\

Citibank Kazakhstan JSC

Financial Statements
for the year ended
31 December 2018

Contents

Independent Auditors' Report	
Statement of Profit or Loss and Other Comprehensive Income	6
Statement of Financial Position	7
Statement of Cash Flows	8
Statement of Changes in Equity	9
Notes to the Financial Statements	10-70

«КПМГ Аудит» жауапкершілігі
шектеулі серіктестік
Қазақстан, 050051, Алматы,
Достық д-лы, 180,
Тел.: +7 (727) 298-08-98

KPMG Audit LLC
180 Dostyk Avenue, Almaty,
050051, Kazakhstan,
E-mail: company@kpmg.kz

Independent Auditors' Report

To the Shareholders of Citibank Kazakhstan JSC

Opinion

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

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the 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.

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

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

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

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

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

— Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Ashley Clarke
Audit Partner

Assel Urdabayeva
Certified Auditor
of the Republic of Kazakhstan,
Auditor's Qualification Certificate
No. МФ-0000096 of 27 August 2012

KPMG Audit LLC

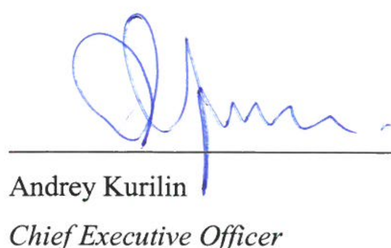
State Licence to conduct audit # 0000021 dated 6 December 2006 issued by the Ministry of Finance of the Republic of Kazakhstan

Sergey Dementyev
General Director of KPMG Audit LLC
acting on the basis of the Charter

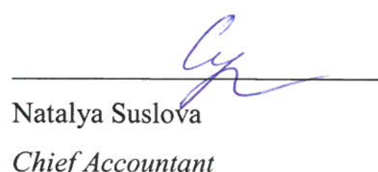
30 April 2019

	Note	2018 '000 KZT	2017 '000 KZT
Interest income calculated using the effective interest method	5	18,042,246	17,182,123
Other interest income	5	1,170,784	1,504,666
Interest expense	5	(5,555,501)	(3,821,643)
Net interest income		**13,657,529**	**14,865,146**
Fee and commission income	6	4,270,682	4,370,378
Fee and commission expense	7	(1,248,523)	(998,307)
Net fee and commission income		**3,022,159**	**3,372,071**
Net foreign exchange gain	9	28,891,884	18,718,568
Net (loss)/gain on derivative financial instruments		(1,337,893)	577,291
Net loss on financial assets at fair value through profit or loss		(182,701)	(24,828)
Net realised gain on investment securities		-	212,691
Other operating income, net		3,329,624	1,000,543
Operating income		**47,380,602**	**38,721,482**
Impairment recovery on debt financial assets	8	45,077	4,800
General administrative expenses	10	(9,212,554)	(7,788,739)
Profit before taxes		**38,213,125**	**30,937,543**
Income tax expense	11	(7,202,324)	(5,238,699)
Profit for the year		**31,010,801**	**25,698,844**
Other comprehensive income, net of income tax			
Items that are or may be reclassified subsequently to profit or loss:			
Movement in fair value reserve (debt instruments):			
- Net change in fair value		128,643	797,660
- Net change in expected credit losses		(41,211)	-
Other comprehensive income for the year		**87,432**	**797,660**
Total comprehensive income for the year		**31,098,233**	**26,496,504**

The financial statements as set out on pages 6 to 70 were signed on its behalf by:



Andrey Kurilin
Chief Executive Officer



Natalya Suslova
Chief Accountant

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

	Note	2018 '000 KZT	2017 '000 KZT
ASSETS			
Cash and cash equivalents	12	602,682,599	374,780,104
Placements with banks	13	3,510,435	430,520
Derivative instruments at fair value through profit or loss	14	644,189	1,001,166
Financial assets at fair value through profit or loss	15	2,200	41,867,814
Investment securities	16	9,970,545	17,677,645
Loans to customers	17	117,872,169	87,835,840
Property, equipment and intangible assets	18	792,658	550,494
Current tax assets		-	2,541,035
Deferred tax asset		198,496	-
Other assets		345,180	226,853
Total assets		**736,018,471**	**526,911,471**
LIABILITIES			
Derivative instruments at fair value through profit or loss	14	2,433,937	240,883
Deposits and balances from banks and other financial institutions	19	41,563,318	13,828,072
Current accounts and deposits from customers	20	552,990,662	374,561,482
Current tax liability		253,725	-
Deferred tax liability		-	496,192
Other liabilities		1,192,155	2,669,881
Total liabilities		**598,433,797**	**391,796,510**
EQUITY			
Share capital	21	12,497,625	12,497,625
Additional paid-in capital		61,975	61,975
Dynamic reserve		-	2,380,583
Fair value reserve		41,077	(96,591)
Retained earnings		124,983,997	120,271,369
Total equity		**137,584,674**	**135,114,961**
Total liabilities and equity		**736,018,471**	**526,911,471**

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

	2018	**2017**
	’000 KZT	**’000 KZT**
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	19,384,672	18,573,930
Interest payments	(5,640,876)	(3,830,642)
Fee and commission receipts	4,247,998	4,367,856
Fee and commission payments	(1,241,174)	(995,046)
Net receipts from foreign exchange and derivatives	4,511,305	20,306,727
Net loss on financial assets at fair value through profit or loss	203,956	(24,828)
Other receipts	3,274,101	993,460
General administrative payments	(9,101,927)	(7,708,525)
(Increase)/decrease in operating assets		
Financial assets at fair value through profit or loss	41,867,814	(41,867,814)
Placements and loans with banks	(3,012,760)	-
Loans to customers	(23,563,153)	(9,208,723)
Other assets	(42,657)	2,965,649
Increase/(decrease) in operating liabilities		
Deposits and balances from banks	27,218,898	3,022,660
Current accounts and deposits from customers	126,932,858	(73,564,549)
Other liabilities	(1,477,591)	(76,872)
Net cash from/(used in) operating activities before income tax paid	**183,561,464**	**(87,046,717)**
Income tax paid	(5,114,775)	(3,105,883)
Cash flows from/(used in) operating activities	**178,446,689**	**(90,152,600)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(211,629,013)	(360,412,707)
Sales and redemption of investment securities	219,171,946	379,126,233
Purchases of property, equipment and intangible assets	(358,286)	(42,113)
Sales of property, equipment and intangible assets	5,678	11,694
Cash flows from investing activities	**7,190,325**	**18,683,107**
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(28,500,000)	(12,800,000)
Cash flow used in financing activities	**(28,500,000)**	**(12,800,000)**
Net increase/(decrease) in cash and cash equivalents	**157,137,012**	**(84,269,493)**
Effect of changes in exchange rates on cash and cash equivalents	70,777,929	(1,404,767)
Cash and cash equivalents at 31 December 2017	374,767,658	460,454,364
Cash and cash equivalents at 31 December 2018 (Note 12)	**602,682,599**	**374,780,104**

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

’000 KZT	**Share capital**	**Additional paid-in capital**	**Dynamic reserve**	**Fair value reserve**	**Retained earnings**	**Total equity**
Balance at 1 January 2017	**12,497,625**	**61,975**	**2,380,583**	**(894,251)**	**107,372,525**	**121,418,457**
Total comprehensive income for the year						
Profit for the year	-	-	-	-	25,698,844	25,698,844
Other comprehensive income						
Items that are or may be reclassified subsequently to profit or loss:						
-Net change in fair value of available-for-sale financial assets	-	-	-	797,660	-	797,660
Total other comprehensive income	-	-	-	797,660	-	797,660
Total comprehensive income for the year	-	-	-	**797,660**	**25,698,844**	**26,496,504**
Transactions with owners, recorded directly in equity						
Dividends declared and paid (Note 21)	-	-	-	-	(12,800,000)	(12,800,000)
Balance at 31 December 2017	**12,497,625**	**61,975**	**2,380,583**	**(96,591)**	**120,271,369**	**135,114,961**
Balance at 1 January 2018	12,497,625	61,975	2,380,583	(96,591)	120,271,367	135,114,959
Change in accounting policy (Impact of initial application of IFRS 9)	-	-	-	50,236	(178,754)	(128,518)
Restated total equity at 1 January 2018	**12,497,625**	**61,975**	**2,380,583**	**(46,355)**	**120,092,613**	**134,986,441**
Total comprehensive income for the year						
Profit for the year	-	-	-	-	31,010,801	31,010,801
Other comprehensive income						
Items that are or may be reclassified subsequently to profit or loss:						
-Net change in fair value	-	-	-	128,643	-	128,643
-Net change in expected credit losses	-	-	-	(41,211)	-	(41,211)
Total other comprehensive income	-	-	-	**87,432**	-	**87,432**
Total comprehensive income for the year	-	-	-	-	**31,010,801**	**31,098,233**
Allocation of dynamic reserve for retained earning current year	-	-	(2,380,583)	-	2,380,583	**-**
Transactions with owners, recorded directly in equity						
Dividends declared and paid (Note 21)	-	-	-	-	(28,500,000)	(28,500,000)
Balance at 31 December 2018	**12,497,625**	**61,975**	-	**41,077**	**124,983,997**	**137,584,674**

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

1 Background

(a) Principal activities

Citibank Kazakhstan JSC (the "Bank") was established as a joint stock company in the Republic of Kazakhstan. The Bank was granted its general banking license in 1998 and the license for conduction of operations on the securities market in 1999 and these licenses were updated in 2009. The Bank is a member of the state deposit insurance system in the Republic of Kazakhstan.

The principal activities of the Bank are corporate deposit taking, corporate lending, cash management, custody operations, operations with government securities, money market and foreign exchange transactions. The activities of the Bank are regulated by the National Bank of the Republic of Kazakhstan (the "NBRK").

The address of the Bank's registered office is: Park Palace, Building A, 2nd floor, 41 Kazybek Bi Str., Almaty, A25T0A1, Republic of Kazakhstan. The majority of the Bank's assets and liabilities are located in the Republic of Kazakhstan.

(b) Shareholder

The Bank is wholly-owned by Citibank N.A. (the "Shareholder Bank"). As a result the Bank is economically dependent upon the Shareholder Bank. In addition, the activities of the Bank are closely linked with the requirements of the Shareholder Bank and determination of the pricing of the Bank's services to the Shareholder Bank is undertaken in conjunction with other Shareholder Bank companies.

(c) Kazakhstan business environment

The Bank's operations are primarily located in Kazakhstan. Consequently, the Bank is exposed to the economic and financial markets of Kazakhstan, which display emerging-market characteristics. Legal, tax and regulatory frameworks continue to develop, but are subject to varying interpretations and frequent changes that, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in Kazakhstan. The financial statements reflect management's assessment of the impact of the Kazakhstan business environment on the operations and financial position of the Bank. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

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

This is the first set of the Bank's annual financial statements in which IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* have been applied. Changes to significant accounting policies are described in Note 2(e).

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and investment securities at fair value through other comprehensive income are stated at fair value.

(c) Functional and presentation currency

The functional currency of the Bank is the Kazakhstan tenge ("KZT") as, being the national currency of the Republic of Kazakhstan, it reflects the economic substance of the majority of underlying events and circumstances relevant to the Bank.

The KZT is also the Bank's presentation currency for the purposes of these financial statements.

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

2 Basis of preparation, continued

(d) Use of estimates and judgments

In preparing these financial statements, management has made judgement, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

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

Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes:

- Applicable to 2018 only
  - classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding – Note 3(f)(i).
  - establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL – Note 3(j)(i).

Assumptions and estimations uncertainty

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2018 is included in the following notes:

- Applicable to 2018 only
  - impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information – Note 3(j)(i).
- Applicable to 2018 and 2017
  - impairment of financial instruments – Note 8.
  - estimates of fair values of financial assets and liabilities – Note 28.

(e) Changes in accounting policies and presentation

The Bank has initially adopted IFRS 9 and IFRS 15 from 1 January 2018.

A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Bank's financial statements.

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

The adoption of IFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Bank.

The effect of initially applying these standards is mainly attributed to the following:

- an increase in impairment losses recognised on financial assets (see Note 8);
- additional disclosures related to IFRS 9 (see Notes 4).

2 Basis of preparation, continued

(e) Changes in accounting policies and presentation, continued

IFRS 9 - Financial Instruments

Introduction

IFRS 9 – *Financial Instruments* includes a new model for classification and measurement of financial assets, a forward-looking 'expected loss' impairment model for debt instruments and a substantially reformed approach to hedge accounting. The standard replaces the existing guidance in IAS 39 – *Financial Instruments: Recognition and Measurement*.

IFRS 9 resulted in a reduction to retained earnings as at 31 December 2017 of KZT 178,754 thousand (please refer to Note 4 for tabular disclosures showing the impact of transitioning from IAS 39 to IFRS 9). This is primarily driven by increases in the allowance for credit losses under the new impairment requirements.

As a result of the adoption of IFRS 9, the Bank has adopted consequential amendments to IAS 1 '*Presentation of Financial Statements*', which require separate presentation in the statement of profit or loss and other comprehensive income of interest revenue calculated using the effective interest method. The Bank disclosed this amount in notes to the financial statements.

Additionally, the Bank has adopted consequential amendments to IFRS 7 '*Financial Instruments: Disclosures*' that are applied to disclosures about 2018 but have not been applied to the comparative information.

The key changes to the Bank's accounting policies resulting from the implementation of IFRS 9 are summarised below.

Classification and measurement of financial assets and financial liabilities

From a classification and measurement perspective, the new standard requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of:

(i) the entity's business model for managing the assets (and whether collecting cash flows, selling financial assets, or both are integral to the business model), and

(ii) the instruments' contractual cash flow characteristics (whether the contractual cash flows are solely payments of principal and interest (SPPI)).

The IAS 39 measurement categories have been replaced by: fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI), and amortised cost. IFRS 9 also allows entities to continue to irrevocably designate instruments that qualify for amortised cost or FVOCI instruments as FVTPL, if doing so eliminates or significantly reduces an accounting mismatch.

The accounting for financial liabilities is largely the same as the requirements under IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVTPL. Such movements are now presented in OCI (instead of P&L) with no subsequent reclassification to the income statement.
The impact to the Bank due to the changes to classification and measurement of financial instruments from the adoption of IFRS 9 as at 1 January 2018 is highlighted below:

- Held-for-Trading financial assets, under IAS 39, continue to be classified and measured as FVTPL.

2 Basis of preparation, continued

(e) Changes in accounting policies and presentation, continued

IFRS 9 - Financial Instruments, continued

Classification and measurement of financial assets and financial liabilities, continued

- Loans and advances to banks and to customers classified and measured at amortised cost under IAS 39, continue to be measured and classified at amortised cost under IFRS 9 unless they failed the business model or SPPI test. The Bank did not identify any differences in the measurement of loans and advances to banks and customers following transition to IFRS 9.
- Investment debt securities previously classified as Available-for-Sale under IAS 39, and measured at FVOCI, consist of government and corporate bonds that are held for an indefinite period of time as they may be sold in response to needs for liquidity or changes in interest rates or exchange rates. These debt securities continue to be classified and measured as FVOCI as they are held under a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets unless they fail the SPPI criterion.
- Investment equity securities previously classified as Available-for-Sale under IAS 39, and measured at FVOCI, are classified as FVTPL under IFRS 9. The Bank has made an accounting policy choice not to irrevocably elect to classify and measure non-trading equity instruments at FVOCI as all amounts recognised in OCI can never be reclassified to profit or loss.

For financial liabilities, IFRS 9 largely retains the pre-existing requirements for classification and measurement previously included in IAS 39. However, under IFRS 9 fair value changes on financial liabilities which are designated at fair value through profit or loss that are attributable to changes in the credit risk of the liability are presented in other comprehensive income.

For a detailed explanation of how the Bank classifies and measures financial assets and liabilities under IFRS 9, please see Note 4.

Impairment of financial assets

IFRS 9 introduces an expected credit loss (ECL) impairment model that differs significantly from the incurred loss model under IAS 39 and is expected to result in the earlier recognition of credit losses going forward.

Under IFRS 9, the same impairment model is applied to all debt financial assets, except for financial assets classified or designated as at FVTPL, which are not subject to impairment assessment. The scope of the IFRS 9 expected credit loss impairment model includes amortized cost financial assets, debt securities classified as FVOCI, and off-balance sheet loan commitments and financial guarantees which were previously provided for under IAS 37, Provisions, Contingent Liabilities and Contingent Assets (IAS 37).

For an explanation of how the Bank applies the impairment requirements of IFRS 9, see Note 3(j)(i).

Transition

The impairment and classification and measurement requirements of IFRS 9 have been applied retrospectively by adjusting the Bank's statement of financial position at 1 January 2018, the date of initial application of IFRS 9, with the difference between previous carrying amounts and carrying amounts at initial application recognised in opening retained earnings. There is no requirement to restate comparative periods, therefore, the comparative period has not been restated and does not reflect the requirements of IFRS 9. Due to the differences between IFRS 9 and IAS 39, the information for 2018 and 2017 may not be comparable. However, detailed tabular disclosures showing the impact of transitioning from IAS 39 to IFRS 9 are given in Note 4 as required by IFRS 9.

2 Basis of preparation, continued

(e) Changes in accounting policies and presentation, continued

IFRS 9 - Financial Instruments, continued

Transition, continued

The Bank used the exemption not to restate comparative periods but considering that the amendments made by IFRS 9 to IAS 1 introduced the requirement to present 'interest income calculated using the effective interest rate' as a separate line item in the statement of profit or loss and other comprehensive income, the Bank has reclassified comparative interest income on non-derivative debt financial assets measured at FVTPL to 'other interest income' and changed the description of the line item from 'interest income' reported in 2017 to 'interest income calculated using the effective interest method'.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:

- The determination of the business model within which a financial asset is held.

A. IFRS 15* Revenue *from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 '*Revenue*', IAS 11 '*Construction Contracts and related interpretations*'.

The Bank initially applied IFRS 15 on 1 January 2018 retrospectively in accordance with IAS 8 without any practical expedients. The timing or amount of the Bank's fee and commission income from contracts with customers was not impacted by the adoption of IFRS 15.

3 Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these financial statements, except for the changes disclosed in Note 2 (e)

(a) Interest

Policy applicable from 1 January 2018

Effective interest rate

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

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

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

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

3 Significant accounting policies, continued

(a) Interest, continued

Policy applicable from 1 January 2018, continued

Amortised cost and gross carrying amount

The ‘amortised cost’ of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

The ‘gross carrying amount of a financial asset’ measured at amortised cost is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see Note 3(j)(i).

Presentation

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

- interest on financial assets measured at amortised cost;
- interest on debt instruments measured at FVOCI;

Other interest income presented in the statement of profit or loss and other comprehensive income includes interest income on non-derivative debt financial instruments measured at FVTPL.

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

- financial liabilities measured at amortised cost.

Policy applicable before 1 January 2018

Effective interest rate

Interest income and expense were recognised in profit or loss using the effective interest method. The effective interest rate was the rate that exactly discounted the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimated future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

3 Significant accounting policies, continued

(a) Interest, continued

Policy applicable before 1 January 2018, continued

Effective interest rate, continued

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

Presentation

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

- interest on financial assets measured at amortised cost;
- interest on debt instruments measured at FVOCI;

Other interest income presented in the statement of profit or loss and other comprehensive income includes interest income on non-derivative debt financial instruments measured at FVTPL.

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

- financial liabilities measured at amortised cost.

(b) Fees and commission

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate (see Note 3(a)).

Other fee and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

A contract with a customer that results in a recognised financial instrument in the Bank’s financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

(c) Net gain on financial assets at FVTPL

‘Net gain on financial assets at FVTPL’ comprises gains less losses related to trading assets and liabilities, and equity securities measured at fair value through profit and loss and includes all fair value changes, and foreign exchange differences.

3 Significant accounting policies, continued

(d) Foreign currency transactions

Transactions in foreign currencies are translated to the KZT - the functional currency of the Bank (the functional currency) at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss.

The exchange rates between the USD and the KZT and the EUR and the KZT as at 31 December 2018 and 2017 were as follows:

Currency	2018	2017
1 United States Dollar	384.20	332.33
1 Euro	439.37	398.23

(e) Cash and cash equivalents

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

(f) Financial assets and financial liabilities

Policy applicable from 1 January 2018

(i) Classification and Measurement

i) Financial Assets – Derivatives and Equity Instruments

Under IFRS 9, derivatives and in-scope equity instruments are measured at fair value, with changes reflected through the profit and loss account (FVTPL). Exceptions can only apply if the derivative is part of a hedge accounting programme.

The Bank measures all equity instruments in scope of IFRS 9 at FVTPL.

ii) Financial Assets – Debt Instruments

Under IFRS 9, the following primary classification and measurement categories exist for financial assets-debt instruments:

- Amortised cost;
- Fair value through other comprehensive income (FVOCI); and
- Fair value though profit or loss (FVTPL)

In addition, IFRS 9 provides special designation options for financial assets-debt instruments that are either measured at ‘amortized cost’ or ‘FVOCI’. An entity has an option to designate such instruments at FVTPL only where this designation eliminates or significantly reduces an accounting mismatch.

3 Significant accounting policies, continued

(f) Financial assets and financial liabilities, continued

(i) Classification and Measurement, continued

ii) Financial Assets – Debt Instruments, continued

The following paragraphs explain the classification criteria for the 3 categories in more detail.

- *Amortised Cost*

A financial asset-debt instrument shall be classified and subsequently measured at amortized cost (unless designated under FVO) only if both of the following conditions are met:

a) Business Model test: the financial asset--debt instrument is held in a business model whose objective is to hold assets in order to collect contractual cash flows; and

b) SPPI test: the contractual terms of the financial asset-debt instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).
FVOCI

A financial asset shall be classified and measured at FVOCI (unless designated FVO) if both of the following conditions are met:

a) Business Model test: the financial asset is held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets: and

b) SPPI test: the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

- *FVTPL*

Any financial instrument that does not fall into either of the above categories shall be classified and measured at fair value through profit and loss. For example, where the asset is not held within a business model whose objective is to hold to collect the contractual cash flows or within a business model whose objective is to both collect the cash flows and to sell the assets, then the asset will be classified as FVTPL.

Moreover, any instrument for which the contractual cash flow characteristics do not comprise solely payments of principal and interest (that is, they fail the SPPI test) must be classified in the FVTPL category.

Business Model Assessment

The Bank's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective.

The Bank's business model does not depend on management's intentions for an individual instrument (i.e., it is not an instrument-by-instrument assessment). This assessment is performed at a higher level of aggregation. The level of aggregation is at a level which is reviewed by key management personnel, enabling them to make strategic decisions for the business. The Bank has more than one business model for managing its financial instruments.

The assessment of the business model requires judgment based on facts and circumstances, considering quantitative factors and qualitative factors.

3 Significant accounting policies, continued

(f) Financial assets and financial liabilities, continued

(i) Classification and Measurement, continued

ii) Financial Assets – Debt Instruments, continued

The Bank considers all relevant evidence that is available at the date of the assessment. Such relevant evidence includes, but is not limited to:

a) How the performance of the business model and the financial assets held within that business model are evaluated and reported to the Bank's key management personnel;
b) 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
c) How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected); and
d) The frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity.

Assessment of whether the contractual cash flows are solely payments of principal and interest

If an instrument is held in either a hold to collect or a or hold to collect and sell business model, then an assessment to determine whether contractual cash flows are solely payments of principal and interest on the principal outstanding (SPPI) is required to determine classification. For SPPI, interest is defined as consideration for the time value of money and the credit risk associated with the principal amount outstanding during a period of time. It can also include consideration for other basic lending risks (for example, liquidity risk) and costs (for example, administrative costs) associated with holding the financial asset for a particular period of time and a profit margin that is consistent with a basic lending arrangement. Other contractual features that result in cash flows that are not payments of principal and interest result in the instrument being measured at FVTPL.

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 meet the SPPI criteria.

The contractual cash flow test must be performed at initial recognition of the financial asset and, if applicable, as at the date of any subsequent changes to the contractual provisions of the instrument.

iii) Financial Liabilities

For financial liabilities there are two measurement categories: amortised cost and fair value through profit and loss (including a fair value option category). The Bank separates derivatives embedded in financial liabilities where they are not closely related to the host contract.

The Bank designates financial liabilities at fair value through profit or loss if one of the following exist:

- The liability is managed and performance evaluated on a fair value basis;
- Electing fair value will eliminate or reduce an accounting mismatch.

For financial liabilities designated at fair value through profit or loss, fair value changes are presented as follows:

- The amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability must be recorded in OCI, and
- The remaining amount of the change in the fair value of the liability is recorded in P&L.

Upon early extinguishment (e.g., liability is repurchased before maturity), changes in own credit rating previously recorded in OCI will not be recycled to P&L. The OCI balance is reclassified directly to retained earnings.

3 Significant accounting policies, continued

(f) Financial assets and financial liabilities, continued

(i) Classification and Measurement, continued

iv) Reclassifications

Financial asset classification is determined at initial recognition and reclassifications are expected to be extremely rare. A financial asset can only be reclassified if the business model for managing the financial asset changes.

Reclassification of financial liabilities is not permitted. Reclassification of financial instruments designated under FVO or FVOCl is also not permitted.

v) Modifications

Financial assets

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset in accordance with IFRS 9, the Bank shall recalculate the gross carrying amount of the financial asset and shall recognise a modification gain or loss in profit or loss.

As the Bank classifies a financial asset at initial recognition on the basis of the contractual terms over the life of the instrument, reclassification on the basis of a financial asset’s contractual cash flows is not permitted, unless the asset is sufficiently modified that it is derecognised.

Financial Liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

(ii) Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the statement of financial position and the counterparty liability included in amounts payable under repo transactions. The difference between the sale and repurchase prices represents interest expense and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions. The difference between the purchase and resale prices represents interest income and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

3 Significant accounting policies, continued

(f) Financial assets and financial liabilities, continued

(iii) Derivative financial instruments

Derivative financial instruments include swaps, forwards, futures, spot transactions and options in interest rates, foreign exchanges, precious metals and stock markets, and any combinations of these instruments, which values are dependent upon or derived from one or more underlying assets.

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

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

Derivatives may be embedded in another contractual arrangement (a host contract). An embedded derivative is separated from the host contract and is accounted for as a derivative if, and only if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the combined instrument is not measured at fair value with changes in fair value recognised in profit or loss. Derivatives embedded in financial assets or financial liabilities at fair value through profit or loss are not separated.

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

(iv) Placements with banks

In the normal course of business, the Bank maintains nostro accounts, loans, and deposits for various periods of time with other banks. Placements with banks with a fixed maturity terms are subsequently measured at amortised cost using the effective interest method. Those that do not have fixed maturities are carried at amortised cost based on expected maturities. Placements with banks are carried net of any allowance for impairment loss, if any.

Policy applicable before 1 January 2018

(i) Classification

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

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

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

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

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

3 Significant accounting policies, continued

(f) Financial assets and financial liabilities, continued

Policy applicable before 1 January 2018, continued

(i) Classification, continued

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

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

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

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

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

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

(ii) Recognition

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

(iii) Measurement

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

3 Significant accounting policies, continued

(f) Financial assets and financial liabilities, continued

Policy applicable before 1 January 2018, continued

(iii) Measurement, continued

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

- loans and receivables which are measured at amortised cost using the effective interest method;
- held-to-maturity investments that are measured at amortised cost using the effective interest method;
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost.

(g) Property and equipment

(i) Owned assets

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

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

(ii) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

Offices	50 years;
Leasehold improvements	10 years;
Computers	3 years;
Fixtures and fittings	5 years;
Vehicles	5 years.

(h) Intangible assets

Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses.

(i) Intangible assets

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful life of 5 years.

3 Significant accounting policies, continued

(j) Impairment

Policy applicable from 1 January 2018

The IFRS 9 impairment standard applies to any debt instruments measured at amortised cost or at fair value through other comprehensive income and also to off balance sheet loan commitments and financial guarantees, including:

- Investments in debt instruments measured at amortised cost. Such investments will include:
  - Corporate, commercial and retail loans (including mortgages and credit card receivables);
  - Deposits with banks; and
  - Reverse repurchase agreements and securities borrowing transactions.
- Investments in debt instruments measured at fair value through other comprehensive income (FVOCI);
- All irrevocable loan commitments that are not measured at FVTPL;
- Written financial guarantee contracts to which IFRS 9 is applied and that are not accounted for at FVTPL;
- Trade receivables in the scope of IFRS 15 (Revenue contracts with customers); and
- Any other receivables (e.g., brokerage receivables).

Expected credit loss impairment model

Credit loss allowances are measured on each reporting date according to a three-Stage expected credit loss impairment model under which each financial asset is classified in one of the stages below:

- Stage 1 – From initial recognition of a financial asset to the date on which the asset has experienced a significant increase in credit risk relative to its initial recognition, a loss allowance is recognised equal to the credit losses expected to result from defaults expected over the next 12 months. Interest is calculated based on the gross carrying amount of the asset.

- Stage 2 – Following a significant increase in credit risk relative to the risk at initial recognition of the financial asset, a loss allowance is recognised equal to the full credit losses expected over the remaining life of the asset. Interest is calculated based on the gross carrying amount of the asset.

The credit losses for financial assets in Stage 1 and Stage 2 are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive).

- Stage 3 – When a financial asset is considered to be credit-impaired, a loss allowance equal to the full lifetime expected credit losses will be recognised. Credit losses are measured as the difference between the gross carrying amount and the present value of estimated future cash flows. Interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than on its gross carrying amount.

Evidence that a financial asset is credit-impaired includes observable data that comes to the attention of the Bank such as:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties.

Loans are written off when there is no reasonable expectation of recovery.

3 Significant accounting policies, continued

(j) Impairment, continued

Policy applicable from 1 January 2018, continued

Expected credit loss impairment model, continued

The estimation of an expected credit loss (ECL) is required to be unbiased and probability weighted, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. The estimate also considers the time value of money.

The measurement of an ECL is primarily determined by an assessment of the financial asset's probability of default (PD), loss given default (LGD) and exposure at default (EAD) where the cash shortfalls are discounted to the reporting date. For a financial asset in Stage 1, the Bank will utilise a 12-month PD, whereas a financial asset within Stage 2 and Stage 3 will utilise a lifetime PD in order to estimate a loss allowance.

Wholesale Classifiably Managed Exposures

A loss allowance will be estimated for Corporate loans utilising sophisticated models depending on the relative size, quality and complexity of the portfolios. Impairment allowances for the staff loan portfolios will be estimated utilising a less sophisticated approach that is reasonable and proportionate after considering both entity level and portfolio level factors.

Other Financial Assets Simplified Approaches

For other financial assets, being short term and simple in nature, the Bank will apply a simplified measurement approach that may differ from what is described above. This approach leverages existing models currently used, but incorporates specifically developed components to make the estimates compliant with IFRS 9.

Significant increase in credit risk (SICR)

A financial asset will move from Stage 1 to Stage 2 if there has been a significant increase in credit risk relative to initial recognition. The Bank assesses whether the credit risk of a financial instrument has increased significantly since initial recognition. Determining whether there has been a significant increase in credit risk requires significant judgement. When making this assessment, the Bank considers the increase in the risk of default (both in relative terms and absolute terms) over the expected life of the financial asset. A given change in absolute terms of the risk of a default since initial recognition will be more significant for a financial instrument with a lower initial risk of default compared to one with a higher initial risk of default. A change in the probability of default of the obligor is driven primarily by the obligor risk rating. Internal credit risk rating categories will capture the further qualitative indicators that act as backstops.

Staging

Financial assets can move in both directions through the Stages of the IFRS 9 impairment model depending on whether the assessment of whether there is a significant increase of credit risk since initial recognition or whether the asset is credit impaired subsequently changes.

In order to determine the ECL reporting stage for an obligation, the Bank will check whether the asset is already credit-impaired (Stage 3) or not (Stage 1 and 2). Stage 2 will be determined by the existence of a significant credit deterioration (or credit improvement) compared with the credit rating at initial recognition. Stage 1 assets do not have significant credit deterioration compared with that at initial recognition. All newly acquired or originated financial assets that are not purchased or originated credit impaired (POCI) are recognised in Stage 1 initially. The existence of a (statistically) significant deterioration/improvement is combined with the materiality of the probability of default to determine whether a transfer in stages is required. Further, the Bank will not rebut the presumption that exposures 30 days past due are deemed to have incurred a significant increase in credit risk. Additional qualitative reviews are also be performed to assess the staging results and make adjustments, as necessary, to better reflect the positions which have significantly increased in risk.

3 Significant accounting policies, continued

(j) Impairment, continued

Policy applicable from 1 January 2018, continued

Staging, continued

Changes in the required credit loss allowance, including the impact of movements between Stage 1 (12-month expected credit losses) and Stage 2 (lifetime expected credit losses), are recorded in profit or loss as an adjustment of the provision for credit losses.

Expected life

When measuring ECL, the Bank must consider the maximum contractual period over which the Bank is exposed to credit risk, including possible drawdowns and the expected maturity of the financial asset. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Bank is exposed to credit risk and where the credit losses would not be mitigated by management actions.

Stage 3 definition of default

As mentioned above, to determine whether an instrument should move to a lifetime ECL, the change in the risk of a default occurring over the expected life of the financial instruments must be considered.

The Bank applies a default definition that is consistent with that used for internal credit risk management purposes for the relevant financial instrument and consider qualitative indicators (for example, financial covenants) when appropriate. The definition of default used for this purpose is applied consistently to all financial instruments unless information becomes available that demonstrates another default definition is more appropriate for a particular financial instrument.

The Bank classifies an exposure as a Non-Performing Exposure (NPE) if it satisfies either or both of the following criteria:

1. There are material exposures which are more than 90 days past-due;
2. The obligor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount or of the number of days past due.

A default shall be considered to have occurred when an exposure is classified as a NPE unless the exposure meets the following criteria:

- The obligor is a subsidiary of an investment grade or BB+ (equivalent) rated parent company; AND
- There are no arrears >30 DPD unless due to a dispute or administrative reason; AND
- The obligor is being made non-performing solely on the grounds of significant financial difficulty when evaluated on a standalone basis; AND
- There is evidence to indicate that the parent or other group companies intend to provide support in order to mitigate the significant financial difficulty of the obligor; AND
- There is no expectation of Bank incurring a credit loss from its exposures with the obligor.

3 Significant accounting policies, continued

(j) Impairment, continued

Policy applicable from 1 January 2018, continued

Forward Looking Information and multiple economic scenarios
Estimates must consider information about past events, current conditions and reasonable and supportable forecasts around future events and economic conditions. The application of forward looking information (FLI) requires significant judgment. The Bank has developed models that include multiple economic scenarios that consider the variability and uncertainty in expected losses including factors such as GDP growth rates and unemployment rates, provided by the economists in Citi's Global Country Risk Management (GCRM). These estimates are based on portfolio data that reflect the current risk attributes of obligors and debt instruments combined with loss projections derived from the rating migration, PD and loss models built for estimating stress credit losses for wholesale portfolios. As mentioned above, these models have incorporated specifically developed components to make the estimates compliant with IFRS 9. The PD, LGD and Credit Conversion Factor (CCF) models are calibrated to the observed historical patterns of defaults and losses over several years and linked to economic drivers. The model reflects different loss likelihood and loss severity as a function of different economic forecasts. The Bank does not use the best case or worst case scenario, but assesses a representative number of scenarios (at least 3 when applying a sophisticated approach and where multiple scenarios are deemed to have a material non-linear impact) and probability weights these scenarios to determine the ECL.

Presentation of the allowance of ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows;

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the asset
- Loan commitments and financial guarantee contracts: as a provision
- Debt instruments measured at FVOCI: as the carrying amount of these financial assets is at fair value, no loss allowance is recognised in the statement of financial position, however, the loss allowance is disclosed in note 8 and is recognised in the fair value reserve.

Non-integral financial guarantee contracts

The Bank assesses whether a financial guarantee contract held is an integral element of a financial asset that is accounted for as a component of that instrument or is a contract that is accounted for separately. The factors that the Bank considers when making this assessment include whether:

- the guarantee is implicitly part of the contractual terms of the debt instrument;
- the guarantee is required by laws and regulations that govern the contract of the debt instrument;
- the guarantee is entered into at the same time as and in contemplation of the debt instrument; and
- the guarantee is given by the parent of the borrower or another company within the borrower's group.

If the Bank determines that the guarantee is an integral element of the financial asset, then any premium payable in connection with the initial recognition of the financial asset is treated as a transaction cost of acquiring it. The Bank considers the effect of the protection when measuring the fair value of the debt instrument and when measuring ECL.

Policy applicable before 1 January 2018

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

3 Significant accounting policies, continued

(j) Impairment, continued

Policy applicable before 1 January 2018, continued

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

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of financial asset or group of financial assets that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

In addition, for an investment in an equity security available-for-sale a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

(i) Financial assets carried at amortised cost

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

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

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

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

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

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

3 Significant accounting policies, continued

(j) Impairment, continued

Policy applicable before 1 January 2018, continued

(ii) Financial assets carried at cost

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

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

(iii) Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by transferring the cumulative loss that is recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

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

(k) Loans to customers

Policy applicable from 1 January 2018

'Loans customers' caption in the statement of financial position include:

- loans to customers measured at amortised cost (see Note 3(j)(i)); they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;

Policy applicable before 1 January 2018

Loans to customers were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market and that the Bank did not intend to sell immediately or in the near term.

Loans to customers included:

- those classified as loans and receivables;

Loans to customers were initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

3 Significant accounting policies, continued

(l) Investment securities

Policy applicable from 1 January 2018

The ‘investment securities’ caption in the statement of financial position includes:

- debt investment securities measured at amortised cost (see Note 3(f)(i)); these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt securities measured at FVOCI (see Note 3(f)(i)).

Policy applicable before 1 January 2018

Investment securities were initially measured at fair value plus, in the case of investment securities not at FVTPL, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held-to-maturity, FVTPL or available-for-sale.

As at 31 December 2017 the Bank had available for sale securities.

Available-for-sale

Available-for-sale investments were non-derivative investments that were designated as available-for-sale or were not classified as another category of financial assets. Available-for-sale investments comprise debt securities. All available-for-sale investments were measured at fair value after initial recognition.

Interest income was recognised in profit or loss using the effective interest method. Dividend income was recognised in profit or loss when the Bank became entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments were recognised in profit or loss. Impairment losses were recognised in profit or loss.

Other fair value changes, other than impairment losses, were recognised in other comprehensive income and presented in the fair value reserve within equity. When the investment was sold, the gain or loss accumulated in equity was reclassified to profit or loss.

A non-derivative financial asset might be reclassified from the available-for-sale category to the loans and receivables category if it would otherwise have met the definition of loans and receivables and if the Bank had the intention and ability to hold that financial asset for the foreseeable future or until maturity.

(m) Financial guarantees and loan commitments

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured as follows:

- *from 1 January 2018:* at the higher of the loss allowance determined in accordance with IFRS 9 (see Note 3(d)(iv)) and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15; and
- *before 1 January 2018:* at the higher the amount representing the initial fair value amortised over the life of the guarantee or the commitment and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

The Bank has issued no loan commitments that are measured at FVTPL.

3 Significant accounting policies, continued

(m) Financial guarantees and loan commitments, continued

For other loan commitments:

- *from 1 January 2018:* the Bank recognises a loss allowance (see Note 3(d)(iv));
- *before 1 January 2018:* the Bank recognised a provision in accordance with IAS 37 if the contract was considered to be onerous.

Liabilities arising from financial guarantees and loan commitments are included within provisions.

(n) Share capital

(i) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(ii) Dividends

The ability of the Bank to declare and pay dividends is subject to the rules and regulations of Kazakhstan legislation.

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

(o) Taxation

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

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3 Significant accounting policies, continued

(p) Income and expense recognition

Interest income and expense are recognised in profit or loss using the effective interest method.

Accrued discounts and premiums on financial instruments at fair value through profit or loss are recognised in gains less losses from financial instruments at fair value through profit or loss.

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

Other fees, commissions and other income and expense items are recognised in profit or loss when the corresponding service is provided. Dividend income is recognised in profit or loss on the date that the dividend is declared.

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

(q) Fiduciary assets

The Bank provides custody services for assets held by clients in Kazakhstan securities market. These assets and the income arising there from are excluded from these financial statements as they are not assets of the Bank. Commissions received from such business are shown within fee and commission income in the profit or loss.

(r) Comparative information

As a result of adoption of IFRS 9 the Bank changed presentation of certain captions in the primary forms of financial statements. Comparative information is reclassified to conform to changes in presentation in the current period.

The effect of main changes in presentation of the statement of financial position is disclosed in Note 4.

The effect of main changes in presentation of the statement of financial position as at 31 December 2017 is as follows:

- “Financial assets available-for-sale” were presented within “investment securities” line item.

The effect of main changes in presentation of the statement of profit or loss and other comprehensive income for the year ended 31 December 2017 is as follows:

- The presentation of interest income was amended to present interest on non-derivative financial assets measured at FVTPL separately under ‘other interest income’ line item

3 Significant accounting policies, continued

(r) Comparative information, continued

The effect of the changes on the statement of financial position, statement of profit or loss and other comprehensive income, and statement of cash flows is summarised in the table below:

’000 KZT	As previously reported	Effect of reclassifications	As reclassified
Interest income	18,686,789	(18,686,789)	-
Interest income calculated using the effective interest method	-	17,182,123	17,182,123
Other interest income	-	1,504,666	1,504,666
Net realised gain on available-for-sale financial assets	212,691	(212,691)	-
Net realised gain on investment securities	-	212,691	212,691
Recovery of provision	4,800	(4,800)	-
Impairment recovery on debt financial assets	-	4,800	4,800
Net change in fair value of available-for-sale financial assets	797,660	(797,660)	-
Net change in fair value	-	797,660	797,660
Available-for-sale financial assets	17,677,645	(17,677,645)	-
Investment securities	-	17,677,645	17,677,645
Revaluation reserve for available-for-sale financial assets	(96,591)	96,591	-
Fair value reserve	-	(96,591)	(96,591)
Purchase of available-for-sale financial assets	(360,412,707)	360,412,707	-
Purchase of investment securities	-	(360,412,707)	(360,412,707)
Sales and redemption of available-for-sale financial assets	379,126,233	(379,126,233)	-
Sales and redemption of investment securities	-	379,126,233	379,126,233

(s) New standards and interpretations not yet adopted

The following new standards, amendments to standards, and interpretations are not yet effective as at 31 December 2018, and are not applied in preparing these financial statements. The Bank plans to adopt these pronouncements when they become effective.

IFRS 16 *Leases*

IFRS 16 *Leases*, published in January 2016, replaces the existing guidance in IAS 17 *Leases*, and includes requirements for a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

Leases in which the Bank is a lessee

The Bank has completed an initial assessment of the potential impact on its financial statements but has not yet completed its detailed assessment. The actual impact of applying IFRS 16 on the financial statements in the period of initial application depend on future economic conditions, the development of the Bank’s lease portfolio, the Bank’s assessment of whether it will exercise any lease renewal options and the extent to which the Bank chooses to use practical expedients and recognition exemptions.

3 Significant accounting policies, continued

(s) New standards and interpretations not yet adopted

IFRS 16 *Leases, continued*

Leases in which the Bank is a lessee, continued

The Bank will recognise new assets and liabilities for its operating leases of office buildings. The nature of expenses related to those leases will now change because IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Bank recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

As at 31 December 2018, the Bank's future minimum lease payments under non-cancellable operating leases amounted to KZT 331,838 thousand, on an discounted basis. Weighted-average incremental borrowing rate used to measure lease liability is 10%.

The Bank applied following exemptions:

- Short-term leases with a lease term of 12 months or less

- low-value assets with amount of less than USD 100,000.

No significant impact is expected for the Bank's finance leases.

Other standards

The following amended standards and interpretations are not expected to have a significant impact on the Bank's financial statements.

— *IFRS 17 Insurance contracts.*

— *Annual Improvements to IFRSs 2015-2017 Cycle – various standards.*

— *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19).*

— *Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28).*

— *Amendments to References to Conceptual Framework in IFRS Standards.*

— *IFRIC 23 Uncertainty over Income Tax Treatments.*

4 Transition to IFRS 9

Classification of financial assets and financial liabilities at the date of initial application of IFRS 9

The following table shows the initial evaluation categories under IAS 39 and the new evaluation categories under IFRS 9 for the Bank's financial assets and financial liabilities as at January 1, 2018.

Except for the changes below, the Bank has consistently applied the accounting policies to all periods presented in these financial statements.

'000 KZT	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	Reclassification	Remeasurement	New carrying amount under IFRS 9
Financial assets						
Cash and cash equivalents	Loans and receivables	Amortised cost	374,780,104	-	(12,446)	374,767,658
Placements with banks	Loans and receivables	Amortised cost	430,520	-	-	430,520
Derivative instruments at fair value through profit or loss	FVTPL	FVTPL (mandatory)	1,001,166	-	-	1,001,166
Financial assets at fair value through profit or loss	FVTPL	FVTPL (mandatory)	41,867,814	-	-	41,867,814
Investment securities- debt	Available for sale	FVOCI	17,677,645	-	-	17,677,645
Loans to customers	Loans and receivables	Amortised cost	87,835,840	-	(81,164)	87,754,676
Other financial assets	Loans and receivables	Amortised cost	96,792		-	96,792
Total financial assets			**523,689,881**	**-**	**(93,610)**	**523,596,271**
Financial liabilities						
Derivative instruments at fair value through profit or loss	FVTPL	FVTPL (mandatory)	(240,883)	-	-	(240,883)
Deposits and balances from banks and other financial institutions	Amortised cost	Amortised cost	(13,828,072)	-	-	(13,828,072)
Current accounts and deposits from customers	Amortised cost	Amortised cost	(374,561,482)	-	-	(374,561,482)
Other financial liabilities	Amortised cost	Amortised cost	(2,653,079)	-	(34,908)	(2,687,987)
Total financial liabilities			**(391,283,516)**	**-**	**(34,908)**	**(391,318,424)**
					(128,518)	

4 Transition to IFRS 9, continued

The following table summarises the impact, of transition to IFRS 9 on the opening balance of the liability credit reserve, the fair value reserves and retained earnings. There is no impact on other components of equity.

’000 KZT	Impact of adopting IFRS 9 at 1 January 2018
Fair value reserve – FVOCI debt instruments (31 December 2017 – Fair value reserve – available-for-sale)	
Closing balance under IAS 39 (31 December 2017)	(96,591)
Recognition of expected credit losses under IFRS 9 for debt investment securities at FVOCI	50,236
Related tax	-
Opening balance under IFRS 9 (1 January 2018)	**(46,355)**
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	120,271,367
Recognition of expected credit losses under IFRS 9 (including loan commitments and financial guarantee contracts)	(178,754)
Related tax	-
Opening balance under IFRS 9 (1 January 2018)	**120,092,613**

The following table reconciles:

- the closing impairment allowance for financial assets in accordance with IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as at 31 December 2017; to
- the opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018.

For financial assets, this table is presented by the related financial assets' measurement categories in accordance with IAS 39 and IFRS 9, and shows separately the effect of the changes in the measurement category on the loss allowance at the date of initial application of IFRS 9, i.e. as at 1 January 2018.

	Impairment allowance and provisions			
’000 KZT	**31 December 2017 (IAS 39/IAS 37)**	**Reclassifica-tion**	**Remeasure-ment**	**1 January 2018 (IFRS 9)**
Loans and receivables and held to maturity securities under IAS 39/financial assets at amortised cost under IFRS 9 (includes cash and cash equivalents, loans to banks and loans to customers)	-	-	93,610	93,610
Total measured at amortised cost	**-**	**-**	**93,610**	**93,610**
Available-for-sale debt investment securities under IAS 39/debt investment securities at FVOCI under IFRS 9	-	-	50,236	50,236
Total measured at FVOCI	**-**	**-**	**50,236**	**50,236**
Loan commitments and financial guarantee contracts issued	-	-	34,908	34,908

5 Net interest income

	2018 '000 KZT	2017 '000 KZT
Interest income		
Interest income calculated using the effective interest method		
Loans to customers	7,486,147	6,693,957
Cash and cash equivalents	6,775,769	5,637,510
Investment securities	3,772,270	4,846,563
Placements with banks	8,060	4,093
Other interest income		
Financial assets at fair value through profit or loss	1,170,784	1,504,666
	19,213,030	**18,686,789**
Interest expense		
Current accounts and deposits from customers	4,781,998	3,186,491
Amounts payable under repurchase agreements	479,519	392,787
Deposits and balances from banks and other financial institutions	293,984	242,365
	5,555,501	**3,821,643**
Net interest income	**13,657,529**	**14,865,146**

6 Fee and commission income

	2018 '000 KZT	2017 '000 KZT
Transfers	1,612,334	1,586,467
Guarantees issued	1,216,325	877,263
Credit cards	238,959	569,943
Brokerage fees	378,341	562,655
Custodian fees	645,098	546,909
Letters of credit provided	103,727	141,174
Cash transactions	6,111	16,448
Accounts maintenance	1,075	768
Other	68,712	68,751
	4,270,682	**4,370,378**

Performance obligations and revenue recognition policies

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Bank recognises revenue when it transfers control over a service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

6 Fee and commission income, continued

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15 (applicable from 1 January 2018)
Corporate banking service	The Banks provides banking services to corporate customers, including cash management, account management, foreign currency transactions, credit cards and servicing fees. Fees for ongoing account management are charged to the customer's account on a monthly basis. Transaction-based fees for interchange, foreign currency transactions and overdrafts are charged to the customer's account when the transaction takes place. Servicing fees are charged on a monthly basis and are based on tariffs reviewed in accordance with internal periodicity	Revenue related to transactions is recognised at the point in time when the transaction takes place. Revenue from account management is recognised over time as the services are provided.
Corporate banking service	The Banks provides services to corporate customers with regards to issuance the guarantees and letters of credit. Commission fee on guarantees and letters of credit issued is paid in advance	Commission fee on guarantees and letters of credit issued is recognised as income over the time of the relevant guarantee or letter of credit

7 Fee and commission expense

	2018 '000 KZT	2017 '000 KZT
Credit cards	407,731	378,051
Guarantee and letter of credit issuance fees	298,899	199,173
Custodian fees	29,650	25,557
Other	512,243	395,526
	1,248,523	**998,307**

8 Impairment recovery

	2018 '000 KZT	2017 '000 KZT
Cash and cash equivalents	4,108	-
Loans to customers	7,745	-
Investments securities	41,212	-
Loan commitments and financial guarantee contracts	(8,000)	-
Other	12	4,800
	45,077	**4,800**

9 Net foreign exchange gain

	2018 '000 KZT	2017 '000 KZT
Revaluation of foreign currency denominated instruments	25,077,655	(1,015,309)
Net forex trading gain	3,814,229	19,733,877
	28,891,884	**18,718,568**

Revaluation of foreign currency denominated instruments includes gain from spot transactions.

10 General administrative expenses

	2018 '000 KZT	2017 '000 KZT
Administrative support provided by related banks	4,369,135	3,442,165
Employee compensation	2,321,288	1,898,116
Taxes other than on income	895,842	899,582
Administration	310,756	305,653
Cash collection	235,884	229,111
Taxes related to employees	193,477	169,895
Rent	210,379	163,340
Communications and information services	165,843	158,436
Travel expenses	152,140	132,814
Depreciation and amortisation	107,124	80,214
Office supplies	87,580	59,689
Representative expenses	56,707	44,390
Professional services	31,178	40,539
Repairs and maintenance	34,595	38,160
Security	18,793	21,245
Advertising and marketing	988	-
Other	20,845	105,390
	9,212,554	**7,788,739**

Administrative support expenses provided by related banks mainly consists of the following services: system development KZT 898,950 thousand, IT services KZT 847,596 thousand, information security services KZT 790,465 thousand, compliance services KZT 251,713 thousand, finance services KZT 268,491 thousand and other services KZT 1,311,920 thousand (31 December 2017: KZT 575,201 thousand; KZT 503,681 thousand; KZT 127,049 thousand; KZT 381,280 thousand; KZT 168,124 thousand; KZT 1,686,381 thousand respectively).

11 Income tax expense

	2018 '000 KZT	2017 '000 KZT
Current tax expense		
Current year	7,895,965	5,248,808
Overprovided in prior years	1,047	11,053
	7,897,012	**5,259,861**
Deferred tax expense		
Origination and reversal of temporary differences	(694,688)	(21,162)
Total income tax expense	**7,202,324**	**5,238,699**

Reconciliation of effective tax rate:

	2018 '000 KZT	%	2017 '000 KZT	%
Profit before tax	**38,213,126**	**100.00**	**30,937,543**	**100.00**
Income tax at the applicable tax rate	7,642,625	20.00	6,187,509	20.00
Current tax expense underprovided in prior years	1,047	-	11,053	0.04
Non-taxable income	(1,117,309)	(2.92)	(1,321,365)	(4.27)
Non-deductible expenses	278,210	0.73	151,111	0.49
Change in unrecognised deferred tax assets	397,751	1.04	210,391	0.68
	7,202,324	**18.85**	**5,238,699**	**16.94**

11 Income tax expense, continued

Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as of 31 December 2018 and 2017.

Deferred tax assets on losses on non-deliverable derivatives are not recognised in these financial statements. Future tax benefits will only be realised if taxable profits from similar financial instruments will be available against which unused tax losses can be utilised and there are no changes to the law and regulations that adversely affect the Bank's ability to claim deductions in future periods. These future tax benefits are not recognised by the Bank due to uncertainties concerning their realisation.

The Bank's applicable tax rate in 2018 is the income tax rate of 20% for Kazakhstan companies (2017: 20%).

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

'000 KZT	Balance 1 January 2018	Recognised in profit or loss	Balance 31 December 2018
Financial instruments at fair value through profit or loss	(84,515)	209,252	124,737
Loans to customers	(476,116)	476,116	-
Property and equipment	(35,820)	(6,550)	(42,370)
Other assets	100,259	15,870	116,129
Tax losses carry forward on non-deliverable derivatives	1,679,811	397,751	2,077,562
Total deferred tax assets	**1,183,619**	**1,092,439**	**2,276,058**
Unrecognised deferred tax asset	(1,679,811)	(397,751)	(2,077,562)
Recognised deferred tax liabilities	**(496,192)**	**694,688**	**198,496**

'000 KZT	Balance 1 January 2017	Recognised in profit or loss	Balance 31 December 2017
Financial instruments at fair value through profit or loss	(100,746)	16,231	(84,515)
Loans to customers	(476,116)	-	(476,116)
Property and equipment	(46,647)	10,827	(35,820)
Other assets	106,155	(5,896)	100,259
Tax losses carry forward on non-deliverable derivatives	1,469,420	210,391	1,679,811
Total deferred tax assets	**952,066**	**231,553**	**1,183,619**
Unrecognised deferred tax asset	(1,469,420)	(210,391)	(1,679,811)
Recognised deferred tax liabilities	**(517,354)**	**21,162**	**(496,192)**

12 Cash and cash equivalents

Cash and cash equivalents at the end of the financial year are composed of the following items:

	2018 '000 KZT	2017 '000 KZT
Placements with the National Bank of the Republic of Kazakhstan	**570,452,876**	**350,863,375**
Placements with banks		
Nostro accounts:		
- rated A+ to A	30,714,047	22,497,977
- rated BBB- to B-	1,524,871	1,094,120
Total placements with banks	**32,238,918**	**23,592,097**
Cash on hand	**-**	324,632
	602,691,794	374,780,104
Loss allowances	(9,195)	**-**
Total cash and cash equivalents	**602,682,599**	**374,780,104**

Ratings are based on Standard and Poor's rating system.

None of the cash and cash equivalents are credit-impaired or past due. All amounts of cash and cash equivalents are included in Stage 1 of the credit risk grade.

Reconciliations from the opening to the closing balances of the loss allowance represented in below table. Comparative amounts for 2017 represent allowance account for credit losses and reflect measurement basis under IAS 39.

	2018		2017
'000 KZT	**Stage 1**	**Total**	**Total**
Cash and cash equivalents			
Balance at 1 January 2018	12,446	12,446	-
Net remeasurement of loss allowance	(6,054)	(6,054)	-
New financial assets originated or purchased	1,945	1,945	-
Foreign exchange and other movements	859	859	-
Balance at 31 December	**9,196**	**9,196**	-

No significant changes in the gross carrying amount of financial instruments during the period that contributed to changes in loss allowance.

Concentration of placements with banks

As at 31 December 2018 the Bank has 1 bank except for the NBRK (2017: 1 bank except for the NBRK) whose balances exceed 10% of equity. The gross value of this balance as at 31 December 2018 is KZT 25,195,580 thousand (2017: KZT 14,741,764 thousand).

Nostro accounts include overnight placement amounting to KZT 32,200,364 thousand as at 31 December 2018 (2017: KZT 23,592,097 thousand) placed with entities of Citigroup Inc.

Minimum reserve requirements of the National Bank of the Republic of Kazakhstan

Minimum reserve requirements are calculated in accordance with regulations issued by the NBRK and should be maintained as average of cash on hand and balances on current account with the NBRK for the four week period calculated as certain minimum level of residents' and non-residents' customer deposits and current accounts balances as well as other bank liabilities. As at 31 December 2018 the minimum reserve requirements equaled KZT 15,481,529 thousand (31 December 2017: KZT 10,540,719 thousand).

13 Placements with banks

	2018 '000 KZT	2017 '000 KZT
Placements with banks with original maturities more than three months		
- rated A- to A	497,408	430,254
- rated B	3,013,027	266
Total placements with banks	**3,510,435**	**430,520**

Ratings are based on Standard and Poor's rating system.

No placements with banks were credit-impaired or past due as at 31 December 2018 (2017: none). All amounts of placements with banks are included in Stage 1 of the credit risk grade.

As at 31 December 2018 the Bank pledged a margin deposit for liabilities on derivative financial instruments of KZT 3,510,435 thousand (31 December 2017: KZT 430,254 thousand).

14 Derivative instruments at fair value through profit or loss

	2018 '000 KZT	2017 '000 KZT
Assets		
Derivative financial instruments		
Forward exchange contracts	644,189	1,001,166
Liabilities		
Derivative financial instruments		
Forward exchange contracts	2,433,936	240,884

The table below summarises, by major currency, the contractual amounts of the Bank's forward exchange contracts outstanding at 31 December 2018 and 2017 with details of the contracted exchange rates and remaining periods to maturity. Foreign currency amounts presented below are translated at rates ruling at the reporting date. The resultant unrealised gains and losses on these unmatured contracts, along with the amounts payable and receivable on the matured but unsettled contracts, have been recognised in profit or loss and in financial instruments at fair value through profit or loss, as appropriate.

14 Derivative instruments at fair value through profit or loss, continued

	Notional amount		Weighted average contracted exchange rates	
	2018 '000 KZT	2017 '000 KZT	2018	2017
Buy USD sell KZT				
Less than three months	28,710,387	37,309,729	379.75	332.64
Between three months and one year	439,951	49,402	356.5	346.16
More then one year	387,875		362.5	
Sell USD buy KZT				
Less than three months	205,489,665	211,906,691	380.78	333.12
Between three months and one year	4,064,080	5,186,593	401.53	359.45
Sell EUR buy KZT				
Less than three months	967,281	556,097	433.24	390.57
Between three months and one year	-	105,036		411.91
Buy EUR sell KZT				
Less than three months	948,017	-	426.7	-
Sell USD buy EUR				
Less than three months	23,859,294	12,572,479	1.15	1.20
Between three months and one year		7,137,080		1.20
Buy USD sell EUR				
Less than three months	1,045,443	2,109,359	1.18	1.21
Between three months and one year		7,284,505		1.20
Buy USD sell RUB				
Less than three months	344,706	1,607,476	66.86	57.67
Between three months and one year		976,891		60.03
Buy KZT sell RUB				
Less than three months	2,555,666	2,221,872	5.5	5.75
Between three months and one year	1,810,216	3,192,769	5.66	5.82
Buy RUB sell USD				
Less than three months	9,609,589	9,119,678	68.42	58.12
Between three months and one year	1,786,304	4,145,852	65.52	59.97
Buy other currencies sell KZT				
Less than three months	197,195	130,616	41.15	39.4
Buy USD sell other currencies				
Between three months and one year	199,822	132,217	8.96	8.37

The following table provides information on the credit quality of foreign currency contracts, which are assets:

	2018 '000 KZT	2017 '000 KZT
Large OECD banks	255,410	534,571
Medium and small Kazakhstan companies	388,779	466,595
	644,189	**1,001,166**

No financial instruments at fair value through profit or loss are past due as at 31 December 2018 (2017: none).

15 Financial assets at fair value through profit or loss

	2018 '000 KZT	2017 '000 KZT
Notes issued by the National Bank of the Republic of Kazakhstan (Country sovereign rating: BBB-)	-	41,867,814
KASE shares	2,200	-
	2,200	**41,867,814**

16 Investment securities

	2018 '000 KZT	2017 '000 KZT
Investment securities at fair value through other comprehensive income (2017: available-for-sale financial assets)		
Bonds issued by the Ministry of Finance of the Republic of Kazakhstan (Country sovereign rating: BBB-)	9,970,545	14,654,501
Notes issued by the National Bank of the Republic of Kazakhstan (Country sovereign rating: BBB-)	-	3,023,144
	9,970,545	**17,677,645**

The credit ratings are presented by reference to the credit ratings of Standard&Poor's credit ratings agency or analogues of similar international agencies. All investment securities are included in Stage 1 of the credit risk grade. None of assets are past due or credit-impaired as at 31 December 2018 (2017: none). None of assets were collateralised as at 31 December 2018 (2017: none).

Analysis of movements in loss allowance

The following tables show reconciliations from the opening to the closing balances of the loss allowance on investment securities at FVOCI.

	2018		2017
'000 KZT	**Stage 1**	**Total**	**Total**
Balance at 1 January 2018	50,236	50,236	-
Net remeasurement of loss allowance	(41,211)	(41,211)	-
Balance at 31 December	**9,025**	**9,025**	-

The above loss allowance is not recognised in the statement of financial position because the carrying amount of debt investment securities at FVOCI is their fair value. During the year amount of KZT 8,061,907 thousands of investment securities matured that contributed to changes in loss allowance.

17 Loans to customers

	2018 '000 KZT	2017 '000 KZT
Loans to large corporates	117,687,607	87,500,040
Loans to retail customers	265,700	335,800
	117,953,307	**87,835,840**
Loss allowances	(81,138)	-
Loans to customers	**117,872,169**	**87,835,840**

Analysis of movements in loss allowance

The following tables reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument.

'000 KZT	2018				2017
Loans to customers (corporates)	**12-month ECL**	**Lifetime ECL not credit-impaired**	**Lifetime ECL credit impaired**	**Total**	**Total**
Balance at 1 January	80,628	-	-	80,628	-
Net remeasurement of loss allowance	(88,346)	-	-	(88,346)	-
New financial assets originated or purchased	80,750	-	-	80,750	-
Foreign exchange and other movements	7,718	-	-	7,718	-
Balance at 31 December	**80,750**	**-**	**-**	**80,750**	**-**

During the period most loans were repaid due to short-term nature of the loans and the amount of KZT 117,687,607 thousand were newly issued. That change in gross amount of loans issued to corporate customers contributed to change in loss allowance.

'000 KZT	2018				2017
Loans to customers (retail customers)	**12-month ECL**	**Lifetime ECL not credit-impaired**	**Lifetime ECL credit impaired**	**Total**	**Total**
Balance at 1 January	536	-	-	536	-
Net remeasurement of loss allowance	(149)	-	-	(149)	-
Balance at 31 December	**387**	**-**	**-**	**387**	**-**

No significant changes in the gross carrying amount of loans issued to retail customers during the period that contributed to changes in loss allowance.

No contractual amount outstanding on financial assets that were written-off during the year ended 31 December 2018 and that are still subject to enforcement activity.

According to Citi Global Credit policy, financial assets are classified according to credit risk classification. This classification is established mainly for the purpose of taking appropriate measures to correct the accepted risks, as well as to assess whether there is objective evidence that certain financial assets are impaired.

17 Loans to customers, continued

(a) Credit quality of loan portfolio, continued

Pass

A Pass facility has no evident weakness, marginal risk or low loss severity and is adequately protected by the obligor's current sound worth and paying capacity of the obligor.

Pass Watch-list

Pass Watch-list is a Citi internal classification. Facilities extended to an obligor should be considered for a Pass Watch-list classification if the facility exhibits potential weaknesses but that potential weakness is mitigated by the current and projected financial and operating strength of the obligor.

Special Mention

A Special Mention asset has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Special Mention assets are not adversely classified and do not expose Citi to sufficient risk to warrant adverse classification.

Substandard

A Substandard facility is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Facilities so classified must have a well-defined weakness, or weaknesses, that jeopardise the liquidation of the debt. They are characterised by the distinct possibility that Citi will sustain some loss if the deficiencies are not corrected.

Substandard facilities have a high probability of payment default, or they have other well-defined weaknesses. They require more intensive supervision by bank management. Substandard facilities are generally characterised by current or expected unprofitable operations, inadequate debt service coverage, inadequate liquidity, or marginal capitalisation. Repayment may depend on collateral or other credit risk mitigating factors. For some Substandard facilities, the likelihood of full collection of interest and principal may be in doubt. Although Substandard facilities in the aggregate will have a distinct potential for loss, an individual asset's loss potential does not have to be distinct for the asset to be classified Substandard.

An exposure that has severe problems such that the full collection of interest and principal is highly questionable.

Nonperforming loans are defined as past due 90+ days.

Doubtful

An exposure classified Doubtful has all the weaknesses inherent in one classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

A Doubtful asset has a high probability of total or substantial loss, but because of specific pending events that may strengthen the facility, its classification as Loss is deferred. Doubtful borrowers are usually in default, lack adequate liquidity or capital, and lack the resources necessary to remain an operating entity. Pending events can include mergers, acquisitions, liquidations, capital injections, the perfection of liens on additional collateral, the valuation of collateral, and refinancing. Generally, pending events should be resolved within a relatively short period and the classifications will be adjusted based on the new information.

17 Loans to customers, continued

(a) Credit quality of loan portfolio, continued

Loss

Facilities classified Loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the facility has absolutely no recovery or salvage value, but rather that this basically worthless asset should be at least partially written-off.

With Loss exposures, the underlying borrowers are often in bankruptcy, have formally suspended debt repayments, or have otherwise ceased normal business operations. Once an asset is classified Loss, there is little prospect of collecting either its principal or interest. When access to collateral, rather than the value of the collateral, is a problem, a less severe classification may be appropriate. However, Citi should not maintain an asset on the balance sheet if realising its value would require long-term litigation or other lengthy recovery efforts. Losses are to be recorded in the period an obligation becomes uncollectible.

The following tables show credit quality analysis:

	2018		2017
’000 KZT	**12-month ECL**	**Total**	**Total**
Loans and advances to customers at amortised cost			
Pass	60,050,684	60,050,684	54,787,379
Pass Watch-list	57,902,623	57,902,623	33,048,461
Special Mention	-	-	-
Substandard	-	-	-
Doubtful	-	-	-
Total	**117,953,307**	**117,953,307**	**87,835,840**
Loss allowance	(81,138)	(81,138)	-
Carrying amount	**117,872,169**	**117,872,169**	**87,835,840**

The Bank has no overdue loans as at 31 December 2018 (2017: nil).

Analysis of collateral

(i) Loans to large corporates

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

31 December 2018 **’000 KZT**	**Loans to customers, carrying amount**	**Fair value of collateral not determined**
Guarantees from related parties	49,401,745	49,401,745
Third party guarantees	30,141,267	30,141,267
No collateral	38,063,845	-
Total loans to large corporates	**117,606,857**	**79,543,012**

31 December 2017 **’000 KZT**	**Loans to customers, carrying amount**	**Fair value of collateral not determined**
Guarantees from related parties	26,895,160	26,895,160
Third party guarantees	25,655,573	25,655,573
No collateral	34,949,307	-
Total loans to large corporates	**87,500,040**	**52,550,733**

17 Loans to customers, continued

(a) Credit quality of loan portfolio, continued

Analysis of collateral, continued

(i) Loans to large corporates, continued

The tables above exclude overcollateralisation.

Third party guarantees are mainly provided by large Kazakhstan state-owned corporations or by headquarters of international corporations operating in Kazakhstan. The recoverability of these loans is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the current value of the collateral does not impact the impairment assessment.

At 31 December 2018, the Bank did not hold any loans to customers for which no loss allowance is recognised because of collateral.

Change in estimates could affect loss allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the loss allowance for loans to corporate customers as at 31 December 2018 would be KZT 1,176,069 thousand lower/higher (31 December 2017: KZT 875,000 thousand) .

(ii) Loans to retail customers

Mortgage loans are secured by the underlying housing real estate.

The following tables provides information on real estate collateral securing mortgage loans:

31 December 2018 **’000 KZT**	**Loans to customers, carrying amount**	**Fair value of collateral – for collateral assessed as of loan inception date**
Real estate	265,313	265,313
Total loans to retail customers	**265,313**	**265,313**

31 December 2017 **’000 KZT**	**Loans to customers, carrying amount**	**Fair value of collateral – for collateral assessed as of loan inception date**
Mortgage	335,800	335,800
Total loans to retail customers	**335,800**	**335,800**

The tables above exclude overcollateralisation.

For certain mortgage loans the Bank updates the appraised values of collateral obtained at inception of the loan to the current values considering the approximate changes in property values. For the remaining mortgage loans the fair value of collateral was estimated at inception of the loans and was not adjusted for subsequent changes to the reporting date.

17 Loans to customers, continued

(b) Industry and geographical analysis of the loan portfolio

Loans and advances to customers are issued primarily to customers located within the Republic of Kazakhstan, who operate in the following economic sectors:

	31 December 2018 ’000 KZT	31 December 2017 ’000 KZT
Trade	52,149,441	44,183,318
Energy and natural resources	30,747,945	-
Finance	23,558,039	20,569,126
Manufacturing	10,141,373	17,648,951
Chemical	768,914	4,279,917
Miscellaneous services	187,620	729,323
Loans to individuals	265,700	335,800
Power supply	-	71,687
Transportation	133,571	17,718
Food production	703	-
	117,953,306	**87,835,840**
Loss allowance	(81,138)	-
Carrying amount	**117,872,169**	**87,835,840**

(c) Significant credit exposures

As at 31 December 2018 the Bank had 3 borrowers (2017: two), whose loan balances exceeded 10% of equity. The gross value of these loans as at 31 December 2018 was KZT 79,282,659 thousand (2017: KZT 43,838,492 thousand).

18 Property, equipment and intangible assets

’000 KZT	Offices and leasehold improvements	Computers	Fixtures and fittings	Vehicles	Computer software	Total
Cost						
Balance at 1 January 2017	**673,153**	**44,322**	**328,013**	**93,306**	**124,316**	**1,263,110**
Additions	-	40,153	1,960	-	-	42,113
Reclassification	-	(833)	833	-	-	-
Disposals	-	(16,443)	(10,640)	(30,669)	(67)	(57,819)
Balance at 31 December 2017	**673,153**	**67,199**	**320,166**	**62,637**	**124,249**	**1,247,404**
Additions	155,446	62,895	139,946	-	-	358,286
Disposals	(59,634)	(9,314)	(69,761)	-	(84)	(138,793)
Balance at 31 December 2018	**768,965**	**120,780**	**390,351**	**62,637**	**124,165**	**1,466,898**
Depreciation						
Balance at 1 January 2017	**(239,078)**	**(31,308)**	**(207,041)**	**(85,154)**	**(112,121)**	**(674,702)**
Depreciation and amortisation charge	(21,208)	(11,346)	(36,567)	(4,726)	(6,367)	(80,214)
Reclassification	-	607	(370)	-	-	237
Disposals	-	16,393	10,640	30,669	67	57,769
Balance at 31 December 2017	**(260,286)**	**(25,654)**	**(233,338)**	**(59,211)**	**(118,421)**	**(696,910)**
Depreciation and amortisation charge	(27,554)	(25,290)	(46,791)	(1,661)	(5,828)	(107,124)
Disposals	56,703	7,372	65,635	-	84	129,794
Balance at 31 December 2018	**(231,137)**	**(43,572)**	**(214,494)**	**(60,872)**	**(124,165)**	**(674,240)**
Net book value at 1 January 2018	**412,867**	**41,545**	**86,828**	**3,426**	**5,828**	**550,494**
Net book value at 31 December 2018	**537,828**	**77,208**	**175,857**	**1,765**	**-**	**792,658**

19 Deposits and balances from banks and other financial institutions

	2018 '000 KZT	2017 '000 KZT
Vostro accounts	18,636,373	10,499,732
Term deposits	22,926,945	3,328,340
	41,563,318	**13,828,072**

Concentration of deposits and balances from banks and other financial institutions

As at 31 December 2018 the Bank has 1 financial institution (2017: none), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2018 is KZT 20,225,473 thousand (2017: nil).

20 Current accounts and deposits from customers

	2018 '000 KZT	2017 '000 KZT
Current accounts and demand deposits		
- Retail	5,834,796	5,534,723
- Corporate	499,950,174	342,659,147
Term deposits		
- Corporate	47,205,692	26,367,612
	552,990,662	**374,561,482**

Concentrations of current accounts and customer deposits

As at 31 December 2018, the Bank had 8 customers (2017: 1 customers) whose balances exceeded 10% of equity. These balances as at 31 December 2018 amount to KZT 164,782,339 thousand (2017: KZT 16,687,354 thousand).

21 Equity

(a) Issued capital

The authorised, issued and outstanding share capital comprises 621 ordinary shares (2017: 621). All shares have a par value of KZT 20,125 thousand. During 2018 the Bank did not issue ordinary shares (2017: nil).

(b) Dividends

In accordance with Kazakhstan legislation the Bank's distributable reserves are limited to the balance of retained earnings as recorded in the Bank's statutory financial statements prepared in accordance with IFRS or profit for the year if there is an accumulated loss brought forward. A distribution cannot be made if this would result in negative equity or the Bank's insolvency. Under Kazakhstan legislation, as at the reporting date, reserves available for distribution amounted to KZT 124,983,997 thousand (2017: KZT 120,271,369 thousand). During 2018 there were dividends declared and paid of KZT 45,894 thousand per share in the total amount of KZT 28,500,000 thousand (2017: KZT 12,800,000 thousand).

In March 2019 the Bank paid dividends of KZT 7,800,000 thousands.

(c) Dynamic reserve

The Dynamic reserve in the total amount of KZT 2,380,583 thousand was cancelled in January 2018 due to deletion of paragraph 1 of Article 43 of the Law of the Republic of Kazakhstan "On Banks and Banking Activity in the Republic of Kazakhstan" dd August 31, 1995, and in accordance with Letter of the National Bank of the Republic of Kazakhstan No. 24-0-18 / 635 dd 27 December 2017. In accordance with Letter of the National Bank of the Republic of Kazakhstan No 11-1-11 / 161 dd 12 February 2018 the dynamic reserve amount was reversed through current year undistributed profit.

22 Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Bank's operations. The major risks faced by the Bank are those related to market risk, which includes price, interest rate and currency risks, credit risk and liquidity risk.

(a) Risk management policies and procedures

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

The Board of Directors of the Bank has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Management Board of the Bank is responsible for monitoring and implementing risk mitigation measures, and ensuring that the Bank operates within established risk parameters.

Credit, market and liquidity risks, both at the portfolio and transactional levels, are managed and controlled through a Credit Committee and an Asset and Liability Management Committee (ALCO).

Both external and internal risk factors are identified and managed throughout the organisation. Particular attention is given to identifying the full range of risk factors and determining the level of assurance over current risk mitigation procedures.

The Bank calculates mandatory ratios on a daily basis in accordance with the requirement of the NBRK. As at 31 December 2018 and 2017 the mandatory ratios were in compliance with limits set by the NBRK.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices and foreign currency rates.

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

Overall authority for market risk is vested in the ALCO, which is chaired by the President. Market risk limits are approved by the ALCO, based on recommendations of the Risk Department.

The Bank manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits. These are monitored on a regular basis and reviewed and approved by the Management Board. In addition, the Bank uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Bank's overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by the Bank include: risk factor stress testing, where stress movements are applied to each risk category and ad hoc stress testing, which includes applying possible stress events to specific positions.

(i) Interest rate risk

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

22 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major financial instruments is as follows:

'000 KZT	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Total
31 December 2018							
ASSETS							
Cash and cash equivalents	149,762,121	-	-	-	-	452,920,478	602,682,599
Placements with banks	497,408	-	-	-	-	3,013,027	3,510,435
Loans to customers	105,209,381	8,258,147	-	4,404,641	-	-	117,872,169
Investment securities	-	-	4,491,118	5,479,427	-	-	9,970,545
	255,468,910	**8,258,147**	**4,491,118**	**9,884,068**	**-**	**455,933,505**	**734,035,748**
LIABILITIES							
Deposits and balances from banks and other financial institutions	22,907,326	-	-	-	-	18,655,993	41,563,319
Current accounts and deposits from customers	45,677,707	-	-	-	-	507,312,954	552,990,661
	68,585,033	**-**	**-**	**-**	**-**	**525,968,947**	**594,553,980**
	186,883,877	**8,258,147**	**4,491,118**	**9,884,068**	**-**	**(70,035,442)**	**139,481,768**

'000 KZT	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Total
31 December 2017							
ASSETS							
Cash and cash equivalents	5,003,854	-	-	-	-	369,776,250	374,780,104
Placements with banks	430,254	-	-	-	-	266	430,520
Financial assets at fair value through profit or loss	41,867,813	-	-	-	-	-	41,867,813
Loans to customers	67,967,724	19,868,116	-	-	-	-	87,835,840
Investment securities	3,023,144	885,683	4,054,356	9,714,463	-	-	17,677,646
	118,292,789	**20,753,799**	**4,054,356**	**9,714,463**	**-**	**369,776,516**	**522,591,923**
LIABILITIES							
Deposits and balances from banks and other financial institutions	3,300,372	-	-	-	-	10,527,700	13,828,072
Current accounts and deposits from customers	97,840,490	-	-	-	-	276,720,992	374,561,482
	101,140,862	**-**	**-**	**-**	**-**	**287,248,692**	**388,389,554**
	17,151,927	**20,753,799**	**4,054,356**	**9,714,463**	**-**	**82,527,824**	**134,202,369**

22 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2018 and 2017.

	2018 Average effective interest rate, %			2017 Average effective interest rate, %		
	KZT	USD	Other currencies	KZT	USD	Other currencies
Interest bearing assets						
Cash and cash equivalents	8.25	2.75	0.07	9.25	-	-
Placements with banks	-	2.40	-	-	1.33	-
Financial assets at fair value through profit or loss	-	-	-	5.51	-	-
Loans to customers	11.27	5.12	-	11.41	4.16	3.50
Investment securities	7.27	-		6.15	-	-
Interest bearing liabilities						
Deposits and balances from banks and other financial institutions						
- Term deposits	7.75	2.42	-	6.80	-	-
Current accounts and deposits from customers						
- Current accounts and demand deposits				4.44	0.12	3.88
- Term deposits	4.29	0.08	0.50	4.31	0.02	0.50

The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

Interest rate sensitivity analysis

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

	31 December 2018		31 December 2017	
	Net income	Equity	Net income	Equity
100 bp parallel increase	1,358,476	1,358,476	231,941	231,941
100 bp parallel decrease	(1,358,476)	(1,358,476)	(231,941)	(231,941)

Fair value interest rate sensitivity analysis

An analysis of the sensitivity of net profit or loss and equity as a result of changes in the fair value of financial instruments at fair value though profit or loss and financial assets available-for-sale due to changes in the interest rates, based on positions existing as at 31 December 2018 and 2017 and a simplified scenario of a 100 bp symmetrical fall or rise in all yield curves, is as follows:

	31 December 2018		31 December 2017	
	Net income	Equity	Net income	Equity
100 bp parallel increase	-	(128,304)	-	(266,762)
100 bp parallel decrease	-	124,087	-	247,211

22 Risk management, continued

(b) Market risk, continued

(ii) Currency risk

The Bank has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. For further information on the Bank's exposure to currency risk at year end refer to Note 28.

An analysis of sensitivity of the Bank's net income for the year and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2018 and 2017 and a simplified scenario of a +/-20% change in USD and other currencies to Kazakhstan Tenge exchange rates is as follows:

	2018		2017	
	Net income	**Equity**	**Net income**	**Equity**
20% appreciation of USD against KZT (2017: 20%)	(917,586)	(917,586)	895,789	895,789
20% depreciation of USD against KZT (2017: 20%)	917,586	917,586	(895,789)	(895,789)
20% appreciation of other currencies against KZT (2017: 20%)	(31,128)	(31,128)	6,764	6,764
20% depreciation of other currencies against KZT (2017: 20%)	31,128	31,128	(6,764)	(6,764)

(c) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Bank has policies and procedures in place to manage credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration and the establishment of a Credit Committee to actively monitor credit risk. The Bank's credit policy is reviewed and approved by the Board of Directors.

The credit policy establishes:

- procedures for reviewing and approving loan credit applications;
- methodology for the credit assessment of corporate borrowers and/or issuers;
- methodology for the credit assessment of counterparties;
- methodology for the evaluation of collateral;
- credit documentation requirements.

Credit approval requests are originated by the relevant client managers and are then passed for approval to the Credit Committee in form of Credit Package. Client manager collects inputs from Credit Risk, Legal and Compliance to form the credit package. The Credit Committee reviews the Credit Approval requests on the basis of submissions by the Corporate Business.

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank.

Apart from individual customer analysis, the credit portfolio is assessed by the Risk Department with regard to credit concentration risk.

22 Risk management, continued

(c) Credit risk, continued

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the statement of financial position and unrecognised contractual commitment amounts and pre-settlement value of derivative transactions. The impact of the possible netting of assets and liabilities to reduce potential credit exposure is not significant. The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in Note 24.

The Bank monitors concentrations of credit risk by type of obligors and by industry/sector. For the analysis of concentration of credit risk in respect of loans and advances to customers refer to Note 17 “Loans to customers”.

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

	2018 ’000 KZT	2017 ’000 KZT
ASSETS		
Cash and cash equivalents	602,682,599	374,455,472
Loans to customers	117,872,169	87,835,840
Investment securities	9,970,545	17,677,645
Financial instruments at fair value through profit or loss	644,189	1,001,166
Placements with banks	3,510,435	430,520
Financial assets at fair value through profit or loss	-	41,867,814
Total maximum exposure	**734,679,937**	**523,268,457**

(d) Offsetting financial assets and financial liabilities

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

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

Similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements, and securities borrowing and lending agreements. Financial instruments such as loans and deposits are not disclosed in the table below, unless they are offset in the statement of financial position.

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

The Bank receives and accepts collateral in the form of cash and marketable securities in respect of the following transactions:

- derivatives;
- sale and repurchase, and reverse sale and repurchase agreements, and
- securities lending and borrowing.

Such collateral is subject to the standard industry terms of the International Derivative Swaps and Dealers Association (ISDA) Credit Support Annex. This means that securities received/given as collateral can be pledged or sold during the term of the transaction, but must be returned on maturity of the transaction. The terms also give each counterparty the right to terminate the related transactions upon the counterparty’s failure to post collateral.

22 Risk management, continued

(d) Offsetting financial assets and financial liabilities, continued

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

’000 KZT

Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability	Gross amount of recognised financial liability/asset offset in the statement of financial position	Net amount of financial assets/liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position Financial instruments	Net amount
Derivative instruments at fair value through profit or loss - assets	644,189	-	644,189	(644,189)	-
Derivative instruments at fair value through profit or loss - liabilities	(2,433,937)	-	(2,433,937)	2,433,937	-

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

’000 KZT

Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability	Gross amount of recognised financial liability/asset offset in the statement of financial position	Net amount of financial assets/liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position Financial instruments	Net amount
Derivative instruments at fair value through profit or loss – assets	1,001,166	-	1,001,166	(1,001,166)	
Derivative instruments at fair value through profit or loss - liabilities	(240,883)	-	(240,883)	240,883	-

22 Risk management, continued

(d) Offsetting financial assets and financial liabilities, continued

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

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

The amounts in the above tables that are offset in the statement of financial position are measured on the same basis.

(e) Liquidity risk

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

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

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

The liquidity management policy requires:

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

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

22 Risk management, continued

(e) Liquidity risk, continued

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions, is performed by the Treasury Department. Under normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a weekly basis. Decisions on liquidity management are made by the Asset and Liability Management Committee (ALCO) and implemented by the Treasury Department.

The Bank also calculates mandatory liquidity ratios on a daily basis in accordance with the requirements of the NBRK. The Bank was in compliance with these ratios as at 31 December 2018 and 2017.

To manage the liquidity risk arising from financial liabilities, the Bank holds liquid assets comprising cash and cash equivalents, short-term state securities for which there is a liquid market. These assets can be readily sold to meet liquidity requirements. Hence, the Bank believes that it is not necessary to disclose a maturity analysis in respect of these assets to enable users to evaluate the nature and extent of liquidity risk.

In accordance with Kazakhstan legislation, depositors can withdraw their term deposits at any time, losing in most of the cases the accrued interest. These deposits are classified in accordance with their stated maturity dates.

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

The following tables show the undiscounted cash flows of non-derivative financial liabilities, including issued financial guarantee contracts, and unrecognised loan commitments on the basis of their earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called. The total gross amount (inflow)/ outflow disclosed in the table is the contractual, undiscounted cash flow on the financial liability. The Bank’s expected cash flows on these financial liabilities may vary significantly from this analysis.

22 Risk management, continued

(e) Liquidity risk, continued

The table below shows an analysis, by contractual maturities, of undiscounted liabilities recognised in the statement of financial position as at 31 December 2018:

’000 KZT	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks and other financial institutions	41,563,319	-	-	-	-	41,563,319	41,563,319
Current accounts and deposits from customers	552,990,662	-	-	-	-	552,990,662	552,990,662
Other liabilities	1,192,156	-	-	-	-	1,192,156	1,192,156
Derivatives							
- Inflow	(264,983,490)	(9,521,362)	(4,867,095)	(3,246,632)	(411,094)	(283,029,673)	(644,189)
- Outflow	266,762,153	9,475,446	4,818,456	3,155,212	387,875	284,599,142	2,433,937
Total	**597,524,800**	**(45,916)**	**(48,639)**	**(91,420)**	**(23,219)**	**597,315,606**	**597,535,885**
Credit related commitments	**348,021,624**	-	-	-	-	**348,021,624**	**-**

The table below shows an analysis, by contractual maturities, of undiscounted liabilities recognised in the statement of financial position as at 31 December 2017:

’000 KZT	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks and other financial institutions	13,828,072	-	-	-	-	13,828,072	13,828,072
Current accounts and deposits from customers	374,561,483	-	-	-	-	374,561,483	374,561,483
Other liabilities	2,669,882	-	-	-	-	2,669,882	2,669,882
Derivatives					-		
- Inflow	(268,442,025)	(9,090,433)	(20,455,923)	(7,214,226)	-	(305,202,607)	(1,001,166)
- Outflow	268,040,240	8,943,913	20,232,267	6,881,488	-	304,097,908	240,883
Total	**390,657,652**	**(146,520)**	**(223,656)**	**(332,738)**	**-**	**389,954,738**	**390,299,154**
Credit related commitments	**279,726,767**	**-**	**-**	**-**	**-**	**279,726,767**	**-**

23 Capital management

The NBRK sets and monitors capital requirements for the Bank.

The Bank defines as capital the following items defined by statutory regulation as capital for banks:

- Tier 1 capital, which is comprised of common equity and additional capital. Common equity comprises a share capital in the form of ordinary shares, additional paid-in capital, retained earnings of current year and prior periods and provisions less ordinary treasury shares, intangible assets including goodwill, current year and prior period losses, deferred tax asset less deferred tax liability and other revaluation reserves. Additional capital comprises perpetual financial instruments and paid-in preferred stock less adjustments for the Bank's investments in its own perpetual financial instruments and preferred treasury stock;
- Tier 2 capital, which comprises the subordinated debt denominated in the national currency, less investments in the subordinated debt of the financial organisations, in which the Bank owns 10% and more of the issued shares (interests in the charter capital) of a legal entity.

The equity is the sum of tier 1 capital, tier 2 capital minus 33.33 % of the positive differences between reserves calculated in accordance with the Guidelines for the formation of provisions for the depreciation of bank assets in the form of loans and receivables in accordance with Appendix 1 NBRK Management Board decree #170 dated 13 September 2017 and reserves calculated and reflected in the accounting records in accordance with IFRS (hereinafter – The positive difference).

Various further limits and qualifying criteria are applied to the above elements of the capital base.

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

- a ratio of common equity to the sum of assets and contingent liabilities, financial derivatives weighted by the level of credit risk, assets, contingent assets and liabilities, calculated based on the market risk and a quantitative measure of operational risk (k1);
- a ratio of tier 1 capital to the sum of assets and contingent liabilities, financial derivatives weighted by the level of credit risk, assets, contingent assets and liabilities, calculated based on the market risk and a quantitative measure of operational risk (k1-2);
- a ratio of total capital to the sum of assets and contingent liabilities, financial derivatives weighted by the level of credit risk, assets, contingent assets and liabilities, calculated based on the market risk and a quantitative measure of operational risk (k2).

As at 31 December 2018, the minimum level of ratios as applicable to the Bank are as follows:

- k1 – 5,5%;
- k1-2 – 6,5%;
- k2 – 8%.

The Bank has complied with all externally imposed capital requirements as at 31 December 2018 and 2017.

23 Capital management, continued

The following table shows the composition of the Bank's capital position calculated in accordance with the NBRK Management Board decree #170 dated 13 September 2017, as at 31 December 2018 and 31 December 2017:

	2018 '000 KZT	2017 '000 KZT
Common equity	137,575,649	135,109,133
Tier 1 capital	137,575,649	135,109,133
The positive difference	(877,530)	(755,033)
Total statutory equity	**136,698,119**	**134,354,100**
Risk-weighed statutory assets, contingent liabilities, operational and market risks		
Risk-weighted statutory assets	102,426,110	71,015,625
Risk-weighted contingent liabilities	84,409,337	47,773,578
Risk weighted derivative financial instruments	2,768,771	3,487,927
Operational risk	38,892,640	33,888,852
Market risk	5,738,406	5,598,925
Total statutory risk weighted assets, contingent liabilities, operational and market risk	**234,235,264**	**161,764,907**
k1 ratio	**58.70%**	**83.50%**
k1-2 ratio	**58.70%**	**83.50%**
k2 ratio	**58.40%**	**83.10%**

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

24 Credit related commitments

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

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

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

The contractual amounts of credit related commitments are set out in the following table by category. The amounts reflected in the table for credit related commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

	2018 '000 KZT	2017 '000 KZT
Contracted amount		
Undrawn facilities	264,911,454	232,551,114
Guarantees and letters of credit	83,110,169	47,175,652
	348,021,623	**279,726,766**

24 Credit related commitments, continued

The total outstanding contractual credit related commitments above do not necessarily represent future cash requirements, as these credit related commitments may expire or terminate without being funded. The majority of loan and credit line commitments do not represent an unconditional commitment by the Bank.

The following tables show credit quality analysis:

	2018		2017
’000 KZT	**Stage 1**	**Total**	**Total**
Guarantees and letters of credit			
Pass	22,773,792	22,773,792	11,695,283
Pass Watch-list	58,488,214	58,488,214	33,180,655
Special Mention	1,848,163	1,848,163	2,299,714
Balance at 31 December	**83,110,169**	**83,110,169**	**47,175,652**

Reconciliations from the opening to the closing balances of the loss allowance represented in below table.

	2018				2017
’000 KZT	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Balance at 1 January 2018	34,908	-	-	34,908	-
Net remeasurement of loss allowance	(36,822)	-	-	(36,822)	-
New financial assets originated or purchased	44,821	-	-	44,821	-
Foreign exchange and other movements	5,270	-	-	5,270	-
Balance at 31 December	**48,178**	**-**	**-**	**48,178**	**-**

25 Contingencies

(a) Insurance

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

(b) Litigation

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

(c) Taxation contingencies

The taxation system in the Republic of Kazakhstan continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities who have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the five subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Republic of Kazakhstan suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

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

26 Custody activities

The Bank provides custody services to its customers, whereby it holds securities on behalf of customers and receives fee income for providing these services. These securities are not assets of the Bank and are not recognised in the statement of financial position.

27 Related party transactions

(a) Control relationships

The Bank is wholly-owned by the Shareholder Bank which is ultimately owned by Citigroup Inc., a public company listed on several stock exchanges. Both entities produce publicly available financial statements.

Related parties include the Parent as well as other Citigroup entities, members of the Board of Directors and members of the Management Board.

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

Total remuneration included in employee compensation (refer Note 10):

	2018 ’000 KZT	**2017 ’000 KZT**
Members of the Management Board	396,984	346,212
Members of the Board of Directors	195,711	197,675
	592,695	**543,887**

The above amounts include non-cash benefits in respect of the Management Board.

The outstanding balances and average interest rates as at 31 December 2018 and 2017 for transaction with the members of the Board of Directors and the management Board are as follows:

	2018 ’000 KZT	**Average interest rate, %**	**2017 ’000 KZT**	**Average interest rate, %**
Separate statement of financial position				
ASSETS				
Loans to customers	53,975	6.25	60,773	7.25
LIABILITIES				
Current accounts and deposits from customers	12,873	-	15,802	4

Amounts included in profit or loss in relation to transactions with the members of the Board of Directors and the Management Board for the years ended 31 December 2018 and 2017 are as follows:

	2018 ’000 KZT	**2017 ’000 KZT**
Profit or loss		
Interest income calculated using the effective interest method	3,686	4,068
Interest expense	-	(44)

27 Related party transactions, continued

(c) Transactions with other related parties

The outstanding balances and the related average interest rates as of 31 December 2018 and 31 December 2017 and related income statement amounts of transactions for the year ended 31 December 2018 and 2017 with other related parties were as follows.

	The Shareholder Bank				Other Citigroup entities				Total	
	’000 KZT		Average Interest Rate, %		’000 KZT		Average Interest Rate, %		’000 KZT	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Statement of Financial Position										
Assets										
Cash and cash equivalents	29,364,313	22,497,977	1.85	1.10	2,836,051	1,094,120		-	**32,200,264**	**23,592,097**
Placements with banks	497,408	430,254	2.4	1.33		-		-	**497,408**	**430,254**
Financial instruments at fair value through profit or loss	255,410	534,571	-	-		-		-	**255,410**	**534,571**
Other assets	2,224	1,010	-	-	6,703	6,103		-	**8,927**	**7,113**
Liabilities										
Current accounts and deposits from customers	-	-	-	-	890	394,879		-	**890**	**394,879**
Deposits and balances from banks and other financial institutions	20,229,602	97,396	2.30	-	3,932,406	2,450,996		-	**24,162,008**	**2,548,392**
Financial instruments at fair value through profit or loss	1,950,749	132,115	-	-	-	-		-	**1,950,749**	**132,115**
Other liabilities	479	20,547	-	-	4,378	21,669		-	**4,857**	**42,216**
Items not recognised in the statement of financial position										
Guarantees granted	384,079	467,007			99,385	2,286			**483,464**	**469,293**
Guarantees received	3,458	197,128			154,878,197	102,027,596			**154,881,655**	**102,224,724**
Commitments to buy foreign currency	56,280,148	73,369,784			-	-			**56,280,148**	**73,369,784**
Commitments to sell foreign currency	200,636,887	169,182,650			-	-			**200,636,887**	**169,182,650**

27 Related party transactions, continued

(c) Transactions with other related parties, continued

As at 31 December 2018 financial instruments at fair value through profit or loss represent deliverable forward agreements to buy KZT and sell USD in the amount of KZT 133,800,000 thousand and USD 350,859 thousand, respectively, with terms up to 6 days (31 December 2017: deliverable forward on buy KZT and sell USD in the amount of KZT 132,000,000 thousand and USD 396,050 thousand with terms up to 5 days).

As at 31 December 2018 guarantees granted were provided for period of 3.37 to 109.80 months with applied minimum fee of USD 500 and USD 1000 (31 December 2017: period from 0.1 to 97.63 months at annual interest rate of 1% to 2%).

As at 31 December 2018 the guarantees received were provided for a period of 4.4 to 36.83 months at annual interest rate of 0.15% (31 December 2017: period from 0.8 till 43.47 months at annual interest rate 0.25%).

'000 KZT	The Shareholder Bank		Other Citigroup entities		Total	
	2018	2017	2018	2017	2018	2017
Statement of Profit or Loss and Other Comprehensive Income						
Interest income calculated using the effective interest method	1,645,703	824,798	8	-	**1,645,711**	**824,798**
Interest expense	(3,623)	-	(5,153)	-	**(8,775)**	**-**
Net (loss) on derivative financial instruments	(3,890,632)	(139,570)	(1,004,649)	496,557	**(4,895,281)**	**356,987**
Fee and commission income	66,293	157,464	499,558	680,996	**565,851**	**838,460**
Fee and commission expense	(237,527)	(301,398)	(83,186)	(3,760)	**(320,713)**	**(305,158)**
General administrative expenses	(1,477,367)	(889,157)	(2,891,767)	(2,553,008)	**(4,369,134)**	**(3,442,165)**
Net foreign exchange gain	(1,882,300)	11,076,176	1,745,350	(245,013)	**(136,950)**	**10,831,164**
Other operating income/ (expenses)	2,336,336	733,816	864,018	316,335	**3,200,354**	**1,050,152**

28 Fair value of financial instruments

The estimated fair values of all financial instruments approximate their carrying values at 31 December 2018 and 2017.

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

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

28 Fair value of financial instruments, continued

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

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

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

Fair value hierarchy

For more complex instruments, the Bank uses proprietary valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Example of instruments involving significant unobservable inputs include certain loans and securities for which there is no active market, and certain over the counter structured derivatives.

The Bank measures fair values for financial instruments recorded on the statement of financial position using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: inputs other than quotes prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument’s valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Bank has a control framework with respect to the measurement of fair values. This framework includes a Product Control function, which is independent of front office management and which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements. Specific controls include:

- verification of observable pricing;
- re-performance of model valuations;
- a review and approval process for new models and changes to models;
- quarterly calibration and back testing of models against observed market transactions;
- analysis and investigation of significant daily valuation movements;
- review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared to previous month.

28 Fair value of financial instruments, continued

Where third-party information, such as broker quotes or pricing services, are used to measure fair value, Product Control assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS. This includes:

- verifying that the broker or pricing service is approved by the Bank for use in pricing the relevant type of financial instrument;
- understanding how the fair value has been arrived at the extent to which it represents actual market transactions;
- when prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement;
- where a number of quotes for the same financial instrument have been obtained, how fair value has been determined using those quotes.

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

’000 KZT	**Level 2**
ASSETS	
Financial assets at fair value through other comprehensive income	9,970,545
Derivative instruments at fair value through profit or loss	644,189
Financial assets at fair value through profit or loss	2,200
LIABILITIES	
Financial instruments at fair value through profit or loss	(2,433,937)

The table below analyses financial instruments measured at fair value at 31 December 2017 by the level in the fair value hierarchy into which the fair value measurement is categorised:

’000 KZT	**Level 2**
ASSETS	
Financial assets at fair value through profit or loss	41,867,814
Investment securities	17,677,645
Derivative instruments at fair value through profit or loss	1,001,166
	41,867,814
LIABILITIES	
Financial instruments at fair value through profit or loss	(240,883)

For the rest of financial instruments, not measured at fair value, estimated fair values approximate their carrying values due to their short-term nature or market interest rates at period end as determined by reference to inputs from observable market data.

29 Currency analysis

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

’000 KZT	KZT	USD	Other currencies	Total
Assets				
Cash and cash equivalents	131,308,325	464,369,490	7,004,783	602,682,598
Placements with banks	3,013,027	497,408	-	3,510,435
Financial instruments at fair value through profit or loss	644,189	-	-	644,189
Loans to customers	45,990,882	71,881,286	-	117,872,168
Financial assets at fair value through profit or loss	2,200			2,200
Investment securities	9,970,545	-	-	9,970,545
Property, equipment and intangible assets	792,658	-	-	792,658
Deferred tax asset	198,496	-	-	198,496
Other assets	268,106	76,449	625	345,180
Total assets	**192,188,428**	**536,824,633**	**7,005,408**	**736,018,469**
Liabilities				
Financial instruments at fair value through profit or loss	2,433,936	-	-	2,433,936
Deposits and balances from banks and other financial institutions	21,561,483	19,888,087	113,749	41,563,319
Current accounts and deposits from customers	220,614,901	295,698,834	36,676,927	552,990,662
Current tax liability	253,725	-	-	253,725
Other liabilities	1,053,023	133,609	5,525	1,192,157
Total liabilities	**245,917,068**	**315,720,530**	**36,796,201**	**598,433,799**
Net position as at 31 December 2018	**(53,728,640)**	**221,104,103**	**(29,790,793)**	**137,584,670**
The effect of derivatives held for risk management purposes	184,203,482	(215,369,193)	29,596,241	(1,569,470)
Net position after derivatives held for risk management purposes as at 31 December 2018	**130,474,842**	**5,734,910**	**(194,552)**	**136,015,200**

29 Currency analysis, continued

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

’000 KZT	KZT	USD	Other currencies	Total
Assets				
Cash and cash equivalents	15,944,244	349,970,553	8,865,307	374,780,104
Placements with banks	-	430,520	-	430,520
Financial instruments at fair value through profit or loss	1,001,166	-	-	1,001,166
Financial assets at fair value through profit or loss	41,867,813	-	-	41,867,813
Loans to customers	38,434,731	46,056,124	3,344,985	87,835,840
Investment securities	17,677,645	-	-	17,677,645
Property, equipment and intangible assets	550,494	-	-	550,494
Current tax assets	2,541,035	-	-	2,541,035
Other assets	154,079	72,186	589	226,854
Total assets	**118,171,207**	**396,529,383**	**12,210,881**	**526,911,471**
Liabilities				
Financial instruments at fair value through profit or loss	240,883	-	-	240,883
Deposits and balances from banks and other financial institutions	13,155,876	423,554	248,642	13,828,072
Current accounts and deposits from customers	145,580,055	201,727,802	27,253,625	374,561,482
Deferred tax liability	496,192	-	-	496,192
Other liabilities	2,601,448	68,433	-	2,669,881
Total liabilities	**162,074,454**	**202,219,789**	**27,502,267**	**391,796,510**
Net position as at 31 December 2017	**(43,903,247)**	**194,309,594**	**(15,291,386)**	**135,114,961**
The effect of derivatives held for risk management purposes	185,679,311	(199,908,273)	15,333,661	1,104,699
Net position after derivatives held for risk management purposes as at 31 December 2017	**141,776,064**	**(5,598,679)**	**42,275**	**136,219,660**