills of Georgia	-	2,156	2,116
Treasury bills of the Kyrgyz Republic	-	1,710	705
Notes of National Bank of Kyrgyz Republic	-	1,400	-
Treasury bills of the Russian Federation	-	909	820
	1,763,478	**2,560,222**	**594,810**

Equity securities comprise:

	31 December 2018	**31 December 2017**	**31 December 2016**
Equity securities of Kazakhstan corporations	2,455	3,407	4,719
Equity securities of foreign corporations	-	1,756	95
Equity securities of Kazakhstan banks	-	40	-
	2,455	**5,203**	**4,814**
Total financial assets at fair value through other comprehensive income	**1,765,933**	**2,565,425**	**599,624**

* Certain financial assets (Treasury bills of the Ministry of Finance of Kazakhstan) that were classified as available-for-sale investment securities as at 31 December 2017 were reclassified to debt securities at amortised cost under IFRS 9, due to that the Group hold them for long-term investment purposes, the "hold to collect" business model.

As at 31 December 2018, the allowance for expected credit losses on financial assets at fair value through other comprehensive income was KZT 2,576 million (Note 24).

As at 31 December 2018, 2017 and 2016, financial assets at fair value through other comprehensive income included treasury bills of the Ministry of Finance of Kazakhstan at fair value of KZT 4,714 million, KZT 92,719 million, and KZT 15,201 million, respectively, pledged under repurchase agreements with the other banks (see Note 22). All repurchase agreements as at 31 December 2018, 2017 and 2016 mature before 8 January 2019, 3 January 2018, and 4 January 2017, respectively.

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.

(Millions of Kazakhstani Tenge)

	31 December 2018		31 December 2017		31 December 2016	
	Interest rate, %	Maturity, year	Interest rate, %	Maturity, year	Interest rate, %	Maturity, year
Notes of NBRK	8.7%	2019	10.0%	2018	13.4%	2017
Treasury bills of the Ministry of Finance of Kazakhstan	6.0%	2019-2045	7.0%	2018-2045	5.7%	2017-2031
Treasuty bills of the USA	1.8%	2019	1.0%	2018	0.4%	2017
Corporate bonds	7.9%	2019-2047	7.0%	2018-2047	5.8%	2017-2031
Bonds of JSC Development Bank of Kazakhstan	6.1%	2020-2032	5.7%	2020-2032	4.5%	2022-2026
Bonds of foreign organisations	5.5%	2019-2047	8.0%	2018-2046	6.3%	2017-2024
Bonds of Kazakhstan banks	9.8%	2019-2024	11.3%	2018-2024	11.2%	2017-2049
Treasury bills of Hungary	3.2%	2023	3.2%	2023	3.2%	2023
Treasury bills of Georgia	-	-	10.8%	2019-2025	10.4%	2017-2024
Treasury bills of the Kyrgyz Republic	-	-	6.1%	2018-2021	10.2%	2017
Notes of National Bank of Kyrgyz Republic	-	-	2.8%	2018	-	-
Treasury bills of the Russian Federation	-	-	8.1%	2021	8.1%	2021

Reclassifications to investments available-for-sale

During 2016, after the completion of the two-year moratorium, the Group acquired investments held to maturity, however, on 21 July 2016, the management of the Group decided to reclassify Eurobonds of the Ministry of Finance of the Republic of Kazakhstan for a total amount of KZT 4,963 million (USD 14.6 million) maturing in 2045 from held to maturity investment portfolio to the available-for-sale investment portfolio. As a result, the Group may not classify any financial assets as held to maturity investments within next two financial periods after the reclassification date.

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
Treasury bills of the Kyrgyz Republic	2,847
Bonds of foreign organizations	2,640
Notes of National Bank of Georgia	2,434
Notes of National Bank of Tajikistan	1,119
Corporate bonds	1,082
Treasury bills of the Russian Federation	846
	1,055,907

Certain financial assets (Treasury bills of the Ministry of Finance of Kazakhstan) that were classified as available-for-sale investment securities as at 31 December 2017 were reclassified to debt securities at amortised cost under IFRS 9, due to that the Group hold them for long-term investment purposes, under the "hold to collect" business model.

As at 31 December 2018, the allowance for expected credit losses on debt securities at amortised cost was KZT 441 million (Note 24).

(Millions of Kazakhstani Tenge)

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
Treasury bills of the Kyrgyz Republic	5.6%	2019-2021
Bonds of foreign organizations	9.2%	2020-2026
Notes of National Bank of Georgia	10.7%	2019-2025
Notes of National Bank of Tajikistan	14.2%	2019
Corporate bonds	9.7%	2022
Treasury bills of the Russian Federation	7.8%	2021

11. Loans to customers

Loans to customers comprise:

	31 December 2018	31 December 2017	31 December 2016
Originated loans to customers	3,869,005	3,547,621	2,602,381
Overdrafts	21,867	20,642	1,954
	3,890,872	**3,568,263**	**2,604,335**
Stage 1	2,984,812	n/a	n/a
Stage 2	142,664	n/a	n/a
Stage 3	671,406	n/a	n/a
Purchased or originated credit-impaired assets ("POCI")	91,990	n/a	n/a
Total	**3,890,872**	**n/a**	**n/a**
Less – Allowance for expected credit losses (Note 24)/(2017-2016: Allowance for loan impairment losses)	(409,793)	(317,161)	(284,752)
Loans to customers	**3,481,079**	**3,251,102**	**2,319,583**

The weighted average interest rate on loans to customers is calculated as interest income on loans to customers divided by monthly average balances of loans to customers. As at 31 December 2018, average interest rate on loans was 13.4% (for the year ended 31 December 2017 –13.0%, 31 December 2016 – 13.0%).

As at 31 December 2017, the Group's loan concentration to the ten largest borrowers was KZT 703,598 million, which comprised 19% of the Group's total gross loan portfolio (as at 31 December 2017 – KZT 617,144 million, 17%,as at 31 December 2016 – KZT 494,953 million, 19%) and 66% of the Group's total equity (as at 31 December 2017 – 66%; as at 31 December 2016 – 74%).

As at 31 December 2018, the allowance for expected credit losses created against these loans was KZT 42,044 million (as at 31 December 2017 – KZT 56,807 million, as at 31 December 2016 – KZT 49,762 million).

(Millions of Kazakhstani Tenge)

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	31 December 2016
Loans collateralised by pledge of real estate or rights thereon	1,603,065	819,512	895,955
Loans collateralised by guarantees	702,445	1,246,368	646,702
Consumer loans issued within the framework of payroll projects*	506,163	446,823	405,196
Loans collateralised by cash	360,071	302,871	223,675
Loans collateralised by pledge of corporate shares	167,676	108,995	133,988
Loans collateralised by mixed types of collateral	63,259	63,607	39,617
Loans collateralised by pledge of vehicles	43,701	29,956	42,997
Loans collateralised by pledge of inventories	33,662	92,997	48,790
Loans collateralised by pledge of equipment	15,598	36,643	8,849
Loans collateralised by pledge of agricultural products	7,359	7,413	6,311
Unsecured loans	387,873	413,078	152,255
	3,890,872	**3,568,263**	**2,604,335**
Less – Allowance for expected credit losses (Note 24)/(2017-2016: Allowance for loan impairment losses)	(409,793)	(317,161)	(284,752)
Loans to customers	**3,481,079**	**3,251,102**	**2,319,583**

*These loans are collateralised 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	%	31 December 2016	%
Retail loans:						
- consumer loans	715,362	18%	679,674	19%	433,291	17%
- mortgage loans	273,469	7%	265,454	8%	187,772	7%
	988,831		**945,128**		**621,063**	
Services	650,353	17%	527,618	15%	413,150	16%
Wholesale trade	406,567	12%	376,064	11%	383,261	15%
Real estate	321,306	8%	174,221	5%	150,662	6%
Construction	221,797	6%	282,412	8%	191,171	7%
Retail trade	218,503	6%	185,733	5%	157,146	6%
Metallurgy	188,411	5%	153,761	4%	23,290	1%
Oil and gas	153,837	3%	73,620	2%	33,815	1%
Transportation	151,569	3%	131,843	4%	101,965	4%
Agriculture	129,864	3%	150,186	4%	121,368	5%
Mining	73,017	2%	63,555	2%	78,528	3%
Energy	70,483	2%	95,838	3%	69,690	3%
Financial services	62,124	2%	83,193	2%	44,645	2%
Food industry	47,053	1%	78,417	2%	34,797	1%
Communication	40,080	1%	49,731	1%	61,461	2%
Machinery	33,990	1%	33,377	1%	22,559	1%
Hotel industry	32,845	1%	63,241	2%	34,706	1%
Chemical industry	30,603	1%	38,036	1%	28,051	1%
Light industry	12,994	0%	17,255	0%	8,911	0%
Other	56,645	2%	45,034	1%	24,096	1%
	3,890,872	**100%**	**3,568,263**	**100%**	**2,604,335**	**100%**

As at 31 December 2018, accrued interest on loans comprised KZT 200,539 million (31 December 2017 – KZT 145,535 million, 31 December 2016 – KZT 142,046 million).

During the years ended 31 December 2018, 2017 and 2016, the Group received financial and non-financial assets by taking possession of collateral it held as security. As at 31 December 2018, 2017 and 2016, such assets of KZT 46,355 million, KZT 142,833 million, and KZT 2,726 million, respectively, are included in assets held for sale.

(Millions of Kazakhstani Tenge)

As at 31 December 2018, 2017 and 2016, loans to customers included loans of KZT 417,619 million, KZT 340,445 million, and KZT 149,024 million, respectively, which terms were renegotiated. Otherwise, these loans would be past due or impaired.

12. Investment property

	2018	2017	2016
As at 1 January	37,517	30,146	24,658
Additions	20,508	6,543	5,924
Disposals	(4,955)	(2,411)	(1,499)
Transferred from non-current assets held for sale	6,378	475	-
Transferred from property and equipment	-	564	976
(Loss)/gain on revaluation of investment property	(419)	70	56
Capitalised expenses	-	43	22
Acquisitions through business combination	-	2,044	-
Translation differences	(161)	43	9
As at 31 December	**58,868**	**37,517**	**30,146**

During the years ended 31 December 2018, 2017 and 2016, the Group foreclosed collateral it held as a security for loans to customers. As a result, the Group received investment property of KZT 20,508 million, KZT 6,543 million, and KZT 5,924 million, respectively.

As at 31 December 2018, 2017 and 2016, there was no investment property that was pledged as collateral for liabilities.

Investment property rental income is included in other income in the statement of profit or loss. For the years ended 31 December 2018, 2017 and 2016, investment property rental income earned was KZT 2,508 million, KZT 1,760 million, and KZT 1,571 million, respectively.

Operating expenses arising from the investment property that generated rental income during the years ended 31 December 2018, 2017 and 2016 were KZT 1,416 million, KZT 671 million, and KZT 861 million, respectively.

Investment property owned by the Group was revalued by independent appraisers as at 31 December 2018, 2017 and 2016. The fair value of the investment property was estimated based on the income approach and the comparative approach. When estimating the fair value of the properties, their current use is considered the best use and the most effective. There has been no change to the valuation technique during the year. This revaluation resulted in recognition of a revaluation loss in the consolidated statements of profit or loss for the year ended 31 December 2018 - KZT 419 million; and gain in the consolidated statements of profit or loss for the years ended 31 December 2017 and 31 December 2016 - KZT 70 million and KZT 56 million, respectively.

As at 31 December 2018, 2017 and 2016, the fair value measurements of the Group's investment property of KZT 58,868 million, KZT 37,517 million, and KZT 30,146 million, respectively, are categorised into Level 3 (description of measurement hierarchy is disclosed in Note 39).

13. Commercial property

	2018	2017	2016
As at 1 January	48,774	10,202	9,632
Additions	52,717	-	-
Acquisitions through business combination	-	41,963	-
Sale of property	(39,745)	(2,232)	(632)
Capitalised expenses	1,577	830	2,818
Transfers to original investors	(96)	(1,989)	(1,616)
Translation differences	7,091	-	-
As at 31 December	**70,318**	**48,774**	**10,202**

(Millions of Kazakhstani Tenge)

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	**112,393**	**2,994**	**26,746**	**118**	**17,119**	**159,370**
Additions	1,348	833	3,223	474	1,777	7,655
Revaluation	(5,424)	-	(47)	-	(106)	(5,577)
Disposals	(2,855)	(321)	(1,557)	(207)	(731)	(5,671)
Transfers*	93	-	(2,386)	(322)	2,615	-
Translation differences	396	14	111	-	17	538
31 December 2018	**105,951**	**3,520**	**26,090**	**63**	**20,691**	**156,315**
Accumulated depreciation:						
31 December 2017	1,766	1,554	12,137	-	6,229	21,686
Charge	1,583	352	4,261	-	1,817	8,013
Disposals	(97)	(316)	(1,434)	-	(266)	(2,113)
Write-off at revaluation	(2,384)	-	-	-	-	(2,384)
Transfers*	(28)	-	(1,110)		1,138	-
Translation differences	41	8	77	-	-	126
31 December 2018	**881**	**1,598**	**13,931**	**-**	**8,918**	**25,328**
Net book value:						
31 December 2018	**105,070**	**1,922**	**12,159**	**63**	**11,773**	**130,987**

(Millions of Kazakhstani Tenge)

	Buildings and construction	Vehicles	Computers and banking equipment	Construction in progress	Other	Total
Revalued/initial cost:						
31 December 2016	**77,854**	**2,754**	**24,773**	**1**	**16,694**	**122,076**
Additions	777	483	1,607	394	2,454	5,715
Disposals	(550)	(619)	(8,032)	(277)	(2,282)	(11,760)
Write-off at revaluation	-	-	(5)	-	(1)	(6)
Transferred to investment property	(564)	-	-	-	-	(564)
Reclassified as held for sale	(3,239)	(102)	(609)	-	(960)	(4,910)
Acquisition through business combination	38,052	441	8,489	-	2,027	49,009
Impairment	(88)	-	(3)	-	(70)	(161)
Transfers*	-	32	493	-	(807)	(282)
Translation differences	151	5	33	-	64	253
31 December 2017	**112,393**	**2,994**	**26,746**	**118**	**17,119**	**159,370**
Accumulated depreciation:						
31 December 2016	**484**	**1,645**	**17,041**	**-**	**8,009**	**27,179**
Charge	1,304	359	2,987	-	1,488	6,138
Disposals	(7)	(432)	(7,958)	-	(2,137)	(10,534)
Write-off at revaluation	-	-	(5)	-	(1)	(6)
Reclassified as held for sale	(35)	(51)	(389)	-	(500)	(975)
Transfers*	-	29	431	-	(677)	(217)
Translation differences	20	4	30	-	47	101
31 December 2017	**1,766**	**1,554**	**12,137**	**-**	**6,229**	**21,686**
Net book value:						
31 December 2017	**110,627**	**1,440**	**14,609**	**118**	**10,890**	**137,684**

(Millions of Kazakhstani Tenge)

	Buildings and construction	Vehicles	Computers and banking equipment	Construction in progress	Other	Total
Revalued/initial cost:						
31 December 2015	**56,423**	**2,587**	**22,400**	**14,066**	**15,356**	**110,832**
Additions	3,844	320	4,334	6,114	3,677	18,289
Disposals	(1,241)	(155)	(2,045)	(70)	(2,746)	(6,257)
Write-off at revaluation	(1,761)	-	(2)	-	(4)	(1,767)
Revaluation	1,272	-	-	-	-	1,272
Transfers**	19,610	(3)	54	(20,109)	448	-
Impairment	(464)	-	-	-	(3)	(467)
Translation differences	171	5	32	-	(34)	174
31 December 2016	**77,854**	**2,754**	**24,773**	**1**	**16,694**	**122,076**
Accumulated depreciation:						
31 December 2015	1,098	1,530	17,100	-	8,642	28,370
Charge	1,009	268	1,710	-	1,212	4,199
Disposals	(27)	(155)	(1,763)	-	(1,718)	(3,663)
Write-off at revaluation	(1,761)	-	(2)	-	(4)	(1,767)
Translation differences	165	2	(4)	-	(123)	40
31 December 2016	**484**	**1,645**	**17,041**	**-**	**8,009**	**27,179**
Net book value:						
31 December 2016	**77,370**	**1,109**	**7,732**	**1**	**8,685**	**94,897**

*Transfers to/from Other assets.
**During 2016, the Bank finished the construction of its property and moved its Head Office to 40 Al-Farabi Avenue, Almaty.

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

The Group 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 Group's buildings and construction, are categorised into Level 2 and Level 3, in the amount of KZT 92,427 million and KZT 12,643 million, respectively (31 December 2017: KZT 75,562 million and KZT 35,065 million, respectively 31 December 2016: KZT 77,256 million and KZT 114 million, respectively). A description of the measurement hierarchy is disclosed in Note 39.

As at 31 December 2018, the total fair value of buildings and construction was KZT 105,043 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 95,634 million.

(Millions of Kazakhstani Tenge)

15. Intangible assets

The movements in intangible assets are as follows:

	Software	Licensing agreements for the right to use the software	Customer deposit intangibles	Other intangible assets	Total
Cost:					
31 December 2015	**11,348**	**4,160**	**2,226**	**70**	**17,804**
Additions	1,879	1,221	-	334	3,434
Disposals	(92)	(13)	-	(243)	(348)
Translation differences	(16)	35	-	-	19
31 December 2016	**13,119**	**5,403**	**2,226**	**161**	**20,909**
Additions	1,191	234	-	1,054	2,479
Disposals	(26)	(159)	-	(58)	(243)
Transfers	815	(19)	-	(796)	-
Reclassified as held for sale	(2,530)	-	(2,226)	-	(4,756)
Acquisition through business combination	1,402	1,033	-	764	3,199
Translation differences	28	4	-	2	34
31 December 2017	**13,999**	**6,496**	**-**	**1,127**	**21,622**
Additions	1,687	1,314	-	29	3,030
Disposals	(3,643)	(711)	-	-	(4,354)
Transfers	80	(80)	-	-	-
Translation differences	147	23	-	14	184
31 December 2018	**12,270**	**7,042**	**-**	**1,170**	**20,482**
Accumulated amortisation:					
31 December 2015	**6,932**	**1,716**	**486**	**11**	**9,145**
Charge	1,675	540	445	-	2,660
Disposals	(84)	-	-	-	(84)
Translation differences	4	5	-	-	9
31 December 2016	**8,527**	**2,261**	**931**	**11**	**11,730**
Charge	3,313	180	-	61	3,554
Disposals	(25)	(41)	-	-	(66)
Reclassified as held for sale	(933)	-	(931)	-	(1,864)
Translation differences	18	(1)	-	-	17
31 December 2017	**10,900**	**2,399**	**-**	**72**	**13,371**
Charge	2,618	276	-	22	2,916
Disposals	(3,625)	(653)	-	(23)	(4,301)
Transfers	3	(3)	-	-	-
Translation differences	56	5	-	-	61
31 December 2018	**9,952**	**2,024**	**-**	**71**	**12,047**
Net book value:					
31 December 2016	**4,592**	**3,142**	**1,295**	**150**	**9,179**
31 December 2017	**3,099**	**4,097**	**-**	**1,055**	**8,251**
31 December 2018	**2,318**	**5,018**	**-**	**1,099**	**8,435**

(Millions of Kazakhstani Tenge)

16. Disposal of a subsidiary

As disclosed in Note 2, the combined results of the discontinued operations of JSC Altyn Bank up to the disposal date (24 April 2018) included in the consolidated statement of profit and loss are set out below.

	Year ended 31 December 2018	Year ended 31 December 2017	Year ended 31 December 2016
Interest income	8,421	25,416	22,434
Interest expense	(4,281)	(12,800)	(10,492)
NET INTEREST INCOME BEFORE CREDIT LOSS EXPENSE	**4,140**	**12,616**	**11,942**
Recovery of credit loss expense/(credit loss expense)	161	361	(372)
NET INTEREST INCOME	**4,301**	**12,977**	**11,570**
Fee and commission income	625	1,743	1,648
Fee and commission expense	(531)	(988)	(796)
Fees and commissions, net	94	755	852
Net gain/(loss) from financial assets and liabilities at fair value through profit or loss	1,500	1,474	(952)
Net realized gain from available-for-sale investment securities	-	-	2,483
Net foreign exchange (loss)/gain	(633)	1,056	4,117
Other income	503	42	5
OTHER NON-INTEREST INCOME	**1,370**	**2,572**	**5,653**
Operating expenses	(2,046)	(6,286)	(6,400)
(Other credit loss expense)/recovery of other credit loss expense	(3)	(34)	22
NON-INTEREST EXPENSES	**(2,049)**	**(6,320)**	**(6,378)**
INCOME BEFORE INCOME TAX EXPENSE	3,716	9,984	11,697
Income tax expense	(234)	(108)	(784)
PROFIT FOR THE YEAR FROM DISCONTINUED OPERATIONS	3,482	9,876	10,913
Gain on disposal	6,492	-	-
NET PROFIT FOR THE YEAR FROM DISCONTINUED OPERATIONS	**9,974**	**9,876**	**10,913**

Analysis of assets and liabilities over which control was lost:

	24 April 2018	31 December 2017
Cash and cash equivalents (including obligatory reserves and amounts due from credit institutions)	136,733	149,170
Financial assets at fair value through profit or loss	854	7
Financial assets at fair value through other comprehensive income	137,140	115,715
Loans to customers	120,586	115,955
Property, equipment and intangible assets	5,205	5,252
Other assets	6,475	5,346
Total assets	**406,993**	**391,445**
Amounts due to customers	344,463	318,900
Amounts due to credit institutions	20,005	12,624
Other liabilities	4,754	3,103
Total liabilities	**369,222**	**334,627**
Net assets disposed of	**37,771**	**56,818**

(Millions of Kazakhstani Tenge)

Gain on disposal of a subsidiary:

	Year ended 31 December 2018
Consideration received	26,558
Fair value of 40% interest retained	17,705
Net assets disposed of	(37,771)
Gain on disposal	**6,492**

The gain on disposal is included in the profit for the period from discontinued operations.

Net cash outflow from disposal of subsidiary:

	Year ended 31 December 2018
Consideration received	26,558
Less: cash and cash equivalents disposed of	(136,733)
Net cash outflow	**(110,175)**

17. Investments in associate

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

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

Summarised financial information in respect of the Group'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	-

(Millions of Kazakhstani Tenge)

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

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

18. Assets classified as held for sale

After the default of some counterparties on loans to customers, the Group recognised the property pledged as collateral for those loans as assets held for sale at fair value. The assets have been subsequently measured at the lower of fair value less disposal costs or the carrying value, as the Group's management of the appropriate level 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	31 December 2016
Real estate	34,541	43,290	1,335
Land plots	21,429	114,267	8,962
Movable property	159	3,403	-
Assets classified as held for sale related to JSC Altyn Bank	-	391,445	-
Total assets classified as held for sale	**56,129**	**552,405**	**10,297**
Liabilities directly associated with assets classified as held for sale	**-**	**334,627**	**-**

In June 2018, the Group performed an independent valuation of its assets held for sale and based on the results recognised an impairment loss of KZT 23,240 million.

In October 2017, the Group performed an independent valuation of its assets held for sale and based on the results recognised an impairment loss of KZT 4,978 million.

In November 2016, the Group performed an independent valuation of its assets held for sale and based on the results recognised an impairment loss of KZT 1,564 million.

Despite the Group 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, 2017 and 2016.

The fair value of the Group'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.

(Millions of Kazakhstani Tenge)

Details of the Group's assets held for sale and information about the fair value hierarchy as at 31 December 2018, 2017 and 2016 are as follows:

	Level 2	Level 3
31 December 2016		
Land plots	-	8,962
Real estate	507	828
31 December 2017		
Land plots	-	114,267
Real estate	23,657	19,633
Movable property	-	3,403
31 December 2018		
Land plots	-	21,429
Real estate	14,516	20,025
Movable property	-	159

19. Insurance assets and liabilities

Insurance assets comprised the following:

	31 December 2018	31 December 2017	31 December 2016
Reinsurance amounts	34,270	8,987	2,294
Unearned reinsurance premium	17,224	17,893	15,519
	51,494	26,880	17,813
Premiums receivable	14,157	13,282	10,541
Insurance assets	**65,651**	**40,162**	**28,354**

Insurance liabilities comprised the following:

	31 December 2018	31 December 2017	31 December 2016
Reserves for insurance claims	134,802	99,597	33,731
Gross unearned insurance premium reserve	32,952	29,172	23,120
	167,754	128,769	56,851
Payables to reinsurers and agents	14,687	10,774	7,523
Insurance liabilities	**182,441**	**139,543**	**64,374**

Insurance risk

The Group establishes underwriting guidelines and limits, which stipulate the approval process for risks and their limits. These limits are being continuously monitored. The Group’s direct insurance business is spread throughout the Republic of Kazakhstan. The Group’s reinsurance portfolio is diversified in terms of geographical spread and in terms of lines of business.

Claims management risk

The risk that claims are handled or paid inappropriately is managed using a range of IT system controls and manual processes conducted by experienced staff. These, together with a range of detailed policies and procedures, ensure that all claims are handled in a timely, appropriate and accurate manner.

(Millions of Kazakhstani Tenge)

Reinsurance risk

Reinsurance is used to protect against the impact of major catastrophic events or unforeseen volumes of, or adverse trends in, large individual claims and to transfer risk that is outside the Group's current risk appetite.

Reinsurance of risk above the Group's appetite is only effective if the reinsurance premium is economic and the counterparty is financially secure.

The Group evaluates the financial strengths of its reinsurers and monitors the concentration of credit risks arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimise its exposure to significant losses from reinsurer insolvencies.

Reserving risk

There is a risk that reserves are assessed incorrectly and there are not enough funds to pay or handle claims as they fall due. To estimate insurance and reinsurance liabilities, the Group uses actuarial methods and assumptions set by the NBRK.

Credit risk in respect to insurance

The Group is exposed to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one debtor, or groups of debtors and geographical segments. Limits on the level of credit risk by a debtor and reinsurer are approved by the NBRK on a regular basis. Such risks are monitored continuously and are subject to an annual or more frequent reassessment.

The movements on claims reserves for the years ended 31 December 2018, 2017 and 2016, were as follows:

	2018	**2017**	**2016**
Reserves for claims, beginning of the year	99,597	33,731	24,797
Reserves for claims, reinsurance share, beginning of the year	(8,987)	(2,294)	(1,557)
Net reserves for claims, beginning of the year	90,610	31,437	23,240
Plus claims incurred	59,986	48,615	24,799
Less claims paid	(50,064)	(27,282)	(16,602)
Plus acquisition of reserves through business combination	-	37,840	-
Net reserves for claims, end of the year	100,532	90,610	31,437
Reserves for claims, reinsurance share, end of the year	34,270	8,987	2,294
Reserves for claims, end of the year	**134,802**	**99,597**	**33,731**

(Millions of Kazakhstani Tenge)

The movements on unearned insurance premium reserve for the years ended 31 December 2018, 2017 and 2016, were as follows:

	2018	2017	2016
Gross unearned insurance premium reserve, beginning of the year	29,172	23,120	19,043
Unearned insurance premium reserve, reinsurance share, beginning of the year	(17,893)	(15,519)	(12,859)
Net unearned insurance premium reserve, beginning of the year	11,279	7,601	6,184
Change in unearned insurance premium reserve	3,780	6,052	4,077
Change in unearned insurance premium reserve, reinsurance share	669	(2,374)	(2,660)
Net change in unearned insurance premium reserve	4,449	3,678	1,417
Net unearned insurance premium reserve, end of the year	15,728	11,279	7,601
Unearned insurance premium reserve, reinsurance share, end of the year	17,224	17,893	15,519
Gross unearned insurance premium reserve, end of the year	**32,952**	**29,172**	**23,120**

20. Other assets

Other assets comprise:

	31 December 2018	31 December 2017	31 December 2016
Other financial assets:			
Debtors on banking activities*	61,321	33,084	8,397
Financial lease receivables	13,193	-	-
Debtors on non-banking activities	12,380	13,037	1,212
Accrued commission income	5,116	4,895	1,652
Other	33	363	12
	92,043	**51,379**	**11,273**
Less – Allowance for expected credit losses (Note 24)/(2017-2016: Allowance for impairment)	(16,325)	(5,921)	(4,516)
	75,718	**45,458**	**6,757**
Other non-financial assets:			
Prepayments for investment property	6,317	11,816	7,559
Advances for taxes other than income tax	3,164	3,767	1,077
Inventory	2,332	1,335	1,323
Other investments	683	453	168
Prepayments for property and equipment	193	1,679	1,263
Other	2,741	3,621	2,443
	15,430	22,671	13,833
	91,148	**68,129**	**20,590**

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

(Millions of Kazakhstani Tenge)

21. Amounts due to customers

Amounts due to customers include the following:

	31 December 2018	31 December 2017	31 December 2016
Recorded at amortised cost:			
Term deposits:			
Individuals	2,918,070	2,691,886	1,470,536
Legal entities	1,374,592	1,705,971	1,267,589
	4,292,662	**4,397,857**	**2,738,125**
Current accounts:			
Legal entities	1,756,748	1,321,530	837,625
Individuals	477,520	412,363	244,912
	2,234,268	1,733,893	1,082,537
	6,526,930	**6,131,750**	**3,820,662**

As at 31 December 2018, the Group's ten largest groups of related customers accounted for approximately 27% of the total amounts due to customers (31 December 2017 – 32%; 31 December 2016 – 32%), where each group of related customers represents customers related to each other within that group.

As at 31 December 2018, amounts due to customers included amounts held as collateral of KZT 67,515 million (31 December 2017 – KZT 83,501 million, 31 December 2016 – KZT 19,649 million).

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

An analysis of customer accounts by sector is as follows:

	31 December 2018	%	31 December 2017	%	31 December 2016	%
Individuals and entrepreneurs	3,395,590	52%	3,104,249	51%	1,715,448	45%
Oil and gas	669,608	10%	712,840	12%	743,744	19%
Financial sector	425,352	7%	90,204	2%	215,936	6%
Other consumer services	322,783	5%	208,610	4%	171,245	5%
Construction	275,939	4%	138,326	2%	81,113	2%
Wholesale trade	254,518	4%	199,766	3%	166,918	4%
Healthcare and social services	211,571	3%	129,962	2%	61,184	2%
Transportation	179,522	3%	125,828	2%	185,039	5%
Government	101,789	2%	489,422	8%	86,162	2%
Insurance and pension funds activity	88,377	1%	17,779	0%	13,281	0%
Metallurgy	67,572	1%	358,939	6%	77,103	2%
Energy	64,731	1%	44,568	1%	33,729	1%
Communication	55,201	1%	81,260	1%	52,550	1%
Education	47,449	1%	86,508	1%	35,723	1%
Other	366,928	6%	343,489	6%	181,487	5%
	6,526,930	**100%**	**6,131,750**	**100%**	**3,820,662**	**100%**

(Millions of Kazakhstani Tenge)

22. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	31 December 2018	31 December 2017	31 December 2016
Recorded at amortised cost:			
Loans from JSC Entrepreneurship Development Fund DAMU	86,390	79,971	36,552
Loans from JSC Development Bank of Kazakhstan	38,491	37,434	21,372
Correspondent accounts	23,990	23,953	27,882
Loans and deposits from Kazakhstan banks (incl. loans under repurchase agreements)	10,964	105,166	21,924
Loans from JSC National Managing Holding KazAgro	3,107	3,869	38,534
Loans from other financial institutions	2,813	2,148	2,903
Loans and deposits from non-OECD based banks	2,329	2,227	7,109
Loans and deposits from OECD based banks	295	383	5,858
	168,379	**255,151**	**162,134**

As at 31 December 2018, loans from JSC Entrepreneurship Development Fund DAMU ("DAMU") included long-term loans of KZT 85,956 million at a 1.0%-5.5% interest rate maturing in 2019-2035 with an early recall option (31 December 2017 – KZT 79,566 million, 31 December 2016 – KZT 36,367 million). These loans were received in accordance with the Government program ("the Program") to finance small and medium enterprises ("SME") operating in certain industries. According to the loan agreements between DAMU and the Group, the Group 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 32,012 million, 31 December 2016 – KZT 16,000 million) at a 2.0%-7.9% interest rate maturing in 2019-2037, 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, 31 December 2016 – KZT 5,300 million) at a 1.0% interest rate maturing in 2035, to finance the purchase of cars by the Group's retail customers. According to the loan agreement between DBK and the Group, the Group 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, 31 December 2016 – KZT 38,483 million). The loan was received for restructuring/refinancing of loan/leasing debts of the Bank's borrowers operating in the 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% for the period not later than 31 December 2022.

On 3 July 2017, the Group 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 Group 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 as follows:

	31 December 2018		31 December 2017		31 December 2016	
	Interest rate, %	Maturity, year	Interest rate, %	Maturity, Year	Interest rate, %	Maturity, year
Loans from JSC Entrepreneurship Development Fund DAMU	1.0%-5.5%	2019-2035	1.0%-4.5%	2018-2035	2.0%	2017-2035
Loans from JSC Development Bank of Kazakhstan	1.0%-7.9%	2019-2037	1.0%-7.9%	2019-2035	1.0%-2.0%	2034-2035
Loans and deposits from Kazakhstan banks (incl. loans under repurchase agreements)	8.0%-9.0%	2019	1.0%-9.5%	2018	8.8%-11.1%	2017
Loans from JSC National Managing Holding KazAgro	3.0%	2022	3.0%	2022	3.0%	2019-2022
Loans from other financial institutions	4.0%-10.0%	2023-2026	10.0%	2023	5.0%-10.0%	2017-2023
Loans and deposits from non-OECD based banks	1.0%-8.0%	2019-2023	1.0%-9.5%	2018-2022	1.0%-10.0%	2017-2021
Loans and deposits from OECD based banks	4.2%	2019	3.1%	2018	2.6%-6.5%	2017-2023

The 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, 2017 and 2016, are as follows:

	31 December 2018		31 December 2017		31 December 2016	
	Fair value of collateral	Carrying amount of loans	Fair value of collateral	Carrying amount of loans	Fair value of collateral	Carrying amount of loans
NBRK Notes	4,249	4,124	-	-	-	-
Treasury bills of the Ministry of Finance of Kazakhstan	465	442	92,719	90,046	15,201	15,009
	4,714	**4,566**	**92,719**	**90,046**	**15,201**	**15,009**

Details of transferred financial assets that are not derecognised in their entirety as at 31 December 2018, 2017 and 2016 are disclosed below.

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

(Millions of Kazakhstani Tenge)

The Group 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	4,714
Carrying amount of associated liabilities	4,566
As at 31 December 2017:	
Carrying amount of transferred assets	92,719
Carrying amount of associated liabilities	90,046
As at 31 December 2016:	
Carrying amount of transferred assets	15,201
Carrying amount of associated liabilities	15,009

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

The Group's management believes that as at 31 December 2018, 2017 and 2016, the Group was in compliance with the covenants of the agreements the Group has with the trustees and holders of the notes.

23. Debt securities issued

Debt securities issued comprise:

	31 December 2018	31 December 2017	31 December 2016
Recorded at amortised cost:			
Subordinated debt securities issued:			
KZT denominated bonds, fixed rate	79,241	77,330	-
KZT denominated bonds, indexed to inflation	3,492	12,976	-
USD denominated bonds, floating rate	-	18,776	-
Total subordinated debt securities outstanding	**82,733**	**109,082**	**-**
Unsubordinated debt securities issued:			
USD denominated bonds	428,549	464,435	359,355
KZT denominated bonds	389,509	388,526	225,578
RUB denominated bonds	-	353	-
Total unsubordinated debt securities outstanding	**818,058**	**853,314**	**584,933**
Total debt securities outstanding	**900,791**	**962,396**	**584,933**

On 25 April 2016, the Group made a repayment of KZT 4,000 million 10-year subordinated reverse inflation indexed local bond issued in accordance with the legislation of the Republic of Kazakhstan, bearing a coupon of 15% minus inflation rate.

On 9 November 2016, the Group made a voluntary prepayment of KZT 5,000 million subordinated bonds issued in accordance with the legislation of the Republic of Kazakhstan with initial maturity in 2018, bearing a coupon of 13%.

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

(Millions of Kazakhstani Tenge)

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 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 14 November 2018, the Group 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.

The coupon rates and maturities of these debt securities issued are as follows:

	31 December 2018		31 December 2017		31 December 2016	
	Coupon rate, %	**Maturity, year**	**Coupon rate, %**	**Maturity, year**	**Coupon rate, %**	**Maturity, year**
Subordinated debt securities issued:						
KZT denominated bonds, fixed rate	9.5%	2025	9.5%	2025	-	-
KZT denominated bonds, indexed to inflation	1%+Inflation rate	2019	1%+Inflation rate	2018-2019	-	-
USD denominated bonds, floating rate	-	-	Libor+ 6.2%	perpetual	-	-
Unsubordinated debt securities issued:						
USD denominated bonds	5.5%-12.0%	2021-2022	5.5%-8.5%	2018-2022	7.3%	2017-2021
KZT denominated bonds	7.5%-8.8%	2019-2025	7.5%-8.8%	2019-2025	7.5%	2024-2025
RUB denominated bonds	-	-	5.5%-12.0%	2019	-	-

As at 31 December 2018, accrued interest on debt securities issued was KZT 20,624 million (as at 31 December 2017 – KZT 10,754 million, as at 31 December 2016 – KZT 11,894 million).

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

In accordance with the terms of the USD denominated bonds, the Group 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 Group's ability to create security interests over its assets. Should the Group default under these covenants, this could result in cross-accelerations and cross-defaults under the terms of the Group's other financing arrangements. The Group's management believes that as at 31 December 2018, 2017 and 2016, the Group was in compliance with the covenants of the agreements the Group has with trustees and holders of the notes.

(Millions of Kazakhstani Tenge)

Reconciliation of liabilities arising from financing activities

The table below details changes in the Group'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 Group's consolidated 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	31 December 2018
Debt securities issued	962,396	(167,463)	77,462	28,396	900,791

			Non-cash changes			
	1 January 2017	Financing cash flows	Acquisition of subsidiary	Foreign exchange movement	Changes in amortised cost	31 December 2017
Debt securities issued	584,933	(197,892)	579,662	(2,671)	(1,636)	962,396

(Millions of Kazakhstani Tenge)

24. 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 11)				Other assets (Note 20)			Financial assets at fair value through other comprehensive income* (Note 9,10)			Cash and cash equiva-lents (Note 5)	Amounts due from credit institu-tions (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	**(34,207)**	**(31,973)**	**(210,834)**	**(78,155)**	**(952)**	**(3,056)**	**(3,738)**	**(1,223)**	**(4)**	**(1,480)**	**(10)**	**(334)**	**(365,966)**
Transfer to Stage 1	(10,909)	6,718	4,191	-	(2)	2	-	(4)	4	-	-	-	-
Transfer to Stage 2	1,522	(1,602)	80	-	25	(132)	107	8	(8)	-	-	-	-
Transfer to Stage 3	4,800	4,333	(9,133)	-	-	376	(376)	-	-	-	-	-	-
Changes in models/ risk parameters	9,567	(6,713)	(178,625)	27,305	(224)	281	(14,600)	636	(12)	1	2	151	(162,231)
New originations or purchases of financial assets	(21,302)	-	-	-	-	-	-	(338)	-	-	-	-	(21,640)
Derecognition of financial assets	8,103	2,491	103,151	38,120	-	-	-	11	-	-	-	-	151,876
Recoveries of allowances on previously written-off assets	-	-	(108,298)	(2,570)	-	-	-	-	-	-	-	-	(110,868)
Write-offs	-	-	104,690	7,068	9	-	3,866	17	-	355	-	-	116,005
Foreign exchange differences and other movements	(1,090)	(1,970)	(28,139)	(6,412)	98	833	1,158	(208)	(1)	(757)	(1)	(49)	(36,538)
31 December 2018	**(43,516)**	**(28,716)**	**(322,917)**	**(14,644)**	**(1,046)**	**(1,696)**	**(13,583)**	**(1,101)**	**(21)**	**(1,881)**	**(9)**	**(232)**	**(429,362)**
Total				**(409,793)**			**(16,325)**			**(3,003)**	**(9)**	**(232)**	**(429,362)**

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

(Millions of Kazakhstani Tenge)

	Loans to customers (Note 11)	Amounts due from credit institutions (Note 8)	Available-for-sale investment securities (Note 9)	Other assets (Note 20)	Total
31 December 2015	**(305,114)**	**(7)**	**(5,516)**	**(4,568)**	**(315,205)**
Additional provisions recognised	(156,489)	(18)	(740)	(6,248)	(163,495)
Recoveries of provisions	130,616	25	1,523	5,651	137,815
Write-offs	44,793	-	866	351	46,010
Foreign exchange differences	1,442	-	(17)	298	1,723
31 December 2016	**(284,752)**	**-**	**(3,884)**	**(4,516)**	**(293,152)**
Additional provisions recognised	(334,456)	(200)	(495)	(14,250)	(349,401)
Recoveries of provisions	269,246	99	1,636	11,118	282,099
Write-offs	37,215	101	388	2,064	39,768
Disposal of a subsidiary	2,603	-	-	7	2,610
Foreign exchange differences	(7,017)	-	(98)	(344)	(7,459)
31 December 2017	**(317,161)**	**-**	**(2,453)**	**(5,921)**	**(325,535)**

During the years ended 31 December 2018, 2017 and 2016, the Group has written-off loans of KZT 118,207 million, KZT 37,215 million, and KZT 44,793 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	(129)	(13,539)	(4,783)	(18,451)
Transfer to Stage 1	(400)	397	3	-
Transfer to Stage 2	-	(629)	629	-
Transfer to Stage 3	-	11,598	(11,598)	-
Recoveries	380	1,121	14,450	15,951
Foreign exchange differences	(3)	(9)	(34)	(46)
At the end of the period	**(152)**	**(1,061)**	**(1,333)**	**(2,546)**

	2017	**2016**
At the beginning of the year	(987)	(982)
Provisions	(2,810)	(878)
Recoveries of provisions	4,547	856
Acquisition of a subsidiary*	(17,336)	-
Disposal of a subsidiary	501	-
Write-offs	50	-
Foreign exchange differences	(63)	17
At the end of the year	**(16,098)**	**(987)**

* Provision created by KKB against guarantees prior to the acquisition date, 5 July 2017.

(Millions of Kazakhstani Tenge)

25. Taxation

The Bank and its subsidiaries, other than OJSC Halyk Bank Kyrgyzstan, JSC Halyk Bank Georgia, CJSC Kazkommertsbank Tajikistan and JSC Commercial Bank Moskommertsbank, are subject to taxation in Kazakhstan. JSC Commercial Bank Moskommertsbank is subject to income tax in the Russian Federation. OJSC Halyk Bank Kyrgyzstan is subject to income tax in the Republic of Kyrgyzstan. JSC Halyk Bank Georgia is subject to income tax in Georgia. CJSC Kazkommertsbank Tajikistan is subject to income tax in the Republic of Tajikistan.

The income tax expense comprises:

	Year ended 31 December 2018	Year ended 31 December 2017	Year ended 31 December 2016
Current tax charge	24,881	38,817	36,205
Deferred income tax expense/(benefit) relating to origination and reversal of temporary differences	57,593	(13,219)	(14,022)
Income tax expense	**82,474**	**25,598**	**22,183**

Deferred income tax expense/(benefit) relating to temporary differences is as follows:

	Year ended 31 December 2018	Year ended 31 December 2017	Year ended 31 December 2016
Unused tax losses of the prior year recognised in the current year (2018: due to the legal merger)	45,271	-	3,531
Fair value of derivatives and financial assets at fair value through other comprehensive income	17,708	(14,608)	(18,546)
Loans to customers, allowance for expected credit losses/allowance for impairment	(3,513)	(258)	(1,975)
Property and equipment, accrued depreciation	(2,984)	1,676	3,007
Deferred tax related to acquisition through business combination	-	1,638	-
Other	1,111	(1,667)	(39)
Deferred income tax expense/(benefit)	**57,593**	**(13,219)**	**(14,022)**

The tax rate for Kazakhstan companies was 20% during the years ended 31 December 2018, 2017 and 2016. Income on state and other qualifying securities is tax exempt.

The tax rates in the Russian Federation, the Republic of Kyrgyzstan, Georgia and the Republic of Tajikistan are 20%, 10%, 15% and 23%, respectively.

(Millions of Kazakhstani Tenge)

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

	Year ended 31 December 2018	Year ended 31 December 2017	Year ended 31 December 2016
Income before income tax expense	325,931	189,185	142,682
Statutory tax rate	20%	20%	20%
Income tax expense at the statutory rate	65,186	37,837	28,536
Tax-exempt interest income and other related income on state and other qualifying securities	(39,238)	(14,233)	(9,109)
Income of subsidiaries taxed at different rates	(117)	(299)	(93)
Non-deductible expenditures:			
- derecognition of unused tax losses*	45,271	-	-
- bonuses	2,294	-	-
- other provisions	1,334	609	118
- general and administrative expenses	298	202	127
- charity	-	328	127
Disposal of a subsidiary	2,856	-	-
Other	4,590	1,154	2,477
Income tax expense	**82,474**	**25,598**	**22,183**

Deferred tax assets and liabilities comprise:

	31 December 2018	31 December 2017	31 December 2016
Tax effect of deductible temporary differences:			
Bonuses accrued	2,908	3,246	1,821
Fair value of derivatives	2,781	1,334	1,737
Vacation pay accrual	554	474	361
Tax loss carry forward*	-	45,491	408
Other	97	2,439	19
Deferred tax asset	6,340	52,984	4,346
Tax effect of taxable temporary differences:			
Fair value adjustment on customer accounts	(42,951)	(43,633)	-
Fair value of derivatives and financial assets at fair value through other comprehensive income	(19,089)	(744)	(13,929)
Property and equipment, accrued depreciation	(9,756)	(12,740)	(8,400)
Allowance for loans to customers	(406)	(3,920)	(3,895)
Core deposit intangible	-	-	(258)
Other	(3)	(219)	(214)
Deferred tax liability	(72,205)	(61,256)	(26,696)
Net deferred tax liability	**(65,865)**	**(8,272)**	**(22,350)**

*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 Bank has derecognized these deferred tax assets as at 31 December 2018.

(Millions of Kazakhstani Tenge)

Current income tax assets and liabilities comprise:

	31 December 2018	31 December 2017	31 December 2016
Current income tax refund receivable	34,478	15,320	3,222
Current income tax payable	(126)	(2,720)	(3,311)
Current income tax asset/(liability)	**34,352**	**12,600**	**(89)**

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

	31 December 2018	31 December 2017	31 December 2016
Deferred tax asset	323	517	831
Deferred tax liability	(66,188)	(8,789)	(23,181)
Net deferred tax liability	**(65,865)**	**(8,272)**	**(22,350)**

Kazakhstan and other countries where the Group operates currently have a number of laws related to various taxes imposed by both state and regional government authorities. Applicable taxes include value added tax, income tax, social taxes, and others. Implemented 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 organisations; thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (for example, 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 substantially more significant tax risks in Kazakhstan than typically found in countries with more developed tax systems.

Commercial legislation of the countries where the Group operates, 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 Group's business activities, was to be challenged by the tax authorities, the Group may be assessed additional taxes, penalties and interest.

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.

In Kazakhstan, tax years remain open for 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 Group is in compliance with the tax laws 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	2016
Net deferred tax liability at the beginning of the year	8,272	22,350	35,443
Deferred tax (benefit)/expense	57,537	(13,441)	(13,543)
Deferred tax related to acquisition through business combination	-	(1,416)	-
Deferred tax related to disposal of a subsidiary	-	557	-
Credited to other comprehensive income at the date of property and equipment revaluation	56	222	192
Deferred tax on core deposit intangible	-	-	258
Net deferred tax liability at the end of the year	**65,865**	**8,272**	**22,350**

(Millions of Kazakhstani Tenge)

26. Other liabilities

Other liabilities comprise:

	31 December 2018	31 December 2017	31 December 2016
Other financial liabilities:			
Salary payable	17,256	18,240	11,205
Creditors on non-banking activities	3,942	5,250	782
Creditors on bank activities	1,617	7,539	800
Payable for general and administrative expenses	1,183	1,994	612
Settlements on card transactions	1,119	4,318	-
Liabilities on other payments	952	-	-
Liabilities on preferred shares*	-	12,149	-
Others	943	883	583
	27,012	**50,373**	**13,982**
Other non-financial liabilities:			
Taxes payable other than income tax	5,218	4,088	2,832
Other prepayments received	3,767	2,369	1,382
Advances received related to commercial property	2,958	9,589	2,271
	11,943	16,046	6,485
Total other liabilities	**38,955**	**66,419**	**20,467**

* On 20 March 2018, KKB completed the exchange of its preferred shares to common shares under the conditions, procedures and terms approved by the Extraordinary General Shareholders' Meeting of KKB on 16 February 2018 inclusive of the partial buyback of shares upon the shareholders' request. A gain for KZT 592 million was recognized and included to the "Other income" line item in the consolidated statement of profit or loss.

27. Equity

The number of shares authorised, issued and fully paid as at 31 December 2018, 2017 and 2016, were as follows:

	Share capital authorised	Share capital authorised and not issued	Fully paid and issued share capital	Share capital repurchased	Outstanding shares
31 December 2018:					
Common	25,000,000,000	(11,552,455,218)	13,447,544,782	(1,767,788,353)	11,679,756,429
31 December 2017:					
Common	25,000,000,000	(12,311,142,941)	12,688,857,059	(1,695,040,240)	10,993,816,819
31 December 2016:					
Common	25,000,000,000	(12,311,142,941)	12,688,857,059	(1,695,237,728)	10,993,619,331

(Millions of Kazakhstani Tenge)

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

	Number of shares			Nominal (placement) amount		
	Common	**Non-convertible preferred**	**Convertible preferred**	**Common**	**Non-convertible preferred**	**Convertible preferred**
31 December 2015	**10,909,450,551**	**20,443,932**	**369,555**	**43,597**	**(5,154)**	**2,077**
Purchase of treasury shares	(10,713,210)	-	-	(427)	-	-
Sale of treasury shares	10,328,198	-	-	481	-	-
Exchange of preferred shares to common shares*	84,553,792	(20,443,932)	(369,555)	(3,077)	5,154	(2,077)
31 December 2016	**10,993,619,331**	**-**	**-**	**40,574**	**-**	**-**
Purchase of treasury shares	(4,925,498)	-	-	(1,675)	-	-
Sale of treasury shares	5,122,986	-	-	562	-	-
31 December 2017	**10,993,816,819**	**-**	**-**	**39,461**	**-**	**-**
Issue of common shares	758,687,723	-	-	65,332	-	-
Purchases of treasury shares	(12,486,522)	-	-	(935)	-	-
Sale of treasury shares	6,721,311	-	-	1,119 **1**	-	-
Purchases of treasury shares due to the legal merger	(66,982,902)	-	-	(7,391)	-	-
31 December 2018	**11,679,756,429**	**-**	**-**	**97,586**	**-**	**-**

*On 22 April 2016, at the Bank's General Shareholders Meeting, the Bank's shareholders decided to exchange the non-convertible preferred shares and the convertible preferred shares for common shares of the Group. The exchange was performed in accordance with the terms and conditions approved by the General Shareholders on 22 April 2016, as well as, in accordance with the Bank's Charter and changes to the Bank's Common Share Issuance Prospectus registered by the NBRK on 16 May 2016. The exchange aimed to optimise the Group's capital structure within the framework of the current Kazakhstan legislation.

Common shares

As at 31 December 2018, 2017 and 2016, share capital comprised KZT 209,027 million, KZT 143,695 million and KZT 143,695 million, respectively. As at 31 December 2018, the Group held 1,767,788,353 shares of the Group's common shares as treasury shares for KZT 111,441 million (31 December 2017 – 1,695,040,240 for KZT 104,234 million 31 December 2016 – 1,695,237,728 for KZT 103,121 million).

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

(Millions of Kazakhstani Tenge)

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**	**Paid in 2016 for the year ended 31 December 2015**
Dividend paid per one preferred share, (convertible and non-convertible), tenge	n/a	n/a	16.00
Dividend paid per one common share	6.31	n/a	n/a

Share premium reserve

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

28. Financial commitments and contingencies

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

	31 December 2018	**31 December 2017**	**31 December 2016**
Guarantees issued	415,531	300,565	173,226
Commercial letters of credit	66,502	70,454	27,026
Commitments to extend credit	49,022	59,056	15,445
Financial commitments and contingencies	531,055	430,075	215,697
Less: cash collateral against letters of credit	(31,015)	(50,144)	(10,034)
Less: provisions (Note 24)	(2,546)	(16,098)	(987)
Financial commitments and contingencies, net	**497,494**	**363,833**	**204,676**

Guarantees issued represent bank guarantees issued by the Group by order of its clients, and which are in effect as at the reporting date. As at 31 December 2018, uncovered guarantees issued for the ten largest groups of customers/groups of customers accounted for 67% of the Group's total financial guarantees (31 December 2017 – 46%; 31 December 2016 – 70%) and represented 26% of the Group's total equity (31 December 2017 – 15%; 31 December 2016 – 18%).

Commercial letters of credit represent letters of credit issued by the Group 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 Group's total commercial letters of credit (31 December 2017 – 44%; 31 December 2016 – 61%) and represented 3% of the Group's total equity (31 December 2017 – 3%; 31 December 2016 – 2%).

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

Capital commitments

As at 31 December 2018, the Group had capital expenditures commitments in respect of construction in progress for KZT 736 million (31 December 2017 – KZT 2,480 million; 31 December 2016 – KZT 157 million).

Operating lease commitments

There were no material operating lease commitments under irrevocable operating leases outstanding as at 31 December 2018, 2017 and 2016.

(Millions of Kazakhstani Tenge)

29. Net interest income

	Year ended 31 December 2018	Year ended 31 December 2017	Year ended 31 December 2016
Interest income:			
Loans to customers	433,270	343,796	268,989
Financial assets at fair value through other comprehensive income (IAS 39 – Available-for-sale investment securities)	103,383	129,637	24,197
Debt securities at amortised cost, net of allowance for expected credit losses (2016: held to maturity investments)	94,336	-	1,201
Amounts due from credit institutions and cash and cash equivalents	36,535	24,164	12,170
Financial assets at fair value through profit or loss	6,342	8,731	26,006
Other financial assets	8,175	-	-
Total interest income	**682,041**	**506,328**	**332,563**
Interest expense:			
Amounts due to customers	(246,223)	(191,715)	(108,838)
Debt securities issued	(84,126)	(61,729)	(45,822)
Amounts due to credit institutions	(3,423)	(4,361)	(5,889)
Total interest expense	**(333,772)**	**(257,805)**	**(160,549)**
Net interest income before credit loss expense	**348,269**	**248,523**	**172,014**

The total interest income calculated using the EIR method for financial assets at FVTOCI is KZT 103,383 million during the year 2018 (year 2017: KZT 129,637 million; year 2016: KZT 24,197 million) and for financial assets measured at amortised cost is KZT 572,316 million during the year 2018 (year 2017: KZT 367,960 million; year 2016: KZT 282,360 million). The total interest expense calculated using the EIR method for financial liabilities measured at amortised cost is KZT 333,772 million during the year 2018 (year 2017: KZT 257,805 million; year 2016: KZT 160,549 million).

30. Fees and commissions

Fee and commission income is derived from the following sources:

	Year ended 31 December 2018	Year ended 31 December 2017	Year ended 31 December 2016
Payment cards maintenance	31,010	23,332	11,116
Bank transfers - settlements	26,614	18,943	14,438
Cash operations	24,537	18,159	10,353
Servicing customers' pension payments	8,037	7,776	6,953
Bank transfers – salary projects	7,200	7,261	6,912
Letters of credit and guarantees issued	7,035	5,406	3,818
Maintenance of customer accounts	4,351	3,006	1,884
Other	4,457	3,757	2,223
	113,241	**87,640**	**57,697**

(Millions of Kazakhstani Tenge)

Fee and commission expense is derived from the following sources:

	Year ended 31 December 2018	Year ended 31 December 2017	Year ended 31 December 2016
Payment cards	(21,278)	(12,024)	(2,001)
Deposit insurance	(12,293)	(10,729)	(5,327)
Bank transfers	(1,797)	(1,364)	(593)
Foreign currency operations	(1,131)	(803)	(557)
Commission paid to collectors	(459)	(342)	(427)
Other	(2,048)	(1,470)	(2,390)
	(39,006)	**(26,732)**	**(11,295)**

31. 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	Year ended 31 December 2016
Net gain/(loss) on operations with financial assets and liabilities classified as held for trading:			
Unrealised net gain/(loss) on derivative and trading operations*	96,346	19,468	(7,339)
Realised net gain/(loss) on derivative operations	12,655	793	(5,483)
Realised net gain on trading operations	5,157	11,162	112
Total net gain/(loss) on operations with financial assets and liabilities classified as held for trading	**114,158**	**31,423**	**(12,710)**

*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.

32. Net foreign exchange (loss)/gain

Net foreign exchange (loss)/gain comprises:

	Year ended 31 December 2018	Year ended 31 December 2017	Year ended 31 December 2016
Dealing, net	32,985	26,055	13,935
Translation differences, net	(97,562)	(31,004)	4,571
Total net foreign exchange (loss)/gain	**(64,577)**	**(4,949)**	**18,506**

(Millions of Kazakhstani Tenge)

33. Insurance underwriting income and expenses

Insurance underwriting income and expenses comprises:

	Year ended 31 December 2018	Year ended 31 December 2017	Year ended 31 December 2016
Insurance premiums written, gross	108,789	76,212	58,906
Ceded reinsurance share	(37,407)	(24,339)	(28,902)
Change in unearned insurance premiums, net	(4,067)	3,235	(1,933)
Total insurance underwriting income	**67,315**	**55,108**	**28,071**
Commissions to agents	(28,206)	(17,713)	(7,319)
Insurance payments	(18,476)	(16,746)	(9,907)
Insurance reserves	(13,304)	(14,156)	(7,573)
Total insurance claims incurred, net of reinsurance	**(59,986)**	**(48,615)**	**(24,799)**
Net insurance income	**7,329**	**6,493**	**3,272**

34. Operating expenses

Operating expenses comprises:

	Year ended 31 December 2018	Year ended 31 December 2017	Year ended 31 December 2016
Salaries and other employee benefits	77,563	51,124	38,551
Depreciation and amortisation expenses	10,929	9,692	6,169
Taxes other than income tax	8,432	7,038	3,456
Repair and maintenance	5,796	3,451	2,006
Rent	5,064	3,512	1,734
Information services	4,490	3,314	2,219
Security	4,214	3,662	1,963
Communication	3,982	2,829	1,577
Utilities	3,549	2,876	1,630
Stationery and office supplies	1,792	1,249	892
Advertisement	1,683	1,481	759
Insurance agents fees	1,670	1,888	489
Professional services	1,521	4,895	564
Business trip expenses	1,104	958	590
Charity	1,011	1,643	639
Transportation	853	696	502
Social events	208	142	77
Hospitality expenses	140	81	77
Other	3,222	5,266	2,447
	137,223	**105,797**	**66,341**

35. 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 parent by the weighted average number of participating shares outstanding during the year.

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

(Millions of Kazakhstani Tenge)

The following table presents basic and diluted earnings per share:

	Year ended 31 December 2018	Year ended 31 December 2017	Year ended 31 December 2016
Basic earnings per share			
Net income for the year attributable to equity holders of the parent	254,238	173,362	131,412
Less: Dividends paid on preferred shares	-	-	(333)
Earnings attributable to common shareholders	254,238	173,362	131,079
Earnings for the year from continuing operations	244,264	163,587	120,499
Earnings for the year from discontinuing operations	9,974	9,876	10,913
Weighted average number of common shares for the purposes of basic earnings per share	11,173,948,398	10,994,491,507	10,960,026,244
Basic earnings per share (in Tenge)	**22.75**	**15.77**	**11.96**
Basic earnings per share from continuing operations (in Tenge)	**21.86**	**14.88**	**10.99**
Basic earnings per share from discontinued operations (in Tenge)	**0.89**	**0.90**	**1.00**
Diluted earnings per share			
Earnings used in the calculation of basic earnings per share	254,238	173,362	131,079
Add: Dividends paid on convertible preferred shares	-	-	9
Less: Amounts payable to convertible preferred shareholders upon conversion	-	-	(96)
Earnings used in the calculation of total diluted earnings per share	254,238	173,362	130,992
Earnings for the period from continuing operations	244,264	163,587	120,499
Earnings for the period from discontinuing operations	9,974	9,876	10,913
Weighted average number of common shares for the purposes of basic earnings per share	11,173,948,398	10,994,491,507	10,960,026,244
Weighted average number of common shares that would be issued for the convertible preferred shares	-	-	160,984
Weighted average number of common shares for the purposes of diluted earnings per share	11,173,948,398	10,994,491,507	10,960,187,228
Diluted earnings per share (in Tenge)	**22.75**	**15.77**	**11.95**
Diluted earnings per share from continuing operations (in Tenge)	**21.86**	**14.88**	**10.99**
Diluted earnings per share from discontinued operations (in Tenge)	**0.89**	**0.90**	**1.00**

As required by KASE rules for listed companies, the book value of one share per each class of shares as at 31 December 2018, 2017 and 2016, 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	11,679,756,429	1,057,211	90.52
		1,057,211	

(Millions of Kazakhstani Tenge)

	31 December 2017		
Class of shares	**Outstanding shares**	**Equity (as calculated per KASE rules)**	**Book value of one share, in KZT**
Common	10,993,816,819	926,206	84.25
		926,206	

	31 December 2016		
Class of shares	**Outstanding shares**	**Equity (as calculated per KASE rules)**	**Book value of one share, in KZT**
Common	10,993,619,331	656,414	59.71
		656,414	

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

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

36. Financial risk management

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

- Credit risk;
- Liquidity risk; and
- Market risk.

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

Credit risk

Credit risk is the risk of loss arising for the Group 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 minimisation 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 Group 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 (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 a counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Group 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 Group applies the same credit policy to the contingent liabilities as it does to the financial instruments recorded in the consolidated 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 Group 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 the 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 authorised 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 minimising 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.

Authorised credit authorities of the Bank's subsidiaries

Consideration and approval of the loan applications in the subsidiaries are performed by the authorised 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 maximisation and to limit the risks of banking activities related to raising and allocating funds and he establishment of a medium-term policy for the management of assets and liabilities. The main tasks of the ALMC are: liquidity management, interest rate risk management, price risk and other banking risk management.

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

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 Group'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 the 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 Group would have to pay if the guarantee was called on, or in the case of commitments, if the loan amount was called on (Note 28). The collateral pledged is represented by the carrying amount of a financial instrument for which the collateral was received as security.

(Millions of Kazakhstani Tenge)

	31 December 2018	
	Maximum exposure and net exposure after offset	**Collateral pledged**
Cash equivalents*	1,559,268	65,036
Obligatory reserves	115,741	-
Financial assets at fair value through profit or loss (less equity securities)	168,298	-
Amounts due from credit institutions	55,035	-
Financial assets at fair value through other comprehensive income (less equity securities)	1,763,478	-
Debt securities at amortised cost, net of allowance for expected credit losses	1,055,907	-
Loans to customers	3,481,079	2,154,902
Other financial assets	75,718	-
Commitments and contingencies	528,509	31,015

	31 December 2017	
	Maximum exposure and net exposure after offset	**Collateral Pledged**
Cash equivalents*	1,590,152	372,643
Obligatory reserves	111,039	-
Financial assets at fair value through profit or loss (less equity securities)	129,341	-
Amounts due from credit institutions	87,736	-
Available-for-sale securities (less equity securities)	2,560,222	-
Loans to customers	3,251,102	2,838,024
Other financial assets	45,458	-
Commitments and contingencies	413,977	50,144

	31 December 2016	
	Maximum exposure and net exposure after offset	**Collateral Pledged**
Cash equivalents*	1,625,395	1,591
Obligatory reserves	76,122	-
Financial assets at fair value through profit or loss (less equity securities)	328,547	-
Amounts due from credit institutions	35,542	-
Available-for-sale securities (less equity securities)	594,810	-
Loans to customers	2,319,583	2,167,328
Other financial assets	6,757	-
Commitments and contingencies	214,710	10,034

*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, 2017 and 2016 there is no any difference between maximum exposure and net exposure after offset.

Significant increase in credit risk

As explained in Note 4 the Group 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 Group will measure the loss allowance based on lifetime rather than 12-month ECL.

The Group uses credit risk grades as a primary input into the determination of the term structure of the PD for exposures. The Group 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 Group 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 since initial recognition, overdue by 1 day or more since initial recognition) 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) since initial recognition.

For bank loans assessed on a collective basis, a significant increase in credit risk is determined on the basis of increase in lifetime probability of default since initial recognition over defined thresholds for segmented homogeneous portfolios and for loans with an overdue more than 30 days since initial recognition, for loans assessed on an individual basis - additionally in case of the decrease of 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 Group considers that certain financial instruments with low credit risk at the reporting date, have not experienced a significant increase in credit risk. The Group applies this policy to financial instruments issued to sovereign and financial institutions only. The Group 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 Group 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 Group 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 Group 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.

The Group applies probabilities to the forecast scenarios identified. The base case scenario is the single most-likely outcome and consists of information used by the Group for strategic planning and budgeting. The Group 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 Group'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 Group has a sufficient amount of equity and liquid assets, significant deterioration in the financial position of the Group 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 Group 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 Group'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.

(Millions of Kazakhstani Tenge)

The following table details the credit ratings of financial assets held by the Group (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 equivalents*	154,798	78,873	18,155	1,225,899	49,562	31,594	1,558,881
Obligatory reserves	-	-	-	105,856	9,885	-	115,741
Financial assets at fair value through profit or loss	1,067	2,395	-	111,470	49,674	22,230	186,836
Amounts due from credit institutions	-	10,200	50	3,344	35,828	5,845	55,267
Financial assets at fair value through other comprehensive income	258,777	-	-	1,286,964	185,272	34,920	1,765,933
Debt securities at amortised cost	-	-	-	1,045,358	-	10,990	1,056,348
Other financial assets	-	-	-	-	-	92,043	92,043
Commitments and contingencies	-	-	-	-	-	531,055	531,055

	AA	AA-	A	BBB	<BBB	Not Rated	31 December 2017 Total
Cash equivalents*	110,970	76,897	162,142	1,110,837	87,307	41,999	1,590,152
Obligatory reserves	-	-	-	101,881	9,158	-	111,039
Financial assets at fair value through profit or loss	1	-	113	95,570	46,797	2,495	144,976
Amounts due from credit institutions	440	211	14,616	12,029	57,379	3,061	87,736
Available-for-sale investment securities	324,164	-	-	2,035,381	187,232	21,101	2,567,878
Other financial assets	-	-	-	-	-	51,379	51,379
Commitments and contingencies	-	-	-	-	-	430,075	430,075

	AA	AA-	A	BBB	<BBB	Not Rated	31 December 2016 Total
Cash equivalents*	259,232	275,101	14,740	1,018,410	52,396	5,516	1,625,395
Obligatory reserves	-	-	-	69,888	6,234	-	76,122
Financial assets at fair value through profit or loss	149	39	886	326,339	1,154	170	328,737
Amounts due from credit institutions	-	5,154	285	1,370	28,684	49	35,542
Available-for-sale investment securities	91,534	-	-	354,784	145,456	11,734	603,508
Other financial assets	-	-	-	-	-	11,273	11,273
Commitments and contingencies	-	-	-	-	-	215,697	215,697

*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.

(Millions of Kazakhstani Tenge)

The banking industry is generally exposed to credit risk through its financial assets and contingent liabilities. Credit risk exposure of the Group 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 Group'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 Group, and this classification is verified by the risk management function.

The Bank and its subsidiaries are 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.

An analysis of the Group'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 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**POCI**	**Total**
1-3	-	-	-	-	-
4	185,482	-	-	-	185,482
5	793,568	8,898	469	-	802,935
6	550,901	22,726	7,171	14,391	595,189
7	231,398	70,653	156,687	6,633	465,371
8-10	-	-	132,233	55,339	187,572
Loans to corporate customers that are individually assessed for impairment	1,761,349	102,277	296,560	76,363	2,236,549
Loans to SME customers and retail business that are individually assessed for impairment	409,942	13,741	141,645	15,627	580,955
Loans to customers that are collectively assessed for impairment	813,521	26,646	233,201	-	1,073,368
	2,984,812	**142,664**	**671,406**	**91,990**	**3,890,872**
Less – Allowance for expected credit losses (Note 24)	(43,516)	(28,716)	(322,917)	(14,644)	(409,793)
Loans to customers	**2,941,296**	**113,948**	**348,489**	**77,346**	**3,481,079**

(Millions of Kazakhstani Tenge)

Rating score	31 December 2017	31 December 2016
1-3	-	-
4	118,566	118,300
5	538,343	461,059
6	533,758	421,288
7	412,326	425,337
8-10	172,698	148,467
Loans to corporate customers that are individually assessed for impairment	1,775,691	1,574,451
Loans to SME customers and retail business that are individually assessed for impairment	176,503	138,108
Loans to customers that are collectively assessed for impairment	812,048	891,776
	2,764,241	2,604,335
Less – Allowance for loan impairment losses	(277,491)	(284,752)
Loans to customers	**2,486,750**	**2,319,583**

	31 December 2017
Collectively assessed unimpaired loans	421,045
BBB-, BBB	36,746
BB+, BB, BB-	21,649
B+, B, B-	7,908
C	1,204
Unimpaired loans to customers of KKB (less allowances)	488,552
Impaired loans to customers of KKB (less allowances)	275,800
Total loans to customers of KKB (less allowances)	**764,352**

As at 31 December 2017, allowances for impairment losses on KKB loans comprised KZT 39,670 million, including KZT 23,095 million related to collectively assessed loans.

(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	751,122	(30,601)	720,521
Overdue:			
up to 30 days	36,283	(5,343)	30,940
31 to 60 days	8,484	(2,926)	5,558
61 to 90 days	5,464	(2,291)	3,173
91 to 180 days	23,125	(10,555)	12,570
over 180 days	132,754	(80,111)	52,643
Loans to retail business that are collectively and individually assessed for impairment	**957,232**	**(131,827)**	**825,405**
Loans to SME customers			
Not past due	510,454	(9,299)	501,155
Overdue:			
up to 30 days	12,594	(379)	12,215
31 to 60 days	8,112	(2,881)	5,231
61 to 90 days	10,206	(3,878)	6,328
91 to 180 days	6,348	(1,753)	4,595
over 180 days	87,500	(51,095)	36,405
Loans to SME customers that are collectively and individually assessed for impairment	**635,214**	**(69,285)**	**565,929**
Loans to SME customers and retail business that are collectively and individually assessed for impairment	**1,592,446**	**(201,112)**	**1,391,334**
Loans to corporate customers that are collectively and individually assessed for impairment	**2,271,567**	**(203,451)**	**2,068,116**
Loans related to card transactions	**26,859**	**(5,230)**	**21,629**
Loans to customers	**3,890,872**	**(409,793)**	**3,481,079**

(Millions of Kazakhstani Tenge)

The following table details the carrying value of 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	55,267	(232)	-	-	-	-	**55,035**
Financial assets at fair value through other comprehensive income	1,766,045	(2,559)	2,464	(17)	-	-	**1,765,933**
Debt securities at amortised cost	1,048,211	(426)	5,699	(12)	2,438	(3)	**1,055,907**
Loans to customers	2,189,196	(34,406)	444,918	(192,023)	1,256,758	(183,364)	**3,481,079**
Other financial assets	-	-	46,729	(16,325)	45,314	-	**75,718**

	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	87,736	-	-	-	-	-	**87,736**
Available-for-sale investment securities	2,565,425	-	2,453	(2,453)	-	-	**2,565,425**
Loans to customers	1,731,919	(16,444)	645,542	(193,106)	1,190,802	(107,611)	**3,251,102**
Other financial assets	45,458	-	5,921	(5,921)	-	-	**45,458**

	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 2016 Total
Amounts due from credit institutions	35,542	-	-	-	-	-	**35,542**
Available-for-sale investment securities	601,431	(1,807)	2,077	(2,077)	-	-	**599,624**
Loans to customers	1,286,972	(14,836)	425,587	(172,748)	891,776	(97,168)	**2,319,583**
Other financial assets	3,537	-	7,736	(4,516)	-	-	**6,757**

As at 31 December 2017, the carrying amount of unimpaired overdue loans was KZT 6,165 million (31 December 2016 – KZT 769 million). Maturities of these overdue loans are not greater than 90 days.

(Millions of Kazakhstani Tenge)

Liquidity risk

Liquidity risk is the risk resulting from the inability of the Group to provide funds for repayment of its obligations in due time. The Group'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 Group's treasury function collecting daily cash inflow/outflow forecasts. Long-term liquidity management is performed by the ALMC by analysing longer term liquidity positions and making decisions on managing significant gaps through various available means.

In order to manage liquidity risk, the Group analyses 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 Group's short-term liquidity needs.

						31 December 2018
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
FINANCIAL ASSETS:						
Cash and cash equivalents	1,755,138	-	-	-	-	1,755,138
Obligatory reserves	72,066	7,396	21,505	11,296	3,478	115,741
Financial assets at fair value through profit or loss	89,418	-	91,252	6,166	-	186,836
Amounts due from credit institutions	21,195	4,187	26,766	2,398	489	55,035
Financial assets at fair value through other comprehensive income	678,181	270,338	173,678	313,840	329,896	1,765,933
Debt securities at amortised cost, net of allowance for expected credit losses	11,814	1,298	36,170	504,704	501,921	1,055,907
Loans to customers*	243,746	355,008	2,026,943	677,369	178,013	3,481,079
Other financial assets	40,610	4,244	1,324	15,250	14,290	75,718
	2,912,168	**642,471**	**2,377,638**	**1,531,023**	**1,028,087**	**8,491,387**
FINANCIAL LIABILITIES:						
Amounts due to customers	3,889,116	376,688	1,419,536	589,345	252,245	6,526,930
Amounts due to credit institutions	35,645	372	3,913	15,196	113,253	168,379
Financial liabilities at fair value through profit or loss	2,473	16	4,330	203	-	7,022
Debt securities issued	13,751	3,785	66,768	493,465	323,022	900,791
Other financial liabilities	21,005	2,475	2,654	864	14	27,012
	3,961,990	**383,336**	**1,497,201**	**1,099,073**	**688,534**	**7,630,134**
Net position	**(1,049,822)**	**259,135**	**880,437**	**431,950**	**339,553**	
Accumulated gap	**(1,049,822)**	**(790,687)**	**89,750**	**521,700**	**861,253**	

(Millions of Kazakhstani Tenge)

	31 December 2017					
	Less than 1 month	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
FINANCIAL ASSETS:						
Cash and cash equivalents	1,746,100	34,448	-	-	-	1,780,548
Obligatory reserves	67,863	7,264	25,913	4,372	5,627	111,039
Financial assets at fair value through profit or loss	88,026	165	37,695	9,040	10,050	144,976
Amounts due from credit institutions	41,090	26,417	14,838	3,056	2,335	87,736
Available-for-sale investment securities	370,578	166,677	347,918	639,530	1,040,722	2,565,425
Loans to customers*	297,204	276,167	1,911,598	598,089	168,044	3,251,102
Other financial assets	22,224	1,245	3,868	18,121	-	45,458
	2,633,085	**512,383**	**2,341,830**	**1,272,208**	**1,226,778**	**7,986,284**
FINANCIAL LIABILITIES:						
Amounts due to customers	2,856,379	415,118	1,449,676	1,065,364	345,213	6,131,750
Amounts due to credit institutions	162,072	189	2,340	8,723	81,827	255,151
Financial liabilities at fair value through profit or loss	244	-	492	5,095	-	5,831
Debt securities issued	13,030	4,046	114,024	578,030	253,266	962,396
Other financial liabilities	31,529	3,034	3,370	260	12,180	50,373
	3,063,254	**422,387**	**1,569,902**	**1,657,472**	**692,486**	**7,405,501**
Net position	**(430,169)**	**89,996**	**771,928**	**(385,264)**	**534,292**	
Accumulated gap	**(430,169)**	**(340,173)**	**431,755**	**46,491**	**580,783**	

(Millions of Kazakhstani Tenge)

						31 December 2016
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
FINANCIAL ASSETS:						
Cash and cash equivalents	1,774,519	-	-	-	-	1,774,519
Obligatory reserves	49,593	3,972	18,368	3,650	539	76,122
Financial assets at fair value through profit or loss	251,544	-	77,193	-	-	328,737
Amounts due from credit institutions	9,685	11,281	10,930	2,183	1,463	35,542
Available-for-sale investment securities	13,290	79,328	269,298	78,463	159,245	599,624
Loans to customers*	146,771	236,233	1,526,644	286,133	123,802	2,319,583
Other financial assets	3,782	2,554	364	5	52	6,757
	2,249,184	**333,368**	**1,902,797**	**370,434**	**285,101**	**5,140,884**
FINANCIAL LIABILITIES:						
Amounts due to customers	2,046,317	226,071	784,955	694,228	69,091	3,820,662
Amounts due to credit institutions	52,961	1,532	7,028	30,333	70,280	162,134
Financial liabilities at fair value through profit or loss	73	99	-	2,669	-	2,841
Debt securities issued	4,915	3,812	197,516	157,792	220,898	584,933
Other financial liabilities	11,527	354	1,887	189	25	13,982
	2,115,793	**231,868**	**991,386**	**885,211**	**360,294**	**4,584,552**
Net position	**133,391**	**101,500**	**911,411**	**(514,777)**	**(75,193)**	
Accumulated gap	**133,391**	**234,891**	**1,146,302**	**631,525**	**556,332**	

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

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

A significant portion of the Group's liabilities are represented by customer term deposits, current accounts of corporate and retail customers and 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 Group, indicate that these deposits provide a long-term and stable source of funding for the Group. Therefore, an essential part of the Group's current accounts is considered to be 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 consolidated 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).

(Millions of Kazakhstani Tenge)

FINANCIAL AND CONTINGENT LIABILITIES	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
Amounts due to customers	3,891,254	380,202	1,468,256	630,267	368,142	6,738,121
Amounts due to credit institutions	36,383	442	4,157	21,268	147,161	209,411
Debt securities issued	28,655	8,722	116,457	720,380	337,567	1,211,781
Other financial liabilities	21,004	2,475	2,654	864	15	27,012
Guarantees issued	415,531	-	-	-	-	415,531
Commercial letters of credit	66,502	-	-	-	-	66,502
Commitments to extend credit	49,022	-	-	-	-	49,022
	4,508,351	**391,841**	**1,591,524**	**1,372,779**	**852,885**	**8,717,380**
Derivative financial assets	412,482	700	770,178	44,978	-	1,228,338
Derivative financial liabilities	414,520	716	683,459	38,812	-	1,137,507

FINANCIAL AND CONTINGENT LIABILITIES	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
Amounts due to customers	2,856,545	423,508	1,495,277	1,169,878	453,040	6,398,248
Amounts due to credit institutions	163,467	5,130	4,222	13,277	114,284	300,380
Debt securities issued	21,823	15,357	162,061	783,357	322,025	1,304,623
Other financial liabilities	31,529	3,034	3,370	260	12,180	50,373
Guarantees issued	300,565	-	-	-	-	300,565
Commercial letters of credit	70,454	-	-	-	-	70,454
Commitments to extend credit	59,056	-	-	-	-	59,056
	3,503,439	**447,029**	**1,664,930**	**1,966,772**	**901,529**	**8,483,699**
Derivative financial assets	1,147,769	-	-	38,877	-	1,186,646
Derivative financial liabilities	1,110,842	-	-	41,912	-	1,152,754

FINANCIAL AND CONTINGENT LIABILITIES	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2016 Total
Amounts due to customers	2,047,509	228,164	810,823	741,741	110,798	3,939,035
Amounts due to credit institutions	53,281	1,544	7,169	31,140	99,992	193,126
Debt securities issued	10,697	8,749	222,782	267,758	277,951	787,937
Other financial liabilities	11,527	354	1,887	189	25	13,982
Guarantees issued	173,226	-	-	-	-	173,226
Commercial letters of credit	27,026	-	-	-	-	27,026
Commitments to extend credit	15,445	-	-	-	-	15,445
	2,338,711	**238,811**	**1,042,661**	**1,040,828**	**488,766**	**5,149,777**
Derivative financial assets	17,595	27,091	166,645	25,823	-	237,154
Derivative financial liabilities	17,475	26,312	89,962	28,470	-	162,219

Market risk

Market risk is the risk that the Group'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 Group 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 optimise risk/return, minimise losses in case of adverse events and decrease deviation of factual financial results from expected financial results.

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

(Millions of Kazakhstani Tenge)

Interest rate risk

The Group is exposed to interest rate risk. Interest rate risk is defined as the risk of interest income decreases, interest expense increases or a negative impact on equity resulting from adverse changes in market interest rates.

The Group determines two types of interest rate risk:

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

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

The Group manages interest rates by determining the Group'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 Group's exposure to 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 Group 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. Particularly, a scenario of interest rate changes in tenge takes into account the dynamics of market interest rates (loans/deposits, NBRK base rate etc.). In 2017, the Group 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, 2017 and 2016, and the effect of revaluing instruments with fixed rates accounted for at fair value. The management of the Group believes income tax not to have a substantial effect for the purpose of interest rate risk management.

The impact on income before tax based on asset and liability values as at 31 December 2018, 2017 and 2016 is as follows:

	31 December 2018		31 December 2017		31 December 2016	
	Interest rate KZT +2% CCY +2%	Interest rate KZT -2% CCY -2%	Interest rate KZT +2% CCY +2%	Interest rate KZT -2% CCY -2%	Interest rate KZT +4% CCY +2%	Interest rate KZT -4% CCY -2%
FINANCIAL ASSETS:						
Loans to customers	1,273	(1,273)	2,196	(2,196)	2,043	(2,043)
KZT	-	-	-	-	485	(485)
CCY	1,273	(1,273)	2,196	(2,196)	1,558	(1,558)
FINANCIAL LIABILITIES:						
Amounts due to credit institutions	6	(6)	8	(8)	10	(10)
KZT	-	-	-	-	-	-
CCY	6	(6)	8	(8)	10	(10)
Net impact on income before tax	**1,267**	**(1,267)**	**2,188**	**(2,188)**	**2,033**	**(2,033)**

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.

(Millions of Kazakhstani Tenge)

The impact on equity based on asset and liability values as at 31 December 2018, 2017 and 2016 is as follows:

	31 December 2018		31 December 2017		31 December 2016	
	Interest rate KZT +2% CCY +2%	**Interest rate KZT -2% CCY -2%**	**Interest rate KZT +2% CCY +2%**	**Interest rate KZT -2% CCY -2%**	**Interest rate KZT+4% CCY +2%**	**Interest rate KZT -4% CCY -2%**
FINANCIAL ASSETS:						
Loans to customers	1,273	(1,273)	2,196	(2,196)	2,043	(2,043)
KZT	-	-	-	-	485	(485)
CCY	1,273	(1,273)	2,196	(2,196)	1,558	(1,558)
Financial assets at fair value through other comprehensive income (2017-2016: available-for-sale investment securities)	(56,718)	56,718	(158,682)	158,682	(30,105)	30,105
KZT	(18,726)	18,726	(127,858)	127,858	(14,173)	14,173
CCY	(37,993)	37,993	(30,824)	30,824	(15,932)	15,932
FINANCIAL LIABILITIES:						
Amounts due to credit institutions	6	(6)	8	(8)	10	(10)
KZT	-	-	-	-	-	-
CCY	6	(6)	8	(8)	10	(10)
Net impact on equity	**(55,439)**	**55,439**	**(156,478)**	**156,478**	**(28,342)**	**28,342**

Currency Risk

The Group 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 Group.

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 Group an opportunity to minimise losses from significant currency rate fluctuations of national and foreign currencies.

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

The Group is exposed to the effects of fluctuation in the prevailing foreign currency exchange rates (primarily USD) on its financial positions, results of operations and cash flows, which are monitored daily. The 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 Group'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 value of the Group's USD denominated monetary assets and liabilities. Currency risk is assessed in relation to the consolidated statement of financial position and off-balance sheet positions. Currently, the Group's sensitivity to fluctuations in exchange rates is acceptable, due to the fact that the off-balance sheet items significantly neutralise the consolidated statement of financial position.

(Millions of Kazakhstani Tenge)

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

							31 December 2018
	USD	EURO	RUR	Other	Total foreign currencies	KZT	Total
FINANCIAL ASSETS:							
Cash and cash equivalents	1,031,248	136,251	35,083	216,857	1,419,439	335,699	1,755,138
Obligatory reserves	58,565	2,663	3,999	1,879	67,106	48,635	115,741
Financial assets at fair value through profit or loss	12,582	-	4,396	2,633	19,611	167,225	186,836
Amounts due from credit institutions	13,128	2,775	6,632	-	22,535	32,500	55,035
Financial assets at fair value through other comprehensive income	598,380	26,555	4,098	-	629,033	1,136,900	1,765,933
Debt securities at amortised cost, net of allowance for expected credit losses	375	-	4,567	6,026	10,968	1,044,939	1,055,907
Loans to customers	1,083,801	8,538	23,729	24,630	1,140,698	2,340,381	3,481,079
Other financial assets	7,371	805	502	763	9,441	66,277	75,718
	2,805,450	**177,587**	**83,006**	**252,788**	**3,318,831**	**5,172,556**	**8,491,387**
FINANCIAL LIABILITIES							
Amounts due to customers	3,388,503	131,505	66,443	32,970	3,619,421	2,907,509	6,526,930
Amounts due to credit institutions	26,892	1,628	555	1,101	30,176	138,203	168,379
Financial liabilities at fair value through profit or loss	-	-	209	-	209	6,813	7,022
Debt securities issued	405,537	-	352	-	405,889	494,902	900,791
Other financial liabilities	1,389	501	449	811	3,150	23,862	27,012
	3,822,321	**133,634**	**68,008**	**34,882**	**4,058,845**	**3,571,289**	**7,630,134**
Net position – on-balance	**(1,016,871)**	**43,953**	**14,998**	**217,906**	**(740,014)**	**1,601,267**	**861,253**
Net position – off-balance	**1,058,084**	**(45,694)**	**(16,437)**	**(197,675)**	**798,278**	**(700,861)**	
Net position	**41,213**	**(1,741)**	**(1,439)**	**20,231**	**58,264**	**900,406**	

(Millions of Kazakhstani Tenge)

							31 December 2017
	USD	EURO	RUR	Other	Total foreign currencies	KZT	Total
FINANCIAL ASSETS:							
Cash and cash equivalents	1,109,425	46,437	45,162	61,609	1,262,633	517,915	1,780,548
Obligatory reserves	39,987	648	1,081	1,945	43,661	67,378	111,039
Financial assets at fair value through profit or loss	10,674	-	2,628	283	13,585	131,391	144,976
Amounts due from credit institutions	20,107	1,002	17,897	-	39,006	48,730	87,736
Available-for-sale investment securities	571,589	7,818	6,151	11,890	597,448	1,967,977	2,565,425
Loans to customers	888,479	40,131	22,775	14,149	965,534	2,285,568	3,251,102
Other financial assets	1,785	2,466	2,220	114	6,585	38,873	45,458
	2,642,046	**98,502**	**97,914**	**89,990**	**2,928,452**	**5,057,832**	**7,986,284**
FINANCIAL LIABILITIES							
Amounts due to customers	3,192,513	118,900	56,485	34,852	3,402,750	2,729,000	6,131,750
Amounts due to credit institutions	25,698	690	281	943	27,612	227,539	255,151
Financial liabilities at fair value through profit or loss	-	-	213	-	213	5,618	5,831
Debt securities issued	483,213	-	353	-	483,566	478,830	962,396
Other financial liabilities	14,369	279	684	628	15,960	34,413	50,373
	3,715,793	**119,869**	**58,016**	**36,423**	**3,930,101**	**3,475,400**	**7,405,501**
Net position – on-balance	**(1,073,747)**	**(21,367)**	**39,898**	**53,567**	**(1,001,649)**	**1,582,432**	**580,783**
Net position – off-balance	**1,103,118**	**21,258**	**(37,399)**	**(47,001)**	**1,039,976**	**(995,954)**	
Net position	**29,371**	**(109)**	**2,499**	**6,566**	**38,327**	**586,478**	

(Millions of Kazakhstani Tenge)

							31 December 2016
	USD	**EURO**	**RUR**	**Other**	**Total foreign currencies**	**KZT**	**Total**
FINANCIAL ASSETS:							
Cash and cash equivalents	1,628,322	30,673	16,915	14,921	1,690,831	83,688	1,774,519
Obligatory reserves	47,789	1,055	364	1,359	50,567	25,555	76,122
Financial assets at fair value through profit or loss	764	-	-	150	914	327,823	328,737
Amounts due from credit institutions	6,907	-	4,103	-	11,010	24,532	35,542
Available-for-sale investment securities	252,328	3,591	1,939	2,916	260,774	338,850	599,624
Loans to customers	710,067	8,793	14,921	13,261	747,042	1,572,541	2,319,583
Other financial assets	628	88	117	85	918	5,839	6,757
	2,646,805	**44,200**	**38,359**	**32,692**	**2,762,056**	**2,378,828**	**5,140,884**
FINANCIAL LIABILITIES							
Amounts due to customers	2,431,736	45,087	5,879	14,664	2,497,366	1,323,296	3,820,662
Amounts due to credit institutions	35,749	519	146	855	37,269	124,865	162,134
Financial liabilities at fair value through profit or loss	-	-	199	-	199	2,642	2,841
Debt securities issued	359,521	-	-	-	359,521	225,412	584,933
Other financial liabilities	852	108	437	318	1,715	12,267	13,982
	2,827,858	**45,714**	**6,661**	**15,837**	**2,896,070**	**1,688,482**	**4,584,552**
Net position – on-balance	**(181,053)**	**(1,514)**	**31,698**	**16,855**	**(134,014)**	**690,346**	**556,332**
Net position – off-balance	**189,207**	**2,170**	**(27,150)**	**(9,442)**	**154,785**	**(78,808)**	
Net position	**8,154**	**656**	**4,548**	**7,413**	**20,771**	**611,538**	

(Millions of Kazakhstani Tenge)

Sensitivity analysis of currency risk

The table below indicates the currencies in which the Group had significant exposure at 31 December 2018, 2017 and 2016, 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 consolidated statement of profit or loss. A negative amount in the table reflects a potential net reduction in the consolidated 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 Group believes income tax not to have a substantial effect for the purpose of currency risk management.

The impact on income before tax and equity, based on asset values was calculated using the currency rate fluctuation analysis. Changes of the possible movement of the currency rate on 30% in 2016 were associated with the transition to the flexible exchange rate policy announced by the NBRK. Changes of the possible movement of the currency rate from 30% to 15% in 2017 were associated with the decrease in the volatility of the exchange rate. As at 31 December 2018, the Management of the Group believes that 15% is continued to be the possible movement of the currency rate.

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 rate volatility based on historical data of the exchange rate dynamics over the last two years; see the details in the following table:

	31 December 2018		31 December 2017		31 December 2016	
	+15% KZT/USD	-15% KZT/USD	+15% KZT/USD	-15% KZT/USD	+30% KZT/USD	-30% KZT/USD
Impact on income before tax	6,182	(6,182)	4,406	(4,406)	2,446	(2,446)

	31 December 2018		31 December 2017		31 December 2016	
	+15% KZT/EURO	-15% KZT/EURO	+15% KZT/EURO	-15% KZT/EURO	+30% KZT/EURO	-30% KZT/EURO
Impact on income before tax	(261)	261	(16)	16	197	(197)

	31 December 2018		31 December 2017		31 December 2016	
	+15% KZT/RUR	-15% KZT/RUR	+15% KZT/RUR	-15% KZT/RUR	+30% KZT/RUR	-30% KZT/RUR
Impact on income before tax	(216)	216	375	(375)	1,364	(1,364)

The impact on equity is as follows:

	31 December 2018		31 December 2017		31 December 2016	
	+15% KZT/USD	-15% KZT/USD	+15% KZT/USD	-15% KZT/USD	+30% KZT/USD	-30% KZT/USD
Impact on equity	6,182	(6,182)	4,406	(4,406)	2,446	(2,446)

	31 December 2018		31 December 2017		31 December 2016	
	+15% KZT/EURO	-15% KZT/EURO	+15% KZT/EURO	-15% KZT/EURO	+30% KZT/EURO	-30% KZT/EURO
Impact on equity	(261)	261	(16)	16	197	(197)

	31 December 2018		31 December 2017		31 December 2016	
	+15% KZT/RUR	-15% KZT/RUR	+15% KZT/RUR	-15% KZT/RUR	+30% KZT/RUR	-30% KZT/RUR
Impact on equity	(216)	216	375	(375)	1,364	(1,364)

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 Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary at the time that any actual market movement occurs. For example, the Group'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 allocations and taking other protective actions. 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 consolidated 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 Group'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 Group is exposed to price risks of its products which are subject to general and specific market fluctuations.

To limit price risk, the Group determines limits for maximum losses (stop-loss) on securies from the trade portfolio to minimise potential losses of the trade portfolio.

Price risk assessment is also performed on the basis of the Value At Risk ("VaR") method, through the establishment of Expected Shortfall ("ES") limits on the level of expected losses, which the Bank is able to undertake within one day in a 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 Group estimates the price risk at 31 December 2018, 2017 and 2016, to be not material and therefore quantitative information is not disclosed.

37. Capital risk management

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

- To comply with the capital requirements set by the NBRK;
- To safeguard the Group'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.

(Millions of Kazakhstani Tenge)

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 Group 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.

Currently, regulatory capital is represented by:

- Tier 1 capital, which is required to maintain the normal operating activity of the Group 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 Group, 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 Group's liquidation. This part of capital consists of instruments issued by the Group 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 summarises the regulatory capital composition and capital adequacy ratios of the Group for the years ended 31 December 2018, 2017, and 2016. During these three years, individual entities within the Group and the Group complied with all of the externally imposed capital requirements to which they are subject.

	31 December 2018	**31 December 2017**	**31 December 2016**
Composition of regulatory capital			
CET 1 (2016: Tier 1)			
Common shares, net of treasury shares	97,586	39,461	40,574
Share premium	1,839	1,839	1,911
Retained earnings of prior years	632,981	538,944	412,310
Net income for the current year	254,238	173,362	131,412
Accumulated disclosed reserves*	53,173	73,362	73,359
Non-controlling interest	6	72,441	-
Property and financial assets at fair value through other comprehensive income revaluation reserves	9,902	28,478	930
Less: goodwill and intangible assets	(11,443)	(11,336)	(14,133)
Less: cumulative translation reserve	(9,657)	(6,570)	(5,097)
Common Equity Tier 1 (CET 1) Capital	1,028,625	909,981	641,266
Additional tier 1	-	-	-
Tier 2			
Subordinated debt	82,733	109,082	-
Total qualifying for Tier 2 capital	**82,733**	**109,082**	**-**
Total regulatory capital	**1,111,358**	**1,019,063**	**641,266**
Risk weighted assets	5,549,906	5,395,725	3,303,428
CET 1 capital adequacy ratio	**18.5%**	**16.9%**	**19.4%**
Tier 1 capital adequacy ratio	**18.5%**	**16.9%**	**19.4%**
Total capital adequacy ratio	**19.9%**	**18.9%**	**19.4%**

*As at 31 December 2018, accumulated disclosed reserves comprised from KZT 53,173 million capital reserve (31 December 2017: KZT 19,568 million dynamic reserve and KZT 53,794 million capital reserve; 31 December 2016: KZT 19,568 million dynamic reserve and KZT 53,791 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. Prior to 1 January 2016, Basel II standards set the minimum capital adequacy and the Tier 1 capital ratios at 8% and 4%, respectively.

As at 31 December 2018, 2017 and 2016, the Group had complied with NBRK's capital requirements.

38. Segment analysis

The Group 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 organisations including current accounts and correspondent accounts, deposits, custody, overdrafts, loans and other credit facilities, documentary operations, including guarantees and letters of credit, trade finance products, 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 a particular segment, not initiated by any business function and relate to the current activity of the Group. 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 the provision on accounts receivable, 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 Group's chief operating decision maker, in accordance with IFRS 8. The Group's management reviews discrete financial information for each segment, including the evaluation of operating results, assets and liabilities.

There were no transactions between business segments during the years ended 31 December 2018, 2017 and 2016.

(Millions of Kazakhstani Tenge)

Segment information for the main reportable business segments of the Group as at 31 December 2018, 2017 and 2016 and for the years then ended, 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	255,977	371,897	85,068	211,456	95,400	1,019,798
Total revenues	**255,977**	**371,897**	**85,068**	**211,456**	**95,400**	**1,019,798**
Total revenues comprise:						
- Interest income	177,483	237,433	63,064	204,061	-	682,041
- Fee and commission income	78,150	10,559	21,389	114	3,029	113,241
- Net gain from financial assets and liabilities at fair value through profit or loss	-	108,684	-	4,853	621	114,158
- Net realised gain from financial assets at fair value through other comprehensive income	-	-	-	2,428	-	2,428
- Recovery of other credit loss expense/(other credit loss expense)	344	15,221	615	-	(229)	15,951
- Share in profit of associate	-	-	-	-	2,899	2,899
- Insurance underwriting income and other income	-	-	-	-	89,080	89,080
Total revenues	**255,977**	**371,897**	**85,068**	**211,456**	**95,400**	**1,019,798**
- Interest expense	(159,676)	(79,308)	(10,662)	(84,126)	-	(333,772)
- (Credit loss expense)/recovery of credit loss expense	(28,400)	7,579	(5,422)	(10)	(5,742)	(31,995)
- Fee and commission expense	(32,231)	(2,450)	(2,610)	(98)	(1,617)	(39,006)
- Operating expenses	(73,595)	(7,530)	(19,124)	(974)	(36,000)	(137,223)
Loss from impairment of non-financial assets	-	-	-	-	(27,308)	(27,308)
- Net foreign exchange gain/(loss)	11,845	(109,110)	14,055	2,094	16,539	(64,577)
- Insurance claims incurred, net of reinsurance	-	-	-	-	(59,986)	(59,986)
Total expenses	**(282,057)**	**(190,819)**	**(23,763)**	**(83,114)**	**(114,114)**	**(693,867)**
Segment result	**(26,080)**	**181,078**	**61,305**	**128,342**	**(18,714)**	**325,931**
Income before income tax expense						325,931
Income tax expense					(82,474)	(82,474)
Profit from discontinued operation						9,974
Net income						**253,431**
Total segment assets	852,537	3,886,875	570,144	2,910,825	738,643	8,959,024
Total segment liabilities	3,342,535	2,409,386	907,574	900,790	333,093	7,893,378
Other segment items:						
Capital expenditures						(9,199)
Depreciation and amortisation						(10,929)
Investment in associate						20,437

(Millions of Kazakhstani Tenge)

	Retail banking	Corporate banking	SME banking	Investment banking	Unallocated	Total
As at 31 December 2017 and for the year then ended						
External revenues	202,012	208,150	61,304	151,708	83,744	706,918
Total revenues	**202,012**	**208,150**	**61,304**	**151,708**	**83,744**	**706,918**
Total revenues comprise:						
- Interest income	129,814	191,646	46,501	138,367	-	506,328
- Fee and commission income	62,404	9,140	13,533	-	2,563	87,640
- Net realised gain from available-for-sale investment securities	-	-	-	1,064	-	1,064
- Net gain from financial assets and liabilities at fair value through profit or loss	9,794	5,995	1,243	12,267	2,124	31,423
- Recovery of provisions	-	1,369	27	10	331	1,737
- Insurance underwriting income and other income	-	-	-	-	78,726	78,726
Total revenues	**202,012**	**208,150**	**61,304**	**151,708**	**83,744**	**706,918**
- Interest expense	(116,689)	(71,830)	(7,558)	(61,728)	-	(257,805)
- (Credit loss expense)/recovery of credit loss expense	(5,672)	(33,675)	(30,615)	10	2,650	(67,302)
- Fee and commission expense	(24,101)	(1,258)	(347)	(34)	(992)	(26,732)
- Operating expenses	(58,423)	(6,242)	(17,478)	(5,659)	(17,995)	(105,797)
- Impairment loss of assets held for sale	-	-	-	-	(6,533)	(6,553)
- Net foreign exchange gain/(loss)	7,975	(9,633)	9,937	(11,047)	(2,181)	(4,949)
- Insurance claims incurred, net of reinsurance	-	-	-	-	(48,615)	(48,615)
Total expenses	**(196,910)**	**(122,638)**	**(46,061)**	**(78,458)**	**(73,666)**	**(517,733)**
Segment result	**5,102**	**85,512**	**15,243**	**73,250**	**10,078**	**189,185**
Income before income tax expense						189,185
Income tax expense					(25,598)	(25,598)
Profit from discontinued operation						9,876
Net income						**173,463**
Total segment assets	860,802	4,023,358	528,025	2,786,877	658,719	8,857,781
Total segment liabilities	3,170,388	2,863,345	659,120	1,000,269	230,202	7,923,324
Other segment items:						
Capital expenditures					(13,862)	(13,862)
Depreciation and amortisation					(9,692)	(9,692)

(Millions of Kazakhstani Tenge)

	Retail banking	Corporate banking	SME banking	Investment banking	Unallocated	Total
As at 31 December 2016 and for the year then ended						
External revenues	172,209	144,785	46,648	48,678	33,626	445,946
Total revenues	**172,209**	**144,785**	**46,648**	**48,678**	**33,626**	**445,946**
Total revenues comprise:						
- Interest income	102,124	148,012	32,222	50,205	-	332,563
- Fee and commission income	42,725	5,474	8,645	241	612	57,697
- Net realised gain from available-for-sale investment securities	-	-	-	2,623	-	2,623
- Net foreign exchange gain/(loss)	27,360	(8,701)	5,781	(4,391)	(1,543)	18,506
- Insurance underwriting income and other income	-	-	-	-	34,557	34,557
Total revenues	**172,209**	**144,785**	**46,648**	**48,678**	**33,626**	**445,946**
- Interest expense	(65,525)	(44,636)	(4,566)	(45,822)	-	(160,549)
- (Credit loss expense)/recovery of credit loss expense	(6,229)	(12,434)	(6,661)	697	(681)	(25,308)
- Fee and commission expense	(10,307)	(247)	(201)	(181)	(359)	(11,295)
- Operating expenses	(35,993)	(3,754)	(11,200)	(1,791)	(13,603)	(66,341)
- Impairment loss of assets held for sale	-	-	-	-	(2,218)	(2,218)
- Net (loss)/gain from financial assets and liabilities at fair value through profit or loss	(52,581)	29,273	(5,246)	12,077	3,767	(12,710)
- (Provisions)/recoveries of provisions	-	(56)	18	-	(6)	(44)
- Insurance claims incurred, net of reinsurance	-	-	-	-	(24,799)	(24,799)
Total expenses	**(170,635)**	**(31,854)**	**(27,856)**	**(35,020)**	**(37,899)**	**(303,264)**
Segment result	**1,574**	**112,931**	**18,792**	**13,658**	**(4,273)**	**142,682**
Income before income tax expense						142,682
Income tax expense					(22,183)	(22,183)
Profit from discontinued operation						10,913
Net income						**131,412**
Total segment assets	555,923	3,291,010	289,169	850,585	361,796	5,348,483
Total segment liabilities	1,708,200	1,982,006	289,008	584,932	118,744	4,682,890
Other segment items:						
Capital expenditures					(15,386)	(15,386)
Depreciation and amortisation					(6,161)	(6,161)

(Millions of Kazakhstani Tenge)

Geographical information

Information for the main geographical areas of the Group is set out below as at 31 December 2018, 2017 and 2016, and for the years then ended.

	Kazakhstan	OECD	Non-OECD	Total
2018				
Total assets	8,060,035	686,565	212,424	8,959,024
External revenues	961,788	28,566	29,444	1,019,798
Capital expenditure	(9,199)	-	-	(9,199)
2017				
Total assets	7,833,566	768,199	256,016	8,857,781
External revenues	666,849	20,206	19,863	706,918
Capital expenditure	(13,862)	-	-	(13,862)
2016				
Total assets	4,450,495	795,651	102,337	5,348,483
External revenues	421,326	12,352	12,268	445,946
Capital expenditure	(15,386)	-	-	(15,386)

External revenues, assets and credit related commitments have generally been allocated based on the domicile of the counterparty. Cash on hand, property and equipment and capital expenditure have been allocated based on the country in which they are physically held.

39. 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 a measurement date.

The fair values of the Group's financial assets and financial liabilities are measured at fair value on a recurring basis.

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting year. 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).

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.

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's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy.

The Group considers that the accounting estimate related to the 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 changes from year to year, as it requires management to make assumptions about interest rates, volatility, exchange rates, the credit rating of the counterparty, valuation adjustments and specific features of transactions and (ii) the impact that recognising a change in the valuations would have on the assets reported on the consolidated statement of financial position, as well as, the related profit or loss reported on the consolidated statement of profit or loss, could be material.

(Millions of Kazakhstani Tenge)

The table below summarises the Group's financial assets and liabilities held at fair value by valuation methodology at 31 December 2018, 2017 and 2016:

	Fair value						
Financial Assets/Liabilities	**31 December 2018**	**31 December 2017**	**31 December 2016**	**Fair value hierarchy**	**Valuation technique(s) and key input(s)**	**Significant unobservable input(s)**	**Relationship of unobservable inputs to fair value**
Non-derivative financial assets at fair value through profit or loss (Note 7)	88,825	105,253	250,961	Level 1	Quoted bid prices in an active market.	Not applicable	Not applicable
Non-derivative financial assets at fair value through profit or loss (Note 7)	158	-	-	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, excluding options (Note 7)	2,582	147	1,093	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, excluding options (Note 7)	95,271	39,576	76,683	Level 3	Future cash flows in USD discounted using the LIBOR rate obtained from available sources. Future cash flows in KZT discounted using the 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 nil 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	**186,836**	**144,976**	328,737				
Derivative financial liabilities at fair value through profit or loss, excluding options (Note 7)	7,022	5,339	2,841	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 year).	Not applicable	Not applicable
Derivative financial liabilities at fair value through profit or loss (Note 7)	-	492	-	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 internal rate of return on KZT is calculated at the initial recognition of the instrument and is not subsequently recalculated
Total financial liabilities at fair value through profit or loss	**7,022**	**5,831**	2,841				

(Millions of Kazakhstani Tenge)

Financial Assets/Liabilities	Fair value 31 December 2018	31 December 2017	31 December 2016	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Non-derivative available-for-sale investment securities (Note 9)	n/a	1,501,882	597,682	Level 1	Quoted bid prices in an active market.	Not applicable	Not applicable
Non-derivative available-for-sale investment securities (Note 9)	n/a	1,061,654	-	Level 2	Quoted bid prices in a market that is not active.	Not applicable	Not applicable
Non-derivative available-for-sale investment securities included in bonds of foreign organizations (Note 9)	n/a	1,871	1,860	Level 2	Discounted cash flows. Future cash flows discounted using LIBOR adjusted for credit risk of the issuer obtained from available sources.	Not applicable	Not applicable
Non-derivative available-for-sale investment securities – unquoted equity securities (Note 9)	n/a	18	82	Level 3	Valuation model based on internal rating model.	Percentage discount	The greater discount - the smaller fair value
Available-for-sale investment securities	**n/a**	**2,565,425**	599,624				
Non-derivative financial assets at fair value through other comprehensive income (Note 9)	1,763,715	n/a	n/a	Level 1	Quoted bid prices in an active market.	Not applicable	Not applicable
Non-derivative financial assets at fair value through other comprehensive income in bonds of foreign organisations (Note 9)	2,165	n/a	n/a	Level 2	Quoted bid prices in a market that is not active.	Not applicable	Not applicable
Non-derivative financial assets at fair value through other comprehensive income – unquoted equity securities (Note 9)	53	n/a	n/a	Level 3	Valuation model based on internal rating model.	Percentage discount	The greater discount - the smaller fair value
Financial assets at fair value through other comprehensive income	**1,765,933**	**n/a**	**n/a**				

(Millions of Kazakhstani Tenge)

There were no transfers between Levels 1 and 2, nor between Levels 2 and 3, during the years ended 31 December 2018, 2017 and 2016.

	Derivative financial assets at fair value through profit or loss (Level 3)	Financial assets at fair value through other comprehensive income Unquoted equity securities (Level 3)	Derivative financial liabilities at fair value through profit or loss (Level 3)
31 December 2015	**173,804**	**98**	**-**
Loss to profit or loss	(2,313)	(16)	-
Settlements*	(94,808)	-	-
31 December 2016	**76,683**	**82**	**-**
Additions on acquisition of a subsidiary	39,576	-	4,385
Gain/(loss) to profit or loss	3,651	(3)	1,529
Settlements*	(80,334)	(61)	(5,422)
31 December 2017	**39,576**	**18**	**492**
Additions	30,986	46	-
Gain to profit or loss	96,584	-	508
Settlements*	(71,875)	(11)	(1,000)
31 December 2018	**95,271**	**53**	**-**

*As at 31 December 2018, 2017 and 2016, 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 Group to estimate the fair value of financial instruments not carried at fair value.

Amounts due to and from 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 the 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		31 December 2016	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Financial assets						
Amounts due from credit institutions	55,035	54,966	87,736	85,199	35,542	35,430
Loans to customers	3,481,079	3,474,191	3,251,102	3,396,385	2,319,583	2,178,539
Debt securities at amortised cost, net of allowance for expected credit losses	1,055,907	1,088,278	n/a	n/a	n/a	n/a
Financial liabilities						
Amounts due to customers	6,526,930	6,692,308	6,131,750	6,176,030	3,820,662	3,972,622
Amounts due to credit institutions	168,379	153,758	255,151	231,465	162,134	190,971
Debt securities issued	900,791	968,989	962,396	1,034,387	584,933	586,378

	31 December 2018			
	Level 1	**Level 2**	**Level 3**	**Total fair value**
Financial assets				
Amounts due from credit institutions	-	54,966	-	54,966
Loans to customers	-	-	3,474,191	3,474,191
Debt securities at amortised cost, net of allowance for expected credit losses	-	1,088,278	-	1,088,278
Financial liabilities				
Amounts due to customers	-	6,692,308	-	6,692,308
Amounts due to credit institutions	-	153,758	-	153,758
Debt securities issued	968,989	-	-	968,989

	31 December 2017			
	Level 1	**Level 2**	**Level 3**	**Total fair value**
Financial assets				
Amounts due from credit institutions	-	85,199	-	85,199
Loans to customers	-	-	3,396,385	3,396,385
Financial liabilities				
Amounts due to customers	-	6,176,030	-	6,176,030
Amounts due to credit institutions	-	231,465	-	231,465
Debt securities issued	1,034,387	-	-	1,034,387

	31 December 2016			
	Level 1	**Level 2**	**Level 3**	**Total fair value**
Financial assets				
Amounts due from credit institutions	-	35,430	-	35,430
Loans to customers	-	-	2,178,539	2,178,539
Financial liabilities				
Amounts due to customers	-	3,972,622	-	3,972,622
Amounts due to credit institutions	-	190,971	-	190,971
Debt securities issued	586,378	-	-	586,378

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.

(Millions of Kazakhstani Tenge)

40. 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.

As at 31 December 2018, 2017 and 2016, the Group had the following transactions outstanding with related parties:

	31 December 2018		31 December 2017		31 December 2016	
	Related party balances	**Total category as per financial statements caption**	**Related party balances**	**Total category as per financial statements caption**	**Related party balances**	**Total category as per financial statements caption**
Loans to customers before allowance for expected credit losses	1,746	3,890,872	2,350	3,568,263	2,148	2,604,335
- entities with joint control or significant influence over the entity	1,640		2,193		2,024	
- key management personnel of the entity or its parent	86		115		94	
- other related parties	20		42		30	
Allowance for expected credit losses	(18)	(409,793)	(10)	(317,161)	(21)	(284,752)
- entities with joint control or significant influence over the entity	(16)		(10)		(21)	
- key management personnel of the entity and its parent	(1)		-		-	
- other related parties	(1)		-		-	
Amounts due to customers	252,136	6,526,930	156,137	6,131,750	197,569	3,820,662
- the parent	69,882		29,773		99,641	
- entities with joint control or significant influence over the entity	9,480		3,175		4,086	
- key management personnel of the entity or its parent	11,076		9,003		9,538	
- other related parties	161,698		114,186		84,304	

(Millions of Kazakhstani Tenge)

Included in the consolidated statement of profit or loss for the years ended 31 December 2018, 2017 and 2016, are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2018		Year ended 31 December 2017		Year ended 31 December 2016	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Interest income	318	682,041	156	506,328	309	332,563
- entities with joint control or significant influence over the entity	127		141		295	
- key management personnel of the entity or its parent	13		10		10	
- other related parties	178		5		4	
Interest expense	(4,217)	(333,772)	(3,518)	(257,805)	(8,525)	(160,549)
- the parent	(2,479)		(2,535)		(6,848)	
- entities with joint control or significant influence over the entity	(22)		(3)		(14)	
- key management personnel of the entity or its parent	(213)		(198)		(404)	
- other related parties	(1,503)		(782)		(1,259)	

	Year ended 31 December 2018		Year ended 31 December 2017		Year ended 31 December 2016	
	Related party transactions	**Total category as per financial statements caption**	**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	77,563	1,922	51,124	1,800	38,551
- Salaries and other employee benefits	3,672		1,922		1,800	

41. 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.