ЖИЛ
СТРОЙ
СБЕР
БАНК

House Construction Savings Bank of Kazakhstan JSC

International Financial Reporting Standards
Financial Statements and
Independent Auditor's Report

31 December 2019

Content

Independent Auditor's Report

To the Shareholder and Board of Directors of House Construction Savings Bank of Kazakhstan JSC

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of House Construction Savings Bank of Kazakhstan JSC (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").

What we have audited

The Bank's financial statements comprise:

- the statement of financial position as at 31 December 2019;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

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 *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

PricewaterhouseCoopers LLP
34 Al-Farabi Ave., Building A, 4th floor, Almaty, Kazakhstan, A25D5F6
T: +7 (727) 330 32 00, F: +7 (727) 244 68 68, www.pwc.kz

Our audit approach

Overview

Materiality	• Overall materiality: Tenge 4,966,600 thousand, which represents 0.5% of loans and advances to customers balance as of 31 December 2019.
Key audit matter	• Assessment of expected credit losses allowance for loans and advances to customers made by management in accordance with the International Financial Reporting Standard 9, Financial Instruments (IFRS 9).

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Bank, the accounting processes and controls, and the industry in which the Bank operates.

pwc

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Bank materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the financial statements as a whole.

Overall materiality	Tenge 4,966,600 thousand
How we determined it	0.5% of loans and advances to customers balance as of 31 December 2019.
Rationale for the materiality benchmark applied	The Bank is a state-owned development institution. Its strategic goal is to finance housing needs of citizens of Kazakhstan and to promote social and economic growth of Kazakhstan through mortgage lending. The profitability is not a primary objective of the Bank and its management. We chose loans and advances to customers balance as the benchmark because, in our view, it is the benchmark against which the performance of the Bank is measured by users, We chose 0.5% which is consistent with quantitative materiality thresholds used for the selected benchmark.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Assessment of expected credit losses (ECL) provision for loans and advances to customers made by management in accordance with the International Financial Reporting Standard 9, Financial Instruments (IFRS 9). We focused on this area due to the size of loans and advances to customers balance and because IFRS 9 is a complex financial reporting standard, which requires significant judgment to determine the ECL provision. Since the Bank is a mortgage lending financial institution ECL assessment on the major part of loans is performed on a portfolio basis. Key areas of judgment included: • Allocation of loans to stages in accordance with IFRS 9; • Accounting interpretations and modelling assumptions used to estimate key risk parameters – probability of default, loss given default and exposure at default; Refer to the Notes 3, 4, 9 and 22 of the accompanying financial statements that provide information on significant accounting policies, critical accounting estimates and judgements and risk assessment related to ECL provision and disclosures on loans and advances to customers.	We assessed the design and tested operating effectiveness of key controls across the processes relevant to the ECL. This included the allocation of loans into stages, automated calculation of key risk parameters (probability of default, loss given default, exposure at default), data completeness and accuracy of calculations. In assessing ECL provision we have performed, among others, the following audit procedures: • We assessed the methodologies and models for ECL provision assessment developed by the Bank in order to evaluate their compliance with IFRS 9 requirements. We focused our procedures on: default definition, factors for determining a "significant increase in credit risk", allocation of the loans to stages, and estimation of key risk parameters. • We checked that estimation of ECL provision for loans and advances to customers was made in accordance with the methodologies and models of the Bank. We tested the assumptions and inputs used in the ECL models. • On a sample basis we tested segmentation of loans; • To verify data accuracy and quality, on a sample basis, we tested the data used in the ECL calculation by reconciling to source data, i.e. loan portfolios, loan agreements, collateral agreements etc.; • To verify completeness of data used for ECL calculation we traced a sample of historical loan portfolios to the trial balances; • On overall basis we checked the Bank's assessment of effect of forward looking information on the ECL level, in particular, we assessed whether forecasted macroeconomic variables were appropriate (such as inflation level, average salary,

pwc

	unemployment rate and GDP), traced input data to the external sources and checked appropriateness of the model used.

Other information

Management is responsible for the other information. The other information comprises the annual report (but does not include the financial statements and our auditor's report thereon), which is expected to be made available to us after the date of this auditor's report.

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

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

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

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, 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.

Auditor's 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 auditor's 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 auditor's 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 auditor's 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.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Aigul Akhmetova.

PricewaterhouseCoopers LLP.

27 February 2020
Almaty, Kazakhstan

Approved by:

Dana Inkarbekova
Managing Director of
PricewaterhouseCoopers LLP
(General State License of the Ministry of Finance
of the Republic of Kazakhstan №0000005 dated 21 October 1999)

Signed by:

Aigul Akhmetova
Audit Assurance Partner
Auditor in Charge
(Qualified Auditor's Certificate №00000083 dated 27 August 2012; Special Power of Attorney #28/1-19 dated 1 July 2019)

(in thousands of Kazakhstani Tenge)	**Note**	**31 December 2019**	**31 December 2018**
ASSETS			
Cash and cash equivalents	7	151,024,879	173,374,282
Investments in debt securities	8	196,087,584	153,202,035
Investments in equity securities		5,214	19,034
Loans and advances to customers	9	993,338,343	662,310,101
Premises, Equipment and Right of Use Assets	10	5,256,199	3,625,112
Intangible assets	10	3,874,218	2,375,748
Current income tax prepayment		171,542	408,467
Other financial assets	11	2,979,171	1,771,342
Other assets	11	338,503	217,860
Non-current assets held for sale		199,399	1,036,265
TOTAL ASSETS		**1,353,275,052**	**998,340,246**
LIABILITIES			
Customer accounts	12	902,023,405	665,497,961
Borrowed funds	13	105,626,763	59,570,463
Debt securities in issue	15	78,650,059	57,730,697
Deferred tax liabilities	21	15,944,892	10,515,406
Other financial liabilities	14	4,175,467	3,468,744
Other liabilities	14	2,152,659	1,895,177
TOTAL LIABILITIES		**1,108,573,245**	**798,678,448**
EQUITY			
Share capital	16	78,300,000	78,300,000
Additional paid in capital		80,980,344	54,568,526
Revaluation reserve for investment securities at fair value through other comprehensive income		(3,077,553)	(1,999,265)
Other reserves		2,283,335	2,283,335
Retained earnings		86,215,681	66,509,202
TOTAL EQUITY		**244,701,807**	**199,661,798**
TOTAL LIABILITIES AND EQUITY		**1,353,275,052**	**998,340,246**

* Hereinafter in the financial statements of House Construction Savings Bank of Kazakhstan JSC and in the notes to it, 31 December of any year is understood as 24.00 of Almaty time on 31 December of that year.

27 February 2020

Ibragimova Lyazzat Yerkenovna
Chairman of the Board

Kiltbayeva Zhanerke Almasbekovna
Chief Accountant

(in thousands of Kazakhstani Tenge)	Note	2019	2018
Interest income calculated using the effective interest method	17	84,434,726	62,605,385
Interest and similar expense	17	(27,893,450)	(13,747,790)
Net margin on interest and similar income		**56,541,276**	**48,857,595**
Credit loss allowance	7,8,9	(346,691)	(461,340)
Net margin on interest and similar income after credit loss allowance		**56,194,585**	**48,396,255**
Fee and commission income	18	1,274,895	1,144,236
Fee and commission expense	18	(5,062,970)	(2,360,439)
Losses on initial recognition of assets at rates below market		(5,158,301)	(3,820,994)
Recovery of losses from trading securities		-	87,787
Recovery of impairment/(impairment) of debt securities at fair value through other comprehensive income and other financial assets		8,021	(133,293)
(Losses)/gains less gains/(losses) from trading in foreign currencies		(90)	26,291
Other net operating expenses	19	(1,181,202)	(884,624)
Administrative expenses	20	(17,114,060)	(14,982,795)
Profit before tax		**28,960,878**	**27,472,424**
Income tax expense	21	(1,318,879)	(1,017,255)
PROFIT FOR THE YEAR		**27,641,999**	**26,455,169**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
- (Losses)/gains less gains/(losses) on investments in debt securities at fair value through other comprehensive income		(969,721)	2,670,075
- (Losses) less gains on investments in debt securities at fair value through other comprehensive income carried into profit and loss statement		(108,553)	(61,622)
Items that will not be reclassified to profit or loss:			
(Losses)/gains less gains/(losses) on investments in equity securities at fair value through other comprehensive income		(14)	17,869
Other comprehensive (loss)/income for the year		**(1,078,288)**	**2,626,322**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**26,563,711**	**29,081,491**
Earnings per share for profit attributable to the shareholder of the Bank, basic and diluted (expressed in Kazakhstani Tenge per share)	29	**3,530**	**3,379**

House Construction Savings Bank of Kazakhstan JSC
Statement of Changes in Equity

(in thousands of Kazakhstani Tenge)	Note	Share capital	Additional paid-in capital	Revaluation reserve for AFS securities	Revaluation reserve for securities at FVOCI	Other reserves	Retained earnings	Total equity
Balance at 1 January 2018		**78,300,000**	**29,294,057**	**(4,147,598)**	**-**	**3,389,604**	**46,053,925**	**152,889,988**
Adoption of IFRS 9:								
- remeasurement for expected credit losses, net of tax		-	-	4,147,598	(4,147,598)	-	91,821	91,821
- other effects		-	-	-	(477,989)	-	477,989	-
Balance at 1 January 2019		**78,300,000**	**29,294,057**	**-**	**(4,625,587)**	**3,389,604**	**46,623,735**	**152,981,809**
Profit for the year		-	-	-	-	-	26,455,169	26,455,169
Other comprehensive income		-	-	-	2,626,322	-	-	2,626,322
Total comprehensive income for 2018		**-**	**-**	**-**	**2,626,322**		**26,455,169**	**29,081,491**
					-			
The difference between the amounts received from Ministry of Finance of RK and Administration of Almaty and their fair value upon initial recognition, net of deferred tax	4, 13	-	25,274,469	-	-	-	-	25,274,469
Payment of dividends to shareholders		-	-	-	-	-	(7,675,971)	(7,675,971)
Dissolution of the dynamic reserve		-	-	-	-	(1,106,269)	1,106,269	-
Balance at 31 December 2018		**78,300,000**	**54,568,526**	**-**	**(1,999,265)**	**2,283,335**	**66,509,202**	**199,661,798**
					-			
Changes in initial application of IFRS 16		-	-	-	-	-	-	-
Restated balance at 1 January 2019		**78,300,000**	**54,568,526**	**-**	**(1,999,265)**	**2,283,335**	**66,509,202**	**199,661,798**
Profit for the year		-	-	-	-	-	27,641,999	27,641,999
Other comprehensive income		-	-	-	(1,078,288)	-	-	(1,078,288)
Total comprehensive income for the year		**-**	**-**	**-**	**(1,078,288)**	**-**	**27,641,999**	**26,563,711**
The difference between the amounts received from Ministry of Finance of RK and Administration of Almaty and their fair value upon initial recognition, net of deferred tax	4,13	-	26,411,818	-	-	-	-	26,411,818
Payment of dividends to shareholders	16	-	-	-	-	-	(7,936,551)	(7,936,551)
Return of unused compensation		-	-	-	-	-	1,031	1,031
Balance at 31 December 2019		**78,300,000**	**80,980,344**	**-**	**(3,077,553)**	**2,283,335**	**86,215,681**	**244,701,807**

The accompanying notes on pages 5 to 71 are an integral part of these financial statements.

(in thousands of Kazakhstani Tenge)	Note	2019	2018
Cash flows from operating activities			
Interest income calculated using the effective interest method received		82,768,875	62,261,589
Interest paid calculated using the effective interest method		(24,836,432)	(12,020,221)
Other similar income paid			
Fees and commissions received		1,274,895	1,144,236
Fees and commissions paid		(4,925,783)	(2,360,439)
Staff costs paid		(9,001,745)	(8,193,297)
Administrative and other operating expenses paid		(7,554,958)	(6,263,959)
Income tax paid		(2,255,422)	(2,402,752)
Cash flows from operating activities before changes in operating assets and liabilities		**35,469,430**	**32,165,157**
Net decrease/(increase) in:			
- due from other banks		-	10,208,000
- loans and advances to customers		(334,820,225)	(205,021,824)
- other financial assets		(1,207,660)	(737,575)
- other assets		(125,914)	192,250
Net (decrease)/increase in:			
- customer accounts		237,088,445	139,132,706
- other financial liabilities		77,522	(231,851)
- other liabilities		56,703	137,919
Net cash used in operating activities		**(63,461,699)**	**(24,155,218)**
Cash flows from investing activities			
Acquisition of premises and equipment		(1,273,166)	(1,169,958)
Acquisition of intangible assets		(2,028,087)	(731,989)
Proceeds from disposal of premises and equipment		67,127	47,258
Acquisition of debt securities at fair value through other comprehensive income		(37,356,065)	(36,068,547)
Acquisition of investments in debt securities carried at amortised cost		(139,842,191)	(95,634,075)
Proceeds from disposal of debt securities at fair value through other comprehensive income		50,138,101	56,999,317
Proceeds from redemption of debt securities carried at amortised cost		83,250,000	144,700,000
Net cash (used in)/from investing activities		**(47,044,281)**	**68,142,006**
Cash flows from financing activities			
Loan received from the Government of the Republic of Kazakhstan		92,000,000	39,000,000
Repayment of loan received from the Government of the Republic of Kazakhstan		-	(23,560,000)
Loan received from local executive bodies of the Republic of Kazakhstan		2,500,000	1,200,000
Repayment of loan received from local executive bodies of the Republic of Kazakhstan		-	(4,376)
Repayment of loan received from NWF "Samruk-Kazyna"		(18,277,000)	-
Proceeds from issue of debt securities	15	20,000,000	57,700,000
Dividends paid	16	(7,936,551)	(7,675,971)
Long term lease	14	(131,178)	-
Net cash from financing activities		**88,155,271**	**66,659,653**
Effect of exchange rate changes on cash and cash equivalents		**1,306**	**27,803**
Net (decrease)/increase in cash and cash equivalents		**(22,349,403)**	**110,674,244**
Cash and cash equivalents at the beginning of the year	7	173,374,282	62,700,038
Cash and cash equivalents at the end of the year		**151,024,879**	**173,374,282**

The accompanying notes on pages 5 to 71 are an integral part of these financial statements.

1 Introduction

These financial statements of the House Construction Savings Bank of Kazakhstan JSC (the "Bank") are prepared in accordance with the International Financial Reporting Standards for the year ended 31 December 2019.

The Bank was established in accordance with Resolution of the Government of the Republic of Kazakhstan No.364 dated 16 April 2003 with a 100% state participation in the charter capital for the purpose of development of housing construction savings system in the Republic of Kazakhstan.

In accordance with Decree of the President of the Republic of Kazakhstan No.571 dated 22 May 2013 and Resolution of the Government of Republic of Kazakhstan No.516 dated 25 May 2013, shares of the Bank held by the Government were transferred for payment of outstanding shares of "National managing holding "Baiterek" JSC.

National Managing Holding "Baiterek" JSC is the sole shareholder (the "Parent" or the "Shareholder") of the Bank.

The ultimate controlling party of the Bank is the Government of the Republic of Kazakhstan. Information on transactions with related parties is presented in Note 28.

Principal activity.

In accordance with License No.1.2.60/44 dated 04 September 2018 issued by the National Bank of the Republic of Kazakhstan, the Bank performs activities on acceptance of deposits for housing construction savings, opening and management of depositor accounts, provision of housing, interim and preliminary housing loans to depositors to improve housing conditions across the Republic of Kazakhstan, cash operations (acceptance and provision of cash including cash change, exchange, recounts, sorting, packing and storage), transfer operations (implementation of payment and transfer orders received from individuals and legal entities), opening and management of bank accounts for legal entities, issue of own securities (except for shares) and dealer activity in securities market without the right to manage customer accounts. In addition, the Bank is able to perform activities on trust operations for the management of the rights of claim on mortgage loans on behalf and by order of a principal and arrangement of foreign exchange operations. This license was reissued by the Agency of the Republic of Kazakhstan on regulation and development of the financial market on 3 February 2020.

The mission of the Bank is to provide Kazakhstani families with their own housing and to strengthen the feeling of their homeland.

The Bank is the only Bank in the country that implements a system of housing construction savings. The HCS system is aimed at improving the living conditions of the population through attracting money from investors in housing construction deposits and providing them with housing loans.

The Bank is actively involved in solving the strategic and social tasks of the state through the implementation of the "Nurly Zhol" State Infrastructure Development Program for 2015-2019, and the "Nurly Zher" Housing Construction Program. In accordance with the Decree of the Government of the Republic of Kazakhstan "On approval of the State program for housing and communal development "Nurly Zher" for 2020-2025 dated 31 December 2019 No. 1054, the Bank is a participant in the implementation of this program related to the development of housing construction, ensuring housing affordability strata of the population through a system of housing construction savings.

The growth of the Bank's key indicators, including those for 2019, such as the number of executed housing construction savings contracts and volume of issued loans, indicates the expansion of the Bank's presence in the financial services market and enhancement of competitiveness in the market. So, since the beginning of lending activity, i.e. from years 2005 to 2019 the Bank issued 223,008 loans for the amount of 1,671.2 billion tenge; since the beginning of operation, 2,320.58 thousand contracts have been concluded. The growth of these indicators eventually led to a steady growth of the loan and deposit portfolios.

Due to the increase of loan portfolio and the volume of funds placed in financial instruments that is caused by growth of deposit portfolio, the profitability of the financial assets has increased during year 2019.

For further development and sustainable business growth, the Bank is constantly working on access to its products, improving the quality of customer service, expanding alternative channels for accepting payments and developing IT infrastructure.

The Bank is a member of the European Federation of Building Societies (EFBS). Today, the association includes about 50 members throughout Europe. The full membership of the Bank in EFBS represents a unique opportunity for further development of the Kazakhstan's housing construction savings system and promoting the integration process in the world community of building societies.

1 Introduction (Continued)

The Bank is also a member of the International Union for Housing Finance, an organization that allows its members to keep abreast of the latest developments in housing finance around the world. The Bank has signed Memoranda of Cooperation with Bausparkasse Schwäbisch Hall (Germany), State Mortgage Company OJSC (Kyrgyz Republic) and the International Finance Corporation.

The Bank supports the exchange of experience within the framework of the Memoranda: holding meetings, seminars, forums, round tables, conferences on the development of mortgage lending and the system of housing construction savings, developing the long-term and mutually beneficial cooperation.

In 2019, the Bank implemented the following projects to improve servicing quality and ensure own housing for wider population:

1. The Corporate program, which provides an opportunity for employees of organizations to improve their living conditions as part of the social support of their employees. For these purposes, the organization provides financing for the waiting list / employees through the Bank by placing its own funds in the Bank account in the amount established by the terms of the program. The terms of the Program give an opportunity to choose the most suitable conditions for the organization (size of the placed amount, final interest rate for employees).

2. The "Gift Certificate" product is valid from January 2019. Gift certificate for HCS agreement is a document valid for no more than 3 (three) months with nominal of at least 5,000 (five thousand) tenge, which allows to cede the HCS agreement to a third party for free as a gift. The gift certificate for HCS agreement is provided when opening a deposit.

3. The "Crediting for the purchase of primary housing in the framework of the "Bakytty Otbasy" program of Almaty city" Program was implemented on 1 March 2019 to fulfill the order of the First President of RK N. Nazarbayev to increase the availability of housing for large and single-parent families, families with children with disabilities and low incomes at the XVIII Congress of the "Nur-Otan" Party.

4. New lending conditions have been developed under "Housing for military and employees of special government bodies" program for 2019-2025 for recipients of housing benefits (Program 8-15).

5. The Republican program for low-income families "The "Nurly Zher" Housing Construction Program in the direction of "Low income-families lending to purchase housing (Bakytty Otbasy)" was implemented in May 2019 after relevant additions and amendments to the Decree of the Government of the Republic of Kazakhstan dated 22 June 2018 No. 372 "On approval of the State Housing Program "Nurly Zher".

6. The Bank approved loan conditions for women in the framework of the Bank's cooperation with the Asian Development Bank.

Registered address and place of business. The Bank's registered legal address is: 91, Abylay-Khan avenue, A05A2X0, Almaty, Republic of Kazakhstan.

As at 31 December 2019, the Bank has 17 regional branches, 18 service centers and 4 service points throughout Kazakhstan (in 2018: 17 regional branches, 17 service centers, 5 service points). Developing a regional network, the Bank seeks to achieve a convenient location of offices to maximize customer reach, as well as to ensure equal access to the Bank's services for all customers in all regions of the country.

Today, the Bank has a developed network of consultants (agent network) through which customers can receive consulting services on the Bank's products and services, open deposits online without visiting the Bank.

The Bank's audited financial statements for the year ended 31 December 2018 is posted on the official website of the Bank, in the section "About the Bank – Reporting".

The Bank is a member of the obligatory collective deposit insurance system in accordance with the Certificate №25 issued by "Kazakhstan Deposit Insurance Fund" JSC. Insurance covers Bank's liabilities to individual depositors for the amount up to Tenge 10,000 thousand for each individual in case of business failure and revocation of the license.

According to the Resolution of the Management Board of Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Market and Financial Organizations No.162 dated 25 June 2007, the Bank was granted the status of a financial agency.

In agreement with the status of a financial agency, the borrowed funds from the republican budget were attracted by the Bank without provision of collateral security in accordance with the Resolution of the Government of the Republic of Kazakhstan No.1844 dated 16 November 2009.

1 Introduction (Continued)

As of 31 December 2019:

Moody's rating agency affirmed the Bank the following ratings:

- Long-term rating on deposits in the national currency: Baa3 (Positive);
- Short-term rating on deposits in the national currency: Prime-3 (Positive);
- Baseline Credit Assessment (BCA): ba2 (Positive).

Fitch Ratings agency affirmed the Bank the following ratings:

- Long-term Issuer Default Rating (IDR) in national currency: BBB-/Stable;
- Short-term IDR in national currency: F3/ Stable.

As of 31 December 2018:

Moody's rating agency affirmed the Bank the following ratings:

- Long-term rating on deposits in the national currency: Baa3 (Stable);
- Short-term rating on deposits in the national currency: Prime-3 (Stable);
- Baseline Credit Assessment (BCA): ba2 (Stable).

Fitch Ratings agency affirmed the Bank the following ratings:

- Long-term Issuer Default Rating (IDR) in national currency: BBB-/Stable;
- Short-term IDR in national currency: F3/Stable.

Presentation currency. These financial statements are presented in Kazakhstani Tenge (tenge), unless stated otherwise.

2 Operating Environment of the Bank

The Bank operates primarily in Kazakhstan. In general, the economy of the Republic of Kazakhstan continues to display characteristics of an emerging market. Its economy is particularly sensitive to oil and gas, and other commodities, which constitute major part of the country's export. These characteristics include, but are not limited to, the existence of national currency that is not freely convertible outside of the country and a low level of liquidity of debt and equity securities in the markets. Ongoing political tension in the region, volatility of exchange rate have caused and may continue to cause negative impact on the economy of the Republic of Kazakhstan, including decrease in liquidity and creation of difficulties in attracting of international financing.

In September 2019 Standard & Poor's, international rating agency affirmed the long-term foreign and local currency sovereign credit ratings of Kazakhstan - "BBB-" and short-term foreign and local currency sovereign credit ratings - "A-3", and the Kazakhstan national scale - "kzAAA". The outlook is stable (long-term ratings). The stable outlook is supported by the government's strong balance sheet, built on past budgetary surpluses accumulated in the National Fund of the Republic of Kazakhstan and also by liquid external assets exceeding relatively low government debt over the next two years.

Increase in oil production and firm oil prices, low unemployment and rising wages supported a modest growth of the economy in the previous year. Standard & Poor's expects real-world economic growth rates to remain stable at around 3.6% on average in 2019-2022 and will be supported by government capital investment programs and an increase in oil production after 2019.

Such an economic environment has a significant impact on the Bank's operations and financial position. Management takes all necessary measures to ensure the sustainability of the Bank.

Additionally, the bank sector in the Republic of Kazakhstan is still impacted by political, legislative, fiscal and regulatory developments. The prospects for future economic stability in the Republic of Kazakhstan are largely dependent upon the effectiveness of economic measures undertaken by the Government, together with legal, controlling and political developments, which are beyond the Bank's control.

2 Operating Environment of the Bank (Continued)

Management is unable to predict the extent and duration of changes in the Kazakhstani economy, nor quantify their impact, if any, on the Bank's financial position in future. Management believes it is taking all the necessary measures to support the sustainability and growth of the Company's business in the current circumstances.

3 Summary of Significant Accounting Policies

Basis of preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and financial instruments categorized at fair value through profit or loss. The principal accounting policies applied in the preparation of these financial statements are set out below. Apart from the accounting policy changes resulting from the adoption of IFRS 16 "Leases" from 1 January 2019, these policies have been consistently applied to all the periods presented, unless otherwise stated (Note 5)

Going concern. Management prepared these financial statements on a going concern basis.

Financial instruments - key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is a quoted price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the Bank. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price. The price within the bid-ask spread that is most representative of fair value in the circumstances was used to measure fair value, which management considers is the last trading price on the reporting date the average of actual trading prices on the reporting date. The market quotation used to value financial assets is the current bid price; the quoted market price for financial liabilities is the current asking price.

A portfolio of financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date in a current market conditions.

This is applicable for assets carried at fair value on a recurring basis if the Bank: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the Bank's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the Bank's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same.

Valuation models such as discounted cash flow models or models based on recent arm's length transactions between independent parties or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analyzed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). No transfers between levels of the fair value hierarchy have occurred at the end of the reporting period.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, obligatory payments by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued

3 Summary of Significant Accounting Policies (Continued)

interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument.

The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all payments and fees paid or received between parties to the contract that are an integral part of the effective interest rate. For assets that are purchased or originated credit impaired ("POCI") at initial recognition, the effective interest rate is adjusted for credit risk, i.e. it is calculated based on the expected cash flows on initial recognition instead of contractual payments.

Initial recognition of financial instruments. Trading securities, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation model whose inputs include only data from observable markets. After the initial recognition, an ECL allowance is recognised for financial assets measured at AC and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Bank commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Financial assets – classification and subsequent measurement – measurement categories. The Bank classifies financial assets in the following measurement categories: FVTPL, FVOCI and AC. The classification and subsequent measurement of debt financial assets depends on: (i) the Bank's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

Financial assets – classification and subsequent measurement – business model. The business model reflects how the Bank manages the assets in order to generate cash flows – whether the Bank's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows",) or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Bank undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Bank in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed, how the assets' performance is assessed and how managers are compensated.

Financial assets – classification and subsequent measurement – cash flow characteristics. Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Bank assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature. In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed.

Financial assets – reclassification. Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model.

3 Summary of Significant Accounting Policies (Continued)

Financial assets impairment – credit loss allowance for ECL. The Bank assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts. The Bank measures ECL and recognises credit loss allowance at each reporting date.

The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at AC are presented in the statement of financial position net of the allowance for ECL. For loan commitments and financial guarantees, a separate provision for ECL is recognised as a liability in the statement of financial position. For debt instruments at FVOCI, changes in amortised cost, net of allowance for ECL, are recognised in profit or loss and other changes in carrying value are recognised in OCI as gains less losses on debt instruments at FVOCI.

The Bank applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Bank identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). Refer to Note 22 for a description of how the Bank determines when a SICR has occurred. If the Bank determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. The Bank's definition of credit impaired assets and definition of default is explained in Note 22.

Financial assets – modification. When financial assets are contractually modified (e.g. renegotiated), the Bank assesses whether the modification is substantial and should result in derecognition of the original asset and recognition of a new asset at fair value. This assessment is based primarily on qualitative factors, described in the relevant accounting policy and it requires significant judgment. In particular, the Bank applies judgment in deciding whether credit impaired renegotiated loans should be derecognised and whether the new recognised loans should be considered as credit impaired on initial recognition. The derecognition assessment depends on whether the risks and rewards, that is, the variability of expected (rather than contractual) cash flows, change as a result of such modifications. Management determined that risks and rewards did not change as a result of modifying such loans and therefore in substantially all such modifications, the loans were neither derecognised nor reclassified out of the credit-impaired stage.

Financial assets – write-off. Financial assets are written-off, in whole or in part, when the Bank exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Bank may write-off financial assets that are still subject to enforcement activity when the Bank seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

Financial assets – derecognition. The Bank derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Bank has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

Financial liabilities – measurement categories. Financial liabilities are classified as subsequently measured at AC, except for (i) financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

Financial liabilities – derecognition. Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires). An exchange between the Bank and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in loan covenants are also considered. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the

3 Summary of Significant Accounting Policies (Continued)

liability and are amortised over the remaining term of the modified liability.

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include mandatory reserve deposits with the NBRK and all interbank placements and reverse sale and repurchase agreements with other banks with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

The payments or receipts presented in the statement of cash flows represent transfers of cash and cash equivalents by the Bank, including amounts charged or credited to current accounts of the Bank's counterparties held with the Bank, such as loan interest income or principal collected by charging the customer's current account or interest payments or disbursement of loans credited to the customer's current account, which represents cash or cash equivalent from the customer's perspective.

Due from other banks. Amounts due from other banks are recorded when the Bank advances money to counterparty banks. Amounts due from other banks are carried at AC when: (i) they are held for the purposes of collecting contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

Investments in debt securities. Based on the business model and the cash flow characteristics, the Bank classifies investments in debt securities as carried at AC, FVOCI or FVTPL. Debt securities are carried at AC if they are held for collection of contractual cash flows and where those cash flows represent SPPI, and if they are not voluntarily designated at FVTPL in order to significantly reduce an accounting mismatch.

Debt securities are carried at FVOCI if they are held for collection of contractual cash flows and for selling, where those cash flows represent SPPI, and if they are not designated at FVTPL. Interest income from these assets is calculated using the effective interest method and recognised in profit or loss. An impairment allowance estimated using the expected credit loss model is recognised in profit or loss for the year. All other changes in the carrying value are recognised in OCI. When the debt security is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to profit or loss.

Investments in debt securities are carried at FVTPL if they do not meet the criteria for AC or FVOCI. The Bank may also irrevocably designate investments in debt securities at FVTPL on initial recognition if applying this option significantly reduces an accounting mismatch between financial assets and liabilities being recognised or measured on different accounting bases.

Investments in equity securities. Financial assets that meet the definition of equity from the issuer's perspective, i.e. instruments that do not contain a contractual obligation to pay cash and that evidence a residual interest in the issuer's net assets, are considered as investments in equity securities by the Group. Investments in equity securities are measured at FVTPL, except where the Bank elects at initial recognition to irrevocably designate an equity investments at FVOCI. The Bank's policy is to designate equity investments as FVOCI. When the FVOCI election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses and their reversals, if any, are not measured separately from other changes in fair value. Dividends continue to be recognised in profit or loss when the Bank's right to receive payments is established except when they represent a recovery of an investment rather than a return on such investment.

Loans and advances to customers. Loans and advances to customers are recorded when the Bank advances money to purchase or originate a loan due from a customer. Based on the business model and the cash flow characteristics, the Bank classifies loans and advances to customers into one of the following measurement categories: (i) AC: loans that are held for collection of contractual cash flows and those cash flows represent SPPI and loans that are not voluntarily designated at FVTPL, and (ii) FVTPL: loans that do not meet the SPPI test or other criteria for AC or FVOCI are measured at FVTPL.

Impairment allowances are determined based on the forward-looking ECL models. Note 22 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Bank incorporates forward-looking information in the ECL models.

In accordance with Law of Republic of Kazakhstan No. 110 "On housing construction savings in the Republic of Kazakhstan" dated 7 December 2000, the Bank provides the following types of loans in the national currency: a housing, interim housing, and preliminary housing loans.

Housing loans granted to customers, given that there is an accumulation of minimum required amount within 3-15 years, under the housing savings contract. The minimum period is 3 years of accumulation, the minimum savings amount is 50% of the amount needed to improve housing conditions. The interest rate on the loan varies from 2% to 5% per annum. Term of use of housing loans ranges from 6 to 25 years, depending on the selected tariff program of the Bank. Housing loan issued on the following conditions: i) the accumulation of a minimum required amount of

3 Summary of Significant Accounting Policies (Continued)

savings; ii) when the minimum value of the evaluation index is reached; iii) the provision of the collateral; iv) confirmation of the borrower's creditworthiness.

The interim housing loan is granted to depositors with 50% accumulation or prepayment of savings of the required amount. The interest rate on the loan is from 2% to 12% per annum. The use of housing loan is up to 25 years, depending on selected tariff program of the Bank.

Preliminary housing loan is granted to certain client categories under the state and regional programs (Nurly zher, Almaty zhastary, Bakytty otbasy in Almaty city), as well as the Bank's own program "The house", "Corporate" program, "Housing of military personnel and employees of the state security service" program.

Interest rate on preliminary housing loans ranges from 2% to 12% per annum for the accumulation/prepayment of savings from 10% to 50% of the contractual amount, depending on the category of borrower. During the period of use of preliminary housing loans, further accumulation of savings are carried out simultaneously with the repayment of interest on preliminary housing loan (non-payment of principal). At the end of accumulation period, accumulated savings and housing loan, which is directed to the prior repayment of the preliminary housing loan, are paid. The use of preliminary housing loan is from 6 months to 10 years, depending on the selected tariff program.

According to the market program, preliminary housing loans issued prior to May 2015 with an interest rate of 9.5% per annum for the accumulation/prepayment of savings from 25% to 50% of the contractual amount. Preliminary housing loan term ranged from 3 to 8.5 years, depending on the selected tariff.

Loans granted to customers under government programs at rates below market are carried at fair value at initial recognition. Accordingly, at initial recognition of loans received and loans granted by government programs, the Bank uses judgment in estimating the fair value of loans issued under government programs.

Interim and preliminary loans granted to customers of the Bank with non-market conditions, except for loans to customers of low-income families, in which the total maximum monthly income divided by each family member is lower than the minimum wage, are initially recognized at fair value, and difference, arising upon initial recognition of a loan at rates higher or lower than market, is charged to income or expenses.

Sale and repurchase agreements and lending of securities. Sale and repurchase agreements ("repo agreements"), which effectively provide a lender's return to the counterparty, are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The securities are reclassified as repurchase receivables in the statement of financial position if the transferee has the right by contract or custom to sell or repledge the securities. The corresponding liability is presented within amounts due to other banks or other borrowed funds.

Securities purchased under agreements to resell ("reverse repo agreements"), which effectively provide a lender's return to the Bank, are recorded as due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price, adjusted by interest and dividend income collected by the counterparty, is treated as interest income and accrued over the life of repo agreements using the effective interest method.

Securities lent to counterparties for a fixed fee are retained in the financial statements in their original category in the statement of financial position unless the counterparty has the right by contract or custom to sell or repledge the securities, in which case they are reclassified and presented separately. Securities borrowed for a fixed fee are not recorded in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded in profit or loss for the year within gains less losses arising from trading securities.

Premises and equipment. Premises and equipment are stated at initial cost less accumulated depreciation and provision for impairment, where required.

Costs of minor repairs and day-to-day maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised, and the replaced part is retired.

At the end of each reporting period management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year (within other operating income or expenses).

3 Summary of Significant Accounting Policies (Continued)

Depreciation. Land and construction in progress are not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost to their liquidation values over their estimated useful lives:

	Useful lives in years
Premises	8 – 100
Vehicles	5 – 7
Office and computer equipment	2 – 10
Right-of-use assets	2
Other	3 – 20

The liquidation value of an asset is the estimated amount that the Bank would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Intangible assets. The Bank's intangible assets primarily include capitalised computer software and licenses. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Bank are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised intangible assets are amortised on a straight line basis over expected useful lives:

	Useful lives in years
Licenses	3-20
Computer software	1-14

Intangible assets with indefinite useful lives are not amortized but tested for annually for impairment.

Accounting for leases by the Bank as a lessee from 1 January 2019. The Bank leases office premises. Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Bank. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is recognised at cost and depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs, and
- restoration costs.

As an exception to the above, the Bank accounts for short-term leases and leases of low value assets by recognising the lease payments as an operating expense on a straight line basis.

3 Summary of Significant Accounting Policies (Continued)

In determining the lease term, management of the Bank considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

As at 31 December 2019, the Bank recognized right-of-use in the amount of 496,529 thousand tenge, as well as the corresponding lease liability in the amount of 535,607 thousand tenge in "Other financial liabilities" in the Statement of financial position.

Accounting for operating leases by the Bank as a lessee prior to 1 January 2019. Where the Bank is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Bank, the total lease payments are charged to profit or loss for the year (rental expense) on a straight-line basis over the period of the lease.

Leases embedded in other agreements are separated if (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets and (b) the arrangement conveys a right to use the asset.

Non-current assets classified as held for sale. Non-current assets are classified in the statement of financial position as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction, including loss of control of a subsidiary holding the assets, within twelve months after the end of the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Bank's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale premises and equipment are not depreciated or amortised.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at AC. If the Bank purchases its own debt, the liability is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from retirement of debt.

Customer accounts. Customer accounts are non-derivative financial liabilities to individuals and legal entities, initially recognised at fair value less costs directly associated with a transaction and are carried at AC.

Borrowed funds. Borrowed funds include loans received from the Government of the Republic of Kazakhstan, Fund of National Welfare "Samruk-Kazyna" JSC, National Managing Holding "Baiterek" and Administration of Almaty.

Borrowed funds are initially recorded at fair value less costs directly associated with a transaction and are carried at amortised cost.

Borrowed funds received as part of the "Bakytty Otbasy" program, are aimed to provide affordable housing for low-income, mainly large families; hence these borrowed funds are related to a separate main market and are not subject to fair value adjustments.

Debt securities in issue. Debt securities in issue include bonds issued by the Bank. Debt securities are stated at AC. If the Bank purchases its own debt securities in issue, they are removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from retirement of debt.

Income taxes. Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge and credit comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity. Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if the financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

3 Summary of Significant Accounting Policies (Continued)

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised.

Tax deduction for lease payments is allocated to depreciation of right of use asset and interest cost on the lease liability. As a result, no temporary differences arise upon initial recognition of a new lease where the Bank is a lessee.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Uncertain tax positions. The Bank's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Trade and other payables. Trade and other payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost. Due to the short-term nature of trade and other payables, the effect from discounting of future cash flows for the calculation of amortised cost is insignificant.

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Additional paid-in capital. Additional paid-in capital represents the value of assets or services transferred or provided to the Bank by Shareholders without public offering or transferred against future share issues. At initial recognition, loans received from Parent company at a rate below market, are recognised at fair value in equity as additional paid-in capital. Additional paid-in capital is not revised further.

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the financial statements are authorised for issue, are disclosed in the subsequent events note.

Income and expense recognition. Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Bank does not designate loan commitments as financial liabilities at fair value through profit or loss.

For financial assets that are originated or purchased credit-impaired, the effective interest rate is the rate that discounts the expected cash flows (including the initial expected credit losses) to the fair value on initial recognition (normally represented by the purchase price). As a result, the effective interest is credit-adjusted.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for (i) financial assets that have become credit impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their AC, net of the ECL provision, and (ii) financial assets that are purchased or originated credit impaired, for which the original credit-adjusted effective interest rate is applied to the AC.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

3 Summary of Significant Accounting Policies (Continued)

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned on execution of the underlying transaction, are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis.

Offsetting. Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off 1) must not be contingent on a future event and 2) must be legally enforceable in all of the following circumstances: (a) in the normal course of business, (b) the event of default and (c) the event of insolvency or bankruptcy.

Earnings per share. Earnings per share are calculated by dividing profit or loss attributable to owners of the Bank's share on the weighted average number of participating shares outstanding during the year

Staff costs and related contributions. Wages, salaries, contributions to the state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Bank. The Bank has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

Segment reporting. Segments are reported in a manner consistent with the internal reporting provided to the Bank's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

Presentation of statement of financial position in order of liquidity. The Bank does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, assets and liabilities are presented by expected maturity as provided in Note 22.

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies

The Bank makes estimates and make assumptions that affect the reported amounts and the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year. Estimates and judgments are continually evaluated based on management's experience and other factors, including expectations of future events which management believes to be reasonable under the circumstances. In the process of applying the accounting policies, management also uses judgment and estimates. Judgments that have the most significant effect on the amounts recognized in the financial statements and estimates that can cause a significant adjustment to the carrying amounts of assets and liabilities within the next financial year include:

ECL measurement. Measurement of ECLs is a significant estimate that involves determination of methodology, models and data inputs. Details of ECL measurement methodology are disclosed in Note 22. The following components have a major impact on credit loss allowance: definition of default, SICR, probability of default ("PD"), exposure at default ("EAD"), and loss given default ("LGD"), as well as models of macro-economic scenarios. The Bank regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience.

The Bank used supportable forward looking information for measurement of ECL, primarily an outcome of its own macro-economic forecasting model. The Bank validates macro-economic functions on an annual basis, as macro-economic dependence may vary in due course. Refer to Note 22.

In 2019, the Bank performed the analysis of macro-economic variables as at 1 April 2019. The analysis of macro-economic impact on default probability did not confirm the availability of interconnection between the level of default and macro-economic factors, therefore macro-economic factors were approved at the level of 100% (that confirms the lack of impact).

Significant increase in credit risk ("SICR"). In order to determine whether there has been a significant increase in credit risk, the Bank compares the risk of a default occurring over the life of a financial instrument at the end of the reporting date with the risk of default at the date of initial recognition. The assessment considers relative increase in credit risk rather than achieving a specific level of credit risk at the end of the reporting period. The Bank considers all reasonable and supportable forward looking information available without undue cost and effort, which includes a range of factors, including behavioural aspects of particular customer portfolios. The Bank identifies behavioural indicators of increases in credit risk prior to delinquency and incorporated appropriate forward looking information into the credit risk assessment, either at an individual instrument, or on a portfolio level. Refer to Note 22.

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies (Continued)

Should ECL on all loans and advances to customers (except for loans provided as of the initial recognition date for December 2019) be measured at lifetime ECL (that is, including those that are currently in Stage 1 measured at 12-months ECL), the expected credit loss allowance would be higher by Tenge 2,994,696 thousand as of 31 December 2019 (31 December 2018: higher by Tenge 2,005,090 thousand).

Should Loss Given Default on impaired loans is 100%, the expected credit loss would be higher by Tenge 1,012,718 thousand (31 December 2018: higher by Tenge 1,009,252 thousand).

Fair value of financial instruments at rates below market. According to tariff programs of the Bank, housing loans are advanced to the population with an interest rate of 2% to 5%. These loans are granted when 50% of savings of the contractual amount are available at the savings account of the potential borrower subject to reaching the estimated index and meeting the minimum period of savings which is not less than three years. The savings interest rate is 2%. The Bank concluded that both loans and savings transactions are sufficiently unique and there are no similar goods in the market. Following from this, the Bank also concluded that these transactions in themselves constitute a principal or most advantageous market and, hence, transaction price is fair value and no adjustments are required for the loans and savings at their initial recognition.

From 2008 to the present "Samruk-Kazyna" National Welfare Fund" JSC, the Ministry of Finance of the Republic of Kazakhstan and Baiterek National Managing Holding JSC provided funds to the Bank to finance government programs on lending of housing loans within the framework of "Affordable Housing - 2020" and "Nurly Zher" housing programs.

The Bank also attracts funds from local budgets to finance regional programs for the provision of preliminary loans under the "Almaty Zhastary" program as part of the Almaty Youth Support Roadmap for 2020 and for the provision of preliminary and intermediate loans under the regional program "Bakytty Otbasy" in Almaty. The Bank reflected loans at initial recognition received under the "Almaty Zhastary" program at the market rate at the loan issue date.

These borrowings were received on contractual terms significantly different from the average market interest rate on loans with similar maturity and interest rate terms and were recognized in the financial statement at fair value. On initial recognition, the Bank recognized loans at the market rate at the loan issue date. Details are presented in the table below.

The Bank's management evaluates this financing under the programs "as participation in the Bank's capital", as the Bank is the only financial operator in the framework of these programs and a subject of the quasi-public sector. In accordance with the Group accounting policies of the parent company and accounting policies of the Bank, fair value adjustments at initial recognition of borrowed funds from shareholders should be accounted through equity. Borrowed funds were provided to the Bank in order to support its core operating activities. The Bank provides loans under programs using its own funds and borrowed funds provided from other sources.

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies (Continued)

The table below illustrates borrowed funds under contractual terms that differ significantly from average market borrowing rates with similar terms on maturity and interest rates, and were recognized in the financial statements at fair value.

(in thousands of Kazakhstani Tenge)

<table>
<tr><th>No.</th><th>Creditor</th><th>Contract start date</th><th>Contract end date</th><th>Amount per contract</th><th>Program</th><th>Nominal rate</th><th>Market rate</th><th>Discount period/ years</th><th>Amount of paid capital</th><th>Calculation method</th></tr>
<tr><td>1</td><td>"Samruk-Kazyna" SWF" JSC</td><td>3 March 2011</td><td>30 November 2021</td><td>15,163,000</td><td>Affordable housing - 2020</td><td>1.00%</td><td>* 4.68%</td><td>10</td><td>3,375,255</td><td>***GS rate of return with a similar maturity</td></tr>
<tr><td>2</td><td>Ministry of Finance of the Republic of Kazakh-stan</td><td>11 July 2012</td><td>18 July 2023</td><td>12,200,000</td><td>Affordable housing - 2020</td><td>1.00%</td><td>4.5656%</td><td>11</td><td>2,949,902</td><td>GS rate of return with a similar maturity</td></tr>
<tr><td>3</td><td rowspan="4">Adminis-tration of Almaty</td><td>6 November 2017</td><td>15 November 2025</td><td>1,000,000</td><td rowspan="4">Almaty Zhastary</td><td>0.01%</td><td>9.0230%</td><td>8</td><td>398,409</td><td rowspan="4">GS rate of return nominated in tenge, by linearizing the indicated dependence using a linear function</td></tr>
<tr><td>4</td><td rowspan="3">30 July 2018</td><td rowspan="3">2 August 2026</td><td>400,000</td><td>0.01%</td><td>8.4304%</td><td>8</td><td>151,741</td></tr>
<tr><td>5</td><td>400,000</td><td>0.01%</td><td>9.2060%</td><td>8</td><td>159,056</td></tr>
<tr><td>6</td><td>400,000</td><td>0.01%</td><td>9.0429%</td><td>8</td><td>156,586</td></tr>
<tr><td>7</td><td>"Baiterek" NMH" JSC</td><td>25 March 2016</td><td>25 March 2036</td><td>22,000,000</td><td>Nurly Zhol</td><td>0.15%</td><td>7.9694%</td><td>20</td><td>13,541,732</td><td>GS rate of return nominated in tenge, by linearizing the indicated depen-dence using a linear function</td></tr>
</table>

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies (Continued)

No.	Creditor	Contract start date	Contract end date	Amount per contract	Program	Nominal rate	Market rate	Discount period/ years	Amount of paid capital	Calculation method
8	Ministry of Finance of the Republic of Kazakh-stan	22 November 2017	27 November 2037	8,000,000	Nurly Zher	0.15%	9.4762%	20	5,266,234	GS rate of return with a similar maturity
9	Ministry of Finance of the Republic of Kazakh-stan	16 March 2018	5 March 2038	24,000,000	Nurly Zher	0.15%	8.9601%	20	15,473,120	GS rate of return with a similar maturity
10	Ministry of Finance of the Republic of Kazakh-stan	19 December 2018	20 December 2038	15,000,000	Nurly Zher	0.15%	8.1825%	20	9,333,966	GS rate of return with a similar maturity
11	Ministry of Finance of the Republic of Kazakh-stan	06 March 2019	1 March 2039	28,000,000	Nurly Zher	0.15%	8.5157%	20	17,698,330	GS rate of return with a similar maturity
12	Ministry of Finance of the Republic of Kazakh-stan	3 December 2019	3 December 2039	14,000,000	Nurly Zher	0.15%	8.1869%	20	8,713,488	The multicomponent fair value determination technique used by "Baite-rek" NMH" JSC and its subsidia-ries

* *average rate for all tranches.*

** *For the group of the Parent company, a general methodology has been developed for determining the fair value of financial assets and financial liabilities, which regulates methods and approaches for determining the fair value at which a transaction would be carried out on a voluntary basis to sell the asset or transfer liabilities between market participants at the valuation date in the current market conditions.*

*** *GS – Government securities*

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies (Continued)

According to the goals of the "Bakytty otbasy" program, the funds in the table below were aimed to provide preliminary, intermediate and housing loans to large Bank customers with a loan term of up to 25 years, with an interest rate of 2% and an initial payment of at least 10%. The Bank believes that the loans issued under this Program relate to a separate main market (according to IFRS 13 Fair Value) and, therefore, the Bank does not adjust to its fair value at initial recognition.

(in thousands of Kazakhstani Tenge)

No	Creditor	Contract start date	Contract end date	Amount per contract	Program	Nominal rate
1	Administration of Almaty	27 March 2019	3 April 2044	1,000,000	Bakytty otbasy	0.01%
2	Administration of Almaty	26 June 2019	28 April 2044	1,500,000	Bakytty otbasy	0.01%
3	Ministry of Finance of the Republic of Kazakhstan	15 July 2019	12 July 2044	50,000,000	Bakytty otbasy	0.01%

If this financing were reflected as a state subsidy, the benefit from the loan would be recognized as deferred income, which is recognized in profit or loss on a systematic basis as borrowed funds are absorbed.

The Bank's management in its judgements relies on the following main reasons indicating the formation of a separate main market:

• the Bank is the only bank in Kazakhstan that issues such loans;

• low attraction rate at 0.01% per annum, long-term special financing by Administrations, the Ministry of Finance of the Republic of Kazakhstan;

• the program was created exclusively for large families with 4 or more children, single-parent families and families with or raising children with disabilities;

• there is a limit on the maximum income for a family (family income cannot exceed 1 minimum wage for each family member);

• low interest rate of 2% per annum, taking into account that the interest rate changes when the loan becomes housing in other programs of the Bank;

• there is a strict list of criteria allowing participation in the Program (lack of housing, presence in the waiting list of local executive authorities in the categories of "large families", "single-parent family", "family with or raising children with disabilities").

As noted above, this program involves long-term financing by government agencies at a low interest rate. The Bank also applied professional judgment in determining the fair value of borrowings received and does not consider it necessary to adjust such borrowings at fair value based on commercial borrowing rates for the following main reasons:

• granting loans under the Program is an essential condition for financing;

• this Program is unprofitable for the Bank, unlike other programs with similar financing, therefore, the provision of financing cannot be considered as a "capital injection" if it requires the implementation of the Program, which brings the Bank a loss;

• the active part of the Bank's loans and advances to customers balance sheet is not adjusted to fair value;

• adjusting the borrowings to fair value through equity (contractual rate of 0.01%, and the range of commercial rates of 8-10%) and, as a result, a significant decrease in the liability leads to an incorrect presentation of economic phenomena.

In 2019 the Bank recorded a loss in the amount of Tenge 5,158,301 thousand (2018: Tenge 3,798,378 thousand) at the initial recognition of loans advanced under government programs at below market rates.

5 Adoption of New or Revised Standards and Interpretations

Adoption of IFRS 16, Leases. The Bank has adopted IFRS 16, issued by IASCF in January 2016, retrospectively from 1 January 2019 with certain simplifications and exemptions, and has not restated comparatives for the 2018 reporting period, as permitted under the transitional provisions of IFRS 16. Based on the analysis performed by the Bank, the effect of the adoption of the new standard is insignificant, since all lease agreements were concluded with a period of not more than 12 months. In accordance with paragraph 6 of IFRS 16, the Bank decided not to apply the requirements of paragraphs 22-46 of IFRS 16 for short-term leases. The lease agreements did not provide for extensions and purchase options, and the Bank also had a unilateral right to terminate the agreement ahead of schedule without significant fines.

Other new standards and clarifications. The following amended standards became effective from 1 January 2019, but did not have any material impact on the Bank:

- Amendments to IAS 12 "Income Taxes" included in annual improvements to financial reporting standards, 2015 – 2017
- IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures" (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2015-2017 cycle – amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2020 or later, and which the Bank has not early adopted.

- IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021).
- Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).
- Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).
- Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Bank's financial statements.

7 Cash and Cash Equivalents

(in thousands of Kazakhstani Tenge)	31 December 2019	31 December 2018
Reverse sale and repurchase agreements with original maturities of less than three months	66,590,603	1,000,452
NBRK notes with a maturity of less than three months	62,070,483	65,919,025
Cash balances with the NBRK (other than mandatory reserve deposits)	11,613,115	99,079,178
Mandatory cash balances with the NBRK	7,640,811	4,785,990
Cash on hand	2,778,572	2,381,897
Correspondent accounts in other banks	334,121	210,734
Less credit loss allowance	(2,826)	(2,994)
Total cash and cash equivalents	**151,024,879**	**173,374,282**

During 2019, the Bank increased the amount of investment in reverse repo agreements, the notes of the National Bank of Republic of Kazakhstan (hereinafter - "NBRK") with a maturity of less than three months, due to the low activity of the securities market and the limitation of the list of financial instruments conducted by the National Bank of the Republic of Kazakhstan for investing temporarily available funds of the Bank.

In 2019 and 2018, the Bank has not participated in investing and financing operations not requiring the use of cash and cash equivalents.

The credit quality of cash and cash equivalents balances may be summarized as follows at 31 December 2019:

(in thousands of Kazakhstani Tenge)	Cash balances with the NBRK, including mandatory reserves	NBRK notes with a maturity of less than three months	Reverse sale and repurchase agreements with original maturities of less than three months	Correspondent accounts in other banks	Total
Neither past due nor impaired					
- National Bank of Republic of Kazakhstan	19,253,589	62,069,039	-	-	**81,322,628**
- BBB- to BBB+ rated	-	-	66,589,564	-	**66,589,564**
- BB- to BB+ rated	-	-	-	334,115	**334,115**
Total cash and cash equivalents, excluding cash on hand	**19,253,589**	**62,069,039**	**66,589,564**	**334,115**	**148,246,307**

Credit ratings are based on Standard and Poor's ratings where available or Moody's and Fitch ratings, which are then converted to the nearest equivalent on the Standard and Poor's rating scale.

7 Cash and Cash Equivalents (Continued)

The credit quality of cash and cash equivalents balances may be summarized as follows at 31 December 2018:

(in thousands of Kazakhstani Tenge)	Cash balances with the NBRK, including mandatory reserves	NBRK notes with a maturity of less than three months	Reverse sale and repurchase agreements with original maturities of less than three months	Correspondent accounts in other banks	Total
Neither past due nor impaired					
- National Bank of Republic of Kazakhstan	103,863,351	65,917,870	-	-	**169,781,221**
- BBB- to BBB+ rated	-	-	1,000,434	-	**1,000,434**
- BB- to BB+ rated	-	-	-	210,617	**210,617**
- B- to B+ rated	-	-	-	113	**113**
Total cash and cash equivalents, excluding cash on hand	**103,863,351**	**65,917,870**	**1,000,434**	**210,730**	**170,992,385**

Credit ratings are based on Standard and Poor's ratings where available or Moody's and Fitch ratings, which are then converted to the nearest equivalent on the Standard and Poor's rating scale.

As of 31 December 2019 the Bank had notes of NBRK with a maturity of less than three months in the total amount of Tenge 62,069,039 thousand (2018: Tenge 65,917,870 thousand), and also balances with NBRK, including mandatory reserves in the amount of Tenge 19,253,589 thousand (2018: Tenge 103,863,343 thousand).

Security issued by "Baspana" Mortgage Organization JSC, SB "Bank Home Credit" JSC, the Ministry of Finance of Republic of Kazakhstan and NB RK with the fair value of Tenge 66,589,009 thousand serves as collateral for reverse repurchase agreements.

As of 31 December 2019 the Bank had 1 counterparty bank, except for NBRK (2018: 3 bank counterparties). The total aggregate amount of these balances amounted to Tenge 334,115 thousand (2018: Tenge 210,730 thousand).

Interest rate analysis of cash and cash equivalents is disclosed in Note 22. Information on transactions with related parties is disclosed in Note 28.

As at 31 December 2019 and 31 December 2018, for the purpose of ECL measurement cash and cash equivalents balances are included in Stage 1. Refer to Note 22 for the ECL measurement approach.

	31 December 2019		**31 December 2018**	
	Carrying amount of REPO	**Fair value of collateral**	**Carrying amount of REPO**	**Fair value of collateral**
With B- to BBB+ rated collateral	66,589,564	66,589,009	1,000,434	1,000,000
	66,589,564	**66,589,009**	**1,000,434**	**1,000,000**

8 Investments in Debt Securities

(in thousands of Kazakhstani Tenge)	31 December 2019	31 December 2018
Debt securities at FVOCI	130,594,733	144,356,806
Debt securities at AC	65,492,851	8,845,229
Total investments in debt securities	**196,087,584**	**153,202,035**

8 Investments in Debt Securities (Continued)

The table below discloses investments in debt securities at 31 December 2019 by measurement categories and classes:

(in thousands of Kazakhstani Tenge)	Debt securities at FVOCI	Debt securities at AC	Total
Government securities of the Ministry of Finance of RK	90,559,009	1,983,552	92,542,561
Notes of the National Bank of RK	-	47,432,637	47,432,637
Bonds issued by international financial organizations	16,601,489	-	16,601,489
Bonds of Kazakhstani non-bank financial institutions	14,727,703	-	14,727,703
Corporate bonds	9,184,602	16,085,067	25,269,669
Total investments in debt securities at 31 December 2019 (fair value or gross carrying value)	131,072,803	65,501,256	196,574,059
Credit loss allowance	(478,070)	(8,405)	(486,475)
Total investments in debt securities at 31 December 2019 (carrying value)	**130,594,733**	**65,492,851**	**196,087,584**

The table below discloses investments in debt securities at 31 December 2018 by measurement categories and classes:

(in thousands of Kazakhstani Tenge)	Debt securities at FVOCI	Debt securities at AC	Total
Government securities of the Ministry of Finance of RK	110,800,071	3,873,986	114,674,057
Bonds issued by local executive bodies of RK	13,025,152	-	13,025,152
Bonds issued by international financial organizations	7,822,512	-	7,822,512
Notes of the National Bank of RK	5,044,967	4,972,101	10,017,068
Bonds of Kazakhstani non-bank financial institutions	4,822,441	-	4,822,441
Corporate bonds	3,427,817	-	3,427,817
Total investments in debt securities at 31 December 2018 (fair value or gross carrying value)	144,942,960	8,846,087	153,789,047
Credit loss allowance	(586,154)	(858)	(587,012)
Total investments in debt securities at 31 December 2018 (carrying value)	**144,356,806**	**8,845,229**	**153,202,035**

8 Investments in Debt Securities (Continued)

(a) Investments in debt securities at FVOCI

The table below contains an analysis of the credit risk exposure of debt securities measured at FVOCI at 31 December 2019, for which an ECL allowance is recognised, based on credit risk grades. Refer to Note 22 for the description of credit risk grading system used by the Bank and the approach to ECL measurement, including the definition of default and SICR as applicable to debt securities at FVOCI.

(in thousands of Kazakhstani Tenge)	**31 December 2019**	**31 December 2018**
- Government securities of the Ministry of Finance of RK		
BBB- rated	90,559,009	110,800,071
Gross carrying amount	**90,559,009**	**110,800,071**
Less credit loss allowance	(16,696)	(21,287)
Carrying value (fair value)	**90,542,313**	**110,778,784**
- Notes of the National Bank of RK		
BBB- rated	-	5,044,967
Gross carrying amount	**-**	**5,044,967**
Less credit loss allowance	-	(123)
Carrying value (fair value)	**-**	**5,044,844**
Bonds issued by local executive bodies of RK		
BBB- rated	-	13,025,152
Gross carrying amount	**-**	**13,025,152**
Less credit loss allowance	-	(1,366)
Carrying value (fair value)	**-**	**13,023,786**

8 Investments in Debt Securities (Continued)

(in thousands of Kazakhstani Tenge)	31 December 2019	31 December 2018
Corporate bonds		
- BB+ to BB- rated	7,773,993	3,073,566
- B+ to B- rated	1,056,358	-
- unrated	354,251	354,251
Gross carrying amount	**9,184,602**	**3,427,817**
Less credit loss allowance	(397,736)	(422,283)
Carrying value (fair value)	**8,786,866**	**3,005,534**
Bonds issued by international financial organizations		
- AAA rated	2,136,408	-
- BBB- rated	14,465,081	7,822,512
Gross carrying amount	**16,601,489**	**7,822,512**
Less credit loss allowance	(29,127)	(18,522)
Carrying value (fair value)	**16,572,362**	**7,803,990**
Bonds of Kazakhstani credit institutions other than banks		
- BBB+ to BBB- rated	9,954,932	2,801,528
- BB+ to BB- rated	2,748,594	2,020,913
- B+ to B- rated	2,024,177	-
Gross carrying amount	**14,727,703**	**4,822,441**
Less credit loss allowance	(34,511)	(122,573)
Carrying value (fair value)	**14,693,192**	**4,699,868**

Gross carrying amount of investments at FVOCI as at 1 January 2019 was Tenge 144,942,960 thousand (1 January 2018: Tenge 158,349,313 thousand), and credit loss allowance was Tenge 586,154 thousand (2018: Tenge 1,231,993 thousand). During the year ended 31 December 2019, there were no transfers between credit quality stages.

The debt securities at FVOCI are not collateralised.

The credit ratings are based on Standard and Poor's ratings where available, or Moody's and Fitch rating converted to the nearest equivalent on the Standard and Poor's rating scale.

As part of receiving a state guarantee on a loan with Asian Development Bank, the Bank jointly with ATF Bank JSC signed a pledge agreement and transferred part of the government securities of the Ministry of Finance of the Republic of Kazakhstan in the amount of Tenge 46,200,000 thousand (fair value Tenge 45,212,811 thousand) as collateral.

8 Investments in Debt Securities (Continued)

(b) Investments in debt securities at AC

The following table contains an analysis of debt securities at AC by credit quality at 31 December 2019 based on credit risk grades and discloses the balances by three stages for the purpose of ECL measurement. Refer to Note 22 for the description of credit risk grading system used by the Bank and the approach to ECL measurement, including the definition of default and SICR as applicable to debt securities at AC. The carrying amount of debt securities at AC at 31 December 2019 below also represents the Bank's maximum exposure to credit risk on these assets.

(in thousands of Kazakhstani Tenge)	31 December 2019	31 December 2018
Notes of the National Bank of RK		
BBB- rated	47,432,637	4,972,101
Gross carrying amount	**47,432,637**	**4,972,101**
Credit loss allowance	(4,637)	(88)
Carrying amount	**47,428,000**	**4,972,013**
Government securities of the Ministry of Finance of RK		
BBB- rated	1,983,552	3,873,986
Gross carrying amount	**1,983,552**	**3,873,986**
Credit loss allowance	(315)	(770)
Carrying amount	**1,983,237**	**3,873,216**
Corporate Bonds		
BBB rated	16,085,067	-
Gross carrying amount	**16,085,067**	**-**
Credit loss allowance	(3,453)	-
Carrying amount	**16,081,614**	**-**

Gross carrying amount of investments at AC as at 31 December 2019 was Tenge 65,501,256 thousand (31 December 2018: Tenge 8,846,087 thousand), and credit loss allowance was Tenge 8,405 thousand (2018: Tenge 858 thousand). During the year ended 31 December 2019, there were no transfers between credit quality stages.

At 31 December 2019, debt securities at AC were unsecured (2018: unsecured).

9 Loans and Advances to Customers

(in thousands of Kazakhstani Tenge)	31 December 2019	31 December 2018
Interim housing loans	365,867,287	279,900,389
Preliminary housing loans	353,393,522	166,609,249
Housing loans	276,210,590	217,478,264
Less credit loss allowance	(2,133,056)	(1,677,801)
Total loans and advances to customers	**993,338,343**	**662,310,101**

As of 31 December 2019, the Bank had Top 10 borrowers with total loan amounts exceeding Tenge 81,600 thousand (2018: Tenge 79,810 thousand). The aggregate amount of these loans was Tenge 877,559 thousand (2018: Tenge 896,806 thousand), or 0.09% loan portfolio before allowance for loan impairment (2018: 0.13%).

9 Loans and Advances to Customers (Continued)

Gross carrying amount and credit loss allowance amount for loans and advances to customers at AC by classes at 31 December 2019 and 31 December 2018 are disclosed in the table below:

	31 December 2019			31 December 2018		
(in thousands of Tenge)	**Gross carrying amount**	**Credit loss allowance**	**Carrying amount**	**Gross carrying amount**	**Credit loss allowance**	**Carrying amount**
Interim housing loans	365,867,287	(736,997)	365,130,290	279,900,389	(737,245)	279,163,144
Preliminary housing loans	353,393,522	(817,302)	352,576,220	166,609,249	(470,253)	166,138,996
Housing loans	276,210,590	(578,757)	275,631,833	217,478,264	(470,303)	217,007,961
Total loans and advances to customers at AC	**995,471,399**	**(2,133,056)**	**993,338,343**	**663,987,902**	**(1,677,801)**	**662,310,101**

More detailed explanation of classes of loans and advances to customers is provided below in Note 3, section "Loans and Advances to Customers".

The following table discloses the changes in the credit loss allowance and gross carrying amount for loans and advances to customers carried at amortised cost between the beginning and the end of the reporting period.

	Credit loss allowance				Gross carrying amount			
(in thousands of Tenge)	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Housing loans								
At 1 January 2019	**(153,915)**	**(158,906)**	**(157,482)**	**(470,303)**	**158,661,059**	**58,404,136**	**413,069**	**217,478,264**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	3,617	(13,765)	-	**(10,148)**	(5,002,217)	5,002,217	-	-
- to lifetime (from Stage 1 to Stage 2)	-	(1,113)	71,631	**70,518**	-	193,598	(193,598)	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	224	6,456	(172,058)	**(165,378)**	(260,021)	(261,293)	521,314	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(11,247)	56,889	22,209	**67,851**	21,701,973	(21,641,948)	(60,025)	-
New originated or purchased	(34,682)	(8,055)	(9,460)	**(52,197)**	54,536,777	1,726,221	20,575	**56,283,573**
Repayment in full or in part during the period	13,869	19,750	36,016	**69,635**	(46,977,761)	(14,959,292)	(170,941)	**(62,107,994)**
Changes to ECL measurement model assumptions	19,723	16,578	4,760	**41,061**	-	-	-	-
Unwinding of discount	-	-	-	-	43,078	1,939	129	**45,146**
Changes in accrued interest	-	-	-	-	(68,478)	(9,097)	5,334	**(72,241)**
Transfer from preliminary and interim loans	(24,562)	(41,721)	(63,513)	**(129,796)**	46,182,391	18,231,267	170,184	**64,583,842**
At 31 December 2019	**(186,973)**	**(123,887)**	**(267,897)**	**(578,757)**	**228,816,801**	**46,687,748**	**706,041**	**276,210,590**

9 Loans and Advances to Customers (Continued)

The following table discloses the changes in the credit loss allowance and gross carrying amount for loans and advances to customers carried at amortised cost between the beginning and the end of the reporting period.

	Credit loss allowance				Gross carrying amount			
(in thousands of Tenge)	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
Preliminary loans								
At 1 January 2019	**(84,013)**	**(71,233)**	**(315,007)**	**(470,253)**	**154,661,451**	**11,288,049**	**659,749**	**166,609,249**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	29,981	(141,409)	-	**(111,428)**	(57,559,410)	57,559,410	-	-
- to lifetime (from Stage 3 to Stage 2)	-	(3,151)	63,121	**59,970**	-	168,217	(168,217)	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	131	6,465	(163,834)	**(157,238)**	(212,469)	(186,585)	399,054	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(1,819)	11,851	12,324	**22,356**	2,087,490	(2,054,181)	(33,309)	-
New originated or purchased	(80,499)	(149,709)	(18,571)	**(248,779)**	183,058,758	29,366,017	50,191	212,474,966
Repayment in full or in part during the period	3,674	6,637	38,298	**48,609**	(5,185,530)	(12,720,399)	(153,366)	(18,059,295)
Changes to ECL measurement model assumptions	(23,019)	17,212	21,789	**15,982**	-	-	-	-
Unwinding of discount	-	-	-	**-**	634,770	894,776	2,005	1,531,551
Changes in accrued interest	-	-	-	**-**	6,043	(41,888)	2,931	(32,914)
Transfer from preliminary and interim loans	1	18,399	5,079	**23,479**	(8,261)	(9,109,521)	(12,253)	(9,130,035)
At 31 December 2019	**(155,563)**	**(304,938)**	**(356,801)**	**(817,302)**	**277,482,842**	**75,163,895**	**746,785**	**353,393,522**

9 Loans and Advances to Customers (Continued)

The following table discloses the changes in the credit loss allowance and gross carrying amount for loans and advances to customers carried at amortised cost between the beginning and the end of the reporting period.

	Credit loss allowance				Gross carrying amount			
(in thousands of Tenge)	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Interim loans								
At 1 January 2019	**(222,702)**	**(79,022)**	**(435,521)**	**(737,245)**	**268,693,856**	**10,362,090**	**844,443**	**279,900,389**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	19,774	(33,726)	-	**(13,952)**	(22,033,669)	22,033,669	-	**-**
- to lifetime (from Stage 3 to Stage 2)	-	(210)	36,669	**36,459**	-	98,058	(98,058)	**-**
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	438	13,059	(204,945)	**(191,448)**	(496,411)	(327,834)	824,245	**-**
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(1,932)	17,055	10,529	**25,652**	4,286,933	(4,260,648)	(26,285)	**-**
New originated or purchased	(117,858)	(15,164)	(28,381)	**(161,403)**	232,285,054	3,325,468	76,707	**235,687,229**
Repayment in full or in part during the period	13,148	3,666	35,744	**52,558**	(81,804,690)	(12,615,360)	(428,725)	**(94,848,775)**
Changes to ECL measurement model assumptions	81,332	32,902	31,831	**146,065**	-	-	-	**-**
Unwinding of discount	-	-	-	**-**	772,902	124,482	1,860	**899,244**
Changes in accrued interest	-	-	-	**-**	(277,267)	(46,490)	6,765	**(316,992)**
Transfer from preliminary and interim loans	24,561	23,322	58,434	**106,317**	(46,174,131)	(9,121,746)	(157,931)	**(55,453,808)**
At 31 December 2019	**(203,239)**	**(38,118)**	**(495,640)**	**(736,997)**	**355,252,577**	**9,571,689**	**1,043,021**	**365,867,287**

9 Loans and Advances to Customers (Continued)

The following table discloses the changes in the credit loss allowance and gross carrying amount for loans and advances to customers carried at amortised cost between the beginning and the end of the reporting period.

	Credit loss allowance				Gross carrying amount			
(in thousands of Tenge)	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Housing loans								
At 1 January 2018	**(140,613)**	**(15,884)**	**(94,891)**	**(251,388)**	**147,223,538**	**2,417,167**	**246,926**	**149,887,631**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	27,588	(92,644)	-	**(65,056)**	(48,209,645)	48,209,645	-	**-**
- to lifetime (from Stage 3 to Stage 2)	-	(874)	33,583	**32,709**	-	90,763	(90,763)	**-**
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	195	2,636	(91,964)	**(89,133)**	(196,921)	(89,019)	285,940	**-**
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(557)	1,889	11,728	**13,060**	530,013	(498,315)	(31,698)	**-**
New originated or purchased	(34,200)	(20,399)	(4,601)	**(59,200)**	48,975,378	5,282,946	12,436	**54,270,760**
Repayment in full or in part during the period	11,649	(4,930)	11,771	**18,490**	(30,097,027)	(11,276,009)	(107,788)	**(41,480,824)**
Changes to ECL measurement model assumptions	(12,632)	1,713	1,925	**(8,994)**	-	-	-	**-**
Unwinding of discount	209	40	105	**354**	30,352	2,066	65	**32,483**
Changes in accrued interest	26,305	5,054	13,206	**44,565**	(35,363)	(22,866)	2,199	**(56,030)**
Transfer from preliminary and interim loans	(31,859)	(35,507)	(38,344)	**(105,710)**	40,440,734	14,287,758	95,752	**54,824,244**
Total movements with impact on credit loss allowance charge for the period	**(13,302)**	**(143,022)**	**(62,591)**	**(218,915)**	**11,437,521**	**55,986,969**	**166,143**	**67,590,633**
At 31 December 2018	**(153,915)**	**(158,906)**	**(157,482)**	**(470,303)**	**158,661,059**	**58,404,136**	**413,069**	**217,478,264**

9 Loans and Advances to Customers (Continued)

The following table discloses the changes in the credit loss allowance and gross carrying amount for loans and advances to customers carried at amortised cost between the beginning and the end of the reporting period.

	Credit loss allowance				Gross carrying amount			
(in thousands of Tenge)	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Preliminary loans								
At 1 January 2018	**(24,413)**	**(56,200)**	**(261,185)**	**(341,798)**	**63,060,311**	**33,855,642**	**806,790**	**97,722,743**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	2,644	(44,069)	-	**(41,425)**	(4,438,495)	4,438,495	-	-
- to lifetime (from Stage 3 to Stage 2)	-	(673)	48,528	**47,855**	-	131,157	(131,157)	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	19	1,203	(109,233)	**(108,011)**	(104,337)	(191,593)	295,930	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(693)	604	17,228	**17,139**	744,739	(698,176)	(46,563)	-
New originated or purchased	(39,205)	(21,541)	(3,854)	**(64,600)**	99,594,114	4,884,147	10,415	104,488,676
Repayment in full or in part during the period	(483)	(14,337)	31,797	**16,977**	(3,684,824)	(20,261,266)	(262,699)	(24,208,789)
Changes to ECL measurement model assumptions	(1,980)	34,067	(54,991)	**(22,904)**	-	-	-	-
Unwinding of discount	(158)	80	59	**(19)**	527,061	248,442	1,666	777,169
Changes in accrued interest	(19,874)	9,986	7,446	**(2,442)**	4,308	(65,065)	2,346	(58,411)
Transfer from preliminary and interim loans	130	19,647	9,198	**28,975**	(1,041,426)	(11,053,734)	(16,979)	(12,112,139)
Total movements with impact on credit loss allowance charge for the period	**(59,600)**	**(15,033)**	**(53,822)**	**(128,455)**	**91,601,140**	**(22,567,593)**	**(147,041)**	**68,886,506**
At 31 December 2018	**(84,013)**	**(71,233)**	**(315,007)**	**(470,253)**	**154,661,451**	**11,288,049**	**659,749**	**166,609,249**

9 Loans and Advances to Customers (Continued)

The following table discloses the changes in the credit loss allowance and gross carrying amount for loans and advances to customers carried at amortised cost between the beginning and the end of the reporting period.

	Credit loss allowance				Gross carrying amount			
(in thousands of Tenge)	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
Interim loans								
At 1 January 2018	**(138,324)**	**(19,663)**	**(456,472)**	**(614,459)**	**211,317,195**	**1,738,796**	**888,425**	**213,944,416**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	8,722	(54,717)	-	**(45,995)**	(13,225,951)	13,225,951	-	-
- to lifetime (from Stage 3 to Stage 2)	-	(270)	31,596	**31,326**	-	85,395	(85,395)	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	142	4,141	(97,246)	**(92,963)**	(216,427)	(132,424)	348,851	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(358)	2,798	4,163	**6,603**	674,165	(662,914)	(11,251)	-
New originated or purchased	(144,813)	(33,952)	(6,251)	**(185,016)**	175,789,610	4,249,212	16,896	180,055,718
Repayment in full or in part during the period	4,486	(1,050)	47,741	**51,177**	(66,763,400)	(4,941,066)	(235,224)	(71,939,690)
Changes to ECL measurement model assumptions	(5,932)	(11,257)	806	**(16,383)**	-	-	-	-
Unwinding of discount	171	151	87	**409**	753,528	48,033	1,826	803,387
Changes in accrued interest	21,475	18,936	10,909	**51,320**	(235,556)	(14,868)	(912)	(251,336)
Transfer from preliminary and interim loans	31,729	15,861	29,146	**76,736**	(39,399,308)	(3,234,025)	(78,773)	(42,712,106)
Total movements with impact on credit loss allowance charge for the period	**(84,378)**	**(59,359)**	**20,951**	**(122,786)**	**57,376,661**	**8,623,294**	**(43,982)**	**65,955,973**
At 31 December 2018	**(222,702)**	**(79,022)**	**(435,521)**	**(737,245)**	**268,693,856**	**10,362,090**	**844,443**	**279,900,389**

9 Loans and Advances to Customers (Continued)

The credit quality of loans is as follows at 31 December 2019:

(in thousands of Kazakhstani Tenge)	Stage 1 (12-months ECL)	Stage 2 lifetime ECL	Stage 3 lifetime ECL	Total
Interim loans	**355,049,338**	**9,533,571**	**547,381**	**365,130,290**
Neither past due nor impaired	353,632,370	7,082,863	189,800	360,905,033
fully collateralized:				
- LTV less than 25%	1,275,398	55,316	-	1,330,714
- LTV from 25% to 50%	28,276,307	578,685	12,965	28,867,957
- LTV from 51% to 75%	297,298,642	5,327,132	142,349	302,768,123
- LTV from 76% to 100%	16,896,795	942,961	34,486	17,874,242
- LTV more than 100%	9,885,228	178,769	-	10,063,997
- less than 30 days overdue	1,620,207	1,605,581	-	3,225,788
- 31 to 60 days overdue	-	634,280	6,352	640,632
- 61 to 90 days overdue	-	248,964	3,809	252,773
- 91 to 180 days overdue	-	-	227,917	227,917
- 181 to 360 days overdue	-	-	69,734	69,731
- over 360 days overdue	-	-	545,410	545,410
Credit loss allowance	(203,239)	(38,117)	(495,641)	(736,997)
Preliminary loans	**277,327,278**	**74,858,956**	**389,986**	**352,576,220**
Neither past due nor impaired	277,352,027	72,095,173	285,058	349,732,258
fully collateralized:				
- LTV less than 25%	2,298,165	277,934	1,340	2,577,439
- LTV from 25% to 50%	11,141,095	2,069,392	40,653	13,251,140
- LTV from 51% to 75%	124,606,316	49,517,784	80,747	174,204,847
- LTV from 76% to 100%	123,484,026	17,189,529	98,998	140,772,553
- LTV more than 100%	15,822,140	3,040,534	63,320	18,925,994
- unsecured	285	-	-	285
- less than 30 days overdue	130,814	2,323,066	5,510	2,459,390
- 31 to 60 days overdue	-	561,136	12,990	574,126
- 61 to 90 days overdue	-	184,519	23,950	208,469
- 91 to 180 days overdue	-	-	81,007	81,007
- 181 to 360 days overdue	-	-	45,629	45,629
- over 360 days overdue	-	-	292,643	292,643
Credit loss allowance	(155,563)	(304,938)	(356,801)	(817,302)
Housing loans	**228,629,828**	**46,563,861**	**438,144**	**275,631,833**
Neither past due nor impaired	228,118,936	44,064,613	340,528	272,524,077
fully collateralized:				
- LTV less than 25%	48,291,923	16,298,071	46,075	64,636,069
- LTV from 25% to 50%	161,040,593	23,324,145	226,444	184,591,182
- LTV from 51% to 75%	18,480,014	3,597,983	61,522	22,139,519
- LTV from 76% to 100%	241,034	414,039	-	655,073
- LTV more than 100%	63,684	429,351	-	493,035
- unsecured	1,688	1,024	6,487	9,199
- less than 30 days overdue	697,866	1,933,473	43,722	2,675,061
- 31 to 60 days overdue	-	493,934	-	493,934
- 61 to 90 days overdue	-	195,728	9,673	205,401
- 91 to 180 days overdue	-	-	163,922	163,922
- 181 to 360 days overdue	-	-	109,666	109,66
- over 360 days overdue	-	-	38,529	38,529
Credit loss allowance	(186,974)	(123,887)	(267,896)	(578,757)
Gross carrying amount	**861,552,220**	**131,423,330**	**2,495,849**	**995,471,399**
Credit loss allowance	(545,776)	(466,942)	(1,120,338)	(2,133,056)
Carrying amount	**861,006,444**	**130,956,388**	**1,375,511**	**993,338,343**

9 Loans and Advances to Customers (Continued)

Analysis of loans by credit quality at 31 December 2018 is disclosed as follows:

(in thousands of Kazakhstani Tenge)	Stage 1 (12-months ECL)	Stage 2 lifetime ECL	Stage 3 lifetime ECL	Total
Interim loans	**268,693,856**	**10,362,090**	**844,443**	**279,900,389**
Neither past due nor impaired fully collateralized:	267,443,955	8,608,740	104,019	276,156,714
- LTV less than 25%	1,172,369	135,687	-	1,308,056
- LTV from 25% to 50%	22,970,022	1,303,287	4,017	24,277,326
- LTV from 51% to 75%	233,238,838	6,736,618	95,785	240,071,241
- LTV from 76% to 100%	8,377,716	412,760	-	8,790,476
- LTV more than 100%	1,685,010	20,388	4,217	1,709,615
- less than 30 days overdue	1,249,901	1,104,160	-	2,354,061
- 31 to 60 days overdue	-	531,661	-	531,661
- 61 to 90 days overdue	-	117,529	-	117,529
- 91 to 180 days overdue	-	-	111,818	111,818
- 181 to 360 days overdue	-	-	28,219	28,219
Credit loss allowance	(222,702)	(79,022)	(435,521)	(737,245)
Preliminary loans	**154,661,451**	**11,288,049**	**659,749**	**166,609,249**
Neither past due nor impaired fully collateralized:	154,403,085	9,047,962	174,792	163,625,839
- LTV less than 25%	3,124,835	327,530	-	3,452,365
- LTV from 25% to 50%	13,370,866	1,946,492	22,289	15,339,647
- LTV from 51% to 75%	95,601,370	6,004,901	140,021	101,746,292
- LTV from 76% to 100%	32,207,897	651,725	2,455	32,862,077
- LTV more than 100%	10,098,117	117,314	10,027	10,225,458
- less than 30 days overdue	258,366	1,788,568	45,442	2,092,376
-31 to 60 days overdue	-	356,344	13,889	370,233
- 61 to 90 days overdue	-	95,173	22,145	117,318
- 91 to 180 days overdue	-	-	31,732	31,732
- 181 to 360 days overdue	-	-	38,003	38,003
- over 360 days overdue	-	-	333,747	333,747
Credit loss allowance	(84,013)	(71,233)	(315,007)	(470,253)
Housing loans	**158,661,059**	**58,404,136**	**413,069**	**217,478,264**
Neither past due nor impaired fully collateralized:	158,306,532	55,910,884	242,022	214,459,438
- LTV less than 25%	28,921,051	24,024,695	61,607	53,007,353
- LTV from 25% to 50%	113,846,214	30,698,087	148,910	144,693,211
- LTV from 51% to 75%	13,356,977	993,055	24,484	14,374,516
- LTV from 76% to 100%	14,849	14,781	-	29,630
- LTV more than 100%	7,980	5,551	-	13,531
- unsecured	2,159,461	174,715	7,021	2,341,197
- less than 30 days overdue	354,527	1,988,386	22,736	2,365,649
-31 to 60 days overdue	-	374,616	4,491	379,107
- 61 to 90 days overdue	-	130,250	1,723	131,973
- 91 to 180 days overdue	-	-	102,216	102,216
- 181 to 360 days overdue	-	-	14,337	14,337
- over 360 days overdue	-	-	25,544	25,544
Credit loss allowance	(153,915)	(158,906)	(157,482)	(470,303)
Gross carrying amount	**582,016,366**	**80,054,275**	**1,917,261**	**663,987,902**
Credit loss allowance	(460,630)	(309,161)	(908,010)	(1,677,801)
Carrying amount	**581,555,736**	**79,745,114**	**1,009,251**	**662,310,101**

9 Loans and Advances to Customers (Continued)

For description of the credit risk grading used in the tables above refer to Note 22.

The primary factors that the Bank considers in determining whether a loan is impaired are its overdue status and realisability of related collateral, if there is any. Based on this, the ageing analysis of loans that are individually determined as impaired is presented above.

LTV coefficient represents ratio of gross carrying amount of loans as of the reporting date to the cost of collateral, which consists of real estate and cash collateral in the form of deposits.

All loans were issued to individuals.

Information about collateral is as follows at 31 December 2019:

(in thousands of Kazakhstani Tenge)	Housing loans	Preliminary loans	Interim loans	Total
Unsecured loans	2,710	285	-	2,995
Loans guaranteed by other individuals	1,984,808	5,993	1,846	1,992,647
Loans collateralised by:				
- residential real estate	270,842,042	334,591,276	353,539,804	958,973,122
- land	983,226	30,736	1,048,818	2,062,780
- other real estate	43,222	7,385	299,112	349,719
- cash deposits	28,176	17,737,355	10,018,734	27,784,265
- residential real estate, deposits and guarantees (multi-pledged)	-	203,192	221,975	425,167
- other assets	1,747,648	-	-	1,747,648
Total loans and advances to customers	**275,631,832**	**352,576,222**	**365,130,289**	**993,338,343**

The collateral value of real estate is included in the calculation of provisions only for loans with a delay of more than 90 days.

Loans collateralized by commercial real estate are categorized within other real estate. Loans collateralized by property right are classified as other. Loans and advances to customers are allocated by types of collateral depending on the highest cost of collateral, i.e. a loan is categorized to a certain category, if it is secured by collateral except for loans secured by property rights and a deposit. These loans are classified as cash deposits.

The amount of deposits held as collateral on loans granted as at 31 December 2019 was Tenge 285,840,765 thousand (2018: Tenge 199,313,288 thousand).

Information about collateral is as follows at 31 December 2018:

(in thousands of Kazakhstani Tenge)	Housing loans	Preliminary loans	Interim loans	Total
Unsecured loans	1,741	-	-	1,741
Loans guaranteed by other individuals	2,761,831	679,788	7,836	3,449,455
Loans collateralised by:				
- residential real estate	212,558,882	155,031,587	276,446,270	644,036,739
- land	858,593	35,762	885,160	1,779,515
- other real estate	23,430	7,372	113,792	144,594
- cash deposits	28,099	10,239,230	1,700,592	11,967,921
- residential real estate, deposits and guarantees (multi-pledged)	-	145,257	9,494	154,751
- other assets	775,385	-	-	775,385
Total loans and advances to customers	**217,007,961**	**166,138,996**	**279,163,144**	**662,310,101**

9 Loans and Advances to Customers (Continued)

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets"). The fair value of collateral includes fixed collateral in the form of real estate and cash deposits.

The effect of collateral **on impaired assets of Stage 3** at 31 December 2019 is as follows:

	Over-collateralised assets		Under-collateralised assets	
(in thousands of Kazakhstani Tenge)	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Housing loans	438,144	2,307,400	-	-
Preliminary housing loans	379,568	1,223,999	10,416	10,416
Interim housing loans	547,381	1,554,246	-	-

The effect of collateral **on impaired assets of Stage 3** at 31 December 2018 is as follows:

	Over-collateralised assets		Under-collateralised assets	
(in thousands of Kazakhstani Tenge)	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Housing loans	255,587	1,594,823	-	-
Preliminary housing loans	343,347	1,205,268	1,395	1,395
Interim housing loans	408,922	1,188,393	-	-

At the end of the reporting period the fair value of collateral in the form of real estate was determined by the revaluation carried out every six months. The 2019 revaluation was conducted by the employees of Collateral Risk Division of the Risk Management Department. The amount of deposit is deducted from the carrying value of the portfolio. The estimated fair value of each class of loans and advances to customers is presented in Appendix 25. Interest rate analysis of loans and advances to customers is disclosed in Note 22. Information on related party transactions is disclosed in Note 28.

10 Premises and Equipment and Intangible Assets

Below is presented movement of property, plant and equipment and intangible assets:

(in thousands of Kazakhstani Tenge)	**Land and buildings**	**Office and computer equipment**	**Vehicles**	**Total**
Cost at 1 January 2018	1,700,908	3,907,663	132,918	5,741,489
Accumulated depreciation	(234,990)	(2,071,002)	(98,719)	(2,404,710)
Carrying amount at 1 January 2018	**1,465,918**	**1,836,661**	**34,200**	**3,336,779**
Additions	20,050	931,820	184,172	1,136,042
Transfer to non-current assets held for sale	(90,638)	-	-	(90,638)
Disposals	(29,362)	(135,797)	(64,602)	(229,761)
Depreciation charge	(38,614)	(702,618)	(15,839)	(757,071)
Accumulated depreciation on disposal	29,362	135,797	64,602	229,761
Carrying amount at 31 December 2018	**1,356,716**	**2,065,863**	**202,533**	**3,625,112**
Cost at 31 December 2018	1,600,958	4,703,686	252,488	6,557,132
Accumulated depreciation	(244,242)	(2,637,823)	(49,955)	(2,932,020)
Carrying amount at 1 January 2019	**1,356,716**	**2,065,863**	**202,533**	**3,625,112**
Additions	-	1,330,266	-	1,330,266
Transfer to non-current assets held for sale	856,850	-	-	856,850
Disposals	-	(121,697)	(13,741)	(135,438)
Impairment loss	-	(483)	-	(483)
Depreciation charge	(79,384)	(819,977)	(42,091)	(941,452)
Transfer of accumulated depreciation	(110,623)	-	-	(110,623)
Accumulated depreciation on disposal	-	121,697	13,741	135,438
Carrying amount at 31 December 2019	**2,023,559**	**2,575,669**	**160,442**	**4,759,670**
Cost at 31 December 2019	2,457,808	5,912,255	238,747	8,608,810
Accumulated depreciation	(434,249)	(3,336,586)	(78,305)	(3,849,140)
Carrying amount at 31 December 2019	**2,023,559**	**2,575,669**	**160,442**	**4,759,670**

10 Premises and Equipment and Intangible Assets (Continued)

(in thousands of Kazakhstani Tenge)	PC Software Licenses	Internally developed software	Total
Cost at 1 January 2018	2,764,163	8,935	2,773,098
Accumulated depreciation	(720,332)	(6,700)	(727,032)
Carrying amount at 1 January 2018	**2,043,831**	**2,235**	**2,046,066**
Additions for the year	731,989	-	731,989
Disposals	(26,287)	-	(26,287)
Depreciation charge	(384,712)	(2,235)	(386,947)
Impairment loss	(15,360)	-	(15,360)
Accumulated depreciation on disposal	26,287	-	26,287
Carrying amount at 31 December 2018	**2,375,748**	**-**	**2,375,748**
Cost at 31 December 2018	3,469,865	8,935	3,478,800
Accumulated depreciation	(1,094,117)	(8,935)	(1,103,052)
Carrying amount at 1 January 2019	**2,375,748**	**-**	**2,375,748**
Additions for the year	2,028,087	-	2,028,087
Disposals	(35,275)	-	(35,275)
Depreciation charge	(529,617)	-	(529,617)
Accumulated depreciation on disposal	35,275	-	35,275
Carrying amount at 31 December 2019	**3,874,218**	-	**3,874,218**
Cost at 31 December 2019	5,462,677	8,935	5,471,612
Accumulated depreciation	(1,588,459)	(8,935)	(1,597,394)
Carrying amount at 31 December 2019	**3,874,218**	-	**3,874,218**

The Bank leases offices. Lease contracts are typically made for fixed periods of up to one year.

Until 31 December 2018 leases of premises and equipment were classified as operating leases. Since 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability from the date when the leased asset becomes available for use by the Bank.

The right of use assets by class of underlying items is analysed as follows:

(in thousands of Kazakhstani Tenge)	Buildings	Total
Carrying amount at 1 January 2019	**-**	**-**
Additions	662,694	662,694
Depreciation charge	(166,165)	(166,165)
Carrying amount at 31 December 2019	**496,529**	**496,529**
Amount at 31 December 2019	662,694	662,694
Accumulated depreciation	(166,165)	(166,165)

Interest expense on lease liabilities was Tenge 31,753 thousand.

10 Premises and Equipment and Intangible Assets (Continued)

Expenses relating to short-term leases (included in general and administrative expenses) and to leases of low-value assets that are not shown as short-term leases are included in general and administrative expenses:

(in thousands of Kazakhstani Tenge)	2019
Expense relating to short-term leases	(586,041)
Expense relating to leases of low-value assets that are not shown above as short-term leases	-

Total cash outflow for leases in 2019 was Tenge 158,840 thousand excluding VAT.

11 Other Financial Assets and Other Assets

(in thousands of Kazakhstani Tenge)	31 December 2019	31 December 2018
Receivables on banking activity	2,979,171	1,771,342
Total other financial assets	**2,979,171**	**1,771,342**

Receivables on banking activity is mainly represented by the claims to the second-tier banks on accepted payments from the Bank's clients through ATMs, internet-banking and terminals for crediting current and savings accounts of the clients opened in the Bank, which are closed on the next working day after the transfer of actual amounts and receipt of the register of payments from the second-tier banks.

Other financial assets are neither past due nor impaired. For the purposes of ECL measurement, other financial assets are included in Stage 1. Due to the short-term nature of other financial assets, the Bank does not create credit loss allowance for them.

The credit quality of receivables on banking activity as at 31 December 2019 and 31 December 2018 is as follows:

(in thousands of Kazakhstani Tenge)	31 December 2019	31 December 2018
Neither past due nor impaired		
- BBB- to BBB+ rated	315	307
- BB- to BB+ rated	2,962,466	1,758,966
- B- to B+ rated	16,390	11,890
- unrated	-	179
Total receivables on banking activity, neither past due nor impaired	**2,979,171**	**1,771,342**

(in thousands of Kazakhstani Tenge)	31 December 2019	31 December 2018
Prepayments for services	192,117	104,195
Inventory and other materials	72,252	87,996
Other	72,045	26,170
Prepayments for taxes excluding profit tax	3,784	1,629
Less: provision for impairment	(1,695)	(2,130)
Total other assets	**338,503**	**217,860**

12 Customer Accounts

Customer accounts include amounts on currents accounts and term deposits of individuals and presented as follows:

(in thousands of Kazakhstani Tenge)	31 December 2019	31 December 2018
Legal entities		
Current accounts	74,934,947	26,490,341
Individuals		
Long-term deposits	520,990,279	426,289,096
Current accounts	20,257,414	13,405,236
Customer accounts	**616,182,640**	**466,184,673**
Deposits served as collateral on loans given	285,840,765	199,313,288
Total customer accounts	**902,023,405**	**665,497,961**

Customer accounts are classified as long-term deposits pursuant to their maturities. However, individuals are entitled to withdraw cash from accounts prior to maturity.

At 31 December 2019, customer accounts in the amount of Tenge 75,316,620 thousand (8% of the total balance) represented accounts of ten major clients, including Tenge 74,893,303 thousand on funds of legal entities and Tenge 423,317 thousand on funds of individuals. At 31 December 2018, customer accounts in the amount of Tenge 26,765,136 thousand (4% of the total balance) represented accounts of ten major clients, including Tenge 26,481,863 thousand on funds of legal entities and Tenge 283,273 thousand on funds of individuals.

According to the terms of the Contract on house construction savings, the Bank depositors have the right to receive housing loan in the amount equal to a difference between contract amount and their accumulated deposits, estimated fees and state premium based on the decision of government, in the case if all requirements of signed contract of house construction savings are fulfilled. Therefore, the Bank has contingent liabilities to depositors for granting a housing loan (Note 26).

Annually the government provides premiums on house construction savings of depositors from the government budget, including estimated fees not exceeding 20% of 200 monthly calculation indexes per one depositor to encourage house construction savings in Kazakhstan.

Recording and placement of amounts of government premium into account of depositors takes place only after its actual receipt from the Committee for Construction and Housing and Utility Services of the Ministry of Industry and Infrastructure Development.

The Bank does not have any obligations to depositors, if Committee for Construction and Housing and Utility Services of the Ministry of Industry and Infrastructure Development does not transfer the government premium to the Bank's accounts.

Refer to Note 25 for the disclosure of the fair value of each class of customer accounts. Interest rate analysis of customer accounts is disclosed in Note 22. Information on related party balances is disclosed in Note 28.

Current accounts of legal entities represent current accounts of Parent Company subsidiaries. The Bank accrues for interest on the current account balances of legal entities (Parent Company subsidiaries) at the rate of up to 7.75%.

13 Borrowed Funds

(in thousands of Kazakhstani Tenge)	31 December 2019	31 December 2018
Ministry of Finance of the Republic of Kazakhstan	80,842,501	20,313,615
"Samruk Kazyna" National Welfare Fund" JSC	14,359,043	31,895,684
Parent company	6,640,480	6,182,144
Administration of Almaty	3,784,739	1,179,020
Total borrowed funds	**105,626,763**	**59,570,463**

13 Borrowed Funds (Continued)

At initial recognition the Bank recognized abovementioned loan at the market rate on the date of loan received and has recognized additional paid-in capital according to the accounting policy requirements (Note 4).

The table below provides movements in the Bank's borrowed funds arising as a result of financing activities for each period presented. Indebtedness items were recorded in the statement of cash flows within financing activities.

(in thousands of Kazakhstani Tenge)	**Borrowed funds**
Balance at 1 January 2018	**72,102,439**
Cash flow	16,635,624
Other changes not associated with cash flow	(29,167,600)
Balance at 31 December 2018	**59,570,463**
Cash flow	76,223,000
Other changes not associated with cash flow	(30,166,700)
Balance at 31 December 2019	**105,626,763**

Information on fair value of each class of other borrowed funds is disclosed in Note 25. Interest rate analysis of other borrowed funds is disclosed in Note 22. Information on related party transactions is disclosed in Note 28.

14 Other Financial Liabilities and Other Liabilities

Other liabilities comprise the following:

(in thousands of Kazakhstani Tenge)	**31 December 2019**	**31 December 2018**
Deferred commission fee	2,541,735	2,929,792
Other	596,507	-
Long-term lease	535,607	-
Other accrued liabilities	501,618	538,952
Total other financial liabilities	**4,175,467**	**3,468,744**
Accrued employee benefits costs	885,077	918,163
Accrued expenses for administrative activities	715,473	810,041
Taxes payable other than income tax	341,955	40,740
Others	210,154	126,233
Total other liabilities	**2,152,659**	**1,895,177**

Deferred commission fee is a part of the commission fee of 50% for the conclusion of the contract for housing construction savings and the change in the terms of the contract for housing construction savings, which at the time of receiving the loan is transferred to the discount account for the loan and amortized taking into account commissions related to the issue of a loan for the entire period of the loan received at the effective interest rate.

The table below shows the changes in the long-term lease of the Bank arising from financial activities in 2019. Debt items are reflected in the statement of cash flows as financial activities.

(in thousands of Kazakhstani Tenge)	**Long-term lease**
Balance at 1 January 2019	-
Cash flows	(131,178)
Other changes not related to cash flows from financing activities	694,447
Balance at 31 December 2019	**535,607**

15 Debt Securities in Issue

(in thousands of Kazakhstani Tenge)	31 December 2019	31 December 2018
Bonds issued on domestic market	78,650,059	57,730,697
Total debt securities in issue	**78,650,059**	**57,730,697**

During 2019 the Bank paid half-year coupons in the amount of Tenge 5,527,660 thousand on issued debt securities.

In July 2019, the Bank placed coupon bonds of the first issue under the first bond program in the amount of 20,000,000 units, with a nominal value of Tenge 1,000 and a maturity of 7 years on the Kazakhstan Stock Exchange JSC site. During specialized trades on the placement of the Bank's bond, the coupon rate was 10.27% per annum, with a periodicity of the coupon payment 2 times a year.

The table below shows the changes in issued debt securities arising from financial activities for each period presented. Debt items are reflected in the statement of cash flows as financial activities.

(in thousands of Kazakhstani Tenge)	Debt securities
Balance at 1 January 2018	
Cash flows	57,700,000
Other changes not related to cash flows from financing activities	30,697
Balance at 31 December 2018	**57,730,697**
Cash flows	20,000,000
Other changes not related to cash flows from financing activities	919,362
Balance at 31 December 2019	**78,650,059**

In December 2018, the Bank issued and placed coupon bonds at the "Astana" International Financial Centre. The number of issued bonds was 57,700,000 bonds with a par value of Tenge 1,000. These bonds mature on 28 December 2033, have a coupon rate of 9.58% per annum to be paid twice a year. Basis for coupon interest calculation was 30 days per month and 360 days per year.

As at 31 December 2019, the Bank had issued debt securities held by 4 counterparties (2018: 1 counterparty). The balance of debt securities issued as at 31 December 2019 is Tenge 78,650,059 thousand (2018: Tenge 57,730,697 thousand).

Information on fair value of each class of debt securities in issue is disclosed in Note 25. Information on related party transactions with debt securities in issue is disclosed in Note 28.

16 Share Capital

(in thousands of Kazakhstani Tenge except for number of shares)	Shares (thousands of units)	Ordinary shares	Total
At 1 January 2018	**7,830**	**78,300,000**	**78,300,000**
New shares issued	-	-	-
At 31 December 2018	**7,830**	**78,300,000**	**78,300,000**
New shares issued	-	-	-
At 31 December 2019	**7,830**	**78,300,000**	**78,300,000**

On 30 April 2019, on the shareholders meeting the Bank declared dividends for the total amount of Tenge 7,936,551 thousand for the results of the year ended 31 December 2018. The dividend per share was Tenge 1,014. The dividends were fully paid on 25 July 2019. As at 31 December 2019, no dividends were declared.

17 Interest Income and Expenses

(in thousands of Kazakhstani Tenge)	2019	2018
Interest income calculated using the effective interest method		
Loans and advances to customers at AC	57,788,468	39,525,740
Debt securities at AC	12,834,338	9,296,375
Debt securities at FVOCI	10,583,604	12,277,043
Due from National Bank of the Republic of Kazakhstan	2,540,386	930,726
Due from other banks at AC	687,930	575,501
Total interest income calculated using the effective interest method	**84,434,726**	**62,605,385**
Interest expense calculated using the effective interest method		
Customer accounts	(18,046,930)	(10,499,328)
Bonds in issue	(6,458,173)	(30,709)
Borrowed funds	(3,323,118)	(3,217,753)
Securities repos	(33,476)	-
Total interest expense calculated using the effective interest method	**(27,861,697)**	**(13,747,790)**
Other similar income	**56,573,029**	**48,857,595**
Lease liabilities	(31,753)	-
Net interest income	**56,541,276**	**48,857,595**

Interest income includes interest income in the amount of Tenge 32,521 thousand (2018: Tenge 17,604 thousand) recognized on impaired non-performing loans of the clients.

18 Fee and Commission Income and Expenses

(in thousands of Kazakhstani Tenge)	2019 Mortgage/Retail banking	2019 Investment banking	2018 Mortgage/Retail banking	2018 Investment banking
Fee and commission income				
Fee and commission income not relating to financial instruments at FVTPL:				
Fee charged for early money withdrawal from savings account	539,165	-	305,537	-
Cash transactions	366,869	-	624,917	-
Conversion operations	199,449	-	117,665	-
Others	169,412	-	401,654	-
Total fee and commission income	**1,274,895**	**-**	**1,144,236**	**-**
Fee and commission expense				
Fee and commission expense not relating to financial instruments at FVTPL				
Agent commission	(4,310,018)	-	(1,950,726)	-
Settlement transactions	(661,499)	(56,339)	(312,067)	(61,097)
Transactions with securities	-	(3,526)	-	(4,695)
Others	-	(31,588)	-	(31,854)
Total fee and commission expense	**(4,971,517)**	**(91,453)**	**(2,262,793)**	**(97,646)**
Net fee and commission expense	**(3,696,622)**	**(91,453)**	**(1,118,557)**	**(97,646)**

A significant increase in agent commission expenses compared to the previous year is due to an increase in the quantitative and qualitative indicators of the Bank's activities and an increase in the average monthly number of active external agents.

19 Other Operating Expense, Net

(in thousands of Kazakhstani Tenge)	2019	2018
Expenses in form of contributions into the Kazakhstan Deposit Insurance Fund JSC	1,179,423	930,164
Net income from forfeit (penalty, fine)	(37,515)	(23,771)
Net other expense from banking activity	8,619	30,085
Net other income/expense from non-operating activity	6,781	(20,669)
Income from disposal of premises and equipment and intangible assets	(7,753)	(46,298)
Expenses from the impairment of intangible assets	-	15,360
Expenses from the impairment of premises and equipment	483	-
Expenses from disposal of premises and equipment and intangible assets	31,264	-
Provision/recovery of provision for receivables related to non-operating activity	(100)	(247)
Total other operating expense	**1,181,202**	**884,624**

20 Administrative Expenses

Administrative and other operating expenses include:

(in thousands of Kazakhstani Tenge)	2019	2018
Salary and bonuses	7,608,271	7,068,298
Other payments	800,738	702,902
Social tax contributions	785,922	717,734
Staff costs	**9,194,931**	**8,488,934**
Amortisation of premises and equipment and intangible assets	1,637,234	1,144,018
Technical maintenance	856,056	573,376
Communication services	735,901	478,526
Advertising and marketing services	668,315	518,645
Rent expense	586,041	539,232
Expenses on construction contracts	537,758	583,972
Taxes and state duties	517,427	385,617
Security services	397,618	183,361
Business trip expenses	325,492	332,010
Insurance	312,411	255,908
Professional services	215,010	66,450
Current repair expenses	175,205	318,216
Materials	159,497	92,828
Cash collection expense	89,113	65,356
Transportation expense	54,720	12,532
Other	651,331	943,814
Total administrative and other operating expenses	**17,114,060**	**14,982,795**

Included in staff costs are statutory pension contributions of Tenge 775,318 thousand (2018: Tenge 725,485 thousand).

21 Income Taxes

Income tax expense and benefit represented in profit and losses for the period includes the following components:

(in thousands of Kazakhstani Tenge)	2019	2018
Current income tax charge	2,492,347	2,276,804
Deferred income tax expense/(benefit)	(1,173,468)	(1,259,549)
Income tax expense for the year	**1,318,879**	**1,017,255**

The income tax rate applicable to the majority of the Banks's income is 20% (2018: 20%).

The effective interest rate differs from statutory income tax rate. A reconciliation of income tax expense based on statutory rates with actual expenditures:

(in thousands of Kazakhstani Tenge)	2019	2018
Profit before tax	28,960,878	27,472,424
Statutory tax rate	20%	20%
Theoretical tax charge at statutory rate	**5,792,176**	**5,494,485**
Non-taxable income on state securities and securities at the highest and next to the highest listing categories	(4,685,091)	(4,308,542)
Other non-taxable/non-deductible income/expense	211,794	(168,688)
Income tax expense	**1,318,879**	**1,017,255**

21 Income Taxes (Continued)

Differences between IFRS and statutory taxation regulations in Kazakhstan lead to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases.

The tax effect of the movements in these temporary differences is detailed below.

(in thousands of Kazakhstani Tenge)	1 January 2018	Credited/ (charged) to profit or loss	Credited/ (charged) directly to equity	31 December 2018	Credited/ (charged) to profit or loss	Credited/ (charged) directly to equity	31 December 2019
Tax effect of deductible temporary differences							
Due from other banks	4,219	(4,219)	-	-	-	-	-
Loans and advances to customers	331,527	697,059	-	1,028,586	633,600	-	1,662,186
Other liabilities	219,581	126,223	-	345,804	164,091	-	509,895
Deferred tax assets	**555,327**	**819,063**	**-**	**1,374,390**	**797,691**	**-**	**2,172,081**
Tax effect of taxable temporary differences							
Borrowed funds	(5,643,146)	499,580	(6,318,618)	(11,462,184)	569,424	(6,602,954)	(17,495,714)
Premises and equipment and intangible assets	(347,395)	(78,063)	-	(425,458)	(62,766)	-	(488,224)
Other assets	(21,123)	18,969	-	(2,154)	(130,881)	-	(133,035)
Deferred tax liabilities	**(6,011,664)**	**440,486**	**(6,318,618)**	**(11,889,796)**	**375,777**	**(6,602,954)**	**(18,116,973)**
Deferred tax liabilities (net)	**(5,456,337)**	**1,259,549**	**(6,318,618)**	**(10,515,406)**	**1,173,468**	**(6,602,954)**	**(15,944,892)**

The Bank expects recovery and repayment of deferred tax assets and liabilities in the amount of Tenge 369,863 thousand during not more than twelve months after the end of the reporting period and Tenge 16,314,755 thousand upon expiry of more than twelve months after the end of the reporting period.

22 Financial Risk Management

The risk management function within the Bank is carried out in respect of financial risks and operational risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimize operational risks.

Credit risk. The Bank takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Bank's lending and other transactions with counterparties giving rise to financial assets.

The Bank's maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the statement of financial position. For commitments to provide loans, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 26. The credit risk is mitigated by collateral and other credit enhancements.

Credit risk management. The estimation of credit risk for risk management purposes is complex and involves the use of models, as the risk varies depending on market conditions, expected cash flows and the passage of time. The Bank assesses credit risk using Probability of Default ("PD"), Exposure at Default ("EAD"), and Loss Given Default ("LGD").

22 Financial Risk Management (Continued)

Limits. The Bank structures the levels of credit risk by placing limits, but not limited to the following limits: limits on the aggregate amount of lending to one borrower, on products, on quality of collateral, on authority of the Credit Committee of the Bank's branches, on authority of the Credit Committee of the "Decision Making Centre" of "Housing Construction Savings Bank of Kazakhstan" JSC (the "DMC"), on volume of loans guaranteed by an individual, maximum rate of non-performing loans in the loan portfolio.

In accordance with internal documents, limits are approved by Credit Committee of the Bank/Management Board of the Bank/Board of Directors of the Bank and are reviewed at least once a year.

The Bank established a number of collective bodies for the purposes of implementing internal credit policy and making any credit decisions:

- Bank Credit Committee is a regular collegial body at the Central Office of the Bank with the main objectives of realization of the Bank's internal credit policy and making any credit decisions on lending of Bank's customers;
- Branch Credit Committee branch is a regular collegial body at the branch of the Bank with the main objective of implementation of the Bank's credit policy and making any credit decisions on lending of Bank's customers within the established limits.
- DMC Credit Committee is a regular collegial body at the Central Office of the Bank implementing internal credit policy of the Bank, the main objective of which is to make decisions on applications of Bank clients and ensure post-credit servicing of loans within banking software developed for the business processes on provision of bank services;

In order to monitor credit risk exposures, regular reports are produced by the credit department's officers based on business analysis. Management monitors and controls portfolio quality.

The Bank's responsible departments review the ageing analysis of outstanding loans and follow up on past due balances. The Bank provides ageing and other information about credit risk in Notes 7, 8, 9 and 11.

Expected credit loss (ECL) measurement. *ECL* is a probability-weighted estimate of the present value of future cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of default occurring in a given time period used as weights). An ECL measurement is unbiased and is determined by evaluating a range of possible outcomes. ECL measurement is based on four components used by the Group: Probability of Default ("PD"), Exposure at Default ("EAD"), Loss Given Default ("LGD") and Discount Rate.

EAD is an estimate of exposure at a future default date, taking into account expected changes in the exposure after the reporting period, including repayments of principal and interest, and expected drawdowns on committed facilities. The EAD on credit related commitments is estimated using Credit Conversion Factor ("CCF"). CCF is a coefficient that shows the probability of conversion of the committed amounts to an on-balance sheet exposure within a defined period. PD is an estimate of the likelihood of default to occur over a given time period. LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It is usually expressed as a percentage of the EAD. The expected losses are discounted to present value at the end of the reporting period. The discount rate represents the effective interest rate ("EIR") for the financial instrument or an approximation thereof.

Expected credit losses are modelled over instrument's *lifetime period.* The *lifetime period* is equal to the remaining contractual period to maturity of debt instruments, adjusted for expected prepayments, if any.

Management models *Lifetime ECL,* that is, losses that result from all possible default events over the remaining lifetime period of the financial instrument. The *12-month ECL,* represents a portion of lifetime ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting period, or remaining *lifetime period* of the financial instrument if it is less than a year.

The ECLs that are estimated by management for the purposes of these financial statements are point-in-time estimates, rather than through-the-cycle estimates that are commonly used for regulatory purposes. The estimates consider *forward looking information,* that is, ECLs reflect probability weighted development of key macroeconomic variables that have an impact on credit risk.

The ECL modelling does not differ for Purchased or Originated Credit Impaired ("POCI") financial assets, except that (a) gross carrying value and discount rate are based on cash flows that were recoverable at initial recognition of the asset, rather than based on contractual cash flows, and (b) the ECL is always a lifetime ECL. POCI assets are financial assets that are credit-impaired upon initial recognition, such as impaired loans acquired in a past business combination.

22 Financial Risk Management (Continued)

ECL measurement for loans

For the ECL measurement, the Bank uses assessment on an individual basis and on a portfolio basis (homogenous loans):

- **individual loan** is a loan meeting one/several of the following criteria: carrying amount of loan as of the reporting date exceeds 0.2% of equity according to the financial statement as of the end of the reporting year, but not less than Tenge 50 (fifty) million; loan represents claim to related party;
- **homogenous loans** is a group of loans with similar characteristics of credit risk;

ECL assessment on an individual basis is performed by weighting the estimates of credit losses for different possible outcomes against the probabilities of each outcome. The Bank defines at least two possible outcomes for each assessed loan, one of which leads to a credit loss even if the probability of such a scenario may be very low.

When assessment is performed on a portfolio basis, the Bank determines the staging of the exposures and measures the loss allowance on a collective basis. The Bank analyses its exposures by segments determined on the basis of shared credit risk characteristics, such that exposures within a group have homogeneous or similar risks.

In assessing credit risk, the Bank groups loan portfolio into 5 pools:

1. interim loans;
2. preliminary loans;
3. housing loans;
4. housing (interim) loans: housing loan classified in past as interim loan.
5. housing (preliminary) loans: housing loan classified in past as preliminary loan.

The level of ECL that is recognised in these financial statements depends on whether the credit risk of the borrower has increased significantly since initial recognition. In assessing financial assets for impairment, the Bank applies a three-stage model of impairment accounting. A financial instrument that is not credit-impaired on initial recognition and its credit risk has not increased significantly since initial recognition has a credit loss allowance based on 12-month ECLs (Stage 1). If a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired and the loss allowance is based on lifetime ECLs. If a financial instrument is credit-impaired, the financial instrument is moved to Stage 3 and loss allowance is based on lifetime ECLs. The consequence of an asset being in Stage 3 is that the entity ceases to recognise interest income based on gross carrying value and applies the asset's effective interest rate to the carrying amount, net of ECL, when calculating interest income.

If there is evidence that the SICR criteria are no longer met, the instrument is transferred back to Stage 1.

ECL for POCI financial assets is always measured on a lifetime basis. The Bank therefore only recognises the cumulative changes in lifetime expected credit losses.

For purposes of measuring PD, the Bank defines default as a situation when the exposure meets one or more of the following criteria:

- more than 90 calendar days past due payments or the Bank expects that the borrower is not able to repay debts to the Bank in full without any special terms.
- suspension of accrual for loan interest due to the borrower's financial status worsening, borrower's death, unavailability of a co-borrower on loan;
- writing-off of the borrower's debt amount in part and/or in full due to significant increase in credit risk from the loan provision date;
- the borrower refuses to perform obligations under the loan due to bad faith (fraud);
- restructuring due to the borrower's financial status worsening;
- filing a borrower bankruptcy application in accordance with the legislation of the Republic of Kazakhstan;
- the borrower files a bankruptcy application in accordance with the legislation of the Republic of Kazakhstan.

For purposes of disclosure, the Bank fully aligned the definition of default with the definition of credit-impaired assets. The default definition stated above is applied to loans.

22 Financial Risk Management (Continued)

A loan is considered to no longer be in default when a default is cured and/or after more than 12 months from the restructuring action initiation. A credit impaired financial asset is transferred to Stage 2 subject to the borrower's repayment of debt, which leads to the decrease in the carrying amount of a financial asset as of creation of provisions till the level equal or below debt amount as of the moment of financial asset transition to the category of credit impaired financial assets or if as of the assessment date there are no events objectively confirming impairment based on impairment indicators of a financial asset.

The criteria used to identify an SICR are monitored and reviewed periodically for appropriateness by the Bank. The presumption, being that there have been significant increases in credit risk since initial recognition when financial assets are more than 30 days past due, has not been rebutted.

Significant increase in credit risk (SICR). The Bank identifies a SICR based on three-factor analysis: backstop indicator – over 30 days past due, qualitative and quantitative analysis.

Quantitative analysis. In identifying SICR since initial recognition, the Bank applies relative approach based on calculation of the weighted average probability of default (PD) from the reporting date till the end of maturity.

The Bank uses the following qualitative criteria:

- multiple overdue for the last 12 months;
- loans, which were subject to restructuring. Such loans will remain in Stage 2 for 3 months from the date of transfer from Stage 3;
- loans, which were subject to payment request-orders;
- loans, for which there was a decrease in the market cost of real estate property upon revaluation results by 40% and more.

In general, ECL is the sum of the multiplications of the following credit risk parameters: EAD, PD and LGD, that are defined as explained above.

The ECL is determined by predicting credit risk parameters (EAD, PD and LGD) for each future month during the lifetime period for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has been repaid or defaulted in an earlier month). This effectively calculates an ECL for each future period, that is then discounted back to the reporting date and summed up. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The key principles of calculating the credit risk parameters. The EADs are determined based on the expected payment profile, that varies by product type. EAD is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis for amortising products and bullet repayment loans. This will also be adjusted for any expected overpayments made by a borrower. Early repayment or refinancing assumptions are also incorporated into the calculation.

Two types of PDs are used for calculating ECLs: 12-month and lifetime PD. An assessment of a 12-month PD is based on the latest available historic default data and adjusted for supportable forward-looking information when appropriate. Lifetime PDs represent the estimated probability of a default occurring over the remaining life of the financial instrument and it is a sum of the 12 months PDs over the life of the instrument. The Bank uses different statistical approaches depending on the segment and product type to calculated lifetime PDs, such as developing lifetime PD curves based on the historical default data.

The Bank calculates LGD based on specific characteristics of the collateral, such as projected collateral values, historical discounts on sales and other factors for loans secured by real estate, cash and liquid securities. LGD is calculated on a collective basis based on the latest available recovery statistics for the remainder of loan portfolio.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

22 Financial Risk Management (Continued)

Forward-looking information incorporated in the ECL models. The assessment of SICR and the calculation of ECLs both incorporate supportable forward-looking information. The Bank identified certain key economic variables that correlate with developments in credit risk and ECLs. Risk parameters are predictable, i.e. include the impact of expected economic conditions of the following macro-economic factors: inflation rate, average monthly salary, unemployment rate, GDP. The Bank does not forecast future macro-economic conditions during the loan lifetime. The extent of judgment required for ECL measurement depends on the availability of relevant information. As forecast period increases, the availability of detailed information decreases and relevance of judgment for ECL measurement increases. Therefore, the Bank uses in its calculation the impact of forward-looking macro-economic factors only for the period of not more than three years, after which the linear extrapolation of data to units is applied. The impact of the relevant economic variables on the PD, EAD and LGD has been determined by performing statistical regression analysis to understand the impact that the changes in these variables historically had on the default rates and on the components of LGD and EAD.

In addition to the base economic scenario, the Bank also provides other possible scenarios along with scenario weightings. The Bank determines scenario weightings in equal proportions at least annually or when conditions significantly change compared to previous assumptions.

ECL measurement for other financial assets

ECL measurement for other financial assets includes further assessments of PD, corresponding loss coefficients and default ratios between counterparties. The Bank assesses credit risk using PD, EAD and LGD.

In calculating PD, migration matrix based on external data is applied. The Bank uses data provided by Moody's credit agency as detailed information. If such information is unavailable, data provided by Standard and Poor's or Fitch agencies is used. Migration matrix represents the probability of changes is credit rating during a definite period of time.

For the purposes of calculating provisions, the Bank disaggregates financial assets by state, corporate and financial institutions. For each category, the Bank uses individual migration matrix based on Moody's data, or data provided by Standard and Poor's or Fitch.

Default on interbank deposits, securities, correspondent accounts and REPO transactions is an event of non-performance by a counterparty of obligations towards the Bank

Obtained MPD result is applied as probability of default in calculating ECLs. Minimum default level cannot be lower than 0.03% set by Basel Committee.

If the official credit rating of a counterparty does not reflect the last counterparty-related information that in its turn increases credit risk, the Bank based on expert opinion decreases counterparty's credit rating. In such cases, maximum rating decrease by the Bank will be between 2 ratings with a possibility of using interim values of default probability proportionally between the official credit rating of a counterparty and its lower border. In making such a decrease, the Bank considers rating of other counterparties operating in this sector as an additional factor.

LGD measurement. LGD varies in time depending on payments and cost of collateral. Key elements of LGD coefficient are as follows:

- time aspect (division of EAD parameter by secured and unsecured portions) and
- changes in the cost of collateral over time (in the event of such pledges as real estate property, cost can remain unchanged)

If there is no collateral on a financial instrument and sufficient historical default data, the Bank applies expert assessment. Depending on circumstances and data integrity as of the reporting date, the Bank applies one of the following approaches to measure LGD ratio on a stage-by-stage basis:

a) Historical data. This approach is based on historical data of defaults and based on historical level of loss recovery by applying an expert judgment. In the event of unavailability of historical data and non-representativeness of statistical data on recovered funds and/or investments, the Bank applies an approach described in Clause b).

b) Approach based on historical data from external sources such as Moody's, Standard & Poor's, or Fitch rating agencies that provide data on recovery rate based on databases for similar portfolios. LGD is based on data available as of the reporting date. If no data is available, the Bank applies an approach described in Clause c).

c) IRB-Foundation approach defined by the Basel Committee on Banking Supervision, within which a minimum LGD value for subordinated debts is assigned in the amount of 75%, and for other instruments – in the amount of 45%.

22 Financial Risk Management (Continued)

EAD measurement. The Bank calculates EAD as of future reporting date by the end of contractual maturity at each reporting date using the following:

- contractual maturity;
- contractual debt repayment schedule.

At the end of each months between the reporting date and maturity of a financial asset, the expected EAD is calculated based on contractual schedule. The Bank assumes that current EAD will be repaid proportionally to planned contractual payments as follows:

EAD at reporting date = Principal Debt + Accrued interest + Unamortised amount of premium/discount

EAD at future reporting date = Principal Debt + Accrued Interest + Unamortised amount of premium/discount – contractual payments according to schedule.

Significant increase in credit rating.

In assessing securities (including REPO transactions) and receivables for impairment, the Bank uses a three-stage model of impairment accounting.

Financial assets as of recognition date are included in Stage 1, except for credit impaired assets that are classified into Stage 3.

As of the reporting period, the Bank assesses significant increase in credit risk on each financial asset. If credit risk increases, the Bank transfers an asset to the next Stage. The Bank identifies significant increase in credit risk based on three-factor analysis:

- Quantitative analysis. Comparison of PD ratio as of the reporting date to PD ratio as of the asset recognition date;
- Qualitative analysis.
- Backstop indicator. The over 30 days overdue is considered as an indicator for the transfer to Stage 2, and the over 90 days overdue is considered as an indicator for the transfer to Stage 3.

Market risk. The Bank is exposed to market risk arising from open positions in (a) currency, (b) interest and (c) equity instruments, which are exposed to general and specific market movements. Management sets limits on the level of accepted risk is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of a significant change in the market.

Currency risk. In respect of currency risk, management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

In 2019 the Bank did not conduct foreign exchange transactions except for the purchase of foreign currency for fulfillment of liabilities under the administrative and economic contracts. As at 31 December 2019, the Bank did not have a portfolio of financial instruments denominated in foreign currency or the value of which depends on the foreign exchange rate. As at 31 December 2019, the Bank had correspondent accounts in other banks denominated in foreign currencies.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at the end of the reporting date.

	At 31 December 2019			**At 31 December 2018**		
(in thousands of Kazakhstani Tenge)	**Monetary financial assets**	**Monetary financial liabilities**	**Net position**	**Monetary financial assets**	**Monetary financial liabilities**	**Net position**
US Dollars	225,246	-	225,246	207,900	-	207,900
Euros	108,179	-	108,179	2,631	-	2,631
Russian rubles	608	-	608	-	-	-
Total	**334,033**	**-**	**334,033**	**210,531**	**-**	**210,531**

The above analysis includes only monetary assets and liabilities.

22 Financial Risk Management (Continued)

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the functional currency of the Bank, with all other variables held constant:

	At 31 December 2019		At 31 December 2018	
(in thousands of Kazakhstani Tenge)	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
US Dollar strengthening by 20%	45,049	45,049	41,580	41,580
US Dollar weakening by 20%	(45,049)	(45,049)	(41,580)	(41,580)
Euro strengthening by 20%	21,636	21,636	526	526
Euro weakening by 20%	(21,636)	(21,636)	(526)	(526)
Total	-	-	-	-

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the Bank.

Interest rate risk. The Bank takes on exposure 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 reduce or create losses in the event that unexpected movements arise. Management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

The table below summarises the Bank's exposure to interest rate risks. The table presents the aggregated amounts of the Bank's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates. As of 31 December 2019, the Bank has government investment securities for the amount of Tenge 202,022,588 thousand (2018: Tenge 203,610,514 thousand).

(in thousands of Kazakhstani Tenge)	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
31 December 2019					
Total financial assets	146,118,679	71,428,055	28,581,040	1,097,305,822	1,343,433,597
Total financial liabilities	104,408,784	121,496,117	93,951,152	770,619,641	1,090,475,694
Net interest sensitivity gap at 31 December 2019	**41,709,895**	**(50,068,062)**	**(65,370,112)**	**326,686,181**	**252,957,903**
31 December 2018					
Total financial assets	185,656,663	28,739,488	12,953,973	763,326,671	990,676,794
Total financial liabilities	121,932,439	33,876,817	39,406,315	591,052,294	786,267,865
Net interest sensitivity gap at 31 December 2018	**63,724,224**	**(5,137,329)**	**(26,452,342)**	**172,274,377**	**204,408,930**

22 Financial Risk Management (Continued)

As of 31 December 2019, the net gap for periods of up to 6 months and up to 12 months arose due to the availability of deposits for periods of Tenge 108 billion (up to 6 months) and Tenge 93 billion (up to 12 months).

As of 31 December 2019 and 31 December 2018 assets with floating exchange rate are absent. The Bank monitors interest rates for its financial instruments. All financial instruments are denominated in Kazakhstani Tenge, except for correspondent accounts in other banks denominated in foreign currency.

The table below summarises average effective interest rates (EIR) at 31 December 2019 and 31 December 2018:

(in % p.a.)	31 December 2019	31 December 2018
Assets		
Cash and cash equivalents	8.32%	7.43%
Debt securities at FVOCI/investment securities AFS	8.17%	8.08%
Debt securities at AC/investment securities HTM	9.48%	7.08%
Loans and advances to customers	7.01%	7.38%
Liabilities		
Customer accounts	1.93%	1.90%
Corporate clients funds	7.75%	7.75%
Borrowings from the Government of RK	5.44%	6.61%
Borrowings from Samruk-Kazyna	4.72%	5.16%
Borrowings from NMH Bayterek	7.97%	7.97%
Borrowings from Administration of Almaty	4.19%	8.95%
Bonds in issue	9.76%	9.58%

Other price risk. In 2019 the Bank did not conduct operations with equity shares. There were no active operations and transactions that would indicate potential decrease in value.

The Bank is exposed to prepayment risk through providing fixed rate loans, which give the borrower the right to repay the loans early. The Bank's current year profit and equity at the end of the current reporting period would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortized cost and the prepayment right is at, or close to, the amortized cost of the loans and advances to customers (2018: no material impact).

Geographical risk concentrations. The geographical concentration of the Bank's financial assets and liabilities at 31 December 2019 is set out below:

(in thousands of Kazakhstani Tenge)	Kazakhstan	Russia	Other countries	Total
Financial assets				
Cash and cash equivalents	151,024,879	-	-	151,024,879
Loans and advances to customers	993,321,693	16,650	-	993,338,343
Investments in debt securities	179,515,222	14,436,374	2,135,988	196,087,584
Investments in equity securities	5,214	-	-	5,214
Other financial assets	2,979,171	-	-	2,979,171
Total financial assets	**1,326,846,179**	**14,453,024**	**2,135,988**	**1,343,435,191**
Financial liabilities				
Customer accounts	902,009,405	12,046	1,954	902,023,405
Borrowed funds	105,626,763	-	-	105,626,763
Debt securities in issue	78,650,059	-	-	78,650,059
Other financial liabilities	4,174,932	169	366	4,175,467
Total financial liabilities	**1,090,461,159**	**12,215**	**2,320**	**1,090,475,694**
Net position in on-balance sheet financial instruments	**236,385,020**	**14,440,809**	**2,133,668**	**252,959,497**
Credit related commitments	**26,241,764**	**-**	**-**	**26,241,764**

22 Financial Risk Management (Continued)

Assets, liabilities and credit related commitments have generally been based on the country in which the counterparty is located. Cash on hand have been allocated based on the country in which they are physically held.

The geographical concentration of the Bank's financial assets and liabilities at 31 December 2018 is shown below:

(in thousands of Kazakhstani Tenge)	Kazakhstan	Russia	Other countries	Total
Financial assets				
Cash and cash equivalents	173,374,282	-	-	173,374,282
Loans and advances to customers	662,293,854	16,247	-	662,310,101
Investments in debt securities	145,417,079	7,803,990	-	153,221,069
Investments in equity securities	19,034	-	-	19,034
Other financial assets	1,771,342	-	-	1,771,342
Total financial assets	**982,875,591**	**7,820,237**	**-**	**990,695,828**
Financial liabilities				
Customer accounts	665,483,680	12,488	1,793	665,497,961
Borrowed funds	59,570,463	-	-	59,570,463
Debt securities in issue	57,730,697	-	-	57,730,697
Other financial liabilities	3,468,744	-	-	3,468,744
Total financial liabilities	**786,253,584**	**12,488**	**1,793**	**786,267,865**
Net position in on-balance sheet financial instruments	**196,622,007**	**7,807,749**	**(1,793)**	**204,427,963**
Credit related commitments	20,467,228	-	-	20,467,228

Other risk concentrations. Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to borrowers with aggregated loan balances in excess of 10% of net assets (Note 9). The Bank did not have any such significant risk concentrations at 31 December 2019 and 31 December 2018.

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw-downs, guarantees and from margin and other calls on cash-settled derivative instruments. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by the Asset/Liability Committee of the Bank.

The Bank seeks to maintain a stable funding base primarily consisting of funds received from the Government and deposits (housing construction savings of individuals). The Bank invests the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management of the Bank requires consideration of the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans; and monitoring liquidity ratios against regulatory requirements. The Bank calculates liquidity ratios on a monthly basis in accordance with the requirement of the National Bank of the Republic of Kazakhstan. These ratios include:

- Current liquidity coefficient (k4), which is calculated as the average monthly value of highly liquid assets of the Bank to the average monthly value of demand liabilities considering accrued interest. At 31 December 2019 this coefficient was 2.207 (2018: 5.033);
- Acid-test coefficient (k4-1), which is calculated as the average monthly value of highly liquid assets to the average monthly value of term liabilities with remaining maturity of up to seven days inclusive. At 31 December 2019 this coefficient was 159.440 (2018: 3.062);

26 Financial Risk Management (Continued)

- Acid-test coefficient (k4-2), which is calculated as the average monthly value of liquid assets with remaining maturity of up to one month (inclusive), including highly liquid assets, to the average monthly value of term liabilities with the remaining maturity of up to one month inclusive. At 31 December 2019 this coefficient was 46.344 (2018: 3.147);
- Acid-test coefficient (k4-3), which is calculated as the average monthly value of liquid assets with remaining maturity of up to three months (inclusive), including highly liquid assets, to the average monthly value of term liabilities with remaining maturity of up to three months inclusive. At 31 December 2019 this coefficient was 19.986 (2018: 2.67).

The Treasury Department provides for an adequate portfolio of short-term liquid assets, largely made up of short-term liquid trading securities, deposits with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The Bank monitors the daily liquidity position and regularly conducts liquidity stress testing, under a variety of scenarios covering both normal and more severe market conditions.

The table below shows liabilities at 31 December 2019 by their remaining contractual maturity. The amounts of liabilities disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges), gross loan commitments and financial guarantees. Such undiscounted cash flows on financial liabilities and financial assets differ from the amounts included in the statement of financial position because the amount in the statement of financial position is based on discounted cash flows.

Impaired loans are included at their carrying amounts net of impairment provisions and based on the expected timing of cash inflows.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

The maturity analysis of financial instruments at 31 December 2019 is as follows:

(in thousands of Kazakhstani Tenge)	**On demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Assets						
Cash and cash equivalents	136,457,403	31,007,598	-	-	-	167,465,001
Loans and advances to customers	45,299	1,797,666	7,629,555	335,668,812	1,079,082,739	1,424,224,071
Investment securities at FVOCI	6,639,856	16,357,838	11,081,039	106,380,323	15,590,377	156,049,432
Investment securities at AC		23,860,766	11,633,865	19,738,548	-	55,233,179
Other financial assets	2,979,171	-	-	-	-	2,979,171
Total assets	**146,121,729**	**73,023,869**	**30,344,459**	**461,787,682**	**1,094,673,116**	**1,805,950,855**
Liabilities						
Borrowed funds	-	46,710	1	28,043,656	168,883,029	196,973,395
Bonds in issue	-	-	960,715	-	168,504,525	169,465,240
Customer accounts	100,237,894	122,480,923	94,430,132	266,964,316	399,885,466	983,998,731
Other financial liabilities	4,175,467	-	-	-	-	4,175,467
Total potential future payments for financial obligations	**104,413,361**	**122,527,633**	**95,390,848**	**295,007,972**	**737,273,019**	**1,354,612,833**
Contingent liabilities						
Irrevocable loan commitments	2,624,176	13,120,882	10,496,706	-	-	26,241,764

The total outstanding contractual amount of commitments to extend credit as included in the above maturity table does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

22 Financial Risk Management (Continued)

The maturity analysis of financial instruments at 31 December 2018 is as follows:

(in thousands of Kazakhstani Tenge)	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	173,513,761	-	-	-	-	173,513,761
Loans and advances to customers	159,872	2,046,237	2,261,444	328,840,981	577,758,968	911,067,502
Investment securities at FVOCI	5,160,388	27,382,306	9,078,400	98,021,862	32,695,042	172,337,998
Investment securities at AC	5,000,069	-	2,074,064	2,087,064	-	9,161,197
Other financial assets	1,771,342	-	-	-	-	1,771,342
Total assets	**185,605,432**	**29,428,543**	**13,413,908**	**428,949,907**	**610,454,010**	**1,267,851,800**
Liabilities						
Borrowed funds	-	9,192,270	9,191,829	28,301,740	73,133,748	119,819,587
Bonds in issue	-	2,763,830	2,763,830	19,346,810	115,740,430	140,614,900
Customer accounts	143,914,169	20,173,817	28,555,026	313,393,557	206,209,499	712,246,068
Other financial liabilities	3,257,742	-	-	-	-	3,257,742
Total potential future payments for financial obligations	**147,171,911**	**32,129,917**	**40,510,685**	**361,042,107**	**395,083,677**	**975,938,297**
Contingent liabilities						
Irrevocable loan commitments	2,046,723	10,233,614	8,186,891	-	-	20,467,228

22 Financial Risk Management (Continued)

The Bank does not use the above maturity analysis based on undiscounted contractual maturities of liabilities to manage liquidity. Instead, the Bank monitors expected maturities and the resulting expected liquidity gap as follows:

(in thousands of Kazakhstani Tenge)	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
At 31 December 2019						
Financial assets	280,020,257	36,144,468	11,766,171	304,396,919	711,105,781	1,343,433,597
Financial liabilities	104,408,784	121,496,117	93,951,152	279,041,825	491,577,816	1,090,475,694
Net liquidity gap based on expected maturities	**175,611,473**	**(85,351,648)**	**(82,184,981)**	**25,355,094**	**219,527,965**	**252,957,903**
Accumulated liquidity gap based on expected maturities	**175,611,473**	**90,259,825**	**8,074,844**	**33,429,938**	**252,957,903**	**-**
At 31 December 2018						
Financial assets	313,192,942	2,103,844	2,167,261	275,876,243	397,336,505	990,676,795
Financial liabilities	147,001,254	29,203,202	37,077,676	321,149,573	251,625,158	786,056,863
Net liquidity gap based on expected maturities	**166,191,688**	**(27,099,358)**	**(34,910,415)**	**(45,273,330)**	**145,711,347**	**204,619,932**
Accumulated liquidity gap based on expected maturities	**166,191,688**	**139,092,330**	**104,181,915**	**58,908,585**	**204,619,932**	**-**

The net gap for periods of up to 6 months and up to 12 months arose due to the availability of deposits for periods of Tenge 108 billion (up to 6 months) and Tenge 93 billion (up to 12 months).

The entire portfolio of trading securities are classified as "On demand and less than one month" in accordance with the assessment of the liquidity management of the portfolio

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks 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 maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

Management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these customer accounts provide a long-term and stable source of funding for the Bank.

23 Capital Management

The Bank's capital management has the following objectives: (i) compliance with the capital requirements set by the National Bank of the Republic of Kazakhstan; (Ii) ensuring the Bank's ability to maintain the continuity of operations; and (iii) maintain capital base at the level required to ensure that the capital adequacy ratio. The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shares' value.

Capital adequacy ratio established by the competent authority.

The National Bank of Republic of Kazakhstan requires the Bank to maintain capital adequacy ratio k 1 at a rate 5.5%, k 1-2 at rate of 6.5% and k 2 at 8% of the assets, contingent liabilities, potential claims and liabilities and operational risks in accordance with the regulations established by NBRK.

23 Capital Management (Continued)

Capital adequacy ratios calculations in accordance with the regulations established by the NBRK:

- Primary capital adequacy ratio k1 is calculated as main capital to the risk-weighted assets, contingent liabilities, potential claims and liabilities and the operational risk;
- Tier 1 capital adequacy ratio k1-2 is calculated as tier 1 capital to the risk-weighted assets, contingent liabilities, potential claims and liabilities and the operational risk;
- Capital adequacy ratio k2 is calculated as own capital to the risk-weighted assets, contingent liabilities, potential claims and liabilities and the operational risk.

As of 31 December 2019 and 31 December 2018, the Bank's capital adequacy ratio on this basis exceeded the statutory minimum.

As of 31 December 2019 and 31 December 2018, the Bank's capital adequacy ratios calculated in accordance with the requirements of the NBRK were as follows:

(in thousands of Kazakhstani Tenge)	**2019**	**2018**
Tier 1 capital	240,349,519	196,735,174
Tier 2 capital	-	-
Total regulatory capital	**240,349,519**	**196,735,174**
Risk-weighted assets and contingent liabilities, potential claims and liabilities	577,011,945	336,886,534
Operational risk	28,241,387	23,172,319
Capital adequacy ratio k1-1	39,70%	54.64%
Capital adequacy ratio k1-2	39,70%	54.64%
Capital adequacy ratio k2	39,70%	54.64%

24 Segment Analysis

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available. The Bank's CODM is the Management Board. For the purpose of operating decisions and distribution of resources, the Management Board uses IFRS financial information.

(a) Description of products and services from which each reportable segment derives its revenue

The Bank is organized on the basis of two main business segments: mortgage/retail banking that includes housing loans, deposits and individual customer accounts; and investment banking represented by cash and cash equivalents, securities and due from other banks.

24 Segment Analysis (Continued)

(b) Information about reportable segment profit or loss, assets and liabilities

Segment information for the reportable segments for the year ended 31 December 2019 is set out below:

(in thousands of Kazakhstani Tenge)	Note	Mortgage/Retail banking	Investment banking	Total
Cash and cash equivalents	7	-	151,024,879	151,024,879
Loans and advances to customers	9	993,338,343	-	993,338,343
Investments in debt securities	8	-	196,087,584	196,087,584
Investments in equity securities		-	5,214	5,214
Total assets of operating segments		**993,338,343**	**347,117,677**	**1,340,456,020**
Customer accounts	12	902,023,405	-	902,023,405
Borrowed funds	13	105,626,763	-	105,626,763
Debt securities in issue	15	78,650,059	-	78,650,059
Other liabilities	14	4,175,467	-	4,175,467
Total liabilities of operating segments		**1,090,475,694**	**-**	**1,090,475,694**
Capital expenditures		**-**	**(1,273,166)**	**(1,273,166)**

Capital expenditures represent acquisition of property and equipment.

(in thousands of Kazakhstani Tenge)	Mortgage/Retail banking	Investment banking	Total
2019:			
Segment revenues			
Interest income on loans to customer	57,788,468	-	57,788,468
Interest income on securities and due from the National Bank of the Republic of Kazakhstan and other banks	-	26,646,258	26,646,258
Interest expense on customer accounts	(18,046,930)	-	(18,046,930)
Interest expense on bonds in issue	(6,458,173)	-	(6,458,173)
Interest expense on borrowed funds	(3,323,118)	-	(3,323,118)
Interest expense on other financial liabilities	(65,229)	-	(65,229)
Net interest income	**29,895,018**	**26,646,258**	**56,541,276**
Credit loss allowance	(447,397)	100,706	(346,691)
Net interest income after credit loss allowance			
Fee and commission income	1,274,895	-	1,274,895
Fee and commission expense	(4,971,535)	(91,435)	(5,062,970)
Loss on initial recognition of assets at rates below market	(5,158,301)	-	(5,158,301)
Gains less losses from trading securities	-	8,021	8,021
Other expenses	(1,311,361)	(90)	(1,311,451)
Administrative and other operating expenses	-	(17,114,060)	(17,114,060)
Segment results	**19,281,319**	**9,549,400**	**28,830,719**

24 Segment Analysis (Continued)

Segment information for the reportable segments for the year ended 31 December 2018 is set out below:

(in thousands of Kazakhstani Tenge)	Note	Mortgage/Retail banking	Investment banking	Total
Cash and cash equivalents	7	-	173,374,282	173,374,282
Loans and advances to customers	9	662,310,101	-	662,310,101
Investments in debt securities	8	-	153,202,035	153,202,035
Investments in equity securities	8	-	19,034	19,034
Total assets of operating segments		**662,310,101**	**326,595,351**	**988,905,452**
Customer accounts	12	665,497,961	-	665,497,961
Borrowed funds	13	59,570,463	-	59,570,463
Debt securities in issue	15	57,730,697	-	57,730,697
Other liabilities	14	3,468,744	-	3,468,744
Total liabilities of operating segments		**786,267,865**	-	**786,267,865**
Capital expenditures		-	**(1,169,958)**	**(1,169,958)**

Segment information for the reportable segments for the year ended 31 December 2018 is set out below:

(in thousands of Kazakhstani Tenge)	Mortgage/Retail banking	Investment banking	Total
2018:			
Segment revenues			
Interest income on loans to customer	39,525,740	-	39,525,740
Interest income on securities and due from the National Bank of the Republic of Kazakhstan and other banks	-	23,079,645	23,079,645
Interest expense on customer accounts	(10,499,328)	-	(10,499,328)
Interest expense on borrowed funds	(3,217,753)	-	(3,217,753)
Interest expense on bonds in issue	(30,709)	-	(30,709)
Net interest income	**25,777,950**	**23,079,645**	**48,857,595**
Credit loss allowance	(461,340)	-	(461,340)
Net interest income after credit loss allowance			
Fee and commission income	1,144,236	-	1,144,236
Fee and commission expense	(2,262,793)	(97,646)	(2,360,439)
Loss on initial recognition of assets at rates below market	(3,798,378)	(22,616)	(3,820,993))
Gains less losses from trading securities	-	87,787	87,787
Reverse of provision for impairment of investment securities held to maturity	-	(149,346)	(149,346)
Other expenses	(1,128,470)		(1,128,470)
Administrative and other operating expenses	-	(14,982,795)	(14,982,795)
Segment results	**19,271,205**	**7,915,029**	**27,186,234**

24 Segment Analysis (Continued)

(c) Reconciliation of reportable segment revenues, profit or loss, assets and liabilities

(in thousands of Kazakhstani Tenge)	31 December 2019	31 December 2018
Total assets of operating segments	**1,340,456,020**	**988,905,452**
Property and equipment	5,256,199	3,625,112
Intangible assets	3,874,218	2,375,748
Other assets	3,489,216	2,397,669
Non-current assets held for sale	199,399	1,036,265
Total assets	**1,353,275,052**	**998,340,246**
Total liabilities of operating segments	**1,090,475,694**	**786,267,865**
Deferred tax liability	15,944,892	10,515,406
Other liabilities	2,152,659	1,895,177
Total liabilities	**1,108,573,245**	**798,678,448**

(in thousands of Kazakhstani Tenge)	2019	2018
Segment results	**28,830,719**	**27,186,234**
Other income	130,159	286,190
Profit before tax	**28,960,878**	**27,472,424**
Income tax expense	(1,318,879)	(1,017,255)
Profit for the period	**27,641,999**	**26,455,169**

The Bank generates its revenues in Kazakhstan. The Bank does not have major external customers abroad. The Bank does not have significant income or expense between operating segments. The Bank does not have clients which would represent at least ten percent of total revenues for 2019 (2018: nil).

25 Fair Value Disclosures

Fair value measurements are analyzed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgment in categorizing financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

25 Fair Value Disclosures (Continued)

(a) Recurring fair value measurements

Recurring fair value measurements are those that IFRS require or permit in the statement of financial position at the end of each reporting period. The levels in the fair value hierarchy, into which the recurring fair value measurements are categorized, are as follows:

	31 December 2019		31 December 2018	
(in thousands of Kazakhstani Tenge)	**Level 2**	**Total**	**Level 2**	**Total**
Assets measured at fair value				
Financial assets				
Investments in debt securities				
- Treasury bonds of the Ministry Finance of the Republic of Kazakhstan	90,542,313	90,542,313	110,778,784	110,778,784
- National Bank of the Republic of Kazakhstan	-	-	5,044,844	5,044,844
- Bonds of local executive bodies of RK	-	-	13,023,786	13,023,786
- Corporate bonds	8,786,866	8,786,866	3,005,534	3,005,534
- Bonds of international financial organizations	16,572,362	16,572,362	7,803,990	7,803,990
- Bonds of Kazakhstani non-banking financial institutions	14,693,192	14,693,192	4,699,868	4,699,868
Investments in debt securities				
- Ordinary and preferred shares of the second tier banks of the Republic of Kazakhstan	5,214	5,214	19,034	19,034
Total assets recurring fair value measurements	**130,599,947**	**130,599,947**	**144,375,840**	**144,375,840**

The fair value of investment securities was assessed using the rates of Kazakhstan Stock Exchange JSC. Due to insignificant trade volumes of similar instruments, these investment securities are defined at level 2.

25 Fair Value Disclosures (Continued)

(b) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analyzed by level in the fair value hierarchy and the carrying value of assets not measured at fair value are as follows at 31 December 2019:

(in thousands of Kazakhstani Tenge)	31 December 2019 Level 2 Fair value	31 December 2019 Level 3 Fair value	31 December 2019 Carrying value	31 December 2018 Level 2 Fair value	31 December 2018 Level 3 Fair value	31 December 2018 Carrying value
Financial assets						
Cash and cash equivalents	131,437,175	-	131,437,175	69,300,201	-	69,300,201
Loans and advances to customers	993,338,343	-	993,338,343	662,310,101		662,310,101
Investment securities at AC	65,492,851	-	65,492,851	8,845,229	-	8,845,229
Other financial assets	-	2,979,171	2,979,171	-	1,771,342	1,771,342
Total	**1,190,268,369**	**2,979,171**	**1,193,247,540**	**740,455,531**	**1,771,342**	**742,226,873**

Fair values analysed by level in the fair value hierarchy and the carrying value of liabilities not measured at fair value are as follows:

(in thousands of Kazakhstani Tenge)	31 December 2019 Level 2 Fair Value	31 December 2019 Level 3 Fair Value	31 December 2019 Carrying Value	31 December 2018 Level 2 Fair Value	31 December 2018 Level 3 Fair Value	31 December 2018 Carrying Value
FINANCIAL LIABILITIES						
Customer accounts	902,023,405	-	902,023,405	665,497,961	-	665,497,961
Borrowed funds	104,167,557	-	105,626,763	58,434,733	-	59,570,462
Debt securities in issue	85,683,845	-	78,650,059	57,730,697	-	57,730,697
Other financial liabilities	-	4,175,467	4,175,467	-	3,468,744	3,468,744
TOTAL	**1,091,874,807**	**4,175,467**	**1,090,475,694**	**781,663,391**	**3,468,744**	**786,267,864**

Cash and cash equivalents. Cash is measured at amortised cost and classified at level 2. The fair value of these funds is equal to their carrying amount.

Loans and advances to customers and customer accounts. Estimated fair value of all loans and advances to customers/customer accounts (other than issued/received within state programs) approximates their carrying amount since interest rates have not changed since origination. These loans are classified by the Bank's management as Level 2 in the fair value hierarchy.

Investment securities carried at amortised cost. Due to the inactivity of trading at the KASE secondary market, investment securities carried at amortized cost are classified at Level 2.

Due from other banks and borrowed funds. Estimated fair value of due from other banks is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturities. The estimated fair value of borrowed funds is based on the expected future cash flows calculated using the yield curve for government bonds.

26 Contingencies and Commitments

Legal proceedings. 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 of the Bank.

Tax legislation. The tax environment in the Republic of Kazakhstan is subject to change and inconsistent application and interpretations. Non-compliance with Kazakhstani law and regulations as interpreted by the Kazakhstani authorities may lead to the assessment of additional taxes, penalties and interest.

26 Contingencies and Commitments (Continued)

Kazakhstani tax legislation and practice are in a state of continuous development, and therefore is subject to varying interpretations and frequent changes, which may be retroactive. In certain situations, to determine a tax base, the tax legislation refers to IFRS provisions. In such cases, interpretation of IFRS provisions by the Kazakhstani tax authorities may differ from accounting policies, judgments and estimates used by management for preparation of these financial statements, and this may result in additional tax liabilities for the Bank. Tax periods remain open to retroactive review by the Kazakhstan tax authorities for five years.

The Bank management believes that its interpretation of the relevant legislation is appropriate and the Bank's tax positions will be sustained.

The Bank assesses the likelihood of material liabilities arising from individual circumstances and makes provision in its financial statements only where it is probable that events giving rise to the liability will occur and the amount of the liability can be reasonably estimated.

The Bank's contingent liabilities are contingencies on provision of a housing loan in the amount stipulated by the housing construction savings contract, which arise on achievement of the estimated value on deposit attracted, accumulation period of not less than 3 years, provision by depositor of relevant collateral for a housing loan, confirmation of borrower's solvency to repay housing loan. Contingent liability is written off from memorandum accounts, when housing loan is granted or depositor refuses to obtain housing loan. Housing loan is granted only after application underwriting and decision-making procedure.

Therefore, these contingent liabilities do not result in any credit risks for the Bank. As at 31 December 2019 and 2018 there was no need to create and the Bank did not create provisions in these financial statements for any of the mentioned above contingent liabilities.

Credit related commitments. Agreement on loan commitments represent Bank's contingent liability to provide loans to customers, when all conditions stipulated in the contract on housing construction savings will be achieved.

Financial and contingent liabilities of the Bank included:

(in thousands of Kazakhstani Tenge)	**31 December 2019**	**31 December 2018**
Loan commitments	26,241,764	20,467,228
Financial and contingent liabilities	**26,241,764**	**20,467,228**

27 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IFRS 9 "Financial Instruments", the Bank classifies financial assets into the following categories: (a) financial assets at FVTPL; (b) financial assets at FVOCI, and (c) financial assets at AC. Financial assets at FVTPL have two sub-categories: (i) assets mandatorily measured at FVTPL, and (ii) assets designated as such upon initial recognition.

27 Presentation of Financial Instruments by Measurement Category (Continued)

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2019:

(in thousands of Kazakhstani Tenge)	Debt instruments at FVOCI	Equity instruments at FVOCI	AC	Total
ASSETS				
Cash and cash equivalents	-	-	62,069,039	62,069,039
Loans and advances to customers				
- Interim housing loans	-	-	365,130,290	365,130,290
- Housing loans	-	-	275,631,833	275,631,833
- Preliminary housing loans	-	-	352,576,220	352,576,220
Investments in debt securities				
- Government securities of the Ministry of Finance of RK	90,542,313	-	1,983,235	92,525,548
- Bonds of local executive bodies of RK	-	-	-	-
- Corporate bonds	8,786,866	-	16,081,613	24,868,479
- Bonds of Sovereign Welfare Fund Samruk Kazyna JSC	-	-	-	-
- Bonds of international financial organizations	16,572,362	-	-	16,572,362
- Bonds of Kazakhstani non-banking financial institutions	14,693,192	-	-	14,693,192
- Notes of the National Bank of RK	-	-	47,428,003	47,428,003
- Bonds of Kazakhstani banks	-	-	-	-
Investments in equity securities				
- Corporate shares	-	5,214	-	5,214
TOTAL FINANCIAL ASSETS	**130,594,733**	**5,214**	**1,120,900,233**	**1,251,500,180**

27 Presentation of Financial Instruments by Measurement Category (Continued)

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2018:

(in thousands of Kazakhstani Tenge)	Debt instru-ments at FVOCI	Equity instru-ments at FVOCI	AC	Total
ASSETS				
Cash and cash equivalents	-	-	65,917,870	65,917,870
Loans and advances to customers				
- Interim housing loans	-	-	279,900,389	279,900,389
- Housing loans	-	-	217,478,264	217,478,264
- Preliminary housing loans	-	-	166,609,249	166,609,249
Investments in debt securities	-	-	-	
- Government securities of the Ministry of Finance of RK	110,778,785	-	3,873,216	114,652,001
- Bonds of local executive bodies of RK	13,023,786	-	-	13,023,786
- Corporate bonds	3,005,534	-	-	3,005,534
- Bonds of Sovereign Welfare Fund Samruk Kazyna JSC		-	-	
- Bonds of international financial organizations	7,803,990	-	-	7,803,990
- Bonds of Kazakhstani non-banking financial institutions	4,699,867	-	-	4,699,867
- Notes of the National Bank of RK	5,044,843	-	4,972,013	10,016,856
- Bonds of Kazakhstani banks	-	-		
Investments in equity securities	-	-	-	
- Corporate shares	-	19,034	-	19,034
TOTAL FINANCIAL ASSETS	**144,356,806**	**19,034**	**738,751,001**	**883,126,841**

As of 31 December 2019 and 31 December 2018 all financial liabilities of the Bank were carried at amortized cost.

28 Related Party Transactions

Parties are generally considered to be related if the parties are under common control, or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

These financial statements disclose information about individually insignificant transactions and balances with the government and parties that are related to the entity because the Government has control, joint control or significant influence over such party.

The Bank purchases goods and services from a large number of enterprises with state participation. These purchases alone amount to insignificant amounts and are usually carried out on a commercial basis. The operations with the state also include taxes, which are disclosed in Note 21.

Other related parties include the Government, Government-controlled entities and other affiliated individuals.

28 Related Party Transactions (Continued)

At 31 December 2019, the outstanding balances with related parties were as follows:

(in thousands of Kazakhstani Tenge)	Immediate parent company	Companies under common control	Key management personnel	Other related parties
Cash and cash equivalents (effective rate: 9.93%-10.07%)	-	-	-	81,322,628
Loans and advances to customers (contractual interest rate: 4%-10%)	-	-	229,473	242,654
Investments in debt securities (contractual interest rate: 3%-11%)	16,081,613	10,502,634	-	152,930,975
Other financial assets				337
Other assets	-	2,000	-	175,326
Borrowing funds (contractual interest rate: 0.01% - 9.48%)	6,640,480	-	-	98,986,283
Debt securities in issue (9.58-10.27%)	57,730,697	-	-	17,436,287
Customer accounts (contractual interest rate: 2%-7.75%	-	74,893,303	90,743	166,900
Other liabilities		1,649		676,652
Additional paid-in capital	13,541,732	-	-	67,438,612

The income and expense items with related parties for 2019 were as follows:

(in thousands of Kazakhstani Tenge)	Immediate parent company	Companies under common control	Key management personnel	Other related parties
Interest income	842,160	702,095	11,692	22,992,447
Interest expenses	(6,018,996)	(4,934,687)	(939)	(3,609,932)
Fee and commission income				
Provision for impairment	(3,453)	87,388	(155)	25,081
Other income / (expenses)	-	10,406	-	-
Administrative and other operating expenses	-	(20,155)	(27,932)	(1,179,423)
Income tax expense	-	-	-	(1,318,879)

Aggregate amounts lent to and repaid by related parties during 2019 were:

(in thousands of Kazakhstani Tenge)	Other related parties
Amounts lent to related parties during the period	189,972
Amounts repaid by related parties during the period	106,821

28 Related Party Transactions (Continued)

At 31 December 2018, the outstanding balances with related parties were as follows:

(in thousands of Kazakhstani Tenge)	**Immediate parent company**	**Companies under common control**	**Key management personnel**	**Other related parties**
Cash and cash equivalents (contractual interest rate: 8.25%)	-	-	-	169,781,221
Loans and advances to customers (contractual interest rate: 4%-10%)	-	-	204,539	316,999
Investments in debt securities (contractual interest rate: 3%-10.5%)	-	4,754,097	-	140,643,948
Other assets	-	1,245	-	522
Borrowing funds (contractual interest rate: 0.01% - 1%)	6,182,144	-	-	53,388,319
Debt securities in issue (9.58%)	57,730,697	-	-	-
Customer accounts (contractual interest rate: 2%-7.75%	-	26,481,863	137,691	190,244
Other liabilities	-	1,394	-	225,047
Additional paid-in capital	13,541,732	-	-	41,026,794

The income and expense items with related parties for 2018 were as follows:

(in thousands of Kazakhstani Tenge)	**Immediate parent company**	**Companies under common control**	**Key management personnel**	**Other related parties**
Interest income	-	447,306	19,205	20,482,235
Interest expenses	(488,215)	(554,198)	(2,506)	(1,166,669)
Losses less gains from trading securities	-	-	-	-
Fee and commission income	-	-	-	-
Provision for impairment	-	(99,130)	(262)	(611)
Other income / (expenses)	-	1,383	-	-
Administrative and other operating expenses	-	(11,333)	-	(930,164)
Income tax expense	-	-	-	(1,017,255)

Aggregate amounts lent to and repaid by related parties during 2018 were:

(in thousands of Kazakhstani Tenge)	**Other related parties**
Amounts lent to related parties during the period	199,067
Amounts repaid by related parties during the period	250,056

28 Related Party Transactions (Continued)

Key management compensation is presented below:

(in thousands of Kazakhstani Tenge)	2019 Expense	2019 Accrued liability	2018 Expense	2018 Accrued liability
Short-term benefits:				
- Salaries	237,776	-	208,887	-
- Short-term bonuses	23,440	-	27,189	-
- Benefits in-kind	2,355	-	4,610	-
- Long-term bonus scheme	88,657	88,657	80,070	80,070
Total	**352,228**	**88,657**	**320,756**	**80,070**

29 Earnings per Share

Basic earnings per share are calculated by dividing the profit attributable to owners of the Parent by the number of ordinary shares in issue during the year. The Bank has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share. Earnings per share are calculated as follows:

In thousands of Kazakhstani Tenge except for number of shares	Note	2019	2018
Profit for the year attributable to ordinary shareholders		27,641,999	26,455,169
Number of ordinary shares in issue (thousands)	16	7,830	7,830
Basic and diluted earnings per ordinary share (expressed in Tenge per share)		**3,530**	**3,379**

House Construction Savings Bank of Kazakhstan JSC

Book value of one share at 1 January 2020 based on the statement of financial position for the year ended 31 December 2019

This calculation of the book value of one share was made according to the Listing Rules (Annex 5.7 to Listing Rules) approved by Resolution of the Board of Directors of Kazakhstan Stock Exchange JSC (Minutes dated 27 April 2018 No.15).

The book value of one common share is calculated as follows:

$$BV_{CS} = NAV / NO_{CS}, \text{ where}$$

BV_{CS} - book value per common share as of calculation date;
NAV - net asset value for common shares as of calculation date;

NO_{CS} - number of outstanding common shares as of calculation date.

Net asset value for common shares is calculated as follows:

$$NAV = (TA - IA) - TL - PS, \text{ where}$$

TA — total assets of a share issuer in the statement of financial position as of calculation date;

IA — intangible assets in the statement of financial position of a share issuer as of calculation date, which the entity cannot sell to third parties for recovering cash or cash equivalents paid and/or obtaining economic benefits;

TL — total liabilities in the statement of financial position of a share issuer as of calculation date;

PS — preferred stock, balance of "equity, preference shares" item in the statement of financial position of a share issuer as of calculation date.

The table below summarises calculation of the book value of one common share as of the reporting date:

(in thousands of Kazakhstani Tenge except for the number of shares)	31 December 2019	31 December 2018
Number of ordinary shares (thousands shares)	7,830	7,830
Total assets	1,353,275,052	998,340,246
Less intangible assets	3,874,218	2,375,748
Less liabilities	1,108,573,245	798,678,448
Total net assets	**240,827,589**	**197,286,050**
Book value of one common share, Tenge	**30,757**	**25,196**

Ibragimova Lyazzat Yerkenovna
Chairman of the Board

Kiltbayeva Zhanerke Almasbekovna
Chief Accountant