КАЗАКСТАН
ИПОТЕКАЛЫК
КОМПАНИЯСЫ

Mortgage Organisation Kazakhstan Mortgage Company JSC

Financial Statements

for the year ended 31 December 2018

Contents

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Independent Auditors' Report

To the Board of Directors of Mortgage Organisation Kazakhstan Mortgage Company JSC

Opinion

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

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs).Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Kazakhstan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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.

Expected credit losses (ECL) on loans to customers and finance lease receivables

Please refer to the Notes 14 and 15 in the financial statements.

The key audit matter	How the matter was addressed in our audit
Loans to customers and finance lease receivables represent more than 69% of assets and are stated net of allowance for expected credit losses ('ECL') that is estimated on a regular basis and is sensitive to assumptions used. On 1 January 2018 the Company implemented a new ECL valuation model, which requires management to apply professional judgement and to make assumptions related to the following key areas: - timely identification of significant increase in credit risk and default events related to loans to customers and finance lease receivables; - assessment of probability of default (PD) and loss given default (LGD); - expected cash flows forecast for loans to customers and finance lease receivables, which are credit-impaired. Due to the significant volume of loans to customers and finance lease receivables, adoption of the new ECL model and the related estimation uncertainty, this area is a key audit matter.	We analysed the key aspects of the Company's methodology and policies related to the ECL estimate for compliance with the requirements of IFRS 9, with the involvement of financial risks management specialists. To analyse the adequacy of professional judgement and assumptions made by the management in relation to the allowance for ECL estimate, we performed the following: - We tested design and operating effectiveness of controls over allocation of loans and finance lease receivables into credit risk stages. - For a sample of loans, for which the potential changes in ECL estimate may have a significant impact on the financial statements, we tested whether stages are correctly assigned by the Company by analysing financial and non-financial information, as well as assumptions and professional judgements, applied by the Company. - Regarding the mortgage loans issued to customers and finance lease receivables assigned to stages 1 and 2, for which ECL is assessed collectively, we tested the design and implementation of the related models, as well as agreeing input data to supporting documents on a sample basis. We assessed the predictive capability of the Company's methodology by comparing the estimates made as at 1 January 2018 with actual results for 2018. We also assessed whether the financial statements disclosures appropriately reflect the Company's exposure to credit risk.

Adoption of IFRS 9 'Financial instruments'

Please refer to Note 5 in the financial statements.

The key audit matter	How the matter was addressed in our audit
The use of financial instruments is a core business of the Company and financial assets make up a majority of Company's assets. On 1 January 2018 the Company adopted a new accounting standard for financial instruments, IFRS 9, which provides significant changes to classification and measurement of financial assets. Due to the adoption of new requirements, which provide significant changes to the accounting principles of financial instruments, and due to the significant impact of the new standard on the financial position and performance of the Company, this area is a key audit matter.	We analysed the definition of a business model for managing financial assets by making inquiries to responsible employees, reviewing the Company's internal documentation and analysing internal business processes on selected significant financial instruments portfolios. We checked that the Company has performed a proper assessment of whether contractual cash flows are solely payments of principal and interest by analysing underlying documents for a sample financial instruments. We also checked whether the Company has correctly identified and accounted for modifications of terms of loans to customers, by means of both general analysis of core procedures related to modification of loans' terms by the Company and analysis of underlying documents on a sample of loans to customers. We also assessed whether the financial statements provide an appropriate disclosure of key classification and measurement principles for financial instruments and effect of the Company's adopting IFRS 9.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the 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.

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

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

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company 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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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 auditors' report is:

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

KPMG Audit LLC

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

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

1 March 2019

	Note	2018 '000 KZT	2017 * '000 KZT
Interest income calculated using the effective interest method		8,781,322	9,546,509
Other interest income		8,415,454	6,449,233
Interest expense		(7,381,735)	(6,280,876)
Net interest income	6	**9,815,041**	**9,714,866**
Fee and commission income		3,857	2,549
Fee and commission expense		(201,252)	(219,095)
Net fee and commission expense		**(197,395)**	**(216,546)**
Net foreign exchange loss		(4,418)	(18,437)
Net realised gain on investment securities measured at fair value through profit or loss		142,692	-
Other operating income		396,503	686,679
Operating income		**10,152,423**	**10,166,562**
Impairment losses on debt financial instruments	7	(921,017)	(2,019,839)
Personnel expenses	8	(1,567,700)	(1,619,826)
General and administrative expenses	9	(1,421,566)	(1,615,460)
Net loss arising from derecognition of financial assets measured at amortised cost	25(c)	(427,226)	-
Profit before income tax		**5,814,914**	**4,911,437**
Income tax expense	10	(1,195,768)	(1,216,314)
Profit for the year		**4,619,146**	**3,695,123**
Other comprehensive income (loss), net of income tax			
Items that are or may be reclassified subsequently to profit or loss:			
Revaluation reserve for available-for-sale financial assets			
- Net change in fair value		-	(160,586)
Other comprehensive income (loss) for the year, net of income tax		**-**	**(160,586)**
Total comprehensive income for the year		**4,619,146**	**3,534,537**
Basic and diluted earnings per share (in KZT)	24(e)	760	621

* The Company has initially applied IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. As a result of adoption of IFRS 9 the Company changed presentation of certain captions, comparative information is re-presented accordingly (see Note 5).

The financial statements as set out on pages 8 to 87 were approved by management on 28 February 2019 and were signed on its behalf by:

«ҚАЗАҚСТАН ИПОТЕКАЛЫҚ КОМПАНИЯСЫ» ИПОТЕКАЛЫҚ ҰЙЫМЫ

A.B. Mukhamedzhanov	B.D. Sagimkulova	A.T. Toktarkozha
Chairman of the Management Board	*Managing Director*	*Chief Accountant*

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

	Note	2018 '000 KZT	2017* '000 KZT
ASSETS			
Cash and cash equivalents	11	45,903,390	21,800,196
Placements with banks and other financial institutions	12	2,402,821	6,109,035
Investment securities:			
- measured at fair value through profit or loss	13	4,764,226	-
- measured at amortised cost	13	12,119,171	-
Available-for-sale financial assets	13	-	9,234,246
Loans to customers	14	43,066,563	50,049,179
Finance lease receivables	15	141,153,096	117,838,422
Current tax asset		2,045,362	2,645,992
Advances paid for acquisition and construction of real estate	16	972,687	3,746,747
Assets to be transferred under finance lease agreements	17	5,180,554	7,652,924
Construction-in-progress	18	5,643,479	23,475,511
Property, plant and equipment		2,129,083	2,173,139
Investment property		647,704	917,489
Other assets	19	1,297,734	4,842,065
Total assets		**267,325,870**	**250,484,945**
LIABILITIES			
Debt securities issued	20	66,920,124	43,177,214
Other borrowed funds	21	31,320,645	29,832,799
Deferred income	22	102,126,287	106,893,420
Deferred tax liability	10	1,604,292	1,309,953
Other liabilities	23	3,467,988	10,462,066
Total liabilities		**205,439,336**	**191,675,452**
EQUITY	24		
Share capital		63,313,800	63,313,800
Share premium		12,661	12,661
Treasury shares		(2,597,522)	(2,597,522)
Additional paid-in capital		5,822,856	5,822,856
Reserve capital		2,734,447	2,734,447
Revaluation reserve for available-for-sale financial assets		-	(1,366,764)
Accumulated losses		(7,399,708)	(9,109,985)
Total equity		**61,886,534**	**58,809,493**
Total equity and liabilities		**267,325,870**	**250,484,945**

* The Company has initially applied IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. As a result of adoption of IFRS 9 the Company changed presentation of certain captions, comparative information is re-presented accordingly (see Note 5).

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

	2018 '000 KZT	2017* '000 KZT
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	13,054,649	12,692,986
Interest payments	(4,893,531)	(3,446,024)
Fee and commission receipts	3,874	2,345
Fee and commission payments	(115,565)	(122,467)
Other income receipts	291,068	955,228
Personnel expenses paid	(1,547,831)	(1,494,124)
General and administrative expenses payments	(1,265,085)	(1,566,594)
	5,527,579	**7,021,350**
(Increase)/decrease in operating assets		
Placements with banks and other financial institutions	3,654,403	(6,037,579)
Financial assets measured at fair value through profit or loss	1,846	-
Loans to customers	7,537,021	5,827,827
Advances paid for acquisition and construction of real estate	-	632,760
Assets to be transferred under finance lease agreements	(1,085,272)	(8,548,873)
Construction-in-progress	(6,430,219)	(12,274,013)
Finance lease receivables	5,378,036	3,716,008
Other assets	660,680	359,324
(Increase)/decrease in operating liabilities		
Subsidies	(84,025)	-
Other liabilities	(4,850,022)	963,776
Net cash from/(used in) operating activities before income tax paid	**10,310,027**	**(8,339,420)**
Income tax paid	(33,067)	(456,890)
Cash flows from/(used in) operating activities	**10,276,960**	**(8,796,310)**

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

	2018 '000 KZT	2017 * '000 KZT
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of investment securities measured at amortised cost	(10,157,463)	-
Repayment of investment securities measured at amortised cost	3,218,541	-
Acquisition of property, plant and equipment and intangible assets	(95,332)	(132,079)
Proceeds from sale of investment property	71,059	158,017
Cash flows (used in)/from investing activities	**(6,963,195)**	**25,938**
CASH FLOWS FROM FINANCING ACTIVITIES		
Repurchase/redemption of debt securities issued	(7,920,500)	(9,599,700)
Proceeds from issue of debt securities	31,356,189	14,374,280
Redemption of subordinated debt securities issued	-	(10,000,000)
Repayment of other borrowed funds	(1,621,372)	(7,150,000)
Dividends paid	(1,108,575)	(926,802)
Proceeds from issue of share capital	-	5,200,000
Cash flows from/(used in) financing activities	**20,705,742**	**(8,102,222)**
Net increase/(decrease) in cash and cash equivalents	**24,019,507**	**(16,872,594)**
Effect of movements in exchange rates on cash and cash equivalents	83,687	7,269
Cash and cash equivalents at the beginning of the year	21,800,196	38,665,521
Cash and cash equivalents as at the end of year (Note 11)	**45,903,390**	**21,800,196**

* The Company has initially applied IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. As a result of adoption of IFRS 9 the Company changed presentation of certain captions, comparative information is re-presented accordingly (see Note 5).

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

'000 KZT	Share capital	Share premium	Treasury shares	Additional paid-in capital	Reserve capital	Revaluation reserve for available-for-sale financial assets	Accumulated losses	Total
Balance as at 1 January 2017	**58,113,800**	**12,661**	**(2,597,522)**	**5,822,856**	**2,734,447**	**(1,206,178)**	**(11,878,306)**	**51,001,758**
Total comprehensive income								
Profit for the year	-	-	-	-	-	-	3,695,123	3,695,123
Other comprehensive income								
Items that are or may be reclassified subsequently to profit or loss:								
Net change in fair value of available-for-sale financial assets	-	-	-	-	-	(160,586)	-	(160,586)
Total other comprehensive income	-	-	-	-	-	(160,586)	-	(160,586)
Total comprehensive income for the year	-	-	-	-	-	**(160,586)**	**3,695,123**	**3,534,537**
Transactions with owners, recorded directly in equity								
Shares issued (Note 24 (a))	5,200,000	-	-	-	-	-	-	5,200,000
Dividends declared (Note 24(b))	-	-	-	-	-	-	(926,802)	(926,802)
Balance as at 31 December 2017	**63,313,800**	**12,661**	**(2,597,522)**	**5,822,856**	**2,734,447**	**(1,366,764)**	**(9,109,985)**	**58,809,493**

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

'000 KZT	Share capital	Share premium	Treasury shares	Additional paid-in capital	Reserve capital	Revaluation reserve for available-for-sale financial assets	Accumulated losses	Total
Balance as at 1 January 2018*	**63,313,800**	**12,661**	**(2,597,522)**	**5,822,856**	**2,734,447**	**(1,366,764)**	**(9,109,985)**	**58,809,493**
Impact of adopting IFRS 9 as at 1 January 2018 (see Note 5)	-	-	-	-	-	1,366,764	(1,800,294)	(433,530)
Restated balance as at 1 January 2018*	**63,313,800**	**12,661**	**(2,597,522)**	**5,822,856**	**2,734,447**	-	**(10,910,279)**	**58,375,963**
Total comprehensive income								
Profit for the year	-	-	-	-	-	-	4,619,146	4,619,146
Total comprehensive income for the year	-	-	-	-	-	-	**4,619,146**	**4,619,146**
Transactions with owners, recorded directly in equity								
Dividends declared (Note 24 (b))	-	-	-	-	-	-	(1,108,575)	(1,108,575)
Balance as at 31 December 2018	**63,313,800**	**12,661**	**(2,597,522)**	**5,822,856**	**2,734,447**	-	**(7,399,708)**	**61,886,534**

* The Company has initially applied IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. As a result of adoption of IFRS 9 the Company changed presentation of certain captions, comparative information is re-presented accordingly (see Note 5).

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

1 Reporting entity

(a) Organisation and operations

Mortgage Organisation Kazakhstan Mortgage Company JSC (the "Company") was established on 29 December 2000 in accordance with the Decree No.469 of the National Bank of the Republic of Kazakhstan (the "NBRK") dated 20 December 2000. The principal activity of the Company is acquisition of rights on mortgage loans, finance leasing and issuance of mortgage loans in accordance with the license of regulatory authorities. The Company may additionally perform trust, factoring, forfeiting and leasing operations.

On 12 April 2010 the Company obtained a banking license No.5.1.69 to carry out banking lending transactions.

The activities of the Company are regulated by the National Bank of the Republic of Kazakhstan.

The Company's registered office is: 98, Karasay Batyr Street, Almaty, Republic of Kazakhstan, A05E3B4. On 26 October 2018 the Company's Board of Directors made decision to close the Company representative office in the city of Astana beginning from 1 January 2019; also according to the Order No.0008 dated 3 January 2019, the Department of Justice of Yessil District of the city of Astana, the Company's representative office in the city of Astana was deregistered.

(b) Shareholders

As at 31 December 2018 and 31 December 2017 the Company is wholly-owned by the National Management Holding Baiterek JSC (hereinafter the "Parent Company"). The party with ultimate control over the Company is the Government of the Republic of Kazakhstan.

(c) Kazakhstan business environment

The Company's operations are primarily located in Kazakhstan. Consequently, the Company is exposed to the economic and financial markets of the Republic of Kazakhstan which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Kazakhstan. In addition, the depreciation of the Kazakhstan tenge which took place during 2015, and a reduction in the global price of oil, have increased the level of uncertainty in the business environment.

The financial statements reflect management's assessment of the impact of the Kazakhstan business environment on the operations and the financial position of the Company. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

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

This is the first set of the Company's financial statements where IFRS 9 *Financial Instruments* has been applied. Changes to significant accounting policies are described in Note 3.

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and available-for-sale financial assets are stated at fair value.

2 Basis of preparation, continued

(c) Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

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

Judgments

Information about critical judgments in applying accounting policies, that significantly affected the amounts reported in the financial statements, is described in the following notes:

- Applicable to 2018 only:
  - classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding – Note 3(e)(i).
  - establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL – Note 4.

Assumptions and estimations uncertainty

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

- Applicable to 2018 only:
  - impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information – Note 4.
- Applicable to 2018 and 2017:
  - impairment of loans to customers and finance lease receivables – Note 7;
  - estimates of fair values of financial assets and liabilities – Note 29.

(d) Functional and presentation currency

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

KZT is also the presentation currency for the purposes of these financial statements.

All financial information presented in KZT has been rounded to the nearest thousand, except when otherwise indicated.

(e) Changes in accounting policies and presentation

The Company has adopted IFRS 9 from 1 January 2018.

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

2 Basis of preparation, continued

(e) Changes in accounting policies and presentation, continued

A. IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

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

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

The key changes to the Company's accounting policies resulting from its adoption of IFRS 9 are summarised below.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. For an explanation of how the Company classifies financial assets under IFRS 9, see Note 3(e)(i).

Classification of financial assets and financial liabilities, continued

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in other comprehensive income; and
- the remaining amount of change in the fair value is presented in profit or loss.

For an explanation of how the Company classifies financial liabilities under IFRS 9, see Note 3(e)(i).

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Company applies the impairment requirements of IFRS 9, see Note 3(e)(iv).

2 Basis of preparation, continued

(e) Changes in accounting policies and presentation, continued

A. IFRS 9 Financial Instruments, continued

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented as at and for the year ended 31 December 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented as at and for the year ended 31 December 2018 under IFRS 9.

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

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:
  - The determination of the business model within which a financial asset is held.
  - The designation of certain investments in equity instruments not held for trading as at FVOCI.
- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Company has assumed that credit risk on the asset had not increased significantly since its initial recognition.

For more information and details on the changes and implications resulting from the adoption of IFRS 9, see Note 5.

B. IFRS 15 Revenue from Contracts with Customers

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

The Company initially applied IFRS 15 on 1 January 2018 retrospectively in accordance with IAS 8. The timing or amount of the Company's fee and commission income from contracts with customers was not impacted by the adoption of IFRS 15.

3 Significant accounting policies

Except for the changes disclosed in Note 2(e) the Company has consistently applied the following accounting policies to all periods presented in these financial statements.

(a) Foreign currency

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions.

3 Significant accounting policies, continued

(a) Foreign currency, continued

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated to the functional currency using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in profit or loss.

(b) Cash and cash equivalents

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

(c) Interest income and expense

Policy applicable from 1 January 2018

Effective interest rate

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

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

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

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

Amortised cost and gross carrying amount

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

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

3 Significant accounting policies, continued

(c) Interest income and expenses, continued

Policy applicable from 1 January 2018, continued

Calculation of interest income and expense

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

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

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

For information on when financial assets are credit-impaired, see Note (e)(iv).

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

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

Interest expense presented in the statement of profit or loss and other comprehensive includes interest expense on financial liabilities.

Policy applicable before 1 January 2018

Effective interest rate

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

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

Presentation

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

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

Interest expense presented in the statement of profit or loss and other comprehensive includes interest expense on financial liabilities measured at amortised cost.

3 Significant accounting policies, continued

(d) Fees and commissions

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

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

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

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

(e) Financial assets and financial liabilities

i. Classification

Financial assets – Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt financial assets measured at FVOCI, gains and losses are recognised in other comprehensive income, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest revenue using the effective interest method;
- expected credit losses and reversals; and
- foreign exchange gains and losses.

When a debt financial asset measured at fair value through other comprehensive income is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment-by-investment basis.

3 Significant accounting policies, continued

(e) Financial assets and financial liabilities, continued

i. Classification, continued

Financial assets – Policy applicable from 1 January 2018, continued

Gains or losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss (see Note 3 (e)(ii)) unless they clearly represent a recovery of part of the cost of investment, in which case they are recognised in other comprehensive income. Cumulative gains and losses recognised in other comprehensive income are transferred to retained earnings on disposal of an investment.

All other financial assets are classified as measured at fair value through profit or loss.

In addition, on initial recognition the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at fair value through other comprehensive income as at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Company makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realised.
- Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

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

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

3 Significant accounting policies, continued

(e) Financial assets and financial liabilities, continued

i. Classification, continued

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

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Company considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets.

Policy applicable before 1 January 2018

The Company classified its financial assets into one of the following categories:

- loans and receivables;
- available-for-sale financial assets.

See Note 3(f),(g).

Financial liabilities

The Company classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL.

Reclassification

Financial liabilities are not reclassified subsequent to their initial recognition.

ii. Derecognition

Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

3 Significant accounting policies, continued

(e) Financial assets and financial liabilities, continued

ii. Derecognition, continued

Financial assets, continued

From 1 January 2018 any cumulative gain/loss recognised in other comprehensive income in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities, as explained in Note 3(e)(i). Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognised as a separate asset or liability.

The Company enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

In transactions in which the Company neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Company continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Policy applicable from 1 January 2018

Financial assets

If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as 'substantial modification'), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

Changes in cash flows on existing financial assets or financial liabilities are not considered as modification, if they result from existing contractual terms, e.g. changes in interest rates initiated by the Company due to changes in the NBRK key rate, if the loan agreement entitles the Company to do so.

The Company performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Company assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset deemed to have expired. In making this evaluation the Company analogises to the guidance on the derecognition of financial liabilities.

3 Significant accounting policies, continued

(e) Financial assets and financial liabilities, continued

iii. Modification of financial assets and financial liabilities, continued

Policy applicable from 1 January 2018, continued

Financial assets, continued

The Company concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial asset;
- change in collateral or other credit enhancement.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Company plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases. The Company further performs qualitative evaluation of whether the modification is substantial.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Company first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower (see Note 3(e)(iv)), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest method (see Note 3(c)).

For fixed-rate loans, where the borrower has an option to prepay the loan at par without significant penalty, the Company treats the modification of an interest rate to a current market rate using the guidance on floating-rate financial instruments. This means that the effective interest rate is adjusted prospectively.

Financial liabilities

The Company derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

The Company assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. The Company concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial liability;
- change in collateral or other credit enhancement;
- inclusion of conversion option;
- change in the subordination of the financial liability.

3 Significant accounting policies, continued

(e) Financial assets and financial liabilities, continued

iii. Modification of financial assets and financial liabilities, continued

Financial liabilities, continued

For the quantitative assessment 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 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

Policy applicable before 1 January 2018

Financial assets

If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset deemed to have expired. In this case, the original financial asset is derecognised (see Note 3(e)(ii)), and a new financial asset is recognised at fair value.

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognised, then impairment of the asset was measured using the pre-modification interest rate (see Note 3(e)(iv)).

Financial liabilities

The Company derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability was not accounted for as derecognition, then any costs and fees incurred were recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

iv. Impairment

See also Note 4.

Policy applicable from 1 January 2018

The Company recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- finance lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

3 Significant accounting policies, continued

(e) Financial assets and financial liabilities, continued

iv. Impairment, continued

Policy applicable from 1 January 2018, continued

The Company measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date;
- other financial instruments on which credit risk has not increased significantly since their initial recognition (see Note 4).

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1' financial instruments.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised are referred to as 'Stage 2' financial instruments.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- *financial assets that are not credit-impaired at the reporting date*: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive);
- *financial assets that are credit-impaired at the reporting date*: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- *undrawn loan commitments*: as the present value of the difference between the contractual cash flows that are due to the Company if the commitment is drawn down and the cash flows that the Company expects to receive; and
- *financial guarantee contracts*: the present value of expected payments to reimburse the holder less any amounts that the Company expects to recover.

See also Note 4.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised (see Note 3(e)(iii)) and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset (see Note 4).
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

3 Significant accounting policies, continued

(e) Financial assets and financial liabilities, continued

iv. Impairment, continued

Policy applicable from 1 January 2018, continued

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI, and net investments in finance leases are credit-impaired (are referred to as 'Stage 2' financial assets). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, the retail loans that are overdue for 90 days or more are considered credit-impaired.

Presentation of allowance for ECL in the statement of financial position

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

- *financial assets measured at amortised cost*: as a deduction from the gross carrying amount of the assets;
- *loan commitments and financial guarantee contracts*: generally, as a provision;
- *where a financial instrument includes both a drawn and an undrawn component, and the Company cannot identify the ECL on the loan commitment component separately from those on the drawn component*: the Company presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component (loan issued). Any excess of the loss allowance over the gross amount of the drawn component (loan issued) is presented as a provision; and
- *debt instruments measured at FVOCI*: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-offs

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and other comprehensive income.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

3 Significant accounting policies, continued

(e) Financial assets and financial liabilities, continued

iv. Impairment, continued

Policy applicable from 1 January 2018, continued

Objective evidence of impairment

At each reporting date, the Company assessed whether there was objective evidence that financial assets not carried at FVTPL were impaired. A financial asset or a group of financial assets was 'impaired' when objective evidence demonstrated that a loss event had occurred after the initial recognition of the asset(s) and that the loss event had an impact on the future cash flows of the asset(s) that could be estimated reliably.

Objective evidence that financial assets were impaired included:

- significant financial difficulty of the borrower or issuer;
- default or delinquency by a borrower;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- indications that a borrower or issuer would enter bankruptcy;
- the disappearance of an active market for a security; or
- observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlated with defaults in the group.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

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

The Company considered evidence of impairment for loans and receivables and held-to-maturity investment securities at both a specific asset and a collective level. All individually significant loans and receivables and held-to-maturity investment securities were assessed for specific impairment. Those found not to be specifically impaired were then collectively assessed for any impairment that had been incurred but not yet identified (IBNR). Loans and receivables and held-to-maturity investment securities that were not individually significant were collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar credit risk characteristics.

Individual or collective assessment

An individual measurement of impairment was based on management's best estimate of the present value of the cash flows that were expected to be received. In estimating these cash flows, management made judgements about a debtor's financial position and the net realisable value of any underlying collateral. Each impaired asset was assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable.

The collective allowance for groups of homogeneous loans was established using statistical methods such as roll rate methodology or, for small portfolios with insufficient information, a formula approach based on historical loss rate experience. The roll rate methodology used statistical analysis of historical data on delinquency to estimate the amount of loss. Management applied judgement to ensure that the estimate of loss arrived at on the basis of historical information was appropriately adjusted to reflect the economic conditions and product mix at the reporting date. Roll rates and loss rates were regularly benchmarked against actual loss experience.

3 Significant accounting policies, continued

(e) Financial assets and financial liabilities, continued

iv. Impairment, continued

Policy applicable from 1 January 2018, continued

Individual or collective assessment, continued

The IBNR allowance covered credit losses inherent in portfolios of loans and receivables, and held-to-maturity investment securities with similar credit risk characteristics when there was objective evidence to suggest that they contained impaired items but the individual impaired items could not yet be identified.

In assessing the need for collective loss allowance, management considered factors such as credit quality, portfolio size, concentrations and economic factors. To estimate the required allowance, assumptions were made to define how inherent losses were modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowance depended on the model assumptions and parameters used in determining the collective allowance.

Loans that were subject to a collective IBNR provision were not considered impaired.

Measurement of impairment

Impairment losses on assets measured at amortised cost were calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses on available-for-sale assets were calculated as the difference between the carrying amount and the fair value.

Reversal of impairment

- *For assets measured at amortised cost*: if an event occurring after the impairment was recognised caused the amount of impairment loss to decrease, then the decrease in impairment loss was reversed through profit or loss.
- *For available-for-sale debt security:* if, in a subsequent period, the fair value of an impaired debt security increased and the increase could be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss was reversed through profit or loss; otherwise, any increase in fair value was recognised through other comprehensive income.

Any subsequent recovery in the fair value of an impaired available-for-sale equity security was always recognised in other comprehensive income.

Presentation

Impairment losses were recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired assets continued to be recognised through the unwinding of the discount.

Impairment losses on available-for-sale investment securities were recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss.

Write-off

The Company wrote off a loan or an investment debt security, either partially or in full, and any related allowance for impairment losses, when the Company determined that there was no realistic prospect of recovery.

3 Significant accounting policies, continued

(f) Loans to customers

Policy applicable from 1 January 2018

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

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

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

Loans to customers included: those classified as loans and receivables.

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

(g) Investment securities

Policy applicable from 1 January 2018

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

- debt investment securities measured at amortised cost (see Note 3(e)(i)); these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt and equity investment securities mandatorily measured at FVTPL or designated as at FVTPL (see Note 3(e)(i) and (d)(v)); these are measured at fair value with changes recognised immediately in profit or loss;

Policy applicable before 1 January 2018

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

Held-to-maturity investments were non-derivative assets with fixed or determinable payments and fixed maturity that the Company had the positive intent and ability to hold to maturity, and which were not designated as at FVTPL or as available-for-sale.

Held-to-maturity investment securities

Held-to-maturity investments were carried at amortised cost using the effective interest method, less any impairment losses (see Note 3(e)(iv)). A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Company from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that were so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after the Company had collected substantially all of the asset's original principal; and
- sales or reclassifications that were attributable to non-recurring isolated events beyond the Company's control that could not have been reasonably anticipated.

(h) Deposits, debt securities issued and subordinated liabilities

Deposits, debt securities issued and subordinated liabilities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

3 Significant accounting policies, continued

(i) Comparative information

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

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

- The presentation of interest income was amended to present interest on finance lease receivables separately under 'other interest income' line item;

The effect of the changes above on the statement of profit or loss and other comprehensive income is summarised in the table below:

'000 KZT	As previously reported	Effect of reclassifications	As reclassified
Interest income on finance lease receivables	6,449,233	(6,449,233)	-
Other interest income	-	6,449,233	6,449,233

(j) Repurchase and reverse repurchase agreements

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

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

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

(k) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously. The Company currently has a legally enforceable right to set off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the Company and all counterparties.

(l) Leases

Leases which assume transfer of substantially all the risks and rewards of ownership are classified as finance leases. Leases which do not assume transfer of substantially all the risks and rewards of ownership are classified as operating leases.

The Company classifies the property leasing under the hire purchase contracts as finance lease as at the date of beginning of the lease relationship in accordance with IAS 17 *Leases*.

Finance leases are leases which assume transfer of substantially all the risks and rewards incident to ownership of an asset. Title may or may not eventually be transferred. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. The indicators for finance lease classification are:

- The lease transfers ownership of the asset to the lessee by the end of the lease term;

3 Significant accounting policies, continued

(l) Leases, continued

- The lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised;
- The lease term is for the major part of the economic life of the asset even if title is not transferred;
- At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; or
- The leased assets are of a specialised nature such that only the lessee can use them without major modifications being made.

The Company as a lessor initially measures finance leases at an amount equal to the net investment in the lease. Subsequently the recognition of finance income is based on a pattern reflecting a constant periodic rate of return on the Company's net investment in the finance lease.

(m) Foreclosed assets

Foreclosed assets are measured at the lower of cost and net realisable value. The cost of foreclosed assets is based on the specific identification principle, and recorded at net book value of underlying lease at foreclosure date.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(n) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

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

(ii) Depreciation

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

The estimated useful lives are as follows:

- Buildings	8-100 years;
- Computer equipment	2 - 10 years;
- Vehicles	5-7 years;
- Other assets	3-20 years.

(o) Intangible assets

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

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

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 1 year for programme software to 20 years for licenses.

3 Significant accounting policies, continued

(p) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment property is stated at cost less accumulated depreciation and impairment losses.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

(q) Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Company's accounting policies Thereafter generally, the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell.

(r) Inventory

Inventories include assets to be transferred under finance lease agreements and other inventory. Assets to be transferred under finance lease are real estate objects acquired by the Company and transferred to the lessees once the title of ownership on objects is obtained. Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost method, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and construction in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(s) Impairment of non-financial assets

Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non-financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(t) Government grants

Government grants are assistance by the Government, Government agencies and state-owned entities in the form of transfers of resources to the Company in return for past or future compliance with certain conditions relating to the operating activities of the Company. Government grants are not recognised until there is reasonable assurance that the Company will comply with the conditions attached to them and the grants will be received. Provided that there are terms that may require repayment.

3 Significant accounting policies, continued

(t) Government grants, continued

The benefit of a government loan at a below-market rate of interest is treated as a government grant. The benefit of the below-market rate of interest is measured as the difference between the initial carrying value of the loan determined as described in Note 3(e) (iii) and the proceeds received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Company recognises as expenses the related costs which the grants are intended to compensate for.

(u) Share capital

(i) Ordinary shares

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

(ii) Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a decrease in equity.

(iii) Dividends

The ability of the Company to declare and pay dividends is subject to the rules and regulations of Kazakh legislation.

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

(v) Taxation

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

(i) Current tax

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

(ii) Deferred tax

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

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits are considered. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

3 Significant accounting policies, continued

(v) Taxation, continued

(iii) Deferred tax, continued

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

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

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current Taxes and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In determining the amount of current and deferred tax the Company takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Company believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

(w) Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses related to transactions with other components of the same Company); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

(x) New standards and interpretations not yet adopted

The following new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2018, and have not been applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the Company's financial position and its operations. The Company plans to adopt these pronouncements when they become effective. The Company has not yet analysed the likely impact of the new standards on its financial position and performance.

IFRS 16 ***Leases***

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

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial application of IFRS 16.

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

3 Significant accounting policies, continued

(x) New standards and interpretations not yet adopted, continued

IFRS 16 *Leases*, continued

The Company has completed an initial assessment of the potential impact on its financial statements but has not yet completed its detailed assessment. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, including the Company's borrowing rate at 1 January 2019, the composition of the Company's lease portfolio at that date, the Group's latest assessment of whether it will exercise any lease renewal options and the extent to which the Company chooses to use practical expedients and recognition exemptions.

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

Other standards

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

- IFRIC 23 *Uncertainty over Income Tax Treatments;*
- *Long-term Interests in Associates and Joint Ventures* (Amendments to IAS 28);
- *Plan Amendment, Curtailment or Settlement (*Amendments to IAS 19);
- *Annual Improvements to IFRSs 2015-2017 Cycle–various standards;*
- *Amendments to References to Conceptual Framework in IFRS Standards;*
- IFRS 17 *Insurance Contracts.*

4 Financial risk review

This note presents information about the Company's exposure to financial risks. For information on the Company's financial risk management framework, see Note 25.

Credit risk - Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 3(e)(iv)).

Significant increase in credit risk

When determining whether the credit risk of a financial instrument has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

Credit risk grades

The Company allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

4 Financial risk review, continued

Credit risk - Amounts arising from ECL, continued

Inputs, assumptions and techniques used for estimating impairment, continued

Significant increase in credit risk, continued *Credit risk grades, continued*

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data.

Corporate exposure	All exposures (corporate and retail exposures)
• Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections.	• Payment record – this includes overdue status;
• Data from credit reference agencies, press articles, changes in external credit ratings;	• Requests for and granting of forbearance;
• Quoted bond and credit default swap (CDS) prices for the issuer where available;	• Existing and forecast changes in business, financial and economic conditions;
• Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities.	

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Company collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading.

The Company employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For majority of exposures the key driver would be GDP forecast growth.

The Company uses expert judgment in assessment of forward-looking information. This assessment is based also on external information (see discussion below on incorporation of forward-looking information). The Company then uses these forecasts to adjust its estimates of PDs.

Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include both quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

In certain instances, using its expert credit judgment and, where possible, relevant historical experience, the Company may determine that an exposure has undergone a significant increase in credit risk if particular qualitative factors indicate so and those indicators may not be fully captured by its quantitative analysis on a timely basis.

4 Financial risk review, continued

Credit risk - Amounts arising from ECL, continued

Inputs, assumptions and techniques used for estimating impairment, continued

Determining whether credit risk has increased significantly, continued

As a backstop, the Company considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

Definition of default

The Company considers a financial asset to be in default when:

- there is a delay in payments of 90 (ninety) days and more as at the reporting date;
- there is a delay in payments of 7 (seven) days and more on interbank claims and securities as at the reporting date;
- the financial instrument has been restructured due to the borrower's financial difficulties, which resulted in decrease in the net present value of the operating cash flows by 10% and more;
- according to information from the publicly available information sources the counterparty is in the state of bankruptcy;
- the external credit rating of the financial instrument/counterparty is CC- (hereinafter according to the rating scales of Standard&Poor's, Moody's, etc.);
- at the current reporting date the Company has defaulted on another financial instrument of the counterparty;
- other indicators which evidence the counterparty's impaired ability to fulfil its financial liabilities to the Company and deterioration of the state of financial asset/increased probability of fulfilment by the Company of the contingent liabilities.

In assessing whether a borrower is in default, the Company considers indicators that are:

- qualitative– e.g. breaches of covenant;
- Quantitative – e.g. overdue status and non-payment of another obligation of the same issuer to the Company; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Incorporation of forward-looking information

The Company incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL. The Company uses expert judgment in assessment of forward-looking information. This assessment is based also on external information. External information may include economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Company operates, such as the NBRK, and selected private sector and academic forecasters.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the borrower. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 3(c)(iii).

4 Financial risk review, continued

Credit risk - Amounts arising from ECL, continued

Inputs, assumptions and techniques used for estimating impairment, continued

Modified financial assets, continued

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Company renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Company's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy.

For financial assets modified as part of the Company's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Company's ability to collect interest and principal and the Company's previous experience of similar forbearance action. As part of this process, the Company evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired (see Note 3(c)(iv)) in default. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

The methodology of estimating PDs is discussed above under the heading "Generating the term structure of PD".

The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD.

4 Financial risk analysis, continued

Credit risk - Amounts arising from ECL, continued

Inputs, assumptions and techniques used for estimating impairment, continued

Measurement of ECLs, continued

Exposure at default represents the expected exposure in the event of a default. The Company will derive the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation. The EAD of a financial asset is the gross carrying amount. For lending commitments and financial guarantees, the EAD considers the amount claimed, as well as potential future amounts that may be claimed under the contract, which is estimated based on historical observations and forward-looking forecasts.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased as from the time of initial recognition, the Company will measure ECLs considering the risk of default over the maximum contractual period (including any extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Company considers a longer period. The maximum contractual period extends to the date at which the Company has the right to require repayment of a loan or terminate a loan commitment or guarantee.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- instrument type;
- credit risk gradings;
- collateral type;
- date of initial recognition;
- remaining term to maturity;
- financing program

The groupings must be subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

For portfolios in respect of which the Company has limited historical data, external benchmark information will be used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECLs are as follows.

		External benchmarks used	
'000 KZT	Exposure	PD	LGD
Cash and cash equivalents	45,903,390	Moody's default study Probability of default model	For local credit exposures LGD statistics is based on recovery after defaults of banks and financial institutions in Kazakhstan
Placements with banks and other financial institutions	2,402,821		
Investment securities measured at amortised cost	12,119,171		
Other financial assets	484,713		

Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost, debt instruments measured at amortised cost as at 31 December 2018. Unless specially indicated, for financial assets, the amounts in the table represent gross carrying amounts.

Explanation of the terms: Stage 1, Stage 2, Stage 3, and POCI are included in Note 3(e)(iv).

4 Financial risk analysis, continued

Credit quality analysis, continued

'000 KZT	31 December 2018 12-month expected credit losses	Life-time expected credit losses for not credit-impaired assets	Life-time expected credit losses for credit impaired assets	Total
Cash and cash equivalents				
National Bank of the Republic of Kazakhstan	179,831	-	-	179,831
Rated BBB-	11,937,932	-	-	11,937,932
Rated BB+	479	-	-	479
rated BB	4,428,405	-	-	4,428,405
rated BB-	7,534,735	-	-	7,534,735
rated B+	-	-	-	-
rated B	195,575	-	-	195,575
rated B-	221	-	-	221
Not rated	-	-	2,139,533	2,139,533
	24,277,178	**-**	**2,139,533**	**26,416,711**
Loss allowance	**(101,368)**	**-**	**(2,110,916)**	**(2,212,284)**
Reverse repurchase agreements				
Rated from BBB- to BBB+	21,698,963	-	-	21,698,963
Carrying amount	**45,874,773**	**-**	**28,617**	**45,903,390**
Placements with banks and other financial institutions				
Rated BB-	48,221	-	-	48,221
Rated B+	2,426,499	-	-	2,426,499
	2,474,720	**-**	**-**	**2,474,720**
Loss allowance	**(71,899)**	**-**	**-**	**(71,899)**
Carrying amount	**2,402,821**	**-**	**-**	**2,402,821**
Investment securities measured at amortised cost				
Treasury bills of Ministry of Finance of the Republic of Kazakhstan	1,501,776	-	-	1,501,776
Rated from B+ to B-	10,620,244	-	-	10,620,244
Not rated	-	-	2,102,726	2,102,726
	12,122,020	**-**	**2,102,726**	**14,224,746**
Loss allowance	**(2,849)**	**-**	**(2,102,726)**	**(2,105,575)**
Carrying amount	**12,119,171**	**-**	**-**	**12,119,171**

4 Financial risk analysis, continued

Credit quality analysis, continued

	31 December 2018			
'000 KZT	**12-month expected credit losses**	**Life-time expected credit losses for not credit-impaired assets**	**Life-time expected credit losses for credit impaired assets**	**Total**
Loans to customers				
not overdue	38,669,319	-	1,785,681	40,455,000
overdue less than 30 days	1,552,562	-	166,962	1,719,524
overdue 30-59 days	-	389,249	92,660	481,909
overdue 60-89 days	-	183,483	436,549	620,032
overdue more than 90 days	-	-	4,476,809	4,476,809
	40,221,881	**572,732**	**6,958,661**	**47,753,274**
Loss allowance	**(651,134)**	**(59,750)**	**(3,975,827)**	**(4,686,711)**
Carrying amount	**39,570,747**	**512,982**	**2,982,834**	**43,066,563**
Finance lease receivables				
not overdue	128,113,629	188,517	17,027	128,319,173
overdue less than 30 days	8,447,682	-	7,916	8,455,598
overdue 30-59 days	-	2,808,270	-	2,808,270
overdue 60-89 days	-	1,142,243	-	1,142,243
overdue more than 90 days	-	29,971	1,123,078	1,153,049
	136,561,311	**4,169,001**	**1,148,021**	**141,878,333**
Loss allowance	**(226,125)**	**(393,335)**	**(105,777)**	**(725,237)**
Carrying amount	**136,335,186**	**3,775,666**	**1,042,244**	**141,153,096**
Other financial assets				
overdue less than 30 days	387,947	-	-	387,947
overdue 30-89 days	-	112,754	-	112,754
overdue more than 90 days	-	-	665,082	665,082
	387,947	**112,754**	665,082	**1,165,783**
Loss allowance	**(11,860)**	**(4,128)**	**(665,082)**	**(681,070)**
Carrying amount	**376,087**	**108,626**	-	**484,713**

5 Transition to IFRS 9

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

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Company's financial assets and financial liabilities as at 1 January 2018.

'000 KZT	Note	Initial classification under IAS 39	New classification under IFRS 9	Initial carrying amount under IAS 39	Reclassification	Change in estimate base	New carrying amount under IFRS 9
Financial assets							
Cash and cash equivalents	11	Loans and receivables	Amortised cost	21,800,196	-	(140,770)	21,659,426
Placements with banks and other financial institutions	12	Loans and receivables	Amortised cost	6,109,035	-	(42,129)	6,066,906
Investment securities	13	Available-for-sale	FVOCI	9,234,246	(9,234,246)	-	-
Investment securities - debt [b]	13	Available-for-sale	Amortised cost	-	4,511,985	(96,207)	4,415,778
Investment securities - debt [a]	13	Available-for-sale	FVPL (mandatory)	-	4,722,261	-	4,722,261
Loans to customers	14	Loans and receivables	Amortised cost	50,049,179	-	(581,685)	49,467,494
Finance lease receivables	15	N/a	N/a	117,838,422	-	(77,552)	117,760,870
Other financial assets		Loans and receivables	Amortised cost	4,119,868	-	8,330	4,128,198
Total financial assets				**209,150,946**	**-**	**(930,013)**	**208,220,933**
Financial liabilities							
Debt securities issued	20	Amortised cost	Amortised cost	43,177,214	-	-	43,177,214
Other borrowed funds	21	Amortised cost	Amortised cost	29,832,799	-	-	29,832,799
Other financial liabilities	23	Amortised cost	Amortised cost	8,953,388	-	-	8,953,388
Total financial liabilities				**81,963,401**	**-**	**-**	**81,963,401**

5 Transition to IFRS 9, continued

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9, continued

The Group's accounting policies on the classification of financial instruments under IFRS 9 are set out in Note 3(e)(i). The application of these policies resulted in the reclassifications set out in the table above and explained below.

a. Certain investments securities held by the Company are classified under IFRS 9 as mandatorily measured at FVTPL due to non-compliance with the SPPI criterion.

b. Certain debt securities are held by the Company in a separate portfolio for long-term yield. These securities may be sold, but such sales are not expected to be more than infrequent. The Company considers that these securities are held within a business model whose objective is to hold assets to collect the contractual cash flows. These assets are classified as measured at amortised cost under IFRS 9.

The following table summarises the impact, net of tax, of transition to IFRS 9 on equity reserves and retained earnings. It effects the fair value reserves and retained earnings. There is no impact on other components of equity.

'000 KZT	Effect from transition to IFRS 9 as at 1 January 2018
Revaluation reserves for available-for-sale financial assets	
Closing balance under IAS 39 (31 December 2017)	(1,366,764)
Reclassification of debt investment securities from available-for-sale to amortised cost	380,146
Reclassification of debt investment securities from available-for-sale to FVTPL	986,618
Opening balance under IFRS 9 (1 January 2018)	-
Accumulated loss	
Closing balance under IAS 39 (31 December 2017)	(9,109,985)
Reclassification under IFRS 9	(986,618)
Recognition of expected credit losses under IFRS 9 (including expected credit losses on financial lease receivables, loans to customers)	(930,013)
Tax	116,337
Opening balance under IFRS 9 (1 January 2018)	**(10,910,279)**

5 Transition to IFRS 9, continued

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9, continued

The following table reconciles:

- the closing impairment allowance for financial assets in accordance with IAS 39 as at 31 December 2017; to
- the opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018.

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

	Impairment allowance and provisions			
'000 KZT	**31 December 2017 (IAS 39/IAS 37)**	**Reclassification**	**Change in estimate base**	**1 January 2018 (IFRS 9)**
Loans and receivables under IAS 39/financial assets at amortised cost under IFRS 9 (includes cash and cash equivalents, placements with banks, loans to customers, lease receivables and other financial assets)	6,606,378	-	833,806	7,440,184
Available-for-sale debt investment securities under IAS 39 reclassified to amortised cost under IFRS 9	2,592,245	-	96,207	2,688,452
Total measured at amortised cost	**9,198,623**	**-**	**930,013**	**10,128,636**
Available-for-sale debt investment securities under IAS 39 reclassified to FVPL under IFRS 9	437,743	(437,743)	-	-
Total measured at FVPL	**437,743**	**(437,743)**	**-**	**-**

6 Net interest income

	2018 '000 KZT	2017 '000 KZT
Interest income calculated using the effective interest method		
Financial assets at amortised cost		
Loans to customers	5,154,079	5,531,587
Cash and cash equivalents	869,257	2,656,740
Investment securities measured at amortised cost/available-for-sale financial assets	1,404,823	1,044,447
Placements with banks and other financial institutions	362,110	141,073
Reverse repurchase agreements	914,757	37,761
Other assets	76,296	134,901
	8,781,322	**9,546,509**
Other interest income		
Finance lease receivables	8,017,419	6,449,233
Investment securities measured at FVTPL	398,035	-
	8,415,454	**6,449,233**
Interest expense		
Debt securities issued	(5,039,926)	(3,465,068)
Other borrowed funds	(2,310,921)	(2,472,220)
Subordinated debt securities issued	-	(247,758)
Recognition of discount on long-term receivable	(30,888)	(95,830)
	(7,381,735)	**(6,280,876)**
Net interest income	**9,815,041**	**9,714,866**

Included within various line items under interest income for the year ended 31 December 2018 is a total of KZT 402,815 thousand (2017: interest income accrued on impaired financial assets: KZT 224,334 thousand), accrued on assets in Stage 3 in 2018.

Interest income on finance lease receivables for the period ended 31 December 2018 includes amortisation of deferred income of KZT 3,758,780 thousand (2017: KZT 3,071,347 thousand) (Note 22).

7 Losses on impairment of debt financial instruments

	2018 '000 KZT	2017 '000 KZT
Finance lease receivables (Note 15)	(354,201)	174,186
Cash and cash equivalents (Note 11)	71,805	(93,360)
Loans to customers (Note 14)	(218,974)	(448,718)
Placements with banks and other financial institutions (Note 12)	(29,770)	-
Investment securities measured at amortised cost (Note 13)	88,477	(1,474,449)
Other assets (Note 19)	(478,354)	(177,498)
	(921,017)	**(2,019,839)**

8 Personnel costs

	2018 '000 KZT	2017 '000 KZT
Employee compensation	1,437,104	1,467,161
Salary related taxes	130,596	152,665
	1,567,700	**1,619,826**

9 General and administrative expenses

	2018 '000 KZT	2017 '000 KZT
Taxes other than on income	276,622	261,532
Professional services	108,553	255,568
Land use planning expenses	30,532	188,362
Advertising and marketing	141,292	149,958
Depreciation and amortisation	144,860	123,354
Utilities	160,364	95,714
Outsourcing	97,570	65,645
Insurance of pledged property	57,918	62,538
Technical services for software	66,835	50,953
Security	70,097	45,856
Business travel	72,630	41,264
Repair and maintenance	25,424	27,018
Occupancy	25,548	23,269
Communications and information services	12,405	11,368
State duties	2,413	3,226
Other	128,503	209,835
	1,421,566	**1,615,460**

10 Income tax expense

	2018 '000 KZT	2017 '000 KZT
Current year tax expense	(787,798)	(1,012,584)
Underprovided in prior years	(113,631)	-
Movement in deferred tax assets/deferred tax liabilities due to origination and reversal of temporary differences and movement in valuation allowance	(294,339)	(203,730)
Total income tax expense	**(1,195,768)**	**(1,216,314)**

In 2018, the applicable tax rate for current and deferred tax is 20% (2017: 20%).

Reconciliation of effective tax rate for the year ended 31 December:

	2018 '000 KZT	%	2017 '000 KZT	%
Profit before income tax	**5,814,914**	**100**	**4,911,437**	**100**
Income tax at the applicable income tax rate	(1,162,983)	(20)	(982,287)	(20)
Tax exempt interest on securities	356,437	6	208,144	4
Non-deductible impairment losses	(186,396)	(3)	(314,224)	(6)
Other non-deductible expenses	(89,195)	(2)	(127,947)	(3)
Underprovided in prior years	(113,631)	(2)	-	-
	(1,195,768)	**(21)**	**(1,216,314)**	**(25)**

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

10 Income tax expense, continued

Deferred tax assets and liabilities

Movements in temporary differences during the year ended 31 December 2018 are presented as follows:

'000 KZT	1 January 2018	Recognised in profit or loss	31 December 2018
Property, plant and equipment	(72,970)	(3,213)	(76,183)
Available-for-sale financial assets	3,299	(3,299)	-
Other assets	8,072	11,285	19,357
Loans issued	-	41,580	41,580
Other borrowed funds	(22,674,344)	622,115	(22,052,229)
Deferred income	21,378,684	(953,427)	20,425,257
Other liabilities	47,306	(9,380)	37,926
Tax loss carry-forward	370,994	-	370,994
	(938,959)	**(294,339)**	**(1,233,298)**
Unrecognised deferred tax asset	(370,994)	-	(370,994)
	(1,309,953)	**(294,339)**	**(1,604,292)**

Movements in temporary differences during the year ended 31 December 2017 are presented as follows:

'000 KZT	1 January 2017	Recognised in profit or loss	31 December 2017
Property, plant and equipment	(132,389)	59,419	(72,970)
Available-for-sale financial assets	3,982	(683)	3,299
Other assets	10,277	(2,205)	8,072
Other borrowed funds	(23,010,027)	335,683	(22,674,344)
Deferred income	21,992,953	(614,269)	21,378,684
Other liabilities	28,981	18,325	47,306
Tax loss carry-forward	370,994	-	370,994
	(735,229)	**(203,730)**	**(938,959)**
Unrecognised deferred tax asset	(370,994)	-	(370,994)
	(1,106,223)	**(203,730)**	**(1,309,953)**

11 Cash and cash equivalents

	2018 '000 KZT	2017 '000 KZT
Nostro accounts with NBRK	**179,831**	**1,291,453**
Nostro accounts with other banks		-
- rated BBB-	11,937,932	-
- rated BB+	479	-
- rated BB	4,428,405	3,395,831
- rated BB-	7,534,735	2,644,991
- rated B+	-	9,950,088
- rated B	195,575	405,255
- rated B-	221	5,355
- rated D	-	2,141,045
- rated CCC	-	-
- not rated	2,139,533	-
Total gross nostro accounts with other banks	**26,416,711**	**19,834,018**

11 Cash and cash equivalents, continued

	2018 '000 KZT	2017 '000 KZT
Impairment allowance	(2,212,284)	(2,141,045)
Total net nostro accounts with banks	**24,204,427**	**17,692,973**
Reverse repurchase agreements		
- rated from BBB- to BBB+	21,698,963	4,107,223
Total reverse repurchase agreements	**21,698,963**	**4,107,223**
Total cash and cash equivalents	**45,903,390**	**21,800,196**

The credit ratings are presented by reference to the credit ratings of Standard&Poor's credit ratings agency or analogues of similar international agencies.

On 27 December 2016 the NBRK revoked the license of Kazinvestbank JSC (KIB) citing its repeated failures to fulfil its payment operation liabilities. As at 31 December 2018 the Company considers the nostro account held with KIB for the total amount of KZT 2,106,153 thousand fully impaired as based on its understanding of the KIB's current position it does not expect probable future cash flows from the assets (31 December 2017: KZT 2,141,045 thousand).

As at 31 December 2018 the Company has two banks (2017: one bank) whose balance exceeds 10% of equity. The gross value of these balance as at December 2018 is KZT 19,442,212 thousand (2017: KZT 9,899,932 thousand).

During 2018 the Company entered into the reverse REPO transactions with counterparties at Kazakhstan Stock Exchange. These transactions are collateralised with the treasury bills of the Ministry of Finance of the Republic of Kazakhstan and notes of the NBRK. As at 31 December 2018 the fair value of financial assets collateralising reverse repurchase agreements is KZT 22,655,276 thousand (31 December 2017: KZT 4,102,001 thousand).

Analysis of movements in loss allowance

	2018				2017
'000 KZT	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Cash and cash equivalents					
Balance at 1 January	140,770	-	2,141,045	2,281,815	2,525,730
Transfer to Stage 3	45	-	(45)	-	-
Net remeasurement of loss allowance	(41,631)	-	(30,174)	(71,805)	93,360
Write-offs	-	-	-	-	(478,045)
Foreign exchange and other movements	2,274	-	-	2,274	-
Balance at 31 December	**101,458**	**-**	**2,110,826**	**2,212,284**	**2,141,045**

12 Placements with banks and other financial institutions

	2018 '000 KZT	2017 '000 KZT
- rated BB-	48,221	6,006,411
- rated B+	2,426,499	-
- not rated	-	102,624
	2,474,720	**6,109,035**
Impairment allowance	(71,899)	-
	2,402,821	**6,109,035**

The credit ratings are presented by reference to the credit ratings of Standard&Poor's credit ratings agency or analogues of similar international agencies.

None of the balances of placements are past due.

As at 31 December 2018 the Company placed term deposit with interest rate 13.00% per annum (2017: 9.75%) which has maturity in April 2019 (2017: March 2018).

As at 31 December 2018 the Company has no banks (2017: one bank) whose balances exceed 10% of equity. The gross value of such balance as at 31 December 2017 is KZT 6,006,411 thousand.

Analysis of movements in loss allowance

	2018		2017
'000 KZT	**Stage 1**	**Total**	**Total**
Placements with banks and other financial institutions			
Balance at 1 January	42,129	42,129	-
Net remeasurement of loss allowance	29,770	29,770	-
Balance at 31 December	**71,899**	**71,899**	**-**

13 Investment securities/available-for-sale financial assets

	2018 '000 KZT	2017 '000 KZT
Investment securities at fair value through profit or loss	4,764,226	-
Investment securities measured at amortised cost	12,119,171	-
Available-for-sale financial assets	-	9,234,246
	16,883,397	**9,234,246**

13 Investment securities/available-for-sale financial assets, continued

	31 December 2018 '000 KZT
Investment securities at fair value through profit or loss	
Corporate bonds rated from BB+ to BB-	2,052,732
Corporate bonds rated from B+ to B-	1,745,312
Corporate bonds not rated	966,182
	4,764,226

	31 December 2018 '000 KZT
Investment securities measured at amortised cost	
Treasury bills of Ministry of Finance of the Republic of Kazakhstan	1,501,776
Corporate bonds rated from B to B+	10,620,244
Corporate bonds not rated	2,102,726
	14,224,746
Impairment allowance	(2,105,575)
	12,119,171

The credit ratings are presented by reference to the credit ratings of Standard&Poor's credit ratings agency or analogues of similar international agencies.

In February 2018 the Company acquired coupon bonds CCBNb30 issued by Bank CenterCredit JSC for the amount of KZT 10,144,207 thousand.

Corporate bonds represent interest-bearing securities issued by local companies and banks. These securities are freely tradable on the Kazakhstan Stock Exchange ("KASE"), except for the bonds of Kazakhstan Kagazy JSC ("KK") and "Corporation "APK Invest" LLC ("APK") with gross amounts of KZT 1,117,796 thousand and KZT 984,930 thousand, respectively (31 December 2017: Rosa JSC ("Rosa"), Kazakhstan Kagazy JSC ("KK"), "Corporation "APK Invest" LLC ("APK") and "KT Orda Credit LLC ("OC") with gross amounts of KZT 437,743 thousand, KZT 1,117,796 thousand, KZT 984,930 thousand and KZT 489,519 thousand, respectively). Rosa, KK, APK and OC bonds were excluded from trading on KASE on 2 October 2009, 13 November 2015, 4 July 2017 and 26 January 2018, respectively.

As at 31 December 2018 and 2017 the Company considers bonds fully impaired as based on its understanding of the issuers' financial positions it does not expect probable future cash flows from the assets.

Analysis of movements in loss allowance

Investment securities	Stage 1 12-month expected credit losses	Stage 3 Life-time expected credit losses for credit impaired assets	31 December 2018 '000 KZT
Balance at 1 January	19,842	2,668,610	2,688,452
Net remeasurement of loss allowance	(16,993)	(71,484)	(88,477)
Debt writing-off against provisions	-	(494,400)	(494,400)
Balance at the end of the year	**2,849**	**2,102,726**	**2,105,575**

13 Investment securities/available-for-sale financial assets, continued

During 2018, a creditor for liabilities of the bond issued by KT Orda Credit LLC changed. Therefore, the amount of a claim of KZT 494,400 thousand was written-off against the provision charged.

	2017 '000 KZT
Available-for-sale financial assets	
Treasury bills of Ministry of Finance of the Republic of Kazakhstan	1,179,676
Corporate bonds rated BBB-	1,222,537
Corporate bonds rated from B+ to B-	4,810,588
Corporate bonds not rated	5,051,433
	12,264,234
Impairment allowance	(3,029,988)
	9,234,246

Analysis of movements in the impairment allowance for available-for-sale financial assets:

	2017 '000 KZT
Balance at the beginning of the year	1,555,539
Net charge	1,474,449
Balance at the end of the year	**3,029,988**

14 Loans to customers

Loans to customers comprise mortgage loans purchased from commercial banks and credit institutions of the Republic of Kazakhstan and mortgage loans issued to individuals. The loans comprise KZT and USD denominated mortgage loans due from individuals located in the Republic of Kazakhstan.

	2018 '000 KZT	2017 '000 KZT
Gross mortgage loans to customers	47,753,274	54,057,816
Impairment allowance	(4,686,711)	(4,008,637)
Net loans to customers	**43,066,563**	**50,049,179**

During the year ended 31 December 2018 the Company acquired mortgage loan portfolios from one commercial bank (2017: acquired mortgage loan portfolios from two commercial banks and one mortgage organisation). The loans acquired during 2018 were recorded at their fair value totalling KZT 4,940,099 thousand (2017: KZT 4,129,110 thousand).

14 Loans to customers, continued

(a) Credit quality of mortgage loans

The following table provides information on the credit quality of mortgage loans as at 31 December 2018 and 2017:

	2018 '000 KZT	2017 '000 KZT
Mortgage loans		
- not overdue	40,455,000	48,953,692
- overdue less than 30 days	1,719,524	2,090,382
- overdue 30-89 days	1,101,941	755,102
- overdue 90-179 days	492,809	404,837
- overdue 180-360 days	632,257	131,808
- overdue more than 360 days	3,351,743	1,721,995
Total loans to customers	**47,753,274**	**54,057,816**
Total impairment allowance on loans to customers	(4,686,711)	(4,008,637)
Total net loans to customers	**43,066,563**	**50,049,179**

As at 31 December 2018 carrying amounts of loans with full recourse and partial recourse to the seller were KZT 8,338,280 thousand and KZT 14,047,193 thousand, respectively (31 December 2017: KZT 10,397,029 thousand and KZT 19,684,750 thousand, respectively).

In accordance with agreements on partial recourse, the recourse options do not exceed 20-25% of the total principal amount of mortgage loans at the date of purchase of those loans.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus three percent, the impairment allowance for loans to customers as at 31 December 2018 would be KZT 1,291,997 thousand lower/higher (31 December 2017: KZT 1,501,475 thousand).

14 Loans to customers, continued

(b) Analysis of movements in loss allowance

	2018				2017
'000 KZT	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Loans to customers					
Balance at 1 January	635,112	-	3,955,211	4,590,323	3,562,695
Transfer to Stage 1	9,035	(8,982)	(53)	-	-
Transfer to Stage 2	(5,849)	5,849	-	-	-
Transfer to Stage 3	(10,284)	(9,723)	20,007	-	-
Net remeasurement of loss allowance	(15,199)	50,143	127,120	162,064	448,718
New financial assets originated or purchased	31,209	19,007	6,693	56,909	-
Write-offs	-	-	(133,559)	(133,559)	(1,121)
Foreign exchange and other movements	7,110	3,456	408	10,974	(1,655)
Balance at 31 December	**651,134**	**59,750**	**3,975,827**	**4,686,711**	**4,008,637**

The significant changes in the gross carrying amount of the mortgage portfolio are further explained below:

	2018			
'000 KZT	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers				
Balance at 1 January	46,493,117	588,240	6,976,459	54,057,816
Transferred to Stage 1	446,686	(421,146)	(25,540)	-
Transferred to Stage 2	(476,744)	477,905	(1,161)	-
Transferred to Stage 3	(720,697)	(51,336)	772,033	-
New financial assets originated or purchased	5,799,691	102,972	37,430	5,940,093
Repayments (early or partial repayment)	(11,320,172)	(123,903)	(800,560)	(12,244,635)
Balance at 31 December	**40,221,881**	**572,732**	**6,958,661**	**47,753,274**

(c) Analysis of collateral

Mortgage loans are secured by the underlying housing real estate.

For loans with recourse to the seller, the commercial banks-partners are responsible for monitoring of collateral on a periodic basis according to requirements of the NBRK. The recoverability of these loans is primarily dependent on the creditworthiness of the borrowers and commercial banks-partners rather than the value of collateral, and the current value of the collateral has lesser impact on the impairment assessment.

14 Loans to customers, continued

(c) Analysis of collateral, continued

The following tables provide information on real estate collateral securing mortgage loans, net of impairment:

31 December 2018 '000 KZT	Carrying amount of loans to customers	Fair value of collateral - for collateral assessed as of reporting date	Fair value of collateral: for collateral assessed as at loan inception date	Fair value of collateral not determined
Not overdue loans	39,413,303	37,558,619	1,821,684	33,000
Overdue loans	3,653,260	3,587,447	64,863	951
	43,066,563	**41,146,066**	**1,886,547**	**33,951**
31 December 2017				
Not overdue loans	46,807,119	42,651,446	13,384	4,142,289
Overdue loans	3,242,060	3,210,826	-	31,234
	50,049,179	**45,862,272**	**13,384**	**4,173,523**

The tables above exclude overcollateralisation.

The Company updates the appraised values of collateral obtained at inception of the loan to the current values considering the approximate changes in property values. The Company may also obtain a specific individual valuation of collateral at each reporting date where there are indications of impairment.

Repossessed collateral

The Company obtains certain assets by taking possession of collateral for loans to retail customers. As at 31 December 2018, the carrying amount of such assets was KZT 946,615 thousand (2017: KZT 1,197,831 thousand), which consisted of investment property of KZT 647,704 thousand (2017: KZT 917,489 thousand) and other assets of KZT 298,911 thousand (2017: KZT 280,342 thousand).

The Company's policy is to sell these assets.

(d) Asset securitisation

Loans to customers with the amount of principal of KZT 18,218,416 thousand (2017: KZT 18,899,802 thousand) serve as collateral for debt securities issued by the Company.

As at 31 December 2018, the carrying amount of these debt securities is KZT 16,840,429 thousand (31 December 2017: KZT 17,141,829 thousand). Refer to Note 20.

(e) Significant credit exposures

As at 31 December 2017 the Company has one bank not rated (2017: one bank rated B-) to whom the Company has recourse in respect of its purchased loans, whose loan exposures exceed 10% of equity. The gross value of this balance as at 31 December 2018 is KZT 10,609,795 thousand (2017: KZT 7,956,252 thousand).

(f) Loan maturities

The maturity of the loan portfolio is presented in Note 25 (e), which shows the remaining period from the reporting date to the contractual maturity of the loans.

15 Finance lease receivables

The components of net investments in finance lease as at 31 December 2018 and 2017 are as follows:

	2018 '000 KZT	2017 '000 KZT
Within one year	10,298,630	8,450,647
More than one year, but less than five years	41,555,484	33,849,644
More than five years	134,837,019	115,081,647
Minimum lease payments	**186,691,133**	**157,381,938**
Less: unearned finance income		
Less than one year	(4,218,732)	(3,581,758)
From one to five years	(15,860,417)	(13,452,112)
More than five years	(24,733,651)	(22,216,162)
Less unearned finance income, total	**(44,812,800)**	**(39,250,032)**
Less: impairment allowance	(725,237)	(293,484)
Net investment in finance lease	**141,153,096**	**117,838,422**

The Company leases out housing real estate under Nurly Zher and Own programme.

These lease agreements are classified as finance lease under IAS 17 because ownership of the assets gets transferred to lessees by the end of the lease term, and at the inception the present value of the minimum lease payments amounts to substantially all of the fair value of the leased assets.

The finance lease agreements for Own programme have a maturity term up to 20 years and bear nominal interest rates of 11.50% and 13.00%. The finance lease agreements for Nurly Zher have a maturity term of 20 years and monthly lease payments limited to KZT 1,120 per square meter for Almaty and Astana cities and KZT 924 per square meter in other regions. The interest rate implicit in the lease payments under Nurly Zher program is 3.1%.

Analysis of collateral, continued

The following table provides information on collateral, leased assets and other credit enhancements securing finance lease receivables, net of impairment, as at 31 December 2018 and 2017, by types of collateral

31 December 2018 '000 KZT	Carrying amount of loans to customers	Fair value of collateral - for collateral assessed as of reporting date	Fair value of collateral: for collateral assessed as at loan inception date	Fair value of collateral not determined
Not overdue loans	127,525,841	127,525,841	-	-
Overdue loans	13,627,255	13,627,255	-	-
	141,153,096	**141,153,096**	-	-
31 December 2017				
Not overdue loans	109,538,386	109,538,386	-	-
Overdue loans	8,300,036	8,300,036	-	-
	117,838,422	**117,838,422**	-	-

The tables above exclude overcollateralisation.

The Company has no finance lease receivables, for which the fair value of collateral was assessed at the loan inception date and it was not updated for further changes, and finance lease receivables for which the fair value of collateral is not determined. Information on valuation of collateral is based on when this estimate was made, if any.

The recoverability of finance lease receivables which are neither past due nor impaired primarily depends on the creditworthiness of a lessee rather than the value of collateral, and the Group does not necessarily update the valuation of collateral as at each reporting date.

15 Finance lease receivable, continued

(a) Credit quality of finance lease receivables

The following table provides information on credit quality of finance lease receivables as at 31 December 2018 and 2017:

	2018 '000 KZT	2017 '000 KZT
Finance lease receivables under Own Programme		
- not overdue	1,954,634	2,082,982
- overdue less than 30 days	7,916	-
- overdue 30-89 days	-	13,167
- overdue 90-179 days	6,337	
- overdue 180-360 days	13,369	28,390
- overdue more than 360 days	-	98,973
Total finance lease receivables under Own Programme	**1,982,256**	**2,223,512**
Impairment allowance on finance lease receivables under Own Programme	(140,733)	(36,954)
Net finance lease receivables under Own Programme	**1,841,523**	**2,186,558**
Finance lease receivables under Nurly Zher Programme		
- not overdue	126,364,539	107,958,744
- overdue less than 30 days	8,447,682	6,406,354
- overdue 30-89 days	3,950,513	1,416,149
- overdue 90-179 days	786,534	112,424
- overdue 180-360 days	314,632	7,268
- overdue more than 360 days	32,177	7,455
Total finance lease receivables under Nurly Zher Programme	**139,896,077**	**115,908,394**
Impairment allowance on finance lease receivables under Nurly Zher Programme	(584,504)	(256,530)
Net finance lease receivables under Nurly Zher Programme	**139,311,573**	**115,651,864**
Total finance lease receivables	**141,878,333**	**118,131,906**
Total impairment allowance on finance lease receivables	(725,237)	(293,484)
Total net finance lease receivables	**141,153,096**	**117,838,422**

15 Finance lease receivable, continued

Analysis of movements in loss allowance

Movement in the allowance for finance lease receivables in 3 stages, as at the beginning and end of the period is as follows:

	2018				2017
'000 KZT	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Finance lease receivables					
Balance at 1 January	136,902	140,785	93,349	371,036	467,670
Transfer to Stage 1	1,676	(1,448)	(228)	-	-
Transfer to Stage 2	(4,699)	7,144	(2,445)	-	-
Transfer to Stage 3	(970)	(24,856)	25,826	-	-
Net remeasurement of loss allowance	48,507	243,024	(13,666)	277,865	(174,186)
New financial assets originated or purchased	44,709	28,686	2,941	76,336	-
Balance at 31 December	**226,125**	**393,335**	**105,777**	**725,237**	**293,484**

Significant changes in gross carrying amount of finance lease receivables are as follows:

	2018			
'000 KZT	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Finance lease receivables				
Balance at 1 January	116,411,212	1,434,595	286,099	118,131,906
Transferred to Stage 1	717,847	(675,940)	(41,907)	-
Transferred to Stage 2	(3,607,252)	3,640,243	(32,991)	-
Transferred to Stage 3	(715,328)	(333,231)	1,048,559	-
New financial assets originated or purchased	28,467,173	272,310	39,428	28,778,911
Financial assets that have been derecognised	(4,712,341)	(168,977)	(151,166)	(5,032,484)
Balance at 31 December	**136,561,311**	**4,169,000**	**1,148,022**	**141,878,333**

16 Advances paid for acquisition and construction of real estate

Advances paid for acquisition and construction of real estate comprise advances made by the Company for housing real estate to be acquired from third parties. The Company plans to lease it out under finance lease, once the legal title on the property passes to the Company.

	2018 '000 KZT	**2017 '000 KZT**
Baiterek Development JSC	914,930	2,000,000
VK-Technogrup LLP	57,757	1,379,824
Other	-	366,923
	972,687	**3,746,747**

17 Assets to be transferred under finance lease agreements

Assets to be transferred under finance lease contracts comprise the residential complexes purchased during the reporting period which the Company is planning to transfer to the lessees in 2019.

The major portion of the assets relates to assets to be transferred under Nurly Zher programme.

During 2018, the largest micro districts acquired by the Company are located in city of Almaty and Almaty region in the total amount of KZT 2,173,940 thousand (2017: micro districts in city of Almaty and Almaty region in the total amount of KZT 4,695,715 thousand).

18 Construction in progress

Construction in progress represents capitalised costs incurred by the Company during construction of residential real estate in different regions of Kazakhstan as part of implementation of the state and government programs adopted before (State program of Infrastructure Development Nurly zhol for 2015-2019 adopted in accordance with the Edict of the President of the RK dated 6 April 2015, No.1030; "Regions Development Program till 2020" approved by the Decree #728 of the Government of the Republic of Kazakhstan dated 28 June 2014) integrated into the Housing Construction Program Nurly Zher, which in turn, ceased to be in force as a result of approval of Decree # 372 of the Government of the RK dated 22 June 2018 of the State Housing Construction Program (hereinafter, the "Program"). The Company will lease out the constructed housing estate in accordance with the terms established by the Nurly Zher Program through signing the finance lease contracts.

As at 31 December 2018 the largest construction projects relate to projects of construction of unit 63 in 19th residential areas located in Ust-Kamenogorsk, a micro district located between highways Uralsk - Atyrau and Uralsk - Saratov and microdistrict 14 located in Karaganda in the amount of KZT 1,742,080 thousand, KZT 1,264,415 thousand and KZT 1,043,426 thousand, respectively (2017: micro districts "Zhas-Kanat" located in Almaty, "micro district #32A" located in Aktau, and "Nur-Aktobe" located in Aktobe in the amounts of KZT 14,302,250 thousand, KZT 3,151,947 thousand and KZT 1,107,736 thousand, respectively).

19 Other assets

	2018 '000 KZT	2017 '000 KZT
Receivable from sale of assets held for sale	1,002,020	1,269,948
Receivables on loan acquisition transactions	7,147	2,849,920
Other receivables	156,616	163,312
Impairment allowance	(681,070)	(204,135)
Total other financial assets	**484.713**	**4,079,045**
Foreclosed property	298,911	280,342
Intangible assets	211,387	177,387
Other prepayments	140,556	112,618
Receivables from government duties	83,524	57,258
Inventories	23,331	24,135
Other	55,312	111,280
Total other non-financial assets	**813,021**	**763,020**
Total other assets	**1,297,734**	**4,842,065**

Foreclosed property comprises real estate collateral accepted by the Company in exchange for its rights and obligations under impaired mortgage loans.

19 Other assets, continued

As at 31 December 2018, premium paid for unregistered and early repaid rights of claim was offset against outstanding payables on such rights of claim (Note 23).

Impairment allowance in the amount of KZT 501,319 thousand relates to receivables from sale of assets held for sale not repaid within the contractual term.

In December 2018, in accordance with the agreement, a creditor for bonds of KT Orda Credit LLP in the amount of KZT 494,400 thousand, changed. Debt of KT Orda Credit LLP was transferred to another creditor. As at 31 December 2018, the Company treats this debt as fully impaired.

Analysis of movements in loss allowance

	2018				2017
'000 KZT	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Other financial assets					
Balance at 1 January	11,545	-	184,261	195,806	26,637
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net remeasurement of loss allowance	(6,595)	4,128	480,821	478,354	177,498
Foreign exchange and other movements	6,910	-	-	6,910	-
Balance at 31 December	**11,860**	**4,128**	**665,082**	**681,070**	**204,135**

20 Debt securities issued

Debt securities issued as at 31 December 2018 and 2017 comprised KZT denominated bonds.

Emission	Maturity date	Nominal coupon rate	Effectiv e rate	2018 '000 KZT	2017 '000 KZT
KZ2C0Y07E517	26.07.2020	8.5%	8.50%	10,359,342	10,355,151
KZ2C0Y08D913	24.12.2018	1.00%+NBRK refinancing rate (limited to maximum 10%, minimum 6%)	17.08%	10,500,000	9,963,200
KZ2C0Y05E503	26.07.2018	8.00%	8.00%	-	8,190,622
KZ2C0Y10F013	15.12.2027	10.5%	10.50%	19,704,387	8,526,339
KZX000000054	28.12.2033	9.6%	9.6%	20,015,966	-
KZ2C0Y08E218	02.04.2020	7.00%	7.00%	6,340,429	6,141,902
				66,920,124	**43,177,214**

Debt securities with ISIN #KZ2C0Y08D913 and #KZ2C0Y08E218 are secured under the bank loan agreements issued by the Company and rights of claims under the contracts of bank loans acquired from the partner banks by means of purchase of the mortgage certificates or signing the contracts of assignment of the right of claim (cession contracts) (Note 14) for a total amount of KZT 18,218,416 thousand (2017: KZT 18,899,802 thousand).

20 Debt securities issued, continued

In accordance with the bond issue prospects, the Company repaid the principal amount of issued securities in the amount of KZT 7,920,500 thousand and placed the issued securities in the amount of KZT 11,356,189 thousand. In December 2018, the Company placed issued unsecured coupon bonds (ISIN: KZX000000054) in the amount of KZT 20,000,000 thousand.

The floating rate is based on the inflation index for the prior 12 months published by the Statistics Agency of the Republic of Kazakhstan and is revised semi-annually according to the date of issue.

21 Other borrowed funds

	2018 '000 KZT	2017 '000 KZT
Loan from National Management Holding Baiterek JSC	26,753,934	25,596,002
Due to the Government of the Republic of Kazakhstan	4,566,711	4,236,797
	31,320,645	**29,832,799**

As at 31 December 2018 and 31 December 2017, other borrowed funds comprised loans from the NMC "Baiterek" JSC under the State Program of Infrastructure Development Nurly Zhol for 2015-2019 adopted in accordance with the Edict of the President of the RK dated 6 April 2015, No.1030; "Regions Development Program till 2020" program approved by the Decree #728 of the Government of the Republic of Kazakhstan dated 28 June 2014, which were integrated in the Program of Housing Construction Nurly Zher with regard to construction and acquisition of the leased and credit housing (currently, the State Program of Housing Construction "Nurly Zher" approved by Decree #372 of the Government of the RK dated 22 June 2018). As set out in the Nurly Zher Program, the purpose of the loans is to finance construction and acquisition of housing real estate to be further leased out under finance lease. The loans bear a nominal interest rate of 0.15% per annum and mature in January 2045, January 2046 and June 2046. The principal is repayable at maturity. At initial recognition these 4 loans were recognised at fair value measured by applying estimated relevant market interest rates ranging from 6.9% to 8.0% to discount the contractual future cash flows. The discount on these loans is recognised as deferred income (Note 22).

Amounts due to the Government of the Republic of Kazakhstan consist of a loan received in December 2007 from the Ministry of Finance of the Republic of Kazakhstan for the purchase of mortgage loans from second-tier banks. The loan carries a nominal interest rate of 0.1% per annum with principal repayable at maturity in December 2027. The fair value of the loan at initial recognition was estimated by discounting the contractual future cash flows of the loan using management's estimate of a long-term market borrowing rate for the Company of 8% p.a.

During 12-month period ended 31 December 2017, the Company repaid principal on a loan from Halyk Savings Bank of Kazakhstan JSC in accordance with the repayment schedules in amounts of KZT 7,150,000 thousand.

21 Other borrowed funds, continued

Reconciliation of movements of liabilities to cash flows arising from financing activities during the year ended 31 December 2018:

	Liabilities		
'000 KZT	**Debt securities issued**	**Other borrowed funds**	**Total**
Balance at 1 January 2018	**43,177,214**	**29,832,799**	**73,010,013**
Changes from financing cash flows			
Proceeds from debt securities issued	31,356,189	-	31,356,189
Repurchase / Repayment of debt securities issued	(7,920,500)	-	(7,920,500)
Repayment of other borrowed funds	-	(1,621,372)	(1,621,372)
Total changes from financing cash flows	**66,612,903**	**28,211,427**	**94,824,330**
Interest expense	5,039,926	2,310,921	7,350,847
Recalculation of discount due to partial repayment	-	1,008,354	1,008,354
Interest paid	(4,732,705)	(210,057)	(4,942,762)
Balance at 31 December 2018	**66,920,124**	**31,320,645**	**98,240,769**

Reconciliation of movements of liabilities to cash flows arising from financing activities during the year ended 31 December 2017:

	Liabilities			
'000 KZT	**Debt securities issued**	**Subordinated debt securities issued**	**Other borrowed funds**	**Total**
Balance at 1 January 2017	**37,334,185**	**10,152,242**	**35,159,984**	**82,646,411**
Changes from financing cash flows				
Repurchase / Repayment of debt securities issued	(9,599,700)	-	-	(9,599,700)
Proceeds from debt securities issued	14,374,280	-	-	14,374,280
Repayment of subordinated debt securities issued	-	(10,000,000)	-	(10,000,000)
Repayment of other borrowed funds	-	-	(7,150,000)	(7,150,000)
Total changes from financing activities cash flows	**42,108,765**	**152,242**	**28,009,984**	**70,270,991**
Interest expense	3,465,068	247,758	2,472,220	6,185,046
Interest paid	(2,396,619)	(400,000)	(649,405)	(3,446,024)
Balance at 31 December 2017	**43,177,214**	-	**29,832,799**	**73,010,013**

22 Deferred income

	2018 '000 KZT	2017 '000 KZT
Balance at the beginning of the year	106,893,420	109,964,767
Reversal of discount due to early repayment of other borrowed funds (Note 21)	(1,008,353)	-
Amortisation for the year	(3,758,780)	(3,071,347)
Balance at the end of the year	**102,126,287**	**106,893,420**

During the period ended 31 December 2018, the Company repaid other borrowed funds in the amount of KZT 1,621,372 thousand ahead of initial schedule. Therefore, a discount of KZT 1,008,353 thousand recognised in deferred income was reversed.

23 Other liabilities

	2018 '000 KZT	2017 '000 KZT
Payable for rights on loans acquired	-	6,404,853
Advances received from borrowers	1,674,426	1,725,836
Interest strip payable	682,204	735,546
Professional services	13,039	63,037
Loan portfolios servicing fee payable	44,226	24,116
Total other financial liabilities	**2,413,895**	**8,953,388**
Contract enforcement fees payable	422,057	989,018
Payables to employees	186,869	219,295
Guarantee fees payable	153,585	134,824
Other taxes payable	9,557	62,680
Other non-financial liabilities	282,025	102,861
Total other non-financial liabilities	**1,054,093**	**1,508,678**
Total other liabilities	**3,467,988**	**10,462,066**

24 Share capital and reserves

(a) Issued capital and share premium

As at 31 December 2018 and 2017 authorised share capital comprises 13,681,000 ordinary shares. As at 31 December 2018 issued and outstanding share capital comprises 6,331,380 shares (2017: 6,331,380), including treasury shares (Note (c) below). During 2017 the Company issued 520,000 ordinary shares with the total value of KZT 5,200,000 thousand. All shares have a nominal value of KZT 10 thousand.

24 Share capital and reserves, continued

(b) Dividends

In accordance with the legislation of the Republic of Kazakhstan, the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with IFRS or profit for the reporting period if there is an accumulated loss brought forward. A distribution cannot be made if this would result in negative equity or the Company's insolvency.

During the year ended 31 December 2018, dividends in the amount of KZT 1,108,575 thousand or KZT 182.29 per ordinary share were declared and paid relating to the previous year results of the Company (2017: dividends in the amount of KZT 926,802 thousand or KZT 146.38 per ordinary share were declared and paid relating to the previous year results).

(c) Treasury shares

As at 31 December 2018 and 2017 the Company held 250,000 of its own shares.

(d) Reserve capital

The Company has established a reserve capital in accordance with a decision of shareholders. As at 31 December 2018 and 2017 the reserve capital amounted to KZT 2,734,447 thousand. This reserve capital is available for distribution.

During the years ended 31 December 2018 and 2017 the shareholders did not make any transfer from accumulated losses to this reserve capital.

(f) Basic and diluted earnings per share

The calculation of basic and diluted earnings per share is based on the profit or loss for the year attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding during the year.

	2018	2017
Profit for the year, in thousands of KZT	4,619,146	3,695,123
Weighted average number of ordinary shares	6,081,380	5,948,887
Basic and diluted earnings per share, in KZT	**760**	**621**

There are no potentially dilutive shares for the years ended 31 December 2018 and 2017.

(g) Book value per share

Under the listing rules of the KSE the Company should present book value per share in its financial statements. The book value per share is calculated dividing net assets less intangible assets by the number of outstanding ordinary shares. As at 31 December 2018 the book value per share was KZT 10,146.74 (2017: KZT 9,641.25).

25 Risk management

Management of risk is fundamental to the lending business and is an essential element of the Company's operations. The major risks faced by the Company are those related to interest rate and currency risks, credit risk and liquidity risk.

25 Risk management, continued

(a) Risk management policies and procedures

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

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

The Management Board of the Company is responsible for monitoring and implementation of risk mitigation measures and making sure that the Company operates within the established risk parameters. The Head of Risk Department of the Company is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks.

The Asset Liability and Risk Management Committee develops proposals on assets/liabilities and risk management based on strategies, policies and procedures approved by the Management Board and the Board of Directors.

Both external and internal risk factors are identified and managed throughout the Company's organisational structure. Particular attention is given to identifying the full range of risk factors and determination of the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Management Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise. The Board of Directors on a regular basis examines reports on risks.

(b) Market risk

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

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

Overall authority for market risk is vested in the Asset, Liability and Risk Management Committee.

The Company manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits. These are monitored on a regular basis and reviewed and approved by the Management Board and the Board of Directors.

25 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk

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

Interest rate gap analysis

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

'000 KZT	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2018							
ASSETS							
Cash and cash equivalents	44,780,210	-	-	-	-	1,123,180	45,903,390
Placements with banks and other financial institutions	26,499	2,376,322	-	-	-	-	2,402,821
Investment securities:							
- at fair value through profit or loss	113,098	11,300	2,080,815	2,559,013	-	-	4,764,226
- at amortised cost	483,334	-	15,279	-	11,620,558	-	12,119,171
Loans to customers	1,482,281	1,089,280	2,196,753	18,115,330	20,182,919	-	43,066,563
Finance lease receivables	1,637,118	1,477,056	2,989,450	25,691,013	109,358,459	-	141,153,096
Other financial assets	-	-	-	-	-	484,713	484,713
Total assets	**48,522,540**	**4,953,958**	**7,282,297**	**46,365,356**	**141,161,936**	**1,607,893**	**249,893,980**
LIABILITIES							
Debt securities issued	10,865,972	219,107	-	16,221,192	39,613,853	-	66,920,124
Other borrowed funds	76,292	14,632	125	-	31,229,596	-	31,320,645
Other financial liabilities	-	-	-	-	-	2,413,895	2,413,895
Total liabilities	**10,942,264**	**233,739**	**125**	**16,221,192**	**70,843,449**	**2,413,895**	**100,654,664**
Net position	**37,580,276**	**4,720,219**	**7,282,172**	**30,144,164**	**70,318,487**	**(806,002)**	**149,239,316**

25 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate gap analysis, continued

'000 KZT	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2017							
ASSETS							
Cash and cash equivalents	20,027,035	-	-	-	-	1,773,161	21,800,196
Placements with banks and other financial institutions	6,006,411	-	-	-	-	102,624	6,109,035
Available-for-sale financial assets	3,251,779	1,614,462	3,203,609	-	1,164,396	-	9,234,246
Loans to customers	2,687,910	1,044,926	2,154,910	18,697,567	25,463,866	-	50,049,179
Finance lease receivables	1,325,093	1,171,860	2,371,935	20,397,532	92,572,002	-	117,838,422
Other financial assets	-	-	-	-	-	4,119,868	4,119,868
Total assets	**33,298,228**	**3,831,248**	**7,730,454**	**39,095,099**	**119,200,264**	**5,995,653**	**209,150,946**
LIABILITIES							
Debt securities issued	638,789	10,115,474	7,917,805	16,018,473	8,486,673	-	43,177,214
Other borrowed funds	76,292	15,990	125	-	29,740,392	-	29,832,799
Other financial liabilities	-	-	-	-	-	8,953,388	8,953,388
Total liabilities	**715,081**	**10,131,464**	**7,917,930**	**16,018,473**	**38,227,065**	**8,953,388**	**81,963,401**
Net position	**32,583,147**	**(6,300,216)**	**(187,476)**	**23,076,626**	**80,973,199**	**(2,957,735)**	**127,187,545**

25 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk

Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2018 and 2017. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2018 Average effective interest rate, %		2017 Average effective interest rate, %	
	KZT	**USD**	**KZT**	**USD**
Interest bearing assets				
Cash and cash equivalents	7.84	0.5	9.38	0.50
Placements with banks and other financial institutions	13.00	-	9.75	-
Investment securities:				
- at fair value through profit or loss	6.60	-	н/п	н/п
- at amortised cost	10.67	-	н/п	н/п
Available-for-sale financial assets	н/п	н/п	8.23	-
Loans to customers	12.43	13.70	12.51	13.67
Finance lease receivables	Nominal interest rate – 3.21 (imputed interest rate – 7.07)	-	Nominal interest rate – 3.25 (imputed interest rate – 7.67)	-
Interest bearing liabilities				
Debt securities issued	10.90	-	11.14	-
Other borrowed funds	7.20	-	7.21	-

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

Interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period.

25 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk

Interest rate sensitivity analysis

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

	2018 '000 KZT		2017 '000 KZT	
	Profit or loss	**Equity**	**Profit or loss**	**Equity**
100 bp parallel rise	365,645	365,645	196,206	196,206
100 bp parallel fall	(365,645)	(365,645)	(196,206)	(196,206)

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

	2018 '000 KZT		2017 '000 KZT	
	Profit or loss	**Equity**	**Profit or loss**	**Equity**
100 bp parallel rise	(333,192)	(333,192)	-	(208,549)
100 bp parallel fall	301,967	301,967	-	219,536

(c) Currency risk

The Company has assets and liabilities denominated in USD.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company does not hedge its exposure to currency risk.

25 Risk management, continued

(c) Currency risk, continued

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2018 and 2017:

	USD	
	2018	**2017**
	'000 KZT	**'000 KZT**
Assets		
Cash and cash equivalents	761,567	371,341
Loans to customers	131,694	1,218,455
Other assets	5,082	2,602,190
Total financial assets	**898,343**	**4,191,986**
Liabilities		
Other liabilities	507	4,687,017
Total financial liabilities	**507**	**4,687,017**
Net on and off balance sheet position	**897,836**	**(495,031)**

In accordance with Decree No.69 of the National Bank of the Republic of Kazakhstan "On approval of the mortgage loans refinancing program", the Company has refinanced currency loans to vulnerable social groups with a total carrying amount of KZT 877,959 thousand. The amount of overdue foreign currency loans of these customers was converted into KZT using exchange rate during 2015, which was KZT 188.35 per USD 1. As a result of this, the Company incurred loss in the amount of KZT 427,226 thousand from derecognition of foreign currency loans stated at amortised cost.

A change in the value of the KZT, as indicated below, against the following currencies at 31 December 2018 and 2017 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Company considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2018 '000 KZT		2017 '000 KZT	
	Profit or loss	**Equity**	**Profit or loss**	**Equity**
20% appreciation of USD against KZT	143,654	143,654	(79,205)	(79,205)
5% depreciation of USD against KZT	(35,913)	(35,913)	19,801	19,801

(d) Credit risk

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

25 Risk management, continued

(d) Credit risk, continued

The credit policy establishes:

- procedures for review and approval of loan credit applications;
- methodology for the credit assessment of borrowers;
- methodology for the credit assessment of counterparties, issuers and insurance companies;
- methodology for the evaluation of collateral;
- credit documentation requirements;
- procedures for the ongoing monitoring of loans and other credit exposures.

The main task of credit risk management is the application of a weighted credit policy, considering profitability with safety of asset allocation at purchase of mortgage loans and control over position of loan portfolio based on in-depth, objective, complete and qualified monitoring.

Susceptibility to credit risk is controlled by obtaining high quality collateral, the receipt of a guarantees and obtaining recourse to the seller of the loans.

The Company's maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the statement of financial position and unrecognised contractual commitment amounts. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

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

	2018 '000 KZT	2017 '000 KZT
ASSETS		
Cash and cash equivalents	45,903,390	21,800,196
Placements with banks and other financial institutions	2,402,821	6,109,035
Investment securities:		
- at fair value through profit or loss	4,764,226	-
- at amortised cost	12,119,171	-
Available-for-sale financial assets	-	9,234,246
Loans to customers	43,066,563	50,049,179
Finance lease receivables	141,153,096	117,838,422
Other financial assets	484,713	4,119,868
Total maximum exposure	**249,893,980**	**209,150,946**

For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers refer to Note 14.

As at 31 December 2018 and 2017 the Company has no debtors or groups of connected debtors, credit risk exposure to whom exceeds 10% of maximum credit risk exposure.

25 Risk management, continued

(d) Credit risk, continued

Offsetting financial assets and financial liabilities

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

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

The agreements include global master repurchase agreements. Such financial instruments include sale and repurchase agreements and reverse sale and repurchase agreements. The Company receives and accepts collateral in the form of cash and marketable securities in respect of these sale and repurchase and reverse sale and repurchase agreements.

The Company's derivative transactions that are not transacted on the exchange are entered into under International Derivative Swaps and Dealers Association (ISDA) Master Netting Agreements. In general, under such agreements the amounts owed by each counterparty that are due on a single day in respect of transactions outstanding in the same currency under the agreement are aggregated into a single net amount payable by one party to the other. In certain circumstances, for example when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed, and only a single net amount is due or payable in settlement transactions.

The Company's sale and repurchase, reverse sale and repurchase transactions, and securities borrowings and lendings are covered by master agreements with netting terms similar to those of ISDA Master Netting Agreements.

The above ISDA and similar master netting arrangements do not meet the criteria for offsetting in the statement of financial position. This is because they create a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Company or the counterparties. In addition the Company and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

Information on the financial instruments such as loans and deposits is not disclosed in the tables below, except for the cases when they are offset in the statement of financial position. The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements:

25 Risk management, continued

(d) Credit risk, continued

Offsetting financial assets and financial liabilities, continued

				Related amounts not offset in the statement of financial position		
'000 KZT	**Gross amounts of recognised financial asset/liability**	**Gross amount of recognised financial liability/asset offset in the statement of financial position**	**Net amount of financial assets/liabilities presented in the statement of financial position**	**Financial instruments**	**Cash collateral received**	**Net amount**
31 December 2017						
Reverse repurchase agreements	4,107,223	-	4,107,223	(4,107,223)	-	-
Total financial assets	**4,107,223**	-	**4,107,223**	**(4,107,223)**	-	-
31 December 2018						
Reverse repurchase agreements	21,698,963	-	21,698,963	(21,698,963)	-	-
Total financial assets	**21,698,963**	-	**21,698,963**	**(21,698,963)**	-	-

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

Assets and liabilities resulting from sale and repurchase agreements, reverse sale and repurchase agreements and securities lending and borrowing – amortised cost.

25 Risk management, continued

(e) Liquidity risk

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

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

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

The liquidity management policy of the Company requires:

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

The following tables show the undiscounted cash flows on the Company's financial liabilities on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial asset, liability or commitment. The Company's expected cash flows on these financial liabilities may vary significantly from this analysis.

25 Risk management, continued

(e) Liquidity risk, continued

The liquidity position of the Company as at 31 December 2018 was as follows:

'000 KZT	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow	Carrying amount
Non-derivative liabilities								
Debt securities issued	10,500,000	425,000	2,204,245	2,629,245	33,396,745	66,708,000	115,863,235	66,920,124
Other borrowed funds	86,250	-	26,206	86,250	794,826	136,816,167	137,809,699	31,320,645
Other financial liabilities	63,582	1,295,080	44,883	505,602	538,037	452,255	2,899,439	2,413,895
Total	**10,649,832**	**1,720,080**	**2,275,334**	**3,221,097**	**34,729,608**	**203,976,422**	**256,572,373**	**100,654,664**

The liquidity position of the Company as at 31 December 2017 was as follows:

'000 KZT	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow	Carrying amount
Non-derivative liabilities								
Debt securities issued	1,241,987	-	1,173,995	19,836,482	22,460,903	12,962,500	57,675,867	43,177,214
Other borrowed funds	86,250	-	28,638	95,270	840,633	147,487,470	148,538,261	29,832,799
Other financial liabilities	15,489	1,235,005	45,305	7,070,816	565,919	526,402	9,458,936	8,953,388
Total	**1,343,726**	**1,235,005**	**1,247,938**	**27,002,568**	**23,867,455**	**160,976,372**	**215,673,064**	**81,963,401**

23 Risk management, continued

(e) Liquidity risk, continued

The table below show an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2018:

Assets	Less than 1 month '000 KZT	From 1 to 3 months '000 KZT	From 3 months to 1 year '000 KZT	From 1 to 5 years '000 KZT	More than 5 years '000 KZT	No maturity '000 KZT	Total '000 KZT
Cash and cash equivalents	45,903,390	-	-	-	-	-	45,903,390
Placements with banks and other financial institutions	26,499	-	2,376,322	-	-	-	2,402,821
Investment securities:							
- at fair value through profit or loss	82,000	31,098	2,092,115	2,559,013	-	-	4,764,226
- at amortised cost	-	483,334	15,279	-	11,620,558	-	12,119,171
Loans to customers	754,913	727,368	3,286,033	18,115,330	20,182,919	-	43,066,563
Finance lease receivables	658,891	978,227	4,466,506	25,691,013	109,358,459	-	141,153,096
Current tax asset	-	-	-	-	-	2,045,362	2,045,362
Advances paid for acquisition and construction of real estate	-	-	972,687	-	-	-	972,687
Assets to be transferred under finance lease agreements	-	-	-	-	-	5,180,554	5,180,554
Construction in progress	-	-	5,643,479	-	-	-	5,643,479
Property, plant and equipment	-	-	-	-	-	2,129,083	2,129,083
Investment property	-	-	-	-	-	647,704	647,704
Other assets	12,954	83,782	366,609	55,616	1,191	777,582	1,297,734
Total assets	**47,438,647**	**2,303,809**	**19,219,030**	**46,420,972**	**141,163,127**	**10,780,285**	**267,325,870**
Liabilities							
Debt securities issued	10,500,000	365,972	219,107	16,221,192	39,613,853	-	66,920,124
Other borrowed funds	76,292	-	14,757	-	31,229,596	-	31,320,645
Deferred income	-	-	-	-	102,126,287	-	102,126,287
Deferred tax liability	-	-	-	-	1,604,292	-	1,604,292
Other liabilities	532,892	1,498,429	864,961	351,108	190,598	30,000	3,467,988
Total liabilities	**11,109,184**	**1,864,401**	**1,098,825**	**16,572,300**	**174,764,626**	**30,000**	**205,439,336**
Net position as at 31 December 2018	**36,329,463**	**439,408**	**18,120,205**	**29,848,672**	**(33,601,499)**	**10,750,285**	**61,886,534**
Net position as at 31 December 2017	22,491,039	7,964,963	11,787,843	17,575,959	(15,508,407)	14,498,096	58,809,493

25 Risk management, continued

(e) Liquidity risk, continued

The table below show an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2017:

Assets	Less than 1 month '000 KZT	From 1 to 3 months '000 KZT	From 3 months to 1 year '000 KZT	From 1 to 5 years '000 KZT	More than 5 years '000 KZT	No maturity '000 KZT	Total '000 KZT
Cash and cash equivalents	21,800,196	-	-	-	-	-	21,800,196
Placements with banks and other financial institutions	6,411	6,000,000	-	-	-	102,624	6,109,035
Available-for-sale financial assets	180,750	38,308	3,399,392	2,764,021	2,851,775	-	9,234,246
Loans to customers	801,278	709,539	3,348,074	19,314,787	25,875,501	-	50,049,179
Finance lease receivables	549,023	776,070	3,543,795	20,397,532	92,572,002	-	117,838,422
Current tax asset	-	-	-	-	-	2,645,992	2,645,992
Advances paid for acquisition and construction of real estate	-	2,203,267	1,543,480	-	-	-	3,746,747
Assets to be transferred under finance lease agreements	-	-	-	-	-	7,652,924	7,652,924
Construction in progress	-	-	23,475,511	-	-	-	23,475,511
Property, plant and equipment	-	-	-	-	-	2,173,139	2,173,139
Investment property	-	-	-	-	-	917,489	917,489
Other assets	20,782	96,058	3,702,262	1,886	2,319	1,018,758	4,842,065
Total assets	**23,358,440**	**9,823,242**	**39,012,514**	**42,478,226**	**121,301,597**	**14,510,926**	**250,484,945**
Liabilities							
Debt securities issued	638,789	-	18,033,279	16,018,473	8,486,673	-	43,177,214
Other borrowed funds	76,292	-	16,115	-	29,740,392	-	29,832,799
Deferred income	91,743	198,797	1,094,780	8,461,672	97,046,428	-	106,893,420
Deferred tax liability	-	-	-	-	1,309,953	-	1,309,953
Other liabilities	60,577	1,659,482	8,080,497	422,122	226,558	12,830	10,462,066
Total liabilities	**867,401**	**1,858,279**	**27,224,671**	**24,902,267**	**136,810,004**	**12,830**	**191,675,452**
Net position as at 31 December 2017	**22,491,039**	**7,964,963**	**11,787,843**	**17,575,959**	**(15,508,407)**	**14,498,096**	**58,809,493**

As at 31 December 2018 included in the category "More than 5 years" are overdue loans to customers and finance lease receivables with net book values of KZT 2,445,261 thousand and KZT 1,148,020 thousand, respectively (31 December 2017: KZT 1,642,387 thousand and KZT 260,084 thousand respectively).

26 Capital management

The Company defines as capital the following items defined by statutory regulation as capital for mortgage companies:

Tier 1 capital, which is comprised of ordinary share capital, share premium, prior periods' statutory retained earnings, accumulated losses and reserves created thereof and preference shares (within 15% of ordinary share capital) less intangible assets and current year statutory losses;

Tier 2 capital is required for the purposes of calculation of total capital and is comprised of current year's statutory income, revaluation reserves, preference shares (in excess of 15% of ordinary share capital), qualifying subordinated liabilities and collective impairment allowance in the amount not exceeding 1.25% of credit risk-weighted assets.

Total capital, which is the sum of tier 1 capital and tier 2 capital (in the amount not exceeding tier 1 capital) less investments into equity or subordinated debt.

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

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

- a ratio of tier 1 capital to total statutory assets (k1);
- a ratio of tier 1 capital to the sum of credit risk-weighted assets and contingent liabilities (k1-2);
- a ratio of total capital to the sum of credit risk-weighted assets and contingent liabilities and a quantitative measure of operational risk (k1-3).

	2018 '000 KZT	2017 '000 KZT
Tier 1 capital		
Share capital	60,728,939	60,728,939
General reserves	2,734,447	2,734,447
Additional paid-in capital	5,822,856	5,822,856
Intangible assets	(58,912)	(21,711)
Statutory accumulated losses for prior years	(12,018,854)	(12,805,108)
Total tier 1 capital	**57,208,476**	**56,459,423**
Tier 2 capital		
Reserves on revaluation of available-for-sale financial assets	-	(1,366,764)
Net profit for the year in accordance with the NBRK requirements	4,619,146	3,695,123
Total tier 2 capital	**4,619,146**	**2,328,359**
Total capital	**61,827,622**	**58,787,782**
Total statutory assets	267,309,374	250,484,945
Credit risk weighted assets and contingent liabilities	236,295,782	235,980,230
Operational risk	6,772,035	6,772,035
Total credit risk weighted assets and contingent liabilities plus operational risk	243,067,817	242,752,265
k1 ratio	**21%**	**23%**
k1-2 ratio	**24%**	**24%**
k1-3 ratio	**25%**	**24%**

26 Capital management, continued

As at 31 December 2018 and 2017 the minimum level of ratios as applicable to the Company are as follows:

- k1 – 6%;
- k1-2 – 6%;
- k1-3 – 12%.

27 Contingencies

(a) Insurance

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

(b) Litigation

In the ordinary course of business, the Company 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 conditions or the results of future operations of the Company.

(c) Taxation contingencies in Kazakhstan

The taxation system in Kazakhstan is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities, in particular recognition of income, expenses and other items of the financial statements under IFRS. Taxes are subject to review and investigation by various levels of authorities, which have the authority to impose severe fines and interest charges. A tax year generally remains open for review by the tax authorities for five subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

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

28 Related party transactions

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

Total remuneration included in employee compensation is as follows (refer to Note 8):

	2018 '000 KZT	2017 '000 KZT
Members of the Board of Directors	20,967	46,483
Members of the Management Board	106,744	93,144
	127,711	**139,627**

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

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

	2018 '000 KZT	Average interest rate, %	2017 '000 KZT	Average interest rate, %
Statement of financial position				
Other liabilities	35,861	-	25,200	-

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

	2018 '000 KZT	2017 '000 KZT
Profit or loss		
Interest income	-	50

(b) Transaction with other related parties

Other related parties include "NMH Baiterek" JSC and its subsidiaries (together the "Baiterek Group") and other State organisations.

The amounts below are included in the statement of financial position, income statement and statement of comprehensive income for transactions with related parties as at 31 December 2018 and 2017:

28 Related party transactions, continued

(b) Transaction with other related parties, continued

	2018 '000 KZT	2018 '000 KZT	2017 '000 KZT	2017 '000 KZT
	Baiterek Group	State organisations	Baiterek Group	State organisations
Statement of profit or loss				
Interest income	3,937,254	1,084,411	3,071,347	170,206
Interest expense	(3,026,020)	(1,465,689)	(2,654,590)	(1,881,489)
Commission expense	-	(957)	-	(1,123)
Net foreign exchange loss	-	-	-	-
Net gain from repurchase of debt securities issued	-	-	-	-
Other income	-	68,946	-	303,265
General and administrative expenses	(55,111)	(538,604)	(131,200)	(463,009)
Income tax expense	-	(1,195,768)	-	(1,216,314)
Other comprehensive loss	-	-	-	-
Net change in fair value of available-for-sale financial assets	-	-	-	28,468

The balances with related parties as at 31 December 2018 include:

	Baiterek Group		State organisations	
	'000 KZT	Average interest rate, %	'000 KZT	Average interest rate, %
Cash and cash equivalents	11,915,286	7.75	21,878,794	8.23
Placements with banks	-	-	-	
Investment securities:				
- at fair value through profit or loss	-	-	-	
- at amortised cost	-	-	1,498,928	5.57
Current tax asset	-	-	2,045,362	-
Advances paid under finance lease	914,931	-	-	-
Other assets	-	-	25,397	-
Debt securities issued	28,320,637	10.90	10,412,650	12.15
Subordinated debt securities issued	-	-	-	-
Other borrowed funds	26,753,934	0.15	4,566,711	0.10
Deferred income	102,126,287	-	-	
Deferred tax liability	-	-	1,604,292	
Other liabilities	93,701	-	432,507	

28 Related party transactions, continued

(b) Transaction with other related parties, continued

The balances with related parties as at 31 December 2017 include:

	Baiterek Group		State organisations	
	'000 KZT	**Average interest rate, %**	**'000 KZT**	**Average interest rate, %**
Cash and cash equivalents			4,107,223	9.29
Placements with banks	-	-	1,291,453	6.55
Available-for-sale financial assets	-	-	2,402,212	8.7
Current tax asset	-	-	2,645,992	-
Advances paid under finance lease	2,000,000	-	-	-
Other assets	-	-	137,485	-
Debt securities issued	8,020,915	11.19	16,918,662	9.25
Other borrowed funds	25,596,002	0.15	4,236,797	0.10
Deferred income	106,893,420	-	-	-
Deferred tax liability	-	-	1,309,953	-
Other liabilities	59,600	-	643,221	-
Reserves on revaluation of available-for-sale financial assets	-	-	(344,458)	-

29 Financial assets and liabilities: fair values and accounting classification

(a) Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2018:

'000 KZT	Amortised cost	FVTPL	Total carrying amount	Fair value
Cash and cash equivalents	45,903,390	-	45,903,390	45,903,390
Placements with banks and other financial institutions	2,402,821	-	2,402,821	2,402,821
Investment securities measured:				
- at amortised cost	12,119,171	-	12,119,171	10,799,004
- at fair value through profit or loss	-	4,764,226	4,764,226	4,764,226
Loans to customers	43,066,563	-	43,066,563	38,562,914
Finance lease receivables	141,153,096	-	141,153,096	104,973,504
Other financial assets	484,713	-	484,713	484,713
	245,129,754	**4,764,226**	**249,893,980**	**207,890,572**
Debt securities issued	66,920,124	-	66,920,124	63,283,463
Other borrowed funds	31,320,645	-	31,320,645	30,594,086
Other financial liabilities	2,413,895	-	2,413,895	2,413,895
	100,654,664	**-**	**100,654,664**	**96,291,444**

29 Financial assets and liabilities: fair values and accounting classification, continued

(a) Accounting classifications and fair values, continued

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2017:

'000 KZT	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	21,800,196	-	-	21,800,196	21,794,974
Placements with banks and other financial institutions	6,109,035	-	-	6,109,035	6,109,035
Available-for-sale financial assets	-	9,234,246	-	9,234,246	9,234,246
Loans to customers	50,049,179	-	-	50,049,179	44,908,271
Finance lease receivables	117,838,422	-	-	117,838,422	80,753,525
Other financial assets	4,119,868	-	-	4,119,868	4,119,868
	199,916,700	**9,234,246**	**-**	**209,150,946**	**166,919,919**
Debt securities issued	-	-	43,177,214	43,177,214	41,130,180
Other borrowed funds	-	-	29,832,799	29,832,799	28,770,287
Other financial liabilities	-	-	8,953,388	8,953,388	8,953,388
	-	**-**	**81,963,401**	**81,963,401**	**78,853,855**

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

29 Financial assets and liabilities: fair values and accounting classification, continued

(a) Accounting classifications and fair values, continued

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

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

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

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

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

The estimates of fair value are intended to approximate the amount for which a financial instrument can be exchanged between knowledgeable, willing parties in an arm's length transaction. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

The following assumptions are used by management to estimate the fair values of financial instruments:

- discount rates of 12.5% - 14.0% are used for discounting future cash flows from loans to customers (2017: 12.7% - 14.0%);
- discount rates of 6.9% - 7.1% are used for discounting future cash flows from finance lease receivables (2017: 8.0% - 8.1%).

29 Financial assets and liabilities: fair values and accounting classification, continued

(b) Fair value hierarchy

The Company measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

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

The table below analyses financial instruments measured at fair value at 31 December 2018 and 2017, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position:

	2018 Level 2 '000 KZT	2017 Level 2 '000 KZT
Financial assets		
Investment securities at fair value through profit or loss	4,764,226	-
Available-for-sale financial assets	-	9,234,246
	4,764,226	**9,234,246**

As at 31 December 2018 and 2017 the Company does not have any financial instruments for which fair value is based on valuation techniques involving the use of non-market inputs.

29 Financial assets and liabilities: fair values and accounting classification, continued

(b) Fair value hierarchy, continued

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2018:

'000 KZT	Level 2	Level 3	Total fair values	Total carrying amount
Assets				
Cash and cash equivalents	45,903,390	-	45,903,390	45,903,390
Placements with banks and other financial institutions	2,402,821	-	2,402,821	2,402,821
Loans to customers	37,436,104	1,126,810	38,562,914	43,066,563
Finance lease receivables	104,752,477	221,027	104,973,504	141,153,096
Liabilities				
Debt securities issued	63,283,463	-	63,283,463	66,920,124
Other borrowed funds	30,594,086	-	30,594,086	31,320,645

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2017:

'000 KZT	Level 2	Level 3	Total fair values	Total carrying amount
Assets				
Cash and cash equivalents	21,794,974	-	21,794,974	21,800,196
Placements with banks and other financial institutions	6,109,035	-	6,109,035	6,109,035
Loans to customers	44,568,877	339,394	44,908,271	50,049,179
Finance lease receivables	80,583,090	170,435	80,753,525	117,838,422
Liabilities				
Debt securities issued	41,130,180	-	41,130,180	43,177,214
Other borrowed funds	28,770,287	-	28,770,287	29,832,799

30 Segment reporting

The Company's operations are highly integrated and constitute a single business segment for the purposes of IFRS 8 *Segment Reporting*. The Company's assets are concentrated in the Republic of Kazakhstan, and the Company's revenues are derived from operations in, and connected with, the Republic of Kazakhstan. The Chief Operating Decision Maker, in the case of the Company, the Chairman of the Management Board, only receives and reviews the information on the Company as a whole.