House Construction Savings Bank of Kazakhstan JSC

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

31 December 2018

Content

INDEPENDENT AUDITOR'S REPORT

FINANCIAL STATEMENTS

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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 2018, 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 2018;
- 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.

Our audit approach

Overview

Materiality	• Overall materiality: Tenge 3,311,500 thousand, which represents 0.5% of loans and advances to customers balance as of 31 December 2018.
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.

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 3,311,500 thousands
How we determined it	0.5% of loans and advances to customers balance as of 31 December 2018.
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 housing construction savings system. 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. In 2018 we have changed benchmark from net assets balance to loans and advances to customers balance because of changes in strategy objectives of the Bank.

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 new and complex financial reporting standard, which requires significant judgment to determine the ECL provision. Since the Bank is the only one bank in the country implementing housing construction savings system, 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, 6, 11 and 26 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 the following: 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 and allocation to stages; • 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, 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.

Independent Auditor's Report (Continued)

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 Adam Celinski.

PricewaterhouseCoopers LLP.

28 February 2019
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:

Adam Celinski
Audit Assurance Partner
(Certificate of the Institute of Chartered Accountants in № 2647000; Special Power of Attorney #30-16 dated 1 July 2016)

Signed by:

Aigule Akhmetova
Auditor in charge, Director
(Qualified Auditor's Certificate №00000083 dated 27 August 2012)

House Construction Savings Bank of Kazakhstan JSC
Statement of Financial Position

(in thousands of Kazakhstani Tenge)	**Note**	**31 December 2018**	**31 December 2017**
ASSETS			
Cash and cash equivalents	7	173,374,282	62,700,038
Trading securities	8	-	4,914,825
Due from other banks	9	-	10,362,022
Investments in debt securities	10	153,202,035	-
Investments in equity securities		19,034	-
Loans and advances to customers	11	662,310,101	460,058,072
Investment securities available for sale	12	-	158,421,169
Investment securities held to maturity	13	-	57,925,386
Premises and equipment	14	3,625,112	3,336,779
Intangible assets	14	2,375,748	2,046,066
Current income tax prepayment		408,467	278,577
Other financial assets	15	1,771,342	1,033,767
Other assets	15	217,860	244,201
Non-current assets held for sale		1,036,265	946,587
TOTAL ASSETS		**998,340,246**	**762,267,489**
LIABILITIES			
Due to other banks	16	665,497,961	526,795,764
Borrowed funds	17	59,570,463	72,102,439
Debt securities in issue	19	57,730,697	
Deferred tax liabilities	25	10,515,406	5,456,337
Other financial liabilities	18	3,468,744	3,720,696
Other liabilities	18	1,895,177	1,302,265
TOTAL LIABILITIES		**798,678,448**	**609,377,501**
EQUITY			
Share capital	20	78,300,000	78,300,000
Additional paid in capital	20	54,568,526	29,294,057
Revaluation reserve for investment securities available for sale		-	(4,147,598)
Revaluation reserve for investment securities at fair value through other comprehensive income		(1,999,265)	-
Other reserves		2,283,335	3,389,604
Retained earnings		66,509,202	46,053,925
TOTAL EQUITY		**199,661,798**	**152,889,988**
TOTAL LIABILITIES AND EQUITY		**998,340,246**	**762,267,489**

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

28 February 2019

Ibragimova Lyazzat Yerkenovna
Chairman of the Board

Kiltbayeva Zhanerke Almasbekovna
Chief Accountant

(in thousands of Kazakhstani Tenge)	Note	2018	2017
Interest income calculated using the effective interest method	21	62,605,385	53,144,182
Other similar income	21	-	414,580
Interest and similar expense	21	(13,747,790)	(10,703,659)
Net margin on interest and similar income		**48,857,595**	**42,855,103**
Credit loss allowance	11	(461,340)	(280,419)
Net margin on interest and similar income after credit loss allowance		**48,396,255**	**42,574,684**
Fee and commission income	22	1,144,236	832,704
Fee and commission expense	22	(2,360,439)	(1,367,710)
Losses on initial recognition of assets at rates below market		(3,820,994)	(2,168,489)
Recovery of losses/(losses) from trading securities		87,787	(229,344)
(Impairment)/recovery of impairment of debt securities at fair value through other comprehensive income and other financial assets		(133,293)	65,940
Gains less losses from trading in foreign currencies		26,291	(1,864)
Other net operating expenses	23	(884,624)	(797,513)
Administrative expenses	24	(14,982,795)	(11,774,497)
Profit before tax		**27,472,424**	**27,133,911**
Income tax expense	25	(1,017,255)	(1,547,342)
PROFIT FOR THE YEAR		**26,455,169**	**25,586,569**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale investments:			
- Gains less losses arising from revaluation		-	6,532,683
debt securities at fair value through other comprehensive income		2,670,075	
- Gains less losses reclassified to profit or loss upon disposal		(61,622)	-
Items that will not be reclassified to profit or loss:			
Gains less losses on investments in equity securities at fair value through other comprehensive income		17,869	-
Other comprehensive income for the year		**2,626,322**	**6,532,683**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**29,081,491**	**32,119,252**
Earnings per share for profit attributable to the shareholder of the Bank, basic and diluted (expressed in Kazakhstani Tenge per share)	33	**3,379**	**3,268**

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 2017		**78,300,000**	**23,629,414**	**(10,680,281)**	**-**	**3,389,604**	**24,242,994**	**118,881,731**
Profit for the year		-	-	-	-	-	25,586,569	25,586,569
Other comprehensive income		-	-	6,532,683	-	-	-	6,532,683
Total comprehensive income for 2017		**-**	**-**	**6,532,683**	**-**	**-**	**25,586,569**	**32,119,252**
The difference between the amounts received from NMH Baiterek and their fair value upon initial recognition, net of deferred tax	17	-	5,664,643	-	-	-	-	5,664,643
Payment of dividends to shareholders		-	-	-	-	-	(6,778,929)	(6,778,929)
Return of unused compensation		-	-	-	-	-	3,003,291	3,003,291
Balance at 31 December 2017		**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 (Note 5)		-	-	4,147,598	(4,147,598)	-	91,821	**91,821**
- other effects		-	-	-	(477,989)	-	477,989	-
Restated balance at 1 January 2018		**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 the year		**-**	**-**	**-**	**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	17	-	25,274,469	-	-	-	-	25,274,469
Payment of dividends to shareholders	20	-	-	-	-	-	(7,675,971)	(7,675,971)
Unwinding of dynamic provision		-	-	-	-	(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**

(in thousands of Kazakhstani Tenge)	Note	2018	2017
Cash flows from operating activities			
Interest income calculated using the effective interest method received		62,261,589	51,071,893
Interest paid		(12,020,221)	(9,318,323)
Fees and commissions received		1,144,236	832,704
Fees and commissions paid		(2,360,439)	(1,367,710)
Staff costs paid		(8,193,297)	(6,678,111)
Administrative and other operating expenses paid		(6,263,959)	(4,814,406)
Income tax paid		(2,402,752)	(1,691,511)
Cash flows from operating activities before changes in operating assets and liabilities		**32,165,157**	**28,034,536**
Net (decrease)/increase in:			
- due from other banks		10,208,000	19,377,936
- loans and advances to customers		(205,021,824)	(135,160,426)
- other financial assets		(737,575)	(514,632)
- other assets		192,250	(78,400)
Net (decrease)/increase in:			
- customer accounts		139,132,706	105,054,540
- other financial liabilities		(231,851)	(85,447)
- other liabilities		137,919	28,183
Net cash (used in)/from operating activities		**(24,155,218)**	**16,656,290**
Cash flows from investing activities			
Acquisition of premises and equipment		(1,169,958)	(894,077)
Acquisition of intangible assets		(731,989)	(1,162,327)
Proceeds from disposal of premises and equipment		47,258	6,376
Acquisition of debt securities at fair value through other comprehensive income		(36,068,547)	-
Acquisition of investment securities available for sale		-	(85,411,040)
Acquisition of investments in debt securities carried at amortised cost		(95,634,075)	-
Acquisition of investment securities held to maturity		-	(72,839,370)
Proceeds from disposal of debt securities at fair value through other comprehensive income		56,999,317	-
Proceeds from redemption of investment securities held to maturity		-	83,580,130
Proceeds from redemption of debt securities carried at amortised cost		144,700,000	-
Proceeds from realization and redemption of investment securities available for sale		-	39,948,226
Net cash from/(used in) investing activities		**68,142,006**	**(36,772,082)**
Cash flows from financing activities			
Loan received from the Government of the Republic of Kazakhstan		39,000,000	8,000,000
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		1,200,000	1,000,000
Repayment of loan received from local executive bodies of the Republic of Kazakhstan		(4,376)	-
Proceeds from issue of debt securities	19	57,700,000	-
Dividends paid	20	(7,675,971)	(6,778,929)
Net cash from financing activities		**66,659,653**	**2,221,071**
Effect of exchange rate changes on cash and cash equivalents		**27,803**	**(2,037)**
Net increase/(decrease) in cash and cash equivalents		**110,674,244**	**(17,896,758)**
Cash and cash equivalents at the beginning of the year	7	62,700,038	80,596,796
Cash and cash equivalents at the end of the year		**173,374,282**	**62,700,038**

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 2018.

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 32.

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. In accordance with Resolution of the Government of the Republic of Kazakhstan No.922 dated 31 December 2016 "On the approval of the Nurly Zher Housing Construction Program", the Bank participates in the implementation of this Program related to the development of housing construction ensuring affordable housing for wider population through the system of housing construction savings.

The Bank's audited financial statements for the year ended 31 December 2017 is posted on the official website of the Bank, in the section "About the Bank – Reporting".

The growth of the Bank's key indicators, including those for 2018, 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 and including 2018 the Bank issued 172,685 loans for the amount of Tenge 1,143.7 billion; since the beginning of operation, 1,913.6 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 2018.

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.

In 2018, the Bank implemented the following projects to improve servicing quality and ensure own housing for wider population:

1. *Military* Product represents a program developed for the provision of housing payment recipients with residential properties through crediting for the purposes of improvement of housing conditions set by the Law of the Republic of Kazakhstan *On Housing Construction Savings in the Republic of Kazakhstan* using the system mechanisms of housing construction savings and housing payments.

2. Contract with Insurance Companies: for the improvement of servicing quality and for the mitigation of risks faced by a borrower and/or a pledger of the Bank and in the event of damage or full loss of real estate property, there is a possibility to execute insurance contracts through Bank employees. For this, a set of Contracts has been signed with Insurance Companies stating the Bank's capability to execute insurance contracts with Bank borrowers/pledgers in the name and on behalf of Insurance Companies.

1 Introduction (Continued)

3. Implementation of the *Appraiser Office* portal for the purposes of more effective and efficient interaction of Bank appraisers and customers with respect to the evaluation of pledged property.

4. Housing Certificates: a Cooperation Agreement has been signed with the Administration of Aktyubinskaya Oblast within the implementation of *Nurly Zher* State Housing Construction Program, within which citizens included in the waiting list for housing receive housing certificates for the partial payment of initial installment for the acquisition of residential property.

Also, a Cooperation Agreement has been signed with the Administration of Astana City within the implementation of a budget program named *Social Assistance to Individual Categories of Needy Citizens under Resolutions of Local Representative Authorities*, according to which individual categories of Astana city residents receive housing certificates for the partial payment of initial installment for the acquisition of residential property.

To carry out its activities, the Bank has a license of the National Bank of Kazakhstan (the "NB RK") to conduct banking and other operations and activities in the securities market No.1.2.44/42 dated 18 August 2016.

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 2018, the Bank has 17 regional branches, 17 service centers and 5 service points throughout Kazakhstan (in 2017: 17 regional branches, 17 service centers, 7 service points).

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.

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.

As of 31 December 2017:

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.

1 Introduction (Continued)

Presentation currency. These financial statements are presented in Kazakhstani Tenge.

2 Operating Environment of the Bank

Republic of Kazakhstan. In general, the economy of the Republic of Kazakhstan continues to displays 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.

On 20 August 2015 the National Bank and the Government of the Republic of Kazakhstan made a resolution about discontinuation of supporting the exchange rate of Tenge and implement of new monetary policy, which is based on inflation targeting regime, cancellation of exchange rate trading band and start a free floating exchange rate. However, the National Bank's exchange rate policy allows it to intervene to prevent dramatic fluctuations of the tenge exchange rate and to ensure financial stability.

As at the date of this report the official exchange rate of the National Bank of the Republic Kazakhstan was Tenge 376.37 per USD 1, compared to Tenge 384.20 per USD 1 as at 31 December 2018 (31 December 2017: Tenge 332.33 per USD 1). Therefore, uncertainty remains in relation to exchange rate of Tenge and future action of National Bank and the Government of the Republic of Kazakhstan and the impact of these factors on the economy of the Republic of Kazakhstan.

In September 2018 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 2018. This operating environment has a significant impact on the Company's operations and financial position. Management is taking necessary measures to ensure sustainability of the Company's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

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.

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 by the revaluation of available-for-sale financial assets, 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 9 and IFRS 15 effective from 1 January 2018, these policies have been consistently applied to all the periods presented, unless otherwise stated.

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

3 Summary of Significant Accounting Policies (Continued)

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 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.

3 Summary of Significant Accounting Policies (Continued)

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 26 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 26.

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 dercognition 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 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.

3 Summary of Significant Accounting Policies (Continued)

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 26 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 3.5% 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 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 4% to 12% per annum. The use of housing loan is up to 25 years, depending on selected tariff program of the Bank.

3 Summary of Significant Accounting Policies (Continued)

Preliminary housing loan is granted to certain client categories: the participants of state program of the housing construction for 2008-2010, "Affordable housing 2020" program, "Program for development of regions till 2020', regional housing programs implemented by local executives, "Nurly Zhol" program, "Nurly Zher" program, "Almaty zhastary" program, and "The House" program.

Interest rate on preliminary housing loans ranges from 4% to 10% per annum for the accumulation/prepayment of savings from 0% to 20% 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 3 to 8.5 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.

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. The obligation to return the securities is recorded at fair value in other borrowed funds.

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
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.

Operating leases. 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.

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. Obligations to return securities borrowed and sold to third parties are carried at FVTPL

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.

3 Summary of Significant Accounting Policies (Continued)

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.

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.

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.

3 Summary of Significant Accounting Policies (Continued)

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.

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 26.

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 26. 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 26.

In 2018, the Bank performed the analysis of macro-economic variables as at 1 May 2018. The analysis of macro-economic impact on default probability did not confirm 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).

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

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 26.

Should ECL on all loans and advances to customers (except for loans provided as of the initial recognition date for December 2018) 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 2,005,090 thousand as of 31 December 2018.

Should Loss Given Default on impaired loans is 100%, the expected credit loss would be 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 3.5% 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.

During 2008-2012 the Ministry of Finance of the Republic of Kazakhstan and "Samruk-Kazyna" National Welfare Fund" JSC provided funds to the Bank to finance government programs on lending of housing loans. 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.

In March 2016 the Bank received the loan from Parent company in the amount of Tenge 22,000,000 thousand at a rate below market, 0.15% per annum, for the period to 2036. At initial recognition the Bank recognized abovementioned loan at the market rate on the date of loan received. To determine the effective interest rate, management of the Bank had used the yield curve on government bonds and extrapolated it for 20 years by using linear regression. The resulting effective interest rate, 7.97% per annum, was used to calculate the fair value of the loan at the reporting date. As a result, in 2016, the Bank has recognized additional paid-in capital in the amount of Tenge 13,541,732 thousand less deferred tax liability.

For the period from November 2017 to March 2018, the Bank received loans from the Ministry of Finance of the Republic of Kazakhstan in the amount of Tenge 8,000,000 thousand and Tenge 24,000,000 thousand at a rate below market, 0.15% per annum, for the period to 2037 and 2038 respectively subject to early partial repayment of a principal debt in the amount of Tenge 1,000 thousand upon expiry of 80 months for issue to Bank depositors of preliminary and interim housing loans within the "Nurly Zher" housing construction program. At initial recognition the Bank recognized abovementioned loan at the market rate on the date of loan received. To determine the effective interest rate, management of the Bank had used the yield curve on government bonds and extrapolated it for 20 years by using linear regression. The resulting effective interest rate, 9.48% and 8.96% per annum, was used to calculate the fair value of the loan at the reporting date.

In addition, in November 2017 the Bank received the loan from the Administration of Almaty in the amount of Tenge 1,000,000 thousand at a rate below market, 0.01% per annum, for the period to 2025 for issue of preliminary loans within the "Almaty zhastary" program realized under the Almaty youth support Roadmap – 2020. At initial recognition the Bank recognized abovementioned loan at the market rate on the date of loan received. To determine the effective interest rate, management of the Bank had used the yield curve on government bonds and extrapolated it for 8 years by using linear regression. The resulting effective interest rate, 9.02% per annum, was used to calculate the fair value of the loan at the reporting date. As a result, in 2017, in relation to two abovementioned loans the Bank has recognized additional paid-in capital in the amount of Tenge 5,664,643 thousand less deferred tax liability.

In December 2018, the Bank received additional loan from the Ministry of Finance of the Republic of Kazakhstan in the amount of Tenge 15,000,000 thousand for the period of twenty years and at the interest rate of 0.15% per annum for the provision by the Borrower of preliminary and interim loans to the participants of the "Nurly Zher" Housing Construction Program.

For loans received in the period from 1 January 2018 to 31 December 2018, interest is to be paid once per six months.

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

The Bank's management assesses this financing from the Ministry of Finance of the Republic of Kazakhstan within the "Nurly Zher" Housing Construction Program as participation in Bank's equity, as Bank is the sole financial operator of this program and is the subject of quasi-public sector. In accordance with the Group Accounting Policy of the Parent Company and the Bank's accounting policy, fair value adjustments on initial recognition of borrowed funds received from shareholders should be carried through equity. Borrowed funds from the Ministry of Finance of the Republic of Kazakhstan were provided to the Bank for the support of its principal operating activity. The Bank provides loans under the "Nurly Zher" Housing Construction Program using internal resources and borrowed funds received from other sources.

Also, in July 2018 the Bank received the loan from the Administration of Almaty in the amount of Tenge 2,000,000 thousand at a rate below market, 0.01% per annum, for the period to 2026 for issue of preliminary loans within the "Almaty zhastary" program realized under the Almaty youth support Roadmap – 2020. The loan was repaid by tranches of 20% of the total amount. In addition, in November 2018 loan amount was changed for Tenge 1,200,000 thousand based on Administration's letter. At initial recognition the Bank recognized abovementioned loan at the market rate on the date of loan received. To determine the effective interest rate, management of the Bank had used the yield curve on government bonds and extrapolated it for 8 years by using linear regression. The resulting effective interest rate on the 1st tranche of 8.43%, the 2nd tranche of 9.21%, the 3d tranche of 9.04% per annum, was used to calculate the fair value of the loan at the reporting date. As a result, in 2018, in relation to two abovementioned loans the Bank has recognized additional paid-in capital in the amount of Tenge 467,383 thousand less deferred tax liability.

Funds received under the governmental programs were further distributed to borrowers and placed within the implementation of state programs in past years on the deposits with commercial banks at rates below market. The granted loans and placed deposit are initially recognized at the fair value.

Accordingly, upon initial recognition of the loans received and loans advanced under the government program, adjustments were required to arrive to their fair values. Management of the Bank utilized its judgement in calculating these fair values.

In 2018 the Bank recorded a loss in the amount of Tenge 3,798,378 thousand (2017: Tenge 2,055,110 thousand) at the initial recognition of loans advanced under the government program at below market rates.

5 Adoption of New or Revised Standards and Interpretations

Adoption of IFRS 9 "Financial Instruments". The Bank adopted IFRS 9, Financial Instruments, from 1 January 2018. The Bank elected not to restate comparative figures and recognised any adjustments to the carrying amounts of financial assets and liabilities in the opening retained earnings as of the date of initial application of the standard, 1 January 2018. Consequently, the revised requirements of the IFRS 7, Financial Instruments: Disclosures, have only been applied to the current period. The comparative period disclosures repeat those disclosures made in the prior year.

5 Adoption of New or Revised Standards and Interpretations (Continued)

The following table reconciles the carrying amounts of each class of financial assets as previously measured in accordance with IAS 39 and the new amounts determined upon adoption of IFRS 9 on 1 January 2018.

(in thousands of Kazakhstani Tenge)	Measurement category: IAS 39	Measurement category: IFRS 9	Carrying value under IAS 39 - 31 December 2017	Effect of adopting IFRS 9: Reclassification: Manda-tory	Effect of adopting IFRS 9: Reclassification: Volunta-ry	Effect of adopting IFRS 9: Remeasurement: ECL	Effect of adopting IFRS 9: Remeasurement: Other	Carrying value under IFRS 9 - 1 January 2018
Cash and cash equivalents	L&R	AC	62,700.038	-	-	(1,416)	-	62,698,622
Due from other banks	L&R	AC	10,362,022	-	-	(17,038)	-	10,344,984
Trading securities	Held for trading	Mandatory at FVTPL	4,914,825	(4,914,825)	-	-	-	-
Corporate bonds	Held for trading	FVOCI	-	-	4,908,211	-	-	4,908,211
Investments in debt securities								
Government securities of the Ministry of Finance of RK	AFS	FVOCI	133,161,551	-	-	(26,985)	-	133,161,551
Bonds issued by local executive bodies of RK	AFS	FVOCI	13,022,653	-	-	(2,731)	-	13,022,653
Corporate bonds	AFS	FVOCI	2,991,405	-	-	(11,722)	-	2,991,405
Bonds issued by international financial organizations	AFS	FVOCI	6,827,914	-	-	(12,385)	-	6,827,914
Bonds of Kazakhstani credit institutions, different from banks	AFS	FVOCI	1,992,544	-	-	(13,818)	-	1,992,544
Bonds of Kazakhstani banks	AFS	FVOCI	423,938	-	-	(4,215)	-	423,938
Corporate shares	AFS	FVOCI	1,164	-	-	-	-	1,164
Total			**158,421,169**			**(71,856)**		**158,349,313**
Investments in debt securities								
Notes of the National Bank of RK	HTM	AC	52,728,856	-	-	(4,411)	-	52,724,445
Government securities of the Ministry of Finance of RK	HTM	AC	5,196,530	-	-	(1,129)	-	5,195,401
Total			**57,925,386**			**(5,540)**		**57,919,846**
- Loans to corporate customers								
Interim loans	L&R	AC	212,993,552	-	-	326,788	-	213,320,340
Preliminary loans	L&R	AC	97,360,737	-	-	(64,965)	-	97,295,772
Housing loans	L&R	AC	149,703,783	-	-	(67,539)	-	149,636,244
Total			**460,058,072**			**194,284**		**460,252,356**

Note: no changes were made to the classification and measurement of financial liabilities.

5 Adoption of New or Revised Standards and Interpretations (Continued)

The following note clarifies how the adoption of new classification requirements under IFRS 9 led to changes in the classification of certain financial assets held by the Bank as shown in the table above:

(a) Cash and cash equivalents

All classes of cash and cash equivalents as disclosed in Note 0 were reclassified from loans and receivables ("L&R") measurement category under IAS 39 to AC measurement category under IFRS 9 at the adoption date of the standard. The ECLs for cash and cash equivalents balances were insignificant.

(b) Due from other banks

All classes of due from other banks balances were reclassified from L&R measurement category under IAS 39 to AC measurement category under IFRS 9.

(c) Loans and advances to customers

All classes of loans and advances to customers were reclassified from L&R measurement category under IAS 39 to AC measurement category under IFRS 9.

(d) Other financial assets

All classes of other financial assets were reclassified from L&R measurement category under IAS 39 to AC measurement category under IFRS 9.

(e) Reclassification from retired categories with no change in measurement

The following debt instruments have been reclassified to new categories under IFRS 9, as their previous categories under IAS 39 were retired, with no changes to their measurement basis:

(i) those previously classified as AFS and now classified as measured at FVOCI; and

(ii) those previously classified as HTM and now classified as measured at AC.

(f) Reclassification of trading securities

Following the assessment of its business model for securities, the Bank determined that as of the adoption of IFRS 9, the Bank has the following business models:

- hold to collect the contractual cash flows;
- hold to collect the contractual cash flows and sell.

Due to the change of the Bank's business model, trading securities at FVTPL were reclassified to the category of debt instruments at FVOCI.

Assets reclassified out of FVTPL to FVOCI category.

For the assets reclassified out of FVTPL to FVOCI category, the following table shows their fair value at 31 December 2018 and the fair value gain or loss that would have been recognised if these financial assets had not been reclassified as part of transition to IFRS 9:

(in thousands of Kazakhstani Tenge)	**Fair value at 31 December 2018**	**Fair value gain/(loss) that would have been recognised during the year if the financial asset had not been reclassified**
Assets reclassified to FVOCI from FVTPL		
- Corporate bonds	2,601,549	227,800

5 Adoption of New or Revised Standards and Interpretations (Continued)

Effective interest rate and interest revenue on financial assets and liabilities reclassified out of the FVTPL category:

(in thousands of Kazakhstani Tenge)	**Effective interest rate at 1 January 2018**	**Interest revenue for the year ended 31 December 2018**
Assets reclassified to FVOCI		
- Corporate bonds	8,5%	227,800

Reconciliation of provision for impairment between IAS 39 and IFRS 9

The following table reconciles the prior period's closing provision for impairment measured in accordance with incurred loss model under IAS 39 to the new credit loss allowance measured in accordance with expected loss model under IFRS 9 at 1 January 2018:

(in thousands of Kazakhstani Tenge)	**Credit loss allowance under IAS 39**	**Voluntary reclassify-cation**	**Mandatory reclassify-cation**	**Remeasure-ment**	**Credit loss allowance under IFRS**
Loans and receivables **(IAS 39)/Financial assets at AC (IFRS 9)**					
Cash and cash equivalents	-	-	-	(1,416)	(1,416)
Due from other banks	-	-	-	(17,038)	(17,038)
Loans and advances to customers	(1,401,928)	-	-	194,284	(1,207,644)
Other assets	(2,377)	-	-	-	(2,377)
HTM (IAS 39)/Financial assets at AC (IFRS 9)					
Investment securities	-	-	-	(5,540)	(5,540)
AFS financial instruments (IAS 39)/ Financial assets at FVOCI (IFRS 9)					
Investment securities	(1,153,523)	-	-	(78,470)	(1,231,993)
Total	**(2,557,828)**	-	-	**91,820**	**(2,466,008)**

Adoption of IFRS 15 "Revenue from Contracts with Customers" (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018) and Amendments to IFRS 15 "Revenue from Contracts with Customers" (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018). The Bank has adopted IFRS 15, *Revenue from Contracts with Customers*, with the date of initial application of 1 January 2018. The new standard was applied using the modified retrospective method, with the cumulative effect recognised in retained earnings on 1 January 2018. The standard introduced the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The standard did not have a material impact on the Bank. Adoption of IFRS 15 did not lead to changes in the Bank's accounting policy and recognition of any adjustments in the financial statements.

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2019 or later, and which the Bank has not early adopted.

6 New Accounting Pronouncements

IFRS 16 "Leases" (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. For 2018, the Bank entered into 52 lease agreements for administrative activities. Lease expenses amounted to Tenge 539,231 thousand. All lease agreements were executed for the period of not more than 12 months. According to Paragraph 6, IFRS 16, the Bank decided not to apply the requirements of Paragraphs 22-49, IFRS 16 for the short-term lease. Lease agreements did not provide for prolongations and acquisition options. On the basis of analysis performed by the Bank, the effect from adoption of a new standard is insignificant.

IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. The Bank should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. The Bank should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If the Bank concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. The Bank will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. The Bank is currently assessing the impact of the interpretation on its financial statements.

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

IFRS 17 "Insurance Contracts"(issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021).

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).

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).

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).

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).

7 Cash and Cash Equivalents

(in thousands of Kazakhstani Tenge)	31 December 2018	31 December 2017
Cash balances with the NBRK (other than mandatory reserve deposits)	99,079,178	10,396,592
NBRK notes with a maturity of less than three months	65,919,025	45,112,914
Mandatory cash balances with the NBRK	4,785,990	3,112,569
Cash on hand	2,381,897	3,113,162
Reverse sale and repurchase agreements with original maturities of less than three months	1,000,452	700,355
Correspondent accounts in other banks	210,734	264,446
Less credit loss allowance	(2,994)	-
Total cash and cash equivalents	**173,374,282**	**62,700,038**

During 2018, the Bank increased the amount of investment in reverse repo agreements, in the notes of the the National Bank of the Republic of Kazakhstan (hereinafter - "NB RK") with a maturity of less than three months, as well as deposits with the NB RK.

In 2018 and 2017, 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 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	Correspon-dent accounts in other banks	Total
Neither past due nor impaired					
- National Bank of the 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.

7 Cash and Cash Equivalents (Continued)

The credit quality of cash and cash equivalents balances may be summarized as follows at 31 December 2017:

(in thousands of Kazakhstani Tenge)	NBRK notes with a maturity of less than three months	Cash balances with the NBRK, including mandatory reserves	Correspondent accounts in other banks	Reverse sale and repurchase agreements with original maturities of less than three months	Total
Neither past due nor impaired					
- National Bank of the Republic of Kazakhstan	45,112,914	13,509,161	-	-	**58,622,075**
- BBB- to BBB+ rated	-	-	-	700,355	**700,355**
- BB- to BB+ rated	-	-	235,655	-	**235,655**
- B- to B+ rated	-	-	28,791	-	**28,791**
Total cash and cash equivalents, excluding cash on hand	**45,112,914**	**13,509,161**	**264,446**	**700,355**	**59,586,876**

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 2018 the Bank had notes of the NB RK with a maturity of less than three months in the total amount of Tenge 65,917,870 thousand (2017: Tenge 45,112,914 thousand), and also balances with the NB RK, including mandatory reserves in the amount of Tenge 103,863,343 thousand (2017: Tenge 13,509,161 thousand).

Security issued by the Ministry of Finance of the Republic of Kazakhstan and the NB RK with the fair value of Tenge 1,000,000 thousand serves as collateral for reverse repurchase agreements.

As of 31 December 2018 the Bank had 3 counterparty banks, except for the NB RK (2017: 2 bank counterparties). The total aggregate amount of these balances amounted to Tenge 210,730 thousand (2017: 264,446), or 99.9% of the amount of cash and cash equivalents on correspondent accounts in other banks. (2017: 99.9%).

Interest rate analysis of cash and cash equivalents is disclosed in Note 26. Information on transactions with related parties is disclosed in Note 32.

As at 1 January and 31 December 2018, for the purpose of ECL measurement cash and cash equivalents balances are included in Stage 1. Refer to Note 26 for the ECL measurement approach.

	31 December 2018		**31 December 2017**	
	Carrying amount of REPO	**Fair value of collateral**	**Carrying amount of REPO**	**Fair value of collateral**
With BBB- to BBB+ rated collateral	1,000,434	1,000,000	700,355	700,000
	1,000,434	**1,000,000**	**700,355**	**700,000**

8 Trading Securities

(in thousands of Kazakhstani Tenge)	**31 December 2017**
Corporate bonds	4,914,825
Total debt trading securities	**4,914,825**

8 Trading Securities (Continued)

Trading securities are carried at fair value which also reflects the write-off due to credit risk. As trading securities are carried at their fair values based on observable market data, the Bank does not analyze or monitor impairment indicators. Analysis by credit quality of debt trading securities is as follows at 31 December 2017:

(in thousands of Kazakhstani Tenge)	31 December 2017
Neither past due nor impaired (at fair value)	
- BBB- to BBB+ rated	4,914,825
Total debt trading securities	**4,914,825**

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

Debt securities are not collateralized.

Interest rate analysis of trading securities is disclosed in Note 26. Information on trading securities issued by related parties are disclosed in Note 32.

9 Due from Other Banks

(in thousands of Kazakhstani Tenge)	31 December 2018	31 December 2017
Placements with other banks with original maturities of more than three months	-	10,362,022
Total due from other banks	**-**	**10,362,022**

Decrease in "Due from Other Banks" item balance is associated with the tightening of internal requirements with respect to the second-tier banks on placement of funds, as well as with unstable environment within the banking sector of the RK during 2018.

Analysis by credit quality of amounts due from other banks outstanding at 31 December 2017 is as follows:

(in thousands of Kazakhstani Tenge)	31 December 2017
Neither past due nor impaired	
- BB- to BB+ rated	7,452,823
- B- to B+ rated	2,909,199
Total due from other banks, neither past due nor impaired	**10,362,022**

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.

Refer to Note 29 for the estimated fair value of each class of amounts due from other banks. Interest rate analysis of due from other banks is disclosed in Note 26. Information on related party balances is disclosed in Note 32.

10 Investments in Debt Securities

(in thousands of Kazakhstani Tenge)	31 December 2018
Debt securities at FVOCI	144,356,806
Debt securities at AC	8,845,229
Total investments in debt securities	**153,202,035**

10 Investments in Debt Securities (Continued)

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
Notes of the National Bank of RK	5,044,967	4,972,101	10,017,068
Bonds issued by local executive bodies of RK	13,025,152	-	13,025,152
Corporate bonds	3,427,817	-	3,427,817
Bonds issued by international financial organizations	7,822,512	-	7,822,512
Bonds of Kazakhstani non-bank financial institutions	4,822,441	-	4,822,441
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**

10 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 2018, for which an ECL allowance is recognised, based on credit risk grades. Refer to Note 26 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)	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
- Government securities of the Ministry of Finance of RK				
BBB- rated	110,800,071	-	-	110,800,071
Gross carrying amount	**110,800,071**	**-**	**-**	**110,800,071**
Less credit loss allowance	(21,287)	-	-	(21,287)
Carrying value (fair value)	**110,778,784**	**-**	**-**	**110,778,784**
- Notes of the National Bank of RK				
BBB- rated	5,044,967	-	-	5,044,967
Gross carrying amount	**5,044,967**	**-**	**-**	**5,044,967**
Less credit loss allowance	(123)	-	-	(123)
Carrying value (fair value)	**5,044,844**	**-**	**-**	**5,044,844**
Bonds issued by local executive bodies of RK				
BBB- rated	13,025,152	-	-	13,025,152
Gross carrying amount	**13,025,152**	**-**	**-**	**13,025,152**
Less credit loss allowance	(1,366)	-	-	(1,366)
Carrying value (fair value)	**13,023,786**	**-**	**-**	**13,023,786**

10 Investments in Debt Securities (Continued)

(in thousands of Kazakhstani Tenge)	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
Corporate bonds				
- BB+ to BB- rated	3,073,566	-	-	3,073,566
- unrated	-	-	354,251	354,251
Gross carrying amount	**3,073,566**	**-**	**354,251**	**3,427,817**
Less credit loss allowance	(68,032)	-	(354,251)	(422,283)
Carrying value (fair value)	**3,005,534**	**-**	**-**	**3,005,534**
Bonds issued by international financial organizations				
- BBB- rated	7,822,512	-	-	7,822,512
Gross carrying amount	**7,822,512**	**-**	**-**	**7,822,512**
Less credit loss allowance	(18,522)	-	-	(18,522)
Carrying value (fair value)	**7,803,990**	**-**	**-**	**7,803,990**
Bonds of Kazakhstani credit institutions other than banks				
- BBB+ to BBB- rated	2,801,528	-	-	2,801,528
- BB+ to BB- rated	2,020,913	-	-	2,020,913
Gross carrying amount	**4,822,441**	**-**	**-**	**4,822,441**
Less credit loss allowance	(122,573)	-	-	(122,573)
Carrying value (fair value)	**4,699,868**	**-**	**-**	**4,699,868**

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

The debt securities at FVOCI are not collateralised.

10 Investments in Debt Securities (Continued)

The following table contains an analysis of debt securities at AC by credit quality at 31 December 2018 based on credit risk grades and discloses the balances by three stages for the purpose of ECL measurement. Refer to Note 26 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 2018 below also represents the Bank's maximum exposure to credit risk on these assets.

(b) Investments in debt securities at AC

(in thousands of Kazakhstani Tenge)	Stage 1 (12-months ECL)	Total
Notes of the National Bank of RK		
BBB- rated	4,972,101	4,972,101
Gross carrying amount	**4,972,101**	**4,972,101**
Credit loss allowance	(88)	(88)
Carrying amount	**4,972,013**	**4,972,013**
Government securities of the Ministry of Finance of RK		
BBB- rated	3,873,986	**3,873,986**
Gross carrying amount	**3,873,986**	**3,873,986**
Credit loss allowance	(770)	(770)
Carrying amount	**3,873,216**	**3,873,216**

Gross carrying amount of investments at AC as at 1 January 2018 was Tenge 57,925,386 thousand, and credit loss allowance was Tenge 5,540 thousand. During the year ended 31 December 2018, there were no transfers between credit quality stages.

11 Loans and Advances to Customers

(in thousands of Kazakhstani Tenge)	31 December 2018	31 December 2017
Interim housing loans	279,900,389	213,934,799
Housing loans	217,478,264	149,887,631
Preliminary housing loans	166,609,249	97,637,570
Less credit loss allowance	(1,677,801)	(1,401,928)
Total loans and advances to customers	**662,310,101**	**460,058,072**

11 Loans and Advances to Customers (Continued)

As of 31 December 2018, the Bank had Top 10 borrowers with total loan amounts exceeding Tenge 79,810 thousand (2017: Tenge 84,010 thousand). The aggregate amount of these loans was Tenge 896,806 thousand (2017: Tenge 890,808 thousand), or 0.13% loan portfolio before allowance for loan impairment (2017: 0.19%).

Gross carrying amount and credit loss allowance amount for loans and advances to customers at AC by classes at 31 December 2018 and 31 December 2017 are disclosed in the table below:

	31 December 2018			31 December 2017		
(in thousands of Tenge)	Gross carrying amount	Credit loss allowance	Carrying amount	Gross carrying amount	Credit loss allowance	Carrying amount
Interim housing loans	279,900,389	(737,245)	279,163,144	213,934,799	(941,247)	212,993,552
Housing loans	217,478,264	(470,303)	217,007,961	149,887,631	(183,848)	149,703,783
Preliminary housing loans	166,609,249	(470,253)	166,138,996	97,637,570	(276,833)	97,360,737
Total loans and advances to customers at AC	**663,987,902**	**(1,677,801)**	**662,310,101**	**461,460,000**	**(1,401,928)**	**460,058,072**

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

11 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 1 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**

11 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**

11 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**

In 2018, provision calculation procedures were automated in ILS, and according to Provisioning Methodology the Bank calibrates and reviews parameters on a quarterly basis resulting in the change of provision level and transfers between Stage 1 and Stage 2.

11 Loans and Advances to Customers (Continued)

The credit quality of loans is as follows at 31 December 2018:

(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	267,443,955	8,608,740	104,019	276,156,714
fully collateralized:				
- 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	154,403,085	9,047,962	174,792	163,625,839
fully collateralized:				
- 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	158,306,532	55,910,884	242,022	214,459,438
fully collateralized:				
- 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**

11 Loans and Advances to Customers (Continued)

For description of the credit risk grading used in the tables above refer to Note 26.

Analysis of loans by credit quality at 31 December 2017 is disclosed as follows:

(in thousands of Kazakhstani Tenge)	Housing loans	Preliminary loans	Interim loans	Total
Neither past due nor impaired (gross)				
fully collateralized:				
- LTV less than 25%	42,799,501	5,645,446	1,218,123	49,663,070
- LTV from 25% to 50%	97,011,456	24,393,982	22,751,139	144,156,577
- LTV from 51% to 75%	7,558,157	64,660,845	185,505,042	257,724,044
- LTV from 76% to 100%	46,117	177,748	1,977,299	2,201,164
partially collateralized:				
- LTV more than 100%	12,306	36,950	72,367	121,623
- unsecured	1,021,059	-	-	1,021,059
Total neither past due nor impaired (gross)	**148,448,596**	**94,914,971**	**211,523,970**	**454,887,537**
Past due but not impaired (gross)				
- less than 30 days overdue	1,120,759	1,783,279	1,328,507	4,232,545
- 31 to 90 days overdue	198,313	462,859	303,361	964,533
Total past due but not impaired (gross)	**1,319,072**	**2,246,138**	**1,631,868**	**5,197,078**
Past due and impaired (gross)				
- 91 to 180 days overdue	30,680	78,674	110,978	220,332
- 181 to 360 days overdue	16,151	86,308	77,633	180,092
- over 360 days overdue	73,132	311,479	590,350	974,961
Total past due and impaired loans (gross)	**119,963**	**476,461**	**778,961**	**1,375,385**
Less impairment provisions	**(183,848)**	**(276,833)**	**(941,247)**	**(1,401,928)**
Total loans and advances to customers	**149,703,783**	**97,360,737**	**212,993,552**	**460,058,072**

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.

11 Loans and Advances to Customers (Continued)

All loans were issued to individuals.

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**

The amount of deposits held as collateral on loans granted as at 31 December 2018 was Tenge 199,313,288 thousand (2017: Tenge 151,107,102 thousand).

Loans collateralized by commercial real estate are categorized within other real estate. Loans and advances to customers are allocated by types of collateral depending on the highest cost of collateral, i.e. a loan is categorised to a certain category, if it is secured by collateral amounting to more than 50% of the total cost of pledge.

Information about collateral is as follows at 31 December 2017:

(in thousands of Kazakhstani Tenge)	**Housing loans**	**Preliminary loans**	**Interim loans**	**Total**
Unsecured loans	5,595	20,507	13,436	39,538
Loans guaranteed by other individuals	1,563,618	193,125	103,195	1,859,938
Loans collateralised by:				
- residential real estate	147,370,693	97,046,890	211,709,335	456,126,918
- land	715,766	38,732	878,339	1,632,837
- other real estate	11,262	7,362	196,316	214,940
- cash deposits	23,428	46,525	92,931	162,884
- residential real estate, deposits and guarantees (multi-pledged)	13,421	7,596	-	21,017
Total loans and advances to customers	**149,703,783**	**97,360,737**	**212,993,552**	**460,058,072**

11 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 amount of deposit is deducted from the carrying value of the portfolio.

The effect of collateral 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	215,213,860	848,084,757	2,209,451	485,675
Preliminary housing loans	113,567,311	222,569,970	359,879	221,760
Interim housing loans	132,767,473	315,245,653	556,641	364,446

The effect of collateral at 31 December 2017 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	148,202,144	665,450,587	1,621,107	479,776
Preliminary housing loans	58,525,368	188,552,918	616,224	421,207
Interim housing loans	100,541,594	251,669,479	852,201	569,562

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 2018 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 29. Interest rate analysis of loans and advances to customers is disclosed in Note 26. Information on related party transactions is disclosed in Note 32.

12 Investment Securities Available for Sale

(in thousands of Kazakhstani Tenge)	**31 December 2017**
Government securities of the Ministry of Finance of RK	133,161,551
Bonds issued by local executive bodies of RK	13,022,653
Corporate bonds	2,991,405
Bonds issued by international financial organizations	6,827,914
Bonds issued by Kazakhstani credit institutions separate from banks	1,992,544
Bonds issued by Kazakhstani banks	423,938
Total debt securities	**158,420,005**
Corporate shares	1,164
Total investment securities available for sale	**158,421,169**

12 Investment Securities Available for Sale (Continued)

Analysis by credit quality of debt securities available for sale outstanding at 31 December 2017 is as follows:

(in thousands of Kazakhstani Tenge)	Government securities of the Ministry of Finance of RK	Bonds issued by local executive bodies of RK	Corporate bonds	Bonds issued by international financial organiza-tions	Bonds issued by Kazakhstani banks	Bonds issued by Kazakhstani credit institutions other than banks
Neither past due nor impaired	133,161,551	13,022,653	-	6,827,914	-	-
- BB- to BB+ rated	-	-	2,991,405	-	423,938	1,992,544
Total neither past due nor impaired	**133,161,551**	**13,022,653**	**2,991,405**	**6,827,914**	**423,938**	**1,992,544**
Debt securities individually determined to be impaired (gross)						
- over 360 days overdue	-	-	675,534	-	-	-
Total individually impaired debt securities	-	-	**675,534**	-	-	-
Impairment	-	-	**(675,534)**	-	-	-
Total debt securities available for sale	**133,161,551**	**13,022,653**	**2,991,405**	**6,827,914**	**423,938**	**1,992,544**

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

The movements in investment securities available for sale as at 31 December 2017 are as follows:

(in thousands of Kazakhstani Tenge)	**2017**
Carrying amount at 1 January	**103,219,371**
Fair value gains less losses	6,532,683
Interest income accrued	11,802,705
Interest income received	(8,596,404)
Purchases	85,411,040
Disposals of investment securities available for sale	(39,948,226)
Carrying amount at 31 December	**158,421,169**

Interest rate analysis of investment securities available for sale is disclosed in Note 26. Information on related party debt investment securities carried through other comprehensive income is disclosed in Note 32.

13 Investment Securities Held to Maturity

(in thousands of Kazakhstani Tenge)	**31 December 2017**
NB RK Notes	52,728,856
Government securities of the Ministry of Finance of RK	5,196,530
Total investments securities held to maturity	**57,925,386**

13 Investment Securities Held to Maturity (Continued)

The information about the changes in the portfolio of investment securities held to maturity as at 31 December 2017 is as follows:

(in thousands of Kazakhstani Tenge)	2017
Carrying amount at 1 January	**68,666,146**
Additions	72,839,370
Disposals	(83,580,130)
Accrued interest income	314,250
Received interest income	(314,250)
Carrying amount at 31 December	**57,925,386**

The credit quality of investment securities classified as held to maturity, as at 31 December 2017 is as follows:

(in thousands of Kazakhstani Tenge)	Government securities of the Ministry of Finance of RK	NB RK Notes	Total
Neither past due nor impaired			
- BBB- to BBB+ rated	5,196,530	52,728,856	57,925,386
Total debt securities held to maturity	**5,196,530**	**52,728,856**	**57,925,386**

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

The primary factor that the Bank considers in determining whether a debt security is impaired is its overdue status. As a result, the Bank presents above an ageing analysis of debt securities that are individually determined to be impaired.

The debt securities are not collateralized.

Information about fair value of each class of investment securities held to maturity is disclosed in Note 29. Interest rate analysis of investment securities held to maturity is disclosed in Note 26. Information on investment securities held to maturity issued by released related parties are disclosed in Note 32.

14 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 2017	2,705,872	3,137,736	117,154	5,960,76
Accumulated depreciation	(296,472)	(1,524,756)	(102,771)	(1,923,999)
Carrying amount at 1 January 2017	**2,409,400**	**1,612,980**	**14,383**	**4,036,763**
Additions	-	894,077	-	894,077
Transfers	-	(1,340)	-	(1,340)
Transfer to non-current assets held for sale	(879,686)	-	(961)	(880,647)
Disposals	(125,278)	(93,111)	(12,975)	(231,364)
Other (initial cost)	-	(29,700)	29,700	-
Depreciation charge	(63,795)	(639,356)	(8,922)	(712,073)
Accumulated depreciation on disposal	125,277	93,111	12,975	231,363
Carrying amount at 31 December 2017	**1,465,918**	**1,836,661**	**34,200**	**3,336,779**
Cost at 31 December 2017	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 2017	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 31 December 2018	**1,356,716**	**2,065,863**	**202,533**	**3,625,112**

14 Premises and Equipment and Intangible Assets (Continued)

(in thousands of Kazakhstani Tenge)	PC Software Licenses	Internally developed software	Total
Cost at 1 January 2017	1,782,742	8,935	1,791,677
Accumulated depreciation	(585,410)	(3,722)	(589,132)
Carrying amount at 1 January 2017	**1,197,332**	**5,213**	**1,202,545**
Additions for the year	1,162,327	-	1,162,327
Transfers	(18,134)	-	(18,134)
Disposals	(162,772)	-	(162,772)
Depreciation charge	(294,758)	(2,978)	(297,736)
Accumulated depreciation on disposal	162,772	-	162,772
Other	(2,936)	-	(2,936)
Carrying amount at 31 December 2017	**2,043,831**	**2,235**	**2,046,066**
Cost at 31 December 2017	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 31 December 2018	**2,375,748**	**-**	**2,375,748**

15 Other Financial Assets and Other Assets

(in thousands of Kazakhstani Tenge)	31 December 2018	31 December 2017
Receivables on banking activity	1,771,342	1,033,767
Total other financial assets	**1,771,342**	**1,033,767**

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.

15 Other Financial Assets and Other Assets (Continued)

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 2018 and 31 December 2017 is as follows:

(in thousands of Kazakhstani Tenge)	31 December 2018	31 December 2017
Neither past due nor impaired		
- BBB- to BBB+ rated	307	371
- BB- to BB+ rated	1,758,966	820,774
- B- to B+ rated	11,890	212,622
- unrated	179	-
Total receivables on banking activity, neither past due nor impaired	**1,771,342**	**1,033,767**

(in thousands of Kazakhstani Tenge)	31 December 2018	31 December 2017
Prepayments for services	104,195	105,613
Inventory and other materials	87,996	97,228
Prepayments for taxes excluding profit tax	1,629	3,091
Other	26,170	40,646
Less: provision for impairment	(2,130)	(2,377)
Total other assets	**217,860**	**244,201**

16 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 2018	31 December 2017
Legal entities		
Current accounts	26,490,341	-
Individuals		
Long-term deposits	426,289,096	371,298,923
Current accounts	13,405,236	4,389,739
Customer accounts	**466,184,673**	**375,688,662**
Deposits served as collateral on loans given	199,313,288	151,107,102
Total customer accounts	**665,497,961**	**526,795,764**

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 2018, customer accounts in the amount of Tenge 26,765,136 thousand (4% of the total balance) represented accounts of ten major clients (31 December 2017: Tenge 461,409 thousand (0.09%)), 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.

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.

16 Customer Accounts (Continued)

Recording and placement of amounts of the 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 29 for the disclosure of the fair value of each class of customer accounts. Interest rate analysis of customer accounts is disclosed in Note 26. Information on related party balances is disclosed in Note 32.

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%.

17 Borrowed Funds

(in thousands of Kazakhstani Tenge)	31 December 2018	31 December 2017
Ministry of Finance of the Republic of Kazakhstan	20,313,615	35,186,318
"Samruk Kazyna" National Welfare Fund" JSC	31,895,684	30,650,999
Parent company	6,182,144	5,757,638
Administration of Almaty	1,179,020	507,484
Total borrowed funds	**59,570,463**	**72,102,439**

In 2008, pursuant to the Republican Budget Programme "Crediting the Implementation of Housing Construction State Programme", the Bank received a loan from the Ministry of Finance of the Republic of Kazakhstan in the amount of Tenge 23,560,000 thousand for the period of ten years and with the interest rate of 1% per annum to be paid once per six months. Principal debt under this loan will be repaid in 2018. The purpose of this loan is to finance the provision by the Bank of preliminary and interim housing credits to priority categories of population determined by state programme at the interest rate of 4% per annum. In 2018, the Bank repaid this loan.

In 2010-2011, the Bank received loans from the «Samruk-Kazyna" National Welfare Fund in the amount of Tenge 33,440,000 thousand with an interest rate of 1% per annum. The principal debt amounts of loans received in 2010-2011, are subject to repayment after maturity set for 1 August 2019 and 30 November 2021, respectively and interest is to be repaid once per six months. The intended use of these loans is the provision by the Bank of preliminary and interim housing loans to priority categories of population determined by state programme and the Law of the Republic of Kazakhstan "On housing construction savings in the Republic of Kazakhstan" dated 7 December, 2000 at the interest rate of 4% per annum.

In 2012, the Bank received a loan from republican budget in the amount of Tenge 12,200,000 thousand with the interest rate of 1% per annum for the implementation of "Programme for development of the regions till 2020" related to the development of housing construction ensuring housing affordability for wider population through the housing construction saving system. The intended use of this loan is the provision by the Bank of preliminary and interim housing loans to the participants of the "Programme for development of the regions till 2020", interest rates on which shall not exceed 9% and 8% per annum respectively. The principal debt amount of the loan received in 2012 is subject to repayment after maturity set for 1 July 2023, and interest is to be repaid once per six months.

In accordance with the "Programme for development of the regions till 2020", in order to purchase housing using Bank credits received from republican budget, a participant of the Programme shall meet requirements set in the Programme. The Bank may use resources generated due to early repayment of loans, provided using the abovementioned resources, for granting loans under its own market programmes.

In 2016, the Bank received a loan from the Parent company in the amount of Tenge 22,000,000 thousand with an interest rate of 0.15%. The principal amount of the loan debt is to be paid after the maturity of 25 March 2036, a fee is payable every six months. The loan was received for implementation of the "Nurly Zhol" State infrastructure development programme for 2015-2019. The intended use of this loan is the provision of depositors with housing loans.

In November 2017, the Bank received loan from Administration of Almaty in the amount of Tenge 1,000,000 thousand at a rate below market, 0.01% per annum, for period to 2025. The principal is to be paid after 32 months in installments of Tenge 1,000 thousand. The loan was received within the "Almaty zhastary" program realized under the Almaty youth support Roadmap – 2020 for the provision of preliminary loans to the participants of the Programme.

17 Borrowed Funds (Continued)

Also, for the period from November 2017 to March 2018 the Bank received loans from the Ministry of Finance of the Republic of Kazakhstan in the amount of Tenge 8,000,000 thousand and Tenge 24,000,000 thousand at a rate below market, 0.15% per annum, for the period to 2037 and 2038, respectively. The principal is to be paid after 80 months in installments of Tenge 1,000 thousand.

In December 2018, the Bank received additional loan from the Ministry of Finance of the Republic of Kazakhstan in the amount of Tenge 15,000,000 thousand for the period of twenty years and at the interest rate of 0.15% per annum for the provision by the Borrower of preliminary and interim loans to the participants of the "Nurly Zher" Housing Construction Program.

For loans received for the period from 1 January 2018 to 31 December 2018, interest is to be paid once per six months.

Also, in July 2018 the Bank received the loan from the Administration of Almaty in the amount of Tenge 2,000,000 thousand at the rate of 0.01% per annum, for the period to 2026 for issue of preliminary loans within the "Almaty zhastary" program realized under the Almaty youth support Roadmap – 2020. The loan was repaid by tranches of 20% of the total amount. In addition, in November 2018 loan amount was changed for Tenge 1,200,000 thousand based on Administration's letter.

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	Total
Balance at 1 January 2017	**68,266,465**	**68,266,465**
Cash flow	9,000,000	9,000,000
Other changes not associated with cash flow	(5,164,026)	(5,164,026)
Balance at 31 December 2017	**72,102,439**	**72,102,439**
Cash flow	16,635,624	16,635,624
Other changes not associated with cash flow	(29,167,600)	(29,167,600)
Balance at 31 December 2018	**59,570,463**	**59,570,463**

Information on fair value of each class of other borrowed funds is disclosed in Note 29. Interest rate analysis of other borrowed funds is disclosed in Note 26. Information on related party transactions is disclosed in Note 32.

18 Other Liabilities

Other liabilities comprise the following:

(in thousands of Kazakhstani Tenge)	31 December 2018	31 December 2017
Deferred commission fee	2,929,792	3,454,889
Other accrued liabilities	538,952	265,807
Total other financial liabilities	**3,468,744**	**3,720,696**

18 Other Liabilities (Continued)

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.

(in thousands of Kazakhstani Tenge)	31 December 2018	31 December 2017
Accrued employee benefits costs	918,163	566,376
Accrued expenses for administrative activities	810,041	531,527
Taxes payable other than income tax	40,740	114,442
Others	126,233	89,920
Total other liabilities	**1,895,177**	**1,302,265**

19 Debt Securities in Issue

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 2018, the number of bondholders was one holder.

Information on fair value of each class of debt securities in issue is disclosed in Note 29. Information on related party transactions with debt securities in issue is disclosed in Note 32.

(in thousands of Kazakhstani Tenge)	31 December 2018	31 December 2017
Bonds issued on domestic market	57,730,697	-
Total debt securities in issue	**57,730,697**	**-**

At 1 January 2018, the balance of debt securities in issue was nil. Cash flow during 2018 amounted to Tenge 57,700,000 thousand. Other movements amounted to Tenge 30,697 thousand. The balance of debt securities in issue at 31 December 2018 was Tenge 59,570,463 thousand.

20 Share Capital

(in thousands of Kazakhstani Tenge except for number of shares)	Shares (thousands of units)	Ordinary shares	Total
At 1 January 2017	**7,830**	**78,300,000**	**78,300,000**
New shares issued	-	-	-
At 31 December 2017	**7,830**	**78,300,000**	**78,300,000**
New shares issued	-	-	-
At 31 December 2018	**7,830**	**78,300,000**	**78,300,000**

On 25 April 2018, on the shareholders meeting the Bank declared dividends for the total amount of Tenge 7,675,971 thousand for the results of the year ended 31 December 2017. The dividend per share was Tenge 980.33. The dividends were fully paid on 23 July 2018. As at 31 December 2018, no dividends were declared.

21 Interest Income and Expenses

(in thousands of Kazakhstani Tenge)	2018	2017
Interest income calculated using the effective interest method		
Loans and advances to customers at AC	39,525,740	28,488,592
Investment securities HTM	-	10,445,829
Investment securities AFS	-	11,802,705
Debt securities at AC	9,296,375	-
Due from National Bank of the Republic of Kazakhstan	930,726	579,376
Debt securities at FVOCI	12,277,043	-
Due from other banks at AC	575,501	1,827,680
Total interest income calculated using the effective interest method	**62,605,385**	**53,144,182**
Other similar income		
Trading securities	-	414,580
Total other similar income	**-**	**414,580**
Interest and other similar expense		
Customer accounts	(10,499,328)	(8,016,476)
Borrowed funds	(3,217,753)	(2,641,778)
Other borrowed funds	-	(45,405)
Bonds in issue	(30,709)	-
Total interest and other similar expense	**(13,747,790)**	**(10,703,659)**
Net interest income	**48,857,595**	**42,855,103**

Interest income includes interest income in the amount of Tenge 17,604 thousand (2017: Tenge 21,681 thousand) recognized on impaired non-performing loans of the clients.

22 Fee and Commission Income and Expenses

(in thousands of Kazakhstani Tenge)	2018 Mortgage/Retail banking	2018 Investment banking	2017 Mortgage/Retail banking	2017 Investment banking
Fee and commission income				
Fee and commission income not relating to financial instruments at FVTPL:				
Cash transactions	624,917	-	456,866	-
Fee charged for the increase of contractual amounts of housing construction savings	-	-	156,319	-
Conversion operations	117,665	-	88,230	-
Others	401,654	-	131,289	-
Total fee and commission income	**1,144,236**	**-**	**832,704**	**-**
Fee and commission expense				
Fee and commission expense not relating to financial instruments at FVTPL				
Agent commission	(1,950,726)	-	(1,169,121)	-
Settlement transactions	(312,067)	(61,097)	(97,602)	(80,633)
Transactions with securities	-	(4,695)	-	(389)
Others	-	(31,854)	-	(19,965)
Total fee and commission expense	**(2,262,793)**	**(97,646)**	**(1,266,723)**	**(100,987)**
Net fee and commission expense	**(1,118,557)**	**(97,646)**	**(434,019)**	**(100,987)**

23 Other Operating Expenses, Net

(in thousands of Kazakhstani Tenge)	2018	2017
Expenses in form of contributions into the Kazakhstan Fund of Deposits Insurance JSC	930,164	765,766
Net income from forfeit (penalty, fine)	(23,771)	(21,476)
Net other expense from banking activity	30,085	8,082
Net other income/expense from non-operating activity	(20,669)	50,024
Income from disposal of premise and equipment and intangible assets	(46,298)	(6,376)
Expenses from the impairment of intangible assets	15,360	-
Provision/recovery of provision for receivables related to non-operating activity	(247)	1,493
Total other operating expenses	**884,624**	**797,513**

24 Administrative Expenses

Administrative and other operating expenses include:

(in thousands of Kazakhstani Tenge)	2018	2017
Salary and bonuses	7,068,298	5,486,852
Social tax contributions	717,734	626,951
Other payments	702,902	698,104
Staff costs	**8,488,934**	**6,811,907**
Amortisation of premise and equipment and intangible assets	1,144,018	1,009,812
Advertising and marketing services	518,645	477,787
Expenses on construction contracts	583,972	470,791
Rent expense	539,232	444,580
Communication services	478,526	338,575
Taxes and state duties	385,617	342,851
Technical maintenance	573,376	289,703
Security services	183,361	202,449
Business trip expenses	332,010	188,440
Current repair expenses	318,216	137,329
Insurance	255,908	131,390
Materials	92,828	54,685
Cash collection expense	65,356	54,537
Professional services	66,450	31,100
Transportation expense	12,532	14,427
Other	943,814	774,134
Total administrative and other operating expenses	**14,982,795**	**11,774,497**

Included in staff costs are statutory pension contributions of Tenge 725,485 thousand (2017: Tenge 584,689 thousand).

25 Income Taxes

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

(in thousands of Kazakhstani Tenge)	2018	2017
Current income tax charge	2,276,804	1,603,035
Deferred income tax expense/(benefit)	(1,259,549)	(55,693)
Income tax expense for the year	**1,017,255**	**1,547,342**

The income tax rate applicable to the majority of the Banks's income is 20% (2017: 20%).

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

(in thousands of Kazakhstani Tenge)	2018	2017
Profit before tax	27,472,424	27,133,911
Statutory tax rate	20%	20%
Theoretical tax charge at statutory rate	**5,494,485**	**5,426,782**
Non-taxable income on state securities and securities at the highest and next to the highest listing categories	(4,308,542)	(4,532,623)
Write-off of deferred tax asset	-	559,847
Other non-taxable/non-deductible income/expense	(168,688)	93,336
Income tax expense	**1,017,255**	**1,547,342**

25 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 2017	Credited/ (charged) to profit or loss	Credited/ (charged) directly to equity	31 December 2017	Credited/ (charged) to profit or loss	Credited/ (charged) directly to equity	31 December 2018
Tax effect of deductible temporary differences							
Due from other banks	20,441	(16,222)	-	4,219	(4,219)	-	-
Loans and advances to customers	60,334	271,193	-	331,527	697,059	-	1,028,586
Other liabilities	197,509	22,072	-	219,581	126,223	-	345,804
Accruals for commissions, deductible expenses	559,847	(559,847)	-	-	-	-	-
Deferred tax assets	**838,131**	**(282,804)**	**-**	**555,327**	**819,063**	**-**	**1,374,390**
Tax effect of taxable temporary differences							
Borrowed funds	(4,610,118)	383,133	(1,416,161)	(5,643,146)	499,580	(6,318,618)	(11,462,184)
Premises and equipment and intangible assets	(308,938)	(38,457)	-	(347,395)	(78,063)	-	(425,458)
Other assets	(14,944)	(6,179)	-	(21,123)	18,969	-	(2,154)
Deferred tax liabilities	**(4,934,000)**	**338,497**	**(1,416,161)**	**(6,011,664)**	**440,486**	**(6,318,618)**	**(11,889,796)**
Deferred tax liabilities	**(4,095,869)**	**55,693**	**(1,416,161)**	**(5,456,337)**	**1,259,549**	**(6,318,618)**	**(10,515,406)**

The Bank expects recovery and repayment of deferred tax assets and liabilities in the amount of Tenge 343,651 thousand during not more than twelve months after the end of the reporting period and Tenge 10,859,056 thousand upon expiry of more than twelve months after the end of the reporting period.

26 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 with the 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 30. 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").

26 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.

Responsible departments of the Bank 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, 10, 11, 12, 13, and 15.

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 committen 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.

26 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 petition in accordance with the legislation of the Republic of Kazakhstan;
- the borrower files a bankruptcy petition 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.

26 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.

26 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%.

26 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 2018 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 2018, 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 2018, 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 2018			**At 31 December 2017**		
(in thousands of Kazakhstani Tenge)	**Monetary financial assets**	**Monetary financial liabilities**	**Net position**	**Monetary financial assets**	**Monetary financial liabilities**	**Net position**
US Dollars	207,900	-	207,900	233,179	-	233,179
Euros	2,631	-	2,631	2,386	-	2,386
Total	**210,531**	**-**	**210,531**	**235,565**	**-**	**235,565**

The above analysis includes only monetary assets and liabilities.

26 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 2018		At 31 December 2017	
(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%	41,580	41,580	46,636	46,636
US Dollar weakening by 20%	(41,580)	(41,580)	(46,636)	(46,636)
Euro strengthening by 20%	526	526	477	477
Euro weakening by 20%	(526)	(526)	(477)	(477)
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 2018, the Bank has government investment securities for the amount of Tenge 203,610,514 thousand (2017: Tenge 249,222,504 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 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**
31 December 2017					
Total financial assets	69,526,283	79,427,908	23,409,587	583,051,501	755,415,279
Total financial liabilities	106,709,411	30,195,481	53,571,638	412,142,369	602,618 ,899
Net interest sensitivity gap at 31 December 2017	**(37,183,128)**	**49,232,427**	**(30,162,051)**	**170,909,132**	**152,796,380**

26 Financial Risk Management (Continued)

As of 31 December 2018 and 31 December 2017 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 interest rates at 31 December 2018 and 31 December 2017:

(in % p.a.)	31 December 2018	31 December 2017
Assets		
Cash and cash equivalents	7.43%	7.98%
Due from other banks	-	7.56%
Debt trading securities	-	8.04%
Debt securities at FVOCI/investment securities AFS	8.08%	7.72%
Debt securities at AC/investment securities HTM	7.08%	9.39%
Loans and advances to customers	6.77%	7.01%
Liabilities		
Customer accounts	2.00%	2.00%
Borrowings from the Government of RK	6.61%	6.53%
Borrowings from Samruk-Kazyna	5.17%	4.64%
Borrowings from NMH Bayterek	7.97%	7.97%
Borrowings from Administration of Almaty	8.95%	9.02 %
Bonds in issue	9.58%	-

Other price risk. In 2018 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 (2017: no material impact).

Geographical risk concentrations. The geographical concentration of the Bank's financial assets and liabilities at 31 December 2018 is set out 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

26 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 2017 is shown below:

(in thousands of Kazakhstani Tenge)	Kazakhstan	Russia	Other countries	Total
Financial assets				
Cash and cash equivalents	62,700,038	-	-	62,700,038
Trading securities	4,914,825	-	-	4,914,825
Due from other banks	10,362,022	-	-	10,362,022
Loans and advances to customers	460,043,696	14,376		460,058,072
Investment securities available for sale	151,593,255	6,827,914	-	158,421,169
Investment securities held to maturity	57,925,386	-	-	57,925,386
Other financial assets	1,033,767	-	-	1,033,767
Total financial assets	**748,572,989**	**6,842,290**	**-**	**755,415,279**
Financial liabilities				
Customer accounts	526,782,199	12,200	1,365	526,795,764
Borrowed funds	72,102,439	-	-	72,102,439
Other financial liabilities	3,720,741	125	356	3,721,222
Total financial liabilities	**602,605,379**	**12,325**	**1,721**	**602,619,425**
Net position financial assets and liabilities	**145,967,610**	**6,829,965**	**(1,721)**	**152,795,854**
Credit related commitments	**27,820,946**	**-**	**-**	**27,820,946**

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 11). The Bank did not have any such significant risk concentrations at 31 December 2018 and 31 December 2017.

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 2018 this coefficient was 5.033 (2017: 21.042);
- 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 2018 this coefficient was 3.062 (2017: 3.584);

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 2018 this coefficient was 3.147 (2017: 3.553);
- 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 2018 this coefficient was 2.67 (2017: 3.159).

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 2018 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 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

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.

26 Financial Risk Management (Continued)

The maturity analysis of financial instruments at 31 December 2017 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	42,694,036	20,404,979	-	-	-	63,099,015
Trading securities	5,670,850		-	-	-	5,670,850
Due from other banks	7,462,153	2,922,102	-	-	-	10,384,255
Loans and advances to customers	228,316	6,459,362	9,283,163	205,275,357	404,814,239	626,060,437
Investment securities available for sale	1,887,548	8,127,921	13,464,848	127,698,808	46,273,193	197,452,318
Investment securities held to maturity	11,200,025	42,842,349	1,586,282	4,200,123	-	59,828,779
Other financial assets	1,033,767	-	-	-	-	1,033,767
Total assets	**70,176,695**	**80,756,713**	**24,334,293**	**337,174,288**	**451,087,432**	**963,529,421**
Liabilities						
Borrowed funds	-	118,168	23,749,496	34,219,630	44,718,730	102,806,024
Customer accounts	98,778,176	30,390,552	31,103,732	246,626,544	148,132,221	555,031,227
Other financial liabilities	3,721,222	-	-	-	-	3,721,222
Total potential future payments for financial obligations	**102,499,398**	**30,508,720**	**54,853,228**	**280,846,174**	**192,850,951**	**661,558,471**
Contingent liabilities						
Irrevocable loan commitments	2,782,095	13,910,473	11,128,378	-	-	27,820,946

26 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 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**	**-**
At 31 December 2017						
Financial assets	265,408,907	53,256,902	31,849,825	357,318,741	47,580,904	755,415,279
Financial liabilities	106,709,937	30,195,481	53,571,638	257,588,896	154,553,473	602,619,425
Net liquidity gap based on expected maturities	**158,698,970**	**23,061,421**	**(21,721,813)**	**99,729,845**	**(106,972,569)**	**152,795,854**
Accumulated liquidity gap based on expected maturities	**158,698,970**	**181,760,391**	**160,038,578**	**259,768,423**	**152,795,854**	**-**

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.

27 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.

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;

27 Capital Management (Continued)

- 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 2018 and 31 December 2017, the Bank's capital adequacy ratio on this basis exceeded the statutory minimum.

As of 31 December 2018 and 31 December 2017, the Bank's capital adequacy ratios calculated in accordance with the requirements of the NBRK were as follows:

(in thousands of Kazakhstani Tenge)	2018	2017
Tier 1 capital	196,735,174	150,863,436
Tier 2 capital	-	-
Total regulatory capital	**196,735,174**	**150,863,436**
Risk-weighted assets and contingent liabilities, potential claims and liabilities	336,886,534	248,317,746
Operational risk	23,172,319	18,032,066
Capital adequacy ratio k1-1	54.64%	56.64%
Capital adequacy ratio k1-2	54.64%	56.64%
Capital adequacy ratio k2	54.64%	56.64%

28 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.

28 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 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	11	662,310,101	-	662,310,101
Investments in debt securities	10	-	153,202,035	153,202,035
Investments in equity securities		-	19,034	19,034
Total assets of operating segments		**662,310,101**	**326,595,351**	**988,905,452**
Customer accounts	16	665,497,961	-	665,497,961
Borrowed funds	17	59,570,463	-	59,570,463
Debt securities in issue	19	57,730,697	-	57,730,697
Other liabilities	18	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)**

Capital expenditures represent acquisition of property and equipment.

(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**

28 Segment Analysis (Continued)

Segment information for the reportable segments for the year ended 31 December 2017 is set out below:

(in thousands of Kazakhstani Tenge)	Note	Mortgage/Retail banking	Investment banking	Total
Cash and cash equivalents	7	-	62,700,038	62,700,038
Trading securities	8	-	4,914,825	4,914,825
Due from other banks	9	-	10,362,022	10,362,022
Loans and advances to customers	10	460,058,072	-	460,058,072
Investment securities available for sale	11	-	158,421,169	158,421,169
Investment securities held to maturity	12	-	57,925,386	57,925,386
Total assets of operating segments		**460,058,072**	**294,323,440**	**754,381,512**
Customer accounts	16	526,795,764	-	526,795,764
Borrowed funds	17	72,102,439	-	72,102,439
Compensation payment liability	18			
Other liabilities	19	3,720,696	-	3,720,696
Total liabilities of operating segments		**602,618,899**	**-**	**602,618,899**
Capital expenditures		**-**	**(894,077)**	**(894,077)**

Segment information for the reportable segments for the year ended 31 December 2017 is set out below:

(in thousands of Kazakhstani Tenge)	Mortgage/Retail banking	Investment banking	Total
2017:			
Segment revenues			
Interest income on loans to customer	28,488,592	-	28,488,592
Interest income on securities and due from the National Bank of the Republic of Kazakhstan	-	25,070,170	25,070,170
Interest expense on customer accounts	(8,016,476)	-	(8,016,476)
Interest expense on borrowed funds	(2,641,778)	-	(2,641,778)
Interest expense on REPO operations with securities	-	(45,405)	(45,405)
Net interest income	**17,830,338**	**25,024,765**	**42,855,103**
Provision for impairment of loan portfolio	(280,419)	-	(280,419)
Net interest income after provision for impairment of loan portfolio	**17,549,919**	**25,024,765**	**42,574,684**
Fee and commission income	832,704	-	832,704
Fee and commission expense	(1,266,723)	(100,987)	(1,367,710)
Net loss on initial recognition of financial instruments at rates below market	(2,055,110)	(113,379)	(2,168,489)
Gains less losses from trading securities	-	(229,344)	(229,344)
Reverse of provision for impairment of investment securities held to maturity	-	65,940	65,940
Other expenses	(856,808)	-	(856,808)
Administrative and other operating expenses	(7,452,881)	(4,321,616)	(11,774,497)
Segment results	**6,751,101**	**20,325,379**	**27,076,480**

28 Segment Analysis (Continued)

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

(in thousands of Kazakhstani Tenge)	31 December 2018	31 December 2017
Total assets of operating segments	**988,905,452**	**754,381,512**
Property and equipment	3,625,112	3,336,779
Intangible assets	2,375,748	2,046,066
Other assets	2,397,669	1,556,545
Non-current assets held for sale	1,036,265	946,587
Total assets	**998,340,246**	**762,267,489**
Total liabilities of operating segments	**786,267,865**	**602,353,618**
Deferred tax liability	10,515,406	5,456,337
Other liabilities	1,895,177	1,567,546
Total liabilities	**798,678,448**	**609,396,459**

(in thousands of Kazakhstani Tenge)	2018	2017
Segment results	**27,186,234**	**27,076,480**
Other income	286,190	57,431
Profit before tax	**27,472,424**	**27,133,911**
Income tax expense	(1,017,255)	(1,547,342)
Profit for the period	**26,455,169**	**25,586,569**

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 2018 (2017: nil).

29 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.

29 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 2018			31 December 2017		
(in thousands of Kazakhstani Tenge)	**Level 1**	**Level 2**	**Total**	**Level 1**	**Level 2**	**Total**
Assets measured at fair value						
Financial assets						
Trading securities						
- Corporate bonds	-	-	-	-	4,914,825	4,914,825
Investments in debt securities						
- Treasury bonds of the Ministry Finance of the Republic of Kazakhstan	-	110,778,784	110,778,784	-	133,161,551	133,161,551
- 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	-	13,022,653	13,022,653
- Corporate bonds	-	3,005,534	3,005,534	-	2,991,405	2,991,405
- Bonds of international financial organizations	-	7,803,990	7,803,990	-	6,827,914	6,827,914
- Bonds of second tier banks of the Republic of Kazakhstan	-	-	-	-	423,938	423,938
- Bonds of Kazakhstani non-banking financial institutions	-	4,699,868	4,699,868	-	1,992,544	1,992,544
Investments in debt securities						
- Ordinary and preferred shares of the second tier banks of the Republic of Kazakhstan	-	19,034	19,034	-	1,164	1,164
Total assets recurring fair value measurements	**-**	**144,375,840**	**144,375,840**	**-**	**163,335,994**	**163,335,994**

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

29 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 2018:

(in thousands of Kazakhstani Tenge)	31 December 2018				31 December 2017			
	Level 1 Fair value	Level 2 Fair value	Level 3 Fair value	Carrying value	Level 1 Fair value	Level 2 Fair value	Level 3 Fair value	Carrying value
Financial assets								
Cash and cash equivalents	-	69,300,201	-	69,300,201	-	48,926,431	-	48,926,431
Due from other banks	-	-	-	-	-	10,361,396	-	10,362,022
Loans and advances to customers	-	582,986,473	79,323,628	662,310,101	-	386,653,435	73,404,637	460,058,072
Investments in debt securities held to maturity	-	-	-		57,925,386	-	-	57,925,386
Investment securities at AC	8,845,229	-	-	8,845,229	-	-	-	-
Other financial assets	-	-	1,771,342	1,771,342	-	-	1,033,767	1,033,767
Total	**8,845,229**	**652,286,674**	**81,094,970**	**742,226,873**	**57,925,386**	**445,941,262**	**74,438,404**	**578,305,678**

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 2018			31 December 2017		
	Level 2 Fair Value	Level 3 Fair Value	Carrying Value	Level 2 Fair Value	Level 3 Fair Value	Carrying Value
FINANCIAL LIABILITIES						
Customer accounts	665,497,961	-	665,497,961	526,795,764	-	526,795,764
Borrowed funds	58,434,733	-	59,570,462	66,435,720	-	72,102,439
Debt securities in issue	57,730,697	-	57,730,697	-	-	-
Other financial liabilities	-	3,468,744	3,468,744	-	3,717,753	3,717,753
TOTAL	**781,663,391**	**3,468,744**	**786,267,864**	**593,231,484**	**3,717,753**	**602,615,956**

Cash and cash equivalents. Cash on hand and short-term notes of the NBRK with maturity below three months are classified at level 1, all other cash 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 programmes) approximates their carrying amount since interest rates under the programmes have not changed since origination. These loans are classified by the Bank's management as Level 2 in the fair value hierarchy.

The estimated fair value of loans and advances to customers issued under government programs is based on the expected future cash flows calculated at the current interest rates for new loans issued not under government programs. Consequently, the management of the Bank applied the judgments in calculating the fair value of these instruments and referred them to Level 3 of the fair value hierarchy. (see Note 4)

Investment securities carried at amortised cost. Due to active market, investment securities carried at amortised cost are classified at Level 1.

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.

30 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.

Kazakhstani tax legislation and practice is 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 2018 and 2017 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 2018**	**31 December 2017**
Loan commitments	20,467,228	27,820,946
Financial and contingent liabilities	**20,467,228**	**27,820,946**

31 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.

For the purposes of measurement at 31 December 2017, IAS 39 "Financial Instruments: Recognition and Measurement", the Bank classified financial assets into the following categories: (a) L&R; (b) AFS financial assets; (c) financial assets HTM and (d) financial assets at FVTPL ("FVTPL"). Financial assets at FVTPL had two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

31 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 instruments at FVOCI	Equity instruments 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**

31 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 2017:

(in thousands of Kazakhstani Tenge)	Loans and receivables	Available-for-sale assets	Trading assets	Held-to-maturity assets	Total
ASSETS					
Cash and cash equivalents	17,587,124	-	-	45,112,914	62,700,038
Trading securities	-	-	4,914,825	-	4,914,825
Due from other banks	10,362,022	-	-	-	10,362,022
Loans and advances to customers:	460,058,072	-	-	-	460,058,072
- Interim housing loans	212,993,552	-	-	-	212,993,552
- Housing loans	97,360,737	-	-	-	97,360,737
- Preliminary housing loans	149,703,783	-	-	-	149,703,783
Investment securities available for sale:	-	158,421,169	-	-	158,421,169
- Government securities of the Ministry of Finance of RK	-	133,161,551	-	-	133,161,551
- Bonds of local executive bodies of RK	-	13,022,653	-	-	13,022,653
- Corporate bonds	-	2,991,405	-	-	2,991,405
- Bonds of Sovereign Welfare Fund «Samruk Kazyna» JSC	-	-	-	-	-
- International financial organizations bonds	-	6,827,914	-	-	6,827,914
- Bonds of Kazakhstani non-banking financial institutions	-	1,992,544	-	-	1,992,544
- Bonds of Kazakhstani banks	-	423,938	-	-	423,938
- Corporate shares	-	1,164	-	-	1,164
Investment securities held to maturity:	-	-	-	57,925,386	57,925,386
- Treasury notes of the National Bank of RK	-	-	-	52,728,856	52,728,856
- Government securities of the Ministry of Finance of RK	-	-	-	5,196,530	5,196,530
Other financial assets	1,033,767	-	-	-	1,033,767
TOTAL FINANCIAL ASSETS	**489,040,985**	**158,421,169**	**4,914,825**	**103,038,300**	**755,415,279**

As of 31 December 2018 and 31 December 2017 all financial liabilities of the Bank were carried at amortized costs.

32 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 25.

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

32 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	-	255,047
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	-	-	-	

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

32 Related Party Transactions (Continued)

At 31 December 2017, 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: 9.5%)	-	-	-	59,322,430
Due from other banks (contractual interest rate: 9.33%)	-	7,452,823	-	-
Trading securities (contractual interest rate: 7.5%-8.5%)	-	2,571,465	-	2,343,360
Loans and advances to customers (contractual interest rate: 4%-10%)	-	-	251,612	273,727
Investment securities available for sale (contractual interest rate: 3%-10.5%)	-	2,013,388	-	149,154,765
Investment securities held to maturity (contractual interest rate: 5.6%-6.8%)	-	-	-	57,925,386
Other assets		3,750		1,714
Borrowing funds (contractual interest rate: 0.15% - 1%)	5,757,638	-	-	66,344,801
Customer accounts (contractual interest rate: 2%-5.5%			139,095	78,598
Deferred tax liability	-	-	-	5,456,337
Other liabilities	-	-	-	209,854
Additional paid-in capital	13,541,732	-	-	15,752,325

The income and expense items with related parties for 2017 were as follows:

(in thousands of Kazakhstani Tenge)	Immediate parent company	Companies under common control	Key management personnel	Other related parties
Interest income	-	859,495	23,076	22,529,060
Interest expenses	(426,172)	-	(1,949)	(2,218,616)
Gains less losses from trading securities	-	(86,133)	-	(143,211)
Fee and commission income	-	-	-	-
Provision for impairment	-	-	(513)	(592)
Other income / (expenses)	-	3,750	-	(765,766)
Administrative and other operating expenses	-	(11,846)	-	-
Income tax expense	-	-	-	(1,547,342)

Aggregate amounts lent to and repaid by related parties during 2017 were:

(in thousands of Kazakhstani Tenge)	Other related parties
Amounts lent to related parties during the period	230,085
Amounts repaid by related parties during the period	82,706

32 Related Party Transactions (Continued)

Key management compensation is presented below:

(in thousands of Kazakhstani Tenge)	2018 Expense	2018 Accrued liability	2017 Expense	2017 Accrued liability
Short-term benefits:				
- Salaries	208,887	-	191,740	-
- Short-term bonuses	27,189	-	7,329	-
- Benefits in-kind	4,610	-	1,667	-
- Long-term bonus scheme	80,070	80,070	57,782	57,782
Total	**320,756**	**80,070**	**258,518**	**57,782**

33 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	2018	2017
Profit for the year attributable to ordinary shareholders		26,455,169	25,586,569
Number of ordinary shares in issue (thousands)	20	7,830	7,830
Basic and diluted earnings per ordinary share (expressed in Tenge per share)		**3,379**	**3,268**

34 Accounting Policies Applicable before 1 January 2018

Financial instruments – key measurement terms. Depending on their classification financial instruments are carried at fair value or AC as described below. Refer to Note 3 for the definition of fair value and AC as well as for description of valuation techniques.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes *transaction costs*. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to, and must be settled by, delivery of such unquoted equity instruments.

Trading securities. Trading securities are financial assets, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists.

The Bank may choose to reclassify a non-derivative trading financial asset out of the fair value through the profit or loss category if the asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of fair value through the profit or loss category only in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Financial assets that would meet the definition of loans and receivables may be reclassified if the Bank has the intention and ability to hold these financial assets for the foreseeable future, or until maturity.

Trading securities are carried at fair value. Interest earned on trading securities calculated using the effective interest method is presented in profit or loss for the year as interest income. Dividends are included in dividend income within other operating income when the Bank's right to receive the dividend payment is established, and it is probable that the dividends will be collected. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss for the year as gains less losses from trading securities in the period in which they arise.

34 Accounting Policies applicable before 1 January 2018 (Continued)

Loans and advances to customers. Loans and advances to customers were carried at AC and impairment losses were recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which had an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated. If the Bank determined that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it included the asset in a group of financial assets with similar credit risk characteristics, and collectively assessed them for impairment.

The primary factors that the Bank considered in determining whether a financial asset was impaired were its overdue status and realisability of related collateral, if any. The following other principal criteria were also used to determine whether there was objective evidence that a credit loss has occurred:

- any instalment was overdue and the late payment could not be attributed to a delay caused by the settlement systems;
- the borrower experienced a significant financial difficulty as evidenced by the borrower's financial information that the Bank obtained;
- there was an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impacted the borrower; or
- the value of collateral significantly decreased as a result of deteriorating market conditions.

For the purposes of a collective evaluation of credit loss, financial assets were grouped on the basis of similar credit risk characteristics. Those characteristics were relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

The whole loan portfolio is divided into homogeneous pools of loans by type of loan programs. The mortgage loans with the overdue for 90 days and the carrying amount of Tenge 100,000 thousand are classified as impaired. They are evaluated on a basis of incurred losses calculated as a difference between carrying value of loans and discounted future cash flows from realization of collateral against the carrying value of loans. Loss coefficient is calculated as incurred loss divided by carrying value of the pool.

Monthly loss factors, specific for the individual pools, are used for determination of the impairment of the remaining portfolio. These loss ratios are calculated as the product of the coefficients of the probability of borrowers default (PD) and the coefficients of the level of losses in the event of borrower default (LGD). PD coefficient is calculated based on the vintage analysis, a model of the statistical analysis of generations of outstanding loans in arrears over 90 days by month, starting from the date of issuance of the loan, which is to bring performance loss over the generations to the same time point. LGD calculation coefficient is based on migration analysis that calculates the percentage transfer arrears of one month thereafter.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognized and a new asset is recognized at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss for the year.

Investment securities available for sale. This classification includes investment securities which the Bank intends to hold for an indefinite period of time and which may be sold in response in case of needs for liquidity or changes in interest rates, exchange rates or equity prices.

34 Accounting Policies applicable before 1 January 2018 (Continued)

Investment securities available for sale are carried at fair value. Interest income on available for sale debt securities is calculated using the effective interest method, and recognised in profit or loss for the year.

Dividends on available for sale equity instruments are recognised in profit or loss for the year when the Bank's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the year. Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its initial cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to profit or loss for the year. Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss for the year.

Investment securities held to maturity. This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank intends and can hold to maturity. Investment securities not classified as held to maturity if the Bank has the right to require redemption of the issuer or redemption of investment securities to maturity, since the right of early repayment contradicts the intention to hold the asset to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reviews this classification at the end of each reporting period. Investment securities held to maturity are carried at amortized cost. The Bank cannot classify any financial asset, if it sold or transferred held to maturity securities prior their maturity (unless they are subject to specific exceptions of IAS 39). In addition, only securities that are actively traded on the stock exchange can be attributed to the investments held to maturity.

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.

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

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.

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.

House Construction Savings Bank of Kazakhstan JSC

Book value of one share at 1 January 2019 based on the statement of financial position for the year ended 31 December 2018

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 2017 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 2018**	**31 December 2017**
Number of ordinary shares (thous. shares)	7,830	7,830
Total assets	998,340,246	762,267,489
Less intangible assets	2,375,748	2,046,066
Less liabilities	798,678,448	609,377,501
Total net assets	**197,286,050**	**150,843,922**
Book value of one common share, Tenge	**25,196**	**19,265**

Ibragimova Lyazzat Yerkenovna
Chairman of the Board

Kiltbayeva Zhanerke Almasbekovna
Chief Accountant