

**NATIONAL BANK
OF THE REPUBLIC OF
KAZAKHSTAN**

**CONSOLIDATED FINANCIAL
STATEMENTS**

**FOR THE YEAR ENDED
31 DECEMBER 2018**

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**CONTENTS**

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NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the National Bank of the Republic of Kazakhstan (the "NBK") and its subsidiaries (the NBK and its subsidiaries together – the "National Bank") as at 31 December 2017, and the results of its operations, cash flows and changes in equity for the year then ended, in accordance with the Basis of Preparation described in the Note 2 to the consolidated financial statements (the "Basis of Preparation").

In preparing the consolidated financial statements, management is responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- following requirements of the Basis of Preparation; and
- preparing the consolidated financial statements on a going concern basis.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the National Bank;
- maintaining adequate accounting records that disclose with reasonable accuracy at any time the consolidated financial position of the National Bank and which enable them to ensure that the consolidated financial statements of the National Bank comply with the requirements of the Basis of Preparation;
- Maintaining statutory accounting records in compliance with legislation of the Republic of Kazakhstan;
- taking such steps as are reasonably available to them to safeguard the assets of the National Bank; and
- preventing and detecting fraud, errors and other irregularities.

The consolidated financial statements for the year ended 31 December 2018 were authorised for issuance by the National Bank's Management Board on 8 April 2019.

On behalf of the Management Board of the National Bank of the Republic of Kazakhstan:

E. A. Dossaev
Governor
8 April 2019
Almaty, Kazakhstan

S. K. Rakhmetova
Chief Accountant
8 April 2019
Almaty, Kazakhstan



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Independent Auditors' Report

To the Management Board of the National Bank of the Republic of Kazakhstan

Qualified Opinion

We have audited the consolidated financial statements of the National Bank of the Republic of Kazakhstan and its subsidiaries (the “National Bank”), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statements of profit or loss, 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, except for the effects of the matter described in the Basis for Qualified Opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the National Bank as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the Basis of Preparation described in Note 2 to the consolidated financial statements (the “Basis of Preparation”).

Basis for Qualified Opinion

The National Bank has measured unquoted equity securities stated at KZT 750,000,000 thousand as at 31 December 2018 and 31 December 2017 at cost on the basis that it was unable to obtain a reliable measure of their fair value. A reliable measure of fair value could have been obtained, and therefore such investments should have been stated at fair value in accordance with the Basis of Preparation. The effects of this departure from the Basis of Preparation on investment securities, comprehensive income, retained earnings and reserve for changes in fair value of financial assets, which would have resulted from using fair values, as at and for the years ended 31 December 2018 and 31 December 2017 have not been determined.



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Independent Auditors' Report

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 Consolidated Financial Statements section of our report. We are independent of the National Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Kazakhstan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Key Audit Matters

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

In addition to the matter described in the Basis for Qualified Opinion section we have determined the matters described below to be the key audit matters to be communicated in our report.

Transition to IFRS 9 Financial Instruments

Please refer to the Note 5 in the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
<p>The use of financial instruments is a core business of the National Bank and financial assets constitute a majority of National Bank's assets.</p> <p>From 1 January 2018 the National Bank has adopted a new accounting standard for financials</p>	<p>Our audit procedures in this area included analysis of the methodology of classification and measurement of financial instruments for compliance with requirements of IFRS 9, assessment of controls over the process of financial asset classification.</p> <p>Particular attention was paid to</p>



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Independent Auditors' Report

instruments, IFRS 9, which significantly changed the requirements on classification and measurement of financial assets.

We paid particular attention to the matter of classification of debt financial assets due to the significance and diversity of portfolios of financial assets of the National Bank and due to judgment involved and use of underlying assumptions.

Management assessed whether the contractual cash flows are solely payments of principal and interest on the principal amount outstanding (“SPPI criterion”) for all debt financial assets, in particular, subordinated convertible debt securities issued by the local second-tier banks, for debt securities issued by special purpose entities with total carrying amount of KZT 642,200,567 thousand as at 31 December 2018.

Due to adoption of new requirements, which provide significant changes to the accounting principles of financial instruments and given the significant effect of the new standard on the financial position and results of the National Bank, we believe that this area is a key audit matter.

assessment of compliance of cash flows from debt financial assets with SPPI criterion and business models applicable to the portfolios of debt financial assets. In turn, we re-checked debt financial assets for compliance with SPPI criterion based on an independent sample of financial assets that was formed given the different types and templates of financial asset agreements. As part of our testing we analysed the supporting documents to assess whether requirements of compliance with SPPI criterion have been fulfilled.

We also analysed the criteria used to determine the business models within which the National Bank holds financial assets by making inquiries to responsible employees, reviewing the National Bank’s internal documentation and analysing internal business processes on selected significant financial assets portfolios.

We also assessed whether disclosures in the consolidated financial statements, including disclosures for the transition to the new standard, properly reflect judgments on the classification of financial instruments of the National Bank.



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Recognition of expenses on rehabilitation of the banking sector	
Please refer to the Note 11 in the consolidated financial statements.	
The key audit matter	How the matter was addressed in our audit
<p>As part of its activity to ensure stability of the financial system the National Bank implements a number of programs aimed at providing financial support to the second-tier banks.</p> <p>We paid particular attention to these matters due to the significance of these transactions, and also due to judgement involved in accounting of such transactions and use of estimates and underlying assumptions.</p> <p>During the reporting period such transactions comprise, in particular, purchase of subordinated debt securities issued by financial organisations of the public and quasi-public sectors and second-tier banks, which are recognised in the consolidated statement of financial position as interbank loans.</p>	<p>We have analysed the economic substance of transactions performed and recognition and disclosure thereof in the consolidated financial statements.</p> <p>We have checked the key assumptions, used as a basis for estimation of the fair value of purchased subordinated debt of financial organisations of the public and quasi-public sectors and second-tier banks upon initial recognition, including the forecasted cash flows and discount rates. We have assessed the reasonableness of forecasted cash flows and compared the inputs, such as discount rates, against industry, financial and economic data from the external sources.</p> <p>We checked whether the consolidated financial statements disclosures appropriately reflect the key judgments related to initial recognition of the purchased bonds, including judgment related to assessment of fair value upon initiation recognition.</p>

Emphasis of Matter - comparative information

We draw attention to Note 2(f) to the consolidated financial statements



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which indicates that the comparative information presented as at and for the year ended 31 December 2017 has been restated. Our opinion is not modified in respect of this matter.

Other Matter relating to comparative information

As part of our audit of the consolidated financial statements as at and for the year ended 31 December 2018, we audited the adjustments described in Note 2(f) that were applied to restate the comparative information presented as at and for the year ended 31 December 2017 and the statement of financial position as at 1 January 2017. In our opinion, the adjustments described in Note 2(f) are appropriate and have been properly applied.

Other information

Management is responsible for the other information. The other information comprises the information included in the Annual Report of the National Bank to the President of the Republic of Kazakhstan for the year 2018 (the "Annual Report"), but does not comprise consolidated financial statements and our audit report thereon. The Annual Report is expected to be made available to us after the date of this auditors' report.

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

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

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

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



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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 National 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



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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 National 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 consolidated 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 National Bank to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the National Bank to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the National Bank audit. We remain solely responsible for our audit opinion.

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

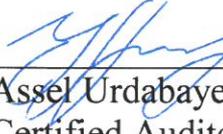
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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



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



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

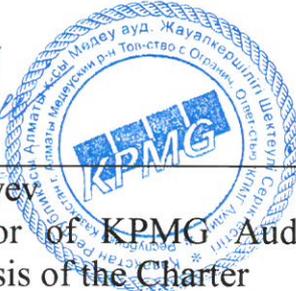


KPMG Audit LLC

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



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



8 April 2019

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Note	2018 KZT'000	Restated 2017* KZT'000
Interest income calculated using the effective interest method	6	203,791,814	187,970,355
Interest expense	6	<u>(380,589,570)</u>	<u>(357,178,632)</u>
Net interest loss		<u>(176,797,756)</u>	<u>(169,208,277)</u>
Fee and commission income	7	21,174,702	28,491,105
Fee and commission expense	8	<u>(4,002,690)</u>	<u>(2,781,621)</u>
Net fee and commission income		<u>17,172,012</u>	<u>25,709,484</u>
Net gain on financial instruments at fair value through profit or loss	9	72,824,567	52,190,694
Net (loss) gain on investment securities at fair value through other comprehensive income	10	(11,712,700)	9,203,671
Share of (loss) gain of associates		(85,659)	1,585
Expenses on rehabilitation of the banking sector	11	(102,377,515)	(585,623,196)
Expenses on disposal of subsidiary	11	-	(507,474,058)
Other operating income, net	12	<u>55,606,794</u>	<u>39,381,166</u>
Operating expenses		<u>(145,370,257)</u>	<u>(1,135,818,931)</u>
Recovery (charge) for expected credit losses	13	15,917,321	(40,868,966)
Provisions for estimated liabilities	35	(35,445,680)	(9,053,080)
Banknotes and coins production expenses	14	(2,692,080)	(2,384,962)
Funding of third parties	15	(53,257)	(149,432)
Personnel expenses	16	(28,714,526)	(26,066,223)

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**CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2018**

		2018	Restated
	Note	KZT'000	2017*
		KZT'000	KZT'000
Depreciation and amortisation		(3,362,961)	(2,919,100)
Other general administrative expenses	17	(11,891,739)	(10,859,838)
Loss before income tax		(211,613,179)	(1,228,120,532)
Income tax benefit	18	23,908,748	83,628,931
Loss of the year		(187,704,431)	(1,144,491,601)
(Loss) income attributable to:			
- Equity holders of the National Bank		(188,326,091)	(1,144,965,444)
- Non-controlling interest		621,660	473,843
Loss for the year		(187,704,431)	(1,144,491,601)

*The Bank has initially applied IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 2(e)). As a result of adoption of IFRS 9 the Bank changed presentation of certain captions, comparative information is re-presented accordingly (see Note 3(u)).

On behalf of the Management Board of the National Bank of the Republic of Kazakhstan:

E. A. Dossaev
Governor

8 April 2019
Almaty, Kazakhstan

S. K. Rakhmetova
Chief Accountant

8 April 2019
Almaty, Kazakhstan

The notes on pages 25-189 form an integral part of these consolidated financial statements.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018**

	2018	Restated
	KZT'000	2017*
	KZT'000	KZT'000
Loss for the year	(187,704,431)	(1,144,491,601)
Other comprehensive income, net of income tax		
<i>Items that are or may be reclassified subsequently to profit or loss:</i>		
Movement in fair value reserve (debt instruments):		
- Net change in fair value	(18,875,589)	35,703,043
- Net change in fair value transferred to profit or loss	15,307,913	(4,656,200)
<i>Total items that are or may be reclassified subsequently to profit or loss</i>	<i>(3,567,676)</i>	<i>31,046,843</i>
<i>Items that will not be reclassified to profit or loss:</i>		
Movement in fair value reserve (equity instruments)	(2,102,423)	-
- Foreign currency revaluation reserve	360,790,653	45,041,259
- Precious metals revaluation reserve	664,982,340	395,793,297
Revaluation of property, plant and equipment	-	7,554,738
<i>Total items that will not be reclassified to profit or loss</i>	<i>1,023,670,570</i>	<i>448,389,294</i>
Other comprehensive income for the year, net of income tax	1,020,102,894	479,436,137
Total comprehensive income for the year	832,398,463	(665,055,464)
Total comprehensive income attributable to:		
- Equity holders of the National Bank	831,776,825	(665,529,285)
- Non-controlling interest	621,638	473,821
Total comprehensive income for the year	832,398,463	(665,055,464)

*The Bank has initially applied IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 2(e)). As a result of adoption of IFRS 9 the Bank changed presentation of certain captions, comparative information is re-presented accordingly (see Note 3(u)).

On behalf of the Management Board of the National Bank of the Republic of Kazakhstan:

E. A. Dossaev
Governor

8 April 2019
Almaty, Kazakhstan

S. K. Rakhmetova
Chief Accountant

8 April 2019
Almaty, Kazakhstan

The notes on pages 25-189 form an integral part of these consolidated financial statements.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

	Note	2018 KZT'000	Restated 2017* KZT'000	Restated 2016 KZT'000
ASSETS				
Cash on hand in foreign currency	19	107,951,780	49,964,397	133,165,880
Gold	20	5,530,034,976	4,153,571,095	3,205,211,023
Placements and loans with banks and other financial institutions	21	4,167,083,127	3,353,700,411	4,085,779,352
Financial instruments at fair value through profit or loss	22	233,973,568	989,079,839	856,098,778
Reverse repurchase agreements	23	222,653,522	184,400,406	399,178,190
Investment securities at fair value through other comprehensive income	24	4,997,846,874	-	-
Available-for-sale financial assets	24	-	5,196,993,643	4,456,823,099
Investment securities measured at amortised cost	25	682,605,147	-	-
Held-to maturity investments	25	-	40,252,954	98,977,873
Investments in associates		268,506	304,295	302,710
Property, equipment and intangible assets	26	67,765,194	62,298,821	55,266,393
Current tax asset		1,181,113	1,878,261	3,320,437
Deferred tax assets	18	114,394,028	86,166,315	30,278,026
Other assets	27	965,219,669	21,515,374	15,951,886
Total assets		17,090,977,504	14,140,125,811	13,340,353,647
LIABILITIES				
Currency in circulation	28	2,619,329,677	2,257,675,813	2,050,536,444
Deposits and balances from banks and other financial institutions	29	5,873,510,551	4,828,725,191	4,426,155,970
Financial instruments at fair value through profit or loss	22	7,709,359	665,921	2,453,250
Repurchase agreements	30	135,827,043	295,484,490	35,074,130
Current accounts of the National Fund of the Republic of Kazakhstan	31	707,324,124	337,924,084	128,194,582
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	32	442,307,827	430,853,383	505,678,909
Customer accounts	33	199,345,184	658,740,109	595,636,761

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018**

		2018	Restated 2017*	Restated 2016
	Note	KZT'000	KZT'000	KZT'000
Debt securities issued	34	4,113,400,912	3,209,726,402	2,506,039,966
Estimated liabilities	35	55,963,528	20,517,849	11,464,769
Current tax liability		2,236,232	-	986,170
Deferred tax liabilities	18	2,409,482	2,360,203	2,274,178
Other liabilities	36	61,123,433	14,097,232	12,519,559
Total liabilities		14,220,487,352	12,056,770,677	10,277,014,688
Equity				
Charter capital	37	20,000,000	20,000,000	20,000,000
Reserve capital	37	-	174,986,594	331,691,233
Special guarantee reserve	35	495,014,899	459,135,686	395,247,203
Other reserves		4,823,888	3,633,018	3,430,633
Revaluation reserve for property and equipment		24,820,960	26,259,191	19,958,118
Reserve for changes in fair value of financial assets		(29,757,356)	(53,321,533)	(84,368,398)
Revaluation reserve for foreign currency and precious metals		3,753,931,172	2,727,777,171	2,284,132,234
Accumulated losses		(1,403,996,916)	(1,280,090,695)	(226,103,349)
Total equity attributable to equity holders of the National Bank		2,864,836,647	2,078,379,432	2,743,987,674
Non-controlling interests	37	5,653,505	4,975,702	319,351,285
Total equity		2,870,490,152	2,083,355,134	3,063,338,959
Total liabilities and equity		17,090,977,504	14,140,125,811	13,340,353,647

*The Bank has initially applied IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 2(e)). As a result of adoption of IFRS 9 the Bank changed presentation of certain captions, comparative information is re-presented accordingly (see Note 3(u)).

On behalf of the Management Board of the National Bank of the Republic of Kazakhstan:

E. A. Dossaev
Governor

S. K. Rakhmetova
Chief Accountant

8 April 2019
Almaty, Kazakhstan

8 April 2019
Almaty, Kazakhstan

The notes on pages 25-189 form an integral part of these consolidated financial statements.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018**

	2018	Restated
	KZT'000	2017*
	KZT'000	KZT'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before income tax	(211,613,179)	(1,228,120,532)
<i>Adjustments for:</i>		
Depreciation and amortisation	5,029,877	4,599,163
(Recovery) charge for expected credit losses on financial assets	(15,956,851)	40,227,556
Provisions for estimated liabilities	35,445,680	9,053,080
Impairment losses on other non-financial assets	39,530	13,575
Loss on property, plant and equipment	-	643,415
Amortisation of discount on debt securities issued	314,545,771	291,403,821
Amortisation of premium and discount on financial assets	(4,944,271)	(16,700,686)
Unrealised loss (gain) on financial instruments at fair value through profit or loss	6,558,374	(1,907,741)
Share of loss (gain) of associates	85,659	(1,585)
Loss from disposal of investments in associate	-	62,975
Cash flows from (used in) operating activities before changes in operating assets and liabilities	129,190,590	(900,726,959)
(Increase) decrease in operating assets		
Gold	(711,481,541)	(552,566,775)
Placements and loans with banks and other financial institutions	(320,336,413)	(1,111,802,525)

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018**

	2018	As restated
	KZT'000	2017*
	KZT'000	KZT'000
Financial instruments at fair value through profit or loss	(85,756,480)	(134,822,187)
Reverse repurchase agreements	37,590,882	337,846,805
Investment securities at fair value through other comprehensive income	1,245,343,878	-
Available-for-sale financial assets	-	(598,763,706)
Other assets	(59,337,157)	470,116,754
Increase (decrease) in operating liabilities		
Currency in circulation	361,653,864	207,139,370
Deposits and balances from banks and other financial institutions	470,959,604	344,801,933
Financial instruments at fair value through profit or loss	523,562	(157,341)
Repurchase agreements	(159,657,447)	260,410,360
Current accounts of the National Fund of the Republic of Kazakhstan	369,400,040	209,729,502
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	12,884,022	(70,307,657)
Customer accounts	(457,066,787)	63,160,429
Other liabilities	46,575,457	2,664,811
Net cash from (used in) operating activities before income tax paid	880,486,074	(1,473,277,186)
Income tax paid	(1,331,065)	28,300,646
Net cash from (used in) operating activities	879,155,009	(1,444,976,540)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments measured at amortised cost	(189,325,267)	-

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018**

	2018	Restated
	KZT'000	2017*
	KZT'000	KZT'000
Redemption of investments measured at amortised cost	16,328,388	59,956,583
Acquisition of property, equipment and intangible assets	(14,787,411)	(9,762,459)
Proceeds from sale of property, equipment and intangible assets	4,291,160	5,030,522
Proceeds from disposal of investments in associates	8,930	-
Net cash (used in) from investing activities	(183,484,200)	55,224,646
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of debt securities	61,931,140,885	63,001,373,796
Repayment of debt securities issued	(61,926,079,183)	(62,343,468,289)
Interest paid	(300,628,803)	(245,622,892)
Cash flows (used in) from investing activities (Note 34)	(295,567,101)	412,282,615
Net increase (decrease) in cash and cash equivalents	400,103,708	(977,469,279)
Effect of movements in exchange rates on cash and cash equivalents	223,570,539	(27,435,367)
Cash and cash equivalents at the beginning of the year	1,554,181,888	2,559,086,534
Cash and cash equivalents at the end of the year (Note 19)	2,177,856,135	1,554,181,888

*The Bank has initially applied IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 2(e)). As a result of adoption of IFRS 9 the Bank changed presentation of certain captions, comparative information is re-presented accordingly (see Note 3(u)).

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018**

Interest paid and received during the year ended 31 December 2018 amounted to KZT 372,545,914 thousand and KZT 205,883,141 thousand, respectively (31 December 2017: KZT 357,484,478 thousand and KZT 186,501,913 thousand, respectively).

On behalf of the Management Board of the National Bank of the Republic of Kazakhstan:

E. A. Dossaev
Governor

8 April 2019
Almaty, Kazakhstan

S. K. Rakhmetova
Chief Accountant

8 April 2019
Almaty, Kazakhstan

The notes on pages 25-189 form an integral part of these consolidated financial statements.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018**

KZT'000	Attributable to equity holders of the National Bank								Total	Non-controlling interest	Total equity
	Charter capital	Capital reserve	Special guarantee reserve	Other reserves	Revaluation reserve for property and equipment	Reserves for changes in fair value of financial assets	Revaluation reserve for foreign currency and precious metals	Accumulated losses			
Balance as at 1 January 2018	20,000,000	174,986,594	459,135,686	3,633,018	26,259,191	(53,321,533)	2,727,777,171	(1,280,090,695)	2,078,379,432	4,975,702	2,083,355,134
Effect from transition to IFRS 9 as at 1 January 2018	-	-	-	-	-	29,234,254	-	(78,017,864)	(48,783,610)	-	(48,783,610)
Restatement of prior year retained earnings due to financial measurement at fair value	-	-	-	-	-	-	-	3,273,546	3,273,546	-	3,273,546
Restated balance as at 1 January 2018	20,000,000	174,986,594	459,135,686	3,633,018	26,259,191	(24,087,279)	2,727,777,171	(1,354,835,013)	2,032,869,368	4,975,702	2,037,845,070
Total comprehensive income	-	-	-	-	-	-	-	(188,326,091)	(188,326,091)	621,660	(187,704,431)
Other comprehensive income											
<i>Movement in fair value reserve (debt instruments):</i>											
Net change in fair value	-	-	-	-	-	(18,875,567)	-	-	(18,875,567)	(22)	(18,875,589)
Net change in fair value transferred to profit or loss	-	-	-	-	-	15,307,913	-	-	15,307,913	-	15,307,913

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

KZT'000	Attributable to equity holders of the National Bank										
	Charter capital	Capital reserve	Special guarantee reserve	Other reserves	Revaluation reserve for property and equipment	Reserves for changes in fair value of financial assets	Revaluation reserve for foreign currency and precious metals	Accumulated losses	Total	Non-controlling interest	Total equity
<i>Fair value reserve (equity securities)::</i>											
Net change of fair value	-	-	-	-	-	(2,102,423)	-	-	(2,102,423)	-	(2,102,423)
Foreign currency translation reserve	-	-	-	-	-	-	360,790,653	-	360,790,653	-	360,790,653
Precious metals revaluation reserve	-	-	-	-	-	-	664,982,340	-	664,982,340	-	664,982,340
Total other comprehensive income	-	-	-	-	-	(5,670,077)	1,025,772,993	-	1,020,102,916	(22)	1,020,102,894
Total comprehensive income for the year	-	-	-	-	-	(5,670,077)	1,025,772,993	(188,326,091)	831,776,825	621,638	832,398,463
Transfer of revaluation reserve resulting from depreciation and disposals	-	-	-	-	(1,438,231)	-	-	1,443,467	5,236	-	5,236
Transactions with owners recorded directly in equity:											
Addition to special guarantee reserve (restated)	-	-	24,757,295	-	-	-	379,455	(25,136,750)	-	-	-
Addition to special guarantee reserve (Note 12)	-	-	11,121,918	-	-	-	-	(11,121,918)	-	-	-
Loss compensation from reserve capital	-	(174,986,594)	-	-	-	-	-	174,986,594	-	-	-
Gratuitous transfer of property under community property	-	-	-	-	-	-	-	(8,179)	(8,179)	-	(8,179)
Addition to capital reserve and other reserves	-	-	-	1,190,870	-	-	-	(1,190,870)	-	-	-
Change in non-controlling interest	-	-	-	-	-	-	-	34,998	34,998	(34,933)	65
Disposal of subsidiary	-	-	-	-	-	-	1,553	156,846	158,399	91,098	249,497
Total transactions with owners	-	(174,986,594)	-	1,190,870	-	-	1,553	173,979,389	185,218	56,165	241,383
Balance as at 31 December 2018	20,000,000	-	495,014,899	4,823,888	24,820,960	(29,757,356)	3,753,931,172	(1,403,996,916)	2,864,836,647	5,653,505	2,870,490,152

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

	Attributable to equity holders of the National Bank										
	Charter capital	Capital reserve	Special guarantee reserve	Other reserves	Revaluation reserve for property and equipment	Revaluation reserve for available-for-sale financial assets	Revaluation reserve for foreign currency and precious metals	Accumulated losses	Total	Non-controlling interest	Total equity
KZT'000											
Balance as at 1 January 2017	20,000,000	331,691,233	-	3,430,633	19,958,118	(84,368,398)	2,368,114,148	(161,990,514)	2,496,835,220	319,351,285	2,816,186,505
Special guarantee reserve charge (Note 2(f))	-	-	395,247,203	-	-	-	(83,981,914)	(52,648,066)	258,617,223	-	258,617,223
Recognition of estimated liabilities reserve (Note 2(f))	-	-	-	-	-	-	-	(11,464,769)	(11,464,769)	-	(11,464,769)
Restated balance as at 1 January 2017	20,000,000	331,691,233	395,247,203	3,430,633	19,958,118	(84,368,398)	2,284,132,234	(226,103,349)	2,743,987,674	319,351,285	3,063,338,959
Total comprehensive income	-	-	-	-	-	-	-	-	-	-	-
Loss for the year (restated)	-	-	-	-	-	-	-	(1,144,965,444)	(1,144,965,444)	473,843	(1,144,491,601)
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	-
<i>Items that are or may be reclassified subsequently to profit or loss:</i>											
Net change in fair value of available-for-sale financial assets	-	-	-	-	-	35,703,065	-	-	35,703,065	(22)	35,703,043
Net change in fair value of available-for-sale financial assets transferred to profit or loss	-	-	-	-	-	(4,656,200)	-	-	(4,656,200)	-	(4,656,200)
<i>Total items that are or may be reclassified subsequently to profit or loss</i>	-	-	-	-	-	<i>31,046,865</i>	-	-	<i>31,046,865</i>	<i>(22)</i>	<i>31,046,843</i>
<i>Items that will not be reclassified to profit or loss:</i>											
Net gain on foreign currency revaluation	-	-	-	-	-	-	45,041,259	-	45,041,259	-	45,041,259
Net gain on precious metals revaluation	-	-	-	-	-	-	395,793,297	-	395,793,297	-	395,793,297
Revaluation of property and equipment	-	-	-	-	7,554,738	-	-	-	7,554,738	-	7,554,738
<i>Total items that will not be reclassified to profit or loss</i>	-	-	-	-	<i>7,554,738</i>	-	<i>440,834,556</i>	-	<i>448,389,294</i>	-	<i>448,389,294</i>
Total other comprehensive loss	-	-	-	-	7,554,738	31,046,865	440,834,556	-	479,436,159	(22)	479,436,137
Total comprehensive income for the year	-	-	-	-	7,554,738	31,046,865	440,834,556	(1,144,965,444)	(665,529,285)	473,821	(665,055,464)
Transfer of revaluation reserve resulting from depreciation and disposals	-	-	-	-	(1,253,665)	-	-	1,182,193	(71,472)	89,444	17,972

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018**

KZT'000	Attributable to equity holders of the National Bank							Total	Non-controlling interest	Total equity
	Charter capital	Capital reserve	Special guarantee reserve	Other reserves	Revaluation reserve for property and equipment	Revaluation reserve for available-for-sale financial assets	Revaluation reserve for foreign currency and precious metals			
Transactions with owners recorded directly in equity:										
Addition to special guarantee reserve (restated)	-	-	28,554,402	-	-	-	2,810,381	(31,364,783)	-	-
Addition to special guarantee reserve (Note 12)	-	-	35,334,081	-	-	-	-	(35,334,081)	-	-
Addition to capital reserve and other reserves (Note 37)	-	832,736	-	202,385	-	-	-	(1,042,606)	(7,485)	7,485
Compensation for loss from capital reserve	-	(157,537,375)	-	-	-	-	-	157,537,375	-	-
Transfer of shares of Problem Loans Fund JSC to the Government of the RK	-	-	-	-	-	-	-	-	-	(314,946,333)
Total transactions with owners	-	(156,704,639)	-	202,385	-	-	-	156,494,769	(7,485)	(314,938,848)
Balance as at 31 December 2017	20,000,000	174,986,594	459,135,686	3,633,018	26,259,191	(53,321,533)	2,727,777,171	(1,280,090,695)	2,078,379,432	4,975,702
										2,083,355,134

On behalf of the Management Board of the National Bank of the Republic of Kazakhstan:

E. A. Dossaev
Governor

8 April 2019
Almaty, Kazakhstan

S. K. Rakhmetova
Chief Accountant

8 April 2019
Almaty, Kazakhstan

The notes on pages 25-189 form an integral part of these consolidated financial statements.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

1. INTRODUCTION**(a) Organisation and operations**

These consolidated financial statements comprise the consolidated financial statements of the National Bank of the Republic of Kazakhstan (the “NBK”) and its subsidiaries (together referred to as the “National Bank”).

The NBK was established in accordance with the Resolution of the Supreme Council of the Republic of Kazakhstan No. 2134-XII dated 13 April 1993. Pursuant to this Resolution the State Bank of Kazakh SSR was renamed as the National Bank of the Republic of Kazakhstan.

The primary role of the NBK is ensuring price stability in the Republic of Kazakhstan. The NBK has the following goals: development and implementation of the monetary policy of the state; ensuring functioning of payment systems; exchange regulation and exchange control; ensuring stability of the financial system, regulation; control and monitoring of the financial market and financial organizations and other parties within its competency; maintaining a proper level of protection of the rights and legitimate interests of the consumers of financial services; accomplishment of statistical activities in the field of monetary statistics and external sector statistics; other tasks in accordance with the laws of the Republic of Kazakhstan and the acts of the President of the Republic of Kazakhstan.

According to its mission, the National Bank exercises the following main functions: development and implementation of the monetary policy in the Republic of Kazakhstan; acts as the only issuer of banknotes and coins in the Republic of Kazakhstan and organizes currency circulation on the territory of the Republic of Kazakhstan; currency regulation and currency control in the Republic of Kazakhstan; performs management of the foreign currency assets and precious metals; performs regulation, control and supervision of the financial market and financial organisations, as well as other entities in accordance with the Laws of the Republic of Kazakhstan; performs trust management of the National Fund the Republic of Kazakhstan based on the trust agreement to be entered into between the NBK and the Government of the Republic of Kazakhstan; performs trust management of the pension assets of “Unified National Pension Fund” JSC (“UNPF”) based on the trust agreement entered into between the NBK and the unified pension fund; exercises other functions and authorities stated in the Law “On the National Bank of the Republic of Kazakhstan”, other laws of the Republic of Kazakhstan and Decrees of the President of the Republic of Kazakhstan.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

1. INTRODUCTION, CONTINUED

(a) Organisation and operations, continued

The address of the NBK's registered office is 21, Micro District Koktem-3, Almaty 050040. As at 31 December 2018 the NBK has 17 branches and 14 subsidiaries located in the Republic of Kazakhstan.

All NBK subsidiaries that are registered in the Republic of Kazakhstan are as follows:

Name	Year of establishment	Principal activities	Ownership, %	
			2018	2017
RSE "Kazakhstan Mint of the National Bank of the Republic of Kazakhstan"	1994	Coins manufacturing	100.00	100.00
RSE "Kazakhstan Centre of Inter-banking Settlements of the National Bank of the Republic of Kazakhstan"	1996	Electronic cash transfers	100.00	100.00
RSE "Banking Service Bureau of the National Bank of the Republic of Kazakhstan"	1996	Software maintenance and development	100.00	100.00
Kazakhstan Deposit Guarantee Fund JSC (KGDF)	1999	Individual deposit guarantee	100.00	100.00
RSE "Banknote Factory of National Bank of the Republic of Kazakhstan"	2004	Banknote manufacturing	100.00	100.00
"The Training Academy of the National Bank of the Republic of Kazakhstan" JSC	2007	Delivering professional training programmes of postgraduate education	100.00	100.00

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

1. INTRODUCTION, CONTINUED

(a) Organisation and operations, continued

<u>Name</u>	<u>Year of establishment</u>	<u>Principal activities</u>	<u>Ownership, %</u>	
			<u>2018</u>	<u>2017</u>
JSC “Activity support center of the National Bank of the Republic of Kazakhstan”	2011	Transportation services, economic activity on property management	100.00	100.00
“National Investment Corporation of the National Bank of Kazakhstan” JSC (the “NIC NBK” JSC)	2012	Management of assets of the National Fund of the Republic of Kazakhstan and gold and foreign currency assets of the NBK, management of pension assets	100.00	100.00
JSC “State Credit Bureau”	2012	Forming of credit histories and credit reports	100.00	100.00
JSC “Integrated Securities Registrar”	2012	Maintaining a registry system for securities holders	98.97	98.97
JSC “Central Securities Depository”	1996	Depository activity	72.36	72.36
"Rating Agency "The Academy of the Regional Financial Center of Almaty city" JSC	2007	Assigning and indexation of credit ratings	-	58.76
Kazakhstan Stock Exchange JSC	1993	Organization and maintenance of financial markets	50.10	50.10

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

1. INTRODUCTION, CONTINUED

(a) Organisation and operations, continued

Name	Year of establishment	Principal activities	Ownership, %	
			2018	2017
“Kazakhstan Sustainability Fund” JSC	2017	Contributing to financial stability of the banking sector through financial support of second-tier banks	100.00	100.00
Mortgage Organisation “Baspana” JSC	2018	Ensuring accessibility of residential mortgage loans for population	100.00	-

To fulfil the targets of the first initiative “New Opportunities for Housing Purchase for Each Family”, announced in the Address of the President of the Republic of Kazakhstan to the people - “Five Social Initiatives of the President”, there was approved the Program “7-20-25. New Opportunities for Housing Purchase for Every Family.” In 2018, Mortgage Organization “Baspana” (hereinafter, “MO Baspana” JSC) was established as an operator under this Program, the main purpose of which is to carry out the functions provided for by the Program “7-20-25. New home purchase opportunities for every family New Opportunities for Housing Purchase for Every Family.”

In accordance with the decisions of the NBK and the extraordinary general meeting of shareholders of the Rating Agency of the Regional Financial Center of Almaty JSC dated 15 February 2018, No. 2/2018, it was decided to liquidate the Rating Agency of the Regional Financial Center of Almaty JSC. In October 2018, the Rating Agency of the Regional Financial Center of Almaty JSC was declared bankrupt. The impact of the bankruptcy of the above subsidiary on the assets and liabilities of the National Bank and the loss for the year is insignificant.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

1. INTRODUCTION, CONTINUED**(a) Organisation and operations, continued**

In accordance with para. 39 of the National Action Plan, to implement the Nation Address of the Head of the State of 31 January 2017 the Third Modernisation of Kazakhstan: Global Competitiveness approved by Decree of the President of the Republic of Kazakhstan No.422 of 15 February 2017, the Program to Improve the Financial Sustainability of Kazakhstan's Banking Sector was approved. In 2017, "Kazakhstan Sustainability Fund" JSC (hereinafter, the "KSF JSC") is established as the Program Operator. The focal point of its activities is to contribute to financial stability of the banking sector through financial support of second-tier banks. Financial support is provided to second-tier banks out of own funds as well as loans and borrowings.

In 2017 to implement para.7 of the National Action Plan approved by Decree of the President of the Republic of Kazakhstan No.143 of 25 December 2015 On Measures to Implement the Nation Address of the Head of the State of 30 November 2015 Kazakhstan in New Global Reality: Growth, Reforms, Development, para.4 of the Anti-Crisis Action Plan of the Government of the Republic of Kazakhstan and National Bank of the Republic of Kazakhstan for economic resilience and social stability for 2016-2018, approved by the Government of the Republic of Kazakhstan (Minutes of the Meeting No.51 of 8 December 2015), and the third priority Macroeconomic Stability of the Nation Address of the Head of the State of 31 January 2017 the Third Modernisation of Kazakhstan: Global Competitiveness, the Management Board of the National Bank made a decision on 21 February 2017 to increase the charter capital of Problem Loans Fund JSC by KZT 470,196,000 thousand and transfer, on a gratuitous basis, ordinary shares of Problem Loans Fund JSC owned by the National Bank of the Republic of Kazakhstan to the Government of the Republic of Kazakhstan represented by the State Property and Privatisation Committee of the Ministry of Finance of the Republic of Kazakhstan (Note 11).

In 2017 the ordinary shares of the Fund of Problem Loans JSC were transferred, on a gratuitous basis, to the Government of the Republic of Kazakhstan represented by the Committee of State Property and Privatisation of the Ministry of Finance of the Republic of Kazakhstan.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

1. INTRODUCTION, CONTINUED**(b) Kazakhstan business environment**

The National Bank's operations are primarily located in Kazakhstan. Consequently, the National Bank is exposed to the economic and financial markets of 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.

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

2 BASIS OF ACCOUNTING**(a) Statement of compliance**

In accordance with the Law of the Republic of Kazakhstan No. 2155 dated 30 March 1995 "On the National Bank of the Republic of Kazakhstan" the NBK determines its accounting policies for itself based on International Financial Reporting Standards ("IFRS").

These consolidated financial statements have been designed to present fairly the consolidated financial position of the National Bank and the results of its operations and have been prepared in accordance with the accounting policy of the NBK which was approved by the Board of Directors of the National Bank on 27 June 2013 and which the National Bank considers to be appropriate to the nature of central bank activity. The accounting policy of the National Bank is based on IFRS issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") with principal modifications as described below:

- gold and gold deposits are revalued based on market value of gold; gains resulting from mark to market of gold and foreign currency assets and liabilities are recognised as other comprehensive income within equity. Losses resulting from revaluation are recognised in profit or loss except to the extent that they reverse a previous revaluation increase recognised as other comprehensive income directly in equity, in which case they are recognised in other comprehensive income;

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

2 BASIS OF ACCOUNTING, CONTINUED**(a) Statement of compliance, continued**

- in the financial statements certain transactions performed as part of implementation of the monetary policy and for promotion of the financial system stability are accounted for, presented and disclosed at amortised cost, cost or nominal cost depending in their economic essence and/or goals and objectives of the National Bank. In these consolidated financial statements such transactions comprise swaps with the second-tier banks and other financial institutions, which are derivatives but are presented as “placements with banks and other financial institutions” and “placements of banks and other financial institutions” (Notes 21 and 29) at nominal cost;

- to perform the role and functions of the central bank and given the fact that results of investment securities management are achieved by both obtaining the contractual cash flows and their sales, these debt financial assets in the NBK portfolio, which are under external management, are classified into the category as “measured at fair value through other comprehensive income”, despite the fact that before 2018 these debt financial assets, which are in the NBK portfolio of assets under external management, were classified as “measured at fair value through profit or loss” managed on a fair value basis in accordance with IAS 39.

This is the first set of the Bank’s financial statements in which IFRS 9 Financial Instruments has been applied. Changes to significant accounting policies are described in Note 2(e).

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that gold, financial instruments at fair value through profit or loss, financial instruments measured at fair value through other comprehensive income and available-for-sale financial assets are stated at fair value, and buildings, constructions, land plots and vehicles are stated at revalued amounts.

(c) Functional and presentation currency for the purposes of consolidated financial statements

The functional currency of the National Bank and of its subsidiaries is the Kazakhstan tenge (KZT) as, being the national currency of the Republic of Kazakhstan, it reflects the economic substance of the majority of underlying events and circumstances relevant to them. The KZT is also the presentation currency for the purposes of these consolidated financial statements.

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

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

2. BASIS OF ACCOUNTING, CONTINUED

(d) Use of estimates and judgments

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

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

Judgments

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

Applicable to 2018 only

- classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding – Note 3(h)(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 expected credit losses (“ECL”) and selection and approval of models used to measure ECL – Note 4.

Applicable to 2018 and 2017

- statement of compliance – Note 2;
- accounting of expenses on the banking sector rehabilitation – Note 11.

Assumptions and estimations uncertainty

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

Applicable to 2018 only:

- impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information – Note 4.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

2. BASIS OF ACCOUNTING, CONTINUED**(d) Use of estimates and judgments, continued****Assumptions and estimations uncertainty, continued*****Applicable to 2018 and 2017:***

- fair value of subordinated and coupon bonds upon initial recognition – Note 11;
- impairment of accounts, loans and deposits with banks and other financial institutions – Note 21;
- financial assets and liabilities: fair value and accounting classifications – Note 44.

(e) Changes in accounting policies and presentation

The National Bank has initially adopted IFRS 9 from 1 January 2018 with modifications applied, which described in Note 2(a).

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

Due to the transition methods chosen by the National bank in applying IFRS 9, comparative information throughout these consolidated financial statements has not generally been restated.

The effect of initially applying these standards is mainly attributed to the following:

- an increase in impairment losses recognised on financial assets (see Note 5);
- additional disclosures related to IFRS 9 (see Notes 4 and 5).

IFRS 9 Financial Instruments

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

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

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

2. BASIS OF ACCOUNTING, CONTINUED**(e) Changes in accounting policies and presentation, continued**

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

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

Classification of financial assets and financial liabilities

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

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

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

Impairment of financial assets

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

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

Transition

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

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

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

2. BASIS OF ACCOUNTING, CONTINUED**(e) Changes in accounting policies and presentation, continued****A. IFRS 9 *Financial Instruments*, continued*****Transition, continued***

The National Bank used the exemption not to restate comparative periods but considering that the amendments made by IFRS 9 to IAS 1 introduced the requirement to present ‘interest income calculated using the effective interest rate’ as a separate line item in the statement of profit or loss, the National Bank has changed presentation of comparative information as follows: interest income caption has been changed to ‘interest income calculated using the effective interest method’.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

- the determination of the business model within which a financial asset is held, except for modifications to the accounting policy described in Note 2(a);
- the designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL;
- the designation of certain investments in equity instruments not held for trading as at FVOCI.

If a debt security had low credit risk at the date of initial application of IFRS 9, then the National Bank has assumed that credit risk on the asset had not increased significantly since its initial recognition.

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

(f) Changes in application of accounting policies

During the preparation of the consolidated financial statements as at and for the year ended 31 December 2018, there was revision of a modification in the accounting policy related to accounting of the contributions from the member banks and expenses on additions to the deposit guarantee fund reserves previously accounted for as the guarantee fund reserves within liabilities.

It had an impact on the respective items in the consolidated financial statements as at and for the years ended 31 December 2017 and 31 December 2016 and for the years then ended. Comparative information in the consolidated financial statements has been restated to conform to changes in presentation in the current year.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

2. BASIS OF ACCOUNTING, CONTINUED**(f) Changes in application of accounting policies, continued**

In accordance with the changes in provisions of the accounting policies of KDIF JSC, starting from 2018 the mandatory calendar contributions of member banks, forfeits and proceeds from the liquidation commission of a member bank being liquidated are recorded on the income items; compensations to the depositors of the liquidated banks are recorded on the income items with subsequent distribution of the outcome to the special reserve for payment of guarantee compensation within equity. Expected credit losses calculated under the Methods of Calculation of Reserves for Guarantees related to payment of guarantee compensation are recognised in the consolidated statement of financial position as the estimated liabilities.

Before 2018, contributions received from the member banks and expenses on replenishment of reserve on deposit guarantee according to the Law of the Republic of Kazakhstan “On the obligatory guarantee of deposits placed in the second-tier banks of the Republic of Kazakhstan” (with amendments dated 24 November 2015) were accounted for as the guarantee fund reserves within liabilities. Estimated liabilities on deposits, which were the objects of the obligatory guaranteeing system, were equal to the actual amount of contributions from the banks that were participants of the system of obligatory deposit guaranteeing.

Starting from 2018, a special guarantee reserve has been stated in the consolidated statement of financial position of the National Bank as at 31 December 2018 within equity; estimated liabilities to cover guarantees related with payment of the guarantee compensation are recognised within liabilities in accordance with the requirements of KDIF JSC.

Management believes that such accounting meets the requirements of IFRS and eliminates the modification to IFRS used in previous years, this presentation is more appropriate for users of the financial statements.

The following table shows the effect of changes in application of the accounting policy on the respective figures:

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

2 BASIS OF ACCOUNTING, CONTINUED

(f) Changes in application of accounting policies, continued

KZT'000	As previously reported	Impact of changes in application of accounting policy	As restated
Consolidated statement of financial position as at 31 December 2017			
LIABILITIES			
Reserves of the guarantee fund	307,151,304	(307,151,304)	-
Estimated liabilities	-	20,517,849	20,517,849
Total liabilities	12,343,404,132	(286,633,455)	12,056,770,677
EQUITY			
Special guarantee reserve	-	459,135,686	459,135,686
Revaluation reserve for foreign currency and precious metals	2,808,948,704	(81,171,533)	2,727,777,171
Accumulated losses	(1,188,759,997)	(91,330,698)	(1,280,090,695)
Total equity attributable to equity holders of the National Bank	1,791,745,977	286,633,455	2,078,379,432
Total equity	1,796,721,679	286,633,455	2,083,355,134
Total equity and liabilities	14,140,125,811	-	14,140,125,811
Consolidated statement of profit or loss for the year ended 31 December 2017			
Other operating (expenses) income, net	(9,152,915)	48,534,081	39,381,166
Operating expenses	(1,184,353,012)	48,534,081	(1,135,818,931)
Provisions for estimated liabilities	-	(9,053,080)	(9,053,080)
Loss before income tax	(1,267,601,533)	39,481,001	(1,228,120,532)
Loss for the year	(1,183,972,602)	39,481,001	(1,144,491,601)
Loss attributable to equity holders of the National Bank	(1,184,446,445)	39,481,001	(1,144,965,444)
Consolidated statement of other comprehensive income for the year ended 31 December 2017			
Loss for the year	(1,183,972,602)	39,481,001	(1,144,491,601)
Total comprehensive income for the year	(704,536,465)	39,481,001	(665,055,464)
Total comprehensive loss attributable to equity holders of the National Bank	(705,010,286)	39,481,001	(665,529,285)

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

2 BASIS OF ACCOUNTING, CONTINUED

(f) Changes in application of accounting policies, continued

KZT'000	As previously reported	Impact of changes in application of accounting policy	As restated
Consolidated statement of cash flows for the year ended 31 December 2017			
Loss before income tax	(1,267,601,533)	39,481,001	(1,228,120,532)
<i>Adjustments for:</i>			
Expenses on replenishment of reserve on deposits guarantee	13,200,000	(13,200,000)	-
Provisions for estimated liabilities	-	9,053,080	9,053,080
Increase in operating liabilities			
Reserves of guarantee fund	35,334,081	(35,334,081)	-
Net cash used in operating activities before income tax paid	(1,473,277,186)	-	(1,473,277,186)
Consolidated statement of financial position as at 31 December 2016			
LIABILITIES			
Reserves of the guarantee fund	258,617,223	(258,617,223)	-
Estimated liabilities	-	11,464,769	11,464,769
Total liabilities	258,617,223	(247,152,454)	11,464,769
EQUITY			
Special guarantee reserve	-	395,247,203	395,247,203
Revaluation reserve for foreign currency and precious metals	2,368,114,148	(83,981,914)	2,284,132,234
Accumulated losses	(161,990,514)	(64,112,835)	(226,103,349)
Total equity attributable to equity holders of the National Bank	2,496,835,220	247,152,454	2,743,987,674
Total equity	2,816,186,505	247,152,454	3,063,338,959
Total equity and liabilities	13,340,353,647	-	13,340,353,647

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently by the National Bank to all periods presented in these consolidated financial statements, except as explained in Note 2(e), which addresses changes in accounting policies.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(a) Basis of consolidation****(i) *Subsidiaries***

Subsidiaries are investees controlled by the NBK. The National Bank controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In particular, the National Bank consolidates investees that it controls on the basis of de facto circumstances. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) *Funds management*

The National Bank manages and administers assets held in investment vehicles on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the National Bank controls the entity.

(iii) *Acquisitions and disposals of non-controlling interests*

The National Bank accounts for the acquisitions and disposals of non-controlling interests as transactions with equity holders in their capacity as equity holders.

Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the National Bank.

(iv) *Associates*

Associates are those entities in which the National Bank has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the National Bank's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the National Bank's share of losses exceeds the National Bank's interest (including long-term loans) in the associate, that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the National Bank has incurred obligations in respect of the associate.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(a) Basis of consolidation, continued****(v) *Transactions eliminated on consolidation***

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the National Bank's interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

(vi) *Non-controlling interest*

Non-controlling interests are the equity in a subsidiary not attributable, directly or indirectly, to the NBK.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity attributable to equity holders of the NBK. Non-controlling interests in profit or loss and total comprehensive income are separately disclosed in the consolidated statements of income and comprehensive income.

(b) Discontinued operation

A discontinued operation is a component of the National Bank's business, the operations and cash flows of which can be clearly distinguished from the rest of the National Bank and which:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of profit or loss is re-presented as if the operation had been discontinued from the start of the comparative period.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(c) Gold**

Gold comprises gold deposits with foreign banks and gold bullion in depositories. Gold is measured at market price at the reporting date in the consolidated financial statements. Gains on revaluation of gold are recorded directly in other comprehensive income. Losses resulting from revaluation are recognised in profit or loss except to the extent that they reverse a previous revaluation increase recognised as other comprehensive income directly in equity, in which case they are recognised in other comprehensive income. Revaluation of gold is not transferred to profit or loss.

(d) Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of the National Bank entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Gain on foreign currency differences arising on retranslation are recognised in other comprehensive income. Losses resulting from revaluation are recognised in profit or loss except to the extent that they reverse a previous revaluation increase recognised as other comprehensive income directly in equity, in which case they are recognised in other comprehensive income. Revaluation of foreign currency is not transferred to profit or loss.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(e) Cash and cash equivalents**

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with 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 National Bank in the management of short-term commitments. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

(f) Interest***Policy applicable from 1 January 2018******Effective interest rate***

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

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

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the National 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 (or impairment allowance before 1 January 2018).

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(f) Interest, continued*****Policy applicable from 1 January 2018, continued******Amortised cost and gross carrying amount, continued***

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

Calculation of interest income and expense

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

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

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

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

Presentation

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

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

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(f) Interest, continued*****Policy applicable from 1 January 2018, continued******Presentation, continued***

Interest expense presented in the consolidated statement of profit or loss includes financial liabilities measured at amortised cost;

Interest income on non-derivative debt financial assets measured at fair value through profit or loss included in “Net gain on financial instruments at fair value through profit or loss” in the consolidated statement of profit or loss.

Policy applicable before 1 January 2018***Effective interest rate***

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

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

Presentation

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

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

Interest income on non-derivative debt financial assets measured at fair value through profit or loss included in “Net gain on financial instruments at fair value through profit or loss” in the consolidated statement of profit or loss.

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

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(g) Fees and commission**

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

Fee and commission income, including investment management fees, pension asset management fees, fiduciary assets fees and financial markets management and transfer operations, is recognised as the related services are performed.

Other fee and commission expenses mainly include fees related to asset management, brokerage and custody fees, which are expensed as the related services are received.

Dividend income is recognised in profit or loss on the date that the dividend is declared.

(h) Financial instruments**(i) Classification of financial instruments*****Financial assets – Policy applicable from 1 January 2018***

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

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated by the National Bank 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 by the National Bank as at FVTPL, except for the modifications to the accounting policy as described in Note 2(a):

- 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.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(h) Financial instruments, continued****(i) Classification of financial instruments, continued*****Financial assets – Policy applicable from 1 January 2018, continued***

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 income using the effective interest method;
- expected credit losses and reversals.

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

On initial recognition of an equity investment that is not held for trading, the National 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 or losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss.

Dividends are recognised in profit or loss 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 fair value through profit or loss.

In addition, on initial recognition, the National 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.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(h) Financial instruments, continued*****(i) Classification of financial instruments, continued******Financial assets – Policy applicable from 1 January 2018, continued*****Business model assessment**

The National 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 by the National Bank 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 Group'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 NBK 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.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(h) Financial instruments, continued

(i) *Classification of financial instruments, continued*

Financial assets – Policy applicable from 1 January 2018, continued

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 (“SPPI criterion”), the National 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, NBK considers:

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

Reclassification

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

Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

However, under IAS 39 all fair value changes of financial liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes will generally be presented as follows:

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(h) Financial instruments, continued*****(i) Classification of financial instruments, continued******Financial assets – Policy applicable from 1 January 2018, continued*****Reclassification, continued*****Financial liabilities, continued***

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

Financial liabilities are not reclassified subsequent to their initial recognition.

Financial assets – Policy applicable before 1 January 2018

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

- loans and receivables;
- held-to-maturity;
- available-for-sale; and
- at FVTPL, and within this category as:
 - held for trading; or
 - designated as at FVTPL.

See Note 3(j), (k).

Financial liabilities – Policy applicable before 1 January 2018

The National Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL. See Note 44.

Reclassification

Financial liabilities are not reclassified subsequent to their initial recognition.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(h) Financial instruments, continued****(ii) Derecognition****Financial assets**

The National 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 National 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.

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

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

From 1 January 2018 any cumulative gain/loss recognised in other comprehensive income in respect of financial liabilities designated as at FVTPL is not recognised in profit or loss on derecognition of such financial liabilities (Note 3 (l)).

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(h) Financial instruments, continued*****(iii) Modification of financial assets and financial liabilities******Policy applicable from 1 January 2018*****Financial assets**

If the terms of a financial asset are modified, the National 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.

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

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

- change the currency of the financial asset;
- change in collateral or other credit enhancement;
- change of terms of financial asset that lead to non-compliance with the SPPI criterion (e.g. inclusion of conversion feature).

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(h) Financial instruments, continued*****(iii) Modification of financial assets and financial liabilities, continued******Policy applicable from 1 January 2018, continued*****Financial assets, continued**

If cash flows are modified when the counterparty/issuer 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 National 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 National 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 National 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 counterparty/issuer, 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 (Note 3(f)).

Financial liabilities

The National 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.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(h) Financial instruments, continued*****(iii) Modification of financial assets and financial liabilities, continued******Policy applicable from 1 January 2018, continued*****Financial liabilities, continued**

The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

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

- change the currency of the financial liability;
- 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.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(h) Financial instruments, continued****(iii) *Modification of financial assets and financial liabilities, continued******Policy applicable before 1 January 2018*****Financial assets**

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

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

Financial liabilities

The National 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. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

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

(iv) *Impairment*

See also Note 4.

Policy applicable from 1 January 2018

The National 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; and
- loan commitments issued.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(h) Financial instruments, continued****(iv) Impairment, continued*****Policy applicable from 1 January 2018, continued***

No impairment loss is recognised on equity investments.

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

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

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument.

Financial instruments for which a lifetime ECL is recognised are referred to as ‘Stage 2’ financial instruments (if credit risk on financial instruments has increased significantly upon initial recognition but financial instrument is not credit-impaired) and ‘Stage 3’ (if financial instrument is credit-impaired).

Measurement of ECL

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

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the National Bank in accordance with the contract and the cash flows that the National 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;

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(h) Financial instruments, continued****(iv) Impairment, continued*****Policy applicable from 1 January 2018, continued******Measurement of ECL, continued***

- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the National Bank if the commitment is drawn down and the cash flows that the National Bank expects to receive; and
- financial guarantee contracts: the present value of expected payments to reimburse the holder less any amounts that the National 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 counterparty/issuer, then an assessment is made of whether the financial asset should be derecognised 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 National Bank assesses whether financial assets carried at amortised cost and debt financial assets carried 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.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(h) Financial instruments, continued****(iv) Impairment, continued*****Policy applicable from 1 January 2018, continued******Credit-impaired financial assets, continued***

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

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

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

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(h) Financial instruments, continued****(iv) Impairment, continued*****Policy applicable from 1 January 2018, continued******Presentation of allowance for ECL in the consolidated statement of financial position***

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

- financial assets measured at amortised cost: as decrease in carrying amount of these assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-offs

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

Recoveries of amounts previously written off are included in ‘impairment losses on financial instruments’ in the consolidated statement of profit or loss.

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

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(h) Financial instruments, continued

(iv) *Impairment, continued*

Non-integral financial guarantee contracts

The National 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 National Bank considers when making this assessment include whether:

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

If the National Bank determines that the guarantee is an integral element of the financial asset, then any premium payable in connection with the initial recognition of the financial asset is treated as a transaction cost of acquiring it. The National Bank considers the effect of the protection when measuring the fair value of the debt instrument and when measuring ECL.

If the National Bank determines that the guarantee is not an integral element of the debt instrument, then it recognises an asset representing any prepayment of guarantee premium and a right to compensation for credit losses. A prepaid premium asset is recognised only if the guaranteed exposure neither is credit-impaired nor has undergone a significant increase in credit risk when the guarantee is acquired.

These assets are recognised in 'other assets'. The National Bank presents gains or losses on a compensation right in profit or loss in the line item 'reserves for credit losses'.

Policy applicable before 1 January 2018

Objective evidence of impairment

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

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(h) Financial instruments, continued****(iv) Impairment, continued*****Policy applicable before 1 January 2018, continued*****Objective evidence of impairment, continued**

Objective evidence that financial assets were impaired included:

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

A loan that was renegotiated due to a deterioration in the counterparty'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, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost was objective evidence of impairment.

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

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(h) Financial instruments, continued****(iv) Impairment, continued*****Policy applicable before 1 January 2018, continued*****Objective evidence of impairment, continued**

In making an assessment of whether an investment in sovereign debt (other financial assets), where the state acts as a debtor, was impaired, the National Bank considered 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.

Individual or collective assessment

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

Measurement of impairment

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

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(h) Financial instruments, continued****(iv) Impairment, continued*****Policy applicable before 1 January 2018, continued*****Reversal of impairment**

For assets measured at amortised cost: if an event occurring after the impairment was recognised caused the amount of impairment loss to decrease, then the decrease in impairment loss was reversed through profit or loss.

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

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

Presentation

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

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

Changes in impairment attributable to the application of the effective interest method were reflected as a component of interest income.

Write-off

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

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(h) Financial instruments, continued****(v) *Designation at fair value through profit or loss*****Financial assets**

At initial recognition, the National Bank has designated certain financial assets as at FVTPL because this designation eliminates or significantly reduces an accounting mismatch, which would otherwise arise.

Financial liabilities

At initial recognition, The National Bank has designated certain financial liabilities as at FVTPL in either of the following circumstances:

- the liabilities are managed, evaluated and reported internally on a fair value basis; or
- the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

(vi) *Repurchase and reverse repurchase agreements*

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the consolidated statement of financial position and the counterparty liabilities are recorded as repo agreements in the separate line of the consolidated statement of financial position. The difference between the sale and repurchase prices represents interest expense and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (reverse repo) are recorded as reverse repurchase agreements in the separate line of the consolidated statement of financial position. The difference between the purchase and resale prices represents interest income and is recognised in profit or loss over the term of the reverse repo agreement using the effective interest method.

(vii) *Derivatives*

Derivative financial instruments include swaps, forwards, futures, spot transactions and options in interest rates, foreign exchanges, precious metals and stock markets, and any combinations of these instruments.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(h) Financial instruments, continued****(vii) Derivatives, continued**

Changes in fair value of derivatives are recognised immediately in profit or loss.

Derivatives may be embedded in another contractual arrangement ("a host contract"). An embedded derivative is separated from the host contract and is accounted for as a derivative if, and only if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the combined instrument is not measured at fair value with changes in fair value recognised in profit or loss. Derivatives embedded in financial assets or financial liabilities at fair value through profit or loss are not separated from the host contract.

Although the National Bank trades in derivative instruments for risk hedging purposes, these instruments do not qualify for hedge accounting.

Forward, futures, option and swap deals concluded for the purpose of the monetary policy execution are recognised at either nominal or amortised cost, or at cost depending on their content and economic nature.

Embedded derivatives***Policy applicable from 1 January 2018***

Derivatives may be embedded in another contractual arrangement (a host contract). The National Bank accounts for an embedded derivative separately from the host contract when:

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

Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(h) Financial instruments, continued****(vii) Derivatives, continued*****Embedded derivatives, continued******Policy applicable before 1 January 2018***

Derivatives may be embedded in another contractual arrangement (a host contract). An embedded derivative is separated from the host contract and is accounted for as a derivative if, and only if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the combined instrument is not measured at fair value with changes in fair value recognised in profit or loss. Derivatives embedded in financial assets or financial liabilities at fair value through profit or loss are not separated from the host contract.

(viii) Offsetting

Financial assets and liabilities of the National Bank are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(i) Currency in circulation

Currency in circulation is recorded in the consolidated statement of financial position at nominal value.

Currency in circulation is recorded as a liability when cash is issued by the National Bank to commercial banks. Banknotes and coins in national currency held in the vaults and cash offices is not included in the currency in circulation.

Banknotes and coins production expense include expenses for security, transportation, insurance and other expenses. Banknotes and coins production expense are recognised upon delivery to the vaults and recorded as a separate item in the consolidated income statement.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(j) Placements and loans with banks and other financial institutions*****Policy applicable from 1 January 2018***

‘Placements and loans with banks and other financial institutions’ caption in the consolidated statement of financial position includes:

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

- loans to banks mandatorily measured at FVTPL due to non-compliance with the SPPI-criterion (see Note 3(h)(i)) or designated as at FVTPL (see Note 3(h)(v)); these are measured at fair value with changes recognised immediately in profit or loss;

- swap transactions concluded with the second-tier banks and other financial institutions as part of implementation of the monetary policy and for promotion of the financial system stability, which are derivatives but are accounted for and presented at nominal cost (Note 2).

Policy applicable before 1 January 2018

Placements and loans with banks were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market and that the National Bank did not intend to sell immediately or in the near term.

Placements and loans with banks and other financial institutions included:

- loans and placements classified as loans and receivables; and

- swap transactions concluded with the second-tier banks and other financial institutions as part of implementation of the monetary policy and for promotion of the financial system stability, which are derivatives but are accounted for and presented at nominal cost (Note 2).

Placements and loans with banks and other financial institutions were initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method. When the National Bank chooses to designate the loans to banks as measured at FVTPL, they were measured at fair value with face value changes recognised immediately in profit or loss.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(k) Investment securities*****Policy applicable from 1 January 2018***

The ‘investment securities’ caption, presented in line items such as “Financial instruments at fair value through profit or loss”, “Investment securities at fair value through other comprehensive income” and “Investment securities measured at amortised cost” in the consolidated statement of financial position includes:

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

Policy applicable before 1 January 2018

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

Held-to-maturity

Held-to-maturity investments were non-derivative assets with fixed or determinable payments and fixed maturity that the National Bank has the positive intent and ability to hold to maturity, except for those, which are not designated by the National bank as at FVTPL or as available-for-sale or meet the definition of loans and receivables

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

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(k) Investment securities, continued***Policy applicable before 1 January 2018, continued***Held-to-maturity, continued**

- sales or reclassifications that were so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;

- sales or reclassifications after the National Bank had collected substantially all of the asset's original principal; and

- sales or reclassifications that were attributable to non-recurring isolated events beyond the National Bank's control that could not have been reasonably anticipated.

Fair value through profit or loss

Trading assets were those assets that the National Bank acquired or incurred principally for the purpose of selling or repurchasing in the near term, or held as part of a portfolio that is managed together for short-term profit. Trading assets were initially recognised and subsequently measured at fair value in the consolidated statement of financial position, with transaction costs recognised in profit or loss. All changes in fair value were recognised as part of net trading income in profit or loss.

Designated assets. The National Bank designated some investment securities as at fair value, with fair value changes recognised immediately in profit or loss as described in Note 3(h)(v)).

Available-for-sale

Available-for-sale investments were non-derivative investments that were designated as available-for-sale or were not classified as another category of financial assets. Available-for-sale investments comprise equity securities and debt securities. Unquoted equity securities whose fair value could not be measured reliably were carried at cost. All other available-for-sale investments were measured at fair value after initial recognition.

Interest income was recognised in profit or loss using the effective interest method. Dividend income was recognised in profit or loss when the National Bank became entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments were recognised in profit or loss. A revaluation decrease is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised as other comprehensive income directly in equity, in which case it is recognised in other comprehensive income. Foreign exchange revaluation is not transferred to profit or loss (see Note 3(h)(iv)) .

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(k) Investment securities, continued***Policy applicable before 1 January 2018, continued***Available-for-sale, continued**

Other fair value changes, other than impairment losses (see Note 3(h)(iv)), were recognised in other comprehensive income and presented in the fair value reserve within equity. When the investment was sold, the gain or loss accumulated in equity was reclassified to profit or loss.

(l) Deposits of banks and other financial institutions, debt securities issued

Deposits of banks and other financial institutions, debt securities issued are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

Debt securities issued are recognised in accounting as at the transaction date.

(m) Special guarantee reserve

According to the Law of the Republic of Kazakhstan “On the obligatory guarantee of deposits placed in the second tier banks of the Republic of Kazakhstan” (with amendments dated 24 November 2015) the subsidiary of the National Bank – KDIF JSC is due to compensate the participating banks’ depositors amounts up to a certain level in case of forced liquidation of a participating bank. The National Bank establishes a reserve of guarantee funds to accumulate contributions of the banks that participate in the deposit guarantee scheme. In accordance with the National Bank’s accounting policy reserves of guarantee funds are formed at the expense of the accumulated contributions received from the participating banks and expenses of the National Bank.

(n) Fiduciary assets

The National Bank provides custody services that result in holding of assets on behalf of third parties. These assets and income arising thereon are not recognised in these consolidated financial statements as they are not assets of the National Bank. Commissions received from such business are shown within fee and commission income in profit or loss.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(o) Property, plant and equipment

(i) *Owned assets*

Items of property and equipment are stated in the consolidated financial statements at cost less accumulated depreciation and impairment losses, except for buildings, constructions, land plots and vehicles, which are stated at revalued amounts as described below.

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) *Revaluation*

Buildings, constructions, land plots and motor vehicles are subject to revaluation once per five years and if their carrying amounts are significantly different from their fair values. A revaluation increase on buildings, constructions, land plots and vehicles is recognised as other comprehensive income except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss.

A revaluation decrease on buildings, constructions, land plots and vehicles is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised as other comprehensive income directly in equity, in which case it is recognised in other comprehensive income.

(iii) *Depreciation*

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation of the equipment of RSE “Banknote Factory of National Bank of the Republic of Kazakhstan” and RSE “Kazakhstan Mint of the National Bank of the Republic of Kazakhstan” used in production of the banknotes and coins is charged to profit and loss on a unit of production method over the expected output of the individual assets.

Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

Buildings and constructions	7 to 50 years;
Furniture and equipment	5 to 10 years;
Computer equipment	3 to 8 years;
Vehicles	5 to 25 years.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(p) Intangible assets**

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

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

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 1 to 10 years.

(q) Impairment of assets***Non-financial assets***

Non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of goodwill is estimated at each reporting date. 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. An impairment loss in respect of goodwill is not reversed.

(r) Credit related commitments

In the normal course of business, the National Bank enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the National Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(r) Credit related commitments, continued**

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured as follows:

- from 1 January 2018: at the higher of the loss allowance determined in accordance with IFRS 9 (see Note 3(h)(iv)) and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15; and
- before 1 January 2018: at the higher the amount determined in accordance with IAS 37 and d the amount initially recognised less, when appropriate, the cumulative amount of amortisation recognised in accordance with IAS 18.

(s) Taxation

In accordance with legislation of the Republic of Kazakhstan, the NBK is exempt from income tax and value-added tax.

Subsidiaries and associate organisations of the NBK are subject to all taxes.

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

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

Deferred tax assets and liabilities are recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are not recognised for the following temporary differences: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries, where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(s) Taxation, continued**

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

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

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

(t) Segment reporting

Activity of the National Bank represents one operating segment for the purposes of IFRS 8 *Operating Segments*. An operating segment is a component of the National Bank that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses related to transactions with other components of the National Bank); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

(u) Comparative information

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

The effect of main changes in presentation of the consolidated statement of financial position is disclosed in Note 5.

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

- "Interest income" was presented within "Interest income calculated using effective interest rate method" line item.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(v) Standards issued but not yet effective

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2018, and are not applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the National Bank's financial position and its operations. The National Bank plans to adopt these pronouncements when they become effective.

(i) *IFRS 16 Leases*

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

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

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The National Bank does not intend to adopt this standard early. The National Bank is currently in the process of assessment of the potential impact of IFRS 16 on its consolidated financial statements. The new Standard is not expected to have a significant effect on the consolidated financial statements of the National Bank.

(ii) **Other standards**

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

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

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

4. FINANCIAL RISK REVIEW

This note presents information about the National Bank's exposure to financial risks. For information on the National Bank's financial risk management framework, see Note 39.

Credit risk - Amounts arising from ECL**Inputs, assumptions and techniques used for estimating impairment**

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

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the National 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 Group's historical experience and expert 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.

Assessment of significant increase in credit risk upon initial recognition of the financial instrument requires determining the date of initial recognition of the instrument.

The National Bank uses two main criteria for determining whether there has been a significant increase in credit risk:

- quantitative test based on movement in probability of default (PD);
- qualitative indicators.

Credit risk grades

The National 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. The National Bank will use these credit risk grades to identify significant increase in credit risk in accordance with IFRS 9. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

4. FINANCIAL RISK REVIEW**Credit risk - Amounts arising from ECL, continued****Credit risk grades, continued**

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

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower and assigned external credit rating according to international credit rating agencies. 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.

- information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections;
- payment record – this includes overdue status;
- data from credit reference agencies, press articles, changes in external credit ratings;
- 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 counterparty 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 National Bank collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and counterparty as well as by credit risk grading. The National Bank mainly uses information purchased from external credit reference agencies.

Determining whether credit risk has increased significantly

The National 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 counterparty/issuer, and the geographical region.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

4. FINANCIAL RISK REVIEW**Credit risk - Amounts arising from ECL, continued****Determining whether credit risk has increased significantly, continued**

The National Bank has established a framework that incorporates information to determine whether the credit risk on a particular financial instrument has increased significantly since initial recognition. The framework aligns with the National Bank's internal credit risk management process.

Significant increase in credit risk – change in the credit rating of a financial asset by certain number of grades relative to the credit rating at the date of initial recognition of the financial asset and/or if there are outstanding payments overdue by 30 days, which are related to the liabilities to the National Bank.

For financial assets with an initial credit ratings of BBB/Baa2/BBB – Standard and Poor's (hereinafter - S&P), Moody's Investors Service (hereinafter - Moody's) or Fitch Ratings (hereinafter - Fitch) and above, the significant increase in credit risk is recognised as the decrease in the credit rating of a financial asset/counterparty/issuer of securities by two steps or more.

For financial assets with an initial credit rating below BBB/Baa2/BBB – S&P, Moody's or Fitch, the significant increase in credit risk is recognised as the decrease in the credit rating of a financial asset/counterparty/issuer of securities by one step.

Definition of default

The National Bank considers a financial asset to be in default when:

- the counterparty/issuer is unlikely to pay its credit obligations to the National Bank in full, without recourse by the National Bank to actions such as realising security (if any is held);
- the counterparty/issuer is past due more than 90 days on any material credit obligation to the National Bank.

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

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

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

4. FINANCIAL RISK REVIEW**Credit risk - Amounts arising from ECL, continued****Incorporation of forward-looking information**

The National 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.

The National Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The National Bank also uses the forecast of international rating agencies (Rating Outlook) when calculating the correction of the forecast PD, based on the current rating of the counterparty/securities issuer.

PD for each custodian/counterparty/issuer of a security is supplemented with estimated Δ PD value based on the macroeconomic analysis performed. The macroeconomic analysis is based on data on changes in unemployment rates and GDP.

Modified financial assets

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

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

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

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

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

4. FINANCIAL RISK REVIEW**Credit risk - Amounts arising from ECL, continued****Measurement of ECLs**

The key inputs into the measurement of ECL are likely to be the term structures of the following variables:

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

PD estimates are estimates at a certain date, which are calculated based on information of external credit rating agencies, including external credit ratings, forecasts and default statistics. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs will be estimated considering the contractual maturities of exposures.

Loss given default (LGD) is the magnitude of the likely loss if there is a default. The National Bank will estimate LGD parameters based on the history of recovery rates according to the data of international rating agencies, Bloomberg system and other sources.

To estimate allowance for expected credit losses, conservative rating assessment from rating agencies is used, i.e. the lowest rating according to international rating agencies Moody's, Fitch and S & P.

EAD represents the positive carrying amount of claims outstanding as at the date of ECL calculation.

The National Bank will derive the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract. The EAD of a financial asset is its gross carrying amount.

PD for financial assets in the first basket is calculated for 12 months.

For assessment of PD and LGD for financial assets in the second basket, a lifetime PD is used.

PD for financial assets in the third basket is equated to 100%.

Credit quality analysis

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

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

4. FINANCIAL RISK REVIEW, CONTINUED

KZT'000	Stage 1	Stage 2	Stage 3	Total
<i>Placements and loans with banks and other financial institutions</i>				
Rated AAA	381,132,815	-	-	381,132,815
Rated from AA- to AA+	553,464,792	-	-	553,464,792
Rated from A- to A+	394,356,691	-	-	394,356,691
Rated from BBB- to BBB+	525,172,690	2,769,196	-	527,941,886
Rated from BB- to BB+	744,536,012	-	-	744,536,012
Rated from B- to B	361,322,252	206,204,305	-	567,526,557
Not rated	1,013,773,739	-	52,180,053	1,065,953,792
Gross carrying amount	3,973,758,991	208,973,501	52,180,053	4,234,912,545
Loss allowance	(9,061,204)	(6,588,161)	(52,180,053)	(67,829,418)
Carrying amount	3,964,697,787	202,385,340	-	4,167,083,127
<i>Investment securities at fair value through other comprehensive income</i>				
Rated AAA	248,385,279	-	-	248,385,279
Rated from AA- to AA+	2,407,640,139	9,132,300	-	2,416,772,439
Rated from A- to A+	540,116,608	2,388,892	-	542,505,500
Rated from BBB- to BBB+	1,003,898,461	14,680,703	-	1,018,579,164
Rated from BB- to BB+	688,212	5,694,304	-	6,382,516
Not rated	765,221,976	-	-	765,221,976
Carrying amount	4,965,950,675	31,896,199	-	4,997,846,874
Loss allowance	(600,234)	(283,663)	-	(883,897)
Carrying amount –fair value*	4,965,950,675	31,896,199	-	4,997,846,874
<i>Investment securities measured at amortised cost</i>				
Rated AAA	107,344,842	-	-	107,344,842
Rated from AA- to AA+	116,587,023	-	-	116,587,023
Rated from A- to A+	76,019,323	-	-	76,019,323
Rated from BBB- to BBB+	356,301,099	-	-	356,301,099
Not rated	26,479,380	-	-	26,479,380
Gross carrying amount	682,731,667	-	-	682,731,667
Loss allowance	(126,520)	-	-	(126,520)
Carrying amount	682,605,147	-	-	682,605,147

* Investment securities at FVOCI are stated at fair value while loss allowance is recognised in other comprehensive income.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

5. TRANSITION TO IFRS 9

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

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

KZT'000	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial assets					
Cash on hand in foreign currency	19	Loans and receivables	Amortised cost	49,964,397	49,964,397
Placements and loans with banks and other financial institutions (a)	21	Loans and receivables	Amortised cost	2,025,928,192	1,962,142,032
Placements and loans with banks and other financial institutions (b)	21	Loans and receivables	FVTPL (mandatory)	192,717,587	192,717,587
Financial instruments at fair value through profit or loss	22	FVTPL	FVTPL (mandatory)	11,119,223	11,119,223
Financial assets at fair value through profit or loss – debt (c)	24	FVTPL (designated)	FVOCI	977,960,616	977,960,616
Reverse repurchase agreements	23	Loans and receivables	Amortised cost	184,400,406	184,400,406
Available-for-sale financial assets – debt (d)	24	Available-for-sale	FVOCI	4,532,839,276	4,532,839,276
Available-for-sale financial assets – equity	24	Available-for-sale	FVOCI	79,854	79,854
Available-for-sale financial assets – debt (e)	25	Available-for-sale	Amortised cost	543,956,284	577,142,182
Available-for-sale financial assets – equity (f)	22	Available-for-sale	FVTPL (designated)	120,118,229	120,118,229
Held-to maturity investments	25	Held-to-maturity	Amortised cost	40,252,954	40,256,316
Other financial assets	27	Loans and receivables	Amortised cost	14,071,707	14,056,235
Total financial assets				8,693,408,725	8,662,796,353

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

5. TRANSITION TO IFRS 9, CONTINUED

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

KZT'000	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial liabilities					
Deposits and balances from banks and other financial institutions (g)	29	Amortised cost	Amortised cost	3,568,707,058	3,568,707,058
Financial assets at fair value through profit or loss	22	FVTPL	FVTPL (mandatory)	665,921	665,921
Repurchase agreements	30	Amortised cost	Amortised cost	295,484,490	295,484,490
Current accounts of the National Fund of the Republic of Kazakhstan	31	Amortised cost	Amortised cost	337,924,084	337,924,084
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	32	Amortised cost	Amortised cost	430,853,383	430,853,383
Customer accounts	33	Amortised cost	Amortised cost	658,740,109	658,740,109
Debt securities issued	34	Amortised cost	Amortised cost	3,209,726,402	3,209,726,402
Other financial liabilities	36	Amortised cost	Amortised cost	4,950,359	4,950,359
Total financial liabilities				8,507,051,806	8,507,051,806

(a) Does not include the asset part of the swap deals in the amount of KZT 1,135,054,632 thousand as at 1 January 2018 that is accounted for not as derivatives, but as deposits in banks and is measured at nominal in accordance with the Basis of Accounting (Note 2).

(b) Certain loans issued on a subordinated debt basis (see Note 11) are classified as measured at FVTPL in accordance with IFRS 9 due to non-compliance with the SPPI criterion because of the provision of an option of exchange of such subordinated debt for the bank's ordinary shares if the bank's financial position has deteriorated and the facts of assets stripping have been detected.

(c) Before 2018, in accordance with IAS 39, some debt financial assets under external management were classified by the National Bank into the category measured at FVTPL upon initial recognition since these securities portfolios are managed on the fair value basis. In accordance with the modified accounting policy of the National Bank (Note 2(a)), starting from 1 January 2018 these debt financial assets were reclassified to the category measured at FVOCI.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

5. TRANSITION TO IFRS 9, CONTINUED**Classification of financial assets and financial liabilities on the date of initial application of IFRS 9, continued**

(d) Certain debt securities are held by the National Bank in separate portfolios under internal management to meet everyday liquidity needs. The National Bank seeks to minimise the costs of managing those liquidity needs and therefore actively manages the return on the portfolio. That return consists of collecting contractual payments as well as gains and losses from the sale of financial assets. The investment strategy often results in sales activity that is significant in value. The National Bank considers that under IFRS 9 these securities are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

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

(f) Investments in alternative instruments comprised investments in hedge-funds and private equity funds in accordance with the strategy of gold and foreign exchange reserves and Investment Strategy for management of portfolio of alternative instruments of the National Bank's gold and foreign currency reserves approved by the Resolution of the National Bank dated 28 May 2018, No. 100, and in accordance with the terms and conditions of the Investment Trust Management Contract No.122NB/10 dated 29 March 2013 concluded between the National Bank and subsidiary NIC NBK JSC. The fair value of these investments is estimated by investment managers and/or administrators and is based on the fair value of the net assets of the underlying investments. Investments were classified at FVTPL in accordance with IFRS 9.

(g) Does not include the liability part of the swap deals in the amount of KZT 1,260,018,133 thousand as at 1 January 2018 that is accounted for not as derivatives, but as deposits in banks and is measured at nominal in accordance with the Basis of Accounting (Note 2).

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

5. TRANSITION TO IFRS 9, CONTINUED

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

The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018.

KZT'000	IAS 39 carrying amount 31 December 2017	Reclassifica- tion	Remeasu- rement	IFRS 9 carrying amount 1 January 2018
Financial assets				
<i>Amortised cost</i>				
Cash on hand in foreign currency	49,964,397			49,964,397
Loans and placements with banks and other financial institutions:				
Opening balance	2,218,645,779			
To FVTPL		(192,717,587)		
Remeasurement			(63,786,160)	
Closing balance				1,962,142,032
Reverse repurchase agreements	184,400,406			184,400,406
Investment securities measured at amortised cost:				
Opening balance	40,252,954			
From available-for-sale		543,956,284		
Remeasurement			33,189,260	
Closing balance				617,398,498
Other financial assets:				
Opening balance	14,071,707			
Remeasurement			(15,472)	
Closing balance				14,056,235
Total amortised cost	2,507,335,243	351,238,697	(30,612,372)	2,827,961,568

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE
YEAR ENDED 31 DECEMBER 2018

5. TRANSITION TO IFRS 9, CONTINUED

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

KZT'000	IAS 39 carrying amount 31 December 2017	Reclassifica- tion	Remeasu- rement	IFRS 9 carrying amount 1 January 2018
Available-for-sale				
Investment securities at FVOCI:				
Opening balance	5,196,993,643			
To FVOCI – equity		(79,854)		
To FVOCI – debt		(4,532,839,276)		
To FVTPL		(120,118,229)		
To amortised cost		(543,956,284)		
Closing balance				-
FVOCI – debt				
Investment securities at FVOCI:				
Opening balance	-			
From available-for-sale		4,532,839,276	-	
From FVTPL		977,960,616		
Closing balance				5,510,799,892
FVOCI – equity				
Investment securities at FVOCI:				
Opening balance	-			
From available-for-sale		79,854		
Closing balance				79,854
Total FVOCI	5,196,993,643	313,886,103		5,510,879,746
FVTPL				
Financial instruments at FVTPL:				
Opening balance	989,079,839			
To FVOCI – debt		(977,960,616)		
From amortised cost		192,717,587		
From available-for-sale		120,118,229		
Closing balance				323,955,039
Total FVTPL	989,079,839	(665,124,800)		323,955,039
Total financial assets	8,693,408,725	-	(30,612,372)	8,662,796,353

Gold on deposits in foreign banks does not meet the SPPI criterion since cash flows are linked to the gold index. In this regard, gold on deposits in foreign banks is recorded at fair value in accordance with Notes 2 (a) and 3 (c).

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

5. TRANSITION TO IFRS 9, CONTINUED

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

The following table summarises the impact of transition to IFRS 9 on the opening balance of the fair value reserves, retained earnings and non-controlling interests (NCI) (non-controlling shareholders). There is no impact on other components of equity.

KZT'000	Impact of adopting IFRS 9 as at 1 January 2018
Fair value reserve - FVOCI debt instruments (31 December 2017 – Fair value reserve – available-for-sale)	
Closing balance under IAS 39 (31 December 2017)	(53,321,533)
Reclassification of debt investment securities from FVTPL to FVOCI	3,573,668
Reclassification of debt investment securities from available-for-sale to amortised cost	33,282,120
Reclassification of debt investment securities from available-for-sale to FVTPL	(9,447,534)
Recognition of expected credit losses under IFRS 9 for debt investment securities at FVOCI	1,822,597
Opening balance under IFRS 9 (1 January 2018)	(24,090,682)
Fair value reserve – FVOCI equity instruments	
Closing balance under IAS 39 (31 December 2017)	-
Reclassification of equity investment securities from FVTPL to FVOCI	3,403
Opening balance under IFRS 9 (1 January 2018)	3,403
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	(1,280,090,695)
Reclassifications under IFRS 9	5,870,463
Recognition of expected credit losses under IFRS 9	(83,888,327)
Opening balance under IFRS 9 (1 January 2018)	(1,358,108,559)

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

5. TRANSITION TO IFRS 9, CONTINUED

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

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

	Impairment allowance and provisions			1 January 2018 (IFRS 9)
	31 December 2017 (IAS 39/IAS 37)	Reclassification	Remeasurement	
KZT'000				
Loans and receivables and held to maturity securities under IAS 39/financial assets at amortised cost under IFRS 9 (includes placements and loans with banks and other financial institutions, investments measured at amortised cost, other assets)	3,447,304	-	81,969,508	85,416,812
Available-for-sale debt investment securities under IAS 39 reclassified to amortised cost under IFRS 9	-	-	96,222	96,222
Total measured at amortised cost	3,447,304	-	82,065,730	85,513,034
Debt investment securities at FVTPL under IAS 39 reclassified to FVOCI under IFRS 9	-	-	1,676,683	1,676,683
Available-for-sale debt investment securities under IAS 39/debt investment securities at FVOCI under IFRS 9	-	-	145,914	145,914
Total measured at FVOCI	-	-	1,822,597	1,822,597
Estimated liabilities	20,517,849	-		20,517,849

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

6. NET INTEREST LOSS	2018 KZT'000	2017 KZT'000
Interest income calculated using effective interest rate method		
Interest income on financial assets measured at amortised cost:		
- Placements and loans with banks and other financial institutions	43,366,037	75,880,132
- Investment securities measured at amortised cost	40,871,232	-
- Held-to-maturity investments	-	4,987,039
- Reverse repurchase agreements	14,318,882	21,726,773
- Rights of claim on mortgage loans and other receivables	272,481	40,851
Interest income on financial assets measured at fair value through other comprehensive income		
- Investment securities measured at fair value through other comprehensive income	104,963,182	-
- Available-for-sale financial assets	-	85,335,560
Total interest income calculated using effective interest rate method	203,791,814	187,970,355
Interest expense		
Interest expense on financial liabilities measured at amortised cost		
Debt securities issued	(314,578,710)	(291,403,821)
Placements of banks and financial institutions	(50,490,083)	(49,878,544)
REPO agreements	(14,173,180)	(14,734,021)
Deposit accounts of the Ministry of Finance of the Republic of Kazakhstan	(1,347,597)	(1,162,246)
Total interest expense on financial liabilities measured at amortised cost	(380,589,570)	(357,178,632)
	(176,797,756)	(169,208,277)

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

7. FEE AND COMMISSION INCOME

	2018	2017
	KZT'000	KZT'000
Asset management fee	12,784,798	11,827,136
Pension asset management fee	4,855,359	13,981,347
Depository operations and servicing of financial markets and transfer operations	3,534,545	2,682,622
	21,174,702	28,491,105

Fee and commission income on asset management operations consists of income for asset management services provided to the National Fund of the Republic of Kazakhstan and JSC “State Social Insurance Fund”. The NBK manages the assets of these organisations investing funds received in various financial instruments in accordance with customers’ instructions.

Fee and commission income on pension asset management was received from “UNPF” JSC. During 2018 the NBK did not receive interest for excess of the target yield (2017: KZT 9,927,136 thousand).

Income on depository operations and servicing of financial markets consists of income from core activities of “Central Securities Depository” JSC, “Kazakhstan Stock Exchange” JSC (“KASE”).

Income on transfer operations consists of commission income from inter-banking, money transfers and clearing operations of “Kazakhstan Interbank Settlement Centre of the National Bank of Kazakhstan” RSE.

8. FEE AND COMMISSION EXPENSE

	2018	2017
	KZT'000	KZT'000
Asset management services	1,875,123	1,802,904
Broker operations	1,863,807	780,925
Custodian services	207,179	188,900
Other	56,581	8,892
	4,002,690	2,781,621

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

9. NET GAIN ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018	2017
	KZT'000	KZT'000
Placements and loans with banks and other financial institutions	74,732,873	-
Assets under external management	1,258,883	50,745,302
Other derivative financial instruments	(3,167,189)	1,445,392
	<u>72,824,567</u>	<u>52,190,694</u>

Net gain on transactions with placements and loans with banks and other financial institutions comprise gain generated from change in fair value of subordinated bonds due to increase in credit rating of the second-tier banks that have received support as part of the banking sector rehabilitation program (Note 11).

10. NET (LOSS) GAIN ON INVESTMENT SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018	2017
	KZT'000	KZT'000
Sale of debt investment securities	(15,307,913)	4,656,200
Dividends	3,595,213	4,547,471
	<u>(11,712,700)</u>	<u>9,203,671</u>

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

11. EXPENSE ON REHABILITATION OF THE BANKING SECTOR

The National Bank's subsidiary KSF JSC is implementing a mechanism of financial support to banks by providing funding on terms of a subordinated debt which meets criteria to be included in the bank's statutory capital. The bank's subordinated bonds bearing an interest rate of 4%, which have been purchased by KSF JSC with the bank's obligation to redeem such bonds in 15 years, are recognised as a subordinated debt. The terms of issue of a subordinated debt of participating banks provide an option of exchange of such subordinated debt for the bank's ordinary shares if the bank's financial position has deteriorated and the facts of assets stripping have been detected. The National Bank has initially recognised such subordinated debt at fair value (Note 21), determined using the market rates of 15% to 19.78%. During 2017 the difference of KZT 585,623,196 thousand between the nominal value and fair value at the date of initial recognition was recognised in profit or loss as expenses on rehabilitation of the banking sector.

In 2018, KSF JSC purchased subordinated bonds issued by one bank and coupon bonds of the quasi-public sector, bearing interest rates from 9.00% to 10.95%, with an obligation of their repayment upon expiry in 7-10 years. The National Bank has recognised such bonds at fair value at initial recognition (Note 21), determined using the market rates of 10.33% to 14.99%. As the issuer of coupon bonds of the quasi-public sector has no external credit rating assigned by the international rating agencies, a sovereign credit rating has been used to calculate the market interest rate at initial recognition of these bonds. During 2018 the difference of KZT 102,377,515 thousand between the nominal value and fair value at the date of initial recognition was recognised in profit or loss as expenses on rehabilitation of the banking sector.

"Fund of Problem Loans" JSC (the "FPL JSC") ensures the targeted placement of the received funds with the second-tier banks in accordance with the limits of initial placement of funds established therefor. In accordance with para. 7 of the National Action Plan approved by the Decree of the President of the Republic of Kazakhstan No. 143 dated 25 December 2015 "On Measures to Implement the Message of the Head of State to the People of Kazakhstan dated 30 November 30 2015 "Kazakhstan in a New Global Reality: Growth, Reforms, Development", para.4 of the Anti-Crisis Action Plan of the Government of the Republic of Kazakhstan and the National Bank of the Republic of Kazakhstan to ensure the economic and social stability for 2016-2018 approved by the Government of the Republic of Kazakhstan, and according to the third priority "Macroeconomic Stability" of the Annual Address to the Nation of the Head of State dated 31 January 2017 "The Third Stage of Modernisation: Global Competitiveness" the National Bank has increased the charter capital of FPL JSC.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

11. EXPENSE ON REHABILITATION OF THE BANKING SECTOR, CONTINUED

In 2017, the ordinary shares of FPL JSC were transferred, free of charge, to the Government of the Republic of Kazakhstan represented by the Committee of Public Property and Privatisation of the Ministry of Finance of the Republic of Kazakhstan. Loss on disposal of FPL JSC of KZT 507,474,058 thousand was recognised in profit or loss in 2017.

12. OTHER OPERATING INCOME, NET

	2018	Restated
	KZT'000	2017
	KZT'000	KZT'000
Deposits under the Program of mortgage loans refinancing	39,116,807	-
Contributions of banks participating in the guarantee system, net	11,121,918	35,334,081
Sale of coins for collection	2,019,616	1,483,709
Sale of printed products	1,038,800	234,006
Sale of medals, badges and jewellery	178,558	341,743
Rent of property and equipment	4,114	(6,365)
Gain from withdrawal of bank notes and coins	-	1,381,338
Other income, net	2,126,981	612,654
	55,606,794	39,381,166

According to the Order of the Ministry of Finance of the RK dated 29 December 2017, No.765 “On Further Implementation of the Program of Refinancing of Mortgage Housing Loans/Mortgage Loans” there was approved a transfer of functions of implementation of the Program of Refinancing of Mortgage Housing Loans/Mortgage Loans dated 24 April 2015, No.69 (hereinafter, the “Program of Mortgage Loans Refinancing”) from FPL JSC to KSF JSC on a grant basis. As part of this Program of Mortgage Loans Refinancing, it is ensured the target placement of deposits with the second-tier banks, at the interest rates of 0.10% and 2.99%, for a term of up to 20 years.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

12. OTHER OPERATING INCOME, NET, CONTINUED

Therefore, income on deposits under the Program of Mortgage Loans refinancing includes income arising from assignment of the rights of claim on deposits of FPL JSC to KSF JSC and cash (unplaced balance) under the Program of Mortgage Loans Refinancing for a total amount of claim of KZT 130,000,000 thousand recognised in the amount of fair value of received deposits and cash, which is equal to KZT 39,116,807 thousand as at the date of initial recognition, including discount of KZT 87,914,637 thousand (difference between the nominal value and fair value at the date of initial recognition of deposits calculated using the market interest rates from 12.01% to 18.76%) and reimbursement of expenses incurred by the second-tier banks on state duties that were paid on the statements of claim filed to the court with regard to the borrowers' loans, due to refinancing of problem loans denominated in foreign currency in the amount of KZT 2,968,556 thousand.

Contributions of the banks participating in the guarantee system comprise proceeds of KDIF JSC from contributions of banks participating in the guarantee system, penalty and proceeds from a liquidation committee of a forcibly liquidated bank in the amount of KZT 31,803,844 thousand as well as expenses on compensation paid to depositors of forcibly liquidated banks in the amount of KZT 20,681,926 thousand (2017: KZT 35,363,538 thousand and KZT 29,457 thousand, respectively).

13. RECOVERY (CHARGE) FOR EXPECTED CREDIT LOSSES

	2018	2017
	KZT'000	KZT'000
Placements and loans with banks and other financial institutions	15,409,296	(40,092,150)
Investment securities at FVOCI	1,111,640	-
Claims for repurchased loans	(494,427)	-
Other financial assets	(39,890)	(135,406)
Inventories	(30,684)	(13,575)
Investment securities measured at amortised cost	(29,768)	-
Other non-financial assets	(8,846)	-
Negative revaluation of property and equipment	-	(627,835)
	15,917,321	(40,868,966)

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

14. BANKNOTES AND COINS PRODUCTION EXPENSES

	2018	2017
	KZT'000	KZT'000
Coins production	1,706,147	1,296,957
Banknotes production	795,944	893,468
Other	189,989	194,537
	2,692,080	2,384,962

Banknotes and coins production expenses for 2018 include depreciation charge of equipment of KZT 1,062,512 thousand (2017: KZT 1,474,152 thousand).

15. FUNDING OF THIRD PARTIES

	2018	2017
	KZT'000	KZT'000
Funding of “Universitet Narkhoz” JSC - Master’s Program of the National Bank of the Republic of Kazakhstan	53,257	149,432
	53,257	149,432

16. PERSONNEL EXPENSES

	2018	2017
	KZT'000	KZT'000
Payroll	15,533,240	13,893,220
Bonuses	10,280,138	9,583,180
Social tax	1,770,907	1,603,137
Insurance	682,086	599,360
Training	293,794	245,385
Other	154,361	141,941
	28,714,526	26,066,223

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

17. OTHER GENERAL AND ADMINISTRATIVE EXPENSES

	2018	2017
	KZT'000	KZT'000
Information and other services	3,735,331	4,031,509
Taxes other than income tax	1,293,201	964,610
Communication	1,171,488	1,060,937
Repair and maintenance of property and equipment	1,075,717	989,525
Inventory	948,558	722,461
Business trip expenses	778,950	596,154
Gratuitous assignment of property	603,011	218,135
Representative expenses	440,026	232,666
Transportation	327,444	338,763
Security	297,217	297,415
Utilities	234,569	216,270
Rent	231,983	209,574
Advertising, announcements and presentations in mass media	100,182	7,070
Insurance of property and equipment	51,148	39,387
Other	602,914	935,362
	<u>11,891,739</u>	<u>10,859,838</u>

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

18. INCOME TAX BENEFIT

In accordance with legislation of the Republic of Kazakhstan, the NBK is exempt from income tax. Subsidiaries and associate organisations of the NBK are subject to income tax.

	2018	2017
	KZT'000	KZT'000
Current tax expense	(4,264,450)	(2,281,477)
Movement in deferred tax assets/liabilities due to origination and reversal of temporary differences	28,173,198	85,910,408
Total income tax benefit	23,908,748	83,628,931

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

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

	2018		Restated	
	KZT'000	%	2017	%
	KZT'000		KZT'000	
Loss before income tax	(211,613,179)	100.00	(1,228,120,532)	100.00
Income tax at the applicable tax rate	42,322,636	20.00	245,624,106	20.00
Effect of non-taxable operations of the NBK	(53,015,409)	(25.05)	(142,682,298)	(11.62)
Non-taxable income on securities	5,969,850	2.82	4,519,406	0.37
(Non-deductible expenses) non-taxable income on activities of KDIF JSC	(4,877,026)	(2.30)	8,137,795	0.66
Non-taxable income on activities of KSF JSC	33,998,479	16.07	-	-
Other non-deductible expenses	(489,782)	(0.23)	(31,970,078)	(2.60)
	23,908,748	11.30	83,628,931	6.81

Deferred tax assets and liabilities

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to deferred tax assets and deferred tax liabilities as at 31 December 2018 and 2017. Future tax benefits will only be realised if profits will be available against which unused tax losses can be utilised and there are no changes to the law and regulations that adversely affect the National Bank's ability to claim deductions in future periods.

The deductible temporary differences do not expire under current tax legislation of the Republic of Kazakhstan.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

18. INCOME TAX BENEFIT, CONTINUED

Deferred tax assets and liabilities, continued

Movements in temporary differences during the years 2018 and 2017 are presented as follows:

KZT'000	Balance at 1 January 2018	Recognised in profit or loss	Recognised directly in equity	Balance 31 December 2018
Placements and loans with banks and other financial institutions	85,953,139	28,185,854	-	114,138,993
Property, plant and equipment and intangible assets	(2,451,987)	(77,982)	5,236	(2,524,733)
Other assets	(8,453)	16,223	-	7,770
Other liabilities	288,958	49,103	-	338,061
Tax loss carry-forwards	25,401	-	-	25,401
	83,807,058	28,173,198	5,236	111,985,492
Unrecognised deferred tax liabilities	(946)	-	-	(946)
Recognised deferred tax assets	83,806,112	28,173,198	5,236	111,984,546
Deferred tax assets	86,166,315	28,226,933	780	114,394,028
Deferred tax liabilities	(2,360,203)	(53,735)	4,456	(2,409,482)

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

18. INCOME TAX BENEFIT, CONTINUED

Deferred tax assets and liabilities, continued

KZT'000	Balance at 1 January 2017	Recognised in profit or loss	Recognised directly in equity	Disposal of subsidiary	Balance 31 December 2017
Placements and loans with banks and other	30,005,754	85,953,139	-	(30,005,754)	85,953,139
Property, plant and equipment and intangible assets	(2,010,425)	(370,090)	(71,472)	-	(2,451,987)
Other assets	(21,119)	43,239	-	(30,573)	(8,453)
Other liabilities	5,183	284,120	-	(345)	288,958
Tax loss carry-forwards	25,401	-	-	-	25,401
	28,004,794	85,910,408	(71,472)	(30,036,672)	83,807,058
Unrecognised deferred tax liabilities	(946)	-	-	-	(946)
Recognised deferred tax assets	28,003,848	85,910,408	(71,472)	(30,036,672)	83,806,112
Deferred tax assets	30,278,026	85,953,379	(28,418)	(30,036,672)	86,166,315
Deferred tax liabilities	(2,274,178)	(42,971)	(43,054)	-	(2,360,203)

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

18. INCOME TAX BENEFIT, CONTINUED

Deferred tax assets and liabilities, continued

As at 31 December 2018 deferred tax assets in the amount of KZT 114,138,993 thousand (31 December 2017: KZT 85,953,139 thousand) were recognised by the subsidiary of NBK, KSF JSC. Management of the company assessed the recoverability of deferred tax assets and concluded that KFS JSC will have sufficient taxable income after taking into account deductible temporary differences and it is appropriate to recognise deferred tax assets.

19. CASH AND CASH EQUIVALENTS

	2018	2017
	KZT'000	KZT'000
Nostro accounts in foreign banks	1,325,799,958	294,434,939
Deposits in foreign banks with the original maturity of less than three months	529,439,660	1,071,828,385
Reverse repurchase agreements with initial maturity of less than three months	211,202,022	133,768,024
Cash on hand in foreign currency	107,951,780	49,964,397
Nostro accounts in Kazakhstan banks	2,701,841	2,818,922
Tenge denominated deposits with Kazakhstan banks with the original maturity of less than three months	760,643	1,367,025
Accounts with the Bank for International Settlements	231	196
Total cash and cash equivalents in the consolidated statement of cash flows	<u>2,177,856,135</u>	<u>1,554,181,888</u>

As at 31 December 2018 nostro accounts in foreign banks included restricted for use uninvested cash under management of the “NIC NBK” JSC in the amount of KZT 1,655,178 thousand (31 December 2017: KZT 1,577,664 thousand) that was not included in cash equivalents.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

20. GOLD

	2018	2017
	KZT'000	KZT'000
Gold bullion in NBK depository	3,933,174,181	2,752,177,207
Gold deposits with foreign banks:		
-Rated from A- to A+	625,625,519	542,338,662
- Rated AA-	390,039,892	395,465,394
- Rated AAA	99,424,512	-
- Rated BBB+	39,307,894	75,094,563
Total gold on deposits with foreign banks	1,154,397,817	1,012,898,619
Gold bullion in a foreign bank depository:		
- Rated AAA	442,462,978	388,495,269
Total gold bullion in a foreign bank depository	442,462,978	388,495,269
	5,530,034,976	4,153,571,095

The credit ratings are presented in accordance with the standards of the rating agency “Standard and Poor’s” or with similar standards of other international rating agencies.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

21. PLACEMENTS AND LOANS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	2018	2017
	KZT'000	KZT'000
Placements with foreign banks and other financial institutions		
Nostro accounts in banks		
- Rated AAA	381,132,815	130,704,548
- Rated from AA- to AA+	410,201,051	13,772,300
-		
- Rated from A- to A+	365,137,031	147,050,286
- Rated from BBB- to BBB+	137,421,963	4,234,489
- Rated from BB- to BB+	183,695	423,727
- Rated from B- to B+	179,274	80,373
- Not rated	2,119,973	785,984
Total nostro accounts in banks	1,296,375,802	297,051,707
Reserves for expected credit losses	(144,582)	-
Total nostro accounts in banks less reserves for expected credit losses	1,296,231,220	297,051,707
Deposits in banks		
- Rated from AA- to AA+	143,263,741	1,071,828,385
- Not rated (Bank for International Settlements)	384,840,376	-
Total deposits in banks	528,104,117	1,071,828,385
Reserves for expected credit losses	(101,963)	-
Total deposits in banks less reserves for expected credit losses	528,002,154	1,071,828,385
Placements with other financial institutions*		
- Rated AAA	-	4,044,807
Total placements with other financial institutions	-	4,044,807
Other accounts and deposits		
Non-invested cash under external management (Note 22)		
- Rated AA-	-	2,580,143
- Rated from A- to A+	29,219,660	13,949,413
- Rated from BBB- to BBB+	2,291,839	-
- Not rated	877,682	1,030,409
Total other accounts and deposits	32,389,181	17,559,965
Reserves for expected credit losses	(899,269)	-
Total other accounts and deposits less reserves for expected credit losses	31,489,912	17,559,965

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE
YEAR ENDED 31 DECEMBER 2018

21. PLACEMENTS AND LOANS WITH BANKS AND OTHER
FINANCIAL INSTITUTIONS, CONTINUED

	2018	2017
	KZT'000	KZT'000
Accounts with International Monetary Fund	618,979,456	546,926,976
Receivables on foreign currencies transactions	6,361,671	7,132,135
Accounts with the Bank for International Settlements	231	196
Total other accounts and deposits	656,831,270	571,619,272
Total accounts and deposits in foreign banks and other financial institutions	2,481,064,644	1,944,544,171
Placements, loans and receivables of Kazakhstan banks and other financial institutions		
Nostro accounts of subsidiaries with second tier banks		
- Rated from BB- to BB+	2,022,593	1,978,868
- Rated from B- to B+	678,775	823,209
- Not rated	302	16,845
Total nostro accounts of subsidiaries with second tier banks	2,701,670	2,818,922
Deposits in banks*		
- Rated from A- to A+	-	48
- Rated from BBB- to BBB+	-	13
- Rated from BB- to BB+	742,329,724	61,240,962
- Rated from B- to B+	45,996,519	1,069,950,794
- Not rated	1,111,845	3,210,315
Total deposits in banks	789,438,088	1,134,402,132
Reserves for expected credit losses	(1,362,541)	(3,206,471)
Total deposits in banks less reserves for expected credit losses	788,075,547	1,131,195,661
Loans issued		
- Rated from BBB- to BBB+	384,747,246	-
- Rated from B- to B+	520,671,989	200,537,658
- Rated CCC	-	54,423,458
- Not rated	51,662,256	715,871
Total loans issued (Note 11)	957,081,491	255,676,987
Reserves for expected credit losses	(65,321,063)	-
Total loans issued less reserves for expected credit losses	891,760,428	255,676,987
Receivables from "UAPF" JSC	411,825	10,302,298
Receivables from Ministry of Finance of the Republic of Kazakhstan	3,069,013	9,162,372
Total placements in banks and receivables from Kazakhstan banks and other financial institutions	1,686,018,483	1,409,156,240
Total placements and loans with banks and other financial institutions before reserves for expected credit losses	4,234,912,545	3,356,906,882
Total reserves for expected credit losses	(67,829,418)	(3,206,471)
Total placements and loans with banks and other financial institutions	4,167,083,127	3,353,700,411

* include the asset part of the swap deals in the amount of KZT 737,323,249 thousand as at 31 December 2018 (31 December 2017: KZT 1,135,054,632 thousand) that is accounted for not as derivatives, but as deposits in banks and is measured at nominal in accordance with the Basis of Accounting (Note 2).

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

21. PLACEMENTS AND LOANS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS, CONTINUED

Analysis of reserves for expected credit losses

Movement in reserves for expected credit losses for placements and loans with banks and other financial institutions is as follows:

KZT*000	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
Placements and loans with banks and other financial institutions					
Balance at 1 January (IFRS 9)	15,127,182	248,346	66,581,870	81,957,398	3,552,222
Transfer to Stage 1	14,131	(14,131)	-	-	-
Net remeasurement of loss allowance	(12,287,847)	(234,167)	(48,459,643)	(60,981,657)	(40,092,150)
New financial assets originated or purchased*	5,757,366	6,588,091	33,226,904	45,572,361	-
Financial assets that have been derecognised	-	-	-	-	(345,751)
Write-offs	-	-	-	-	40,092,150
Foreign exchange and other movements	450,372	22	830,922	1,281,316	-
Balance at 31 December	9,061,204	6,588,161	52,180,053	67,829,418	3,206,471

* Includes new financial assets created during the year, including transfers of these loans between stages.

Credit quality analysis

The following table provides information on the credit quality of placements and loans with banks and other financial institutions as at 31 December 2018.

KZT*000	Stage 1	Stage 2	Stage 3	Total
Placements and loans with banks and other financial institutions				
Rated AAA	381,132,815	-	-	381,132,815
Rated from AA- to AA+	553,464,792	-	-	553,464,792
Rated from A- to A+	394,356,691	-	-	394,356,691
Rated from BBB- to BBB+	525,172,690	2,769,196	-	527,941,886
Rated from BB- to BB+	744,536,012	-	-	744,536,012
Rated from B- to B	361,322,252	206,204,305	-	567,526,557
Not rated	1,013,773,739	-	52,180,053	1,065,953,792
Gross carrying amount	3,973,758,991	208,973,501	52,180,053	4,234,912,545
Expected credit losses	(9,061,204)	(6,588,161)	(52,180,053)	(67,829,418)
Carrying amount	3,964,697,787	202,385,340	-	4,167,083,127

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

The credit ratings are presented in accordance with the standards of the rating agency “Standard and Poor's” or with similar standards of other international rating agencies.

As at 31 December 2018 the National Bank has no placements with a bank-counterparty (31 December 2017: one) in the amount exceeding 10% of equity (31 December 2017: KZT 1,071,828,385 thousand).

As at 31 December 2018 the “nostro” accounts opened in local banks in the amounts of KZT 2,701,670 thousand (31 December 2017: KZT 2,818,922 thousand), belong to subsidiary companies of the National Bank.

As at 31 December 2018 loans amounted to KZT 35,215,244 thousand were past due for more than 90 days (31 December 2017: nil) and 100% allowance were created against these loans.

As at 31 December 2017 included in the loans issued to second-tier banks are renegotiated loans that would otherwise be past due or impaired of KZT 35,000,000 thousand. Such restructuring activity is aimed at managing relationships with banks and maximising collection opportunities. Renegotiated loans are included in the category of assets without individual signs of impairment in the tables above due to the fact that as at 31 December 2017 and at the date of issuance of these consolidated financial statements the borrowers have complied with the new terms and conditions of the contracts.

During 2017 the allowance of KZT 40,118,840 thousand was established against a bank loan issued to the second-tier bank, and subsequently the asset was written off due to the NBK’s decision to suspend the license for banking and other transactions, operations in the securities market, deposit taking and opening accounts for individuals and legal entities.

During 2017 there was recognised the writing off of the impairment allowance of Fund of the Problem Loans LLP in the amount of KZT 319,061 thousand.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

22. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial instruments at fair value through profit or loss consisted of the following at 31 December 2018 and 31 December 2017:

	2018	2017
	KZT'000	KZT'000
Assets		
Assets under external management		
Hedge funds, private equity and real estate funds	226,774,826	-
Futures	2,976,093	186,630
Forwards	866,367	90,890
Corporate bonds	-	537,900,544
Government bonds	-	441,133,927
Agency bonds	-	9,357,736
Corporate shares	-	23,319
Assets under own management		
Swap	3,341,113	176,098
Futures	15,169	206,994
Forwards	-	3,701
Total financial instruments at fair value through profit or loss	233,973,568	989,079,839
Liabilities		
Liabilities under external management		
Forwards	(119,529)	(306,123)
Futures	(577,869)	(23,655)
Liabilities under own management		
Futures	(802,969)	-
Swap	(6,208,992)	(156,443)
Forwards	-	(179,700)
Total financial instruments at fair value through profit or loss	(7,709,359)	(665,921)

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

22. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS, CONTINUED

Investments in alternative instruments comprised investments in hedge-funds and private equity funds in accordance with the strategy of gold and foreign exchange reserves and Investment Strategy for management of portfolio of alternative instruments of the National Bank's gold and foreign currency reserves approved by the Resolution of the National Bank dated 28 May 2018, No. 100, and in accordance with the terms and conditions of the Investment Trust Management Contract No.122NB/10 dated 29 March 2013 concluded between the National Bank and subsidiary NIC NBK JSC. NIC NBK JSC invests a part of the gold and foreign currency reserves of the National Bank in the alternative classes of assets through the special purpose companies and/or partnerships established to invest in hedge funds, private equity funds and real estate funds.

Investments in hedge funds

Investments in the hedge funds under management of NIC NBK JSC (hereinafter, the "Portfolio of investments in hedge funds") comprise investment, which are made through the structure of the fund of funds to different investment funds established to accumulate the investors' funds to invest in accordance with certain investment strategies in various markets and in different types of financial instruments. As at 31 December 2018 and 2017, the geographical distribution of the Portfolio of investments in hedge funds falls mostly on the North America and Europe. US Dollar is the investment currency in the hedge funds. Investment funds are established in the form of the companies or partnerships. In turn, these investment funds hold a significant part of their positions in the highly liquid securities and financial derivatives which are measured at the quoted market value, and less liquid securities and derivative financial instruments measured at fair value.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

22. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS, CONTINUED**Investments in private equity funds**

Investments in the private equity funds under management of NIC NBK JSC (hereinafter, the “Private Equity Portfolio”) comprise investment in the funds and co-investments with the funds through the structure of the fund of funds made to accumulate the investors’ funds to invest the share capital or securities of the invested companies. Investment funds may be established in the form of the companies or partnerships. The Private Equity Portfolio comprises the funds investing in different sectors and different regions. As at 31 December 2018 and 2017 participation in direct investments in the sectors of information technologies, consumer goods, services of selective demand, healthcare, industrial and financial sectors accounts for a major part in the Portfolio. A majority of investments falls in the North America and Western Europe. US dollar is a major currency of investments in the funds; however, there are investments denominated in euro and British pounds.

Investments in real estate funds

Investments in the real estate funds under management of NIC NBK JSC (hereinafter, the “Real Estate Portfolio”) comprise investment in the funds through the structure of the fund of funds made to earn income from rent payment and/or increase cost of real estate. Investment funds may be established in the form of the companies or partnerships. Real Estate Portfolio comprises the funds investing in various types of buildings in various regions. Investing in real estate commenced in 2018. As at 31 December 2018 a majority of investments in real estate portfolio falls in Europe. US dollar is a major currency of investments in the real estate funds; however, there are investments denominated in euro.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

22. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS, CONTINUED

As at 31 December 2018 a portion of financial instruments at fair value through profit and loss was under the management of seven (31 December 2017: six) foreign asset management organisations. Depending on the mandate the managers invest into fixed income and equity instruments and are also allowed to use derivative instruments.

The portfolios under external management pursue the following investment strategies:

External manager	2018 KZT'000	2017 KZT'000	Strategy	Index
National Investment Corporation of the NBK JSC	226,774,826	-	Alternative instruments	80% - MSCI ACWI Investable Market Net Total Return Index (M1WDIM), 20% - Barclays Global Aggregate Bond Index (LEGATRUH)
Amundi Corporate Bonds	2,481,887	82,462,153	Global corporate bonds of investment grade	ICE BofAML Q847 Custom Index

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

22. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS, CONTINUED

External manager	2018 KZT'000	2017 KZT'000	Strategy	Index
Nomura Asset Management U.K. Limited Wellington	586,352	337,708,251	Global corporate bonds of investment grade	ICE BofAML Q847 Custom Index
	58,239	81,099,680	Global corporate bonds of investment grade	ICE BofAML Q847 Custom Index
Aviva Investors Global Services Limited	18,584	266,651,939	Bonds of emerging markets in hard currency	ICE BofAML Q846 Custom Index
Deutsche Asset Management International GmbH SSB	-	220,419,089	Bonds of emerging markets in hard currency	ICE BofAML Q846 Custom Index
	-	22,156	Transit management	N/a
Total net assets under external management	<u>229,919,888</u>	<u>988,363,268</u>		

As at 31 December 2018 uninvested balances equivalent to KZT 32,389,181 thousand (31 December 2017: KZT 17,559,965 thousand), related to portfolios under external management are presented within "placements and loans with banks and other financial institutions" (Note 21).

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE
YEAR ENDED 31 DECEMBER 2018

**22. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH
PROFIT OR LOSS, CONTINUED**

The schedule below summarises credit quality of these portfolio's underlying fixed income assets as at 31 December 2017:

	2017 KZT'000
Government bonds	
-Rated from A- to AAA	176,838,177
- Rated from BBB- to BBB+	247,615,389
- Rated from BB to BB+	16,680,361
	441,133,927
Corporate bonds	
-Rated from A- to AAA	204,947,912
- Rated from BBB- to BBB+	326,375,514
- Rated from BB to BB+	6,577,118
	537,900,544
Agency bonds	
-Rated from A- to AAA	5,341,219
- Rated from BBB- to BBB+	4,016,517
	9,357,736
Total debt instruments under external management	988,392,207

The credit ratings are presented in accordance with the standards of the rating agency “Standard and Poor's” or with similar standards of other international rating agencies.

During 2018, due to transition to IFRS 9 with modifications described in Note 2(a) the investment securities under external management were reclassified from financial instruments measured at fair value through profit or loss to those measured at fair value through other comprehensive income.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

22. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS, CONTINUED

The tables below summarises, by major currencies, the contractual amounts of the National Bank's outstanding balances from derivative transactions, excluding portfolios under external management, as at 31 December 2018 and 31 December 2017 with details of the contracted weighted average exchange rates and remaining periods to maturity.

	Contract/ notional amount KZT'000		Weighted-average contracted futures prices/exchange rates	
	2018	2017	2018	2017
Swap				
For the period less than 3 months				
Buy EUR to JPY	48,330,700	-	130.31	-
Buy USD to JPY	38,420,000	32,431,068	112.14	112.72
Buy USD to JPY	19,210,000	-	112.33	-
Buy AUD to JPY	10,820,800	10,386,000	79.63	86.39
Forwards For the period less than 3 months				
Buy USD to JPY	-	33,791,291	-	113.10
Buy CAD to EUR	-	769,051	-	1.51
Buy AUD to EUR	-	727,020	-	1.54
Buy JPY to GBP	-	442,500	-	152.30
Futures				
For the period less than 3 months				
Sell EUR	(12,824,683)	(14,967,196)	162.16	163.41
For the period more than 3 months				
Sell EUR	(31,276,149)	-	442.85	-
Sell JPY	(23,992,930)	-	3.49	-
Sell GBP	(7,621,568)	-	487.78	-
Sell US treasury bonds	-	(9,622,670)	-	79,829.30
	41,066,170	53,957,064	-	-

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

23. REVERSE REPURCHASE AGREEMENTS

International financial institutions and Kazakhstan banks:	2018 KZT'000	2017 KZT'000
- Rated AAA	206,181,885	167,368,164
- Rated BBB-	16,471,637	16,866,119
- Not rated	-	166,123
	<u>222,653,522</u>	<u>184,400,406</u>

The credit ratings are presented in accordance with the standards of the rating agency “Standard and Poor’s” or with similar standards of other international rating agencies.

As at 31 December 2018 the fair value of the financial assets accepted as collateral under reverse repurchase agreements is KZT 231,752,152 thousand (31 December 2017: KZT 181,444,876 thousand).

During 2017 not rated reverse repo transactions of KZT 166,123 thousand were entered in the auto repo market of KASE JSC.

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24. INVESTMENT SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME AND AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2018	2017
	KZT'000	KZT'000
Debt instruments		
Investments in foreign securities		
Government bonds		
US Government Treasury bonds	1,651,727,431	2,560,168,950
British Government Treasury bonds	122,781,376	119,299,041
Korean Government Treasury bonds	95,982,696	74,757,184
Australian Government Treasury bonds	79,423,068	86,533,333
Canadian Government Treasury bonds	68,869,604	57,088,820
French Government bonds	66,617,475	59,120,806
Qatari Government bonds	66,292,364	-
Indonesian Government bonds	63,507,157	-
UAE Government bonds	58,042,448	-
Columbian Government bonds	54,827,108	-
Canadian Government Treasury bonds	47,663,137	-
Japanese Government Treasury bonds	42,823,435	30,222,804
Mexican Government bonds	42,163,573	-
Chilean Government bonds	40,080,984	-
Philippine Government bonds	37,235,426	-
Lithuanian Government bonds	16,078,164	-
Peru Government bonds	8,916,921	-
Malaysian Government bonds	8,119,690	-
Panama Government bonds	8,001,916	-
Hungarian Government bonds	6,294,300	-
Italian Government bonds	4,146,172	-
Oman Government bonds	3,874,983	-
Namibian Government bonds	3,333,391	-
Chinese Government bonds	2,703,422	51,499,580
South African Government bonds	2,360,913	-
Uruguay Government bonds	1,760,986	-
German Government bonds	1,365,777	-
Rumanian Government bonds	1,174,226	-
Morocco Government bonds	1,157,555	-
Finnish Government Treasury bonds	-	33,158,226
Netherlands Government Treasury bonds	-	14,110,471
Austrian Government Treasury bonds	-	6,247,610
Total government bonds	2,607,325,698	3,092,206,825

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

24. INVESTMENT SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME AND AVAILABLE-FOR-SALE FINANCIAL ASSETS, CONTINUED

	2018	2017
	KZT'000	KZT'000
Debt securities of international governmental and nongovernmental financial institutions		
- Rated AAA	98,726,830	169,292,399
- Rated AA+	12,602,225	16,531,785
- Rated AA	221,661,771	67,273,080
- Rated AA-	25,005,087	32,553,231
- Rated A+	68,757,370	41,805,473
- Rated A	4,677,256	4,013,642
- Rated A-	-	66,290,277
- Rated BBB	1,967,915	-
- Rated BBB	3,664,039	-
Total investments in debt securities of international governmental and nongovernmental financial institutions	437,062,493	397,759,887

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

24. INVESTMENT SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME AND AVAILABLE-FOR-SALE FINANCIAL ASSETS, CONTINUED

	2018 KZT'000	2017 KZT'000
Corporate bonds of international companies		
- Rated from A- to AAA	405,125,504	218,828,173
- Rated from BBB+ to BBB-	355,009,976	4,366,205
Total investments in corporate bonds of international companies	760,135,480	223,194,378
Investments in hedge funds	-	64,241,357
Total investments in foreign securities	3,804,523,671	3,777,402,447
Treasury bills of Ministry of Finance of the Republic of Kazakhstan	421,008,711	600,171,341
Debt securities of Kazakhstan financial organisations	7,070,051	13,538,958
Total investments in Kazakhstan securities net reserves for expected credit losses	428,078,762	613,710,299
Reserves for expected credit losses	-	(75,829)
Total investments in Kazakhstan securities	428,078,762	613,634,470
Total debt investments	4,232,602,433	4,391,036,917
Equity instruments		
Shares of NC “KazMunayGas” JSC	750,000,000	750,000,000
Investments in private equity fund	-	55,876,872
Corporate shares	15,244,441	79,854
Total equity investments	765,244,441	805,956,726
Total investment securities measured at fair value through other comprehensive income before reserves for expected credit losses	4,997,846,874	5,197,069,472
Reserves for expected credit losses	(883,897)	(75,829)
Total investment securities measured at fair value through other comprehensive income *	4,997,846,874	5,196,993,643

* Investment securities measured at fair value through other comprehensive income are stated at fair value, while the loss allowance is recognised in other comprehensive income.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

24. INVESTMENT SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME AND AVAILABLE-FOR-SALE FINANCIAL ASSETS, CONTINUED

The credit ratings are presented in accordance with the standards of the rating agency Standard and Poor's or with similar standards of other international rating agencies.

As 31 December 2018 the bonds of the Ministry of Finance of the Republic of Kazakhstan with market value of KZT 134,048,963 thousand (31 December 2017: KZT 296,876,815 thousand) are subject to a registered debenture to secure the repurchase agreements.

Analysis of reserves for expected credit losses

Movement in reserves for expected credit losses for investment securities measured at fair value through other comprehensive income is as follows:

KZT'000	2018			2017	
	Stage 1	Stage 2	Stage 3	Total	Total
Investment securities at FVOCI					
Balance at 1 January	530,335	1,292,262	-	1,822,597	75,829
- Transfer to Stage 1	280,209	(280,209)	-	-	-
- Transfer to Stage 2	(4,202)	4,202	-	-	-
Net remeasurement of loss allowance	(873,111)	(1,001,135)	-	(1,874,246)	-
New financial assets originated or purchased	556,837	205,769	-	762,606	-
Foreign exchange and other movements	110,166	62,774	-	172,940	-
Balance at 31 December	600,234	283,663	-	883,897	75,829

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE
YEAR ENDED 31 DECEMBER 2018

**24. INVESTMENT SECURITIES MEASURED AT FAIR VALUE
THROUGH OTHER COMPREHENSIVE INCOME AND AVAILABLE-
FOR-SALE FINANCIAL ASSETS, CONTINUED**

Credit quality analysis

The following table provides information on the credit quality of investment securities measured at fair value through other comprehensive income as at 31 December 2018.

KZT'000	Stage 1	Stage 2	Stage 3	Total
<i>Securities at FVOCI</i>				
Rated AAA	248,385,279	-	-	248,385,279
Rated AA- to AA+	2,407,640,139	9,132,300	-	2,416,772,439
Rated from A- to A+	540,116,608	2,388,892	-	542,505,500
Rated from BBB- to BBB+	1,003,898,461	14,680,703	-	1,018,579,164
Rated from BB- to BB+	688,212	5,694,304	-	6,382,516
Not rated	765,221,976	-	-	765,221,976
Gross carrying amount	4,965,950,675	31,896,199	-	4,997,846,874
Reserves for expected credit losses	(600,234)	(283,663)	-	(883,897)
Carrying amount – fair value*	4,965,950,675	31,896,199	-	4,997,846,874

* Investment securities measured at fair value through other comprehensive income are stated at fair value, while the loss allowance is recognised in other comprehensive income.

Unquoted equity instruments

Investment securities measured at fair value through other comprehensive income comprise unquoted ordinary shares of NC “KazMunayGas” JSC for KZT 750,000,000 thousand in 2018 (2017: KZT 750,000,000 thousand), the fair value of which cannot be reliably determined. There is no market for this equity instrument and there have not been any recent transactions that provide evidence of the current fair value.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE
YEAR ENDED 31 DECEMBER 2018

25. INVESTMENT SECURITIES MEASURED AT AMORTISED
COST AND HELD-TO-MATURITY INVESTMENTS

	2018 KZT'000	2017 KZT'000
Investments in foreign securities		
Government bonds rated AA+	116,587,023	-
Eurobonds rated AAA	105,488,358	-
Government bonds rated A+	76,019,323	-
Corporate bonds rated AAA	1,856,484	-
	299,951,188	-
Reserves for expected credit losses	(83,729)	-
Carrying amount of investments in foreign securities	299,867,459	
Investments in Kazakhstan securities		
Bonds of the Ministry of Finance of the Republic of Kazakhstan rated BBB- (2017: BBB-)	356,301,099	40,230,902
Securities of second-tier banks and other organisations	16,434,242	25,944
Municipal bonds of Akimat of Shymkent city	10,045,138	-
	382,780,479	40,256,846
Reserves for expected credit losses	(42,791)	(3,892)
Carrying amount of investment in Kazakhstan securities	382,737,688	40,252,954
Gross investment securities	682,731,667	40,256,846
Reserves for expected credit losses	(126,520)	(3,892)
Total investment securities	682,605,147	40,252,954

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

25. INVESTMENT SECURITIES MEASURED AT AMORTISED COST AND HELD-TO-MATURITY INVESTMENTS, CONTINUED

Analysis of reserves for expected credit losses

Movement in reserves for expected credit losses for investment securities measured at amortised cost is as follows:

KZT'000	2018			2017	
	Stage 1	Stage 2	Stage 3	Total	Total
Investment securities measured at amortised cost					
Balance at 1 January	96,752	-	-	96,752	39,859
Net remeasurement of loss allowance	29,538	-	-	29,538	-
New financial assets originated or purchased	230	-	-	230	-
Write-offs	-	-	-	-	(35,967)
Balance at 31 December	126,520	-	-	126,520	3,892

Credit quality analysis

The following table provides information on the credit quality of investment securities measured at amortised cost as at 31 December 2018.

KZT'000	Stage 1	Stage 2	Stage 3	Total
Investment securities measured at amortised cost				
Rated AAA	107,344,842	-	-	107,344,842
Rated from AA- to AA+	116,587,023	-	-	116,587,023
Rated from A- to A+	76,019,323	-	-	76,019,323
Rated from BBB- to BBB+	356,301,099	-	-	356,301,099
Not rated	26,479,380	-	-	26,479,380
Gross carrying amount	682,731,667	-	-	682,731,667
Loss allowance	(126,520)	-	-	(126,520)
Carrying amount	682,605,147	-	-	682,605,147

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

26. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

KZT'000	Land, buildings and structures	Furniture and equipment	Computer equipment	Vehicles	Construction in progress/ equipment not yet installed	Intangible assets	Total
Historical/revalued cost							
Balance at 1 January 2018	36,495,352	30,658,809	3,361,526	1,529,778	1,359,357	5,363,488	78,768,310
Additions	307,630	3,287,010	593,752	1,666,839	4,365,925	4,566,255	14,787,411
Disposals	(28,630)	(216,426)	(60,120)	(36,964)	-	(24,424)	(366,564)
Write-offs	(144,457)	(477,627)	(1,341)	(180,336)	(2,262,932)	(2,284,588)	(5,351,281)
Transfers	6,566	(5,246)	-	-	-	(1,320)	-
Balance as at 31 December 2018	36,636,461	33,246,520	3,893,817	2,979,317	3,462,350	7,619,411	87,837,876
Depreciation and amortisation and impairment losses							
Balance at 1 January 2018	112,020	11,170,877	2,200,868	392,028	-	2,593,696	16,469,489
Depreciation and amortisation for the year	1,613,713	2,072,631	373,462	353,536	-	616,535	5,029,877
Disposals	(22,773)	(201,917)	(55,167)	(34,289)	-	(33,776)	(347,922)
Write-offs	(160,416)	(492,330)	(19,656)	(101,835)	-	(304,525)	(1,078,762)
Balance at 31 December 2018	1,542,544	12,549,261	2,499,507	609,440	-	2,871,930	20,072,682
Carrying amount							
At 31 December 2018	35,093,917	20,697,259	1,394,310	2,369,877	3,462,350	4,747,481	67,765,194

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

26. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS, CONTINUED

KZT'000	Land, buildings and structures	Furniture and equipment	Computer equipment	Vehicles	Construction in progress/ equipment not yet installed	Intangible assets	Total
Historical/revalued cost							
Balance at 1 January 2017	31,734,073	29,285,727	3,020,515	1,360,599	2,174,815	4,971,537	72,547,266
Additions	586,148	3,537,769	1,102,083	237,621	2,198,036	2,100,802	9,762,459
Disposals	(513,522)	(1,407,062)	(760,988)	(36,386)	(3,013,494)	(1,227,558)	(6,959,010)
Write-offs	(2,242,684)	(757,625)	(84)	(27,622)	-	(481,293)	(3,509,308)
Revaluation	7,555,025	-	-	(287)	-	-	7,554,738
Impairment loss	(623,688)	-	-	(4,147)	-	-	(627,835)
Balance as at 31 December 2017	36,495,352	30,658,809	3,361,526	1,529,778	1,359,357	5,363,488	78,768,310
Depreciation and amortisation and impairment losses							
Balance at 1 January 2017	1,393,576	10,410,114	2,457,162	126,782	-	2,893,239	17,280,873
Depreciation and amortisation for the year	1,392,891	2,038,482	278,903	299,839	-	589,048	4,599,163
Disposals	(345,552)	(520,094)	(535,113)	(6,568)	-	(407,298)	(1,814,625)
Write-offs	(2,242,684)	(757,625)	(84)	(27,622)	-	(481,293)	(3,509,308)
Revaluation	(86,211)	-	-	(403)	-	-	(86,614)
Balance at 31 December 2017	112,020	11,170,877	2,200,868	392,028	-	2,593,696	16,469,489
Carrying amount							
At 31 December 2017	36,383,332	19,487,932	1,160,658	1,137,750	1,359,357	2,769,792	62,298,821

There are no capitalised borrowing costs related to the acquisition or construction of property and equipment during 2018 and 2017.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

26. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS, CONTINUED**Revalued assets**

As at 31 December 2018 buildings, constructions and vehicles owned by the National Bank were not revalued.

The fair values of the National Bank's land, buildings, and vehicles are categorised into Level 3 of the fair value hierarchy.

As at 31 December 2017 the vehicles owned by the National Bank were not revalued, while revaluation of buildings and constructions was performed.

The revaluation procedures were performed by independent appraisers of movable property: "Senimdi Zhol" LLC; "Areopag Consulting" LLC; "Independent Judicial Valuation Center" LLC; "AsiaStandard" IE; "D.A.D" IE; "ATYRAUCITY" LLC; "Kaztuganov M.A." IE; NOK "Alfa Expert" LLC; "The Center of Assets Valuation" LLC; "UKCONSULTING-LINE" LLC; "Karaganda Center of Evaluation"; "Basis" Expert Agency LLC; "AdalExpert" LLC and Aktau Expertiza" LLC. Valuation was performed in compliance with the requirements of the International Valuation Standards, and Valuation Standards of the Republic of Kazakhstan. To measure the fair value of the buildings and constructions the comparative approach and cost approach have been used in calculations, with assignment of the weight coefficient. Cost approach was used where there is no active market for the targets being revalued.

Should the land plots, buildings, constructions and vehicle not be revalued, then their carrying amounts as at 31 December 2018 could have been KZT 12,347,138 thousand (31 December 2017: KZT 10,939,705 thousand).

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE
YEAR ENDED 31 DECEMBER 2018

27. OTHER ASSETS

	2018	2017
	KZT'000	KZT'000
Accounts receivable on debt securities issued	884,695,840	-
Claims for repurchased loans	36,059,391	-
Other receivables	14,816,641	14,308,649
Total other financial assets before deduction of loss allowance	935,571,872	14,308,649
Reserves for expected credit losses on claims on repurchased loans	(494,427)	-
Loss allowance for other financial assets	(286,369)	(236,942)
Total reserves for expected credit losses	(780,796)	(236,942)
Total other financial assets	934,791,076	14,071,707
Inventory	23,686,242	4,334,518
Refined and non-refined precious metals and stones	2,248,882	1,651,605
Prepayment for property and equipment	501,045	720,803
Other	3,992,424	736,741
Total other non-financial assets	30,428,593	7,443,667
Total other assets	965,219,669	21,515,374

Accounts receivable on debt securities issued reflect the cost of placement of the NBK debt securities as at the date of entering into transaction on issues KZW1KD074873 и KZW1KD074881, with maturity dates on 10 January 2019 and 11 January 2019. Settlements for transactions will be made at the dates of issue on 3 January 2019 and 4 January 2019, respectively.

Claims on repurchased mortgage housing loans represent long-term rights of claim on mortgage housing loans of MO “Baspana” JSC repurchased from the second-tier banks as part of the Program of Mortgage Housing Lending “7-20-25. New Opportunities for Housing Purchase for Each Family”.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE
YEAR ENDED 31 DECEMBER 2018

27. OTHER ASSETS, CONTINUED

Analysis of reserves for expected credit losses

Movement in reserves for expected credit losses for repurchased loans for 2018 is as follows:

KZT'000	2018			2017
	Stage 1	Stage 2	Stage 3	Total
Claims for repurchased loans				
Balance at 1 January	-	-	-	-
New financial assets originated or purchased	493,261	-	1,166	494,427
Balance at 31 December	493,261	-	1,166	494,427

Movement in the impairment allowance for other financial assets for 2018 is as follows:

KZT'000	2018			2017
	Stage 1	Stage 2	Stage 3	Total
Other financial assets				
Balance at 31 December	236,942	-	-	236,942
Effect from transition to IFRS 9	15,472	-	-	15,472
Balance at 1 January	252,414	-	-	175,266
New financial assets originated or purchased	39,890	-	-	39,890
Writes-off	(5,935)	-	-	(73,730)
Balance at 31 December	286,369	-	-	236,942

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

27. OTHER ASSETS, CONTINUED

Credit quality analysis

The following table sets out information about the credit quality of other financial assets measured at amortised cost

KZT'000	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
Other financial assets					
Not overdue	935,288,322	-	-	935,288,322	14,068,467
Overdue 31-90 days	-	51,175	-	51,175	14,136
Overdue 91-180 days	-	-	15,852	15,852	6,516
Overdue 181-360 days	-	-	216,523	216,523	219,530
Gross carrying amount	935,288,322	51,175	232,375	935,571,872	14,308,649
Loss allowance	(780,796)	-	-	(780,796)	(236,942)
Carrying amount	934,507,526	51,175	232,375	934,791,076	14,071,707

28. CURRENCY IN CIRCULATION

	2018 KZT'000	2017 KZT'000
Banknotes and coins in circulation	2,620,735,396	2,258,995,388
Less banknotes and coins on hand and in reserve funds	(1,405,719)	(1,319,575)
	2,619,329,677	2,257,675,813

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE
YEAR ENDED 31 DECEMBER 2018**

**29. DEPOSITS AND BALANCES FROM BANKS AND OTHER
FINANCIAL INSTITUTIONS**

	2018	2017
	KZT'000	KZT'000
	<hr/>	<hr/>
Deposits and balances from foreign banks and other financial institutions		
Current accounts of international financial organisations	513,093,468	453,367,473
OECD based banks	37,464,444	26,735,744
Other foreign banks	2,993,881	2,395,807
	<hr/>	<hr/>
Total deposits and balances from foreign banks and other financial institutions	553,551,793	482,499,024
Deposits and balances from Kazakhstan banks and other financial institutions		
Loro accounts		
Kazakhstan 10 top banks*	1,718,056,249	1,680,870,429
Other Kazakhstan banks and financial institutions	1,007,627,397	870,078,789
Deposits**		
Kazakhstan 10 top banks*	1,196,354,116	1,311,106,159
Other Kazakhstan banks and financial institutions	1,397,918,343	484,170,790
	<hr/>	<hr/>
Total deposits and balances from Kazakhstan banks	5,319,956,105	4,346,226,167
Electronic money liabilities	2,653	-
	<hr/>	<hr/>
Total deposits and balances from banks and other financial institutions	5,873,510,551	4,828,725,191
	<hr/>	<hr/>

* based on total assets as at 31 December 2018.

** include the liability part of the swap deals in the amount of KZT 851,617,272 thousand (31 December 2017: KZT 1,260,018,133 thousand) that is accounted for not as derivatives, but as deposits from banks and is measured at nominal in accordance with the Basis of Accounting (Note 2).

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

29. DEPOSITS AND BALANCES FROM BANKS AND OTHER FINANCIAL INSTITUTIONS, CONTINUED

As at 31 December 2018 the National Bank has six counterparties (31 December 2017: three counterparties), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2018 is KZT 3,960,671,852 thousand (31 December 2017: KZT 2,176,449,298 thousand).

As at 31 December 2018 the current accounts of international financial organisations include the membership quota of the Republic of Kazakhstan in the International Monetary Fund (the “IMF”) in the amount of KZT 513,086,627 thousand (31 December 2017: KZT 453,360,632 thousand). A membership quota expressed in Special Drawing Rights (“SDRs”) is assigned to each member of the IMF. The NBK issued promissory notes to the IMF in the amount of the quota (SDR 960,225 thousand).

30. REPURCHASE AGREEMENTS

In December 2018, the National Bank concluded repurchase agreements in the auto repo market of KASE in the amount of KZT 135,827,043 thousand (31 December 2017: KZT 295,484,490 thousand).

As at 31 December 2018, the fair value of financial assets collateralising repurchase agreements is KZT 134,048,963 thousand (31 December 2017: KZT 296,876,815 thousand).

31. CURRENT ACCOUNTS OF THE NATIONAL FUND OF THE REPUBLIC OF KAZAKHSTAN

Current accounts of the National Fund of the Republic of Kazakhstan (the “National Fund”) amounted to KZT 707,324,124 thousand as at 31 December 2018 (31 December 2017: KZT 337,924,084 thousand).

During 2018 and 2017 the National Bank performed the trust management activities over the assets of the National Fund. Assets and liabilities of the National Fund are not included in these consolidated financial statements, except for current accounts of the National Fund in NBK.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

32. CURRENT ACCOUNTS OF THE MINISTRY OF FINANCE OF THE REPUBLIC OF KAZAKHSTAN

	2018	2017
	KZT'000	KZT'000
In national currency	439,249,723	429,495,413
In foreign currency	3,058,104	1,357,970
	442,307,827	430,853,383

33. CUSTOMER ACCOUNTS

	2018	2017
	KZT'000	KZT'000
In national currency	199,177,350	306,626,946
In foreign currency	167,834	352,113,163
	199,345,184	658,740,109

During 2018 and 2017 the National Bank maintained customer accounts in foreign and national currencies. NBK customers' industry is state management, and industries, in which the customers of the NBK's subsidiaries are operating are financial agency services, insurance and liquidation of banks.

As at 31 December 2018 customer accounts included accounts of one customer (31 December 2017: two customers) with a balance exceeding 2% (31 December 2017: 10%) of NBK's equity. These gross balances of said customer as at 31 December 2018 are KZT 68,949,071 thousand (31 December 2017: KZT 549,156,186 thousand).

34. DEBT SECURITIES ISSUED

As at 31 December 2018 debt securities issued comprise the following issues:

Issues	Carrying amount	Issue date	Maturity Date	Effective interest rate
KZW1KY011682	134,057,864	19/01/2018	18/01/2019	8.68
KZW1KY011880	69,210,210	09/02/2018	08/02/2019	8.67
KZW1KY011948	36,257,912	14/02/2018	13/02/2019	8.72
KZW1KY012227	87,277,651	16/03/2018	15/03/2019	8.49
KZW1KY010015	42,234	27/03/2018	26/03/2019	7.94
KZW1KY012383	180,395,186	06/04/2018	05/04/2019	8.47

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE
YEAR ENDED 31 DECEMBER 2018

34. DEBT SECURITIES ISSUED, CONTINUED

Issues	Carrying amount	Issue date	Maturity date	Effective interest rate
KZW1KY012672	44,014,672	11/05/2018	10/05/2019	8.26
KZW1KY012946	30,798,938	08/06/2018	07/06/2019	8.22
KZW1KY013266	9,579,107	13/07/2018	12/07/2019	8.22
KZW1KM063405	95,155,001	27/07/2018	25/01/2019	8.23
KZW1KY013530	26,225,018	10/08/2018	09/08/2019	8.24
KZW1KM063660	55,860,401	24/08/2018	22/02/2019	8.22
KZW1KY013787	24,024,300	07/09/2018	06/09/2019	8.29
KZW1KM063983	38,427,207	28/09/2018	29/03/2019	8.44
KZ2COM12F991	10,144,909	03/10/2018	13/10/2019	8.50
KZW1KY014116	22,891,047	12/10/2018	11/10/2019	8.50
KZW1KD914185	42,315,119	19/10/2018	18/01/2019	8.73
KZW1KY014199	170,380,423	17/10/2018	16/10/2019	8.50
KZW1KM064262	45,141,695	26/10/2018	26/04/2019	8.85
KZW1KY014272	68,007,591	24/10/2018	23/10/2019	8.50
KZW1KY014363	40,724,670	02/11/2018	01/11/2019	8.50
KZW1KY014413	17,202,744	09/11/2018	08/11/2019	8.85
KZW1KD914482	54,309,196	16/11/2018	15/02/2019	8.82
KZW1KM064551	95,825,409	23/11/2018	24/05/2019	8.88
KZW1KD294646	95,908,080	05/12/2018	03/01/2019	8.79
KZ2COM12G010	19,226,172	06/12/2018	06/12/2019	8.50
KZW1KY014678	67,270,737	07/12/2018	06/12/2019	8.91
KZW1KD284712	58,197,886	12/12/2018	09/01/2019	8.81
KZW1KD914748	50,117,347	14/12/2018	15/03/2019	8.83
KZW1KD284761	163,809,413	19/12/2018	16/01/2019	8.81
KZW1KD104795	221,895,428	24/12/2018	03/01/2019	8.79
KZW1KD104803	204,855,328	25/12/2018	04/01/2019	8.80
KZW1KD084815	158,939,819	26/12/2018	03/01/2019	8.78
KZW1KD284829	96,104,528	26/12/2018	23/01/2019	8.82
KZW1KD074832	272,868,777	27/12/2018	03/01/2019	8.78
KZW1KD074840	216,843,592	28/12/2018	04/01/2019	8.78
KZW1KM064858	59,636,578	28/12/2018	28/06/2019	8.88
KZW1KD104860	144,762,883	29/12/2018	08/01/2019	8.79
KZW1KD074873	484,866,314	03/01/2019	10/01/2019	8.79
KZW1KD074881	399,829,526	04/01/2019	11/01/2019	8.79
	4,113,400,912			

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

34. DEBT SECURITIES ISSUED, CONTINUED

As at 31 December 2017 debt securities issued comprise the following issues:

Issues	Carrying amount	Issue date	Maturity date	Effective interest rate
KZW1KY018158	55,219,294	06/01/2017	05/01/2018	10.85
KZW1KY018489	54,631,003	10/02/2017	09/02/2018	10.70
KZW1KY018745	53,836,684	10/03/2017	09/03/2018	9.62
KZW1KY018992	45,817,088	07/04/2017	06/04/2018	9.65
KZW1KY019297	53,026,776	12/05/2017	11/05/2018	9.45
KZW1KY019560	44,144,940	09/06/2017	08/06/2018	8.91
KZW1KY019958	39,056,552	21/07/2017	20/07/2018	8.90
KZW1KM060021	67,584,941	28/07/2017	26/01/2018	9.30
KZW1KY010155	14,288,455	11/08/2017	10/08/2018	8.84
KZW1KM060294	45,154,123	25/08/2017	23/02/2018	9.10
KZW1KY010403	4,252,945	08/09/2017	07/09/2018	8.72
KZW1KM060609	28,296,311	29/09/2017	30/03/2018	9.26
KZW1KY010734	34,471,066	13/10/2017	12/10/2018	8.89
KZW1KY010783	254,479,095	18/10/2017	17/10/2018	8.72
KZW1KD910811	19,032,138	20/10/2017	19/01/2018	9.53
KZW1KY010866	101,624,418	25/10/2017	24/10/2018	8.72
KZW1KM060898	32,039,730	27/10/2017	27/04/2018	9.29
KZW1KY010965	60,845,653	03/11/2017	02/11/2018	8.72
KZW1KY011039	21,545,356	10/11/2017	09/11/2018	8.99
KZW1KD911108	42,213,945	17/11/2017	16/02/2018	9.57
KZW1KY011153	121,146,648	22/11/2017	21/11/2018	8.72
KZW1KM061235	22,633,319	30/11/2017	01/06/2018	9.32
KZW1KY011245	30,229,330	30/11/2017	29/11/2018	8.72
KZW1KY011310	57,402,758	08/12/2017	07/12/2018	9.03
KZW1KD281288	195,859,936	06/12/2017	03/01/2018	9.85
KZW1KD281353	268,686,528	13/12/2017	10/01/2018	9.84
KZW1KD911389	73,322,486	15/12/2017	16/03/2018	9.59
KZW1KD281403	308,571,965	20/12/2017	17/01/2018	9.85
KZW1KD091430	124,936,666	25/12/2017	03/01/2018	9.68
KZW1KD081449	83,857,482	26/12/2017	03/01/2018	9.68
KZW1KD071457	57,565,298	27/12/2017	03/01/2018	9.68
KZW1KD281460	335,829,110	27/12/2017	24/01/2018	9.78
KZW1KD071473	221,731,407	28/12/2017	04/01/2018	9.68
KZW1KM061490	176,353,371	29/12/2017	29/06/2018	9.11
KZW1KY011500	60,039,585	29/12/2017	28/12/2018	8.72
	<u>3,209,726,402</u>			

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE
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34. DEBT SECURITIES ISSUED, CONTINUED

Reconciliation of change in the debt securities issued and cash flows from financing activities

In 2018 and 2017 the change in the debt securities issued is as follows:

	2018
	KZT'000
Balance at the beginning of the year	3,209,726,402
Notes issued, paid by cash	61,931,140,885
Nominal cost repaid	(61,926,079,183)
Total changes from financing cash flows	5,061,702
Accounts receivable on debt securities issued (Note 27)	884,695,840
Other changes	
Interest accrued	314,545,771
Interest paid	(300,628,803)
Balance at the end of the year	4,113,400,912
	2017
	KZT'000
Balance at the beginning of the year	2,506,039,966
Notes issued	63,001,373,796
Nominal cost repaid	(62,343,468,289)
Total changes from financing cash flows	657,905,507
Other changes	
Interest accrued	291,403,821
Interest paid	(245,622,892)
Balance at the end of the year	3,209,726,402

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

35. ESTIMATED LIABILITIES

In preparing the consolidated financial statements of the National Bank as at and for the year ended 31 December 2018, a modification to the accounting policy with regard to a special provision for guaranteeing deposits previously recognised in liabilities have been revised (Note 2(f)).

Due to changes made retrospectively, this provision has been recognised in equity in the consolidated statement of financial position of the National Bank as “Special guarantee reserve” and amounts to KZT 495,014,899 thousand (31 December 2017 and 31 December 2016: KZT 459,135,686 thousand and KZT 395,247,203 thousand, respectively) (Note 37).

Provision to cover guarantees related to payment of the guaranteed compensation as recognised within liabilities in the consolidated statement of financial position of the National Bank as “Estimated liabilities” and amounted KZT 55,963,528 thousand (31 December 2017 and 31 December 2016: KZT 20,517,849 thousand and KZT 11,464,769 thousand, respectively).

The table below shows analysis of movements in reserves for expected credit losses for the years ended 31 December 2018 and 31 December 2017:

	2018	Restated
	KZT'000	2017
	KZT'000	KZT'000
Provision for guarantees at 1 January	20,517,849	11,464,769
<i>Changes affecting contributions to provision for estimated liabilities</i>		
Change in risk parameters	2,967,592	2,650,001
Occurrence of default event (transfer from stage 2 to stage 3)	52,346,251	-
Significant increase in risk (transfer from stage 1 to stage 2)	-	5,912,955
Transfer to liabilities to depositors due to liquidation	(20,681,926)	(82,232)
Change in the amount of guaranteed compensation on deposits	813,762	572,356
Total expenses stated in profit or loss for the year	35,445,680	9,053,080
Provision for guarantees at 31 December	55,963,528	20,517,849

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

35. ESTIMATED LIABILITIES, CONTINUED

A guaranteed compensation is a total amount of money paid to a depositor in case of forced liquidation of a participating bank. According to the Law of the Republic of Kazakhstan “On the obligatory guarantee of deposits placed in the second tier banks of the Republic of Kazakhstan”, a depositor shall receive a guarantee compensation in the amount equal to deposit(s) balances without accrued interest and not exceeding the amount of maximum state guarantee per each depositor for each bank separately. Maximum state guarantee amount per each depositor shall be:

- up to 15 million KZT on savings deposits in national currency;
- up to 10 million KZT on term deposits and non-term deposits, demand deposits, current accounts and payment cards in national currency;
- up to 5 million KZT on deposits and accounts in foreign currency.

The National Bank calculates a reserve for expected credit losses on payment of guaranteed compensation to depositors in case of forced liquidation of participating banks, taking into account their probability of default and portion of funds not subject to be recovered in the course of bank liquidation, according to the Methods of Calculation of Reserves for Guarantees related to payment of guaranteed compensation. The probability of bank’s default is determined in accordance with a risk-classification group, which in turn shows extent of bank’s exposure to risk. A risk-classification group is determined based on analysis of capital adequacy, assets quality, return on assets and liquidity. Portion of funds not subject to be recovered in the course of bank liquidation is determined according to the history of guaranteed compensation payments to depositors and recovery of paid funds in the course of forced liquidation of a participating bank.

The following components have a significant impact on estimated reserve for expected credit losses: determination of probability of default, significant increase in credit risk, exposure at default and loss given default, as well as macroeconomic scenarios model.

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YEAR ENDED 31 DECEMBER 2018

36. OTHER LIABILITIES

	2018 KZT'000	2017 KZT'000
Other creditors on banking activity	50,341,331	1,180,502
Other creditors on non-banking activity	2,956,400	3,769,857
Total other financial liabilities	53,297,731	4,950,359
Salaries payable	5,817,427	6,150,860
Tax payable (except for corporate income tax)	1,028,191	884,841
Other prepayments received	962,417	1,566,960
Payables on purchase of property and equipment	17,667	544,212
Total other non-financial liabilities	7,825,702	9,146,873
Total other liabilities	61,123,433	14,097,232

Other creditors under banking activity include liabilities of KASE JSC on margin security for clearing members as part of fulfilment of its functions as the central counterparty, as well as liability of KASE JSC to depositors of second-tier banks being liquidated.

KASE JSC, as part of implementation of its development strategies for 2016-2018 related to expansion of clearing operations, from 1 October 2018 has proceeded to performing the functions of the central counteragent in the stock market of foreign currencies. The purpose in implementation of the central counteragent in the foreign currency market is to provide with participants of the stock market of foreign currencies with a guarantee of performance of their claims under the signed transactions, if any participant of the trading fails to perform its liabilities, through formation of the risk management system in the stock market of foreign currencies. Given the above, other banking activity creditors include the KASE JSC liabilities related to the margin security of the clearing participants.

In 2018 KDIF JSC recognised liabilities on payment of guaranteed compensation to the depositors of the banks being liquidated. Guaranteed compensation is paid through an agent bank once the decision on bank liquidation comes into effect. As at 31 December 2018 the remaining portion of the liability on payment of guaranteed compensation is KZT 8,001,574 thousand.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

37. CHARTER CAPITAL**Charter capital**

The charter capital of the National Bank is regulated by the Edict of the President of the Republic of Kazakhstan dated 30 March 1995 with subsequent amendments. The charter capital of the NBK is owned by the state and is formed in the amount of not less than KZT 20,000,000 thousand.

As at 31 December 2018 and 31 December 2017 the NBK charter capital was KZT 20,000,000 thousand.

Dividends and reserve capital

In accordance with the Law of the Republic of Kazakhstan “On the National Bank of the Republic of Kazakhstan”, the Management Board of the National Bank decreed to reimburse the loss of KZT 174,986,594 thousand incurred by the NBK in 2017 from the NBK reserve capital (Resolution of the Management Board No. 135 dated 29 June 2018).

In accordance with the Law of the Republic of Kazakhstan “On the National Bank of the Republic of Kazakhstan”, the Management Board of the National Bank decreed to reimburse the loss of KZT 157,537,375 thousand incurred by the NBK in 2016 from the NBK reserve capital (Resolution of the Management Board No. 117 dated 30 June 2017). A part of the net income of KZT 832,736 thousand received from the NBK subsidiary was included in the NBK reserve capital.

In accordance with the Law of the Republic of Kazakhstan “On the National Bank of the Republic of Kazakhstan”, the NBK should form a capital reserve in the amount of not less than its charter capital. Reserve capital increased at the expenses of the net retained earnings and assigned exclusively to compensate and reimburse losses incurred on the conducted operations in accordance with the requirements set by the Management Board of the National Bank of Kazakhstan. As at 31 December 2018, the capital reserve was nil (31 December 2017: KZT 174,986,594 thousand).

Non-controlling interest

During 2017 ordinary shares of PLF JSC have been transferred on a pro bono basis to the Government of the Republic of Kazakhstan represented by the Committee of State Property and Privatisation of the Ministry of Finance of the Republic of Kazakhstan (Note 11). As a result of the disposal the share of non-controlling shareholders decreased by KZT 314,946,333 thousand.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

37. CHARTER CAPITAL, CONTINUED

Special guarantee reserve

According to the Law of the Republic of Kazakhstan “On the Obligatory Guaranteeing of Deposits Placed with the Second-Tier Banks of the Republic of Kazakhstan”, to perform activity related to payment of guaranteed compensation, KDIF JSC establishes a special guarantee reserve formed at the expense of KDIF JSC within 70% of its share capital, contributions of the participating banks, penalty imposed on participating banks for failure to perform and improper performance of obligations under an adhesion contract, cash received as a result of fulfilment by a forcibly liquidated participating bank of the requirements of KDIF JSC related to the amounts of guaranteed compensation, as well as allocation of profit according to the decision of the NBK. A special guarantee reserve is established to pay a guarantee compensation to the depositors in case of forced liquidation of a participating bank.

According to the Law of the Republic of Kazakhstan “On the Obligatory Guaranteeing of Deposits Placed with the Second-Tier Banks of the Republic of Kazakhstan”, a target amount of a special reserve of an organisation that perform the obligatory guaranteeing of deposits, to be not less than 5% of the amount of all guaranteed deposits in the participating banks.

An actual amount of a special guarantee reserve net of 70 % of share capital as at 31 December 2018 and 2017 is KZT 495,014,899 thousand or 5.6% and KZT 459,135,686 thousand or 5.6% of gross amount of guaranteed deposits in participating banks, respectively.

	2018	2017
	KZT'000	KZT'000
Calendar contributions of banks participating in the deposit guarantee system	251,306,310	240,509,455
Amount of compensation made by a liquidation commission of a forcibly liquidated bank	10,746,524	10,431,266
Fines and penalties paid by banks participating in the deposit guarantee system	49,582	39,776
Formation of reserve out of own funds in accordance with the Law	55,600,000	55,600,000
Net income allocated for formation of special guarantee reserve	177,312,484	152,555,189
Total special guarantee reserve	495,014,899	459,135,686

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

37. CHARTER CAPITAL, CONTINUED**Capital management**

Retained earnings are transferred to the charter and/or reserve capital in the amount determined by the Management Board of the NBK. After the approval of the annual report of the National Bank by the President of the Republic of Kazakhstan the remaining part of the retained earnings is transferred to the State budget with a deferral of one financial year.

If a reserve capital amount is less than the share capital amount, the entire retained earnings remain at the National Bank's disposal and is transferred to the reserve capital until the later reaches the level of the share capital. If the reserve capital is not sufficient to cover losses of a financial year, the deficiency is fully compensated by the National Bank at the expense of the state budget with a deferral of one financial year.

38. ANALYSIS BY SEGMENT

The National Bank's operations comprise a single operating segment for the purposes of these consolidated financial statements. The National Bank is not required to report revenue and expenses by reference to the functions carried out by the National Bank, these activities do not constitute separate operating segments for the purposes of these consolidated financial statements.

39. RISK MANAGEMENT**Risk management policies and procedures**

Risk management is fundamental to the National Bank's activities and is an essential element of the National Bank operations. The major risks faced by the National Bank are those related to market risk, credit risk and liquidity risk.

The National Bank's risk management policies aim to identify, analyse and manage the risks faced by the National Bank during its operations, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to established limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

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

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

39. RISK MANAGEMENT, CONTINUED**Risk management policies and procedures, continued**

The Management Board, Board of Directors, committees, commissions and related working groups review regularly matters related to the monetary and investment policies of the National Bank and set up limits on the scope of management over its assets and customers' assets, as well as requirements for the credit assessment of the NBK's counterparties.

In accordance with Investment Strategy on gold and foreign currency assets management of the NBK approved by the decision of the Board on 17 June 2015 № 112 (the "GFCA Investment Strategy"), the main goals of risk management are maintenance of liquidity and safety of the NBK's assets, and profitability growth in the medium and long-term perspective.

In accordance with the fulfilment of goals and functions of National Bank, gold and foreign currency assets of the NBK are separated into the following portfolios: liquidity portfolio, investment portfolio, strategic portfolio, gold portfolio, developing market portfolio and portfolio of alternative investments.

In accordance with GFCA Investment Strategy subsidiary NIC NBK JSC manages the portfolio of alternative instruments.

In accordance with GFCA Investment Strategy and Investment Strategy for Management of Portfolio of Alternative Investments of GFCA of the National Bank approved by the Resolution of the Management Board of the National Bank dated 28 May 2018 No.100, and in accordance with the terms and conditions of the Trust Investment Management Agreement No. 122NB/10 dated 29 March 2013 which was concluded between the National Bank and NIC NBK JSC, NIC NBK JSC invests a part of the gold and foreign currency assets of the National Bank in the alternative classes of assets through the special purpose companies/partnerships.

The operations of the NBK's subsidiaries are also exposed to a number of risks, the most significant are those related to market risks. Risk management procedures of the subsidiaries are regulated by their internal instructions and their execution is monitored by various bodies, including the boards of directors of the subsidiaries and internal control departments.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

39. RISK MANAGEMENT, CONTINUED**Market risk**

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

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

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

The National Bank utilises Tracking Error methodology. Tracking Error indicator reflects how actual performance of current portfolio differs from the performance of the benchmark portfolio. The expected tracking error of the investment portfolio of gold and foreign currency assets including derivatives does not exceed 2 (two) percent per annum as at the last working day of each month.

Tracking Error can be used only when the investor manages a portfolio against the benchmark portfolio.

As at 31 December 2018 the benchmark portfolio for the investment portfolio of gold and foreign currency assets was a composite index of:

- 52% – ICE BofAML 0-3 Year US Treasury Index (G1QA);
- 15% – ICE BofAML 0-3 Year Germany, France, Netherlands, Austria, Luxembourg & Finland Government Index (EBDF);
- 10% – ICE BofAML 0-3 Year UK Gilt Index (GBL0);
- 8% – ICE BofAML 0-3 Year Australia Government Index (GJBT);
- 5% – ICE BofAML 0-3 Year Japan Government Index (G1YA);
- 5% – ICE BofAML 0-3 Year All Maturity Canadian Government Index (GBCJ);
- 5% – ICE BofAML 0-3 Year South Korean Government Index (GBSK).

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

39. RISK MANAGEMENT, CONTINUED**Market risk, continued**

As at 31 December 2017 the benchmark portfolio for the investment portfolio of gold and foreign currency assets was a composite index of:

- 52% – ML US Treasuries, 0-3 years (G1QA);
- 15% – ML 0-3 Year All Euro Government Index, DE, FR, NL, AT, LU, FI (EBDF);
- 10% – ML UK Gilts, 0-3 Year (GBL0);
- 8% – ML Australian Government Index, 0-3 Year (GJBT);
- 5% – ML Japanese Governments, 0-3 Year (G1YA);
- 5% – ML Canadian Government Index, 0-3 Year (GBCJ);
- 5% – ML South Korean Government Index, 0-3 Year (GBSK).

Investments in hedge funds and private equity funds bear, primarily, market risk. In this regard, investments in alternative instruments of such type, including investment funds, are very popular among the long-term institutional investors. Such investors are aimed at obtaining a premium for liquidity risk and risk of short-term fluctuations in the financial markets. Therefore, the thorough choice, due diligence of such funds and investment limits per one manager and per one fund are the mandatory tools to control and optimise these risks. In addition, the investment and operating risks of these funds and their managers are regularly monitored and controlled – on the quarterly and semi-annual basis. To mitigate and diversify the risk of concentration, in addition to the above limits, there applied the requirements to diversify investments by the strategies, vintage (the year of formation of a private equity fund) and geography of investments.

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 National 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.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

39. RISK MANAGEMENT, CONTINUED

Market risk, continued

Interest rate risk, continued

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:

KZT'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2018							
ASSETS							
Cash on hand in foreign currency	-	-	-	-	-	107,951,780	107,951,780
Gold	818,326,984	267,182,200	68,888,633	-	-	4,375,637,159	5,530,034,976
Placements and loans with banks and other financial institutions	1,289,637,955	-	976,332,722	10,550,388	691,046,975	1,199,515,087	4,167,083,127
Financial instruments at fair value through profit or loss	-	-	-	-	-	233,973,568	233,973,568
Reverse repurchase agreements	211,202,022	11,451,500	-	-	-	-	222,653,522
Investment securities at FVOCI	174,066,621	175,186,242	289,615,223	1,974,027,385	609,262,905	1,775,688,498	4,997,846,874
Investment securities measured at amortised cost	10,427,132	21,385,324	34,868,374	270,256,047	229,086,881	116,581,389	682,605,147
Investments in associates	-	-	-	-	-	268,506	268,506
Other financial assets	160	300	2,055	347,785	36,939,810	897,500,966	934,791,076
	2,503,660,874	475,205,566	1,369,707,007	2,255,181,605	1,566,336,571	8,707,116,953	16,877,208,576

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

39. RISK MANAGEMENT, CONTINUED

Market risk, continued

Interest rate risk, continued

Interest rate gap analysis, continued

KZT'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
LIABILITIES							
Currency in circulation	-	-	-	-	-	2,619,329,677	2,619,329,677
Deposits and balances from banks and other financial institutions	1,742,655,186	-	836,454,549	15,162,723	-	3,279,238,093	5,873,510,551
Financial instruments at fair value through profit or loss	-	-	-	-	-	7,709,359	7,709,359
Repurchase agreements	135,827,043	-	-	-	-	-	135,827,043
Current accounts of the National Fund of the Republic of Kazakhstan	-	-	-	-	-	707,324,124	707,324,124
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	-	-	-	-	-	442,307,827	442,307,827
Customer accounts	-	-	-	-	-	199,345,184	199,345,184
Debt securities issued	3,181,911,716	455,812,477	475,676,719	-	-	-	4,113,400,912
Estimated liabilities	-	-	-	-	-	55,963,528	55,963,528
Other financial liabilities	-	-	-	-	-	53,297,731	53,297,731
	5,060,393,945	455,812,477	1,312,131,268	15,162,723	-	7,364,515,523	14,208,015,936
	(2,556,733,071)	19,393,089	57,575,739	2,240,018,882	1,566,336,571	1,342,601,430	2,669,192,640

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

39. RISK MANAGEMENT, CONTINUED

Market risk, continued

Interest rate risk, continued

Interest rate gap analysis, continued

KZT'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2017							
ASSETS							
Cash on hand in foreign currency	-	-	-	-	-	49,964,397	49,964,397
Gold	846,055,233	166,843,386	-	-	-	3,140,672,476	4,153,571,095
Placements and loans with banks and other financial institutions	1,236,955,988	71,128,032	1,002,320,274	68,853,910	193,433,458	781,008,749	3,353,700,411
Financial instruments at fair value through profit or loss	25,908,409	18,646,107	24,046,495	647,366,841	272,424,355	687,632	989,079,839
Reverse repurchase agreements	174,193,258	2,037,275	8,169,873	-	-	-	184,400,406
Available-for-sale financial assets	753,234,210	861,649,887	938,865,820	1,555,429,272	281,857,728	805,956,726	5,196,993,643
Held-to-maturity investments	-	111,868	151,909	1,809,201	38,179,976	-	40,252,954
Investments in associates	-	-	-	-	-	304,295	304,295
Other financial assets	101	-	1,153	132,043	1,413,311	12,525,099	14,071,707
	3,036,347,199	1,120,416,555	1,973,555,524	2,273,591,267	787,308,828	4,791,119,374	13,982,338,747

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

39. RISK MANAGEMENT, CONTINUED

Market risk, continued

Interest rate risk, continued

Interest rate gap analysis, continued

KZT'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
LIABILITIES							
Currency in circulation	-	-	-	-	-	2,257,675,813	2,257,675,813
Deposits and balances from banks and other financial institutions	541,774,226	108,849,081	1,040,392,403	109,314,501	-	3,028,394,980	4,828,725,191
Financial instruments at fair value through profit or loss	-	-	-	-	-	665,921	665,921
Repurchase agreements	295,484,490	-	-	-	-	-	295,484,490
Current accounts of the National Fund of the Republic of Kazakhstan	-	-	-	-	-	337,924,084	337,924,084
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	-	-	-	-	-	430,853,383	430,853,383
Customer accounts	-	-	-	-	-	658,740,109	658,740,109
Debt securities issued	2,036,329,316	374,015,224	799,381,862	-	-	-	3,209,726,402
Provisions	-	-	-	-	-	20,517,849	20,517,849
Other financial liabilities	-	-	-	-	-	4,950,359	4,950,359
	2,873,588,032	482,864,305	1,839,774,265	109,314,501	-	6,739,722,498	12,045,263,601
	162,759,167	637,552,250	133,781,259	2,164,276,766	787,308,828	(1,948,603,124)	1,937,075,146

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE
YEAR ENDED 31 DECEMBER 2018

39. RISK MANAGEMENT, CONTINUED

Market risk, continued

Interest rate risk, continued

Average interest rates

The table below summarises the National Bank's average interest rates on interest bearing assets and liabilities as at 31 December 2018 and 31 December 2017. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2018 KZT'000 Book value	Average effective interest rate, %	2017 KZT'000 Book value	Average effective interest rate, %
Interest bearing assets				
Gold				
<i>Gold deposits with foreign banks</i>	1,154,397,817	0.05	1,012,898,619	0.07
Placements and loans with banks and other financial institutions				
<i>Nostro accounts</i>				
- USD	390,284,259	2.39	839,480	0.66
- JPY	346,133,377	0.13	103,777,286	0.15
- EUR	14,857,495	0.60	1,080,895	0.80
- GBP	4,175,853	0.75	189,687	0.01
- KRW	2,151,343	0.10	1,209,958	0.10
- RUB	5,820	0.15	1,006,082	0.93
- Other currency	2,121,936	0.76	1,908,267	0.73
<i>Loans and deposits in banks</i>				
- KZT	1,679,835,803	4.47	1,390,851,622	1.34
- USD	519,319,803	2.71	1,071,828,385	1.65
- AUD	8,682,351	2.32	-	-

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE
YEAR ENDED 31 DECEMBER 2018

39. RISK MANAGEMENT, CONTINUED

Market risk, continued

*Interest rate risk, continued**Average interest rates, continued*

	2018 KZT'000 Book value	Average effective interest rate, %	2017 KZT'000 Book value	Average effective interest rate, %
Financial instruments at fair value through profit or loss				
- USD	-	-	796,276,217	4.16
- EUR	-	-	140,756,637	2.04
- GBP	-	-	22,960,758	4.62
- CAD	-	-	18,675,523	3.51
- AUD	-	-	6,800,487	4.15
- JPY	-	-	2,922,585	0.09
Reverse repurchase agreements				
- KZT	222,653,522	7.00	184,400,406	7.00
Investment securities at FVOCI				
- USD	1,967,770,352	2.98	-	
- KZT	427,390,551	7.76	-	
- EUR	300,702,921	1.28	-	
- GBP	181,621,418	2.20	-	
- AUD	117,500,140	3.40	-	
- CAD	91,164,058	2.28	-	
- KRW	79,116,113	2.87	-	
- JPY	56,892,823	0.16	-	

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE
YEAR ENDED 31 DECEMBER 2018

39. RISK MANAGEMENT, CONTINUED

Market risk, continued

Interest rate risk, continued

Average interest rates, continued

	2018 KZT'000 Book value	Average effective interest rate, %	2017 KZT'000 Book value	Average effective interest rate, %
Available-for-sale financial assets				
- USD	-	-	3,057,300,797	0.55
- KZT	-	-	717,495,608	6.93
- EUR	-	-	135,618,299	1.24
- GBP	-	-	141,459,516	1.54
- AUD	-	-	99,674,201	3.50
- CAD	-	-	70,322,041	1.14
- KRW	-	-	74,757,184	2.61
- JPY	-	-	42,909,691	0.13
- CNY	-	-	51,499,580	2.84
Investment securities at amortised cost				
- KZT	489,884,291	6.01	-	-
- CNY	76,019,324	2.99	-	-
- USD	120,143	3.20	-	-
Held-to-maturity investments				
- KZT	-	-	40,148,494	7.98
- USD	-	-	104,460	3.23
Other assets				
- KZT	37,290,110	6.82	1,546,608	3.04
Interest liabilities				
Due to banks and other financial institutions				
<i>Term deposits</i>				
- USD	1,733,368,710	1.03	1,260,018,133	-
- KZT	860,903,748	8.25	540,312,078	8.80
Repurchase agreements				
- KZT	135,827,043	8.25	295,484,490	9.25
Debt securities issued				
- KZT	4,113,400,912	8.70	3,209,726,402	9.46

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE
YEAR ENDED 31 DECEMBER 2018**

39. RISK MANAGEMENT, CONTINUED

Market risk, continued

Interest rate risk, continued

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 to changes in interest rate repricing risk based on a simplified scenario of a 300 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2018 and 31 December 2017 is as follows:

	2018		2017	
	Profit or loss KZT'000	Equity KZT'000	Profit or loss KZT'000	Equity KZT'000
300 bp parallel rise	(66,318,805)	(66,318,805)	17,229,892	17,229,892
300 bp parallel fall	66,318,805	66,318,805	(17,229,892)	(17,229,892)

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE
YEAR ENDED 31 DECEMBER 2018

39. RISK MANAGEMENT, CONTINUED

Market risk, continued

Interest rate risk, continued

Interest rate sensitivity analysis, continued

An analysis of the sensitivity of net profit or loss and equity as a result of changes in the fair value of financial instruments at fair value through profit or loss and investment securities measured at fair value through other comprehensive income due to changes in the interest rates, based on positions existing as at 31 December 2018 and 31 December 2017 and a simplified scenario of a 50 bp symmetrical fall or rise in all yield curves, is as follows:

	2018		2017	
	Net profit or loss KZT'000	Equity KZT'000	Net profit or loss KZT'000	Equity KZT'000
50 bp parallel fall	-	48,765,469	19,154,142	47,293,654
50 bp parallel rise	-	(49,688,702)	(19,087,371)	(48,965,048)

The above tables demonstrate the effect of a change of value of fixed-income financial instruments in a key assumption for interest rate change, while other assumptions remain unchanged. In reality, there is a correlation between the factors, for which the assumption is made, and other factors not accounted for in the analysis. It should also be noted that these sensitivities are non-linear because of convexity of the curve the price – is yield to maturity, and larger or smaller impacts should not be interpolated or extrapolated from these results.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

39. RISK MANAGEMENT, CONTINUED**Market risk, continued***Interest rate risk, continued**Interest rate sensitivity analysis, continued*

The sensitivity analyses do not take into consideration that the National Bank's assets and liabilities are actively managed. Additionally, the financial position of the National Bank may vary at the time that any actual market movement occurs. For example, the National Bank's financial risk management strategy aims to manage the exposure to market fluctuations. In case of sharp negative fluctuations, management actions could include selling investments, changing investment portfolio allocation and taking other protective action, while maintaining all restrictions and limits provided for by Investment Strategy of Gold and Foreign Exchange Reserves of the National Bank and other safeguards against decrease in assets value. Consequently, a change in the assumptions may not have any actual impact on the liabilities and significant impact on the assets carried at market value in the consolidated statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in equity.

Currency risk

The National 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 National Bank does not hedge its exposure to currency risk.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

39. RISK MANAGEMENT, CONTINUED

Market risk, continued

Currency risk, continued

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

KZT'000	KZT	Gold	USD	EUR	JPY	SDR	GBP	Other	Total
ASSETS									
Cash on hand in foreign currency	-	-	106,803,197	1,046,308	7,214	-	46,900	48,161	107,951,780
Gold	-	5,530,034,976	-	-	-	-	-	-	5,530,034,976
Placements and loans with banks and other financial institutions	1,685,972,710	-	1,051,097,546	412,949,071	366,280,957	620,810,885	11,495,303	18,476,655	4,167,083,127
Financial instruments at fair value through profit or loss	-	-	233,014,769	111,643	196,415	-	14,536	636,205	233,973,568
Reverse repurchase agreements	222,653,522	-	-	-	-	-	-	-	222,653,522
Investment securities at fair value through other comprehensive income	1,177,411,604	-	2,973,561,720	303,068,043	56,892,823	-	181,621,418	305,291,266	4,997,846,874
Investment securities at amortised cost	489,878,658	-	116,707,166	-	-	-	-	76,019,323	682,605,147
Investments in associates	268,506	-	-	-	-	-	-	-	268,506
Other financial assets	934,789,777	-	-	1,299	-	-	-	-	934,791,076
Total assets	4,510,974,777	5,530,034,976	4,481,184,398	717,176,364	423,377,409	620,810,885	193,178,157	400,471,610	16,877,208,576

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

39. RISK MANAGEMENT, CONTINUED

Market risk, continued

Currency risk, continued

KZT'000	KZT	Gold	USD	EUR	JPY	SDR	GBP	Other	Total
LIABILITIES									
Currency in circulation	2,619,329,677	-	-	-	-	-	-	-	2,619,329,677
Due to banks and other financial institutions	1,142,815,065	-	3,679,361,557	341,685,205	192,955,085	513,086,627	3,292,191	314,821	5,873,510,551
Financial instruments at fair value through profit or loss	2,867,879	-	4,378,035	230,564	-	-	5,077	227,804	7,709,359
Repurchase agreements	135,827,043	-	-	-	-	-	-	-	135,827,043
Current accounts of the National Fund of the Republic of Kazakhstan	707,324,124	-	-	-	-	-	-	-	707,324,124
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	439,249,723	-	110,756	-	-	-	-	2,947,348	442,307,827
Customer accounts	199,177,350	-	109,526	56,335	-	-	30	1,943	199,345,184
Debt securities issued	4,113,400,912	-	-	-	-	-	-	-	4,113,400,912
Estimated liabilities	55,963,528	-	-	-	-	-	-	-	55,963,528
Other financial liabilities	50,920,985	-	2,376,356	390	-	-	-	-	53,297,731
Total liabilities	9,466,876,286	-	3,686,336,230	341,972,494	192,955,085	513,086,627	3,297,298	3,491,916	14,208,015,936
Net position	(4,955,901,509)	5,530,034,976	794,848,168	375,203,870	230,422,324	107,724,258	189,880,859	396,979,694	2,669,192,640
The effect of derivatives held for risk management	40,692,581	-	16,789,540	48,330,700	(119,534,973)	-	-	10,820,800	(2,901,352)
Net position after derivatives held for risk management purposes	(4,915,208,928)	5,530,034,976	811,637,708	423,534,570	110,887,351	107,724,258	189,880,859	407,800,494	2,666,291,288

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

39. RISK MANAGEMENT, CONTINUED

Market risk, continued

Currency risk, continued

The following table shows the currency structure of assets and liabilities at 31 December 2017:

KZT'000	KZT	Gold	USD	EUR	JPY	SDR	GBP	Other	Total
ASSETS									
Cash on hand in foreign currency	-	-	48,174,957	1,696,259	6,381	-	45,148	41,652	49,964,397
Gold	-	4,153,571,095	-	-	-	-	-	-	4,153,571,095
Placements and loans with banks and other financial institutions	1,413,093,646	-	1,103,790,995	142,732,913	129,910,372	547,712,960	6,849,036	9,610,489	3,353,700,411
Financial instruments at fair value through profit or loss	179,799	-	796,413,723	141,038,977	2,929,045	-	22,960,758	25,557,537	989,079,839
Reverse repurchase agreements	184,400,406	-	-	-	-	-	-	-	184,400,406
Available-for-sale financial assets	1,467,575,462	-	3,113,177,669	135,618,299	42,909,691	-	141,459,516	296,253,006	5,196,993,643
Held-to-maturity investments	40,148,494	-	104,460	-	-	-	-	-	40,252,954
Investments in associates	304,295	-	-	-	-	-	-	-	304,295
Other financial assets	14,071,275	-	-	432	-	-	-	-	14,071,707
Total assets	3,119,773,377	4,153,571,095	5,061,661,804	421,086,880	175,755,489	547,712,960	171,314,458	331,462,684	13,982,338,747

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

39. RISK MANAGEMENT, CONTINUED

Market risk, continued

Currency risk, continued

KZT'000	KZT	Gold	USD	EUR	JPY	SDR	GBP	Other	Total
LIABILITIES									
Currency in circulation	2,257,675,813	-	-	-	-	-	-	-	2,257,675,813
Due to banks and other financial institutions	821,948,240	-	3,454,529,264	62,780,557	32,451,409	453,360,632	2,798,404	856,685	4,828,725,191
Financial instruments at fair value through profit or loss	336,143	-	11,634	165,342	65,971	-	21,336	65,495	665,921
Repurchase agreements	295,484,490	-	-	-	-	-	-	-	295,484,490
Current accounts of the National Fund of the Republic of Kazakhstan	337,924,084	-	-	-	-	-	-	-	337,924,084
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	429,495,413	-	89,945	-	-	-	-	1,268,025	430,853,383
Customer accounts	306,626,947	-	352,111,622	144	-	-	-	1,396	658,740,109
Debt securities issued	3,209,726,402	-	-	-	-	-	-	-	3,209,726,402
Estimated liabilities	20,517,849	-	-	-	-	-	-	-	20,517,849
Other financial liabilities	3,769,858	-	1,180,501	-	-	-	-	-	4,950,359
Total liabilities	7,683,505,239	-	3,807,922,966	62,946,043	32,517,380	453,360,632	2,819,740	2,191,601	12,045,263,601
Net position	(4,563,731,862)	4,153,571,095	1,253,738,838	358,140,837	143,238,109	94,352,328	168,494,718	329,271,083	1,937,075,146
The effect of derivatives held for risk management	-	-	66,222,359	(1,492,857)	(76,126,874)	-	(441,835)	11,882,071	42,864
Net position after derivatives held for risk management purposes	(4,563,731,862)	4,153,571,095	1,319,961,197	356,647,980	67,111,235	94,352,328	168,052,883	341,153,154	1,937,118,010

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE
YEAR ENDED 31 DECEMBER 2018**

39. RISK MANAGEMENT, CONTINUED**Market risk, continued***Currency risk, continued*

Management of the National Bank believes that, as at 31 December 2018 given the current economic conditions in Kazakhstan, fluctuation of exchange rate by 20% is a realistic movement in KZT exchange rates against US Dollar. This is the sensitivity rate used in the National Bank when reporting foreign currency risk internally to key management personnel of the National Bank and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only amounts in foreign currency as of the end of the period and adjusts their translation for appreciation and depreciation in currency rates as at 31 December 2018.

A weakening of the KZT, as indicated below, against the following currencies at 31 December 2018 and 2017, would have increased (decreased) equity by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the National Bank considered to be reasonably possible at the end of the reporting period. The given level of sensitivity is used within the National Bank for preparation of report on currency risk for the key management of the National Bank. The analysis assumes that all other variables, in particular interest rates, remain constant.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE
YEAR ENDED 31 DECEMBER 2018

39. RISK MANAGEMENT, CONTINUED

Market risk, continued

Currency risk, continued

	Equity KZT'000 2018	Equity KZT'000 2017
	(+20% -20%)	(+20% -20%)
Appreciation of USD against KZT	162,327,542	263,992,239
Depreciation of USD against KZT	(162,327,542)	(263,992,239)
Appreciation of EUR against KZT	84,706,914	71,329,596
Depreciation of EUR against KZT	(84,706,914)	(71,329,596)
Appreciation of Troy ounce of gold against KZT	1,106,006,995	830,714,219
Depreciation of Troy ounce of gold against KZT	(1,106,006,995)	(830,714,219)
Appreciation of JPY against KZT	22,177,470	13,422,247
Depreciation of JPY against KZT	(22,177,470)	(13,422,247)
Appreciation of GBP against KZT	37,976,172	33,610,577
Depreciation of GBP against KZT	(37,976,172)	(33,610,577)
Appreciation of SDR against KZT	21,544,852	18,870,466
Depreciation of SDR against KZT	(21,544,852)	(18,870,466)
Appreciation of other currencies against KZT	81,560,099	68,230,631
Depreciation of other currencies against KZT	(81,560,099)	(68,230,631)

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

39. RISK MANAGEMENT, CONTINUED**Market risk, continued***Currency risk, continued**Limitations of sensitivity analysis*

The above tables demonstrate the effect of a change of value of fixed-income financial instruments in a key assumption for change in tenge exchange rate, while other assumptions remain unchanged. In reality, there is a correlation between the factors, for which the assumption is made, and other factors not accounted for in the analysis. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

Other limitations of the sensitivity analysis include application of hypothetical movements in the market with the purpose of disclosure of the potential risks, which represent only expectations of the National Bank of the future changes in the market which cannot be predicted with sufficient level of assurance. A further limitation is the assumption that all interest rates change identically.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Other price risk arises when the National Bank takes a long or short position in a financial instrument.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE
YEAR ENDED 31 DECEMBER 2018**

39. RISK MANAGEMENT, CONTINUED

Market risk, continued

Other price risk, continued

An analysis of sensitivity of profit or loss and equity to changes in securities prices based on positions existing as at 31 December 2018 and 2017 and a simplified scenario of a 10% change in all securities prices is as follows:

	2018		2017	
	Profit or loss KZT'000	Equity KZT'000	Profit or loss KZT'000	Equity KZT'000
10% increase in securities prices	22,677,483	76,524,444	2,332	80,598,004
10% decrease in securities prices	(22,677,483)	(76,524,444)	(2,332)	(80,598,004)

Credit risk

Credit risk is the risk of financial loss to the National Bank if a customer, issuer and/or counterparty to a financial instrument fails to meet its contractual obligations. The National Bank has policies and procedures for the management of credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration and implementing recommendations of the Investment Committee, and the Risk Committee, which are responsible for developing investment decisions and monitoring credit risk. The credit risk management policy is reviewed and approved by the Board.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

39 RISK MANAGEMENT, CONTINUED**Credit risk, continued**

The National Bank's credit risk management policy establishes:

- methodology for credit assessment calculation and determination of maximum limit on the National Bank's counterparties;
- procedures for ongoing monitoring and review of the risk limit of the National Bank's counterparties.

The Department of Monetary Operations, based on a financial performance and financial position ratios analysis with use of international rating agencies' data, prepares information about new counterparties proposed to be included in the list of approved counterparties of the National Bank. The Investment Committee approves a new counterparty on the basis of this report.

The Department of Monetary Operations of the National Bank conduct daily monitoring of compliance with limits imposed on each individual counterparty. In addition to individual counterparty analysis, the Department of Monetary Operations monitors compliance of the credit ratings of financial instruments with the established limits.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

39. RISK MANAGEMENT, CONTINUED

Credit risk, continued

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

	2018	2017
	KZT'000	KZT'000
ASSETS		
Gold	1,154,397,817	1,012,898,619
Placements and loans with banks and other financial institutions	4,167,083,127	3,353,700,411
Financial instruments at fair value through profit or loss	233,973,568	989,056,520
Reverse repurchase agreements	222,653,522	184,400,406
Investment securities at fair value through other comprehensive income	4,232,602,433	-
Available-for-sale financial assets	-	4,391,036,917
Investment securities measured at amortised cost	682,605,147	-
Held-to-maturity investments	-	40,252,954
Other financial assets	934,791,076	14,071,707
Total maximum exposure	11,628,106,690	9,985,417,534

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in Note 40.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

39. RISK MANAGEMENT, CONTINUED**Offsetting financial assets and financial liabilities**

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

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

Similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements and securities borrowing and lending agreements.

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

The National Bank's sale and repurchase, reverse sale and repurchase transactions, and securities borrowings and lendings are covered by global master repurchase agreement (ISMA) or subject to eligibility criteria for Kazakhstan Stock Exchange membership.

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

The National Bank provides and accepts collateral in the form of marketable securities in respect of the sales and repurchase agreements, reverse sale and repurchase agreements.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

39. RISK MANAGEMENT, CONTINUED

Offsetting financial assets and financial liabilities, continued

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2018:

KZT'000

Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability	Gross amount of recognised financial liability/asset offset in the consolidated statement of financial position	Net amount of financial assets/liabilities presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral received	
Placements and loans with banks and other financial institutions	737,323,249	-	737,323,249	(737,323,249)	-	-
Reverse repurchase agreements	222,653,522	-	222,653,522	(222,653,522)	-	-
Investment securities at FVOCI	134,048,963	-	134,048,963	(134,048,963)	-	-
Total financial assets	1,094,025,734	-	1,094,025,734	(1,094,025,734)	-	-
Due to banks and other financial institutions	(851,617,272)	-	(851,617,272)	737,323,249	-	(114,294,023)
Repurchase agreements	(135,827,043)	-	(135,827,043)	135,827,043	-	-
Total financial liabilities	(987,444,315)	-	(987,444,315)	873,150,292	-	(114,294,023)

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

39. RISK MANAGEMENT, CONTINUED

Offsetting financial assets and financial liabilities, continued

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2017:

KZT'000

Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability	Gross amount of recognised financial liability/asset offset in the consolidated statement of financial position	Net amount of financial assets/liabilities presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral received	
Placements and loans with banks and other financial institutions	1,135,054,632	-	1,135,054,632	(1,135,054,632)	-	-
Reverse repurchase agreements	184,400,406	-	184,400,406	(181,444,876)	-	2,955,530
Available-for-sale financial assets	296,876,815	-	296,876,815	(295,484,490)	-	1,392,325
Total financial assets	1,616,331,853	-	1,616,331,853	(1,611,983,998)	-	4,347,855
Due to banks and other financial institutions	(1,260,018,133)	-	(1,260,018,133)	1,135,054,632	-	(124,963,501)
Repurchase agreements	(295,484,490)	-	(295,484,490)	295,484,490	-	-
Total financial liabilities	(1,555,502,623)	-	(1,555,502,623)	1,430,539,122	-	(124,963,501)

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

39. RISK MANAGEMENT, CONTINUED

Offsetting financial assets and financial liabilities, continued

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

- assets and liabilities resulting from sale and repurchase agreements, reverse sale and repurchase agreements – amortised cost.

The table below reconciles the “Net amounts of financial assets and financial liabilities presented in the consolidated statement of financial position”, as set out above, to the line items presented in the consolidated statement of financial position as at 31 December 2018.

KZT'000

Types of financial assets/liabilities	Net amount	Line item in the consolidated statement of financial position	Carrying amount in the consolidated statement of financial position	Financial asset/liability not in the scope of offsetting disclosure	Note
Placements and loans with banks and other financial institutions	737,323,249	Placements and loans with banks and other financial institutions	4,167,083,127	3,429,759,878	21
Reverse repurchase agreements	222,653,522	Reverse repurchase agreements	222,653,522	-	23
Investment securities at FVOCI	134,048,963	Investment securities at FVOCI	4,997,846,874	4,863,797,911	24
Due to banks and other financial institutions	(851,617,272)	Due to banks and other financial institutions	(5,873,510,551)	(5,021,893,279)	29
Repurchase agreements	(135,827,043)	Repurchase agreements	(135,827,043)	-	30

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE
YEAR ENDED 31 DECEMBER 2018**

39. RISK MANAGEMENT, CONTINUED

Offsetting financial assets and financial liabilities, continued

The table below reconciles the “Net amounts of financial assets and financial liabilities presented in the consolidated statement of financial position”, as set out above, to the line items presented in the consolidated statement of financial position as at 31 December 2017.

KZT'000

Types of financial assets/liabilities	Net amount	Line item in the consolidated statement of financial position	Carrying amount in the consolidated statement of financial position	Financial asset/liability not in the scope of offsetting disclosure	Note
Placements and loans with banks and other financial institutions	1,135,054,632	Placements and loans with banks and other financial institutions	3,353,700,411	2,218,645,779	21
Reverse repurchase agreements	184,400,406	Reverse repurchase agreements	184,400,406	-	23
Available-for-sale financial assets	296,876,815	Available-for-sale financial assets	5,196,993,643	4,900,116,828	24
Deposits and balances from banks and other financial institutions	(1,260,018,133)	Deposits and balances from banks and other financial institutions	(4,828,725,191)	(3,568,707,058)	29
Repurchase agreements	(295,484,490)	Repurchase agreements	(295,484,490)	-	30

Liquidity risk

Liquidity risk is the risk that the National Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash. 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.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

39. RISK MANAGEMENT, CONTINUED**Liquidity risk, continued**

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

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

Since the National Bank carries out the issue of national currency, the default risk on fulfilment its obligations in national currency is minimal, and the liquidity risk is more applicable for obligations denominated in foreign currency.

The National Bank's 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;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow (the "liquidity portfolio");
- maintaining liquidity and funding contingency plans;
- monitoring liquidity ratios against regulatory requirements.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

39. RISK MANAGEMENT, CONTINUED**Liquidity risk, continued**

The Department of Monetary Operations based on information of the asset and liability liquidity performs analysis of the liquidity position. Afterwards, the Department of Monetary Operations maintains the liquidity level by purchasing highly liquid assets. To meet liquidity management goals the liquidity portfolio is invested to assets that can be sold at market price as soon as it possible if required.

According to the Investment Strategy of Gold and Foreign Exchange Reserves, the liquidity portfolio has to comply with the following parameters:

- duration of the liquidity portfolio should not exceed 1 year;
- base currency of the liquidity portfolio is USD;
- volume of liquidity portfolio should not fall below USD 1 billion inclusive of current liabilities with maturities of less than 5 (five) working days;
- volume of liquidity portfolio should not be less than the volume of payments on state external debt service for the next 6 months. This limitation is checked once in a calendar quarter (on the tenth working day of each quarter).

If the market value of the liquidity portfolio does not comply with the given parameters, it is replenished within fifteen working days after the observance of non-compliance.

The assets of the liquidity portfolio can be invested in cash currency, state (sovereign) debt securities of countries with credit rating not lower than A- (Standard & Poor's) and/or A3 (Moody's), agency debt securities, debt securities of international financial institutions with credit rating not less than AAA (Standard & Poor's) and/or Aaa (Moody's), certificates of deposit (CD), commercial paper (CP) with short-term credit rating not lower than A-1 (Standard & Poor's) or P-1 (Moody's). The maximum term for the deposit should not exceed one month.

The following tables show the undiscounted cash flows on financial liabilities on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liabilities.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

39. RISK MANAGEMENT, CONTINUED

Liquidity risk, continued

The maturity analysis for financial liabilities as at 31 December 2018 is as follows:

KZT'000	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	No maturity	Total gross amount inflow (outflow)	Carrying amount
Non-derivative liabilities								
Deposits and balances from banks and other financial institutions	4,018,892,395	491,960,016	-	836,454,549	15,162,723	513,460,723	5,875,930,406	5,873,510,551
Repurchase agreements	135,888,403	-	-	-	-	-	135,888,403	135,827,043
Current accounts of the National Fund of the Republic of Kazakhstan	707,324,124	-	-	-	-	-	707,324,124	707,324,124
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	442,307,827	-	-	-	-	-	442,307,827	442,307,827
Customer accounts	199,345,184	-	-	-	-	-	199,345,184	199,345,184
Debt securities issued	2,795,229,356	396,882,747	469,319,405	506,118,086	-	-	4,167,549,594	4,113,400,912
Provisions	55,963,528	-	-	-	-	-	55,963,528	55,963,528
Other financial liabilities	53,297,731	-	-	-	-	-	53,297,731	53,297,731
Derivative liabilities								
- Inflow	(99,317,442)	(130,143,926)	-	-	-	-	(229,461,368)	-
- Outflow	100,563,831	110,624,826	-	-	-	-	211,188,657	7,709,359
Total liabilities	8,409,494,937	869,323,663	469,319,405	1,342,572,635	15,162,723	513,460,723	11,619,334,086	11,588,686,259
Credit related commitments	219,611,313	-	-	-	-	-	219,611,313	219,611,313

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

39. RISK MANAGEMENT, CONTINUED

Liquidity risk, continued

The maturity analysis for financial liabilities as at 31 December 2017 is as follows:

KZT'000	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	No maturity	Total gross amount inflow (outflow)	Carrying amount
Non-derivative liabilities								
Deposits and balances from banks and other financial institutions	3,115,091,729	1,661,650	108,849,081	1,040,392,404	109,314,501	453,689,365	4,828,998,730	4,828,725,191
Repurchase agreements	295,634,143	-	-	-	-	-	295,634,143	295,484,490
Current accounts of the National Fund of the Republic of Kazakhstan	337,924,084	-	-	-	-	-	337,924,084	337,924,084
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	430,853,383	-	-	-	-	-	430,853,383	430,853,383
Customer accounts	658,740,109	-	-	-	-	-	658,740,109	658,740,109
Debt securities issued	1,743,708,455	301,938,214	387,819,614	856,488,704	-	-	3,289,954,987	3,209,726,402
Provisions	20,517,849	-	-	-	-	-	20,517,849	20,517,849
Other financial liabilities	4,950,359	-	-	-	-	-	4,950,359	4,950,359
Derivative liabilities								
- Inflow	(59,860,992)	(67,987,665)	-	-	-	-	(127,848,657)	-
- Outflow	60,149,884	63,517,724	-	-	-	-	123,667,608	665,921
Total liabilities	6,607,709,003	299,129,923	496,668,695	1,896,881,108	109,314,501	453,689,365	9,863,392,595	9,787,587,788
Credit related commitments	114,236,127	-	-	-	-	-	114,236,127	114,236,127

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE
YEAR ENDED 31 DECEMBER 2018**

39. RISK MANAGEMENT, CONTINUED**Liquidity risk, continued**

Management expects that the cash flows from certain financial 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.

The gross nominal inflow/(outflow) disclosed in the tables above represent the contractual undiscounted cash flows relating to derivative financial liabilities held for risk management purposes. The disclosure shows a net amount for derivatives that are net settled, but a gross inflow and outflow amount for derivative liabilities that have simultaneous gross settlement (e.g., forward exchange contracts and currency swaps).

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

39. RISK MANAGEMENT, CONTINUED

Liquidity risk, continued

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

KZT'000	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
ASSETS							
Cash on hand in foreign currency	107,951,780	-	-	-	-	-	107,951,780
Gold	713,529,271	105,748,475	336,070,833	-	-	4,374,686,397	5,530,034,976
Placements and loans with banks and other financial institutions	2,479,071,849	10,081,193	976,332,722	10,550,388	691,046,975	-	4,167,083,127
Financial instruments at fair value through profit or loss	4,207,481	2,991,261	-	-	-	226,774,826	233,973,568
Reverse repurchase agreements	49,171,502	162,030,520	11,451,500	-	-	-	222,653,522
Investment securities at fair value through other comprehensive income	83,456,085	109,968,039	1,242,629,586	2,150,490,628	646,058,095	765,244,441	4,997,846,874
Investment securities measured at amortised cost	42,600,862	10,427,132	130,234,225	270,256,047	229,086,881	-	682,605,147
Investments in associates	-	-	-	-	-	268,506	268,506
Other financial assets	897,500,966	160	2,355	347,785	36,939,810	-	934,791,076
Total assets	4,377,489,796	401,246,780	2,696,721,221	2,431,644,848	1,603,131,761	5,366,974,170	16,877,208,576

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

39. RISK MANAGEMENT, CONTINUED

Liquidity risk, continued

KZT'000	<u>Demand and less than 1 month</u>	<u>From 1 to 3 months</u>	<u>From 3 to 12 months</u>	<u>From 1 to 5 years</u>	<u>More than 5 years</u>	<u>No maturity</u>	<u>Total</u>
LIABILITIES							
Currency in circulation	-	-	-	-	-	2,619,329,677	2,619,329,677
Deposits and balances from banks and other financial institutions	4,018,415,632	490,016,924	836,454,549	15,162,723	-	513,460,723	5,873,510,551
Financial instruments at fair value through profit or loss	5,355,029	2,354,330	-	-	-	-	7,709,359
Repurchase agreements	135,827,043	-	-	-	-	-	135,827,043
Current accounts of the National Fund of the Republic of Kazakhstan	707,324,124	-	-	-	-	-	707,324,124
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	442,307,827	-	-	-	-	-	442,307,827
Customer accounts	199,345,184	-	-	-	-	-	199,345,184
Debt securities issued	2,790,409,558	391,502,158	931,489,196	-	-	-	4,113,400,912
Estimated liabilities	55,963,528	-	-	-	-	-	55,963,528
Other financial liabilities	53,297,731	-	-	-	-	-	53,297,731
Total liabilities	8,408,245,656	883,873,412	1,767,943,745	15,162,723	-	3,132,790,400	14,208,015,936
Net position	(4,030,755,860)	(482,626,632)	928,777,476	2,416,482,125	1,603,131,761	2,234,183,770	2,669,192,640

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

39. RISK MANAGEMENT, CONTINUED

Liquidity risk, continued

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

KZT*000	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
ASSETS							
Cash on hand in foreign currency	49,964,397	-	-	-	-	-	49,964,397
Gold	489,317,913	356,737,319	166,843,386	-	-	3,140,672,477	4,153,571,095
Placements and loans with banks and other financial institutions	1,989,759,575	28,205,162	1,073,448,306	68,853,910	193,433,458	-	3,353,700,411
Financial instruments at fair value through profit or loss	3,585,317	6,156,516	15,824,367	656,224,610	307,265,711	23,318	989,079,839
Reverse repurchase agreements	48,042,929	126,150,329	10,207,148	-	-	-	184,400,406
Available-for-sale financial assets	39,478,247	465,340,210	1,860,456,701	1,743,904,031	217,616,371	870,198,083	5,196,993,643
Held-to-maturity investments	-	-	263,777	1,809,201	38,179,976	-	40,252,954
Investments in associates	-	-	-	-	-	304,295	304,295
Other financial assets	12,526,526	101	1,153	132,043	1,411,884	-	14,071,707
Total assets	2,632,674,904	982,589,637	3,127,044,838	2,470,923,795	757,907,400	4,011,198,173	13,982,338,747

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

39. RISK MANAGEMENT, CONTINUED

Liquidity risk, continued

KZT'000	<u>Demand and less than 1 month</u>	<u>From 1 to 3 months</u>	<u>From 3 to 12 months</u>	<u>From 1 to 5 years</u>	<u>More than 5 years</u>	<u>No maturity</u>	<u>Total</u>
LIABILITIES							
Currency in circulation	-	-	-	-	-	2,257,675,813	2,257,675,813
Deposits and balances from banks and other financial institutions	3,114,818,190	1,661,650	1,149,241,485	109,314,501	-	453,689,365	4,828,725,191
Financial instruments at fair value through profit or loss	485,823	180,098	-	-	-	-	665,921
Repurchase agreements	295,484,490	-	-	-	-	-	295,484,490
Current accounts of the National Fund of the Republic of Kazakhstan	337,924,084	-	-	-	-	-	337,924,084
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	430,853,383	-	-	-	-	-	430,853,383
Customer accounts	658,740,109	-	-	-	-	-	658,740,109
Debt securities issued	1,738,874,764	297,454,552	1,173,397,086	-	-	-	3,209,726,402
Estimated liabilities	20,517,849	-	-	-	-	-	20,517,849
Other financial liabilities	4,950,359	-	-	-	-	-	4,950,359
Total liabilities	6,602,649,051	299,296,300	2,322,638,571	109,314,501	-	2,711,365,178	12,045,263,601
Net position	(3,969,974,147)	683,293,337	804,406,267	2,361,609,294	757,907,400	1,299,832,995	1,937,075,146

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

40. CREDIT RELATED COMMITMENTS

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

The National 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 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.

	2018	2017
	KZT'000	KZT'000
Contracted amount		
Investment commitments	214,376,060	109,747,213
Loan and credit line commitments	5,223,253	4,476,914
Guarantees and letters of credit	12,000	12,000
	<u>219,611,313</u>	<u>114,236,127</u>

NIC NBK JSC implements the program of investments in alternative classes of assets through a special purpose vehicles and/or special purpose partnerships. As at 31 December 2018, they have payment liabilities of KZT 214,376,060 thousand (2017: KZT 109,747,213 thousand) to private equity and real estate funds. These confirmed liabilities can be changed.

The total outstanding contractual commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

41. CONTINGENCIES**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 National Bank does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on the National Bank's property or relating to the National Bank's operations. Until the National Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the National Bank's operations and financial position.

Litigation

The National Bank management is unaware of any significant actual, pending or threatened claims against the National Bank.

Taxation contingencies

The taxation system in the Republic of 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 a number of authorities who have the authority to impose severe fines, penalties 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.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

41. CONTINGENCIES, CONTINUED**Taxation contingencies, continued**

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

42. FUNDS MANAGEMENT, TRUST AND CUSTODY ACTIVITIES**Funds management and trust activities**

The National Bank provides trust and asset management services to trust companies, retirement benefit plans and other institutions, whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer.

The National Bank receives fee income for providing these services. Trust assets are not assets of the National Bank and are not recognised in the consolidated statement of financial position. The National Bank is not exposed to any credit risk related to such placements, as it does not guarantee these investments.

As at 31 December 2018, the total amount of assets that the National Bank holds and manages for outside organisations is KZT 2,886,276,152 thousand (31 December 2017: KZT 2,178,872,152 thousand).

As at 31 December 2018, the total amount of assets that the National Bank holds and manages for the National Fund is KZT 23,673,840,860 thousand (31 December 2017: KZT 20,512,113,722 thousand). A portion of these funds is managed by external managers in accordance with the investment policies set by the NBK.

Custody activities

During 2018 and 2017, the National Bank provided custody services to “UNPF” JSC. As at 31 December 2018, the total amount of assets of UNPF JSC under the custodial service of the National Bank equals KZT 9,378,030,700 thousand (31 December 2017: KZT 7,774,823,078 thousand).

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

42. FUNDS MANAGEMENT, TRUST AND CUSTODY ACTIVITIES, CONTINUED**Assets of depositors**

On 26 November 2012 the NBK acquired shares of “Central Securities Depository” JSC (the “Central Depository”), which performs the accounting of financial instruments and money of their clients. Accounting for financial instruments and money of the Central Depository’s clients is performed separately from its own financial instruments and money on off balance sheet accounts.

As at 31 December 2018, the total amount of financial instruments and money in nominal holding and bank accounts of depositors in the Central Depository is KZT 26,993,916,588 thousand (31 December 2017: KZT 20,925,990,921 thousand).

43. RELATED PARTY TRANSACTIONS**Transactions with members of the Board of Directors and the Management Board**

The remuneration to the members of the National Bank’s Management Board and the Board of Directors for the year ended 31 December 2018, comprised KZT 823,237 thousand (2017: KZT 709,932 thousand). The remuneration consists of salary and other payments.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

43. RELATED PARTY TRANSACTIONS, CONTINUED

Transactions with other related parties

The outstanding balances and the related average interest rates as at 31 December 2018 and 31 December 2017 and related profit or loss amounts of transactions for the years then ended with other related parties are as follows:

	State companies and organisations			
	31 December 2018		31 December 2017	
	KZT'000	Average effective interest rate, %	KZT'000	Average effective interest rate, %
Consolidated statement of financial position				
ASSETS				
Placements and loans with banks and other financial institutions	387,611,975	11.54	98,506,962	1.86
Financial instruments at fair value through profit or loss	1,418,200	-	-	-
Investment securities at fair value through other comprehensive income:				
Equity securities	750,000,000	-	-	-
Debt securities	427,390,550	7.69	-	-
Available-for-sale financial assets			1,363,031,537	6.24
Investment securities measured at amortised cost	381,763,989	6.10	-	-
Held-to-maturity investments	-	-	38,818,456	7.57
Current tax asset	1,181,113	-	1,878,261	-
Deferred tax assets	114,394,028	-	86,166,315	-
Other assets	6,516,730	-	6,533,489	-

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

43. RELATED PARTY TRANSACTIONS, CONTINUED

Transactions with other related parties, continued

	State companies and organisations			
	31 December 2018		31 December 2017	
	KZT'000	Average effective interest rate, %	KZT'000	Average effective interest rate, %
LIABILITIES				
Deposits and balances from banks and other financial institutions	893,231,111	4.29	422,510,714	4.46
Current accounts of the National Fund of the Republic of Kazakhstan	707,324,124	-	337,924,084	-
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	442,307,827	-	430,853,383	-
Customer accounts	198,455,074	-	326,366,037	-
Current tax liability	2,236,232	-	-	-
Deferred tax liabilities	2,409,482	-	2,360,203	-
Other liabilities	1,095,771	-	640.119	-

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE
YEAR ENDED 31 DECEMBER 2018**

43. RELATED PARTY TRANSACTIONS, CONTINUED

Transactions with other related parties, continued

	State companies and organisations			
	31 December 2018		31 December 2017	
	KZT'000	Average effective interest rate, %	KZT'000	Average effective interest rate, %
Consolidated statement of profit or loss				
Interest income calculated using the effective interest method	30,590,199	-	44,297,425	-
Interest expense	(16,987,376)	-	(3,973,758)	-
Fee and commission income	15,894,655	-	26,357,716	-
Fee and commission expenses	(875,070)	-	(826,367)	-
Net gain on financial instruments at fair value through profit or loss	3,595,213	-	949,854	-
Other operating income, net	1,335,503	-	2,761,258	-
Banknotes and coins production expenses	(39,995)	-	(44,085)	-
Funding of third parties	(53,257)	-	(149,432)	-
Personnel expenses	(1,521,972)	-	(1,617,587)	-
Other general and administrative expenses	(2,096,601)	-	(3,465,469)	-
Income tax benefit	23,908,748	-	83,628,931	-

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

44. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS

Accounting classifications and fair values

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

KZT'000	Designated at fair value	FVOCI (debt)	FVOCI (equity)	Other amortised cost	Total carrying amount	Fair value
Cash on hand in foreign currency	-	-	-	107,951,780	107,951,780	107,951,780
Gold*	5,530,034,976	-	-	-	5,530,034,976	5,530,034,976
Placements and loans with banks and other financial institutions	-	-	-	3,429,759,878	3,429,759,878	3,429,759,878
Financial instruments at fair value through profit or loss	233,973,568	-	-	-	233,973,568	233,973,568
Reverse repurchase agreements	-	-	-	222,653,522	222,653,522	231,752,152
Investment securities at fair value through other comprehensive income	-	4,232,602,433	15,244,441	-	4,247,846,874	4,247,846,874
Investment securities measured at amortised cost	-	-	-	682,605,147	682,605,147	656,052,743
Other financial assets	-	-	-	934,791,076	934,791,076	934,791,076
	5,764,008,544	4,232,602,433	15,244,441	5,377,761,403	15,389,616,821	15,372,163,047
Currency in circulation	-	-	-	2,619,329,677	2,619,329,677	2,619,329,677
Deposits and balances from banks and other financial institutions	-	-	-	5,021,893,279	5,021,893,279	5,021,893,279
Financial instruments at FVTPL	7,709,359	-	-	-	7,709,359	7,709,359
Repurchase agreements	-	-	-	135,827,043	135,827,043	134,048,963
Current accounts of the National Fund of the Republic of Kazakhstan	-	-	-	707,324,124	707,324,124	707,324,124
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	-	-	-	442,307,827	442,307,827	442,307,827
Customer accounts	-	-	-	199,345,184	199,345,184	199,345,184
Debt securities issued	-	-	-	4,113,400,912	4,109,840,912	4,109,840,111
Estimated liabilities	-	-	-	55,963,528	55,963,528	55,963,528
Other financial liabilities	-	-	-	53,297,731	53,297,731	53,297,731
	7,709,359	-	-	13,348,689,305	13,356,398,664	13,351,059,783

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

44. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS, CONTINUED

Accounting classifications and fair values, continued

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

	Designated at fair value	Amortised cost	Loans and receivables	FVOCI	Other amortised cost	Total carrying amount	Fair value
KZT'000							
Cash on hand in foreign currency	-	-	49,964,397	-	-	49,964,397	49,964,397
Gold*	4,153,571,095	-	-	-	-	4,153,571,095	4,153,571,095
Placements and loans with banks and other financial institutions	-	-	2,218,645,779	-	-	2,218,645,779	2,218,645,779
Financial instruments at fair value through profit or loss	989,079,839	-	-	-	-	989,079,839	989,079,839
Reverse repurchase agreements	-	-	184,400,406	-	-	184,400,406	181,444,876
Available-for-sale financial assets	-	-	-	4,446,993,643	-	4,446,993,643	4,446,993,643
Held-to-maturity investments	-	40,252,954	-	-	-	40,252,954	30,693,395
Other financial assets	-	-	14,071,707	-	-	14,071,707	14,071,707
	5,142,650,934	40,252,954	2,467,082,289	4,446,993,643	-	12,096,979,820	12,084,464,731
Currency in circulation	-	-	-	-	2,257,675,813	2,257,675,813	2,257,675,813
Deposits and balances from banks and other financial institutions	-	-	-	-	3,568,707,058	3,568,707,058	3,568,707,058
Financial instruments at FVTPL	665,921	-	-	-	-	665,921	665,921
Repurchase agreements	-	-	-	-	295,484,490	295,484,490	296,876,815
Current accounts of the National Fund of the Republic of Kazakhstan	-	-	-	-	337,924,084	337,924,084	337,924,084
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	-	-	-	-	430,853,383	430,853,383	430,853,383
Customer accounts	-	-	-	-	658,740,109	658,740,109	658,740,109
Debt securities issued	-	-	-	-	3,209,726,402	3,209,726,402	3,209,726,402
Estimated liabilities	-	-	-	-	20,517,849	20,517,849	20,517,849
Other financial liabilities	-	-	-	-	4,950,359	4,950,359	4,950,359
	665,921	-	-	-	10,784,579,547	10,785,245,468	10,786,637,793

* Accounting policy for gold is disclosed in Note 2.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

44. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS, CONTINUED**Accounting classifications and fair values, continued**

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 National Bank determines fair values using other valuation techniques.

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

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

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

44. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS, CONTINUED**Accounting classifications and fair values, continued**

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

As at 31 December 2018 and 2017, fair value of investments in hedge funds and private equity funds is based on net assets value provided by Independent Administrator and/or Managing Director.

As disclosed in Note 24, the fair value of unquoted equity securities measured through other comprehensive income with a carrying value of KZT 750,000,000 thousand (2017: KZT 750,000,000 thousand) cannot be determined.

Fair value of swap deals was not determined as they were accounted for not as derivatives but as “account, loans and deposits with banks and other financial institutions” and “deposits and balances from banks and other financial institutions” (Notes 21 and 29) and were measured at their nominal value in accordance with the Basis of Accounting (Note 2). As at 31 December 2018 an asset part of swap deals is KZT 737,323,249 thousand (31 December 2017: KZT 1,135,054,632 thousand), while a liability part of swap deals as at 31 December 2018 is KZT 851,617,272 thousand (31 December 2017: KZT 1,260,018,133 thousand).

Fair value hierarchy

The National 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;

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

44. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS, CONTINUED

Fair value hierarchy, continued

- 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 difference between the instruments.

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

31 December 2018

KZT'000	Level 1	Level 2	Level 3	Total
Gold	5,530,034,976	-	-	5,530,034,976
Financial instruments at fair value through profit or loss				
- Derivative assets	3,857,629	3,341,113	-	7,198,742
- Equity investments		105,935,646	120,839,180	226,774,826
- Derivative liabilities	(1,391,228)	(6,318,131)	-	(7,709,359)
Investment securities at fair value through other comprehensive income				
- Debt and other fixed income instruments	3,804,523,671	428,078,762	-	4,232,602,433
- Equity investments	15,223,387	21,054	-	15,244,441
	9,352,248,435	531,058,444	120,839,180	10,004,146,059

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE
YEAR ENDED 31 DECEMBER 2018

44. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND
ACCOUNTING CLASSIFICATIONS, CONTINUED

Fair value hierarchy, continued

31 December 2017

KZT'000	Level 1	Level 2	Level 3	Total
Gold	4,153,571,095	-	-	4,153,571,095
Financial instruments at fair value through profit or loss				
- Measured at fair value	988,415,526	-	-	988,415,526
- Derivative assets	277,520	386,793	-	664,313
- Derivative liabilities	(329,778)	(336,143)	-	(665,921)
Available-for-sale financial assets				
- Debt and other fixed income instruments	3,672,938,375	718,098,542	-	4,391,036,917
- Equity investments	-	79,854	55,876,872	55,956,726
	8,814,872,738	718,229,046	55,876,872	9,588,978,656

The table below analyses financial instruments categorised to Level 3 in the fair value hierarchy as at 31 December 2018 and 31 December 2017.

	2018 KZT'000	2017 KZT'000
Fair value at the beginning of the year	55,876,872	22,018,658
Deposits	49,571,050	32,775,794
Payments	(11,614,255)	(3,720,785)
Gain through profit or loss	12,281,726	3,991,703
Currency translation on foreign operations	14,723,787	811,502
Fair value at the end of the year	120,839,180	55,876,872

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE
YEAR ENDED 31 DECEMBER 2018**

**44. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND
ACCOUNTING CLASSIFICATIONS, CONTINUED**

Fair value hierarchy, continued

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

KZT'000	Level 1	Level 2	Total fair values	Total carrying amount
ASSETS				
Cash on hand in foreign currency	-	107,951,780	107,951,780	107,951,780
Placements and loans with banks and other financial institutions	-	3,429,759,878	3,429,759,878	3,429,759,878
Reverse repurchase agreements	-	231,752,152	231,752,152	222,653,522
Investment securities measured at amortised cost	299,421,386	356,631,357	656,052,743	682,605,147
Other financial assets	-	934,791,076	934,791,076	934,791,076
LIABILITIES				
Currency in circulation	-	2,619,329,677	2,619,329,677	2,619,329,677
Deposits and balances from banks and other financial institutions	-	5,021,893,279	5,021,893,279	5,021,893,279
Repurchase agreements	-	134,048,963	134,048,963	135,827,043
Current accounts of the National Fund of the Republic of Kazakhstan	-	707,324,124	707,324,124	707,324,124
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	-	442,307,827	442,307,827	442,307,827
Customer accounts	-	199,345,184	199,345,184	199,345,184
Debt securities issued	-	4,109,840,111	4,109,840,111	4,113,400,912
Estimated liabilities	-	55,963,528	55,963,528	55,963,528
Other financial liabilities	-	53,297,731	53,297,731	53,297,731

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

44. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS, CONTINUED

Fair value hierarchy, continued

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

KZT'000	Level 1	Level 2	Total fair values	Total carrying amount
ASSETS				
Cash on hand in foreign currency	-	49,964,397	49,964,397	49,964,397
Placements and loans with banks and other financial institutions	-	2,218,645,779	2,218,645,779	2,218,645,779
Reverse repurchase agreements	-	181,444,876	181,444,876	184,400,406
Held-to-maturity investments	-	30,693,395	30,693,395	40,252,954
Other financial assets	-	14,071,707	14,071,707	14,071,707
LIABILITIES				
Currency in circulation	-	2,257,675,813	2,257,675,813	2,257,675,813
Deposits and balances from banks and other financial institutions	-	3,568,707,058	3,568,707,058	3,568,707,058
Repurchase agreements	-	296,876,815	296,876,815	295,484,490
Current accounts of the National Fund of the Republic of Kazakhstan	-	337,924,084	337,924,084	337,924,084
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	-	430,853,383	430,853,383	430,853,383
Customer accounts	-	658,740,109	658,740,109	658,740,109
Debt securities issued	-	3,209,726,402	3,209,726,402	3,209,726,402
Estimated liabilities	-	20,517,849	20,517,849	20,517,849
Other financial liabilities	-	4,950,359	4,950,359	4,950,359