Industrial and Commercial Bank of China Almaty JSC

Financial Statements

for the year ended 31 December 2019

Contents

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Independent Auditors' Report

To the Shareholder and the Board of Directors of Industrial and Commercial Bank of China Almaty JSC

Opinion

We have audited the financial statements of Industrial and Commercial Bank of China Almaty JSC (the "Bank"), which comprise the statement of financial position as at 31 December 2019, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

Sergei Mesheryakov
Audit Director

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 its Charter

16 April 2020

	Note	2019 '000 KZT	2018 '000 KZT
Interest income calculated using the effective interest method			
Loans to corporate customers		2,769,761	2,768,042
Cash and cash equivalents		2,325,604	2,733,762
Investment securities measured at amortised cost		339,953	42,222
		5,435,318	**5,544,026**
Interest expense on financial liabilities measured at amortised cost			
Current accounts and deposits from customers		(294,809)	(525,993)
Due to banks		(1,408)	(52)
		(296,217)	**(526,045)**
Net interest income		**5,139,101**	**5,017,981**
Net fee and commission income	5	312,849	438,448
Net foreign exchange income			
- dealing operations		789,901	685,860
- translation differences		1,609	26,318
Income from sale of property, plant and equipment	12	480,624	-
Other income		29,772	37,201
Non-interest income		**1,301,906**	**749,379**
(Charge)/reversal of allowance for expected credit losses on loans to corporate customers	10	(95,119)	712
Reversal of allowance for expected credit losses on cash and cash equivalents		147	285
Personnel expenses	6	(626,296)	(527,257)
Other operating expenses	7	(214,973)	(227,753)
Taxes other than income tax		(28,719)	(27,093)
Depreciation and amortisation		(53,765)	(52,805)
Non-interest expense		**(1,018,725)**	**(833,911)**
Profit before income tax		**5,735,131**	**5,371,897**
Income tax expense	8	(1,130,076)	(1,033,047)
Profit and total comprehensive income for the year		**4,605,055**	**4,338,850**

The financial statements were approved by management on 16 April 2020 and were signed on its behalf by:

Lang Weijie
Chairman of the Board

Tatyana Maurer
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	31 December 2019 ’000 KZT	31 December 2018 * ’000 KZT
ASSETS			
Cash and cash equivalents	9	130,850,946	99,123,752
Placements with banks and other financial institutions		356,295	357,100
Loans to corporate customers	10	61,347,753	60,862,527
Investment securities measured at amortised cost	11	16,360,352	797,956
Financial instruments at fair value through profit or loss		-	13,850
Property, plant and equipment and intangible assets	12	685,672	685,178
Deferred tax asset	8	30,450	17,780
Other assets		108,936	159,817
Total assets		**209,740,404**	**162,017,960**
LIABILITIES			
Due to banks	13	4,781,573	2,245,037
Current accounts and deposits from customers:			
- Current accounts and deposits from corporate customers	14	160,203,810	129,329,917
- Current accounts and deposits from government entities	14	1,495,960	1,876,566
- Current accounts and deposits from retail customers	14	3,676,275	5,239,563
Other borrowed funds	15	13,552,494	-
Financial instruments at fair value through profit or loss		274	-
Other liabilities		82,109	84,033
Total liabilities		**183,792,495**	**138,775,116**
EQUITY	16		
Share capital		8,933,491	8,933,491
Statutory reserve		1,653,592	1,653,592
Retained earnings		15,360,826	12,655,761
Total equity		**25,947,909**	**23,242,844**
Total liabilities and equity		**209,740,404**	**162,017,960**

* The Bank initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2(e).

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

	2019 ’000 KZT	2018* ’000 KZT
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	5,143,725	5,763,820
Interest payments	(313,645)	(572,327)
Fee and commission receipts	354,744	480,335
Fee and commission payments	(18,018)	(35,934)
Net foreign exchange gain	789,901	685,860
Other income receipts	29,772	37,201
Personnel expenses paid	(631,126)	(544,437)
Other operating expenses paid	(254,000)	(249,286)
(Increase)/decrease in operating assets		
Placements with banks and other financial institutions	-	(347,100)
Loans to corporate customers	(790,679)	(35,735,620)
Financial instruments at fair value through profit or loss	13,850	(13,850)
Other assets	3,100	(2,845)
Increase/(decrease) in operating liabilities		
Due to banks	2,579,433	(1,274,541)
Current accounts and deposits from customers	29,206,341	53,400,607
Financial instruments at fair value through profit or loss	274	-
Net cash flows from operating activities before income tax paid	**36,113,672**	**21,591,883**
Income tax paid	(1,098,647)	(1,059,850)
Cash flows from operating activities	**35,015,025**	**20,532,033**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities measured at amortised cost	(21,026,009)	-
Repayment of held-to-maturity investments	5,720,028	-
Purchase of property, plant and equipment and intangible assets	(60,741)	(56,790)
Receipts from sale of property, plant and equipment	480,624	-
Cash flows used in investing activities	**(14,886,098)**	**(56,790)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from other borrowed funds	13,497,000	-
Dividends paid (Note 16)	(1,899,990)	-
Cash flows from financing activities	**11,597,010**	**-**
Net increase in cash and cash equivalents	**31,725,937**	**20,475,243**
Effect of changes in exchange rates on cash and cash equivalents	1,609	26,318
Effect of changes in expected credit losses (ECL) on cash and cash equivalents	(352)	(504)
Cash and cash equivalents at the beginning of the year	99,123,752	78,622,695
Cash and cash equivalents at the end of the year (Note 9)	**130,850,946**	**99,123,752**

* The Bank initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2(e).

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**	**Statutory reserve**	**Retained earnings**	**Total equity**
Balance at 1 January 2018	8,933,491	1,705,995	8,266,678	18,906,164
Impact of adopting IFRS 9 at 1 January 2018*	-	-	(2,170)	(2,170)
Restated balance as at 1 January 2018	**8,933,491**	**1,705,995**	**8,264,508**	**18,903,994**
Profit and total comprehensive income for the year	-	-	4,338,850	4,338,850
Disbandment of dynamic reserve (Note 16)	-	(52,403)	52,403	-
Balance at 31 December 2018	**8,933,491**	**1,653,592**	**12,655,761**	**23,242,844**
Balance at 1 January 2019	8,933,491	1,653,592	12,655,761	23,242,844
Profit and total comprehensive income for the year	-	-	4,605,055	4,605,055
Transactions with owners recorded directly in equity				
Dividends paid (Note 16)	-	-	(1,899,990)	(1,899,990)
Total transactions with owners	**-**	**-**	**(1,899,990)**	**(1,899,990)**
Balance at 31 December 2019	**8,933,491**	**1,653,592**	**15,360,826**	**25,947,909**

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

Industrial and Commercial Bank of China Almaty JSC (the "Bank") was established in the Republic of Kazakhstan on 3 March 1993. The principal activities are deposit taking and, opening and maintenance of the customer accounts, lending, issuing guarantees, cash and settlement operations and transactions with securities and foreign exchange. The activities of the Bank are regulated by the National Bank of the Republic of Kazakhstan (the "NBRK"). The Bank holds a general banking license #1.1.37 issued on 23 February 2016.

The Bank's registered office is rooms 845 and 846, 150/230 Abai Avenue, corner of Turgut Ozal Street, block 7, Almaty, 050046, Republic of Kazakhstan.

The Bank does not have any branches and subsidiaries. The majority of the Bank's assets and liabilities are located in the Republic of Kazakhstan.

The Bank is wholly-owned by Industrial and Commercial Bank of China JSC (the "Parent"), which is incorporated and operates in the People's Republic of China. The ultimate controlling party shareholder is the People's Republic of China. Related party transactions are detailed in Note 21.

(b) Kazakhstan business environment

The Bank's operations are primarily located in Kazakhstan. Consequently, the Bank is exposed to the economic and financial markets of the Kazakhstan, which display emerging-market characteristics. 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 first months of 2020 have seen significant global market turmoil triggered by the outbreak of the coronavirus. Together with other factors, this has resulted in a sharp decrease in the oil price and the stock market indices, as well as a continuing depreciation of the Kazakhstan tenge. These developments are further increasing the level of uncertainty in the Kazakhstan business environment.

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

2 Basis of preparation

(a) Statement of compliance

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

This is the first set of the Bank's financial statements in which IFRS 16 *Leases* has been applied. Changes to significant accounting policies are described in Note 2(e).

(b) Basis for measurement

The financial statements are prepared on the historical cost basis except that financial instruments are stated at fair value through profit or loss.

(c) Functional and presentation currency

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

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

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

(d) Use of estimates and judgments

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.

Judgements

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

- 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 significant assumptions and estimation uncertainties made in these financial statements for the year ended 31 December 2019 is included in the following notes:

- Impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information – Note 4;
- Impairment of loans to corporate customers - Note 10;
- fair value of financial assets and liabilities – Note 22.

(e) Changes in accounting policies and presentation

IFRS 16

The Bank has initially adopted IFRS 16 *Leases* from 1 January 2019.

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

Definition of a lease

Previously, the Bank contained a lease under IFRIC 4 *Determining Whether an Arrangement contains a Lease*. The Bank now assesses whether a contract is or contains a lease based on the new definition of a lease.

On transition to IFRS 16, the Bank elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed to determine, whether they are lease contracts in accordance with IFRS 16. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

Leases in which the Bank is a lessee

The Bank leases only one item of property for the representative office in the city of Nur-Sultan.

The Bank previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Bank recognises right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

Leases classified as operating leases under IAS 17

Previously, the Bank classified property leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Bank's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

On transition date the Bank reviewed the right-of-use assets for impairment and arrived at conclusion that the there is no evidence of impairment of the right-of-use assets.

Detailed information on the accounting policy in accordance with IFRS 16 and IAS 17 is provided in Note 3(n).

3 Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these financial statements, except as explained in Note 2(e), which relate to application by the Bank of IFRS 16 effective from 1 January 2019.

(a) Foreign currency transactions

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

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

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

(b) Interest income and expense

Effective interest rate

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

The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

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

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

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

Amortised cost and gross carrying amount

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

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

Calculation of interest income and expense

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

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

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset.

The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see 3(e)(iv).

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and other comprehensive income includes interest income on financial assets measured at amortised cost.

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

(c) Fee and commission income and expense

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.

Other fee and commission income – including account servicing fees, remittance and cash operations, fees for placement and origination of a syndicated loan - is recognised as the related services are provided.

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

Other fee and commission expense includes mostly the service costs, which are expenses as soon as the respective services are received.

(d) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with the NBRK and other banks, and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of short-term commitments. The mandatory reserve deposit with the NBRK is not considered to be a cash equivalent, due to restrictions on its withdrawability. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(e) Financial assets and financial liabilities

(i) Classification

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or 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;
- ECL and reversals; and
- foreign exchange gains and losses.

When a debt financial asset measured at FVOCI 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 Bank may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment-by-investment basis.

Gains and 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 unless they clearly represent a recovery of part of the cost of the 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 FVTPL.

In addition, on initial recognition the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Bank 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 Bank'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 Bank'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 and 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 profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank 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 Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements);
- 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 Bank changes its business model for managing financial assets.

(ii) Derecognition

Financial assets

The Bank 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 Bank 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.

The Bank enters into transactions whereby it transfers assets recognised on 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 Bank 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 Bank 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 Bank derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

(iii) Modification of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (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 Bank due to changes in the NBRK refinancing rate, if the loan agreement entitles the Bank to do so.

The Bank 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 Bank 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 Bank analogises to the guidance on the derecognition of financial liabilities.

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

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

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 Bank 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 Bank 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 Bank 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 financial 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(b)).

For fixed-rate loans, where the borrower has an option to prepay the loan at par without significant penalty, the Bank 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 Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss. The consideration paid includes non-financial assets transferred, if any, and the liabilities assumed, including the new modified financial liability.

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

- change in 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.

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.

(iv) Impairment

See also Note 4.

The Bank 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;
- financial guarantee contracts issued (previously, impairment was measured under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.)

The Bank 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; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition (see Note 4).

The Bank considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

12-month expected credit losses (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 a financial instrument. Financial instruments, for which a lifetime ECL is recognised are referred to as 'Stage 2' financial instruments (if the credit risk has increased significantly since initial recognition, but the financial instruments are not credit-impaired) and 'Stage 3' financial instruments (if the financial instruments are credit-impaired).

Measurement of expected credit losses (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 Bank in accordance with the contract and the cash flows that the Bank 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;
- *financial guarantee contracts*: the present value of expected payments to reimburse the holder less any amounts that the Bank 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.

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets at FVOCI are credit-impaired. 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;
- restructuring of a loan or advance on terms that the Bank would not consider otherwise;
- it is 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 was renegotiated due to a deterioration in the borrower's condition was usually considered to be impaired unless there was evidence that the risk of not receiving contractual cash flows had reduced significantly and there were no other indicators of impairment.

In addition, a loan that is overdue for 60 days or more is considered credit-impaired.

In making an assessment of whether an investment in sovereign debt (other financial assets) is credit-impaired, the Bank considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields.
- the rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

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

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. This is generally the case when the Bank 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.

Recoveries of amounts previously written off are included in 'recovery of loss allowance for expected credit losses on debt financial assets' in the statement of profit or loss and other comprehensive income.

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

Non-integral financial guarantee contracts

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

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

(f) Non-financial assets

Impairment

Non-financial assets, other than deferred tax assets, 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.

(g) Loans to customers

'Loans to corporate 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.

(h) Investment securities

The 'investment securities measured at amortised cost' 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.

(i) Deposits and other borrowed funds

Deposits and other borrowed funds are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

(j) 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. Items of property, plant and equipment are depreciated from the date that they are acquired, or in respect of internally constructed assets, from the date that the asset is completed and ready for us. Land is not depreciated. The estimated useful lives of various items of property, plant and equipment are as follows:

buildings	50 years;
computers	4 years;
vehicles	5 years;
other	9 years.

(k) 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 life of intangible assets ranges from 5 to 10 years.

(l) 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) Dividends

The ability of the Bank to declare and pay dividends is subject to acting legislation of the Republic of Kazakhstan.

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

(m) Taxation

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

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

Deferred tax is 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 asset is not recognised for the initial recognition of temporary differences that affect neither accounting nor taxable profit or loss.

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.

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

(n) Leases

The Bank has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2019

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

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

Leases in which the Bank is a lessee

At commencement or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

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

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

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

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

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

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

The Bank presents right-of-use assets in 'property, plant and equipment, and intangible assets' and lease liabilities in 'other liabilities' in the statement of financial position.

Policy applicable before 1 January 2019

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

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

Leases in which the Bank is a lessee

In the comparative period, as a lessee the Bank classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognised in the Bank's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

(o) Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Bank has not early adopted the new or amended standards in preparing these financial statements.

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

- *Amendments to References to Conceptual Framework in IFRS Standards.*
- *Definition of a Business (Amendments to IFRS 3).*
- *Definition of Material (Amendments to IAS 1 and IAS 8).*
- *IFRS 17 Insurance Contracts.*

4 Financial risk review

This note presents information about the Bank's exposure to financial risks. For information on the Bank's financial risk management framework, see Note 17.

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 risk of default on a financial instrument has increased significantly since initial recognition, the Bank 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 Bank'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).

The Bank uses the following criteria for determining whether there has been a significant increase in credit risk:

- qualitative indicators such as negative external information (e.g. overdue loans of borrowers with other banks), evaluation of future creditworthiness (previous credit history, etc.); and
- backstop of 30 days past due.

Credit risk grades

The Bank 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 the risk of default. These factors may vary depending on the nature of the exposure and the type of borrower.

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/counteragent. 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

- Information obtained during periodic review of borrowers' files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes.
- Payment record – this includes overdue status as well as a range of variables about payment ratios
- 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 Bank 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. For some portfolios, information purchased from external credit reference agencies is also used.

The Bank 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.

Determining whether credit risk has increased significantly

The Bank assesses whether credit risk has increased significantly since initial recognition at each reporting period. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower/issuer, and the geographical region. What is considered significant will differ for different types of lending.

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Bank's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as placement on a watch list. Such qualitative factors are based on its expert judgement and relevant historical experience.

As a backstop, the Bank considers, amongst other, 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.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency of forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases the Bank determines a probation period (12-month period) during which the financial asset is required to demonstrated good behaviour to provide evidence that its credit risk has declined sufficiently. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes history of up-to-date payment performance against the modified contractual terms.

Definition of default

The Bank considers a financial asset to be in default when (but not limited to):

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
- the borrower is past due more than 60 days on any material credit obligation to the Bank;
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower’s inability to pay its credit obligations.

In assessing whether a borrower is in default, the Bank considers indicators that are (but not limited to):

- qualitative – e.g. breaches of covenant;
- quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; 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.

Incorporating of forward-looking information

The Bank 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, using the coefficient calculated at the ICBC group’s level.

Measurement of ECL

The key inputs into the measurement of ECL are generally 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.

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

Due to lack of own supportable information about the foreclosure of collateral for at least two years period, the Bank applies liquidity ratios set by the NBRK for calculation of a recovery rate (1-LGD) to the value of collateral, for calculation of expected credit losses.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the borrower and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EAD is potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower’s extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Bank considers a longer period.

For portfolios in respect of which the Bank has limited historical data, external benchmark information is used to supplement the internally available data.

The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows.

		External benchmarks used	
’000 KZT	**Exposure at 31 December 2019**	**PD**	**LGD**
Cash and cash equivalents	130,850,946	S&P default study/ICBC group’s default study	Moody’s recovery studies/ From 0% to 100% depending on the type of collateral in accordance with NBRK requirements; 0% - if the counterparty is the Government of the Republic of Kazakhstan, the NBRK or national managing holding companies
Placements with banks and other financial institutions	356,295		
Loans to corporate customers	61,347,753		
Investment securities measured at amortised cost	16,360,352		
Other financial assets	27,330		

5 Net fee and commission income

	2019 ’000 KZT	**2018 ’000 KZT**
Fee and commission income:		
Agency services	175,456	348,609
Transfer operations	113,276	79,594
Cash operations	32,832	40,454
Guarantee and letter of credit issuance	2,721	2,741
Other fee and commission income	6,582	2,984
Total fee and commission income	**330,867**	**474,382**
Fee and commission expense:		
Transfer operations	(9,008)	(6,337)
Cards maintenance	(1,403)	(3,494)
Commission for repurchased loans	-	(21,550)
Other	(7,607)	(4,553)
Total fee and commission expense	**(18,018)**	**(35,934)**
Net fee and commission income	**312,849**	**438,448**

Fee income for agency services includes commissions earned by the Bank for acting as an agent for syndicated loans issued to the residents of the Republic of Kazakhstan jointly with Industrial and Commercial Bank of China Dubai branch, Commercial Bank of China Singapore branch, China Development Bank, the Export-Import Bank of China and Industrial and Commercial Bank of China (Head Office). The Bank provides services of administration of these loans. Revenue related to transactions and fees for administration of a loan syndication are recognised over time as the services are provided. Revenue related to transactions is recognised at the point in time when the transaction takes place.

Fee and commission income that are not integral to the effective interest rate on a financial asset or financial liability, is recognised depending on the type of the service either at the point in time or as the Bank satisfies its performance obligation under the contract:

- commission for transfer operations and cash operations is charged for execution of customers’ payment orders in accordance with the tariffs depending on the type of transaction and is recognised as income at the time when transaction is performed;
- commission for guarantee and letter of credit issuance is paid by customers in advance and is recognised as income over the term of validity of a relevant guarantee or letter of credit.

6 Personnel expenses

	2019 '000 KZT	2018 '000 KZT
Employee compensation	569,218	478,565
Payroll related taxes	57,078	48,692
	626,296	**527,257**

7 Other operating expenses

	2019 '000 KZT	2018 '000 KZT
Travel expenses	53,644	39,242
Information and communication services	25,485	21,810
Representation expenses	18,849	36,528
Utilities	17,374	16,592
Professional services	11,391	17,182
Security	11,360	11,124
Membership fees	9,886	10,162
Deposit insurance	7,408	8,024
Training expenses	7,228	5,345
Information technology services	6,230	6,680
Insurance	6,202	6,057
Office supplies	5,106	4,422
Translation and notary services	4,128	2,107
Transportation expenses	3,450	2,896
Repair and maintenance	3,424	3,616
Advertising expenses	1,354	1,976
Cash collection	763	744
New office presentational event	-	15,596
Other	21,691	17,650
	214,973	**227,753**

8 Income tax expense

	2019 '000 KZT	2018 '000 KZT
Current year tax expense	(1,098,648)	(1,050,827)
Income tax underprovided in prior periods	(44,098)	-
Total current tax expense	**(1,142,746)**	**(1,050,827)**
Movement in deferred tax assets and liabilities due to origination and reversal of temporary differences	12,670	17,780
Total income tax expense	**(1,130,076)**	**(1,033,047)**

In 2019, the applicable tax rate for current and deferred tax was 20% (2018: 20%).

Reconciliation of effective tax rate for the year ended

	2019 '000 KZT	%	2018 '000 KZT	%
Profit before income tax	**5,735,131**		**5,371,897**	
Income tax at the applicable tax rate	(1,147,026)	(20.0)	(1,074,379)	(20.0)
Non-taxable income on government securities	67,991	1.2	8,444	0.2
Income tax underprovided in prior periods	(44,098)	0.8	-	-
Other (non-deductible expenses)/non-taxable income	(6,943)	(0.1)	32,888	0.6
	(1,130,076)	**(19.7)**	**(1,033,047)**	**(19.2)**

Deferred tax assets and liabilities

The deductible temporary differences do not expire under current tax legislation.

Movements in temporary differences during the years ended 31 December 2019 and 2018 are presented as follows.

'000 KZT	Balance at 1 January 2019	Recognised in profit or loss	Balance at 31 December 2019
Property, plant and equipment and intangible assets	4,679	542	5,221
Other liabilities	13,101	12,128	25,229
	17,780	**12,670**	**30,450**

'000 KZT	Balance 1 January 2018	Recognised in profit or loss	Balance as at 31 December 2018
Property, plant and equipment and intangible assets	-	4,679	4,679
Other liabilities	-	13,101	13,101
	-	**17,780**	**17,780**

9 Cash and cash equivalents

	31 December 2019 '000 KZT	31 December 2018 '000 KZT
Cash on hand	212,779	324,847
Nostro accounts with the NBRK (rated BBB-)	67,860,897	60,195,112
Nostro accounts with other banks		
rated from A- to A+	22,880,387	4,304,202
rated from BBB- to BBB+	601	845
rated from BB- to BB+	9,629	1,715
not rated		63,857
Total nostro accounts with other banks	**22,890,617**	**4,370,619**
Loss allowance	(22)	(27)
Total nostro accounts with other banks, net	**22,890,595**	**4,370,592**
Cash equivalents		
Term deposits with the NBRK (rated BBB-)	22,658,903	26,518,219
Term deposits with other banks		
rated from A- to A+	5,742,240	-
rated from BBB- to BBB+	11,485,862	3,849,372
rated from BB- to BB+	-	3,866,087
Total term deposits with other banks	**17,228,102**	**7,715,459**
Loss allowance	(330)	(477)
Total term deposits with other banks, net	**17,227,772**	**7,714,982**
Total cash equivalents	**39,886,675**	**34,233,201**
Total cash and cash equivalents	**130,850,946**	**99,123,752**

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

All cash and cash equivalents are allocated to Stage 1 of the credit risk grade.

As at 31 December 2019 the Bank has seven banks (31 December 2018: four banks), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2019 is KZT 124,383,812 thousand (31 December 2018: KZT 96,915,364 thousand).

Analysis of movements in the loss allowance

'000 KZT	31 December 2019 Stage 1	31 December 2018 Stage 1
Cash and cash equivalents		
Balance at 1 January	504	-
Effect of transition to IFRS 9	-	654
Balance at 1 January	**504**	**654**
Net remeasurement of loss allowance	(147)	(285)
Foreign exchange	(5)	135
Balance at 31 December	**352**	**504**

Minimum reserve requirements

In accordance with regulations issued by the NBRK, minimum reserve requirements are calculated as average of totals of specified proportions of different groups of banks liabilities for period of twenty eight calendar days. Banks are required to comply with these requirements by maintaining average reserve assets (in the form of local currency cash on hand and balances on current accounts with the NBRK in national currency) equal or in excess of the average minimum requirements. As at 31 December 2019, the minimum reserve is KZT 4,115,295 thousand (31 December 2018: KZT 3,626,862 thousand).

10 Loans to corporate customers

	31 December 2019 '000 KZT	31 December 2018 '000 KZT
Loans to corporate customers	61,443,676	60,863,331
Total loans to corporate customers	**61,443,676**	**60,863,331**
Loss allowance	(95,923)	(804)
Net loans to corporate customers	**61,347,753**	**60,862,527**

All loans to corporate customers are not past due and allocated to Stage 1 of the credit risk grade.

(a) Analysis of movements in the loss allowance

'000 KZT	31 December 2019 Stage 1	31 December 2018 Stage 1
Loans to corporate customers at amortised cost		
Balance at 1 January	804	-
Effect of transition to IFRS 9	-	1,516
Balance at 1 January	**804**	**1,516**
Net remeasurement of loss allowance	95,119	(712)
Balance at 31 December	**95,923**	**804**

(b) Key assumptions and judgments for estimating the loan impairment

The Bank estimates the loss allowance on loans to corporate customers in accordance with the accounting policy as described in Note 3(e)(iv). The key assumptions used in estimating loss allowances for the current year generally include the borrower's credit rating.

In 2019 the Bank revised the methodology for assigning a rating to corporate borrowers to calculate the loss allowance for loans. During 2018, in the absence of the borrower's credit rating, the Bank used the credit rating of its parent company (if any). During 2019, the Bank moved to determining the borrower's internal rating, not taking into account the parent company's rating, which resulted in additional accrual of expected credit losses on loans of KZT 94,306 thousand.

Changes in these estimates could affect the loss allowance for loans issued. For example, to the extent that the net present value of the estimated cash flows differs by plus or minus one percent, the loss allowance for loans to corporate customers as at 31 December 2019 would be KZT 613,478 thousand lower/higher (31 December 2018: KZT 608,625 thousand).

(c) Analysis of collateral

Loans to corporate customers

Loans to corporate customers are subject to individual credit appraisal and impairment testing. The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of the loan extended to it. However, collateral provides additional security and the Bank generally requests corporate borrowers to provide it.

The following tables provides information on collateral and other credit enhancements securing loans to corporate customers:

31 December 2019 **’000 KZT**	**Carrying amount of loans to customers**	**Fair value of collateral not determined**
Third party guarantees (with group rating A)	4,090,835	4,090,835
No collateral	57,256,918	-
Total loans to corporate customers	**61,347,753**	**4,090,835**

31 December 2016 **’000 KZT**	**Carrying amount of loans to customers**	**Fair value of collateral not determined**
Third party guarantees (with group rating A)	3,405,747	3,405,747
No collateral	57,456,780	-
Total loans to corporate customers	**60,862,527**	**3,405,747**

The tables above exclude overcollateralisation.

As at 31 December 2019 an uncollateralised loan of KZT 57,256,918 thousand is issued to a Kazakhstan State Holding (31 December 2018: KZT 57,456,780 thousand).

The recoverability of these loans is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the current value of the collateral does not impact the impairment assessment.

(d) Industry and geographical analysis of the loan portfolio

Industry analysis of the loan portfolio

Loans to customers were issued to customers who operate in the following economic sectors:

	31 December 2019 **’000 KZT**	**31 December 2018** **’000 KZT**
Kazakhstan State Holding	57,256,918	57,456,780
Finance	4,186,758	3,406,551
	61,443,676	**60,863,331**
Impairment allowance	(95,923)	(804)
	61,347,753	**60,862,527**

Geographical analysis of the loan portfolio

Loans were issued to the customers operating in the Republic of Kazakhstan.

(e) Significant credit exposures

As at 31 December 2019 the Bank has two borrowers (31 December 2018: two borrowers), whose loan balances exceed 10% of equity. The gross value of these loans as at 31 December 2019 is KZT 61,347,753 thousand (31 December 2018: KZT 60,862,527 thousand).

(f) Loan maturities

The maturity of the loan portfolio is presented in note 17(d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

11 Investment securities measured at amortised cost

The entire amount of investment securities measured at amortised cost is represented by treasury bills of the Ministry of Finance of the Republic of Kazakhstan, which are denominated in tenge, rated BBB- and mature in 2023 and 2026.

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

The Bank holds these securities within a business model whose objective is to hold assets to collect contractual cash flows. Officially published price quotations for similar debt securities with identical terms are available at local stock exchange.

As at 31 December 2019 there are no expected credit losses allowances for investment securities measured at amortised cost (31 December 2018: none).

All investment securities measured at amortised cost are allocated to Stage 1 of credit risk level.

12 Property, plant and equipment and intangible assets

’000 KZT	Land and buildings	Computer equipment	Vehicles	Other	Intangible assets	Total
Cost						
Balance at 1 January 2019	772,079	78,812	39,115	85,541	47,643	1,023,190
Additions	19,435	10,621	-	29,995	690	60,741
Disposals/internal transfers	(50,019)	(8,445)	-	(10,287)	(693)	(69,444)
Balance at 31 December 2019	**741,495**	**80,988**	**39,115**	**105,249**	**47,640**	**1,014,487**
Depreciation and amortisation						
Balance at 1 January 2019	(174,011)	(49,250)	(32,977)	(57,494)	(24,280)	(338,012)
Depreciation charge for the year	(21,629)	(14,971)	(1,950)	(10,673)	(4,542)	(53,765)
Disposals	45,839	6,860	-	9,570	693	62,962
Balance at 31 December 2019	**(149,801)**	**(57,361)**	**(34,927)**	**(58,597)**	**(28,129)**	**(328,815)**
Carrying amount						
At 31 December 2019	**591,694**	**23,627**	**4,188**	**46,652**	**19,511**	**685,672**
Cost						
Balance at 1 January 2018	765,488	58,064	39,115	75,556	28,774	966,997
Additions	6,591	21,353	-	10,487	18,869	57,300
Disposals	-	(605)	-	(502)	-	(1,107)
Balance at 31 December 2018	**772,079**	**78,812**	**39,115**	**85,541**	**47,643**	**1,023,190**
Depreciation and amortisation						
Balance at 1 January 2018	(152,715)	(34,749)	(28,885)	(49,043)	(20,412)	(285,804)
Depreciation charge for the year	(21,296)	(15,098)	(4,092)	(8,451)	(3,868)	(52,805)
Disposals	-	597	-	-	-	597
Balance at 31 December 2018	**(174,011)**	**(49,250)**	**(32,977)**	**(57,494)**	**(24,280)**	**(338,012)**
Carrying amount						
At 31 December 2018	**598,068**	**29,562**	**6,138**	**28,047**	**23,363**	**685,178**

During 2019, the Bank sold several dormitory rooms with a total carrying amount of KZT 3,746 thousand to different individuals for KZT 480,624 thousand.

Other property, plant and equipment include the right-of-use of the assets in the amount of KZT 11,484 thousand related to leases that do not meet the definition of investment property.

13 Due to banks

	31 December 2019 '000 KZT	31 December 2018 '000 KZT
Vostro accounts of the banks of the Republic of Kazakhstan	4,481,758	1,647,092
Vostro accounts of the foreign banks	228,121	312,632
Vostro accounts of the Parent Bank	71,694	285,313
	4,781,573	**2,245,037**

As at 31 December 2019 the Bank has one bank (2018: none), whose balances exceed 10% of equity. The gross value of this balance as at 31 December 2019 is KZT 3,729,576 thousand.

14 Current accounts and deposits from customers

	31 December 2019 '000 KZT	31 December 2018 '000 KZT
Current accounts and deposits from corporate customers		
- Current accounts and demand deposits	127,213,498	88,679,403
- Term deposits	32,990,312	40,650,514
Total current accounts and deposits from corporate customers	**160,203,810**	**129,329,917**
Current accounts and demand deposits from the state entities		
- Current accounts and demand deposits	1,495,960	1,876,566
Total current accounts and demand deposits from the state entities	**1,495,960**	**1,876,566**
Current accounts and deposits from retail customers		
- Current accounts and demand deposits	3,636,837	5,225,617
- Term deposits	39,438	13,946
Total current accounts and deposits from retail customers	**3,676,275**	**5,239,563**
	165,376,045	**136,446,046**

As at 31 December 2019, the Bank maintained customer deposit balances of KZT 192,000 thousand (2018: KZT 1,478,018 thousand) that serve as collateral for unrecognised credit instruments granted by the Bank.

As at 31 December 2019 the Bank has eight customers (2018: ten customers), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2019 are KZT 140,693,892 thousand (2018: KZT 119,757,018 thousand).

15 Other loans and borrowings

	Date of issue	Maturity date	Currency	Nominal interest rate, %	31 December 2019 '000 KZT
Other loans and borrowings					
Unsecured loans and borrowings	13/12/2019	14/01/2020	JPY	0.07	7,744,289
Unsecured loans and borrowings	26/12/2019	26/01/2021	JPY	0.21	5,808,205
					13,552,494

In December 2019, the Bank concluded two short-term and long-term loan agreements with the Industrial and Commercial Bank of China, Tokyo Branch for JPY 2,200,000 and JPY 1,650,000, respectively. The loans are payable at maturity. The short-term loan was fully repaid in January 2020 in accordance with the repayment schedule.

Reconciliation of movements of liabilities to cash flows from financing activities

’000 KZT	Other loans and borrowings
Balance at 1 January 2019	**-**
Changes from financing cash flows	
Proceeds from other loans and borrowings	13,497,000
Total changes from financing cash flows	**13,497,000**
Effect of changes in foreign exchange rates	**55,000**
Other changes	
Interest expense	494
Balance at 31 December 2019	**13,552,494**

16 Share capital and reserves

(a) Issued capital

The authorised, issued and outstanding share capital comprises 14,238 ordinary shares (31 December 2018: 14,238 ordinary shares). All shares are denominated in KZT and have a placement value of KZT 627,440 each.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank.

(b) Dividends

Under the legislation of the Republic of Kazakhstan and the Bank’s charter documents the dividends available for distribution are subject to statutory regulation of the Republic of Kazakhstan.

In 2019, the Bank declared and paid dividends of KZT 1,899,990 thousand, KZT 133,445 per ordinary share (2018: none).

(c) Nature and purpose of reserves

Until 2013, in accordance with Resolution #196 *On Establishment of Minimum Limit on Reserve Capital of Second-Tier Banks* issued by the Committee on 28 August 2009, the Bank had to establish reserve capital by transferring an amount from retained earnings to a non-distributable reserve. The amount to be transferred each year was calculated as the net profit for the preceding year before distribution of dividends attributable to ordinary shareholders, multiplied by the percentage increase in classified assets and contingent liabilities (as defined in the Resolution #296 *On Approval of the Rules of Classification of Assets, Contingent Liabilities and Creation of Provisions (Reserves) against Assets and Contingent Liabilities* issued by the Committee on 25 December 2006) during the preceding year. Such percentage increase had to be not less than 10% and not more than 100%. Those Resolutions ceased to be in force during 2013.

As at 31 December 2019 and 31 December 2018, the Bank has not transferred funds from retained earnings to a general bank reserve.

As at 31 December 2019 and 31 December 2018 the Bank’s reserve capital was not dissolved.

17 Risk management

Management of risk is fundamental to the business of banking and forms an essential element of the Bank’s operations. The major risks faced by the Bank are those related to market risk, credit risk and liquidity risk.

(a) Risk management policies and procedures

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

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

The Management Board is responsible for monitoring and implementation of risk mitigation measures and making sure that the Bank operates within the established risk parameters. The Risk Management Department 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.

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

Both external and internal risk factors are identified and managed throughout the organisation. Particular attention is given to identifying the full range of risk factors and 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 through the use of risk management tools provided by internal documents (procedures) of the Bank.

(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, while optimising the return on risk.

Overall authority for market risk is vested in the Asset and Liability Committee (ALCO).

The Bank manages its market risk by setting open position limits in relation to financial instruments, currency positions and stop-loss limits. These are monitored on a regular basis and reviewed by the ALCO, Management Board and the Board of Directors and the Protocol/Decision is issued.

(i) Interest rate risk

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

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**	**From 3 to 6 months**	**From 6 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Non-interest bearing**	**Carrying amount**
31 December 2019							
ASSETS							
Cash and cash equivalents	60,750,792	-	-	-	-	70,100,154	130,850,946
Placements with banks and other financial institutions	-	-	-	-	-	356,295	356,295
Loans to corporate customers	57,277,009	-	-	4,070,744	-	-	61,347,753
Investment securities measured at amortised cost	8,958,178	3,828,180	2,796,217	277,777	500,000	-	16,360,352
Other financial assets	-	-	-	-	-	27,330	27,330
	126,985,979	**3,828,180**	**2,796,217**	**4,348,521**	**500,000**	**70,483,779**	**208,942,676**
LIABILITIES							
Due to banks	-	-	-	-	-	4,781,573	4,781,573
Current accounts and deposits from customers	11,873,485	11,508,737	5,711,303	-	-	136,282,520	165,376,045
Other loans and borrowings	7,744,289			5,808,205	-		13,552,494
Other financial liabilities	-	-	-	-	-	642	642
	19,617,774	**11,508,737**	**5,711,303**	**5,808,205**	**-**	**141,064,735**	**183,710,754**
	107,368,205	**(7,680,557)**	**(2,915,086)**	**(1,459,684)**	**500,000**	**(70,580,956)**	**25,231,922**

’000 KZT	**Less than 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Non-interest bearing**	**Carrying amount**
31 December 2018							
ASSETS							
Cash and cash equivalents	36,016,224	-	-	-	-	63,107,528	99,123,752
Placements with banks and other financial institutions	-	-	-	-	-	357,100	357,100
Loans to corporate customers	57,483,331	-	3,379,196	-	-	-	60,862,527
Investment securities measured at amortised cost	-	10,019	10,160	277,777	500,000	-	797,956
Other financial assets	-	-	-	-	-	23,877	23,877
	93,499,555	**10,019**	**3,389,356**	**277,777**	**500,000**	**63,488,505**	**161,165,212**
LIABILITIES							
Due to banks	799,667	-	-	-	-	1,445,370	2,245,037
Current accounts and deposits from customers	53,888,313	6,082	13,849,072	-	-	68,702,579	136,446,046
Other financial liabilities	-	-	-	-	-	336	336
	54,687,980	**6,082**	**13,849,072**	**-**	**-**	**70,148,285**	**138,691,419**
	38,811,575	**3,937**	**(10,459,716)**	**277,777**	**500,000**	**(6,659,780)**	**22,473,793**

(ii) Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2019 and 31 December 2018. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2019 Average effective interest rate, %			**2018 Average effective interest rate, %**		
	KZT	**USD**	**Other currencies**	**KZT**	**USD**	**Other currencies**
Interest bearing assets						
Cash and cash equivalents	8.25	2.33	0.72	8.25	2.59	0.90
Loans to corporate customers	11.00	3.50	-	12.00	3.89	-
Investment securities measured at amortised cost	9.68	-	-	5.43	-	-
Interest bearing liabilities						
Due to banks						
- Vostro accounts	-	0.01	0.05	-	0.01	0.05
Other loans and borrowings	-	-	0.13	-	-	-
Current accounts and deposits from customers						
- Current accounts and demand deposits	-	-	-	0.07	0.27	0.50
- Term deposits	-	0.53	0.31	-	1.00	-

(iii) 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 rates (repricing risk) based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2019 and 31 December 2018 is as follows:

	2019 ’000 KZT	**2018 ’000 KZT**
100 bp parallel rise	707,344	250,781
100 bp parallel fall	(707,344)	(250,781)

(iv) Currency risk

The Bank has assets and liabilities denominated in several foreign currencies.

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

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

	USD '000 KZT	CNY '000 KZT	Other currencies '000 KZT	Total '000 KZT
ASSETS				
Cash and cash equivalents	80,951,590	12,661,401	13,633,044	107,246,035
Placements with banks and other financial institutions	191,295	-	-	191,295
Loans to corporate customers	57,256,918	-	-	57,256,918
Total assets	**138,399,803**	**12,661,401**	**13,633,044**	**164,694,248**
LIABILITIES				
Due to banks	245,538	3,864,996	7,275	4,117,809
Current accounts and deposits from customers	139,829,389	8,797,550	77,478	148,704,417
Other borrowed funds	-	-	13,552,494	13,552,494
Total liabilities	**140,074,927**	**12,662,546**	**13,637,247**	**166,374,720**
Net position	**(1,675,124)**	**(1,145)**	**(4,203)**	**(1,680,472)**
Effect of derivatives held for risk management	**2,448,576**	**-**	**-**	**2,448,576**
Net position given the effect of derivatives held for risk management	**773,452**	**(1,145)**	**(4,203)**	**768,104**

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

	USD '000 KZT	CNY '000 KZT	Other currencies '000 KZT	Total '000 KZT
ASSETS				
Cash and cash equivalents	70,926,966	1,099,210	38,608	72,064,784
Placements with banks and other financial institutions	192,100	-	-	192,100
Loans to corporate customers	57,456,780	-	-	57,456,780
Total assets	**128,575,846**	**1,099,210**	**38,608**	**129,713,664**
LIABILITIES				
Due to banks	1,040,705	655,457	6,735	1,702,897
Current accounts and deposits from customers	129,074,989	443,386	31,799	129,550,174
Other financial liabilities	336	-	-	336
Total liabilities	**130,116,030**	**1,098,843**	**38,534**	**131,253,407**
Net position	**(1,540,184)**	**367**	**74**	**(1,539,743)**
Effect of derivatives held for risk management	**1,613,640**	**-**	**-**	**1,613,640**
Net position given the effect of derivatives held for risk management	**73,456**	**367**	**74**	**73,897**

A weakening of KZT, as indicated below, against the following currencies at 31 December 2019 and 2018 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 Bank 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.

	2019 '000 KZT	2018 '000 KZT
30% appreciation of USD against KZT	185,628	17,629
10% appreciation of CNY against KZT	(92)	29
10% appreciation of other currencies against KZT	(336)	6

A strengthening of the KZT against the above currencies at 31 December 2019 and 31 December 2018 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(c) Credit risk

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

The credit policy establishes:

- procedures for review and approval of loan applications;
- methodology for assessment of creditworthiness of borrower;
- methodology for the credit rating of borrowers;
- methodology for the evaluation of collateral;
- credit documentation requirements;
- procedures for the ongoing monitoring of loans and other credit exposures.

Loan credit applications are reviewed by the Corporate Business Department, which is responsible for the loan portfolios. Conclusions of the managers of the Corporate Business Department are based on a structured analysis focusing on the customer's business and financial performance. The loan credit applications then undergo a legal examination and an examination on the economic security, carried out by the Security Service, the Legal Department and the Compliance Control Department. The Risk Management Department prepares independent risk-conclusion and verifies that credit policy requirements are met. The Credit Committee reviews the loan credit application on the basis of submissions by the above-stated departments and services of the Bank. Individual transactions are also reviewed by the Accounting Department depending on the specific risks.

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

Apart from individual customer analysis, the credit portfolio is assessed by the Risk Management Department with regard to credit concentration and market risks.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the statement of financial position and unrecognised contractual commitment amounts. 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:

	31 December 2019 '000 KZT	31 December 2018 '000 KZT
ASSETS		
Cash equivalents	130,638,167	98,798,905
Placements with banks and other financial institutions	356,295	357,100
Loans to corporate customers	61,347,753	60,862,527
Investment securities at amortised cost	16,360,352	797,956
Financial instruments at fair value through profit or loss	-	13,850
Other financial assets	27,330	23,877
Total maximum exposure	**208,729,897**	**160,854,215**

For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers, see Note 10.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in Note 19.

(d) Liquidity risk

Liquidity risk is the risk that the Bank 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 Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations. The liquidity policy is reviewed and approved by the Board of Directors.

The Bank seeks to actively support a diversified and stable funding base comprising debt securities in issue, long-term and short-term loans from other banks, core corporate and retail deposits, 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 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 financial assets, liabilities and credit-related commitments 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 assets, liability or credit related commitment.

In accordance with legislation of the Republic of Kazakhstan, depositors can withdraw their term deposits at any time, losing in most of the cases the accrued interest. Accordingly, these deposits, excluding accrued interest, are shown in the table above in the category of “Demand and less than 1 month”.

For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee can be called.

The following tables show the undiscounted cash flows on financial liabilities and unrecognised credit-related commitments on the basis of remaining term to maturity. The total gross outflow disclosed in the tables is the contractual undiscounted cash flow on the financial liabilities or off-balance sheet commitments.

31 December 2019 '000 KZT	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount (inflow) outflow	Carrying amount
Non-derivative financial liabilities							
Due to banks	4,781,573	-	-	-	-	4,781,573	4,781,573
Current accounts and deposits from customers	143,937,894	4,225,815	11,538,288	5,728,353	-	165,430,350	165,376,045
Other borrowed funds	7,744,497	-	-	-	5,821,304	13,565,801	13,552,494
Other financial liabilities	642	-	-	-	-	642	642
Derivative financial liabilities							
Net settled derivatives	274	-	-	-	-	274	274
- Inflow	(2,448,576)	-	-	-	-	(2,448,576)	-
- Outflow	2,448,850	-	-	-	-	2,448,850	-
Total financial liabilities	**156,464,880**	**4,225,815**	**11,538,288**	**5,728,353**	**5,821,304**	**183,778,640**	**183,711,028**
Credit related commitments	**192,000**	**-**	**-**	**-**	**-**	**192,000**	**192,000**

31 December 2018 '000 KZT	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount (inflow) outflow	Carrying amount
Non-derivative financial liabilities							
Due to banks	2,245,037	-	-	-	-	2,245,037	2,245,037
Current accounts and deposits from customers	116,258,278	6,336,986	6,115	13,861,857	-	136,463,236	136,446,046
Other financial liabilities	336	-	-	-	-	336	336
Derivative financial liabilities							
Net settled derivatives	(13,850)	-	-	-	-	(13,850)	(13,850)
- Inflow	(1,613,640)	-	-	-	-	(1,613,640)	-
- Outflow	1,599,790	-	-	-	-	1,599,790	-
Total financial liabilities	**118,489,801**	**6,336,986**	**6,115**	**13,861,857**	**-**	**138,694,759**	**138,677,569**
Credit related commitments	**1,705,028**	**-**	**-**	**-**	**-**	**1,705,028**	**1,705,028**

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

’000 KZT	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total
Non-derivative financial assets							
Cash and cash equivalents	130,850,946	-	-	-	-	-	130,850,946
Placements with banks and other financial institutions	-	-	-	-	-	356,295	356,295
Loans to corporate customers	426,751	5,332	1,221,361	59,694,309	-	-	61,347,753
Investment securities measured at amortised cost	8,958,178	-	6,624,397	277,777	500,000	-	16,360,352
Property, plant and equipment and intangible assets	-	-	-	-	-	685,672	685,672
Deferred tax asset	-	-	-	-	30,450	-	30,450
Other assets	64,689	19,311	24,936	-	-	-	108,936
Total assets	**140,300,564**	**24,643**	**7,870,694**	**59,972,086**	**530,450**	**1,041,967**	**209,740,404**
Non-derivative financial liabilities							
Due to banks	4,781,573	-	-	-	-	-	4,781,573
Current accounts and deposits from customers	143,935,241	4,220,764	17,220,040	-	-	-	165,376,045
Other borrowed funds	7,744,289	-	-	5,808,205	-	-	13,552,494
Financial instruments at fair value through profit or loss	274	-	-	-	-	-	274
Other liabilities	1,532	7,368	60,642	12,199	-	368	82,109
Total liabilities	**156,462,909**	**4,228,132**	**17,280,682**	**5,820,404**	**-**	**368**	**183,792,495**
Net position	**(16,162,345)**	**(4,203,489)**	**(9,409,988)**	**54,151,682**	**530,450**	**1,041,599**	**25,947,909**

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

’000 KZT	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**No maturity**	**Total**
Non-derivative financial assets							
Cash and cash equivalents	99,123,752	-	-	-	-	-	99,123,752
Placements with banks and other financial institutions	-	-	-	-	-	357,100	357,100
Loans to corporate customers	26,551	26,980	3,379,196	57,429,800	-		60,862,527
Investment securities measured at amortised cost	-	-	20,179	277,777	500,000	-	797,956
Financial instruments at fair value through profit or loss	13,850	-	-	-	-	-	13,850
Property, plant and equipment and intangible assets	-	-	-	-	-	685,178	685,178
Deferred tax asset	-	-	-	-	17,780	-	17,780
Other assets	144,058	10,351	5,408	-	-	-	159,817
Total assets	**99,308,211**	**37,331**	**3,404,783**	**57,707,577**	**517,780**	**1,042,278**	**162,017,960**
Non-derivative financial liabilities							
Due to banks	2,245,037	-	-	-	-	-	2,245,037
Current accounts and deposits from customers	116,253,990	6,336,902	13,855,154	-	-	-	136,446,046
Other liabilities	23,209	14,903	45,921	-	-	-	84,033
Total liabilities	**118,522,236**	**6,351,805**	**13,901,075**	**-**	**-**	**-**	**138,775,116**
Net position	**(19,214,025)**	**(6,314,474)**	**(10,496,292)**	**57,707,577**	**517,780**	**1,042,278**	**23,242,844**

Management expects that the cash flows from certain financial assets and liabilities will be different from their contractual terms either because management has the discretionary ability to manage the cash flows or because past experience indicates that cash flows will differ from contractual terms.

18 Capital management

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the NBRK.

The primary objective of the Bank's capital management is to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit rating and healthy capital ratios in order to support its business and maximise shareholder's value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. No changes were made in the objectives, policy and processes of capital management from the previous years.

In 2015 the NBRK announced transition to the International Regulatory Framework for Banks (Basel III) was effected. Therefore, starting from 1 January 2015, the new capital requirements came into effect for the Bank, and in accordance with the statutory regulation the Bank defines as capital those items:

- Tier 1 capital is a total of basic and additional capital. Basic capital comprises paid-in ordinary share capital; share premium; current and prior periods' retained earnings, reserves created against thereof, less treasury ordinary share capital; intangible assets including goodwill, and current and prior periods losses; deferred tax asset net of deferred tax liability and other revaluation reserves, gains or losses from revaluation of financial liabilities at fair value related to change in own credit risk; regulatory adjustments to be deducted from the additional capital, but due to insufficient levels of it deducted from basic capital, and investments in shares (interests in the charter capital); perpetual financial instruments; subordinated debt (hereinafter, the "financial instruments") of legal entities, whose financial statements are not consolidated in preparation of the Bank's IFRS financial statements and deduction of deferred tax assets. Additional capital comprises of perpetual financial instruments and paid-in preference share capital less adjustments for the Bank's investment in its own perpetual financial instruments and treasury preference shares, investments in shares (interests in the charter capital), perpetual financial instruments, subordinated debt (hereinafter, the "financial instruments") of legal entities, whose financial statements are not consolidated in preparation of the Bank's IFRS financial statement, and deduction of deferred tax assets, regulatory adjustments to be deducted from the tier 2 capital, but due to insufficient levels of it deducted from additional capital.
- Tier 2 capital, which comprises the subordinated debt denominated in the national currency, less investments in the subordinated debt of the financial organisations, in which the Bank owns 10% and more of the issued shares (interests in the charter capital) of a legal entity.

The equity is the sum of tier 1 tier 2 capital.

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

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

- a ratio of basic capital to the sum of credit risk-weighted assets, contingent liabilities and market risk-weighted assets and contingent claims and liabilities and quantified operational risk (k1);
- a ratio of tier 1 capital to the sum of credit risk-weighted assets, contingent liabilities and market risk-weighted assets and contingent claims and liabilities and quantified operational risk (k1-2);
- a ratio of equity to the sum of credit risk-weighted assets, contingent liabilities and market risk-weighted assets and contingent claims and liabilities and quantified operational risk (k2).

As at 31 December 2019, the minimum level of ratios as applicable to the Bank are as follows:

- k1 – 7.5%

- k1-2 – 8.5%
- k2 – 10%.

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

As at 31 December 2019 and 31 December 2018, the Bank's capital adequacy ratio, computed in accordance with the NBRK requirements, comprised:

	31 December 2019 '000 KZT	31 December 2018 '000 KZT
Tier 1 capital	25,928,398	23,219,481
Tier 2 capital	-	-
Total capital	**25,928,398**	**23,219,481**
Risk weighted assets and contingent liabilities, possible claims and liabilities, operational risk, market risk	**29,401,807**	**16,000,747**
Capital adequacy ratio k-1	**88,2%**	**145.12%**
Capital adequacy ratio k1-2	**88,2%**	**145.12%**
Capital adequacy ratio k2	**88,2%**	**145.12%**

19 Credit related commitments

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

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

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

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

	31 December 2019 '000 KZT	31 December 2018 '000 KZT
Contracted amount		
Guarantees	192,000	1,705,028

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

All credit related commitments related to issued guarantees are allocated to Stage 1 of the credit risk grade.

20 Contingencies

(a) Insurance

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

(b) Litigation

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

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, including opinions with respect to IFRS treatment of revenues, expenses and other items in the financial statements. 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.

(c) Taxation contingencies

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.

21 Related party transactions

(a) Control relationship

The Bank's parent company is Industrial and Commercial Bank of China JSC. The party with ultimate control over the Bank is the Government of the People's Republic of China.

Publicly available financial statements are produced by the Bank's parent company.

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

Total remuneration included in personnel expenses for the years ended 31 December 2019 and 31 December 2018 is as follows:

	2019 '000 KZT	**2018 '000 KZT**
Short-term employee benefits	67,395	66,652
	67,395	**66,652**

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

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

	31 December 2019 '000 KZT	**Average interest rate, %**	**31 December 2018 '000 KZT**	**Average interest rate, %**
Statement of financial position				
Current accounts and deposits from customers	12,397	-	6,521	-

(c) Transactions with other related parties

The outstanding balances and the related average interest rates as at 31 December 2019 and related profit or loss amounts of transactions for the year ended 31 December 2019 with other related parties are as follows.

	Transactions with the parent company and related entities				Transactions with entities related to People's Republic of China				
	Parent Company		Entities under common control		Government entities		Government related entities*		
	’000 KZT	Average interest rate, %	’000 KZT	Average interest rate, %	’000 KZT	Average interest rate, %	’000 KZT	Average interest rate, %	Total ’000 KZT
Statement of financial position									
ASSETS									
Cash and cash equivalents									
- in USD	472,698	2.22	9,002,972	1.0	-	-	17,216,550	2.24	26,692,220
- in CNY	1,760,362	0.72	10,897,297	1.3	-	-	-	-	12,657,659
- in other currency	80,542	0.67	1,920	-	-	-	-	-	82,462
LIABILITIES									
Due to banks									
- in KZT	71,695	-	-	-	-	-	225,025	-	296,720
- in USD	-	-	-	-	-	-	32,124	-	32,124
- in other currency	-	-	-	-	-	-	9,334	0.01	9,334
Current accounts and deposits from customers									
- in KZT	-	-	-	-	327,219	-	6,667,273	2.18	6,994,492
- in USD	-	-	-	-	1,168,741	-	131,915,957	0.09	133,084,698
- in other currency	-	-	-	-	-	-	3,022,166	0.06	3,022,166
Other borrowed funds									
- in JPY	-	-	13,552,494	0.13	-	-	-	-	13,552,494
Profit/(loss)									
Interest income	10,438	-	94,255	-	-	-	242,231	-	346,924
Interest expenses	(29)	-	(951)	-	-	-	(273,956)	-	(274,936)
Fee and commission income	-	-	-	-	2,369	-	148,523	-	150,892
Fee and commission expenses	(338)	-	(3,319)	-	-	-	-	-	(3,657)
Net foreign exchange gain	-	-	128,135	-	970	-	285,842	-	414,947
Items not recognised in the statement of financial position									
Guarantees granted	-	-	-	-	-	-	192,000	-	192,000

The outstanding balances and the related average interest rates as at 31 December 2018 and related profit or loss amounts of transactions for the year ended 31 December 2018 with other related parties are as follows.

	Transactions with the parent company and related entities				Transactions with entities related to People's Republic of China				
	Parent Company		**Entities under common control**		**Government entities**		**Government related entities***		
	'000 KZT	**Average interest rate, %**	**'000 KZT**	**Average interest rate, %**	**'000 KZT**	**Average interest rate, %**	**'000 KZT**	**Average interest rate, %**	**Total '000 KZT**
Statement of financial position									
ASSETS									
Cash and cash equivalents									
- in USD	677,040	2.15	2,556,988	0.03	-	-	7,715,828	3.09	10,949,856
- in CNY	254,111	0.72	777,506	1.30	63,823	-	1,593	-	1,097,033
- in other currency	38,536	0.69	27	-	-	-	122	-	38,685
Other assets									
- in KZT	-	-	-	-	-	-	23,877	-	23,877
LIABILITIES									
Due to banks									
- in KZT	285,313	-	-	-	184,435	-	-	-	469,748
- in USD	-	-	-	-	108,985	-	-	-	108,985
- in other currency	-	-	-	-	-	-	219,243	0.01	219,243
Current accounts and deposits from customers									
- in USD	-	-	-	-	200,406	-	112,664,533	0.22	112,864,939
- in other currency	-	-	-	-	1,676,160	-	5,412,630	0.50	7,088,790
Profit/(loss)									
Interest income	12,637	-	35,213	-	16,445	-	383,431	-	447,726
Interest expenses	(19)	-	-	-	-	-	(348,211)	-	(348,230)
Fee and commission income	-	-	-	-	3,688	-	470,885	-	474,573
Fee and commission expenses	(248)	-	(13,578)	-	(18)	-	(241)	-	(14,085)
Net foreign exchange gain	(31,514)	-	12,537	-	2,467	-	511,462	-	494,952
Items not recognised in the statement of financial position									
Guarantees granted	-	-	227,554	-	-	-	709,074	-	936,628
Guarantees received	-	-	227,554	-	-	-	-	-	227,554

* Government related entities are entities that are controlled, jointly controlled of significantly influenced by the government of the People's Republic of China.

22 Financial assets and liabilities: fair values and accounting classifications

(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 2019.

’000 KZT	**Measured at fair value through profit or loss**	**Measured at amortised cost**	**Total carrying amount**	**Fair value**
Cash and cash equivalents	-	130,850,946	130,850,946	130,850,946
Placements with banks and other financial institutions	-	356,295	356,295	356,295
Loans to corporate customers	-	61,347,753	61,347,753	61,347,753
Investments measured at amortised cost		16,360,352	16,360,352	16,190,320
Other financial assets	-	27,330	27,330	27,330
	-	**208,942,676**	**208,942,676**	**208,772,644**
Due to banks	-	4,781,573	4,781,573	4,781,573
Current accounts and deposits from customers	-	165,376,045	165,376,045	165,409,995
Other borrowed funds	-	13,552,494	13,552,494	13,552,494
Financial instruments at fair value through profit or loss	274	-	274	274
Other financial liabilities	-	642	642	642
	274	**183,710,754**	**183,711,028**	**183,744,978**

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

’000 KZT	**Measured at fair value through profit or loss**	**Measured at amortised cost**	**Total carrying amount**	**Fair value**
Cash and cash equivalents	-	99,123,752	99,123,752	99,123,752
Placements with banks and other financial institutions	-	357,100	357,100	357,100
Loans to corporate customers	-	60,862,527	60,862,527	60,862,527
Investments measured at amortised cost	-	797,956	797,956	680,480
Financial instruments at fair value through profit or loss	13,850	-	13,850	13,850
Other financial assets	-	23,877	23,877	23,877
	13,850	**161,165,212**	**161,179,062**	**161,061,586**
Due to banks	-	2,245,037	2,245,037	2,245,037
Current accounts and deposits from customers	-	136,446,046	136,446,046	136,467,140
Other financial liabilities	-	336	336	336
	-	**138,691,419**	**138,691,419**	**138,712,513**

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.

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

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

The Bank uses widely recognised valuation models for determining the fair value of financial instruments. Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market-observable prices exist and other valuation models. 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.

(b) Fair value hierarchy

The Bank 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 similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The table below analyses financial instruments measured at fair value 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:

	31 December 2019 '000 KZT	**31 December 2018 '000 KZT**
	Level 2	**Level 2**
Financial instruments at fair value through profit or loss		
- Derivative assets	-	13,850
- Derivative liabilities	274	-
	274	**13,850**

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 2019, excluding the financial instruments, for which the carrying amount approximates the fair value:

'000 KZT	**Level 2**	**Total fair values**	**Total carrying amount**
Assets			
Investment securities measured at amortised cost	16,190,320	16,190,320	16,360,352

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, excluding the financial instruments, for which the carrying amount approximates the fair value:

’000 KZT	Level 2	Total fair values	Total carrying amount
Assets			
Investment securities measured at amortised cost	680,480	680,480	797,956

23 Subsequent events

As a result of the coronavirus global outbreak in 2020, the Government of the Republic of Kazakhstan declared a state of emergency in the Republic of Kazakhstan. Moreover, as a result of the meeting of the Organization of Petroleum Exporting Countries (OPEC), oil prices fell significantly during 2020. Taking into account also a devaluation of KZT, management of the Bank assessed a potential impact of these events on the Bank’s operations in 2020, and concluded that the above-mentioned events would not have a significant negative impact on the Bank’s operations and financial position. However, the wider effects of the virus and the decrease in the oil price and their effect on the Kazakhstan economy, including any resulting impact on the Bank's financial results in 2020, are not possible to determine at the date of approval of these financial statements.