

**NATIONAL BANK
OF THE REPUBLIC OF
KAZAKHSTAN**

**CONSOLIDATED FINANCIAL
STATEMENTS**

**FOR THE YEAR ENDED
31 DECEMBER 2019**

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

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STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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 2019, 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 of the Company shall be 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
- detecting and preventing and detecting fraud, errors and other irregularities.

The consolidated financial statements for the year ended 31 December 2019 were authorised for issuance by the National Bank’s Management Board on 6 April 2020.

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

E.A. Dossaev

Governor

6 April 2020

Almaty, Kazakhstan

S.K. Rakhmetova

Chief Accountant

6 April 2020

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 2019, 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 first paragraph of the Basis for Qualified Opinion section of our report, and except for the possible effects of the matter described in the second paragraph of the Basis for Qualified Opinion section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the National Bank as at 31 December 2019, 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 2019 and 31 December 2018 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

«КПМГ Аудит» ЖШС, Қазақстанда тіркелген; Швейцария заңнамасы бойынша тіркелген KPMG International Cooperative (“KPMG International”) қауымдастығына кіретін KPMG тәуелсіз фирмалар желісінің мүшесі.

KPMG Audit LLC, a company incorporated under the Laws of the Republic of Kazakhstan, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity.



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the Basis of Preparation on investment securities at fair value through other comprehensive income, comprehensive income, retained earnings and reserve for changes in fair value of financial assets as at and for the years ended 31 December 2019 and 31 December 2018 have not been determined.

In 2019 the subsidiary of the National Bank of the Republic of Kazakhstan, Kazakhstan Sustainability Fund JSC (the “KSF JSC”), acquired bonds issued by the Fund of Problem Loan JSC (the “FPL bonds”) for the amount of KZT 614,086,276 thousand. As at 31 December 2019, the “Placements and loans with banks and other financial institutions” caption of the consolidated statement of financial position includes the FPL bonds with a carrying amount of KZT 475,138,798 thousand. We were unable to obtain sufficient appropriate audit evidence regarding the fair value of FPL bonds at the date of initial recognition of tranches acquired in 2019, and their carrying amount as at 31 December 2019 as we were not provided with sufficient information on the financial position of FPL as at the acquisition date and reporting date, respectively. Accordingly, we were unable to determine whether adjustments are required in respect of a carrying amount of FPL bonds and respective deferred tax assets as at 31 December 2019, expenses on rehabilitation of the banking sector, interest income calculated using the effective interest rate method, expenses on expected credit losses, income tax expense for the year ended 31 December 2019 and respective notes to the consolidated financial statements. As disclosed in Note 19 to the consolidated financial statements, in 2020 the management of KSF JSC expects to obtain more detailed information about financial position of FPL for confirmation of the carrying value of FPL bonds.

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 Code of Ethics for Professional Accountants (including International Independence Standards) 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 International Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.



Key Audit Matter

Key audit matters are those matters that, in our professional judgment, 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 matter described below to be the key audit matters to be communicated in our report.

Recognition of expenses on rehabilitation of the banking sector

Key audit matter

How the matter was addressed in our audit

Refer to Note 10 to the consolidated financial statements.

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.

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.

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

We have analysed the economic substance of transactions performed and recognition and disclosure thereof in the consolidated financial statements.

We have assessed 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, except for FPL bonds, 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.

We determined whether the consolidated financial statements



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recognised in the consolidated statement of financial position as interbank loans.

disclosures appropriately reflect the key judgments related to initial recognition of the purchased bonds, except for FPL bonds, including those judgments related to assessment of fair value upon initiation recognition.

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 2019 (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 qualified 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.

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



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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 judgment 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 concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may



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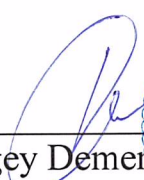
The engagement partner on the audit resulting in this independent auditors' report is:




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

KPMG Audit LLC

State License 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

6 April 2020

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 KZT'000	2018 KZT'000
Interest income calculated using the effective interest method	5	297,980,885	203,791,814
Interest expense	5	(413,937,514)	(380,589,570)
Net interest loss		(115,956,629)	(176,797,756)
Fee and commission income	6	26,309,041	21,174,702
Fee and commission expense	7	(7,257,061)	(4,002,690)
Net fee and commission income		19,051,980	17,172,012
Net gain on financial instruments at fair value through profit or loss	8	131,701,101	72,824,567
Net gain (loss) on investment securities at fair value through other comprehensive income	9	33,229,717	(11,712,700)
Share of loss of associates		(5,032)	(85,659)
Expenses on rehabilitation of the banking sector	10	(723,769,952)	(102,377,515)
Other operating income, net	11	572,094	55,606,794
Operating expenses		(655,176,721)	(145,370,257)
(Charge) recovery for expected credit losses	12	(128,324,541)	15,917,321
Provisions for estimated liabilities	33	(14,714,034)	(35,445,680)
Banknotes and coins production expenses	13	(5,311,454)	(2,692,080)
Funding of third parties		-	(53,257)
Personnel expenses	14	(29,355,016)	(28,714,526)

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 KZT'000	2018 KZT'000
Depreciation and amortisation		(3,748,942)	(3,362,961)
Other general and administrative expenses	15	(17,210,915)	(11,891,739)
Loss before income tax		(853,841,623)	(211,613,179)
Income tax benefit	16	135,410,044	23,908,748
Loss for the year		(718,431,579)	(187,704,431)
(Loss)/income attributable to:			
- Equity holders of the National Bank		(718,608,185)	(188,326,091)
- Non-controlling interests		176,606	621,660
Loss for the year		(718,431,579)	(187,704,431)

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

E.A. Dossaev
Governor

S.K. Rakhmetova
Chief Accountant

6 April 2020
Almaty, Kazakhstan

6 April 2020
Almaty, Kazakhstan

The notes on pages 24-169 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 2019**

	2019	2018
	KZT'000	KZT'000
Loss for the year	(718,431,579)	(187,704,431)
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	77,909,018	(18,875,589)
- Net change in fair value transferred to profit or loss	(29,687,083)	15,307,913
<i>Total items that are or may be reclassified subsequently to profit or loss</i>	<i>48,221,935</i>	<i>(3,567,676)</i>
<i>Items that will not be reclassified to profit or loss:</i>		
Movement in fair value reserve (equity instruments)	3,809,564	(2,102,423)
Foreign currency revaluation reserve	(15,376,528)	360,790,653
Precious metals revaluation reserve	1,117,170,963	664,982,340
<i>Total items that will not be reclassified to profit or loss</i>	<i>1,105,603,999</i>	<i>1,023,670,570</i>
Other comprehensive income for the year, net of income tax	1,153,825,934	1,020,102,894
Total comprehensive income for the year	435,394,355	832,398,463
Total comprehensive income attributable to:		
- Equity holders of the National Bank	435,217,749	831,776,825
- Non-controlling interests	176,606	621,638
Total comprehensive income for the year	435,394,355	832,398,463

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

E.A. Dossaev
Governor

6 April 2020
Almaty, Kazakhstan

S.K. Rakhmetova
Chief Accountant

6 April 2020
Almaty, Kazakhstan

The notes on pages 23-169 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 2019

	Note	2019 KZT'000	2018 KZT'000
ASSETS			
Cash on hand in foreign currency	17	113,367,726	107,951,780
Gold	18	7,230,140,962	5,530,034,976
Placements and loans with banks and other financial institutions	19	2,625,632,201	4,167,083,127
Financial instruments under management at fair value through profit or loss	20	367,833,190	233,973,568
Reverse repurchase agreements	21	145,868,206	222,653,522
Investment securities at fair value through other comprehensive income			
- Pledge under sale and repurchase agreements	22	27,284,433	134,048,963
- Not pledged under sale and repurchase agreements	22	3,249,968,794	4,863,797,911
Investment securities measured at amortised cost	23	985,792,527	682,605,147
Investments in associates		2,291,347	268,506
Property, equipment and intangible assets	24	65,678,843	67,765,194
Current tax asset		1,157,892	1,181,113
Deferred tax assets	16	248,828,889	114,394,028
Other assets	25	327,058,664	965,219,669
Total assets		15,390,903,674	17,090,977,504
LIABILITIES			
Currency in circulation	26	2,688,747,786	2,619,329,677
Deposits and balances from banks and other financial institutions	27	4,385,426,201	5,873,510,551
Financial instruments under management at fair value through profit or loss	20	934,215	7,709,359
Repurchase agreements	28	27,941,316	135,827,043
Current accounts of the National Fund of the Republic of Kazakhstan	29	724,730,007	707,324,124
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	30	397,535,424	442,307,827
Customer accounts	31	182,887,423	199,345,184

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

		2019	2018
	Note	KZT'000	KZT'000
Debt securities issued	32	3,618,820,899	4,113,400,912
Estimated liabilities	33	33,162,428	55,963,528
Current tax liability		146	2,236,232
Deferred tax liabilities	16	2,483,478	2,409,482
Other liabilities	34	26,329,501	61,123,433
Total liabilities		12,088,998,824	14,220,487,352
EQUITY			
Charter capital	35	20,000,000	20,000,000
Special guarantee reserve	33	500,764,758	495,014,899
Other reserves		4,032,306	4,823,888
Revaluation reserve for property and equipment		23,623,561	24,820,960
Reserve for changes in fair value of financial assets		22,271,185	(29,757,356)
Revaluation reserve for foreign currency and precious metals		4,855,183,856	3,753,931,172
Accumulated losses		(2,125,175,181)	(1,403,996,916)
Total equity attributable to equity holders of the National Bank		3,300,700,485	2,864,836,647
Non-controlling interests	35	1,204,365	5,653,505
Total equity		3,301,904,850	2,870,490,152
Total liabilities and equity		15,390,903,674	17,090,977,504

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

E.A. Dossaev
Governor

6 April 2020
Almaty, Kazakhstan

S.K. Rakhmetova
Chief Accountant

6 April 2020
Almaty, Kazakhstan

The notes on pages 23-169 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 2019

	2019 KZT'000	2018 KZT'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before income tax	(853,841,623)	(211,613,179)
<i>Adjustments:</i>		
Depreciation and amortisation	7,266,975	5,029,877
Charge (recovery) of allowance for expected credit losses on financial assets	128,285,939	(15,956,851)
Provisions for estimated liabilities	14,714,034	35,445,680
Impairment loss on other non-financial assets	38,602	39,530
Loss from disposal of inventories	14,953	-
Amortisation of discount on debt securities issued	307,960,426	314,545,771
Amortisation of premium and discount on financial assets	(3,192,811)	(4,944,271)
Unrealised (gain) loss on financial instruments at fair value through profit or loss	(97,124,135)	6,558,374
Share of loss of associates	5,032	85,659
Loss from disposal of investments in associate	682,614	-
Cash flows (used in) from operating activities before changes in operating assets and liabilities	(495,189,994)	129,190,590
(Increase) decrease in operating assets		
Gold	(582,226,591)	(711,481,541)
Placements and loans with banks and other financial institutions	560,341,002	(320,336,413)
Financial instruments under management at fair value through profit or loss	(115,440,596)	(85,756,480)
Reverse repurchase agreements	11,451,500	37,590,882
Investment securities at fair value through other comprehensive income	1,741,525,215	1,245,343,878
Other assets	(253,504,771)	(59,337,157)

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 KZT'000	2018 KZT'000
Increase (decrease) in operating liabilities		
Currency in circulation	69,418,109	361,653,864
Deposits and balances from banks and other financial institutions	(1,437,239,647)	470,959,604
Financial instruments under management at fair value through profit or loss	(564,053)	523,562
Repurchase agreements	(107,885,727)	(159,657,447)
Current accounts of the National Fund of the Republic of Kazakhstan	17,405,883	369,400,040
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	(42,768,848)	12,884,022
Customer accounts	(14,851,237)	(457,066,787)
Estimated liabilities	(37,515,134)	-
Other liabilities	(32,537,877)	46,575,457
Net cash flows (used in) from operating activities before income tax paid	(719,582,766)	880,486,074
Income tax paid	(1,158,330)	(1,331,065)
Net cash (used in) from operating activities	(720,741,096)	879,155,009
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities measured at amortised cost	(514,100,657)	(189,325,267)
Repayment of investment securities measured at amortised cost	211,992,712	16,328,388
Acquisition of property, plant and equipment and intangible assets	(7,851,147)	(14,787,411)
Proceeds from sale of property, equipment and intangible assets	2,670,523	4,291,160
Disposal of subsidiaries	(2,197,951)	-
Proceeds from disposal of investments in associates	170,078	8,930
Net cash used in investing activities	(309,316,442)	(183,484,200)

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 KZT'000	2018 KZT'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of debt securities	30,600,920,476	61,931,140,885
Repayment of debt securities issued	(31,124,090,128)	(61,926,079,183)
Accounts received on debt securities issued (Note 25)	884,695,840	-
Interest paid on debt securities issued	(279,370,787)	(300,628,803)
Net cash flows from (used in) financing activities	82,155,401	(295,567,101)
Net (decrease) increase in cash and cash equivalents	(947,902,137)	400,103,708
Effect of movements in exchange rates on cash and cash equivalents	(31,591,209)	223,570,539
Cash and cash equivalents at the beginning of the year, gross carrying amount	2,177,856,135	1,554,181,888
Cash and cash equivalents at the end of the year, gross carrying amount (Note 17)	1,198,362,789	2,177,856,135

Interest paid and received during the year ended 31 December 2019 amounted to KZT 412,368,001 thousand and KZT 186,897,868 thousand, respectively (31 December 2018: KZT 372,545,914 thousand and KZT 192,705,431 thousand, respectively).

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

E.A. Dossaev
Governor

6 April 2020
Almaty, Kazakhstan

S.K. Rakhmetova
Chief Accountant

6 April 2020
Almaty, Kazakhstan

The notes on pages 23-169 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 2019

Equity attributable to equity holders of the National Bank											
KZT'000	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
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			-								
Loss for the year	-	-	-	-	-	-	-	(188,326,091)	(188,326,091)	621,660	(187,704,431)
Other comprehensive income											
<i>Reserve for changes in fair value (debt instruments):</i>											
Net change in fair value	-	-	-	-	-	(18,875,567)	-	-	(18,875,567)	(22)	(18,875,589)
Net change in fair transferred to profit or loss	-	-	-	-	-	15,307,913	-	-	15,307,913	-	15,307,913
<i>Reserve for changes in fair value (equity instruments):</i>											
Net change in fair value	-	-	-	-	-	(2,102,423)	-	-	(2,102,423)	-	(2,102,423)
Foreign currency revaluation 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 disposal	-	-	-	-	(1,438,231)	-	-	1,443,467	5,236	-	5,236

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

	Equity attributable to equity holders of the National Bank									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	Total		
KZT'000											
Transactions with owners recorded directly in equity:											
Addition to special guarantee reserve	-	-	24,757,295	-	-	-	379,455	(25,136,750)	-	-	-
Addition to special guarantee reserve (Note 11)	-	-	11,121,918	-	-	-	-	(11,121,918)	-	-	-
Compensation for loss from capital reserve	-	(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)	35,879,213	1,190,870	-	-	381,008	137,720,721	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 2019

KZT'000	Equity attributable to equity holders of the National Bank								Non-controlling interest	Total equity
	Charter capital	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		
Balance as at 1 January 2019	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
Restatement of prior year retained earnings due to financial measurement at fair value	-	-	-	-	-	-	2,197,527	2,197,527	-	2,197,527
Restated balance as at 1 January 2019	20,000,000	495,014,899	4,823,888	24,820,960	(29,757,356)	3,753,931,172	(1,401,799,389)	2,867,034,174	5,653,505	2,872,687,679
Total comprehensive income	-	-	-	-	-	-	-	-	-	-
Loss for the year	-	-	-	-	-	-	(718,608,185)	(718,608,185)	176,606	(718,431,579)
Other comprehensive income										
<i>Movement in fair value reserve (debt instruments):</i>										
Net change in fair value	-	-	-	-	77,909,018	-	-	77,909,018	-	77,909,018
Net change in fair value transferred to profit or loss	-	-	-	-	(29,687,083)	-	-	(29,687,083)	-	(29,687,083)
<i>Fair value reserve (equity securities):</i>										
Net change in fair value	-	-	-	-	3,809,564	-	-	3,809,564	-	3,809,564
Foreign currency translation reserve	-	-	-	-	-	(15,376,528)	-	(15,376,528)	-	(15,376,528)
Precious metals revaluation reserve	-	-	-	-	-	1,117,170,963	-	1,117,170,963	-	1,117,170,963
Total other comprehensive income	-	-	-	-	52,031,499	1,101,794,435	-	1,153,825,934	-	1,153,825,934
Total comprehensive income for the year	-	-	-	-	52,031,499	1,101,794,435	(718,608,185)	435,217,749	176,606	435,394,355
Transfer of revaluation reserve resulting from depreciation and disposals	-	-	-	(1,107,272)	-	-	1,114,517	7,245	(460)	6,785

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

KZT'000	Equity attributable to equity holders of the National Bank							Non-controlling interest	Total equity
	Charter capital	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		
Transactions with owners recorded directly in equity:									
Addition to special guarantee reserve	-	5,749,859	-	-	-	-	(5,749,859)	-	-
Gratuitous transfer of property under community property	-	-	-	-	-	-	(6,108)	-	(6,108)
Reorganisation of subsidiaries	-	-	-	-	-	-	660,665	(142,263)	518,402
Disposal of subsidiary	-	-	(791,582)	(90,127)	(2,958)	(541,751)	(786,822)	(4,483,023)	(6,696,263)
Total transactions with owners	-	5,749,859	(791,582)	(90,127)	(2,958)	(541,751)	(5,882,124)	(4,625,286)	(6,183,969)
Balance as at 31 December 2019	20,000,000	500,764,758	4,032,306	23,623,561	22,271,185	4,855,183,856	(2,125,175,181)	1,204,365	3,301,904,850

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

E.A. Dossaev
Governor

6 April 2020
Almaty, Kazakhstan

S.K. Rakhmetova
Chief Accountant

6 April 2020
Almaty, Kazakhstan

The notes on pages 23-169 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 2019**

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 organisations 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 2019

1. INTRODUCTION, CONTINUED

(a) Organisation and operations, continued

The address of the NBK's registered office is Almaty, 050040, Micro District Koktem-3, 21. As at 31 December 2019 the NBK has 18 branches and 12 subsidiaries located in the Republic of Kazakhstan.

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

Name	Year of establish ment	Principal activities	Ownership interest, %	
			2019	2018
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 (KDIF)	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 2019

1. INTRODUCTION, CONTINUED

(a) Organisation and operations, continued

Name	Year of establish- ment	Principal activities	Ownership interest, %	
			2019	2018
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
“Kazakhstan Sustainability Fund” JSC (the “KSF” 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	100.00
JSC “Central Securities Depository”	1996	Depository activity	63.24	72.36
JSC “Integrated Securities Registrar”	2012	Maintaining a registry system for securities holders	-	98.97
“Kazakhstan Stock Exchange” JSC	1993	Organisation and servicing of financial markets	-	50.10

In December 2018, “Kazakhstan Stock Exchange” JSC (hereinafter, “KASE”) decided to issue common shares to Moscow Exchange MICEX-RTS PJSC, and therefore, in 2019, the ownership share of the NBK in the capital of KASE decreased to less than 50% of voting shares. This led to the exclusion of financial indicators of KASE from the consolidated financial statements of the National Bank. Starting from 2019, investments in KASE are classified as investments in associate.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

1. INTRODUCTION, CONTINUED

(a) Organisation and operations, continued

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”, was approved the Program “7-20-25. New Opportunities for Housing Purchase for Every Family.” In 2018, Mortgage Organisation “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” (Note 25).

Based on the Resolution of the NBK dated 23 December 2019 it was decided to reorganise MO Baspana JSC through its merger with another subsidiary of NBK, KSF JSC in the first quarter of 2020.

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.

(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. In addition, the first months of 2020 have seen significant global market turmoil triggered by the outbreak of the coronavirus, as further explained in Note 43. Together with other factors, this has resulted in a sharp decrease in the oil price and the stock market indices, as well as a continuing depreciation of the Kazakhstan Tenge. These developments are further increasing the level of uncertainty in the Kazakhstan business environment.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

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

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 2019**

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 substance and/or goals and objectives of the National Bank. In these consolidated financial statements such transactions comprise swaps with 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 19 and 27) 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, the 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.

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 2019

2. BASIS OF ACCOUNTING, CONTINUED

(d) Use of estimates and judgements

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

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

Judgements

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

- classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding – Note 3(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;
- statement of compliance – Note 2;
- accounting of expenses on the banking sector rehabilitation and disposal of subsidiary – Note 10.

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 2019 is included in the following notes:

- impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information – Note 4;
- fair value of subordinated and coupon bonds upon initial recognition – Note 10;
- impairment of accounts, loans and deposits with banks and other financial institutions – Note 19;
- financial assets and liabilities: fair value and accounting classifications – Note 42.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

2. BASIS OF ACCOUNTING, CONTINUED**(e) Changes in accounting policies and presentation*****IFRS 16***

The National Bank has initially adopted IFRS 16 “Leases” from 1 January 2019.

The National Bank has applied IFRS 16 using the modified retrospective approach. Accordingly, the comparative information presented for 2018 has not yet been restated – i.e. it is presented, under IAS 17 and related interpretations. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

The detailed information on the accounting policy in accordance with IFRS 16 and IAS 17 is disclosed in Note 3(u).

3. SIGNIFICANT ACCOUNTING POLICIES

Except for the changes disclosed in Note 2(e) related to application by the National Bank of IFRS 16 effective from 1 January 2019, the National Bank has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

(a) Basis of consolidation***(i) Subsidiaries***

Subsidiaries are investees controlled by the National Bank. 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.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

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

(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.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(a) Basis of consolidation, continued

(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.

(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. Market price is based on the morning fixing set by London Bullion Market Association ("LBMA"). 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.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(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.

(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 income and expenses***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:

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(f) Interest income and expenses, continued

Effective interest rate, continued

- 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.

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.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(f) Interest income and expenses, continued

Calculation of interest income and expense, continued

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.

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.

(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 services, 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.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(h) Financial instruments

(i) *Classification of financial instruments*

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

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

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

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

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

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

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(h) Financial instruments

(i) *Classification, continued*

Financial assets, continued

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 (accumulated losses) on disposal of an investment.

All other financial assets are classified as measured at FVTPL.

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.

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 National Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected;
- 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.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(h) Financial instruments, continued

(i) *Classification, continued*

Financial assets, continued

Business model assessment, continued

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

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

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

In assessing whether the contractual cash flows are solely payments of principal and interest (“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

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 2019**

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.

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.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(h) Financial instruments, continued

(ii) *Derecognition, continued*

Financial liabilities

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

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)).

(iii) *Modification of financial assets and financial liabilities*

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.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(h) Financial instruments, continued

(iii) Modification of financial assets and financial liabilities, continued

Financial assets, continued

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 SPPI criterion (e.g. inclusion of conversion feature).

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)).

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(h) Financial instruments, continued

(iii) Modification of financial assets and financial liabilities, continued

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.

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 feature;
- change 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 2019

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(h) Financial instruments, continued

(iv) *Impairment*

See also Note 4.

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.

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).

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(h) Financial instruments, continued

(iv) *Impairment, continued*

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;
- 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.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(h) Financial instruments, continued

(iv) *Impairment, continued*

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.

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 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 2019**

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(h) Financial instruments, continued****(iv) *Impairment, 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 2019

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'.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

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.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

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

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

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

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.

(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.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(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.

(j) Placements and loans with banks and other financial institutions

‘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 (see Note 3(h)(v));
- 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).

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(k) Investment securities

The ‘investment securities’ caption, presented in line items such as “Financial instruments under management 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 include:

- 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)).

(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.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(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.

(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.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(o) Property, plant and equipment, continued

(iii) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. 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	6 to 25 years.

(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.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(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. Any 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.

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 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.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(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.

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 the related tax benefit will be realised.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(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) Leases

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

Policy applicable from 1 January 2019

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

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

As a lessee

At commencement or on modification of a contract that contains a lease component, the National Bank allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. The National Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(u) Leases, continued*****Policy applicable from 1 January 2019, continued******As a lessee, continued***

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

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

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

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

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

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(u) Leases, continued

Policy applicable from 1 January 2019, continued

As a lessee, continued

The National Bank used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the National Bank:

- applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term;
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.

Policy applicable before 1 January 2019

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

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset.

An arrangement conveyed the right to use the asset if one of the following was met:

- the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
- the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
- facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

As a lessee

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

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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 2019, and are not applied in preparing these consolidated financial statements.

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

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

4. FINANCIAL RISK REVIEW

This note presents information about the National Bank's exposure to financial risks. For information on the National Bank's financial risk management framework, see Note 37.

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 National Bank'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; and
- the remaining lifetime PD for this point in time that was estimated on initial recognition of the exposure.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

4. FINANCIAL RISK REVIEW, CONTINUED

Credit risk - Amounts arising from ECL, continued

Inputs, assumptions and techniques used for estimating impairment, continued

Significant increase in credit risk, continued

Assessing whether credit risk has increased significantly since initial recognition of a financial instrument requires identifying 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 criteria;
- 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. The credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default. These factors vary depending on the nature of the exposure and the type of counteragent.

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:

- data from credit reference agencies, press articles, changes in external credit ratings;
- information obtained during periodic review of counterparty files – e.g. audited financial statements, management accounts, budgets and projections;
- payment record – this includes overdue status;

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

4. FINANCIAL RISK REVIEW, CONTINUED

Credit risk - Amounts arising from ECL, continued

Credit risk grades, continued

- quoted bond and credit default swap (CDS) prices for the issuer where available;
- existing and forecast changes in business, financial and economic conditions;
- actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities.

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The 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 borrower, and the geographical region.

Significant increase in credit risk – change in the credit rating of a financial asset by two grades relative to the credit rating at the date of initial recognition of the financial asset and (or) if there is breach of contract and (or) if there are outstanding payments overdue by 30-89 calendar days, which are related to the liabilities to the National Bank.

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.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

4. FINANCIAL RISK REVIEW, CONTINUED**Credit risk - Amounts arising from ECL, continued****Definition of default, continued**

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.

Incorporating 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.

Macroeconomic analysis is carried out on the basis of data on forecasts of changes in unemployment, gross domestic income of the country, data on energy and non-energy indices, the stock index of countries and changes in the share of financial assets with a reduced credit rating in the overall portfolio of financial assets of the National Bank.

Macroeconomic analysis for each country of a financial asset is taken into account when transforming the indicators of TTC PD (Through-the-Cycle PD) into the indicators of PIT PD (Point-in-Time PD).

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

4. FINANCIAL RISK REVIEW, CONTINUED

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, and other factors not related to a current or potential credit deterioration of the counteragent. 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).

Measurement of ECL

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); and
- exposure at default (EAD).

PD estimates are estimates at a certain date, which are calculated based on information of external credit rating agency S&P and issuer's / counterparty's economy sector and credit rating model purchased from S&P Global Market Intelligence LLC. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD.

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 ECL model purchased from S&P Global Market Intelligence LLC.

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. Expected credit losses on financial assets are determined based on ECL forecast models.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

4. FINANCIAL RISK REVIEW, CONTINUED

Measurement of ECL, continued

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 will be the gross carrying amount at default.

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 accounts, placements with banks and other financial institutions, investment securities measured at FVOCI, investment securities measured at amortised cost as at 31 December 2019 and 31 December 2018. Unless specially indicated, for financial assets, the amounts in the table represent gross carrying amounts.

KZT'000	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
<i>Placements and loans with banks and other financial institutions</i>				
Rated AAA	227,398,669	-	-	227,398,669
Rated from AA- to AA+	1,019,227,774	3,348,948	-	1,022,576,722
Rated from A- to A+	294,499,014	-	-	294,499,014
Rated from BBB- to BBB+	8,465,978	2,964,400	-	11,430,378
Rated from BB- to BB+	29,629,443	10,669,586	-	40,299,029
Rated from B- to B	154,126,526	-	26,125	154,152,651
Not rated	33,901,493	635,722,234	29,728,170	699,351,897
Gross carrying amount	1,767,248,897	652,705,168	29,754,295	2,449,708,360
Loss allowance	(4,020,295)	(160,585,012)	(29,754,295)	(194,359,602)
Carrying amount	1,763,228,602	492,120,156	-	2,255,348,758

Stage 2 includes FPL bonds with no externally assigned credit rating. FPL is a 100% subsidiary 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 2019

4. FINANCIAL RISK REVIEW, CONTINUED

Credit quality analysis, continued

KZT'000	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
<i>Investment securities at fair value through other comprehensive income</i>				
Rated AAA	94,746,177	-	-	94,746,177
Rated from AA- to AA+	724,731,600	1,793,216	-	726,524,816
Rated from A- to A+	506,497,328	21,678,793	-	528,176,121
Rated from BBB- to BBB+	1,142,328,202	5,539,392	-	1,147,867,594
Rated from BB- to BB+	2,578,389	7,833,980	-	10,412,369
Carrying amount	2,470,881,696	36,845,381	-	2,507,727,077
Loss allowance	(1,223,156)	(76,893)	-	(1,300,049)
Carrying amount –fair value*	2,470,881,696	36,845,381	-	2,507,727,077
<i>Investment securities measured at amortised cost</i>				
Rated AAA	159,406,414	-	-	159,406,414
Rated A+	77,974,548	-	-	77,974,548
Rated from BBB- to BBB+	655,825,154	-	-	655,825,154
Rated from BB- to BB+	83,484,756	-	-	83,484,756
Not rated	10,042,455	-	-	10,042,455
Gross carrying amount	986,733,327	-	-	986,733,327
Loss allowance	(940,800)	-	-	(940,800)
Carrying amount	985,792,527	-	-	985,792,527

* Investment securities measured at fair value through other comprehensive income are carried at fair value, while expected credit losses are recognised in other comprehensive income.

KZT'000	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
<i>Claims for repurchased loans</i>				
Rated BB+	124,243,661	36,377	4,609	124,284,647
Rated from B+	2,143,826	-	-	2,143,826
Rated from B	104,825,536	56,862	5,048	104,887,446
Rated from B-	19,604,323	3,310	11,998	19,619,631
Gross carrying amount	250,817,346	96,549	21,655	250,935,550
Loss allowance	(710,711)	(3,340)	(8,729)	(722,780)
Carrying amount	250,106,635	93,209	12,926	250,212,770

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

4. FINANCIAL RISK REVIEW, CONTINUED

Credit quality analysis, continued

KZT'000	31 December 2018			
	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+	140,425,444	2,769,196	-	143,194,640
Rated from BB- to BB+	719,730,900	-	-	719,730,900
Rated from B- to B	89,814,360	206,204,305	-	296,018,665
Not rated	1,398,520,984	-	52,180,053	1,450,701,037
Gross carrying amount	3,677,445,986	208,973,501	52,180,053	3,938,599,540
Loss allowance	(9,061,204)	(6,588,161)	(52,180,053)	(67,829,418)
Carrying amount	3,668,384,782	202,385,340	-	3,870,770,122
<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+	1,003,875,997	14,680,703	-	1,018,556,700
Rated from BB- to BB+	688,212	5,694,304	-	6,382,516
Carrying amount	4,200,706,235	31,896,199	-	4,232,602,434
Loss allowance	(600,234)	(283,663)	-	(883,897)
Carrying amount –fair value*	4,200,706,235	31,896,199	-	4,232,602,434
<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 measured at fair value through other comprehensive income are carried at fair value, while expected credit losses 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 2019

4. FINANCIAL RISK REVIEW, CONTINUED

Credit quality analysis, continued

KZT'000	31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
<i>Claims for repurchased loans</i>				
Rated from B	34,335,899	-	9,200	34,345,099
Rated from B-	1,714,292	-	-	1,714,292
Gross carrying amount	36,050,191	-	9,200	36,059,391
Loss allowance	(493,261)	-	(1,166)	(494,427)
Carrying amount	35,556,930	-	8,034	35,564,964

5. NET INTEREST LOSS

	2019 KZT'000	2018 KZT'000
Interest income calculated using the effective interest rate method		
Interest income on financial assets measured at amortised cost:		
- Placements and loans with banks and other financial institutions	131,937,893	54,199,525
- Investment securities at amortised cost	53,929,177	30,037,744
- Reverse repurchase agreements	8,832,277	14,318,882
- Claims for repurchased loans	5,491,071	272,481
Interest income on financial assets measured at fair value through other comprehensive income		
- Investment securities measured at fair value through other comprehensive income	97,790,467	104,963,182
Total interest income calculated using effective interest rate method	297,980,885	203,791,814
Interest expenses		
Interest expense on financial liabilities recorded at amortised cost		
Debt securities issued	(307,960,426)	(314,578,710)
Deposits and balances from banks and other financial institutions	(91,115,081)	(50,490,083)
Repurchase agreements	(13,387,106)	(14,173,180)
Deposit accounts of the Ministry of Finance of the Republic of Kazakhstan	(1,474,901)	(1,347,597)
Total interest expense on financial liabilities measured at amortised cost	(413,937,514)	(380,589,570)
	(115,956,629)	(176,797,756)

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

6. FEE AND COMMISSION INCOME

	2019 KZT'000	2018 KZT'000
Asset management fee	18,682,879	12,784,798
Pension asset management fee	6,001,189	4,855,359
Depository operations and servicing of financial markets and transfer operations	1,624,973	3,534,545
	26,309,041	21,174,702

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 2019 and 2018 the NBK received no interest for excess of the target yield.

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

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.

7. FEE AND COMMISSION EXPENSE

	2019 KZT'000	2018 KZT'000
Broker operations and account maintenance fees	4,161,633	1,863,807
Asset management services	2,759,598	1,875,123
Custodian services	259,666	207,179
Other	76,164	56,581
	7,257,061	4,002,690

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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

	2019 KZT'000	2018 KZT'000
Placements and loans with banks and other financial institutions measured at FVTPL -change in fair value	62,352,874	38,783,624
Placements and loans with banks and other financial institutions measured at FVTPL – other interest income	38,386,236	35,949,249
Assets under external management	27,243,197	1,258,883
Other derivative financial instruments	3,718,794	(3,167,189)
	131,701,101	72,824,567

Net gain on transactions with placements and loans with banks and other financial institutions comprise gain generated from change in fair value and interest income from loans issued equal to KZT 86,458,610 thousand (2018: KZT 76,011,102 thousand) of subordinated bonds carried at fair value (Note 10).

Net profit on transactions with placements and loans with banks and other financial institutions disclosed the profit from changes in fair value and interest income on deposits with banks in the amount of KZT 14,280,500 thousand (2018: loss of KZT 1,278,229 thousand).

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

	2019 KZT'000	2018 KZT'000
Sale of debt investment securities	29,687,083	(15,307,913)
Dividends	3,542,634	3,595,213
	33,229,717	(11,712,700)

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

10. EXPENSE ON REHABILITATION OF THE BANKING SECTOR

In 2019, subsidiary KSF JSC purchased coupon bonds of the quasi-public sector and second tier banks, bearing interest rates from 0.1% to 10.95%, with an obligation of their repayment in 7-20 years. The National Bank recognised such bonds at fair value at initial recognition (Note 19), determined using the market interest rates of 10.41% to 30.81%. During 2019, the difference of KZT 723,769,952 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 in 7-10 years. The National Bank has recognised such bonds at fair value at initial recognition (Note 19), determined using the market interest 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 was 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

11. OTHER OPERATING INCOME, NET

	2019 KZT'000	2018 KZT'000
Deposits under the Program of mortgage loans refinancing	(35,607,085)	39,116,807
Contributions of banks participating in the guarantee system, net	35,690,169	11,121,918
Sale of printed products	3,446,928	1,038,800
Sale of collection coins and repurchase of measured bullions	1,884,315	2,019,616
Sale of medals, badges and jewellery	513,914	178,558
Rent of property and equipment	1,292	4,114
Expenses on reorganisation of Integrated Securities Registrar JSC and Central Securities Depository JSC	(682,614)	-
Expenses on disposal of property of Agency for Regulation and Development of the Financial Market of the Republic of Kazakhstan (AFR)	(1,250,692)	-
Other (expenses) income, net	(3,424,133)	2,126,981
	572,094	55,606,794

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” the implementation of functions of the Program of Refinancing of Mortgage Housing Loans/Mortgage Loans dated 24 April 2015, No.69 (hereinafter, the “Program of Mortgage Loans Refinancing”) was transferred from FPL JSC to KSF JSC without compensation. As part of this Program, the Operator places deposits with the second-tier banks at the interest rates of 0.10% and 2.99%, with maturity of up to 20 years.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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11. OTHER OPERATING INCOME, NET, CONTINUED

In 2018 other operating income included income from transfer of rights of claim on deposits from FPL JSC to KSF JSC and cash (unplaced balance) for a total amount 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. The discount of KZT 87,914,637 thousand was calculated as the difference between the nominal value and fair value at the date of initial recognition of deposits using the market interest rates from 12.01% to 18.76%. The amount of income was reduced by reimbursement of expenses of KZT 2,968,556 thousand 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.

During 2019 KSF JSC placed deposits in certain banks with low interest rates. In 2019 the loss of KZT 32,441,943 thousand was recognised on deposits of KSF JSC as a resulted difference between the nominal value and fair value at the date of initial recognition of these deposits calculated using the market interest rates from 10.57% to 19.16%. The amount of KZT 35,607,085 thousand also includes reimbursement of expenses of KZT 3,165,142 thousand incurred by the second-tier banks on the state duties charged on the claims filed to the court with regard to the borrowers' loans due to refinancing of the problem loans denominated in foreign currency.

Contributions of the banks participating in the guarantee system comprise proceeds of KDIF JSC from contributions of bank-participants, penalty and proceeds from a liquidation committee of a forcibly liquidated bank in the amount of KZT 36,082,476 thousand as well as expenses on compensation paid to depositors of forcibly liquidated banks in the amount of KZT 392,307 thousand (2018: KZT 31,803,844 thousand and KZT 20,681,926 thousand, respectively).

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

12. (CHARGE) RECOVERY FOR EXPECTED CREDIT LOSSES

	2019 KZT'000	2018 KZT'000
Placements and loans with banks and other financial institutions	(126,506,415)	15,409,296
Investment securities measured at amortised cost	(814,810)	(29,768)
Investment securities at FVOCI	(417,820)	1,111,640
Other financial assets	(318,541)	(39,890)
Claims for repurchased loans	(228,353)	(494,427)
Inventories	(38,065)	(30,684)
Other non-financial assets	(537)	(8,846)
	(128,324,541)	15,917,321

13. BANKNOTES AND COINS PRODUCTION EXPENSES

	2019 KZT'000	2018 KZT'000
Coins production	3,628,293	1,706,147
Banknotes production	1,347,694	795,944
Other	335,467	189,989
	5,311,454	2,692,080

Banknotes and coins production expenses for 2019 include depreciation charge of equipment of KZT 64,734 thousand (2018: KZT 116,544 thousand).

14. PERSONNEL EXPENSES

	2019 KZT'000	2018 KZT'000
Payroll	15,457,172	15,533,240
Bonuses	10,895,915	10,280,138
Social tax	1,840,812	1,770,907
Insurance	769,156	682,086
Training	294,683	293,794
Other	97,278	154,361
	29,355,016	28,714,526

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

15. OTHER GENERAL AND ADMINISTRATIVE EXPENSES

	2019 KZT'000	2018 KZT'000
Information and other services	7,654,564	3,735,331
Repair and maintenance of property and equipment	1,969,083	1,075,717
Communication	1,724,627	1,171,488
Taxes other than income tax	1,288,395	1,293,201
Inventories	862,343	948,558
Business trip expenses	742,885	778,950
Gratuitous assignment of property	516,758	603,011
Transportation	369,453	327,444
Security	361,244	297,217
Representation expenses	349,865	440,026
Utilities	259,493	234,569
Rent	233,351	231,983
Advertising, announcements and presentations in mass media	93,937	100,182
Insurance of property and equipment	65,366	51,148
Other	719,551	602,914
	17,210,915	11,891,739

16. 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.

	2019 KZT'000	2018 KZT'000
Current income tax benefit (expense)	1,080,324	(4,264,450)
Movement in deferred tax assets due to origination and reversal of temporary differences	134,329,720	28,173,198
Total income tax benefit	135,410,044	23,908,748

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

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

16. INCOME TAX BENEFIT, CONTINUED

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

	2019		2018	
	KZT'000	%	KZT'000	%
Loss before income tax	(853,841,623)		(211,613,179)	
Income tax at the applicable tax rate	170,768,325	(20.00)	42,322,636	(20.00)
Effect of non-taxable operations of the NBK	(44,834,161)	5.25	(53,015,409)	25.05
Non-taxable income on securities	3,447,369	(0.40)	5,969,850	(2.82)
Non-deductible expenses on activities of KDIF JSC	(11,185,262)	1.31	(4,877,026)	2.30
Non-taxable income on activities of KSF JSC	15,162,433	(1.78)	33,998,479	(16.07)
Other non-taxable income (non-deductible expenses)	2,051,340	(0.24)	(489,782)	0.23
	135,410,044	(15.86)	23,908,748	(11.30)

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 2019 and 2018. Future tax benefits can be obtained only if the NBK subsidiaries are able to make a profit, from which it will be possible to offset the unused tax loss, and if there are no changes in the legislation of the Republic of Kazakhstan that adversely affect the ability of the NBK subsidiaries to use these benefits in future periods.

The NBK is not a payer of income tax.

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 2019

16. INCOME TAX BENEFIT, CONTINUED

Deferred tax assets and liabilities, continued

Movements in temporary differences during the years 2019 and 2018 are presented as follows:

KZT'000	Balance at 1 January 2019	Recognised in profit or loss	Recognised directly in equity	Disposal of subsidiary	Balance 31 December 2019
Placements and loans with banks and other financial institutions	114,138,993	134,456,581	-	-	248,595,574
Property, plant and equipment and intangible assets	(2,524,733)	(170,339)	6,785	35,820	(2,652,467)
Debt securities issued	-	929,770	-	-	929,770
Other assets	7,770	17,458	-	(2,574)	22,654
Other liabilities	338,061	27,490	-	(8,886)	356,665
Tax loss carry-forwards	25,401	(1,470)	-	-	23,931
	111,985,492	135,259,490	6,785	24,360	247,276,127
Unrecognised deferred tax liabilities	(946)	(929,770)	-	-	(930,716)
Recognised deferred tax assets	111,984,546	134,329,720	6,785	24,360	246,345,411
Deferred tax assets	114,394,028	134,432,651	2,210	-	248,828,889
Deferred tax liabilities	(2,409,482)	(102,931)	4,575	24,360	(2,483,478)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

16. INCOME TAX BENEFIT, CONTINUED

Deferred tax assets and liabilities, continued

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)

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16. INCOME TAX BENEFIT, CONTINUED

Deferred tax assets and liabilities, continued

As at 31 December 2019 deferred tax assets of KZT 248,595,574 thousand (31 December 2018: KZT 114,138,993 thousand) were recognised by the subsidiary of NBK, KSF JSC. Management of KSF JSC assessed the recoverability of deferred tax assets and concluded that KFS JSC would have sufficient taxable income after taking into account deductible temporary differences and it is appropriate to recognise deferred tax assets.

17. CASH AND CASH EQUIVALENTS

	2019 KZT'000	2018 KZT'000
Nostro accounts in foreign banks	938,139,617	1,325,799,958
Reverse repurchase agreements with initial maturity of less than three months	145,868,206	211,202,022
Cash on hand in foreign currency	113,367,726	107,951,780
Nostro accounts in Kazakhstan banks	987,005	2,701,841
Accounts with the Bank for International Settlements	235	231
Deposits in foreign banks with the original maturity of less than three months	-	529,439,660
Tenge denominated deposits with Kazakhstan banks with the original maturity of less than three months	-	760,643
Total cash and cash equivalents in the consolidated statement of cash flows	<u>1,198,362,789</u>	<u>2,177,856,135</u>

As at 31 December 2019 nostro accounts in foreign banks included restricted for use uninvested cash under management of NIC NBK JSC in the amount of KZT 14,059,297 thousand (31 December 2018: KZT 1,655,178 thousand) that was not included in cash equivalents.

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18. GOLD

	2019	2018
	KZT'000	KZT'000
Gold bullion in NBK depository	5,333,263,926	3,933,174,181
Gold deposits with foreign banks:		
- Rated AAA	173,576,718	99,424,512
- Rated AA-	565,544,209	390,039,892
- Rated from A- to A+	632,371,696	625,625,519
- Rated BBB+	-	39,307,894
Total gold on deposits with foreign banks	1,371,492,623	1,154,397,817
Gold bullion in a foreign bank depository:		
- Rated AAA	525,384,413	442,462,978
Total gold bullion in a foreign bank depository	525,384,413	442,462,978
	7,230,140,962	5,530,034,976

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.

19. PLACEMENTS AND LOANS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	2019	2018
	KZT'000	KZT'000
Placements and loans with banks and other financial institutions measured at amortised cost	2,255,348,758	3,870,770,122
Placements and loans with banks and other financial institutions measured at FVTPL	370,283,443	296,313,005
	2,625,632,201	4,167,083,127

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

	2019 KZT'000	2018 KZT'000
MEASURED AT AMORTISED COST		
Placements with foreign banks and other financial institutions		
Nostro accounts in banks		
- Rated AAA	227,398,434	381,132,815
- Rated from AA- to AA+	363,209,052	410,201,051
- Rated from A- to A+	291,661,462	365,137,031
- Rated from BBB- to BBB+	6,494,800	137,421,963
- Rated from BB- to BB+	15,536,356	183,695
- Rated from B- to B+	55,235	179,274
- Not rated	1,353,540	2,119,973
Total nostro accounts in banks	905,708,879	1,296,375,802
Allowance for expected credit losses	(8,155)	(144,582)
Total nostro accounts in banks less allowance for expected credit losses	905,700,724	1,296,231,220
Deposits in banks		
- Rated from AA- to AA+	-	143,263,741
- Not rated (Bank for International Settlements)	-	384,840,376
Total deposits in banks	-	528,104,117
Allowance for expected credit losses	-	(101,963)
Total deposits in banks less allowance for expected credit losses	-	528,002,154
Other accounts and deposits		
Non-invested cash under external management (Note 20)		
- Rated AA-	46,504,566	-
- Rated from A- to A+	-	29,219,660
- Rated from BBB- to BBB+	-	2,291,839
- Not rated	-	877,682
Total other accounts and deposits	46,504,566	32,389,181
Allowance for expected credit losses	-	(899,269)
Total other accounts and deposits less allowance for expected credit losses	46,504,566	31,489,912

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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

	2019 KZT'000	2018 KZT'000
Accounts with International Monetary Fund	612,863,104	618,979,456
Receivables on foreign currencies transactions	20,379,428	6,361,670
Accounts with the Bank for International Settlements	235	231
Total other accounts and deposits	679,747,333	656,831,269
Total placements with foreign banks and other financial institutions	1,585,448,057	2,481,064,643
Nostro accounts of subsidiaries with second-tier banks		
- Rated from BBB- to BBB+	238	-
- Rated from BB- to BB+	650,600	2,022,593
- Rated from B- to B+	317,809	678,776
- Not rated	3,826	302
Total nostro accounts of subsidiaries with second-tier banks	972,473	2,701,671
Allowance for expected credit losses	(661)	-
Total nostro accounts of subsidiaries with second-tier banks less allowance for expected credit losses	971,812	2,701,671
Placements, loans and receivables of Kazakhstan banks and other financial institutions		
Deposits in banks*		
- Rated from BBB- to BBB+	494,768	-
- Rated from BB- to BB+	13,995,627	717,524,612
- Rated from B- to B+	5,936,313	25,781,554
- Not rated	998,573	1,111,845
Total deposits in banks	21,425,281	744,418,011
Allowance for expected credit losses	(176,216)	(1,362,541)
Total deposits in banks less allowance for expected credit losses	21,249,065	743,055,470

* include the asset part of the swap deals in the amount of KZT 10,669,586 thousand as at 31 December 2019 (31 December 2018: KZT 737,323,249 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).

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

	2019 KZT'000	2018 KZT'000
Loans issued*		
- Rated from BB- to BB+	10,116,446	-
- Rated from B- to B+	147,843,294	269,379,061
- Not rated	679,454,082	436,409,502
Total loans issued (Note 10)	837,413,822	705,788,563
Allowance for expected credit losses	(194,174,570)	(65,321,063)
Total loans issued less allowance for expected credit losses	643,239,252	640,467,500
Receivables from other financial institutions		
Receivables from "UAPF" JSC	489,772	411,825
Receivables from Ministry of Finance of the Republic of Kazakhstan	3,950,800	3,069,013
Total receivables from other financial institutions	4,440,572	3,480,838
Total placements in banks and receivables from Kazakhstan banks and other financial institutions	668,928,889	1,387,003,808
Total placements and loans with banks and other financial institutions	2,449,708,360	3,938,599,540
Total allowance for expected credit losses	(194,359,602)	(67,829,418)
Total placements and loans with banks and other financial institutions measured at amortised cost less allowance for expected credit losses	2,255,348,758	3,870,770,122

* Loans issued measured at amortised cost include FPL bonds and coupon bonds of second-tier banks purchased under the program of financial support of the banking sector (Note 10).

In 2019 the subsidiary of the National Bank of the Republic of Kazakhstan, KSF JSC, acquired FPL bonds for the amount of KZT 614,086,276 thousand. KSF JSC recognised bonds at fair value, the difference 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 (Note 10). As at 31 December 2019 the carrying value of FPL bonds is KZT 475,138,798 thousand (31 December 2018: KZT 384,131,650 thousand). In 2020, the management of KSF JSC expects to obtain more detailed information about financial position of FPL for confirmation of the carrying value of FPL bonds.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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

	2019 KZT'000	2018 KZT'000
MEASURED AT FVTPL		
Deposits in banks		
- Rated from BB- to BB+	27,417,869	24,805,112
- Rated from B- to B+	31,009,512	20,214,965
Total deposits in banks	58,427,381	45,020,077
Loans issued*		
- Rated from BBB- to BBB+	273,310	-
- Rated from B- to B+	311,582,752	251,292,928
Total loans issued (Note 10)	311,856,062	251,292,928
Total deposits in banks and loans issued	370,283,443	296,313,005

* Loans measured at fair value through profit or loss represent subordinated bonds of banks purchased under the program of financial support of the banking sector (Note 10). In accordance with IFRS 9, subordinated bonds were classified as mandatory at fair value through profit or loss due to non-compliance with the SPPI criterion, due to the existence of a mechanism of the exchange of subordinated debt into ordinary shares of the bank in the event of deterioration of the financial position of banks and disclosure of facts assets withdrawal.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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

Analysis of allowance for expected credit losses

Movement in allowance for expected credit losses for placements and loans with banks and other financial institutions for 2019 and 2018 is as follows:

KZT'000	2019			
	Stage 1	Stage 2	Stage 3	Total
Placements and loans with banks and other financial institutions				
Balance at 1 January	9,061,204	6,588,161	52,180,053	67,829,418
- Transfer to Stage 1	442,109	(177,856)	(264,253)	-
- Transfer to Stage 2	(615,596)	615,596	-	-
- Transfer to Stage 3	(26,926)	-	26,926	-
Net remeasurement of loss allowance	2,939,470	107,948,994	(21,713,108)	89,175,356
New financial assets originated or purchased*	216,477	52,199,329	-	52,415,806
Financial assets that have been derecognised	(7,979,814)	(6,589,228)	(515,705)	(15,084,747)
Write-offs	(16,072)	-	-	(16,072)
Foreign exchange and other movements	(557)	16	40,382	39,841
Balance as at 31 December	4,020,295	160,585,012	29,754,295	194,359,602
KZT'000	2018			
	Stage 1	Stage 2	Stage 3	Total
Placements and loans with banks and other financial institutions				
Balance as at 1 January	15,127,182	248,346	66,581,870	81,957,398
- Transfer to Stage 1	14,131	(14,131)	-	-
Net remeasurement of loss allowance	(12,287,847)	(234,167)	(48,459,643)	(60,981,657)
New financial assets originated or purchased*	5,757,366	6,588,091	33,226,904	45,572,361
Foreign exchange and other movements	450,372	22	830,922	1,281,316
Balance as at 31 December	9,061,204	6,588,161	52,180,053	67,829,418

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

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**

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

In 2019, the additional purchase of FPL bonds in the amount of KZT 614,086,276 thousand has led to the increase in the gross carrying amount, and the corresponding increase in the loss allowance of KZT 52,415,806 thousand.

Maturity of deposits in banks in the amount of KZT 732,237,106 thousand and repayments of previously issued loans in the amount of KZT 267,420,518 thousand has led to decreased loss allowance of KZT 15,084,747 thousand.

The transfer to Stage 2 of FPL bonds in the amount of KZT 450,000,000 thousand has led to respective increase in the loss allowance of KZT 107,948,994 thousand.

Partial repayment of previously issued loans with a gross carrying amount of KZT 22,425,758 thousand resulted in decreased loss allowance by the same amount included in Stage 3.

As at 31 December 2019 the National Bank has no placements with counterparty-banks in the amount exceeding 10% of equity (31 December 2018: nil).

As at 31 December 2019 the “nostro” accounts opened in local banks in the amount of KZT 971,812 thousand (31 December 2018: KZT 2,701,670 thousand), belong to subsidiary companies of the NBK.

As at 31 December 2019 loans amounting to KZT 29,708,279 thousand were past due for more than 90 days (31 December 2018: KZT 35,215,244 thousand) and 100% allowance was created against these loans.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE
YEAR ENDED 31 DECEMBER 2019**
**20. FINANCIAL INSTRUMENTS UNDER MANAGEMENT AT FAIR
VALUE THROUGH PROFIT OR LOSS**

Financial instruments under management at fair value through profit or loss consisted of the following at 31 December 2019 and 31 December 2018:

	2019 KZT'000	2018 KZT'000
Assets		
Assets under external management		
Hedge funds, private equity and real estate funds	366,391,015	226,774,826
Futures	534,827	2,976,093
Forwards	158,038	866,367
Assets under own management		
Cross currency and interest rate swap	592,356	-
Forwards	107,232	-
Futures	49,722	15,169
Swap	-	3,341,113
Total financial instruments under management at fair value through profit or loss	367,833,190	233,973,568
Liabilities		
Liabilities under external management		
Forwards	(228,195)	(119,529)
Futures	(527,629)	(577,869)
Liabilities under own management		
Cross currency and interest rate swap	(178,391)	-
Futures	-	(802,969)
Swap	-	(6,208,992)
Total financial instruments under management at fair value through profit or loss	(934,215)	(7,709,359)

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**

20. FINANCIAL INSTRUMENTS UNDER MANAGEMENT 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 NBK 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 NBK 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 2019 and 2018, 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 measures at the quoted market value.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**

20. FINANCIAL INSTRUMENTS UNDER MANAGEMENT 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 2019 participation in direct investments in the sectors of information technology, consumer goods and services, health care, 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 North America, Europe, and Asia. US dollar is a major currency of investments in the real estate funds; however, there are investments denominated in euro and Japanese yen.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

20. FINANCIAL INSTRUMENTS UNDER MANAGEMENT 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 2019 and 31 December 2018 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	
	2019	2018	2019	2018
Swap				
For the period less than 3 months				
Buy EUR to JPY	-	48,330,700	-	130.31
Buy USD to JPY	-	38,420,000	-	112.14
Buy USD to JPY	-	19,210,000	-	112.33
Buy AUD to JPY	-	10,820,800	-	79.63
Forwards for the period less than 3 months				
Buy EUR to USD	114,810,767	-	1.12	-
Futures				
for the period more than 3 months				
Sell EUR	(11,915,587)	(12,824,683)	134.18	162.16
Buy JPY	2,677,488	-	152.13	-
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
	105,572,668	41,066,170	-	-

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

21. REVERSE REPURCHASE AGREEMENTS

	2019 KZT'000	2018 KZT'000
International financial institutions and Kazakhstan banks:		
- rated AAA	72,847,700	206,181,885
- rated BBB-	-	16,471,637
- not rated	73,020,506	-
	145,868,206	222,653,522

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

As at 31 December 2019 the fair value of the financial assets accepted as collateral under reverse repurchase agreements is KZT 146,683,539 thousand (31 December 2018: KZT 231,752,152 thousand).

During 2019 not rated reverse repo transactions of KZT 73,020,506 thousand were entered in the auto repo market of KASE JSC.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE
YEAR ENDED 31 DECEMBER 2019**

**22. INVESTMENT SECURITIES MEASURED AT FAIR VALUE
THROUGH OTHER COMPREHENSIVE INCOME**

	2019	2018
	KZT'000	KZT'000
Debt instruments		
Investments in foreign securities		
Government bonds		
US Government Treasury bonds	290,902,816	1,651,727,431
UAE Government bonds	77,910,685	58,042,448
Columbian Government bonds	66,419,435	54,827,108
Indonesian Government bonds	64,430,327	63,507,157
Qatari Government bonds	64,339,809	66,292,364
French Government bonds	54,286,885	66,617,475
British Government Treasury bonds	51,363,271	122,781,376
Mexican Government bonds	45,862,737	42,163,573
Australian Government Treasury bonds	42,312,229	79,423,068
Korean Government Treasury bonds	36,478,150	95,982,696
Philippine Government bonds	33,942,731	37,235,426
Polish Government Treasury bonds	32,872,937	47,663,137
Lithuanian Government bonds	31,150,544	16,078,164
Canadian Government Treasury bonds	25,268,046	68,869,604
Chilean Government bonds	18,704,564	40,080,984
Malaysian Government bonds	18,552,692	8,119,690
Peru Government bonds	15,685,269	8,916,921
Panama Government bonds	15,219,749	8,001,916
Cayman Government bonds	11,167,457	-
Japanese Government Treasury bonds	8,597,861	42,823,435
Luxembourg Government bonds	7,857,620	-
Chinese Government bonds	7,657,929	2,703,422

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

22. INVESTMENT SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME, CONTINUED

	2019 KZT'000	2018 KZT'000
Singapore Government bonds	5,860,644	-
Uruguay Government bonds	4,208,765	1,760,986
Italian Government bonds	3,102,634	4,146,172
Irish Government bonds	2,422,535	-
Saudi Arabia Government bonds	2,077,018	-
German Government bonds	1,459,254	1,365,777
Oman Government bonds	1,346,845	3,874,983
Hungarian Government bonds	-	6,294,300
Namibian Government bonds	-	3,333,391
South African Government bonds	-	2,360,913
Roumanian Government bonds	-	1,174,226
Morocco Government bonds	-	1,157,555
Total government bonds	1,041,461,438	2,607,325,698
Debt securities of international governmental and nongovernmental financial institutions		
- Rated AAA	24,176,576	98,726,830
- Rated AA+	7,552,561	12,602,225
- Rated AA	26,879,393	221,661,771
- Rated AA-	26,089,505	25,005,087
- Rated A+	20,355,522	68,757,370
- Rated A	12,029,216	4,677,256
- Rated A-	1,537,324	-
- Rated BBB+	1,999,027	-
- Rated BBB	-	1,967,915
- Rated BBB-	2,684,221	3,664,039
Total investments in debt securities of international governmental and nongovernmental financial institutions	123,303,345	437,062,493

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

22. INVESTMENT SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME, CONTINUED

	2019 KZT'000	2018 KZT'000
Corporate bonds of international companies		
- Rated from A- to AAA	385,831,119	405,125,504
- Rated from BBB+ to BBB-	361,592,512	355,009,976
- Rated BB+	2,064,128	-
Total investments in corporate bonds of international companies	749,487,759	760,135,480
Total investments in foreign securities	1,914,252,542	3,804,523,671
Investments in Kazakhstan securities		
Treasury bills of Ministry of Finance of the Republic of Kazakhstan	559,188,706	286,959,748
Debt securities of Kazakhstan financial organisations	7,001,396	7,070,051
Pledged under sale and repurchase agreements		
Treasury bills of Ministry of Finance of the Republic of Kazakhstan	27,284,433	134,048,963
Total investments in Kazakhstan securities	593,474,535	428,078,762
Total debt investments	2,507,727,077	4,232,602,433
Equity instruments		
Shares of NC "KazMunayGas" JSC	750,000,000	750,000,000
Corporate shares	19,526,150	15,244,441
Total equity investments	769,526,150	765,244,441
Total investment securities measured at fair value through other comprehensive income before allowance for expected credit losses	3,277,253,227	4,997,846,874
Allowance for expected credit losses	(1,300,049)	(883,897)
Total investment securities measured at fair value through other comprehensive income *	3,277,253,227	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.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

22. INVESTMENT SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME, CONTINUED

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

As 31 December 2019 the bonds of the Ministry of Finance of the Republic of Kazakhstan with market value of KZT 27,284,433 thousand (31 December 2018: KZT 134,048,963 thousand) are subject to a registered debenture to secure the repurchase agreements.

As at 31 December 2019 a portion of investment securities measured at fair value through other comprehensive income was under the management of seven (31 December 2018: seven) 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	2019 KZT'000	2018 KZT'000	Strategy	Index
National Investment Corporation of the NBK JSC	165,045,102	164,382,169	Alternative instruments	50% - MSCI ACWI Investable Market Net Total Return Index (MIWDIM), 50% - Barclays Global Aggregate Bond Index (LEGATRUH)
Amundi Corporate Bonds	99,055,168	90,223,277	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 2019

22. INVESTMENT SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME, CONTINUED

External manager	2019 KZT'000	2018 KZT'000	Strategy	Index
Nomura Asset Management U.K. Limited Wellington	405,035,601	376,824,607	Global corporate bonds of investment grade	ICE BofAML Q847 Custom Index
	96,980,685	92,339,179	Global corporate bonds of investment grade	ICE BofAML Q847 Custom Index
Aviva Investors Global Services Limited	333,297,949	306,420,527	Bonds of emerging markets in hard currency	ICE BofAML Q846 Custom Index
Deutsche Asset Management International GmbH SSB	277,738,209	254,005,038	Bonds of emerging markets in hard currency	ICE BofAML Q846 Custom Index
	25,055	21,460	Mandate is closed	N/A
Total net assets under external management	<u>1,377,177,769</u>	<u>1,284,216,257</u>		

As at 31 December 2019 uninvested balances equivalent to KZT 46,504,566 thousand (31 December 2018: KZT 32,389,181 thousand) related to portfolios under external management are presented within 'placements and loans with banks and other financial institutions' (Note 19).

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019
22. INVESTMENT SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME, CONTINUED
Analysis of allowance for expected credit losses

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

KZT'000	2019			
	Stage 1	Stage 2	Stage 3	Total
Investment securities at FVOCI				
Balance at 1 January	600,234	283,663	-	883,897
- Transfer to Stage 1	60,453	(60,453)	-	-
- Transfer to Stage 2	(45,306)	45,306	-	-
Net remeasurement of loss allowance	542,311	7,849	-	550,160
New financial assets originated or purchased	569,952	403,439	-	973,391
Financial assets that have been derecognised	(500,366)	(605,365)	-	(1,105,731)
Foreign exchange and other movements	(4,122)	2,454	-	(1,668)
Balance at 31 December	1,223,156	76,893	-	1,300,049

KZT'000	2018			
	Stage 1	Stage 2	Stage 3	Total
Investment securities at FVOCI				
Balance at 1 January	530,335	1,292,262	-	1,822,597
- 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

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

22. INVESTMENT SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME, CONTINUED

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 2019 (2018: 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 would have provided evidence of the current fair value.

23. INVESTMENT SECURITIES MEASURED AT AMORTISED COST

	2019 KZT'000	2018 KZT'000
Investments in foreign securities		
Government bonds rated AA+	-	116,587,023
Eurobonds rated AAA	145,020,698	105,488,358
Government bonds rated A+	77,974,548	76,019,323
Corporate bonds rated AAA	14,385,716	1,856,484
	237,380,962	299,951,188
Allowance for expected credit losses	(124,495)	(83,729)
Carrying amount of investments in foreign securities	237,256,467	299,867,459
Investments in Kazakhstan securities		
Bonds of the Ministry of Finance of the Republic of Kazakhstan rated BBB- (2018: BBB-)	617,668,595	356,301,099
Securities of second-tier banks and other organisations	121,641,315	16,434,242
Municipal bonds of Akimat of Shymkent city	10,042,455	10,045,138
	749,352,365	382,780,479
Allowance for expected credit losses	(816,305)	(42,791)
Carrying amount of investments in Kazakhstan securities	748,536,060	382,737,688
Gross investment securities	986,733,327	682,731,667
Allowance for expected credit losses	(940,800)	(126,520)
Total investment securities	985,792,527	682,605,147

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE
YEAR ENDED 31 DECEMBER 2019**
**23. INVESTMENT SECURITIES MEASURED AT AMORTISED
COST, CONTINUED**
Analysis of allowance for expected credit losses

Movement in allowance for expected credit losses for investment securities measured at amortised cost for 2019 and 2018 is as follows:

KZT'000	2019	2018
	Stage 1	Stage 1
Investment securities measured at amortised cost		
Balance at 1 January	126,520	96,752
Net remeasurement of loss allowance	2,043	29,538
New financial assets originated or purchased	818,401	230
Financial assets that have been derecognised	(5,634)	-
Write-offs	(530)	-
Balance at 31 December	940,800	126,520

As at 31 December 2019 and 31 December 2018 the National Bank recognises loss allowances on investment securities measured at amortised cost at an amount equal to 12-month ECL.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

24. 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 as at 1 January 2019	36,636,461	33,246,520	3,893,817	2,979,317	3,462,350	7,619,411	87,837,876
Additions	1,406,889	1,992,296	2,163,597	198,868	775,235	1,314,262	7,851,147
Disposals	(1,259,197)	(875,649)	(689,349)	(120,732)	(1,255,927)	(1,069,185)	(5,270,039)
Write-offs	(2,255,544)	(236,315)	(80,178)	(521,178)	(761)	(378,328)	(3,472,304)
Balance as at 31 December 2019	34,528,609	34,126,852	5,287,887	2,536,275	2,980,897	7,486,160	86,946,680
Depreciation and amortisation and impairment losses							
Balance as at 1 January 2019	1,542,544	12,549,261	2,499,507	609,440	-	2,871,930	20,072,682
Depreciation and amortisation for the year	1,406,850	2,959,823	868,309	455,035	-	1,576,958	7,266,975
Disposals	(95,381)	(877,347)	(589,584)	(86,462)	-	(934,313)	(2,583,087)
Write-offs	(2,271,292)	(235,736)	(83,532)	(521,178)	-	(376,995)	(3,488,733)
Balance as at 31 December 2019	582,721	14,396,001	2,694,700	456,835	-	3,137,580	21,267,837
Carrying amount							
As at 31 December 2019	33,945,888	19,730,851	2,593,187	2,079,440	2,980,897	4,348,580	65,678,843

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

24. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS, CONTINUED

KZT'000	Land, buildings and structures	Furniture and equipment	Computers	Vehicles	Construction in progress/ equipment not yet installed	Intangible assets	Total
Historical/revalued cost							
Balance as 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 as 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 as at 31 December 2018	1,542,544	12,549,261	2,499,507	609,440	-	2,871,930	20,072,682
Carrying amount							
As 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

There are no capitalised borrowing costs related to the acquisition or construction of property and equipment during 2019 and 2018.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**

24. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS, CONTINUED

Depreciation expenses in the amount of KZT 3,748,941 thousand (2018: KZT 3,362,961 thousand) were included in depreciation and amortisation expenses, KZT 265,113 thousand (2018: KZT 385,360 thousand) – in general and administrative expenses, KZT 64,734 thousand (2018: KZT 116,544 thousand) – in expenses for the issuance of banknotes and coins, KZT 526,233 thousand (2018: KZT 292,910 thousand) – in commission income, KZT 2,661,954 thousand (2018: KZT 872,102 thousand) – in other operating income.

Revalued assets

As at 31 December 2019 and 31 December 2018 buildings, constructions and vehicles owned by the National Bank were not revalued.

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

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

Should the land plots, buildings, constructions and vehicles not be revalued, then their carrying amounts as at 31 December 2019 would have been KZT 12,161,613 thousand (31 December 2018: KZT 12,347,138 thousand).

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

25. OTHER ASSETS

	2019 KZT'000	2018 KZT'000
Claims for repurchased loans	250,935,550	36,059,391
Other receivables	16,691,051	14,816,641
Accounts receivable on debt securities issued	-	884,695,840
Total other financial assets before deduction of loss allowance	267,626,601	935,571,872
Allowance for expected credit losses on claims on repurchased loans	(722,780)	(494,427)
Loss allowance for other financial assets	(217,685)	(286,369)
Allowance for expected credit losses	(940,465)	(780,796)
Total other financial assets	266,686,136	934,791,076
Inventories	27,796,507	23,686,242
Refined and non-refined precious metals and stones	3,142,971	2,248,882
Prepayment for property and equipment	2,647,688	501,045
Prepayment for banknotes and coins production	23,521,159	3,108,698
Other	3,264,203	883,726
Total other non-financial assets	60,372,528	30,428,593
Total other assets	327,058,664	965,219,669

Claims on repurchased mortgage loans represent long-term rights of claim on mortgage 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”.

During 2019, MO “Baspana” JSC purchased mortgage loan portfolios from eight commercial banks (2018: six commercial banks).

Growth in the volume of purchased long-term rights of claim on mortgage housing loans during 2019 led to an increase in the gross carrying amount of portfolio by KZT 223,610,623 thousand, the corresponding increase in the expected credit losses on long-term rights of claims on purchased mortgage loans amounted to KZT 238,320 thousand.

As at 31 December 2018, the accounts receivable for debt securities issued reflect the cost of placement of the NBK debt securities as at the date of entering into transaction. Settlements for transactions on debt securities issued KZW1KD074873 and KZW1KD074881 with maturity dates on 10 January 2019 and 11 January 2019 were made at the dates of issue on 3 January 2019 and 4 January 2019, respectively.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

25. OTHER ASSETS, CONTINUED

Analysis of allowance for expected credit losses

Movement in allowance for expected credit losses for repurchased loans for 2019 and 2018 is as follows:

KZT'000	2019			
	Stage 1	Stage 2	Stage 3	Total
Claims for repurchased loans				
Balance at 1 January	493,261	-	1,166	494,427
Transfer to Stage 2	(1,615)	1,615	-	-
Transfer to Stage 3	(590)	-	590	-
Net remeasurement of loss allowance	2,122	1,725	7,549	11,396
New financial assets originated or purchased	238,320	-	-	238,320
Financial assets that have been derecognised	(20,787)	-	(576)	(21,363)
Balance at 31 December	710,711	3,340	8,729	722,780

KZT'000	2018			
	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

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

25. OTHER ASSETS, CONTINUED

Analysis of allowance for expected credit losses, continued

Movement in the impairment allowance for other financial assets for 2019 and 2018 is as follows:

KZT'000	2019			
	Stage 1	Stage 2	Stage 3	Total
Other financial assets				
Balance at 1 January	286,369	-	-	286,369
New financial assets originated or purchased	313,544	-	4,997	318,541
Write-offs	(387,225)	-	-	(387,225)
Balance at 31 December	212,688		4,997	217,685

KZT'000	2018			
	Stage 1	Stage 2	Stage 3	Total
Other financial assets				
Balance at 1 January	252,414	-	-	252,414
New financial assets originated or purchased	39,890	-	-	39,890
Write-offs	(5,935)	-	-	(5,935)
Balance at 31 December	286,369	-	-	286,369

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

25. OTHER ASSETS, CONTINUED

Credit quality analysis

The following table sets out information about the credit quality of other financial assets measured at amortised cost for 2019 and 2018:

KZT'000	2019			
	Stage 1	Stage 2	Stage 3	Total
Other financial assets				
Not overdue	267,497,348	-	-	267,497,348
Overdue 31-90 days	-	97,298	-	97,298
Overdue 91-180 days	-	-	4,612	4,612
Overdue 181-360 days	-	-	27,343	27,343
Gross carrying amount	267,497,348	97,298	31,955	267,626,601
Loss allowance	(923,399)	(3,340)	(13,726)	(940,465)
Carrying amount	266,573,949	93,958	18,229	266,686,136

KZT'000	2018			
	Stage 1	Stage 2	Stage 3	Total
Other financial assets				
Not overdue	935,288,322	-	-	935,288,322
Overdue 31-90 days	-	51,175	-	51,175
Overdue 91-180 days	-	-	15,852	15,852
Overdue 181-360 days	-	-	216,523	216,523
Gross carrying amount	935,288,322	51,175	232,375	935,571,872
Loss allowance	(780,796)	-	-	(780,796)
Carrying amount	934,507,526	51,175	232,375	934,791,076

26. CURRENCY IN CIRCULATION

	2019 KZT'000	2018 KZT'000
Banknotes and coins in circulation	2,690,130,336	2,620,735,396
Less banknotes and coins on hand and in reserve funds	(1,382,550)	(1,405,719)
	2,688,747,786	2,619,329,677

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

27. DEPOSITS AND BALANCES FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2019 KZT'000	2018 KZT'000
Deposits and balances from foreign banks and other financial institutions		
Current accounts of international financial organisations	508,023,480	513,093,468
OECD based banks	97,871	37,464,444
Other foreign banks	1,804,134	2,993,881
Total deposits and balances from foreign banks and other financial institutions	509,925,485	553,551,793
Deposits and balances from Kazakhstan banks and other financial institutions		
Loro accounts		
Kazakhstan 10 top banks*	1,398,559,539	1,718,056,249
Other Kazakhstan banks and financial institutions	499,214,510	1,007,627,397
Deposits**		
Kazakhstan 10 top banks*	1,174,829,358	1,196,354,116
Other Kazakhstan banks and financial institutions	802,897,309	1,397,918,343
Total deposits and balances from Kazakhstan banks	3,875,500,716	5,319,956,105
Electronic money liabilities	-	2,653
Total deposits and balances from banks and other financial institutions	4,385,426,201	5,873,510,551

* based on total assets as at 31 December 2019.

** include the liability part of the swap deals in the amount of KZT 15,099,183 thousand (31 December 2018: KZT 851,617,272 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).

As at 31 December 2019 the National Bank has three counterparties (31 December 2018: six counterparties), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2019 is KZT 1,745,431,948 thousand (31 December 2018: KZT 3,960,671,852 thousand).

As at 31 December 2019 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 508,016,638 thousand (31 December 2018: KZT 513,086,627 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).

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

28. REPURCHASE AGREEMENTS

In December 2019, the National Bank concluded repurchase agreements in the auto repo market of KASE in the amount of KZT 27,941,316 thousand (31 December 2018: KZT 135,827,043 thousand).

As at 31 December 2019, the fair value of financial assets collateralising repurchase agreements is KZT 27,284,433 thousand (31 December 2018: KZT 134,048,963 thousand).

29. 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 724,730,007 thousand as at 31 December 2019 (31 December 2018: KZT 707,324,124 thousand).

During 2019 and 2018 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.

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

	2019 KZT'000	2018 KZT'000
In national currency	394,704,948	439,249,723
In foreign currency	2,830,476	3,058,104
	397,535,424	442,307,827

31. CUSTOMER ACCOUNTS

	2019 KZT'000	2018 KZT'000
In national currency	180,136,454	199,177,350
In foreign currency	2,750,969	167,834
	182,887,423	199,345,184

During 2019 and 2018 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.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

31. CUSTOMER ACCOUNTS, CONTINUED

As at 31 December 2019 customer accounts did not include customers (31 December 2018: one customer) with a balance exceeding 2% (31 December 2018: 2%) of NBK's equity. This gross balance of said customer as at 31 December 2018 was KZT 68,949,071 thousand.

32. DEBT SECURITIES ISSUED

As at 31 December 2019 debt securities issued comprise the following:

Issues	Carrying amount	Issue date	Maturity date	Effective interest rate
KZW100010633	43,526,531	18/01/2019	17/01/2020	9.03
KZW100010831	37,652,064	08/02/2019	07/02/2020	9.12
KZW100010989	195,973,658	15/03/2019	13/03/2020	9.00
KZW100011045	48,447,859	05/04/2019	03/04/2020	8.96
KZW100011144	100,805,122	17/05/2019	15/05/2020	8.77
KZW100011193	51,630,387	07/06/2019	05/06/2020	8.92
KZW100011235	116,467,575	21/06/2019	19/06/2020	9.95
KZW100011284	359,360,113	12/07/2019	10/07/2020	9.97
KZW100011326	36,526,447	26/07/2019	24/01/2020	9.79
KZW100011367	87,574,882	09/08/2019	07/08/2020	9.97
KZW100011391	138,298,399	23/08/2019	21/02/2020	9.81
KZW100011425	56,986,940	06/09/2019	04/09/2020	10.00
KZW100011474	92,147,824	27/09/2019	27/03/2020	9.96
KZW100011508	51,678,763	11/10/2019	09/10/2020	10.17
KZW100011524	65,455,509	18/10/2019	17/01/2020	9.86
KZW100011532	86,688,017	16/10/2019	14/10/2020	10.17
KZW100011557	68,781,633	25/10/2019	24/04/2020	10.08
KZW100011573	114,828,473	01/11/2019	31/01/2020	9.89
KZW100011607	20,719,624	01/11/2019	30/10/2020	10.17
KZW100011623	24,296,935	08/11/2019	06/11/2020	10.19
KZW100011656	98,283,988	22/11/2019	22/05/2020	10.11
KZW100011680	50,817,055	06/12/2019	04/12/2020	10.20
KZW100011698	282,714,300	11/12/2019	08/01/2020	9.41
KZW100011706	256,588,732	18/12/2019	15/01/2020	9.41
KZW100011714	192,938,952	20/12/2019	20/03/2020	9.89
KZW100011722	326,087,700	25/12/2019	22/01/2020	9.39
KZW100011730	113,144,667	27/12/2019	26/06/2020	10.11
KZW100011748	259,632,313	31/12/2019	29/01/2020	9.37
	3,378,054,462			

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE
YEAR ENDED 31 DECEMBER 2019

32. DEBT SECURITIES ISSUED, CONTINUED

Issues	Carrying amount	Issue date	Maturity date	Effective interest rate
KZ2C00005833	10,581,151	05/04/2019	05/04/2020	9.72
KZ2C00005833	10,581,505	12/04/2019	05/04/2020	9.72
KZ2C00005833	10,586,133	13/05/2019	05/04/2020	9.55
KZ2C00005833	7,413,093	29/05/2019	05/04/2020	9.38
KZ2C00005833	3,177,249	13/06/2019	05/04/2020	9.37
KZ2C00005833	9,419,156	14/06/2019	05/04/2020	9.43
KZ2C00005833	7,396,705	02/07/2019	05/04/2020	10.27
KZ2C00005833	11,621,052	16/07/2019	05/04/2020	10.35
KZ2C00005833	10,565,638	25/07/2019	05/04/2020	10.31
KZ2C00005833	10,563,370	08/08/2019	05/04/2020	10.39
KZ2C00005833	6,338,881	23/08/2019	05/04/2020	10.34
KZ2C00005833	7,506,823	27/08/2019	05/04/2020	10.31
KZ2C00006211	8,101,405	26/09/2019	26/09/2021	10.33
KZ2C00006211	2,478,655	03/10/2019	26/09/2021	10.49
KZ2C00006211	14,775,829	09/10/2019	26/09/2021	10.92
KZ2C00006211	22,621,838	11/10/2019	26/09/2021	11.01
KZ2C00006211	20,998,514	29/10/2019	26/09/2021	11.02
KZ2C00006328	19,424,407	15/11/2019	15/11/2021	10.92
KZ2C00006328	9,547,303	21/11/2019	15/11/2021	10.92
KZ2C00006328	19,113,164	28/11/2019	15/11/2021	10.90
KZ2C00006328	11,760,780	05/12/2019	15/11/2021	10.89
KZ2C00006328	971,663	12/12/2019	15/11/2021	10.90
KZ2C00006328	3,889,065	19/12/2019	15/11/2021	10.84
KZ2C00006336	1,333,058	26/12/2019	26/12/2022	10.88
	240,766,437			
	3,618,820,899			

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

32. DEBT SECURITIES ISSUED, CONTINUED

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
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 2019**
32. DEBT SECURITIES ISSUED, CONTINUED
**Reconciliation of change in the debt securities issued and cash flows from
financing activities**

In 2019 and 2018 the change in the debt securities issued is as follows:

	2019 KZT'000
Balance at the beginning of the year	4,113,400,912
Notes issued, paid by cash	30,600,920,476
Nominal cost repaid	<u>(31,124,090,128)</u>
Total changes from financing cash flows	(523,169,652)
Other changes	
Interest accrued	307,960,426
Interest paid	<u>(279,370,787)</u>
Balance at the end of the year	<u>3,618,820,899</u>
	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	<u>(61,926,079,183)</u>
Total changes from financing cash flows	5,061,702
Accounts receivable on debt securities issued (Note 25)	884,695,840
Other changes	
Interest accrued	314,545,771
Interest paid	<u>(300,628,803)</u>
Balance at the end of the year	<u>4,113,400,912</u>

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

33. ESIMATED LIABILITIES

Provision for guaranteeing deposits is recognised in equity in the consolidated statement of financial position of the National Bank as “Special guarantee reserve” and amounts to KZT 500,764,758 thousand (31 December 2018: KZT 495,014,899 thousand) (Note 35).

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 33,162,428 thousand (31 December 2018: KZT 55,963,528 thousand).

The table below shows analysis of movements in reserves for expected credit losses for the years ended 31 December 2019 and 31 December 2018:

	2019 KZT'000	2018 KZT'000
Provision for guarantees at 1 January	55,963,528	20,517,848
<i>Changes affecting contributions to provision for estimated liabilities</i>		
Change in risk parameters	9,543,579	2,967,593
Occurrence of default event (transfer from stage 2 to stage 3)	-	52,346,251
Transfer to liabilities to depositors due to liquidation	-	(20,681,926)
Change in the amount of guaranteed compensation on deposits	5,170,455	813,762
Total expenses stated in profit or loss for the year	14,714,034	35,445,680
Transfer to liabilities to depositors due to liquidation	(37,515,134)	-
Provision for guarantees at 31 December	33,162,428	55,963,528

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

33. ESIMATED LIABILITIES, CONTINUED

Guarantee reserve movement

The change in the guarantee reserve for 2019 and 2018 is presented as follows:

KZT'000	2019			
	Stage 1	Stage 2	Stage 3	Total
Guarantee reserve				
Balance at 1 January	18,448,394	-	37,515,134	55,963,528
- Transfer to Stage 2	(5,170,455)	5,170,455	-	-
Payment of guarantee indemnity in connection with the liquidation	14,714,034	-	-	14,714,034
Net remeasurement of loss allowance	-	-	(37,515,134)	(37,515,134)
Balance at 31 December	27,991,973	5,170,455	-	33,162,428

KZT'000	2018			
	Stage 1	Stage2	Stage 3	Total
Guarantee reserve				
Balance at 1 January	14,047,554	6,470,294	-	20,517,848
- Transfer to Stage3	-	(31,664,325)	31,664,325	-
Net remeasurement of loss allowance	4,400,840	25,194,031	5,850,809	35,445,680
Balance at 31 December	18,448,394	-	37,515,134	55,963,528

In 2018 KDIF JSC created reserves for financial guarantees for the obligations related to the payment of guarantee compensation to depositors of two second-tier banks in the amount of KZT 37,515,134 thousand. In 2019 payments of guarantee compensation to depositors of these banks in connection with their liquidation were made at the expense of previously created reserves and expenses of the current period. The amount of liabilities for these banks amounted to KZT 37,854,994 thousand.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**

33. ESIMATED 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.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

34. OTHER LIABILITIES

	2019 KZT'000	2018 KZT'000
Other creditors on non-banking activity	14,287,979	2,956,400
Other creditors on banking activity	3,257,437	50,341,331
Total other financial liabilities	17,545,416	53,297,731
Salaries payable	6,063,447	5,817,427
Tax payable (except for corporate income tax)	1,480,208	1,028,191
Other prepayments received	994,087	962,417
Payables on purchase of property and equipment	246,343	17,667
Total other non-financial liabilities	8,784,085	7,825,702
Total other liabilities	26,329,501	61,123,433

Other creditors on non-banking activity comprise obligations to pay for the purchase of gold from counterparties in the amount of KZT 11,118,356 thousand, which were settled in January 2020.

In 2019 KDIF JSC recognised liabilities on payment of guaranteed compensation to the depositors of the banks being liquidated. The amount of liabilities thereon was KZT 37,854,994 thousand. Payment of guaranteed compensation was made through the agent bank. As at 31 December 2019 the remaining portion of the liability on payment of guaranteed compensation is KZT 1,327,982 thousand (31 December 2018: KZT 8,001,574 thousand).

Other creditors on banking activity in 2018 include liabilities of KASE JSC on margin security for clearing members as part of fulfilment of its functions as the central counterparty.

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 counterparty in the stock market of foreign currencies. The purpose in implementation of the central counterparty 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 creditors on banking activity include the KASE JSC liabilities related to the margin security of the clearing participants.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**

35. 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 2019 and 31 December 2018 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 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 2019 the capital reserve was nil (31 December 2018: nil).

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 guaranteed compensation to the depositors in case of forced liquidation of a participating bank.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

35. CHARTER CAPITAL, CONTINUED

Special guarantee reserve, continued

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 2019 and 2018 is KZT 500,764,758 thousand or 5.4% and KZT 495,014,899 thousand or 5.6% of gross amount of guaranteed deposits in participating banks, respectively.

	2019 KZT'000	2018 KZT'000
Calendar contributions of banks participating in the deposit guarantee system	242,868,293	251,306,310
Amount of compensation made by a liquidation commission of a forcibly liquidated bank	17,359,058	10,746,524
Fines and penalties paid by banks participating in the deposit guarantee system	50,099	49,581
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	184,887,308	177,312,484
Special guarantee reserve	500,764,758	495,014,899

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.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**

35. CHARTER CAPITAL, CONTINUED**Capital management, continued**

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.

36. 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.

37. 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 international best practice.

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

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**

37. 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 Management Board on 17 June 2015 No. 112 (the "GFCA Investment Strategy"), the main goals of risk management are maintenance of liquidity and safety of the National Bank'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 NBK 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 NBK 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.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

37. 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 factors 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, while 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 (“Volatility of divergence of portfolio's returns”). 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 2019 and 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 2019**

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

Investments in hedge funds, private equity funds and real estate funds bear, primarily, market risk and liquidity 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 2019

37. 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 2019							
ASSETS							
Cash on hand in foreign currency	-	-	-	-	-	113,367,726	113,367,726
Gold	881,427,572	194,067,835	295,997,216	-	-	5,858,648,339	7,230,140,962
Placements and loans with banks and other financial institutions	886,155,515	-	10,668,033	-	1,009,016,942	719,791,711	2,625,632,201
Financial instruments under management at fair value through profit or loss	592,356	-	-	-	-	367,240,834	367,833,190
Reverse repurchase agreements	145,868,206	-	-	-	-	-	145,868,206
Investment securities at fair value through other comprehensive income	232,179,134	110,850,380	85,513,756	1,289,217,932	704,260,939	855,231,086	3,277,253,227
Investment securities at amortised cost	9,332,144	19,068,344	32,092,523	292,218,462	633,081,054	-	985,792,527
Other financial assets	4,958	3,269	9,796	3,883,358	247,742,863	15,041,892	266,686,136
	2,155,559,885	323,989,828	424,281,324	1,585,319,752	2,594,101,798	7,929,321,588	15,012,574,175

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

37. 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	-	-	-	-	-	2,688,747,786	2,688,747,786
Deposits and balances from banks and other financial institutions	1,943,481,776	19,145,707	15,175,701	-	-	2,407,623,017	4,385,426,201
Financial instruments under management at fair value through profit or loss	178,391	-	-	-	-	755,824	934,215
Repurchase agreements	27,941,316	-	-	-	-	-	27,941,316
Current accounts of the National Fund of the Republic of Kazakhstan	-	-	-	-	-	724,730,007	724,730,007
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	394,704,948	-	-	-	-	2,830,476	397,535,424
Customer accounts	-	-	-	-	-	182,887,423	182,887,423
Debt securities issued	2,042,370,902	703,311,987	738,122,328	135,015,682	-	-	3,618,820,899
Estimated liabilities	-	-	-	-	-	33,162,428	33,162,428
Other financial liabilities	-	-	-	-	-	17,545,416	17,545,416
	4,408,677,333	722,457,694	753,298,029	135,015,682	-	6,058,282,377	12,077,731,115
	(2,253,117,448)	(398,467,866)	(329,016,705)	1,450,304,070	2,594,101,798	1,871,039,211	2,934,843,060

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

37. 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 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 under management 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 fair value through other comprehensive income	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 at amortised cost	10,427,132	21,385,324	34,868,374	270,256,047	229,086,881	116,581,389	682,605,147
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	8,706,848,447	16,876,940,070

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

37. 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 under management 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
	<u>5,060,393,945</u>	<u>455,812,477</u>	<u>1,312,131,268</u>	<u>15,162,723</u>	<u>-</u>	<u>7,364,515,523</u>	<u>14,208,015,936</u>
	<u>(2,556,733,071)</u>	<u>19,393,089</u>	<u>57,575,739</u>	<u>2,240,018,882</u>	<u>1,566,336,571</u>	<u>1,342,332,924</u>	<u>2,668,924,134</u>

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

37. RISK MANAGEMENT, CONTINUED

Market risk, continued

Interest rate risk, continued

Average effective interest rates

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

	2019 KZT'000 Book value	Average effective interest rate, %	2018 KZT'000 Book value	Average effective interest rate, %
Interest-bearing assets				
Gold				
<i>Gold deposits with foreign banks</i>	1,371,492,623	0.03	1,154,397,817	0.05
Placements and loans with banks and other financial institutions				
<i>Nostro accounts</i>				
- JPY	339,662,264	0.29	346,133,377	0.13
- USD	282,243,204	1.44	390,284,259	2.39
- EUR	228,886,883	0.59	14,857,495	0.60
- RUB	16,362,042	2.00	5,820	0.15
- KRW	124,036	0.10	2,151,343	0.10
- GBP	-	-	4,175,853	0.75
- other currencies	3,896,491	0.73	2,121,936	0.76
<i>Loans and deposits with banks</i>				
- KZT	1,034,665,570	6.65	1,679,835,803	4.47
- USD	-	-	519,319,803	2.71
- AUD	-	-	8,682,351	2.32
Financial instruments under management at fair value through profit or loss				
- KZT	592,356	10.09	-	-
Reverse repurchase agreements				
- KZT	145,868,206	8.63	222,653,522	7.00

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

37. RISK MANAGEMENT, CONTINUED

Market risk, continued

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

	2019 KZT'000 Book value	Average effective interest rate, %	2018 KZT'000 Book value	Average effective interest rate, %
Investment securities at fair value through other comprehensive income				
- USD	1,318,003,077	3.42	1,967,770,352	2.98
- KZT	592,960,274	8.16	427,390,551	7.76
- EUR	262,104,826	1.22	300,702,921	1.28
- GBP	84,254,345	2.57	181,621,418	2.20
- AUD	54,453,652	3.65	117,500,140	3.40
- CAD	52,139,101	2.01	91,164,058	2.28
- JPY	29,658,859	0.38	56,892,823	0.16
- KRW	28,448,007	2.68	79,116,113	2.87
Investment securities at amortised cost				
- KZT	907,699,125	7.46	489,884,291	6.01
- CNY	77,974,390	3.12	76,019,324	2.99
- USD	119,012	3.20	120,143	3.20
Other assets				
- KZT	251,644,244	4.91	37,290,110	3.09
Interest-bearing liabilities				
Deposits and balances from banks and other financial institutions				
<i>Term deposits</i>				
- KZT	1,054,492,049	8.85	860,903,748	8.25
- USD	923,234,617	0.77	1,733,368,710	1.03
<i>Loans and borrowings</i>				
- KZT	76,518	5.00	-	-
Financial instruments under management at fair value through profit or loss				
- RUB	178,391	5.65	-	-

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

37. RISK MANAGEMENT, CONTINUED

Market risk, continued

Interest rate risk, continued

Average effective interest rates, continued

	2019 KZT'000 Book value	Average effective interest rate, %	2018 KZT'000 Book value	Average effective interest rate, %
Repurchase agreements				
- KZT	27,941,316	8.25	135,827,043	8.25
Unified Treasury Account				
- KZT	394,704,948	0.25	-	-
Debt securities issued				
- KZT	3,618,820,899	9.56	4,113,400,912	8.70

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 2019 and 31 December 2018 is as follows:

	2019		2018	
	Profit or loss KZT'000	Equity KZT'000	Profit or loss KZT'000	Equity KZT'000
300 bp parallel rise	(58,722,226)	(58,722,226)	(66,318,805)	(66,318,805)
300 bp parallel fall	58,722,226	58,722,226	66,318,805	66,318,805

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

37. RISK MANAGEMENT, CONTINUED

Market risk, continued

Interest rate risk, continued

Interest rate sensitivity analysis, continued

An analysis of the sensitivity of 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 at fair value through other comprehensive income due to changes in the interest rates, based on positions existing as at 31 December 2019 and 2018 and a simplified scenario of a 50 bp symmetrical fall or rise in all yield curves, is as follows:

	2019		2018	
	Net profit or loss KZT'000	Equity KZT'000	Net profit or loss KZT'000	Equity KZT'000
50 bp parallel fall	-	42,330,398	-	48,765,469
50 bp parallel rise	-	(44,182,322)	-	(49,688,702)

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. 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.

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.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

37. RISK MANAGEMENT, CONTINUED

Market risk, continued

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

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

KZT'000	KZT	Gold	USD	EUR	JPY	SDR	GBP	Other	Total
ASSETS									
Cash on hand in foreign currency	-	-	112,273,640	988,928	7,191	-	48,738	49,229	113,367,726
Gold	-	7,230,140,962	-	-	-	-	-	-	7,230,140,962
Placements and loans with banks and other financial institutions	1,040,104,336	-	348,123,375	238,773,503	345,245,722	615,733,251	12,163,675	25,488,339	2,625,632,201
Financial instruments under management at fair value through profit or loss	699,588	-	366,846,541	128,506	880	-	39,249	118,426	367,833,190
Reverse repurchase agreements	145,868,206	-	-	-	-	-	-	-	145,868,206
Investment securities at fair value through other comprehensive income	1,342,960,273	-	1,393,929,217	290,440,230	12,466,502	-	100,071,220	137,385,785	3,277,253,227
Investment securities at amortised cost	907,699,125	-	119,012	-	-	-	-	77,974,390	985,792,527
Investments in associates	2,291,347	-	-	-	-	-	-	-	2,291,347
Other financial assets	266,686,099	-	-	37	-	-	-	-	266,686,136
Total assets	3,706,308,974	7,230,140,962	2,221,291,785	530,331,204	357,720,295	615,733,251	112,322,882	241,016,169	15,014,865,522

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

37. RISK MANAGEMENT, CONTINUED

Market risk, continued

Currency risk, continued

KZT'000	KZT	Gold	USD	EUR	JPY	SDR	GBP	Other	Total
LIABILITIES									
Currency in circulation	2,688,747,786	-	-	-	-	-	-	-	2,688,747,786
Deposits and balances from banks and other financial institutions	1,482,880,456	374	1,719,865,609	334,432,188	319,195,287	508,016,638	5,202,481	15,833,168	4,385,426,201
Financial instruments under management at fair value through profit or loss	-	-	454,304	55,696	47,114	-	16,281	360,820	934,215
Repurchase agreements	27,941,316	-	-	-	-	-	-	-	27,941,316
Current accounts of the National Fund of the Republic of Kazakhstan	724,730,007	-	-	-	-	-	-	-	724,730,007
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	394,704,948	-	70,527	-	-	-	-	2,759,949	397,535,424
Customer accounts	180,136,454	-	2,693,054	54,369	-	-	113	3,433	182,887,423
Debt securities issued	3,618,820,899	-	-	-	-	-	-	-	3,618,820,899
Estimated liabilities	33,162,428	-	-	-	-	-	-	-	33,162,428
Other financial liabilities	15,263,968	-	2,278,788	2,660	-	-	-	-	17,545,416
Total liabilities	9,166,388,262	374	1,725,362,282	334,544,913	319,242,401	508,016,638	5,218,875	18,957,370	12,077,731,115
Net position	(5,460,079,288)	7,230,140,588	495,929,503	195,786,291	38,477,894	107,716,613	107,104,007	222,058,799	2,937,134,407
The effect of derivatives held for risk management	39,706,245	-	(114,777,000)	114,810,767	-	-	-	(39,706,245)	33,767
Net position after derivatives held for risk management purposes	(5,420,373,043)	7,230,140,588	381,152,503	310,597,058	38,477,894	107,716,613	107,104,007	182,352,554	2,937,168,174

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

37. RISK MANAGEMENT, CONTINUED

Market risk, continued

Currency risk, continued

The following table shows the currency 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 under management 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 2019

37. 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
Deposits and balances from 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 under management 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 2019

37. RISK MANAGEMENT, CONTINUED

Market risk, continued

Currency risk, continued

Management of the National Bank believes that, as at 31 December 2019 given the current economic conditions in Kazakhstan, increase and decrease 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 at 31 December 2019 and adjusts their translation for appreciation and depreciation in currency rates as at 31 December 2019.

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

	Equity KZT'000 2019	Equity KZT'000 2018
	(+20% -20%)	(+20% -20%)
Appreciation of USD against KZT	76,230,501	162,327,542
Depreciation of USD against KZT	(76,230,501)	(162,327,542)
Appreciation of EUR against KZT	62,119,412	84,706,914
Depreciation of EUR against KZT	(62,119,412)	(84,706,914)
Appreciation of Troy ounce of gold against KZT	1,446,028,118	1,106,006,995
Depreciation of Troy ounce of gold against KZT	(1,446,028,118)	(1,106,006,995)
Appreciation of JPY against KZT	7,695,579	22,177,470
Depreciation of JPY against KZT	(7,695,579)	(22,177,470)
Appreciation of GBP against KZT	21,420,801	37,976,172
Depreciation of GBP against KZT	(21,420,801)	(37,976,172)
Appreciation of SDR against KZT	21,543,323	21,544,852
Depreciation of SDR against KZT	(21,543,323)	(21,544,852)
Appreciation of other currencies against KZT	36,470,511	81,560,099
Depreciation of other currencies against KZT	(36,470,511)	(81,560,099)

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

37. 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 KZT exchange rate, while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. 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.

An analysis of sensitivity of profit or loss and equity to changes in securities prices based on positions existing as at 31 December 2019 and 2018 and a simplified scenario of a 10% change in all securities prices is as follows:

	2019		2018	
	Profit or loss KZT'000	Equity KZT'000	Profit or loss KZT'000	Equity KZT'000
10% increase in securities prices	36,639,102	76,952,615	22,677,483	76,524,444
10% decrease in securities prices	(36,639,102)	(76,952,615)	(22,677,483)	(76,524,444)

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**

37. RISK MANAGEMENT, CONTINUED**Credit risk**

Credit risk is the risk of financial loss to the National Bank if a borrower, 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. The credit risk management policy is reviewed and approved by the Management Board.

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, clearing brokers and custodians;
- procedures for ongoing monitoring and review of the risk limit of the National Bank's counterparties, clearing brokers and custodians.

The Monetary Operations Division, 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, clearing broker and custodian. 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 2019

37. RISK MANAGEMENT, CONTINUED

Credit risk, continued

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

	2019 KZT'000	2018 KZT'000
ASSETS		
Gold	1,371,492,623	1,154,397,817
Placements and loans with banks and other financial institutions	2,625,632,201	4,167,083,127
Financial instruments under management at fair value through profit or loss	367,833,190	233,973,568
Reverse repurchase agreements	145,868,206	222,653,522
Investment securities at fair value through other comprehensive income	2,507,727,077	4,232,602,433
Investment securities at amortised cost	985,792,527	682,605,147
Other financial assets	266,686,136	934,791,076
Total maximum exposure	<u>8,271,031,960</u>	<u>11,628,106,690</u>

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in Note 38.

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.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**

37. RISK MANAGEMENT, CONTINUED**Offsetting financial assets and financial liabilities, continued**

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 receives 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 2019

37. RISK MANAGEMENT, CONTINUED

Offsetting financial assets and financial liabilities, continued

The table below shows financial assets and financial liabilities subject to an enforceable master netting arrangement or similar agreement as at 31 December 2019:

KZT'000

Types of financial asset/liability	Gross amounts of recognised financial assets/liabilities	Gross amounts of recognised financial assets/ liabilities 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	10,669,586	-	10,669,586	(10,669,586)	-	-
Reverse repurchase agreements	145,868,206	-	145,868,206	(145,868,206)	-	-
Investment securities at fair value through other comprehensive income	27,284,433	-	27,284,433	(27,284,433)	-	-
Total financial assets	183,822,225	-	183,822,225	(183,822,225)	-	-
Deposits and balances from banks and other financial institutions	(15,099,183)	-	(15,099,183)	10,669,586	-	(4,429,597)
Repurchase agreements	(27,941,316)	-	(27,941,316)	27,941,316	-	-
Total financial liabilities	(43,040,499)	-	(43,040,499)	38,610,902	-	(4,429,597)

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

37. RISK MANAGEMENT, CONTINUED

Offsetting financial assets and financial liabilities, continued

The table below shows financial assets and financial liabilities subject to an enforceable master netting arrangement or similar agreement as at 31 December 2018:

KZT'000

Types of financial assets/liabilities	Gross amounts of recognised financial assets/liabilities	Gross amounts of recognised financial assets/liabilities 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 fair value through other comprehensive income	134,048,963	-	134,048,963	(134,048,963)	-	-
Total financial assets	1,094,025,734	-	1,094,025,734	(1,094,025,734)	-	-
Deposits and balances from 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 2019

37. 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 2019.

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	10,669,586	Placements and loans with banks and other financial institutions	2,625,632,201	2,614,962,615	19
Reverse repurchase agreements	145,868,206	Reverse repurchase agreements	145,868,206	-	21
Investment securities at fair value through other comprehensive income	27,284,433	Investment securities at fair value through other comprehensive income	3,277,253,227	3,249,968,794	22
Deposits and balances from banks and other financial institutions	(15,099,183)	Deposits and balances from banks and other financial institutions	(4,385,426,201)	(4,370,327,018)	27
Repurchase agreements	(27,941,316)	Repurchase agreements	(27,941,316)	-	28

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

37. 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 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	19
Reverse repurchase agreements	222,653,522	Reverse repurchase agreements	222,653,522	-	21
Investment securities at fair value through other comprehensive income	134,048,963	Investment securities at fair value through other comprehensive income	4,997,846,874	4,863,797,911	22
Deposits and balances from banks and other financial institutions	(851,617,272)	Deposits and balances from banks and other financial institutions	(5,873,510,551)	(5,021,893,279)	27
Repurchase agreements	(135,827,043)	Repurchase agreements	(135,827,043)	-	28

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**

37. RISK MANAGEMENT, CONTINUED**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.

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 retail 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 taking into account 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 2019

37. 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 as soon as it possible if required.

According to the Investment Strategy of Gold and Foreign Exchange Reserves of the National Bank 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 as soon as practicable, but not later than 1 month of the observance of such non-compliance, or within a different period provided for by the decision of the Investment Committee of the National Bank.

The assets of the liquidity portfolio may be invested in cash currency, state (sovereign) debt securities of the 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 lower than AAA (Standard & Poor's) and/or Aaa (Moody's), regional (municipal) debt securities of the countries with credit rating not lower than A- (Standard & Poor's) and/or A3 (Moody's), certificates of deposit (CD), commercial papers (CP) with short-term credit rating not lower than A - 1 (Standard & Poor's) or P-1 (Moody's), deposits, forward transactions in fully convertible currencies with maturity of up to 1 month as part of hedging of foreign currency liabilities. The maximum term for the deposit should not exceed one month.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE
YEAR ENDED 31 DECEMBER 2019**

37. RISK MANAGEMENT, CONTINUED**Liquidity risk, continued**

The assets of the liquidity portfolio are invested in freely convertible currencies, in the national currency of the People's Republic of China, as well as in the currencies of the countries of the Eurasian Economic Union.

If the volume of assets in liquidity portfolio, net of liabilities of the National Bank to the second-tier banks and other clients, is greater than zero, the portion of such USD-denominated assets makes up at least 70 (seventy) percent of that volume. In case of non-compliance with this criterion, the Department of Monetary Operations corrects the violation within 14 (fourteen) calendar days. If the volume of assets in liquidity portfolio, net of liabilities of the National Bank to the second-tier banks and other clients, is less than zero, the target portion of the USD-denominated assets in liquidity portfolio makes up 50 (fifty) percent of the USD-denominated liabilities.

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 2019

37. RISK MANAGEMENT, CONTINUED

Liquidity risk, continued

The maturity analysis for financial liabilities as at 31 December 2019 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 outflow (inflow)	Carrying amount
Non-derivative financial liabilities								
Deposits and balances from banks and other financial institutions	3,843,532,963	-	19,178,652	15,175,701	-	508,389,168	4,386,276,484	4,385,426,201
Repurchase agreements	27,966,572	-	-	-	-	-	27,966,572	27,941,316
Current accounts of the National Fund of the Republic of Kazakhstan	724,730,007	-	-	-	-	-	724,730,007	724,730,007
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	397,619,240	-	-	-	-	-	397,619,240	397,535,424
Customer accounts	182,887,423	-	-	-	-	-	182,887,423	182,887,423
Debt securities issued	1,276,290,281	784,790,104	719,724,715	785,596,952	138,016,000	-	3,704,418,052	3,618,820,899
Estimated liabilities	33,162,428	-	-	-	-	-	33,162,428	33,162,428
Other financial liabilities	17,545,416	-	-	-	-	-	17,545,416	17,545,416
Derivative liabilities								
- Inflow	(186,199,454)	-	-	-	-	-	(186,199,454)	-
- Outflow	218,708,528	-	-	-	-	-	218,708,528	934,215
Total liabilities	6,536,243,404	784,790,104	738,903,367	800,772,653	138,016,000	508,389,168	9,507,114,696	9,388,983,329
Credit related commitments	338,371,970	-	-	-	-	-	338,371,970	338,371,970

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

37. 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 outflow (inflow)	Carrying amount
Non-derivative financial 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
Estimated liabilities	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 2019**

37. 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 outflow/(inflow) 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 2019

37. 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 2019:

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	113,367,726	-	-	-	-	-	113,367,726
Gold	829,088,387	60,817,232	490,065,051	-	-	5,850,170,292	7,230,140,962
Placements and loans with banks and other financial institutions	978,594,222	14,119,456	10,668,033	-	1,009,387,386	612,863,104	2,625,632,201
Financial instruments under management at fair value through profit or loss	265,385	1,176,790	-	-	-	366,391,015	367,833,190
Reverse repurchase agreements	86,147,299	59,720,907	-	-	-	-	145,868,206
Investment securities at fair value through other comprehensive income	29,437,133	85,604,284	132,016,880	1,550,807,912	705,037,864	774,349,154	3,277,253,227
Investment securities at amortised cost	-	9,332,144	51,160,867	292,218,462	633,081,054	-	985,792,527
Investments in associates	-	-	-	-	-	2,291,347	2,291,347
Other financial assets	15,046,712	138	13,065	3,883,358	247,742,863	-	266,686,136
Total assets	2,051,946,864	230,770,951	683,923,896	1,846,909,732	2,595,249,167	7,606,064,912	15,014,865,522

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

37. RISK MANAGEMENT, CONTINUED

Liquidity risk, continued

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
LIABILITIES							
Currency in circulation	-	-	-	-	-	2,688,747,786	2,688,747,786
Deposits and balances from banks and other financial institutions	3,843,088,155	-	34,321,408	-	-	508,016,638	4,385,426,201
Financial instruments under management at fair value through profit or loss	228,195	706,020	-	-	-	-	934,215
Repurchase agreements	27,941,316	-	-	-	-	-	27,941,316
Current accounts of the National Fund of the Republic of Kazakhstan	724,730,007	-	-	-	-	-	724,730,007
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	397,535,424	-	-	-	-	-	397,535,424
Customer accounts	182,887,423	-	-	-	-	-	182,887,423
Debt securities issued	1,270,531,533	771,839,369	1,441,434,315	135,015,682	-	-	3,618,820,899
Estimated liabilities	33,162,428	-	-	-	-	-	33,162,428
Other financial liabilities	17,545,416	-	-	-	-	-	17,545,416
Total liabilities	6,497,649,897	772,545,389	1,475,755,723	135,015,682	-	3,196,764,424	12,077,731,115
Net position	(4,445,703,033)	(541,774,438)	(791,831,827)	1,711,894,050	2,595,249,167	4,409,300,488	2,937,134,407

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

37. 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 under management 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 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 2019

37. RISK MANAGEMENT, CONTINUED

Liquidity risk, continued

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
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 under management 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 2019

38. 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 issues financial guarantees and letters of credit to guarantee the performance of customers' obligations to third parties. These agreements have fixed limits and generally have a validity 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.

	2019 KZT'000	2018 KZT'000
Contracted amount		
Investment commitments	337,305,007	214,376,060
Loan and credit line commitments	1,049,231	5,223,253
Guarantees and letters of credit	17,732	12,000
	338,371,970	219,611,313

All credit related commitments relate to Stage 1 of credit risk.

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 2019, they have payment liabilities of KZT 337,305,007 thousand (at 31 December 2018: KZT 214,376,060 thousand) to private equity funds 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. The total outstanding contractual credit related commitments above do not necessarily represent future cash requirements.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**

39. 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. Taxes are subject to review and investigation by a number of authorities, which 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.

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

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**

40. 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 2019, the total amount of assets that the National Bank holds and manages for outside organisations is KZT 3,005,069,993 thousand (31 December 2018: KZT 2,886,276,152 thousand).

As at 31 December 2019, the total amount of assets that the National Bank holds and manages for the National Fund is KZT 25,105,963,753 thousand (31 December 2018: KZT 23,673,840,860 thousand). A portion of these funds is managed by external managers in accordance with the investment policies set by the NBK.

Custody activities

During 2019 and 2018, the National Bank provided custody services to UNPF JSC. As at 31 December 2019, the total amount of assets of UNPF JSC under the custodial service of the National Bank equals KZT 10,798,305,943 thousand (31 December 2018: KZT 9,378,030,700 thousand).

Assets of depositors

On 26 November 2012 the NBK acquired shares of “Central Securities Depository” JSC (the “Central Depository”), which performs the accounting for 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 2019, the total amount of financial instruments and money in nominal holding and bank accounts of depositors in the Central Depository is KZT 66,944,975,992 thousand (31 December 2018: KZT 26,993,916,588 thousand).

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

41. RELATED PARTY TRANSACTIONS

Transactions with members of the Board of Directors and 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 2019, comprised KZT 826,770 thousand (2018: KZT 823,237 thousand). The remuneration consists of salary and other payments.

Transactions with other related parties

The outstanding balances and the related average interest rates as at 31 December 2019 and 31 December 2018 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 2019		31 December 2018	
	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	496,128,056	8.86	387,611,975	11.54
Financial instruments under management at fair value through profit or loss	-	-	1,418,200	-
Reverse repurchase agreements	73,020,506	10.25	-	-
Investment securities at fair value through other comprehensive income:				
Equity securities	750,000,000	-	750,000,000	-
Debt securities	592,960,273	8.16	427,390,550	7.69
Investment securities at amortised cost	720,876,946	8.05	381,763,989	6.10
Current tax asset	1,157,892	-	1,181,113	-
Deferred tax assets	248,828,889	-	114,394,028	-
Other assets	13,475,343	-	6,516,730	-

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

41. RELATED PARTY TRANSACTIONS, CONTINUED

Transactions with other related parties, continued

	State companies and organisations			
	31 December 2019		31 December 2018	
	KZT'000	Average effective interest rate, %	KZT'000	Average effective interest rate, %
LIABILITIES				
Deposits and balances from banks and other financial institutions	704,194,880	6.16	893,231,111	4.29
Repurchase agreements	27,941,316	8.25	-	-
Current accounts of the National Fund of the Republic of Kazakhstan	724,730,007	-	707,324,124	-
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	397,535,424	0.25	442,307,827	-
Customer accounts	178,723,600	-	198,455,074	-
Current tax liability	146	-	2,236,232	-
Deferred tax liabilities	2,483,478	-	2,409,482	-
Other liabilities	6,475,662	-	1,095,771	-

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

41. RELATED PARTY TRANSACTIONS, CONTINUED

Transactions with other related parties, continued

	State companies and organisations	
	2019	2018
	KZT'000	KZT'000
Consolidated statement of profit or loss		
Interest income calculated using the effective interest method	187,413,373	30,590,199
Interest expense	(50,856,002)	(16,987,376)
Fee and commission income	20,305,694	15,894,655
Fee and commission expense	(1,157,734)	(875,070)
Net gain on financial instruments at fair value through other comprehensive income	3,542,634	3,595,213
Other operating income/(expense), net	(27,055)	1,335,503
Banknotes and coins production expenses	(35,892)	(39,995)
Funding of third parties	-	(53,257)
Personnel expenses	(1,694,622)	(1,521,972)
Other general administrative expenses	(2,144,825)	(2,096,601)
Income tax benefit	135,410,044	23,908,748

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

42. 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 2019.

KZT'000	Designated at fair value in accordance with the Accounting Policy (Note 2)	Designated at fair value through profit or loss	FVOCI – debt	FVOCI – equity	Other at amortised cost	Total carrying amount	Fair value
ASSETS							
Cash on hand in foreign currency	-	-	-		113,367,726	113,367,726	113,367,726
Gold	7,230,140,962	-	-	-	-	7,230,140,962	7,230,140,962
Placements and loans with banks and other financial institutions	-	370,283,443	-	-	2,244,679,172	2,614,962,615	2,614,962,615
Financial instruments under management at fair value through profit or loss	-	367,833,190	-	-	-	367,833,190	367,833,190
Reverse repurchase agreements	-	-	-	-	145,868,206	145,868,206	146,683,539
Investment securities at fair value through other comprehensive income	-	-	2,507,727,077	19,526,150	-	2,527,253,227	2,527,253,227
Investment securities at amortised cost	-	-	-	-	985,792,527	985,792,527	946,757,595
Other financial assets	-	-	-		266,686,136	266,686,136	266,686,136
	7,230,140,962	738,116,633	2,507,727,077	19,526,150	3,756,393,767	14,251,904,589	14,213,684,990

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

42. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS, CONTINUED

Accounting classifications and fair values, continued

KZT'000	Designated at fair value through profit or loss	Other at amortised cost	Total carrying amount	Fair value
LIABILITIES				
Currency in circulation	-	2,688,747,786	2,688,747,786	2,688,747,786
Deposits and balances from banks and other financial institutions	-	4,370,327,018	4,370,327,018	4,370,327,018
Financial instruments under management at fair value through profit or loss	934,215	-	934,215	934,215
Repurchase agreements	-	27,941,316	27,941,316	27,284,433
Current accounts of the National Fund of the Republic of Kazakhstan	-	724,730,007	724,730,007	724,730,007
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	-	397,535,424	397,535,424	397,535,424
Customer accounts	-	182,887,423	182,887,423	182,887,423
Debt securities issued	-	3,618,820,899	3,618,820,899	3,628,200,507
Estimated liabilities	-	33,162,428	33,162,428	33,162,428
Other financial liabilities	-	17,545,416	17,545,416	17,545,416
	934,215	12,061,697,717	12,062,631,932	12,071,354,657

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

42. 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 2018.

KZT'000	Designated at fair value in accordance with the Accounting Policy (Note 2)	Designated at fair value through profit or loss	FVOCI – debt	FVOCI – equity	Other at amortised cost	Total carrying amount	Fair value
ASSETS							
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	-	296,313,005	-	-	3,133,446,873	3,429,759,878	3,429,759,878
Financial instruments under management 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 at amortised cost	-	-	-	-	682,605,147	682,605,147	656,052,743
Other financial assets	-	-	-		934,791,076	934,791,076	934,791,076
	5,530,034,976	530,286,573	4,232,602,433	15,244,441	5,081,448,398	15,389,616,821	15,372,163,047

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

42. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS, CONTINUED

Accounting classifications and fair values, continued

KZT'000	Designated at fair value through profit or loss	Other at amortised cost	Total carrying amount	Fair value
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
Financial instruments under management at fair value through profit or loss	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	4,113,400,912	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 2019**

42. 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.

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 judgement 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 2019 and 2018, fair value of investments in hedge funds, private equity funds and real estate funds is based on net assets value provided by Independent Administrator and/or Managing Director.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**

42. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS, CONTINUED**Accounting classifications and fair values, continued**

As disclosed in Note 22, the fair value of unquoted equity securities measured through other comprehensive income with a carrying value of KZT 750,000,000 thousand (2018: 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 “placements and loans with banks and other financial institutions” and “deposits and balances from banks and other financial institutions” (Notes 19 and 27) and were measured at their nominal value in accordance with the Basis of Preparation (Note 2). As at 31 December 2019 an asset part of swap deals is KZT 10,669,586 thousand (31 December 2018: KZT 737,323,249 thousand), while a liability part of swap deals as at 31 December 2019 is KZT 15,099,183 thousand (31 December 2018: KZT 851,617,272 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;
- 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 all instruments where the valuation technique includes quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data;
- level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

42. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS, CONTINUED

Fair value hierarchy, continued

The table below analyses financial instruments measured at fair value at 31 December 2019 and 31 December 2018, 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 2019

KZT'000	Level 1	Level 2	Level 3	Total
Gold	7,230,140,962	-	-	7,230,140,962
Placements and loans with banks and other financial institutions	-	370,283,443	-	370,283,443
Financial instruments under management measured at fair value through profit or loss				
- Derivative assets	692,865	749,310	-	1,442,175
- Equity investments	-	132,364,075	234,026,940	366,391,015
- Derivative liabilities	(755,824)	(178,391)	-	(934,215)
Investment securities at fair value through other comprehensive income				
- Debt and other fixed income instruments	1,914,252,542	593,474,535	-	2,507,727,077
- Equity investments	19,526,150	-	-	19,526,150
	<u>9,163,856,695</u>	<u>1,096,692,972</u>	<u>234,026,940</u>	<u>10,494,576,607</u>

31 December 2018

KZT'000	Level 1	Level 2	Level 3	Total
Gold	5,530,034,976	-	-	5,530,034,976
Placements and loans with banks and other financial institutions	-	296,313,005	-	296,313,005
Financial instruments under management 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
	<u>9,352,248,435</u>	<u>827,371,449</u>	<u>120,839,180</u>	<u>10,300,459,064</u>

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

42. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS, CONTINUED

Fair value hierarchy, continued

The table below analyses financial instruments categorised to Level 3 in the fair value hierarchy as at 31 December 2019 and 31 December 2018.

	2019 KZT'000	2018 KZT'000
Fair value at the beginning of the year	120,839,180	55,876,872
Deposits	105,054,608	49,571,050
Payments	(10,460,972)	(11,614,255)
Gain recognised through profit or loss	19,155,658	12,281,726
Currency translation on foreign operations	(561,534)	14,723,787
Fair value at the end of the year	234,026,940	120,839,180

The National Bank's investments in equity investments, which are under management of NIC NBK JSC, categorised as level 3 comprise holdings in investment private equity funds and real estate funds. These funds 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 (private equity funds) and 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 (real estate funds). To consolidate the fair value of the National Bank's holdings in these investment funds as at 31 December 2019 and 31 December 2018, the National Bank used reports prepared by independent administrators and/or managers of funds. The approach followed by independent administrators and/or managers was to estimate the fair value of the underlying portfolio investments held by each fund. As a cross check, administrators and managers also review fair values of investments as reported by each of the funds, and assesses the basis for material differences between the appraised fair value and fair values reported by the managers.

A number of valuation techniques, including financial models based on the last deals' prices, earnings coefficients and discounted cash flows, were used by independent administrators and/or managers to value the underlying portfolio investments, depending on the nature of the business concerned, the availability of market comparables, and the stage in the business's life cycle.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

42. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS, CONTINUED

Fair value hierarchy, continued

As at 31 December 2019 if the quotes for financial instruments would be 1% lower, the effect on profit or loss would be a decrease in the fair value of KZT 2,340,269 thousand.

The table below analyses financial instruments not measured at fair value at 31 December 2019, by the level in the fair value hierarchy into which the fair value measurement is categorised:

KZT'000	Level 1	Level 2	Total fair values	Total carrying amount
ASSETS				
Cash on hand in foreign currency	-	113,367,726	113,367,726	113,367,726
Placements and loans with banks and other financial institutions	-	2,244,679,172	2,244,679,172	2,244,679,172
Reverse repurchase agreements	-	146,683,539	146,683,539	145,868,206
Investment securities at amortised cost	237,082,002	709,675,593	946,757,595	985,792,527
Other financial assets	-	266,686,136	266,686,136	266,686,136
LIABILITIES				
Currency in circulation	-	2,688,747,786	2,688,747,786	2,688,747,786
Deposits and balances from banks and other financial institutions	-	4,370,327,018	4,370,327,018	4,370,327,018
Repurchase agreements	-	27,284,433	27,284,433	27,941,316
Current accounts of the National Fund of the Republic of Kazakhstan	-	724,730,007	724,730,007	724,730,007
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	-	397,535,424	397,535,424	397,535,424
Customer accounts	-	182,887,423	182,887,423	182,887,423
Debt securities issued	-	3,628,200,507	3,628,200,507	3,618,820,899
Estimated liabilities	-	33,162,428	33,162,428	33,162,428
Other financial liabilities	-	17,545,416	17,545,416	17,545,416

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

42. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS, CONTINUED

Fair value hierarchy, continued

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

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	-	3,133,446,873	3,133,446,873	3,133,446,873
Reverse repurchase agreements	-	231,752,152	231,752,152	222,653,522
Investment securities 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

43. SUBSEQUENT EVENTS

Based on the Resolution of the NBK dated 23 December 2019 it was decided to reorganise MO Baspana JSC by its merger with KSF JSC. On 7 February 2020 the NBK approved the act of transfer of total property, assets and liabilities, rights and obligations of MO Baspana JSC to KSF JSC.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

43. SUBSEQUENT EVENTS, CONTINUED

As a result of the coronavirus global outbreak in 2020, the Government of the Republic of Kazakhstan declared a state of emergency in the Republic of Kazakhstan. Moreover, as a result of the meeting of the Organization of Petroleum Exporting Countries (OPEC), oil prices fell significantly during 2020.

Considering also the weakening of KZT, management of the National Bank has assessed the potential impact of these events on the National Bank's operations in 2020.

By the Resolution of the Management Board of the NBK #39 dated 19 March 2020 the concessional lending program for small and medium-sized enterprises was approved. This Program provides measures to support small and medium-sized enterprises and individual entrepreneurs who suffered as a result of the introduction of a state of emergency in the country in connection with the spread of the coronavirus pandemic. For the purposes of lending through the operator, KFU JSC, the NBK provided funds in the amount of KZT 600 billion. The business support mechanism is implemented through the banks which will provide loans for working capital replenishment for up to 12 months.

However, the wider effects of the virus and the decrease in the oil price and their effect on the Kazakhstan economy, including any resulting impact on the National Bank's financial results in 2020, are not possible to determine at the date of approval of these consolidated financial statements.