Citibank Kazakhstan JSC

Financial Statements
for the year ended
31 December 2019

«КПМГ Аудит» жауапкершілігі шектеулі серіктестік
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Independent Auditors' Report

To the Shareholder 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 2019, 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 2019, 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 Code of Ethics for Professional Accountants (including International Independence Standards) 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 International Code of Ethics. 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.

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. MФ-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 2020

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	Note	2019 '000 KZT	2018 '000 KZT
Interest income calculated using the effective interest method	4	22,029,058	18,042,246
Other interest income	4	1,042,383	1,170,784
Interest expense	4	(4,892,285)	(5,555,501)
Net interest income		**18,179,156**	**13,657,529**
Fee and commission income	5	4,026,423	4,270,682
Fee and commission expense	6	(964,077)	(1,248,523)
Net fee and commission income		**3,062,346**	**3,022,159**
Net foreign exchange gain	7	23,462,576	28,891,884
Net gain/(loss) on derivative financial instruments		2,728,341	(1,337,893)
Net loss on financial assets at fair value through profit or loss		-	(182,701)
Net realised loss on investment securities		(123,215)	-
Other operating income, net		1,627,321	3,329,624
Operating income		**48,936,525**	**47,380,602**
Impairment recovery on debt financial assets and credit related commitments	8	19,823	45,077
General administrative expenses	9	(8,997,776)	(9,212,554)
Profit before taxes		**39,958,572**	**38,213,125**
Income tax expense	10	(6,415,906)	(7,202,324)
Profit for the year		**33,542,666**	**31,010,801**
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		(90,047)	128,643
- Net change in expected credit losses		15,623	(41,211)
Other comprehensive income for the year		**(74,424)**	**87,432**
Total comprehensive income for the year		**33,468,242**	**31,098,233**

These financial statements as set out on pages 6 to 55 were approved by Management and 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	2019 '000 KZT	2018 '000 KZT
ASSETS			
Cash and cash equivalents	11	699,593,218	602,682,599
Placements with banks	12	1,409,130	3,510,435
Derivative instruments at fair value through profit or loss	13	534,348	644,189
Financial assets at fair value through profit or loss		2,200	2,200
Investment securities	14	36,502,351	9,970,545
Loans to customers	15	82,408,064	117,872,169
Property, equipment and intangible assets	16	1,078,683	792,658
Current tax assets		1,477,337	-
Deferred tax asset		20,124	198,496
Other assets		314,223	345,180
Total assets		**823,339,678**	**736,018,471**
LIABILITIES			
Derivative instruments at fair value through profit or loss	13	182,802	2,433,937
Deposits and balances from banks and other financial institutions	17	19,869,296	41,563,318
Current accounts and deposits from customers	18	678,673,282	552,990,662
Current tax liability		-	253,725
Other liabilities		1,661,382	1,192,155
Total liabilities		**700,386,762**	**598,433,797**
EQUITY			
Share capital	19	12,497,625	12,497,625
Additional paid-in capital		61,975	61,975
Fair value reserve		(33,347)	41,077
Retained earnings		110,426,663	124,983,997
Total equity		**122,952,916**	**137,584,674**
Total liabilities and equity		**823,339,678**	**736,018,471**

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

	2019 '000 KZT	2018 '000 KZT
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	22,692,698	19,384,672
Interest payments	(5,012,093)	(5,640,876)
Fee and commission receipts	4,038,589	4,247,998
Fee and commission payments	(951,750)	(1,241,174)
Net receipts from foreign exchange and derivatives	24,511,578	4,511,305
Net loss/(gain) on financial assets at fair value through profit or loss	(51,710)	203,956
Other receipts	1,795,711	3,274,101
General administrative payments	(9,150,774)	(9,101,927)
Decrease/(increase) in operating assets		
Financial assets at fair value through profit or loss	-	41,867,814
Placements with banks	2,099,221	(3,012,760)
Loans to customers	34,918,305	(23,563,153)
Other assets	30,245	(42,657)
Increase/(decrease) in operating liabilities		
Deposits and balances from banks and other financial institutions	(21,658,144)	27,218,898
Current accounts and deposits from customers	130,763,903	126,932,858
Other liabilities	307,947	(1,477,593)
Net cash from operating activities before income tax paid	**184,333,726**	**183,561,462**
Income tax paid	(7,702,348)	(5,114,775)
Cash flows from operating activities	**176,631,378**	**178,446,687**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(412,142,385)	(211,629,013)
Sales and redemption of investment securities	385,567,199	219,171,946
Purchases of property, equipment and intangible assets	(222,040)	(358,286)
Sales of property, equipment and intangible assets	18,850	5,678
Cash flows (used in)/from investing activities	**(26,778,376)**	**7,190,325**
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(48,100,000)	(28,500,000)
Cash flows used in financing activities	**(48,100,000)**	**(28,500,000)**
Net increase in cash and cash equivalents	**101,753,002**	**157,137,012**
Effect of changes in exchange rates on cash and cash equivalents	(4,842,383)	70,777,929
Cash and cash equivalents at 31 December 2018	602,682,599	374,767,658
Cash and cash equivalents at 31 December 2019 (Note 11)	**699,593,218**	**602,682,599**

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 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	**-**	**-**	**-**	**87,432**	**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**
Balance at 1 January 2019	12,497,625	61,975	-	41,077	124,983,997	137,584,674
Profit for the year	-	-	-	-	33,542,666	33,542,666
Other comprehensive income						
Items that are or may be reclassified subsequently to profit or loss:						
-Net change in fair value	-	-	-	(90,047)	-	(90,047)
-Net change in expected credit losses	-	-	-	15,623	-	15,623
Total other comprehensive income	**-**	**-**	**-**	**(74,424)**	**-**	**(74,424)**
Total comprehensive income for the year	**-**	**-**	**-**	**(74,424)**	**33,542,666**	**33,468,242**
Transactions with owners, recorded directly in equity						
Dividends declared and paid (Note 21)	-	-	-	-	(48,100,000)	(48,100,000)
Balance at 31 December 2019	**12,497,625**	**61,975**	**-**	**(33,347)**	**110,426,663**	**122,952,916**

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 February 2020. 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. In addition, the first months of 2020 have seen significant global market turmoil triggered by the outbreak of the coronavirus. Together with other factors, this has resulted in a sharp decrease in the oil price and the stock market indices, as well as a continuing depreciation of the Kazakhstan Tenge. These developments are further increasing the level of uncertainty in the Kazakhstan business environment.

These measures can significantly affect the Bank's operations and financial results in a manner not currently determinable. The financial results of the Bank mainly depend on the credit quality of customers and counterparties, as well as on the volatility of the financial markets as a whole. The Bank is closely monitoring the development of the situation on the world and Kazakhstani markets in order to minimize negative consequences. The Bank monitors liquidity on a daily basis as part of the operational and strategic management of liquidity risk in order to ensure compliance with prudential liquidity ratios, match the actual volume of liquid assets to their required level, as well as ensure long-term liquidity safety.

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 16 *Leases* has been applied. The related changes to significant accounting policies are described in Note 3 (q).

(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.

(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.

(e) Changes in accounting policies and presentation

IFRS 16 *Leases*

The Bank initially applied IFRS 16 Leases from 1 January 2019.

The Bank applied IFRS 16 using the modified retrospective approach. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

IFRS 16 replaces existing leases guidance including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases - Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The Bank has analysed the requirements of IFRS 16 and concluded that the standard has no significant impact on the financial statements of the Bank. However, the Bank applies IFRS 16 *Leases*, and there are changes in accounting policies due to adopting new standard from 1 January 2019. The details of the changes in accounting policies are further disclosed in Note 3(q).

A number of other new interpretations and amendments to the existing standards, as IFRIC 23 *Uncertainty over Income tax*, are also effective from 1 January 2019 but they do not have a material effect on the Bank's financial statements, except those described above.

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

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.

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.

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.

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(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.

(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, 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/(loss) on financial assets at FVTPL

'Net gain/(loss) 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.

(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 2019 and 2018 were as follows:

Currency	**2019**	**2018**
1 United States Dollar	382.59	384.20
1 Euro	429.00	439.37

(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

(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 and equity financial assets designated at FVOCI at initial recognition.

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.

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 FVTPL) 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 at FVTPL) 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 both to 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.

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.

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 FVTPL 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.

<u>*Financial Liabilities*</u>

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.

(iii) Derivative financial instruments

Derivative financial instruments include swaps, forwards, futures 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). The Bank accounts for an embedded derivative separately from the host contract when:

- the host contract is not an asset in the scope of IFRS 9;
- the host contract is not itself carried at FVTPL;
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are presented in the consolidated statement of financial position together with the host contract.

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.

(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.

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.

(i) Impairment

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.

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.

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.

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 for 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.

(j) Loans to customers

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

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

(k) Investment securities

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)).

(l) 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:

- at the higher of the loss allowance determined in accordance with IFRS 9 (see Note 3(i)) and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

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

For other loan commitments:

- the Bank recognises a loss allowance (see Note 3(i)).

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

(m) Share capital

(i) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares 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.

(n) 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.

(o) 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.

(p) 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.

(q) Lease

Policy applicable from 1 January 2019

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease.

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into, on or after 1 January 2019.

Leases in which the Bank is a lessee

At commencement or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Bank has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Bank by the end of the lease term or the cost of the right-of-use asset reflects that the Bank will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's weighted-average incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

The Bank determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Bank presents right-of-use assets that do not meet the definition of investment property in 'property, equipment and intangible assets' and lease liabilities in 'other liabilities' in the statement of financial position.

The Bank has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets with amount of less than USD 100,000 and short-term leases with a lease term of 12 months or less. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

As at 1 January 2019, the Bank's future minimum lease payments under non-cancellable operating leases amounted to KZT 331,838 thousand, on a discounted basis. Weighted-average incremental borrowing rate used to measure lease liability is 10%. As at 31 December 2019, the Bank's future minimum lease payments under non-cancellable operating leases amounted to KZT 209,134 thousand.

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Bank determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
- the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
- the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
- facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

(r) New standards

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, the Bank has not early adopted the new or amended standards in preparing these financial statements.

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

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

– *Definition of a Business (Amendments to IFRS 3).*

– *Definition of Material (Amendments to IAS 1 and IAS 8).*

– *IFRS 17 Insurance Contracts.*

4 Net interest income

	2019 '000 KZT	2018 '000 KZT
Interest income		
Interest income calculated using the effective interest method		
Loans to customers	8,491,007	7,486,147
Investment securities	7,067,245	3,772,270
Cash and cash equivalents	6,459,633	6,775,769
Placements with banks	11,173	8,060
Other interest income		
Financial assets at fair value through profit or loss	1,042,383	1,170,784
	23,071,441	**19,213,030**
Interest expense		
Current accounts and deposits from customers	3,013,357	4,781,998
Amounts payable under repurchase agreements	1,398,416	479,519
Deposits and balances from banks and other financial institutions	454,922	293,984
Operating lease	25,590	-
	4,892,285	**5,555,501**
Net interest income	**18,179,156**	**13,657,529**

5 Fee and commission income

	2019 '000 KZT	2018 '000 KZT
Transfers	1,128,266	1,037,185
Guarantees issued	1,189,192	1,216,325
Credit cards	771,027	814,108
Custodian fees	475,030	645,098
Brokerage fees	285,904	378,341
Letters of credit provided	97,737	103,727
Accounts maintenance	732	1,075
Cash transactions	-	6,111
Other	78,535	68,712
	4,026,423	**4,270,682**

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.

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15
Corporate banking service	The Bank 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. 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.	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. Commission fee on guarantees and letters of credit issued is recognised as income over the time of the relevant guarantee or letter of credit.

6 Fee and commission expense

	2019 '000 KZT	2018 '000 KZT
Credit cards	372,620	407,731
Guarantee and letter of credit issuance fees	277,300	298,899
Custodian fees	12,302	29,650
Other	301,855	512,243
	964,077	**1,248,523**

7 Net foreign exchange gain

	2019 '000 KZT	2018 '000 KZT
Net forex trading gain	22,575,811	3,814,229
Revaluation of foreign currency denominated instruments	886,765	25,077,655
	23,462,576	**28,891,884**

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

8 Impairment recovery on debt financial assets and credit related commitments

	2019 '000 KZT	2018 '000 KZT
Loans to customers	35,844	7,745
Cash and cash equivalents	(1,684)	4,108
Investments securities	(15,623)	41,211
Loan commitments and financial guarantee contracts	(6,214)	(8,000)
Other	7,500	13
	19,823	**45,077**

9 General administrative expenses

	2019 '000 KZT	2018 '000 KZT
Administrative support provided by related banks	3,994,264	4,369,135
Employee compensation	2,600,538	2,321,288
Taxes other than on income	748,857	895,842
Administration	402,887	310,756
Taxes related to employees	228,322	193,477
Cash collection	210,346	235,884
Depreciation and amortisation	145,147	107,124
Communications and information services	130,608	165,843
Travel expenses	129,692	152,140
Depreciation expense on right of use asset	122,704	-
Office supplies	81,991	87,580
Rent	62,818	210,379
Representative expenses	41,960	56,707
Professional services	41,147	31,178
Repairs and maintenance	29,112	34,595
Security	13,759	18,793
Advertising and marketing	639	988
Other	12,985	20,845
	8,997,776	**9,212,554**

Administrative support expenses provided by related banks mainly consists of the following services: business administrative services KZT 929,874 thousand, IT services KZT 772,870 thousand, system development KZT 675,125 thousand, compliance services KZT 474,547 thousand, finance services KZT 138,563 thousand and other services KZT 1,003,285 thousand (31 December 2018: 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).

10 Income tax expense

	2019 '000 KZT	2018 '000 KZT
Current tax expense		
Current year	6,298,932	7,895,965
Overprovided in prior years	(61,398)	1,047
	6,237,534	**7,897,012**
Deferred tax expense		
Origination and reversal of temporary differences	178,372	(694,688)
Total income tax expense	**6,415,906**	**7,202,324**

Reconciliation of effective tax rate:

	2019 '000 KZT	%	2018 '000 KZT	%
Profit before tax	**39,958,572**		**38,213,125**	
Income tax at the applicable tax rate	7,991,714	20.00	7,642,625	20.00
Current tax expense underprovided in prior years	(61,398)	(0.15)	1,047	-
Non-taxable income on securities	(1,621,836)	(4.06)	(988,611)	(2.59)
Other non-taxable income	(55,255)	(0.14)	(128,698)	(0.34)
Non-deductible expenses	222,886	0.56	278,210	0.73
Change in unrecognised deferred tax assets	(60,205)	(0.15)	397,751	1.04
	6,415,906	**16.06**	**7,202,324**	**18.85**

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 assets as at 31 December 2019 and 31 December 2018.

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 2019 is the income tax rate of 20% for Kazakhstan companies (2018: 20%). Movements in temporary differences during the years ended 31 December 2019 and 31 December 2018 are presented as follows:

’000 KZT	Balance 1 January 2019	Effect of transition to IFRS 16	Recognised in profit or loss	Balance 31 December 2019
Financial instruments at fair value through profit or loss	124,737	-	(202,287)	(77,550)
Property and equipment	(42,370)	-	(6,312)	(48,682)
Right-of-use asset	-	(41,827)	-	(41,827)
Other assets	116,129	-	30,014	146,143
Tax losses carry forward on non-deliverable derivatives	2,077,562	-	(60,205)	2,017,357
Lease liability	-	42,040	-	42,040
Total deferred tax assets	**2,276,058**	**213**	**(238,790)**	**2,037,481**
Unrecognised deferred tax asset	(2,077,562)	-	60,205	(2,017,357)
Recognised deferred tax assets/(liabilities)	**198,496**	**213**	**(178,585)**	**20,124**

’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**

11 Cash and cash equivalents

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

	2019 ’000 KZT	2018 ’000 KZT
Placements with the National Bank of the Republic of Kazakhstan	**650,094,033**	**570,452,876**
Placements with banks		
Nostro accounts:		
- rated A+ to A-	41,358,827	30,714,047
- rated BBB-	8,118,704	1,486,387
- rated BB	32,478	38,484
Total placements with banks	**49,510,009**	**32,238,918**
	699,604,042	**602,691,794**
Loss allowances	(10,824)	(9,195)
Total cash and cash equivalents	**699,593,218**	**602,682,599**

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.

	2019		**2018**
'000 KZT	**Stage 1**	**Total**	**Total**
Cash and cash equivalents			
Balance at 1 January 2019	9,195	9,195	12,446
Net remeasurement of loss allowance	1,684	1,684	(6,054)
New financial assets originated or purchased	-	-	1,946
Foreign exchange and other movements	(55)	(55)	857
Balance at 31 December	**10,824**	**10,824**	**9,195**

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 2019 the Bank has 1 bank except for the NBRK (2018: 1 bank except for the NBRK) whose balances exceed 10% of equity. The gross value of this balance as at 31 December 2019 is KZT 29,544,183 thousand (2018: KZT 25,195,580 thousand).

Nostro accounts amounting to KZT 49,476,960 thousand as at 31 December 2019 (2018: KZT 32,200,364 thousand) are placed with entities of Citigroup Inc. No overnight placements.

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 2019 the minimum reserve requirements equaled KZT 18,368,398 thousand (31 December 2018: KZT 15,481,529 thousand).

12 Placements with banks

	2019 **'000 KZT**	**2018** **'000 KZT**
Placements with banks with original maturities more than three months		
- rated A- to A	495,324	497,408
- not rated	913,806	3,013,027
Total placements with banks	**1,409,130**	**3,510,435**

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

No placements with banks were credit-impaired or past due as at 31 December 2019 (2018: none). All amounts of placements with banks are included in Stage 1 of the credit risk grade.

As at 31 December 2019 the Bank pledged a margin deposit for liabilities on derivative financial instruments of KZT 1,409,130 thousand (31 December 2018: KZT 3,510,435 thousand) including placement on Kazakhstan Stock Exchange ("KASE") KZT 913,806 thousand (31 December 2018: KZT 3,013,027 thousand).

13 Derivative instruments at fair value through profit or loss

	2019 '000 KZT	2018 '000 KZT
Assets		
Derivative financial instruments		
Forward exchange contracts	534,348	644,189
Liabilities		
Derivative financial instruments		
Forward exchange contracts	182,802	2,433,937

The table below summarises, by major currency, the contractual amounts of the Bank's forward exchange contracts outstanding at 31 December 2019 and 31 December 2018 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.

	Notional amount		Weighted average contracted exchange rates	
	2019 '000 KZT	2018 '000 KZT	2019	2018
Buy USD sell KZT				
Less than three months	24,427,829	28,710,387	382.29	379.75
Between three months and one year		439,951		356.50
More than one year	-	387,875	-	362.50
Sell USD buy KZT				
Less than three months	174,230,514	205,489,665	383.50	380.78
Between three months and one year	1,094,107	4,064,080	405.24	401.53
Sell EUR buy KZT				
Less than three months	73,979	967,281	447.42	433.24
Buy EUR sell KZT				
Less than three months	-	948,017	-	426.70
Sell USD buy EUR				
Less than three months	73,270	23,859,294	1.12	1.15
Buy USD sell EUR				
Less than three months	-	1,045,443	-	1.18
Buy USD sell RUB				
Less than three months	20,399	344,706	61.99	66.86
Buy KZT sell RUB				
Less than three months	783,562	2,555,666	6.01	5.50
Between three months and one year	831,013	1,810,216	6.22	5.66
Buy RUB sell USD				
Less than three months	18,062,585	9,609,589	62.10	68.42
Between three months and one year	823,184	1,786,304	65.31	65.52
Buy other currencies sell KZT				
Less than three months	-	197,195	-	41.15
Buy USD sell other currencies				
Between three months and one year	29	199,822	1.32	8.96

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

	2019 '000 KZT	2018 '000 KZT
Large OECD banks	371,522	255,410
Medium and small Kazakhstan companies	162,826	388,779
	534,348	**644,189**

No financial instruments at fair value through profit or loss are past due as at 31 December 2019 (2018: none).

14 Investment securities

	2019 '000 KZT	2018 '000 KZT
Investment securities at fair value through other comprehensive income		
Bonds issued by the Ministry of Finance of the Republic of Kazakhstan (Country sovereign rating: BBB-)	10,985,843	9,970,545
Notes issued by the National Bank of the Republic of Kazakhstan (Country sovereign rating: BBB-)	25,516,508	-
	36,502,351	**9,970,545**

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 2019 (2018: none). None of assets were collateralised as at 31 December 2019 (2018: 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.

	2019		2018
'000 KZT	**Stage 1**	**Total**	**Total**
Balance at 1 January	9,025	9,025	50,236
Net remeasurement of loss allowance	(1,917)	(1,917)	(36,233)
Financial assets that have been sold/matured	(254,474)	(254,474)	(144,653)
New financial assets purchased	272,014	272,014	139,675
Balance at 31 December	**24,648**	**24,648**	**9,025**

New financial assets purchased during the year ended 31 December 2019 in the amount of KZT 412,142,385 thousand resulted in amount of ECL of KZT 272,014 thousand (2018: new financial assets purchased in amount of KZT 219,171,946 thousand resulted in amount of ECL of KZT 139,675 thousand).

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.

15 Loans to customers

	2019 '000 KZT	2018 '000 KZT
Loans to large corporates	82,244,137	117,687,607
Loans to retail customers	209,076	265,700
	82,453,213	**117,953,307**
Loss allowances	(45,149)	(81,138)
Loans to customers	**82,408,064**	**117,872,169**

Analysis of movements in loss allowance

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

'000 KZT	2019				2018
Loans to customers (corporates)	**12-month ECL**	**Lifetime ECL not credit-impaired**	**Lifetime ECL credit impaired**	**Total**	**Total**
Balance at 1 January	**80,750**	**-**	**-**	**80,750**	**80,628**
Net remeasurement of loss allowance	(56,727)	-	-	(56,727)	(88,346)
New financial assets originated or purchased	20,951	-	-	20,951	80,750
Foreign exchange and other movements	(144)	-	-	(144)	7,718
Balance at 31 December	**44,830**	**-**	**-**	**44,830**	**80,750**

During the year ended 31 December 2019 most loans were repaid due to short-term nature of the loans and the amount of KZT 60,361,928 thousand were newly issued (2018: KZT 117,687,607 thousand). That change in gross amount of loans issued to corporate customers contributed to change in loss allowance.

'000 KZT	2019				2018
Loans to customers (retail customers)	**12-month ECL**	**Lifetime ECL not credit-impaired**	**Lifetime ECL credit impaired**	**Total**	**Total**
Balance at 1 January	**387**	**-**	**-**	**387**	**536**
Net remeasurement of loss allowance	(68)	-	-	(68)	(148)
Balance at 31 December	**319**	**-**	**-**	**319**	**388**

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 2019 and 31 December 2018 and that are still subject to enforcement activity.

According to Citi Problem Recognition and Remedial management policy, financial assets are classified based on credit quality and/or the willingness of the obligor to honor its commitments. 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.

The classification of exposure occurs at the facility level. Once a facility to an obligor is classified Special Mention or worse, all facilities and exposures of that obligor must be reviewed for potential classification, regardless of the type of accounting treatment. More specifically, this includes exposure arising from an obligor and/or capital commitments, both on and off-balance sheet (excluding positions in the Trading Book without intent to hold).

Credit Classifications are assigned based upon the obligor's expected performance (i.e., the likelihood that the obligor will be able to service its obligations in accordance with the agreed upon terms). Credit Classifications are meant to measure risk rather than record history. Expected performance should be evaluated over the foreseeable future – generally not less than one year. Determination of Credit Classifications involves the use of realistic repayment assumptions to determine an obligor's ability to de-lever to a sustainable level within a reasonable period of time.

The primary consideration in determining Credit Classifications is the strength of the primary repayment source (e.g., sustainable source of cash). Analysis should be focused on the strength of the obligor's repayment capacity, in other words, the probability of default, where default is the failure to make a required payment in full and on time. As the primary repayment source weakens and default probability increases, collateral and other protective structural elements have a greater bearing on the classification.

The Credit Classifications (Special Mention, Substandard, Doubtful, and Loss) identify different degrees of credit weakness.

The following Credit Facility Classification category definitions are used when determining a facility's classification.

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 the Bank's 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 the Bank to sufficient risk to warrant adverse classification

Special Mention assets have potential weaknesses that may, if not checked or corrected, weaken the asset or inadequately protect the institution's position at some future date. These assets pose elevated risk, but their weakness does not yet justify a Substandard classification. Borrowers may be experiencing adverse operating trends (declining revenues or margins) or an ill proportioned balance sheet (e.g., increasing inventory without an increase in sales, high leverage, tight liquidity). Adverse economic or market conditions, such as interest rate increases or the entry of a new competitor, may also support a Special Mention rating. Nonfinancial reasons for rating a credit exposure Special Mention include management problems, pending litigation, an ineffective loan agreement or other material structural weakness, and any other significant deviation from prudent lending practices.

A Special Mention classification must be considered when a borrower's actual performance is materially inconsistent with Bank's expectations (e.g.. Citi Base Case, period over period, etc.).

The Special Mention rating is designed to identify a specific level of risk and concern about asset quality. Although a Special Mention asset has a higher probability of default than a Pass asset, its default is not imminent. Special Mention is not a compromise between Pass and Substandard and should not be used to avoid exercising such judgment.

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 Bank 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 is on non-accrual or about to be placed on non-accrual has severe problems such that the full collection of interest and principal is highly questionable. Non-accrual loans will almost always be classified.

Nonperforming loans are defined as past due 90+ days plus non-accrual.

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. Because of high probability of loss, non-accrual accounting treatment is required for doubtful facilities.

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, the Bank 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:

	2019		**2018**
’000 KZT	**12-month ECL**	**Total**	**Total**
Loans and advances to customers at amortised cost			
Pass	60,380,607	60,380,607	60,050,684
Pass Watch-list	22,072,606	22,072,606	57,902,623
Special Mention	-	-	-
Substandard	-	-	-
Doubtful	-	-	-
Total	**82,453,213**	**82,453,213**	**117,953,307**
Loss allowance	(45,149)	(45,149)	(81,138)
Carrying amount	**82,408,064**	**82,408,064**	**117,872,169**

The Bank has no overdue loans as at 31 December 2019 (2018: nil).

Analysis of collateral

(i) Loans to large corporates

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

31 December 2019 **’000 KZT**	**Loans to customers, carrying amount**	**Fair value of collateral not determined**
Guarantees from related parties	46,629,265	46,629,265
No collateral	30,397,978	30,397,978
Third party guarantees	5,172,064	-
Total loans to large corporates	**82,199,307**	**77,027,243**

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**

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 2019, 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 2019 would be KZT 821,993 thousand lower/higher (31 December 2018: KZT 1,176,069 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 2019 **’000 KZT**	**Loans to customers, carrying amount**	**Fair value of collateral – for collateral assessed as at loan inception date**
Real estate	208,757	208,757
Total loans to retail customers	**208,757**	**208,757**

31 December 2018 **’000 KZT**	**Loans to customers, carrying amount**	**Fair value of collateral – for collateral assessed as at loan inception date**
Real estate	265,312	265,312
Total loans to retail customers	**265,312**	**265,312**

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.

(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 2019 '000 KZT	31 December 2018 '000 KZT
Finance	39,769,751	23,558,039
Manufacturing	20,739,099	10,141,373
Trade	16,994,422	52,149,441
Miscellaneous services	3,932,950	187,620
Chemical	765,317	768,914
Loans to individuals	209,074	265,700
Transportation	41,487	133,571
Food production	1,113	703
Energy and natural resources	-	30,747,946
	82,453,213	**117,953,307**
Loss allowance	(45,149)	(81,138)
Carrying amount	**82,408,064**	**117,872,169**

(c) Significant credit exposures

As at 31 December 2019 the Bank had 2 borrowers (2018: 3), whose loan balances exceeded 10% of equity. The gross value of these loans as at 31 December 2019 was KZT 33,244,063 thousand (2018: KZT 79,282,659 thousand).

16 Property, equipment and intangible assets

’000 KZT	Offices and leasehold improvements	Computers	Fixtures and fittings	Vehicles	Computer software	Right-of-use assets	Total
Cost							
Balance at 1 January 2018	**673,153**	**67,199**	**320,166**	**62,637**	**124,249**	-	**1,247,404**
Additions	155,446	62,895	139,946	-	-	-	358,287
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**
Additions	-	10,525	181,233	30,280	-	331,838	553,876
Disposals	-	(14,475)	(3,674)	(32,789)	-	-	(50,938)
Balance at 31 December 2019	**768,965**	**116,830**	**567,910**	**60,128**	**124,165**	**331,838**	**1,969,836**
Depreciation							
Balance at 1 January 2018	**(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)**
Depreciation and amortisation charge	(36,150)	(36,025)	(66,306)	(6,666)	-	(122,704)	(267,851)
Disposals	-	14,475	3,674	32,789	-	-	50,938
Balance at 31 December 2019	**(267,287)**	**(65,122)**	**(277,126)**	**(34,749)**	**(124,165)**	**(122,704)**	**(891,153)**
Net book value at 1 January 2019	**537,828**	**77,208**	**175,857**	**1,765**	**-**	**-**	**792,658**
Net book value at 31 December 2019	**501,678**	**51,708**	**290,784**	**25,379**	**-**	**209,134**	**1,078,683**

17 Deposits and balances from banks and other financial institutions

	2019 '000 KZT	2018 '000 KZT
Vostro accounts	17,568,943	18,636,373
Term deposits	2,300,353	22,926,945
	19,869,296	**41,563,318**

Concentration of deposits and balances from banks and other financial institutions

As at 31 December 2019 the Bank has no financial institution (2018: 1), whose balances exceed 10% of equity. The gross value of this balance as at 31 December 2018 KZT 20,225,473 thousand.

18 Current accounts and deposits from customers

	2019 '000 KZT	2018 '000 KZT
Current accounts and demand deposits		
- Corporate	578,075,781	499,950,174
- Retail	5,368,961	5,834,796
Term deposits		
- Corporate	95,228,540	47,205,692
	678,673,282	**552,990,662**

Concentrations of current accounts and customer deposits

As at 31 December 2019, the Bank had 8 customers (2018: 8 customers) whose balances exceeded 10% of equity. These balances as at 31 December 2019 amount to KZT 249,397,207 thousand (2018: KZT 164,782,339 thousand).

19 Equity

(a) Issued capital

The authorised, issued and outstanding share capital comprises 621 ordinary shares (2018: 621). All shares have a par value of KZT 20,125 thousand. During 2019 the Bank did not issue ordinary shares (2018: 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 110,426,663 thousand (2018: KZT 124,983,997 thousand). During 2019 there were dividends declared and paid-in the total amount of KZT 48,100,000 thousand (2018: KZT 28,500,000 thousand).

Summary of dividends declared and paid in during 2019 and 2018 is presented as follows:

'000 KZT	Amount of dividends declared and paid-in	Dividend per share
Declared on 27 March 2019 and paid on 28 March 2019	7,800,000	12,560.39
Declared on 28 May 2019 and paid on 29 May 2019	13,500,000	21,739.13
Declared on 18 July 2019 and paid on 19 July 2019	13,500,000	21,739.13
Declared on 11 November 2019 and paid on 12 November 2019	13,300,000	21,417.07
	48,100,000	

’000 KZT	Amount of dividends declared and paid-in	Dividend per share
Declared on 25 April 2018 and paid on 26 April 2018	10,000,000	16,103.06
Declared on 26 September 2018 and paid on 27 April 2018	11,000,000	17,713.37
Declared on 20 December 2018 and paid on 21 December 2018	7,500,000	12,077.29
	28,500,000	

20 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 2019 and 2018 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.

(c) 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.

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. As the financial instruments have fixed interest rates, the interest rate gap analysis is consistent with the maturity analysis. 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**	**Non-interest bearing**	**Total**
31 December 2019						
ASSETS						
Cash and cash equivalents	452,445,888	-	-	-	247,147,330	699,593,218
Placements with banks	-	-	-	-	1,409,130	1,409,130
Loans to customers	58,760,011	8,725,081	6,502,158	8,420,814	-	82,408,064
Investment securities	3,647,102	7,440,564	18,078,878	7,335,807	-	36,502,351
	514,853,001	**16,165,645**	**24,581,036**	**15,756,621**	**248,556,460**	**819,912,763**
LIABILITIES						
Deposits and balances from banks and other financial institutions	2,280,814	-	-	-	17,588,482	19,869,296
Current accounts and deposits from customers	91,848,321	-	-	-	586,824,961	678,673,282
	94,129,135	**-**	**-**	**-**	**604,413,443**	**698,542,578**
	420,723,866	**16,165,645**	**24,581,036**	**15,756,621**	**(355,856,983)**	**121,370,185**

’000 KZT	**Less than 3 months**	**3-6 months**	**6-12 months**	**1-5 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	-	-	-	18,655,992	41,563,318
Current accounts and deposits from customers	45,677,707	-	-	-	507,312,955	552,990,662
	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**

Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2019 and 2018.

	2019 Average effective interest rate, %			2018 Average effective interest rate, %		
	KZT	**USD**	**Other currencies**	**KZT**	**USD**	**Other currencies**
Interest bearing assets						
Cash and cash equivalents	9.01	0.50	-	8.25	2.75	0.07
Placements with banks	-	-	-	-	2.40	-
Loans to customers	11.31	4.09	-	11.27	5.12	-
Investment securities	10.57	-	-	8.65	-	-
Interest bearing liabilities						
Deposits and balances from banks and other financial institutions						
- Term deposits	6.70	-	-	7.75	2.42	-
Current accounts and deposits from customers						
- Term deposits	6.19	0.08	0.50	4.29	0.08	0.50

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 2019 and 31 December 2018, is as follows:

	31 December 2019		**31 December 2018**	
	Net income	**Equity**	**Net income**	**Equity**
100 bp parallel increase	3,407,064	3,407,064	1,358,476	1,358,476
100 bp parallel decrease	(3,407,064)	(3,407,064)	(1,358,476)	(1,358,476)

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 investment securities due to changes in the interest rates, based on positions existing as at 31 December 2019 and 2018 and a simplified scenario of a 100 bp symmetrical fall or rise in all yield curves, is as follows:

	31 December 2019		**31 December 2018**	
	Net income	**Equity**	**Net income**	**Equity**
100 bp parallel increase	-	(281,218)	-	(128,304)
100 bp parallel decrease	-	276,009	-	124,087

(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 27.

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 2019 and 2018 and a simplified scenario of a +/-20% change in USD and other currencies to Kazakhstan Tenge exchange rates is as follows:

	2019		**2018**	
	Net income	**Equity**	**Net income**	**Equity**
20% appreciation of USD against KZT (2018: 20%)	(1,524,064)	(1,524,064)	(917,586)	(917,586)
20% depreciation of USD against KZT (2018: 20%)	1,524,064	1,524,064	917,586	917,586
20% appreciation of other currencies against KZT (2018: 20%)	(1,760)	(1,760)	(31,128)	(31,128)
20% depreciation of other currencies against KZT (2018: 20%)	1,760	1,760	31,128	31,128

(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.

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 22.

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 15 "Loans to customers".

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

	2019 '000 KZT	2018 '000 KZT
ASSETS		
Cash and cash equivalents	699,593,218	602,682,599
Loans to customers	82,408,064	117,872,169
Investment securities	36,502,351	9,970,545
Placements with banks	1,409,130	3,510,435
Financial instruments at fair value through profit or loss	534,348	644,189
Total maximum exposure	**820,447,111**	**734,679,937**

(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.

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2019:

’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	534,348	-	534,348	(182,802)	351,546
Derivative instruments at fair value through profit or loss - liabilities	(182,802)	-	(182,802)	182,802	-

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)	644,189	(1,789,748)

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

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 short-term deposits 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.

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 2019 and 2018.

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 customer 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.

The table below shows an analysis, by contractual maturities, of undiscounted liabilities recognised in the statement of financial position as at 31 December 2019:

’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	19,869,296	-	-	-	-	19,869,296	19,869,296
Current accounts and deposits from customers	677,660,351	1,012,931	-	-	-	678,673,282	678,673,282
Other liabilities	1,661,382	-	-	-	-	1,661,382	1,661,382
Derivatives							
- Inflow	(214,794,470)	(2,826,194)	(2,748,712)	-	-	(220,369,376)	(534,348)
- Outflow	214,507,336	2,706,431	2,639,852	-	-	219,853,619	182,802
Total	**698,903,895**	**893,168**	**(108,860)**	**-**	**-**	**699,688,203**	**699,852,414**
Credit related commitments	**54,562,324**	**-**	**-**	**-**	**-**	**54,562,324**	**-**

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	41,563,318	-	-	-	-	41,563,318	41,563,318
Current accounts and deposits from customers	552,990,662	-	-	-	-	552,990,662	552,990,662
Other liabilities	1,192,155	-	-	-	-	1,192,155	1,192,155
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	**597,524,798**	**(45,916)**	**(48,639)**	**(91,420)**	**(23,219)**	**597,315,604**	**597,535,883**
Credit related commitments	**86,349,550**	**-**	**-**	**-**	**-**	**86,349,550**	**-**

21 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.

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 2019, the minimum level of ratios as applicable to the Bank are as follows:

- k1 – 7.5%;
- k1-2 – 8.5%;
- k2 – 10.00%.

The Bank has complied with all externally imposed capital requirements as at 31 December 2019 and 2018.

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 2019 and 31 December 2018:

	2019 '000 KZT	**2018 '000 KZT**
Common equity	122,928,268	137,575,649
Tier 1 capital	122,928,268	137,575,649
The positive difference	-	(877,530)
Total statutory equity	**122,928,268**	**136,698,119**
Risk-weighed statutory assets, contingent liabilities, operational and market risks		
Risk-weighted statutory assets	65,385,001	102,426,110
Risk-weighted contingent liabilities	50,622,347	84,409,337
Risk weighted derivative financial instruments	1,936,439	2,768,771
Operational risk	34,566,339	38,892,640
Market risk	9,538,442	5,738,406
Total statutory risk weighted assets, contingent liabilities, operational and market risk	**162,048,568**	**234,235,264**
k1 ratio	**75.86%**	**58.70%**
k1-2 ratio	**75.86%**	**58.70%**
k2 ratio	**75.86%**	**58.40%**

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.

22 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.

	2019 '000 KZT	2018 '000 KZT
Contracted amount		
Undrawn facilities	3,040,184	3,239,380
Guarantees and letters of credit	51,522,140	83,110,170
	54,562,324	**86,349,550**

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:

	2019		2018
'000 KZT	**Stage 1**	**Total**	**Total**
Guarantees and letters of credit			
Pass	18,493,750	18,493,750	22,773,792
Pass Watch-list	33,028,390	33,028,390	58,488,215
Special Mention	-	-	1,848,163
Balance at 31 December	**51,522,140**	**51,522,140**	**83,110,170**

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

	2019				2018
'000 KZT	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Balance at 1 January 2018	48,178	-	-	48,178	34,908
Net remeasurement of loss allowance	(107,472)	-	-	(107,472)	(36,822)
New financial assets originated or purchased	113,686			113,686	44,822
Foreign exchange and other movements	163	-	-	163	5,270
Balance at 31 December	**54,555**	**-**	**-**	**54,555**	**48,178**

23 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.

24 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.

25 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):

	2019 '000 KZT	2018 '000 KZT
Members of the Management Board	466,916	396,984
Members of the Board of Directors	235,908	195,711
	702,824	**592,695**

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

The outstanding balances and average interest rates as at 31 December 2019 and 2018 for transactions with the members of the Board of Directors and the management Board are as follows:

	2019 '000 KZT	Average interest rate, %	2018 '000 KZT	Average interest rate, %
Statement of financial position				
ASSETS				
Loans to customers	19,744	6.25	53,975	6.25
LIABILITIES				
Current accounts and deposits from customers	11,708	-	12,873	-

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 2019 and 2018 are as follows:

	2019 '000 KZT	2018 '000 KZT
Profit or loss		
Interest income calculated using the effective interest method	1,287	3,686

(c) Transactions with other related parties

The outstanding balances and the related average interest rates as at 31 December 2019 and 31 December 2018 and related income statement amounts of transactions for the years ended 31 December 2019 and 2018 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**	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Statement of Financial Position										
Assets										
Cash and cash equivalents	11,814,074	29,364,313	-	1.85	37,662,887	2,836,051	-	-	**49,476,961**	**32,200,364**
Placements with banks	495,324	497,408	-	2.4	-	-	-	-	**495,324**	**497,408**
Derivative instruments at fair value through profit or loss	371,522	255,410	-	-	-	-	-	-	**371,522**	**255,410**
Other assets	4,272	2,224	-	-	44,890	6,703	-	-	**49,162**	**8,927**
Liabilities										
Derivative instruments at fair value through profit or loss	127,853	1,950,749	-	-	-	-	-	-	**127,853**	**1,950,749**
Deposits and balances from banks and other financial institutions	4,483,008	20,229,602	-	2.30	2,833,889	3,932,406	-	-	**7,316,897**	**24,162,008**
Current accounts and deposits from customers	-	-	-	-	14,262	890	-	-	**14,262**	**890**
Other liabilities	710	479	-	-	5,122	4,378	-	-	**5,832**	**4,857**
Items not recognised in the statement of financial position										
Guarantees granted	474,120	384,079	-	-	608,940	99,385	-	-	**1,083,060**	**483,464**
Guarantees received	116,914	3,458	-	-	230,162,940	154,878,197	-	-	**230,279,854**	**154,881,655**
Commitments to buy foreign currency	37,813,633	56,280,148	-	-	-	-	-	-	**37,813,633**	**56,280,148**
Commitments to sell foreign currency	161,152,866	200,636,887	-	-	-	-	-	-	**161,152,866**	**200,636,887**

As at 31 December 2019 derivative instruments at fair value through profit or loss include the fair value of deliverable forward agreements to buy KZT and sell USD in the amount of KZT 119,400,000 thousand and USD 311,546 thousand, respectively, with terms up to 7 days due to local and US holidays (31 December 2018: deliverable forward on buy KZT and sell USD in the amount of KZT 133,800,000 thousand and USD 350,859 thousand with terms up to 6 days). These amounts are also presented within commitments to sell foreign currency above.

As at 31 December 2019 guarantees granted were provided for period 1.87 to 54.4 months with applied interest rate from 0.9% till 1.2% p.a. and minimum fee of USD 500 and USD 1000 (31 December 2018: period from 3.37 to 109.80 months with applied minimum fee of USD 500 and USD 1000).

As at 31 December 2019 the guarantees received were provided for a period of 2.37 to 55.5 months at annual interest rate of 0.15% (31 December 2018: period from 4.4 to 36.83 months at annual interest rate of 0.15%).

’000 KZT	**The Shareholder Bank**		**Other Citigroup entities**		**Total**	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
Statement of Profit or Loss and Other Comprehensive Income						
Interest income calculated using the effective interest method	2,503,128	1,645,703	5	8	**2,503,133**	**1,645,711**
Interest expense	(26,246)	(3,622)	(146,797)	(5,153)	**(173,043)**	**(8,775)**
Net gain (loss) on derivative financial instruments	755,430	(3,890,632)	451,448	(1,004,649)	**1,206,878**	**(4,895,281)**
Fee and commission income	113,765	66,293	145,140	499,558	**258,905**	**565,851**
Fee and commission expense	(75,522)	(237,527)	(107,168)	(83,186)	**(182,690)**	**(320,713)**
General administrative expenses	(2,046,073)	(1,477,368)	(1,948,191)	(2,891,767)	**(3,994,264)**	**(4,369,135)**
Net foreign exchange gain	11,291,942	(1,882,300)	(474,216)	1,745,350	**10,817,726**	**(136,950)**
Other operating income/ (expenses)	1,595,600	2,336,336	129,546	864,018	**1,725,146**	**3,200,354**

26 Fair value of financial instruments

The estimated fair values of all financial instruments approximate their carrying values at 31 December 2019 and 31 December 2018.

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.

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 quoted 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.

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 2019 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	36,502,351
Derivative instruments at fair value through profit or loss	534,348
Financial assets at fair value through profit or loss	2,200
LIABILITIES	
Financial instruments at fair value through profit or loss	(182,802)

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)

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. The fair values of these financial instruments are categorized into Level 2 of the fair value hierarchy.

27 Currency analysis

The following table shows the currency structure of assets and liabilities at 31 December 2019:

’000 KZT	**KZT**	**USD**	**Other currencies**	**Total**
Assets				
Cash and cash equivalents	125,874,886	529,704,090	44,014,242	699,593,218
Placements with banks	913,806	495,324	-	1,409,130
Derivative instruments at fair value through profit or loss	442,494	64	91,790	534,348
Financial assets at fair value through profit or loss	2,200	-	-	2,200
Investment securities	36,502,351	-	-	36,502,351
Loans to customers	55,690,222	26,717,842	-	82,408,064
Property, equipment and intangible assets	1,078,683	-	-	1,078,683
Current assets	1,477,337	-	-	1,477,337
Deferred tax asset	20,124	-	-	20,124
Other assets	206,068	97,517	10,638	314,223
Total assets	**222,208,171**	**557,014,837**	**44,116,670**	**823,339,678**
Liabilities				
Derivative instruments at fair value through profit or loss	90,187	-	92,615	182,802
Deposits and balances from banks and other financial institutions	19,014,110	699,278	155,908	19,869,296
Current accounts and deposits from customers	240,173,439	377,474,176	61,025,667	678,673,282
Other liabilities	1,583,508	76,488	1,386	1,661,382
Total liabilities	**260,861,244**	**378,249,942**	**61,275,576**	**700,386,762**
Net position as at 31 December 2019	**(38,653,073)**	**178,764,895**	**(17,158,906)**	**122,952,916**
The effect of derivatives held for risk management purposes	152,585,345	(169,239,493)	17,169,905	515,757
Net position after derivatives held for risk management purposes as at 31 December 2019	**113,932,272**	**9,525,402**	**10,999**	**123,468,673**

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	7,004,784	602,682,599
Placements with banks	3,013,027	497,408	-	3,510,435
Derivative instruments at fair value through profit or loss	644,189	-	-	644,189
Financial assets at fair value through profit or loss	2,200			2,200
Investment securities	9,970,545	-	-	9,970,545
Loans to customers	45,990,882	71,881,287	-	117,872,169
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**	**536,824,634**	**7,005,409**	**736,018,471**
Liabilities				
Derivative instruments at fair value through profit or loss	2,433,937	-	-	2,433,937
Deposits and balances from banks and other financial institutions	21,561,483	19,888,087	113,748	41,563,318
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	5,523	1,192,155
Total liabilities	**245,917,069**	**315,720,530**	**36,796,198**	**598,433,797**
Net position as at 31 December 2018	**(53,728,641)**	**221,104,104**	**(29,790,789)**	**137,584,674**
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	**130,474,841**	**5,734,911**	**(194,548)**	**136,015,204**

28 Subsequent events

On 19 March 2020, according to the decision of the Sole Shareholder of the Bank, there was an approval of a payment of dividends from the Bank’s net retained earnings of prior years. The amount of dividends per one ordinary share is KZT 21,256.04 thousand, representing a total amount of KZT 13,200,000 thousand.

A novel strain of coronavirus (COVID-19) that first surfaced in China was classified as a pandemic by the World Health Organization on March 11, 2020, impacting countries globally. The potential impacts from COVID-19 remain uncertain, including, among other things, on economic conditions, businesses and consumers. The extent of these impacts on the Bank are unclear, although they will likely adversely affect its businesses, results of operations and financial condition.

This is a non-adjusting event and an estimate of the financial effect cannot be made at the point in time as the situation remains a rapidly evolving one.