“Al Hilal” Islamic Bank” JSC

Financial statements

For the year ended 31 December 2018
together with independent auditor’s report

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Independent auditor's report

To the Shareholder and Board of Directors of
"Al Hilal" Islamic Bank" JSC

Opinion

We have audited the financial statements of "Al Hilal" Islamic Bank" JSC (the "Bank"), which comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the "*Auditor's responsibilities for the audit of the financial statements*" section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and Board of Directors for the financial statements

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

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

The Board of Directors are responsible for overseeing the Bank's financial reporting process.

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Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with The Board of Directors 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.

Ernst & Young LLP

Paul Cohn
Audit Partner

Olga Khegay
Auditor

Auditor qualification certificate
No. МФ – 0000286 dated 25 September 2015

Gulmira Turmagambetova
General Director
Ernst & Young LLP

State audit license for audit activities on the territory of the Republic of Kazakhstan: series МФЮ-2, No. 0000003, issued by the Ministry of Finance of the Republic of Kazakhstan on 15 July 2005.

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Al-Farabi ave., 77/7, Esentai Tower

4 April 2019

STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

(In thousands of tenge)

	Notes	*2018*	*2017*
Assets			
Cash and cash equivalents	6	**24,881,480**	12,651,090
Receivables under Murabaha agreements	7	**8,439,531**	6,286,962
Wakala investment deposits	8	**72,493**	413,393
Ijara	9	**465,875**	699,798
Bank participation in Wakala and Mudaraba pool	10	**–**	2,203,100
Property and equipment	11	**439,571**	468,454
Intangible assets	12	**158,561**	61,811
Current corporate income tax assets	13	**204,409**	343,815
Deferred corporate income tax assets	13	**63,145**	31,593
Other assets	14	**353,053**	157,843
Total assets		**35,078,118**	23,317,859
Liabilities			
Amounts due to other banks	15	**32,505**	101,526
Amounts due to customers	16	**17,823,903**	7,498,720
Amounts due to Wakala and Mudaraba pool	17	**532,065**	–
Unamortised commission income	18	**52,879**	9,387
Provisions	26	**273,940**	–
Other liabilities	14	**433,328**	293,445
Total liabilities		**19,148,620**	7,903,078
Equity			
Share capital	19	**10,732,338**	10,732,338
Retained earnings		**5,197,160**	4,682,443
Total equity		**15,929,498**	15,414,781
Total liabilities and equity		**35,078,118**	23,317,859

Signed and authorised for issue on behalf of the Management Board of the Bank

Gordon Haskins — Chairman of the Management Board

مصرف الهلال
al hilal bank

Aidyn Tairov — Chief Accountant

4 April 2019

The accompanying notes on pages 5 to 48 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

(In thousands of tenge)

	Notes	2018	2017
Revenue from Ijara and receivables under Murabaha agreements	20	**1,576,295**	1,500,947
Revenue from Wakala investment deposits	20	**15,795**	43,281
Revenue from Islamic finance activities		**1,592,090**	1,544,228
Net fee and commission income	21	**1,415,939**	1,189,365
Net gains from foreign currencies	22	**183,591**	195,269
Non-finance income		**1,599,530**	1,384,634
Loss from Islamic derivative financial instruments	23	–	(40,823)
Credit loss expense	24	**(32,131)**	17,362
Personnel expenses	25	**(1,236,411)**	(999,941)
Other operating expenses	25	**(1,007,215)**	(924,479)
Other impairment allowances and provisions	26	**(247,590)**	(310)
Non-finance expenses		**(2,523,347)**	(1,948,191)
Profit before corporate income tax expense		**668,273**	980,671
Corporate income tax expense	13	**(104,674)**	(163,867)
Profit for the year		**563,599**	816,804
Other comprehensive income		–	–
Total comprehensive income for the year		**563,599**	816,804

The accompanying notes on pages 5 to 48 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

(In thousands of tenge)

	Share capital	*Retained earnings*	*Total equity*
As at 1 January 2017	10,732,338	3,865,639	14,597,977
Profit for the year	–	816,804	816,804
Total comprehensive income for the year	–	816,804	816,804
As at 31 December 2017	10,732,338	4,682,443	15,414,781
Impact of adopting IFRS 9 *(Note 4)*	–	**(48,882)**	**(48,882)**
Restated opening balance under IFRS 9	**10,732,338**	**4,633,561**	**15,365,899**
Profit for the year	–	**563,599**	**563,599**
Total comprehensive income for the year	–	**563,599**	**563,599**
As at 31 December 2018	**10,732,338**	**5,197,160**	**15,929,498**

The accompanying notes on pages 5 to 48 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

(In thousands of tenge)

	Notes	*2018*	*2017*
Cash flows from operating activities			
Revenue received from Islamic finance activities		**1,138,335**	1,697,664
Fees and commissions received		**1,529,514**	1,204,365
Fees and commissions paid		**(68,421)**	(17,353)
Net realised gains from dealing in foreign currencies	22	**170,015**	200,522
Personnel expenses paid		**(1,146,266)**	(943,901)
Other operating expenses paid		**(1,004,344)**	(898,810)
Cash flows from operating activities before changes in operating assets and liabilities		**618,833**	1,242,487
Net (increase)/decrease in operating assets			
Islamic derivative financial instruments		**–**	1,685,530
Receivables under Murabaha agreements		**(1,720,495)**	(3,958,599)
Wakala investment deposits		**344,414**	625,093
Ijara		**195,746**	375,012
Bank participation in Wakala and Mudaraba pool		**2,203,100**	(2,203,100)
Other assets		**158,713**	(151,516)
Net (decrease)/increase in operating liabilities			
Amounts due to other banks		**(69,021)**	24,768
Amounts due to customers		**9,382,897**	1,598,236
Amounts due to Wakala and Mudaraba pool		**532,065**	–
Other liabilities		**(5,264)**	2,596
Net cash flows from/(used in) operating activities before corporate income tax		**11,640,988**	(759,493)
Corporate income tax paid		**–**	(485,680)
Net cash flows from/(used in) operating activities		**11,640,988**	(1,245,173)
Cash flows from investing activities			
Purchase of property and equipment	11	**(85,111)**	(287,946)
Purchase of intangible assets	12	**(123,776)**	(57,868)
Net cash flows used in investing activities		**(208,887)**	(345,814)
Effect of exchange rates changes on cash and cash equivalents		**820,134**	49,592
Effect of expected credit losses on cash and cash equivalents		**(21,845)**	–
Net increase/(decrease) in cash and cash equivalents		**12,230,390**	(1,541,395)
Cash and cash equivalents, as at 1 January		**12,651,090**	14,192,485
Cash and cash equivalents, as at 31 December	6	**24,881,480**	12,651,090

The accompanying notes on pages 5 to 48 are an integral part of these financial statements.

(In thousands of tenge)

1. Principal activities

"Al Hilal" Islamic Bank" JSC (hereinafter – the "Bank") was formed on 22 January 2010 as a joint stock company under the laws of the Republic of Kazakhstan. The Bank operates under a general banking license No. 1.1.261 issued by the Agency for Regulation and Supervision of Financial Markets and Financial Organizations on 17 March 2010 and re-issued by the National Bank of the Republic of Kazakhstan (hereinafter – the "NBRK") on 23 February 2015.

The Bank is involved in Islamic banking activities and carries out its operations through its head office in Almaty and branches in Almaty, Astana and Shymkent. The Bank accepts deposits from the public and conducts finance transactions based on Sharia principles and rules, transfers payments within the Republic of Kazakhstan and abroad, exchanges currencies and provides other banking services to its commercial customers.

The sole shareholder of the Bank is Al Hilal Bank PJSC (Abu Dhabi, United Arab Emirates). The ultimate shareholder of the Bank is the Government of Abu Dhabi, represented by Abu Dhabi Investment Council.

The registered and actual address of the Bank is: Republic of Kazakhstan, Almaty, Al-Farabi Ave. 77/7, Esentai Tower.

2. Basis of preparation

General

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

The financial statements have been prepared under the historical cost convention except for Islamic derivative financial instruments which are stated at fair value. These financial statements are presented in thousands of tenge ("tenge" or "KZT") unless otherwise is stated.

3. Definition of significant terms

Sharia

The provisions of Islamic law derived from the Holy Qur'an, Prophetic Tradition "Sunnah", or binding authority of the dicta and decisions of the Prophet Mohammed (peace be upon him), ijma, or "consensus" of the community of Islamic scholars, and the qiyas, or analogical deductions as well as other Islamic law evidence, as may be determined or deduced by the Board. The Bank being an Islamic Financial Institution incorporates the principles and rules of Sharia in its activities, as interpreted by its Islamic Financial Principles Board.

Commodity Murabaha, Home Murabaha, Tawarruq and Reverse Murabaha

Murabaha is a method financing where the Bank/counterparty bank purchases a Commodity or Home from a Broker or supplier and takes actual or constructive ownership possession of that Commodity or Home and then sells it to a customer/ the Bank on a deferred payment basis with profit margin. Under Commodity Murabaha/Tawarruq/Reverse Murabaha the customer/the Bank then sells the same asset to a third party for immediate delivery and payment, the end result being that the customer/the Bank receives a cash amount from proceeds of the second sell. The asset is typically a freely tradable commodity such as platinum or palladium. Gold and silver are treated by Sharia as currency and cannot be used.

Ijara

Leasing of an identified asset ending with ownership transfer (also known as Ijara Muntahia Bitamleek) or leasing of a specified asset which will be constructed or manufactured with ownership transfer (also known as Ijarah Mawsufa Fi Zima and Muntahiya Bitamleek), Ijara is an agreement whereby the Bank buys an asset according to the customer's intention, presented in an intent notice and then leases it, in its capacity as a lessor, to the customer as lessee for the specified rental over a specific period. The duration of the lease term, as well as the basis for rental, are set and agreed in the lease agreement. The Bank possesses ownership of the asset throughout the lease term. The arrangement could end by transferring the ownership of the asset to the lessee upon completion by the lessee of it obligation during or at the end of the lease term.

Mudaraba

Mudaraba is a contractual arrangement whereby two or more parties undertake an economic activity. Mudaraba is a partnership in profit between capital and work. It may be conducted between an investment account holder as the provider of funds and the Bank as a Mudarib. The Bank announces its willingness to accept the funds of the investment account holder, the sharing of the profits being as agreed between the two parties and the losses being borne by the provider of the funds except if they were due to misconduct, negligence or violation of the conditions agreed upon by the Bank, in which case, such losses would be borne by the Bank.

(In thousands of tenge)

3. Definition of significant terms (continued)

Depositors pool

Pools (funds) are a form of integration of deposits for joint investment purposes, in which the participants' profit goes to the pool and it is distributed according to preliminary agreements. The internal policies of the Bank stipulate depositors' pool (Wakala pool and Mudaraba pool), Sukuk pool, and Shareholders' pool depending on funding sources, as well as co-financing of multiple pools.

Given potential maturity mismatch and restrictions on re-designation of assets, funding shortages arising in a pool may be funded by other pools. Inter-pool funding takes the Sharia form (vehicle) of the funding pool and is subject to the funding pool distribution rules.

Wakala

An agreement whereby the Investor provides a certain sum of money to an agent, who invests it according to specific conditions in return for a certain fee (a lump sum of money or percentage of the amount invested). The agent may be granted any excess over and above a certain pre-agreed expected rate of return as a performance incentive. The agent is obliged to return the invested amount in the case of the agent's negligence or violation of the terms and conditions of the Wakala.

Zakah

Zakah is a right which becomes due in certain types of wealth and disbursable to specific categories of recipients. It is an in rem duty when its conditions are satisfied.

Sukuk

Sukuk are certificates of equal value representing undivided common shares in ownership of tangible assets or in the ownership of a specific asset (leased or to be leased either existing or to be constructed in future), usufruct and services, or in the ownership of cash receivables of selling an existing-owned asset, or in the ownership of goods receivables, or in the ownership of the assets of Mudaraba or partnership companies. In all these cases, the Sukuk holders are the owners of their common shares in the leased assets, or in the cash receivables, or the goods receivable, or in the assets of the partnership or the Mudaraba.

Wa'ad Swap (Islamic derivative financial instrument)

Currency and profit rate swaps are promises to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or profit rates (for example, fixed rate for floating rate) or a combination of all these (i.e., cross-currency profit rate swaps).

Qard Hassan

Qard Hassan short term receivables are non-profit bearing financing receivables whereby the customer borrows funds for a specific time with an understanding that the same amount will be repaid at the end of the agreed period.

4. Summary of significant accounting policies

Changes in accounting policies

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods on or after 1 January 2018. The Bank has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of 1 January 2018 and are disclosed below.

(In thousands of tenge)

4. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

IFRS 9 Financial Instruments (continued)

(a) Classification and measurement

Under IFRS 9, all debt financial assets that do not meet a "solely payment of principal and profit" (SPPP) criterion, are classified at initial recognition as fair value through profit or loss (FVPL). Under this criterion, debt instruments that do not correspond to a "basic financing arrangement", such as instruments containing embedded conversion options or "non-recourse" financing instruments, are measured at FVPL. For debt financial assets that meet the SPPP criterion, classification at initial recognition is determined based on the business model, under which these instruments are managed:

- Instruments that are managed on a "hold to collect" basis are measured at amortised cost;
- Instruments that are managed on a "hold to collect and for sale" basis are measured at fair value through other comprehensive income (FVOCI);
- Instruments that are managed on other basis, including trading financial assets, will be measured at FVPL.

Equity financial assets are required to be classified at initial recognition as FVPL unless an irrevocable designation is made to classify the instrument as FVOCI. For equity investments classified as FVOCI, all realised and unrealised gains and losses, except for dividend income, are recognised in other comprehensive income with no subsequent reclassification to profit and loss.

The classification and measurement of financial liabilities remains largely unchanged from the current IAS 39 requirements.

(b) Impairment

The adoption of IFRS 9 has fundamentally changed the Bank's accounting for financing impairment by replacing IAS 39 incurred loss approach with a forward-looking expected credit loss (ECL) approach. From 1 January 2018, the Bank has been recording the allowance for expected credit losses for all debt instruments not held at FVPL, together with financing commitments and financial guarantee contracts. Equity instruments are not subject to impairment under IFRS 9.

The allowance is based on the ECLs associated with the probability of default in the next 12 months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset. Details of the Bank's impairment method are disclosed in *Note 28*. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in section (c) below.

(c) Effect of transition to IFRS 9

The following tables set out the impact of adopting IFRS 9 on the statement of financial position and retained earnings as at 1 January 2018 including the effect of replacing IAS 39 incurred credit loss calculations with IFRS 9 ECL.

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as at 1 January 2018 is as follows:

	IAS 39 measurement		***Remeasurement***	***IFRS 9***	
Financial assets	***Category***	***Amount***	***ECL***	***Amount***	***Category***
Cash and cash equivalents	F&R	12,651,090	(6,006)	12,645,084	Amortised cost
Receivables under Murabaha agreements	F&R	6,286,962	21,665	6,308,627	Amortised cost
Wakala investment deposits	F&R	413,393	–	413,393	Amortised cost
Ijara	F&R	699,798	(61,361)	638,437	Amortised cost
Bank participation in Wakala and Mudaraba pool	F&R	2,203,100	–	2,203,100	Amortised cost
Non-financial assets		**22,254,343**	**(45,702)**	**22,208,641**	
Deferred corporate income tax assets		31,593	(3,180)	28,413	
Total assets		**22,285,936**	**(48,882)**	**22,237,054**	

(In thousands of tenge)

4. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

IFRS 9 Financial Instruments (continued)

(c) Effect of transition to IFRS 9 (continued)

The impact of transition to IFRS 9 on retained earnings is as follows:

	Retained earnings
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	**4,682,443**
Recognition of IFRS 9 ECLs (see below)	(45,702)
Deferred tax in relation to the above	(3,180)
Restated opening balance under IFRS 9 (1 January 2018)	**4,633,561**
Total change in equity due to adopting IFRS 9	**(48,882)**

The following table reconciles the aggregate opening impairment loss allowances under IAS 39 to the ECL allowances under IFRS 9.

	Impairment allowance/ provision under IAS 39 at 31 December 2017	*Re-measurement*	*ECL under IFRS 9 at 1 January 2018*
Impairment allowance for			
Cash and cash equivalents	–	6,006	6,006
Receivables under Murabaha agreements – amortised cost	64,416	(21,665)	42,751
Ijara – amortised cost	–	61,361	61,361
	64,416	45,702	110,118

IFRS 15 Revenue from Contracts with Customers

IFRS 15, issued in May 2014, and amended in April 2016, establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. However, the standard does not apply to revenue associated with financial instruments and leases, and therefore, does not impact the majority of the Bank's revenue including profit revenue, gains/(losses) on operations with securities, Ijara profit which are covered by IFRS 9 *Financial Instruments* and IAS 17 *Leases.* As a result, the majority of the Bank's profit are not impacted by the adoption of this standard.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or profit (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Bank's financial statements.

(In thousands of tenge)

4. Summary of significant accounting policies (continued)

Financial assets and liabilities

Initial recognition

Date of recognition

All normal course purchases and sales of financial assets and liabilities are recognised on the trade date, i.e. the date that the Bank commits to purchase the asset or liability. Normal course purchases or sales are purchases or sales of financial assets and liabilities that require delivery of assets and liabilities within the period generally established by regulation or convention in the marketplace.

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value and, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount.

Receivables from Islamic finance activities

Receivables from Islamic finance activities, which include receivables under Murabaha agreements, are non-derivative financial assets with fixed payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale but to receive contractual cash flows. Assets are carried at amortised cost using the effective profit rate method. Gains and losses are recognised in the profit or loss when the receivables are derecognised or impaired, as well as through the amortisation process. The Bank's receivables from Islamic finance activities consist of Murabaha receivables. Murabaha receivables are stated at amortised cost less any allowance for impairment.

Islamic finance activities are funded from two sources: 1) the Bank's own funds which are accounted on balance sheet; and 2) funds received under Wakala and Mudaraba agreements. Under the terms of Wakala and Mudaraba agreements the Bank bears no risk and such funds are accounted off balance sheet. In case of early termination or maturity of the Wakala and Mudaraba agreements, which may give potential maturity mismatches in assets, funding shortages arising in the respective pool could be financed by the Bank from its own funds and accounted on balance sheet.

Measurement categories of financial assets and liabilities

The Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost;
- FVPL.

The Bank classifies and measures its Islamic derivative and trading portfolio at FVPL. The Bank may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

Financial liabilities, other than financing commitments and financial guarantees, are measured at amortised cost or at FVPL when they are held for trading, are Islamic derivative instruments or the fair value designation is applied.

Amounts due from financing institutions, amounts due from customers, investments securities at amortised cost

Amounts due from financing institutions and Islamic finance instruments provided to customers included non-derivative financial assets with fixed or determinable payments that were not quoted in an active market, other than those:

- That the Bank intended to sell immediately or in the near term;
- That the Bank, upon initial recognition, designated as at FVPL or as available-for-sale;
- For which the Bank may not recover substantially all of its initial investment, other than because of financing deterioration, which were designated as available-for-sale.

The Bank only measures amounts due from financing institutions, financial assets and other financial investments at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPP on the principal amount outstanding (SPPP).

The details of these conditions are outlined below.

(In thousands of tenge)

4. Summary of significant accounting policies (continued)

Financial assets and liabilities (continued)

Initial recognition (continued)

Business model assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment.

The business model assessment is based on reasonably expected scenarios without taking "worst case" or "stress case" scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPP test

As a second step of its classification process the Bank assesses the contractual terms of financial assets to identify whether they meet the SPPP test.

"Principal" for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset.

In assessing whether the contractual cash flows are SPPP, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic financing arrangement do not give rise to contractual cash flows that are SPPP on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Debt instruments at FVOCI

The Bank applies the new category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets;
- The contractual terms of the financial asset meet the SPPP test.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in other comprehensive income. Profit revenue and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. On derecognition, cumulative gains or losses previously recognised in other comprehensive income are reclassified from other comprehensive income to profit or loss.

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in other comprehensive income as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in other comprehensive income is recycled to the profit and loss upon derecognition of the asset.

(In thousands of tenge)

4. Summary of significant accounting policies (continued)

Financial assets and liabilities (continued)

Initial recognition (continued)

Equity instruments at FVOCI

Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit or loss. Dividends are recognised in profit or loss as other income when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in other comprehensive income. Equity instruments at FVOCI are not subject to an impairment assessment. Upon disposal of these instruments, the accumulated revaluation reserve is transferred to retained earnings.

Financial guarantees, letters of credit and undrawn financing commitments

The Bank issues financial guarantees and letters of credit.

Financial guarantees are initially recognised in the financial statements at fair value, being the fees received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the statement of comprehensive income, and – under IAS 37 (before 1 January 2018) – the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee, or – under IFRS 9 (from 1 January 2018) – an ECL provision.

Undrawn financings and letters of credit are commitments under which, over the duration of the master agreement, the Bank is required to provide a financing with pre-specified terms to the customer. Similar to financial guarantee contracts, under IAS 39, a provision was made if they were an onerous contract but, from 1 January 2018, these contracts are in the scope of the ECL requirements.

Performance guarantees

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. In principle, guarantees do not transfer financing risk as per Shariah Board instruction. The risk under performance guarantee contracts is the possibility that the failure to perform the contractual obligation by another party occurs. Therefore, performance guarantees are not considered financial instruments and thus do not fall in scope of IFRS 9.

Reclassification of financial assets and liabilities

The Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank changes the business model for managing financial assets. Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets and liabilities in 2018.

Fair value measurement

The Bank measures financial instruments such as Islamic derivative financial instruments at fair value at the reporting date. Fair values of financial instruments measured at amortised cost are disclosed in *Note 29*.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

(In thousands of tenge)

4. Summary of significant accounting policies (continued)

Fair value measurement (continued)

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the 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 to realise the asset and settle the liability simultaneously. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- The normal course of business;
- The event of default; and
- The event of insolvency or bankruptcy of the entity and all of the counterparties.

These conditions are not generally met in master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, obligatory reserves, amounts due from the NBRK and amounts due from financing institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Islamic derivative financial instruments

In the normal course of business, the Bank enters into Islamic derivative financial instruments (Wa'ad Swap) in the foreign exchange markets. Such financial instruments are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Islamic derivative financial instruments are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the statement of comprehensive income as loss/gain from Islamic derivative financial instruments.

Leases

Operating – Bank as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into other operating expenses.

Ijara Muntahia Bitamleek (finance lease) – Bank as lessor

For leasing of an identified asset ending with ownership transfer (also known as Ijara Muntahia Bitamleek), the Bank recognises Ijara assets at value equal to the net investment in the lease, starting from the date of commencement of the lease term. However, for leasing of a specified asset which will be constructed or manufactured with ownership transfer (also known as Ijarah Mawsufa Fi Zima and Muntahiya Bitamleek), the Bank recognises the Ijarah asset from the time of delivery of the asset and starting commencement of the lease term. Rental income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the financing under Ijara agreements.

(In thousands of tenge)

4. Summary of significant accounting policies (continued)

Renegotiated financings

Where possible, the Bank seeks to restructure financing instruments rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new financing conditions.

From 1 January 2018, the Bank derecognises a financial asset, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new financing, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised financing instruments are classified as Stage 1 for ECL measurement purposes, unless the new financing is deemed to be POCI. When assessing whether or not to derecognise a financing to a customer, amongst others, the Bank considers the following factors:

- Change in currency of the financing;
- Change in counterparty;
- If the modification is such that the instrument would no longer meet the SPPP criterion.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original effective profit rate, the Bank records a modification gain or loss, presented within profit revenue calculated using effective profit rate in the statement of comprehensive income, to the extent that an impairment loss has not already been recorded.

For modifications not resulting in derecognition, the Bank also reassesses whether here has been a significant increase in credit risk or whether the assets should be classified as credit-impaired. Once an asset has been classified as credit-impaired as the result of modification, it will remain in Stage 3 for a minimum 6 months probation period. In order for the restructured financing to be reclassified out of Stage 3, regular payments of more than an insignificant amount of principal or profit have been made during at least half of the probation period in accordance with the modified payment schedule.

Impairment of financial assets under IAS 39

Before 1 January 2018, the Bank assessed at each reporting date whether there was any objective evidence that a financial asset or a group of financial assets was impaired. A financial asset or a group of financial assets was deemed to be impaired if, and only if, there was objective evidence of impairment as a result of one or more events that had occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or the group of financial assets that could be reliably estimated. Evidence of impairment may have included indications that the obligor or a group of obligors was experiencing significant financial difficulty, default or delinquency in profit or principal payments, the probability that they would enter bankruptcy or other financial reorganisation and where observable data indicated that there was a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlated with defaults. For available-for-sale financial instruments, evidence of impairment also included significant or prolonged decline in fair value of investment below their cost.

The Bank assessed whether objective evidence of impairment existed individually for financial assets that were individually significant, or collectively for financial assets that were not individually significant.

If there was an objective evidence that an impairment loss had been incurred, the amount of the loss was measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred), discounted using original effective profit rate, or, for financial assets available-for-sale, as the difference between cost of investment and its fair value. The carrying amount of the asset was reduced and the amount of the loss was recognised in profit or loss. Profit revenue continued to be accrued on the reduced carrying amount based on the original effective profit rate of the asset, or, for financial assets at FVOCI, using the rate of profit used to discount the future cash flows for the purpose of measuring the impairment loss. Assets together with the associated allowance were written off when there is no realistic prospect of future recovery and all collateral had been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss decreased because of an event occurring after the impairment had been recognised, the previously recognised impairment loss was reversed in statement of comprehensive income, except for equity investments measured at FVOCI, for which increase in their fair value after impairment were recognised in other comprehensive income.

For the purpose of a collective evaluation of impairment, financial assets were grouped on the basis of the Bank's internal financing grading system that considered credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Information on impairment assessment under IFRS 9 is presented in *Note 28*.

(In thousands of tenge)

4. Summary of significant accounting policies (continued)

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired;
- The Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement;
- The Bank either (a) has transferred substantially all the risks and rewards of the asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset; and

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Write-off

From 1 January 2018, financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense. A write-off constitutes a derecognition event.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same creditor on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit or loss.

Taxation

Current corporate income tax expenses are calculated in accordance with the regulations of the Republic of Kazakhstan.

Deferred corporate income tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred corporate income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

(In thousands of tenge)

4. Summary of significant accounting policies (continued)

Property and equipment

Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes cost of replacing part of the equipment when that cost is incurred if the recognition criteria are met.

Carrying amount of property and equipment is reviewed for impairment when events or changes in circumstances indicate that carrying amount may not be recoverable.

Depreciation of an asset begins when it is substantially available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	20
Leasehold improvements	7
Motor vehicles	4
Furniture and fixtures	4
Computers and office equipment	4

Assets' residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end. Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalisation.

Intangible assets

Intangible assets include computer software and licenses. Intangible assets are carried at cost less any accumulated amortisation. Intangible assets are amortised on a straight-line basis over the useful economic lives of 4 years and assessed for impairment whenever there is an indication that the intangible assets may be impaired.

Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Retirement and other employee benefit obligations

The Bank does not have any pension arrangements separate from the State pension system of the Republic of Kazakhstan, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Bank has no significant post-retirement benefits.

Share capital

Common shares with discretionary dividends are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in the equity.

Fiduciary assets

Assets held in a fiduciary capacity under Wakala and Mudaraba agreements are not reported in the financial statements, as they are not the assets of the Bank.

Since the Bank carries no risk and is not responsible for any losses incurred during normal investment activity for Mudaraba and Wakala products, unless this happened due to the Bank's gross negligence or willful misconduct, both Wakala and Mudaraba deposits are accounted for as off balance sheet items.

Contingencies

A contingent liability is not recognised in the statement of financial position but is disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the statement of financial position but is disclosed when an inflow of economic benefits is almost certain.

(In thousands of tenge)

4. Summary of significant accounting policies (continued)

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Profit and similar revenue and expense

From 1 January 2018, the Bank calculates profit revenue on debt financial assets measured at amortised cost or at FVOCI by applying the effective profit rate to the gross carrying amount of financial assets other than credit-impaired assets (before 1 January 2018: by applying effective profit rate to the amortised cost of financial assets). Effective profit rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective profit rate, but not future financing losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective profit rate and the change in carrying amount is recorded as profit revenue or expense.

When a financial asset becomes impaired, the Bank calculates profit revenue by applying the effective profit rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Bank reverts to calculating profit revenue on a gross basis.

For POCI financial assets, the Bank calculates profit revenue by calculating the credit-adjusted effective profit rate and applying that rate to the amortised cost of the asset. The credit-adjusted effective profit rate is the profit rate that, at original recognition, discounts the estimated future cash flows (including financing losses) to the amortised cost of the POCI assets.

Profit revenue on all financial assets at FVPL is recognised using the contractual profit rate in "Other profit revenue" in the statement of comprehensive income.

Fee and commission income

Fees earned for the provision of services over a period are accrued over that period. These fees include commission income, Mudarib share of profit, Wakil's incentive and agency fee under Wakala agreements.

Foreign currency translation

The financial statements are presented in tenge, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into tenge at the market exchange rate quoted by the Kazakhstan Stock Exchange (the "KASE") and communicated by the NBRK at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of comprehensive income as net gains/(losses) from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the market exchange rate quoted by KASE on the date of the transaction are included in net gains/(losses) from foreign currencies – dealing. The market exchange rates quoted by KASE at 31 December 2018 and 2017 were KZT 384.2 and KZT 332.33 to USD 1, respectively.

Standards and interpretations issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Bank's financial statements are listed below. The Bank intends, if necessary, to adopt these standards when they become effective.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of "low-value" assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the profit expense on the lease liability and the depreciation expense on the right-of-use asset.

(In thousands of tenge)

4. Summary of significant accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

IFRS 16 Leases (continued)

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

The Bank plans to adopt IFRS 16 retrospectively with the cumulative effect of initially applying IFRS 16 recognised at the date of initial application. The Bank will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Bank will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Bank will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Bank has leases of certain office equipment (i.e., personal computers, printing and photocopying machines) that are considered of low value.

The Bank is in the process of quantifying effect of adoption of IFRS 16; however, no reasonable estimate of this effect is yet available.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to profit and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- How an entity considers changes in facts and circumstances.

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Bank will apply the interpretation from its effective date. Since the Bank operates in a complex tax environment, applying the Interpretation may affect its financial statements. In addition, the Bank may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are "solely payments of principal and profit on the principal amount outstanding" (the SPPP criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPP criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the financial statements of the Bank.

(In thousands of tenge)

4. Summary of significant accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

Annual improvements 2015-2017 cycle (issued in December 2017)

These improvements include:

IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held profit in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments will apply on future business combinations of the Bank.

IFRS 11 Joint Arrangements

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments are currently not applicable to the Bank but may apply to future transactions.

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Bank's current practice is in line with these amendments, the Bank does not expect any effect on its financial statements.

IAS 23 Financing Costs

The amendments clarify that an entity treats as part of general financing any financing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to obligor costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Bank's current practice is in line with these amendments, the Bank does not expect any effect on its financial statements.

5. Significant accounting judgments and estimates

In the process of applying the Bank's accounting policies, management has used its judgments and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgments and estimates are as follows:

Property and equipment

The cost of property and equipment is depreciated over its estimated useful life, which is based on expected usage of the asset and expected physical wear and tear, which depends on operational factors.

Contingent liability arising from litigations

Due to the nature of its operations, the Bank may be involved in litigations arising in the ordinary course of business. Provision for contingent liabilities arising from litigations is based on the probability of outflow of economic resources and reliability of estimating such outflow. Such matters are subject to many uncertainties and the outcome of individual matters is not predictable with certainty.

(In thousands of tenge)

5. Significant accounting judgments and estimates (continued)

Business model

In making an assessment whether a business model's objective is to hold assets in order to collect contractual cash flows, the Bank considers at which level of its business activities such assessment should be made. Generally, a business model is a matter of fact which can be evidenced by the way business is managed and the information provided to management. However, in some circumstances it may not be clear whether a particular activity involves one business model with some infrequent asset sales or whether the anticipated sales indicate that there are two different business models.

In determining whether its business model for managing financial assets is to hold assets in order to collect contractual cash flows the Bank considers:

- Management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- How management evaluates the performance of the portfolio;
- Whether management's strategy focuses on earning contractual profit revenues;
- The degree of frequency of any expected asset sales;
- The reason for any asset sales; and
- Whether assets that are sold are held for an extended period of time relative to their contractual maturity or are sold shortly after acquisition or an extended time before maturity.

In particular, the Bank exercises judgment to determine the objective of the business model for portfolios which are held for liquidity purposes.

The securities may be sold in order to meet unexpected liquidity shortfalls but such sales are not anticipated to be more than infrequent.

The Bank considers that these securities are held within a business model whose objective is to hold assets to collect the contractual cash flows.

When a business model involves transfers of contractual rights to cash flows from financial assets to third parties and the transferred assets are not derecognised, the Bank reviews the arrangements to determine their impact on assessing the objective of the business model. In making the assessment, the Bank considers whether, under the arrangements, the Bank will continue to receive cash flows from the assets, either directly from the issuer, or indirectly from the transferee, including whether it will repurchase the assets from the transferee.

Impairment losses on receivables under Murabaha, Wakala investment deposits and Ijara

The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's internal financing grading model, which assigns PDs to the individual grades;
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulae and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs and collateral values, and the effect on PDs, EADs and LGDs;
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

(In thousands of tenge)

6. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	2018	*2017*
Cash on hand	**1,976,093**	322,344
Current account with the NBRK	**2,792,014**	349,919
Murabaha treasury tawarruq with the NBRK	**7,605,225**	7,205,550
Current accounts with other financial institutions	**12,537,775**	4,773,277
	24,911,107	12,651,090
Less: allowance for impairment	**(29,627)**	–
Cash and cash equivalents	**24,881,480**	12,651,090

Under legislation of the Republic of Kazakhstan, the Bank is required to maintain certain obligatory reserves, which are calculated as a percentage of certain liabilities of the Bank. Such reserves must be held on current account with the NBRK or cash on hand based on average monthly balances of the aggregate of cash balances on current account with the NBRK or cash on hand in national and foreign currencies during the period of reserve creation. However, the Bank is not restricted from using these funds to finance its day-to-day operations.

As at 31 December 2018, obligatory reserves were equal to KZT 436,843 thousand (as at 31 December 2017: KZT 212,367 thousand).

All balances of cash equivalents are allocated to Stage 1 for ECL measurement purpose. An analysis of changes in the ECL allowances during the year is as follows:

ECL allowance as at 1 January 2018	6,006
Changes in ECL *(Note 24)*	**21,845**
Foreign exchange adjustments	**1,776**
ECL as at 31 December 2018	**29,627**

7. Receivables under Murabaha agreements

Receivables under Murabaha agreements comprise the following:

	2018	*2017*
Receivables under Commodity Murabaha agreements – corporate	**8,104,101**	6,308,931
Receivables under Home Murabaha agreements – retail	**378,554**	–
Receivables under Commodity Murabaha agreements – retail	**29,292**	42,447
Gross receivables under Murabaha agreements	**8,511,947**	6,351,378
Less: allowance for impairment	**(72,416)**	(64,416)
Net receivables under Murabaha agreements	**8,439,531**	6,286,962

As at 31 December 2018, receivables under Murabaha agreements bear profit rate of 9-14.35% per annum (as at 31 December 2017: 6-15.5% per annum) and mature in 2019-2033 (as at 31 December 2017: 2018-2022).

As at 31 December 2018 the Bank has two counterparties (as at 31 December 2017: nil), whose balances of receivables under Murabaha agreements exceed 10% of its equity. As at 31 December 2018, the total gross value of these balances is equal to KZT 5,066,806 thousand (as at 31 December 2017: nil).

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

As at 31 December 2018 and 2017, receivables arising from Murabaha agreements are secured by real estate, movable property, inventory, corporate and personal guarantees. Management monitors the market value of collateral and requests additional collateral in accordance with the underlying agreement, during its review of the adequacy of the allowance for impairment on receivables under Murabaha agreements.

(In thousands of tenge)

7. Receivables under Murabaha agreements (continued)

Concentration of receivables under Murabaha agreements

Receivables under Murabaha agreements are made within the Republic of Kazakhstan in the following industry sectors:

	2018	*2017*
Energy supply	**3,367,684**	1,270,688
Trade	**2,314,072**	964,100
Agriculture	**1,228,484**	1,375,508
Food trading	**1,193,861**	1,339,656
Home Murabaha – retail	**378,554**	–
Individuals (employees of the Bank)	**29,292**	42,447
Transportation and communication	**–**	858,739
Construction	**–**	500,240
Gross receivables under Murabaha agreements	**8,511,947**	6,351,378
Less: allowance for impairment	**(72,416)**	(64,416)
Net receivables under Murabaha agreements	**8,439,531**	6,286,962

Allowance for impairment at amortised cost

An analysis of changes in the gross carrying value and corresponding ECL in relation to receivables under Commodity Murabaha agreements – corporate during the year ended 31 December 2018 is as follows:

Receivables under Commodity Murabaha agreements – corporate	*Stage 1*	*Total*
Gross carrying value as at 1 January 2018	6,308,931	6,308,931
New assets originated	**5,133,872**	**5,133,872**
Assets repaid	**(3,338,702)**	**(3,338,702)**
As at 31 December 2018	**8,104,101**	**8,104,101**

Receivables under Commodity Murabaha agreements – corporate	*Stage 1*	*Total*
ECL as at 1 January 2018	42,751	42,751
New assets originated	**84,382**	**84,382**
Assets repaid	**(54,876)**	**(54,876)**
As at 31 December 2018	**72,257**	**72,257**

An analysis of changes in the gross carrying value and corresponding ECL in relation to receivables under Home Murabaha agreements – retail during the year ended 31 December 2018 is as follows:

Receivables under Home Murabaha agreements – retail	*Stage 1*	*Total*
Gross carrying value as at 1 January 2018	–	–
New assets originated	**378,554**	**378,554**
As at 31 December 2018	**378,554**	**378,554**

Receivables under Home Murabaha agreements – retail	*Stage 1*	*Total*
ECL as at 1 January 2018	–	–
New assets originated	**159**	**159**
As at 31 December 2018	**159**	**159**

(In thousands of tenge)

7. Receivables under Murabaha agreements (continued)

Allowance for impairment at amortised cost (continued)

An analysis of changes in the gross carrying value and corresponding ECL in relation to receivables under Commodity Murabaha agreements – retail during the year ended 31 December 2018 is as follows:

Receivables under Commodity Murabaha agreements – retail	*Stage 1*	*Total*
Gross carrying value as at 1 January 2018	42,447	42,447
New assets originated	**5,723**	**5,723**
Assets repaid	**(18,878)**	**(18,878)**
As at 31 December 2018	29,292	29,292

The movement in the allowance for impairment of receivables under Commodity Murabaha agreements during the year ended 31 December 2017 is as follows:

	Receivables under Commodity Murabaha agreements	*Total*
As at 1 January 2017	–	–
Charge for the year	64,402	64,402
Translation difference	14	14
As at 31 December 2017	64,416	64,416

8. Wakala investment deposits

As at 31 December 2018, the Bank had investment transactions under Wakala agreements with one financial institution, which bear expected profit rate of 7.5% per annum (as at 31 December 2017: 7-8% per annum) and mature on 14 March 2019 (as at 31 December 2017: 14 March 2019). As at 31 December 2018, total carrying amount of the Wakala investment deposits was equal to KZT 72,493 thousand (as at 31 December 2017: KZT 413,393 thousand). Wakala investment deposits are made within the Republic of Kazakhstan in the postal services industry sector.

As at 31 December 2018 and 2017, all Wakala investment deposits of the Bank are allocated to Stage 1 for ECL measurement purposes.

9. Ijara

Ijara represent net investment in assets leased for periods which either approximate or cover major part of the estimated useful lives of such assets. The documentation for Ijara includes a separate undertaking from the Bank to sell the leased assets to the lessee upon maturity of the lease:

As at 31 December 2018	*Not later than 1 year*	*Later than 1 year and not later than 5 years*	*Total*
Ijara to be received upon maturity – corporate	**236,793**	**381,284**	**618,077**
Less: future variable rental (deferred income) – corporate	**(14,842)**	**(95,378)**	**(110,220)**
Less: allowance for impairment	**(18,715)**	**(23,267)**	**(41,982)**
Net present value of minimum Ijara	**203,236**	**262,639**	**465,875**

As at 31 December 2017	*Not later than 1 year*	*Later than 1 year and not later than 5 years*	*Total*
Ijara to be received upon maturity – corporate	752,331	782	753,113
Less: future variable rental (deferred income) – corporate	(53,136)	(179)	(53,315)
Net present value of minimum Ijara	699,195	603	699,798

As at 31 December 2018, Ijara transactions bear profit rate of 15% per annum and mature in 2021 (as at 31 December 2017: profit rate of 18% per annum and mature in 2019). Ijara are made within the Republic of Kazakhstan in the trade industry sector.

As at 31 December 2018 and 2017, the Bank has no counterparties under Ijara, whose Ijara balances exceed 10% of its equity.

(In thousands of tenge)

9. Ijara (continued)

Allowance for impairment

An analysis of changes in the gross carrying value and corresponding ECL in relation to Ijara during the year ended 31 December 2018 is as follows:

Ijara	*Stage 3*	*Total*
Gross carrying value as at 1 January 2018	699,798	699,798
Assets repaid	**(191,941)**	**(191,941)**
As at 31 December 2018	**507,857**	**507,857**

Ijara	*Stage 3*	*Total*
ECL as at 1 January 2018	61,361	61,361
Assets repaid	**(19,379)**	**(19,379)**
As at 31 December 2018	**41,982**	**41,982**

The movement in the allowance for impairment of Ijara during the year ended 31 December 2017 is as follows:

	Ijara	*Total*
As at 1 January 2017	81,764	81,764
Reversal for the year	(81,764)	(81,764)
Translation difference	–	–
As at 31 December 2017	–	–

10. Bank participation in Wakala and Mudaraba pool

The Bank's investments in Wakala and Mudaraba pool represent the amount of investment of the Bank in investments funded from Wakala and Mudaraba pool. As at 31 December 2018, carrying amount of the Bank's participation in Wakala and Mudaraba pool was nil (as at 31 December 2017: KZT 2,203,100 thousand).

(In thousands of tenge)

11. Property and equipment

Movements in property and equipment were as follows:

	Buildings	*Leasehold improve-ments*	*Motor vehicles*	*Furniture and fixtures*	*Computers and other office equipment*	*Total*
Cost						
At 31 December 2016	221,969	119,592	22,557	40,398	74,836	479,352
Additions	–	195,286	–	41,496	51,164	287,946
Disposals	–	–	–	(148)	–	(148)
At 31 December 2017	221,969	314,878	22,557	81,746	126,000	767,150
Additions	–	**11,080**	–	**7,991**	**66,040**	**85,111**
Disposals	–	–	–	**(950)**	**(20,579)**	**(21,529)**
Transfers	–	**(27,388)**	–	**27,388**	–	–
At 31 December 2018	**221,969**	**298,570**	**22,557**	**116,175**	**171,461**	**830,732**
Accumulated depreciation						
At 31 December 2016	(61,411)	(73,016)	(22,557)	(34,185)	(25,526)	(216,695)
Charge for the year	(11,025)	(47,024)	–	(4,951)	(19,119)	(82,119)
Disposal	–	–	–	118	–	118
At 31 December 2017	(72,436)	(120,040)	(22,557)	(39,018)	(44,645)	(298,696)
Charge for the year	**(11,025)**	**(44,426)**	–	**(20,504)**	**(29,846)**	**(105,801)**
Disposal	–	–	–	**598**	**12,738**	**13,336**
Transfers	–	**1,416**	–	**(1,416)**	–	–
At 31 December 2018	**(83,461)**	**(163,050)**	**(22,557)**	**(60,340)**	**(61,753)**	**(391,161)**
Net book value						
At 31 December 2016	160,558	46,576	–	6,213	49,310	262,657
At 31 December 2017	149,533	194,838	–	42,728	81,355	468,454
At 31 December 2018	**138,508**	**135,520**	–	**55,835**	**109,708**	**439,571**

12. Intangible assets

Movements in intangible assets were as follows:

	Licenses	*Computer software*	*Total*
Cost			
At 31 December 2016	3,163	29,516	32,679
Additions	12,984	44,884	57,868
At 31 December 2017	16,147	74,400	90,547
Additions	**49,397**	**74,379**	**123,776**
At 31 December 2018	**65,544**	**148,779**	**214,323**
Accumulated amortisation			
At 31 December 2016	(1,990)	(17,632)	(19,622)
Charge for the year	(920)	(8,194)	(9,114)
At 31 December 2017	(2,910)	(25,826)	(28,736)
Charge for the year	**(8,978)**	**(18,048)**	**(27,026)**
At 31 December 2018	**(11,888)**	**(43,874)**	**(55,762)**
Net book value			
At 31 December 2016	1,173	11,884	13,057
At 31 December 2017	13,237	48,574	61,811
At 31 December 2018	**53,656**	**104,905**	**158,561**

(In thousands of tenge)

13. Taxation

The corporate income tax expense comprises:

	2018	*2017*
Current corporate income tax charge	**139,406**	162,067
Deferred corporate income tax charge – origination and reversal of temporary differences	**(34,732)**	1,800
Corporate income tax expense	**104,674**	163,867

The Republic of Kazakhstan is the only tax jurisdiction in which the Bank's income is taxable. In accordance with tax legislation the applied corporate income tax rate is 20% in 2018 and 2017.

The reconciliation between the corporate income tax expense in the accompanying financial statements and profit before corporate income tax expense multiplied by the statutory tax rate for the years ended 31 December is as follows:

	2018	*2017*
Profit before corporate income tax expense	**668,273**	980,671
Statutory tax rate	**20%**	20%
Theoretical corporate income tax expense at the statutory rate	**133,655**	196,134
Non-taxable income from Ijara	**(83,764)**	(38,538)
Non-deductible provisions	**45,642**	–
Non-deductible operating expenses	**9,141**	6,271
Corporate income tax expense	**104,674**	163,867

As at 31 December 2018, current corporate income tax assets comprised KZT 204,409 thousand (as at 31 December 2017: KZT 343,815 thousand).

Deferred corporate income tax assets and liabilities as at 31 December and their movements for the respective years comprise:

	2016	*Origination and reversal of temporary differences in profit or loss*	*2017*	*Effect of adoption of IFRS 9 (Note 4)*	*Origination and reversal of temporary differences in profit or loss*	*2018*
Tax effect of deductible temporary differences						
Accrued bonuses	30,208	11,352	41,560	–	**19,792**	**61,352**
Receivables under Murabaha agreements	16,353	(16,353)	–	**(3,180)**	**3,180**	–
Accrued expenses on professional services	3,734	2,431	6,165	–	**8,376**	**14,541**
Unused vacation accrual	1,576	310	1,886	–	**(568)**	**1,318**
Deferred corporate income tax assets	51,871	(2,260)	49,611	**(3,180)**	**30,780**	**77,211**
Tax effect of taxable temporary differences						
Property and equipment	(18,478)	460	(18,018)	–	**3,952**	**(14,066)**
Deferred corporate income tax liabilities	(18,478)	460	(18,018)	–	**3,952**	**(14,066)**
Net deferred corporate income tax assets/ (liabilities)	33,393	(1,800)	31,593	**(3,180)**	**34,732**	**63,145**

(In thousands of tenge)

14. Other assets and liabilities

Other assets comprise the following:

	2018	*2017*
Due from employees under Qard Hassan agreements	**9,568**	5,361
Total other financial assets	**9,568**	5,361
Prepayments and other debtors	**170,497**	–
Guarantee deposit	**87,121**	64,734
Rent prepayment	**35,636**	14,948
Prepaid expenses on information and consulting services	**21,120**	34,497
Prepaid insurance premium	**19,836**	17,305
Prepaid taxes other than income tax	**12**	14,989
Prepayments for air tickets	**–**	1,553
Other	**9,263**	4,456
Total other non-financial assets	**343,485**	152,482
Other assets	**353,053**	157,843

Other liabilities comprise the following:

	2018	*2017*
Accounts payable	**84,400**	43,856
Total other financial liabilities	**84,400**	43,856
Accrued bonuses	**247,356**	180,082
Salary payable	**69,140**	39,227
Prepayment for receivables under Home Murabaha agreements	**15,091**	–
Accrued unused vacations expenses	**6,592**	9,428
Taxes other than corporate income tax payable	**324**	12,840
Other	**10,425**	8,012
Total other non-financial liabilities	**348,928**	249,589
Other liabilities	**433,328**	293,445

15. Amounts due to other banks

As at 31 December 2018, amounts due to other banks comprise amounts on current accounts of Bank CenterCredit JSC and AsiaCredit Bank JSC totaling to KZT 19,623 thousand and KZT 12,882 thousand, respectively (as at 31 December 2017: KZT 65,847 thousand and KZT 35,679 thousand, respectively).

16. Amounts due to customers

Amounts due to customers comprise the following:

	2018	*2017*
Current accounts	**17,823,903**	7,498,720
Amounts due to customers	**17,823,903**	7,498,720

Amounts due to customers include accounts with the following types of customers:

	2018	*2017*
Private enterprises	**15,908,995**	6,239,607
Individuals	**928,029**	294,617
Government entities	**785,626**	779,988
International organisations	**165,307**	147,836
Employees	**35,946**	36,672
Amounts due to customers	**17,823,903**	7,498,720

(In thousands of tenge)

16. Amounts due to customers (continued)

Amounts due to customers are geographically concentrated within the Republic of Kazakhstan in the following economic sectors:

	2018	*2017*
Trade	**7,592,424**	2,393,618
Machinery and equipment trade	**2,519,795**	6,510
Construction	**2,176,849**	2,287,129
Transport and communication	**1,288,655**	30,405
Individuals	**928,029**	294,617
Education	**916,925**	199,388
Government	**785,626**	779,988
Financial services	**487,672**	263,543
Leasing	**473,787**	370,790
Services	**299,560**	–
Charity	**165,307**	147,836
Energy	**53,816**	26,329
Post	**53,643**	473,024
Employees	**35,946**	36,672
Agriculture	**21,276**	124,723
Food trading	**154**	41,890
Other	**24,439**	22,258
Amounts due to customers	**17,823,903**	7,498,720

17. Amounts due to Wakala and Mudaraba pool

	2018	*2017*
Unutilised portion of Wakala deposits *(Note 27)*	**532,065**	–
Amounts due to Wakala and Mudaraba pool	**532,065**	–

The amounts represent unutilised investment deposits pending further investments and therefore considered as liabilities of the Bank towards Wakala depositors.

18. Unamortised commission income

Unamortised commissions are the commissions charged by the Bank to its customers for studying and documenting Islamic financing. As unamortised commissions are transaction costs directly attributable to the issue of Islamic financing, they are amortised over the expected life of the respective agreements. As at 31 December 2018 and 2017, carrying amount of unamortised commission income was equal to KZT 52,879 thousand and KZT 9,387 thousand, respectively.

19. Equity

As at 31 December 2018, 2017 and 2016, authorised and outstanding 10,732,338 common shares are issued and fully paid by the sole shareholder of the Bank at placement value of KZT 1 thousand per common share. No dividends were declared or paid during 2018 and 2017.

20. Revenue from Islamic finance activities

Revenue from Islamic finance activities comprises:

	2018	*2017*
Revenue from receivables under Commodity Murabaha agreements – corporate	**957,083**	558,397
Revenue from Murabaha Treasury tawarruq – banks	**539,951**	782,145
Revenue from Wakala investment deposits – corporate	**15,795**	43,281
Revenue from receivables under Commodity Murabaha and Home Murabaha agreements – retail	**13,663**	2,806
Revenue calculated using the effective profit rate	**1,526,492**	1,386,629
Revenue from Ijara – corporate	**65,598**	157,599
Revenue from Islamic finance activities	**1,592,090**	1,544,228

(In thousands of tenge)

21. Net fee and commission income

Net fee and commission income comprises:

	2018	*2017*
Agency commission and performance incentive under Wakala and Mudarib share of profit under Mudaraba agreements *(Note 27)*	**1,310,753**	1,021,606
Study and documentation fees in relation to financing	**58,192**	26,443
Letters of credit and guarantees	**56,363**	111,946
Transfer operations	**33,495**	33,737
Settlement and cash operations	**22,269**	11,610
Other	**4,950**	1,376
Fee and commission income	**1,486,022**	1,206,718
Transfer operations	**(3,112)**	(1,891)
Card operations	**(48,284)**	(2,586)
Other	**(18,687)**	(12,876)
Fee and commission expense	**(70,083)**	(17,353)
Net fee and commission income	**1,415,939**	1,189,365

22. Net gains from foreign currencies

Net gains from foreign currencies comprise:

	2018	*2018*
Net gains from foreign currencies		
- dealing	**170,015**	200,522
- translation differences	**13,576**	(5,253)
	183,591	195,269

23. Loss from Islamic derivative financial instruments

During 2017, the Bank recognised a realised loss from Islamic derivative financial instruments of KZT 40,823 thousand on currency Wa'ad Swap with the NBRK with notional amount of USD 11,000 thousand expired in November 2017.

24. Credit loss expense

The table below shows the ECL charges on receivables from Islamic finance activities recognised in the statement of comprehensive income for the year ended 31 December 2018:

	Notes	*Stage 1*	*Stage 3*	*Total*
Cash and cash equivalents	6	(21,845)	–	(21,845)
Receivables under Murabaha agreements	7	(29,665)	–	(29,665)
Ijara	9	–	19,379	19,379
		(51,510)	**19,379**	**(32,131)**

(In thousands of tenge)

25. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2018	*2017*
Salaries and bonuses	**1,154,991**	922,731
Social security costs	**81,420**	77,210
Personnel expenses	**1,236,411**	999,941
Rent	**393,390**	344,574
Depreciation and amortisation	**132,827**	91,233
Marketing and advertising	**112,579**	162,631
Information technology services	**102,215**	72,509
Taxes other than income tax	**77,393**	68,565
Professional services	**29,461**	55,335
Communication	**23,715**	19,509
Security	**19,576**	17,679
Trainings	**19,273**	5,631
Business trips	**18,747**	22,072
Transportation	**8,876**	8,631
Cleaning services	**6,933**	6,747
Utilities	**5,819**	9,202
Sponsorship	**4,505**	3,757
Stationery	**3,568**	4,047
Penalties	**2,912**	5,446
Other	**45,426**	26,911
Other operating expenses	**1,007,215**	924,479

26. Other impairment allowances and provisions

Movements in other impairment allowances and provisions were as follows:

	Provisions for trust activities	*Other assets*	*Total*
As at 31 December 2016	–	3,617	3,617
Charge for the year	–	310	310
Write-off	–	(3,927)	(3,927)
As at 31 December 2017	–	–	–
Charge for the year	**247,590**	**–**	**247,590**
Translation difference	**26,350**	**–**	**26,350**
As at 31 December 2018	**273,940**	**–**	**273,940**

27. Commitments and contingencies

Operating environment

The Republic of Kazakhstan continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Kazakhstan economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government.

In 2018, similar to 2017, the Kazakhstan economy continued to be negatively impacted by a significant volatility in crude oil prices and Kazakhstan tenge against major foreign currencies. These factors continued to result in a reduced access to capital, a higher cost of capital, and uncertainty regarding economic growth, which could negatively affect the Bank's future financial position, results of operations and business prospects. At the same time, in 2018, the rate of inflation decreased and economic growth was positive. The management of the Bank believes that it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances.

The Bank's strategy for 2018 and for the next five years is to continue its expansion in the corporate segment in the Kazakhstan banking sector and in the key customer retail segment. The Bank intends to increase its share of the retail banking market in Kazakhstan. The Bank's strategy is to attract new high net worth and professional retail customers by offering a wide range of Islamic banking products.

(In thousands of tenge)

27. Commitments and contingencies (continued)

Legal

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial position or future performance of the Bank. As at 31 December 2018 and 2017, no provision has been made in these financial statements for any of such action or complaints.

Taxation

Various types of legislation and regulations are not always clearly written and their interpretation is subject to the opinions of the local tax inspectors and the Ministry of Finance of the Republic of Kazakhstan. Instances of inconsistent opinions between local, regional and republican tax authorities are not unusual. The current regime of penalties and fines related to reported and discovered violations of Kazakhstan laws, decrees and related regulations are severe. Penalties include confiscation of the amounts at issue (for currency law violations), as well as fines of 50% of the taxes unpaid or more.

The Bank believes that it has paid or accrued all taxes which are applicable. Where legislation concerning the provision of taxes is unclear, the Bank has accrued tax liabilities based on management's best estimate. The Bank's policy is to recognise provisions in the accounting period in which a loss is deemed probable and the amount is reasonably determinable.

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

Credit related commitments and contingencies

As at 31 December, the Bank's credit related commitments comprise:

	2018	*2017*
Undrawn commitments on receivables from Islamic finance activities	**11,022,414**	10,689,722
Guarantees issued	**3,872,412**	3,617,480
Letters of credit issued	**–**	141,694
Credit related commitments	**14,894,826**	14,448,896

Trust activities

The Bank acts in agent capacity for investing amounts received under Wakala and acts as a Mudarib in Mudaraba agreements as follows:

	2018	*2017*
Wakala		
Unutilised portion of Wakala deposits at 1 January	**–**	–
Wakala deposits received	**143,692,460**	113,448,340
Amount utilised for Murabaha, Ijara and Tawarruq	**(79,844,235)**	(64,595,830)
Amount utilised for Wakala investment deposits	**(63,316,160)**	(48,852,510)
Unutilised portion of Wakala deposits at 31 December *(Note 17)*	**532,065**	–
Mudaraba		
Unutilised portion of Mudaraba deposits at 1 January	**–**	–
Mudaraba deposits received	**1,179,384**	646,310
Amount utilised for issuance of Murabaha receivables	**(1,179,384)**	(646,310)
Unutilised portion of Mudaraba deposits at 31 December	**–**	–
Profit accrued on receivable under Murabaha agreements and Ijara	**2,328,437**	1,502,659
Profit accrued on Wakala investment deposits	**16,833**	44,000
Profit accrued on investments in Tawarruq	**–**	116,020
Agency commission attributable to the Bank *(Note 21)*	**(1,310,753)**	(1,021,606)
Profit attributable to customers on Wakala and Mudaraba deposits	**1,034,517**	641,073

(In thousands of tenge)

27. Commitments and contingencies (continued)

Trust activities (continued)

The Bank carries no risk for utilised portions of Wakala and Mudaraba deposits except when the deposits are lost due to misconduct, negligence or violation of the conditions agreed upon by the Bank, in which case, such losses would be borne by the Bank. Profit attributable to customers also includes depositors profit reserves and the Zakah due on these reserves. The Bank is discharging this Zakah on behalf of the depositors. The Mudaraba depositors' share of profits for the year ended 31 December 2018 has been supported by the Shareholder. During 2018, distributable profits generated by investments pools were supported by the Shareholders' donation of KZT 1,453 thousand.

28. Risk management

Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk, Sharia risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operational and compliance risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Management Board

The Management Board has the responsibility to monitor the overall risk process within the Bank.

Risk Management Department, Internal Control and Operational Risk Department and Legal and Compliance Department

The Risk Management Department and Internal Control and Operational Risk Department are responsible for control over compliance with principles, policies on risk-management and risk limits of the Bank for independent risk control, including positions subject to risk in comparison with established limits for estimation of risk of new products and structured transactions; and also for collecting full information in risk estimation systems and risk-management reports. The Legal and Compliance Department is responsible for Compliance and AML policy development and implementation, monitoring of compliance risk and compliance with the Bank and regulatory requirements. The Risk Management Department monitors the quality of the credit portfolio and coverage of credit risk by liquid collateral. The Risk Management Department together with business units is responsible for realisation of the credit policy of the Bank and requirements of other internal documents and of state regulators. The Risk Management Department and Internal Control and Operational Risk Department take part in making decisions on accepting different risks. The Risk Management Department and Internal Control and Operational Risk Department develop methods of quantitative estimation of risks attributable to the Bank and provide recommendations to different departments of the Bank on minimisation of effective control over risks. The Risk Management Department develops and implements methodologies and analytical instruments, which allow the evaluation of risks, to control the level of risks and organise procedures to mitigate those risks.

Islamic Finance Principles Board

The Islamic Finance Principles Board is responsible to review the operating, financing and investing activities of the Bank ensuring their alignment and compliance with the principles and rules of Sharia. Being a supervisory board it is also required to audit the business activities undertaken and present an independent Sharia report to the shareholders with regard to the implementation of the principles and rules of Sharia in the Bank's overall activities.

The Sharia Coordinator represents the Islamic Finance Principles Board and is also responsible to ensure compliance with instructions issued by the Islamic Finance Principles Board including reviewing all standard and non-standard contracts, product parameters and financial statements and conducting the Sharia audit.

(In thousands of tenge)

28. Risk management (continued)

Introduction (continued)

Bank Treasury

The Bank Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

Internal Audit

Risk management processes throughout the Bank are monitored by the Internal Audit function that examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Board of Directors.

Risk measurement and reporting systems

The Bank's risks are measured using a method, which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition the Bank monitors and measures the overall risk-bearing capacity in relation to the aggregate risk exposure across all activities and risk types.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, the Asset and Liability Committee, and the Credit Committee as appropriate. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, capital adequacy ratios, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry and customer risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a monthly basis. The Board of Directors receives a comprehensive risk report once a quarter, which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

The Bank actively uses collateral to reduce its credit risk.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Bank's policies procedures and risk appetite framework include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Islamic derivative financial instruments

Credit risk arising from Islamic derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

(In thousands of tenge)

28. Risk management (continued)

Credit risk (continued)

Credit-related commitments

The Bank makes available to its customers guarantees which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the letters of credit or guarantee. They expose the Bank to similar risks to receivables under Murabaha and these are mitigated by the same control processes and policies.

The maximum exposure to credit risk for the components of the statement of financial position, including derivative financial instruments, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying amounts.

Where financial instruments are recorded at fair value, the carrying amount represents the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Impairment assessment

From 1 January 2018, the Bank calculates ECL based on several probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the effective profit rate. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. The mechanics of the ECL calculations are outlined below and the key elements are as follows.

PD	The *Probability of Default* is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
EAD	The *Exposure at Default* is an estimate of the amount of the credit risk that is at risk of default.
LGD	The *Loss Given Default* is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the financer would expect to receive, including from the realisation of tangible collateral. It is usually expressed as a percentage of the EAD.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected financing loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months expected credit loss (12mECL). The 12mECL is the portion of LTECL that represents the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECL and 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Bank has established a Methodology on assessment of an allowance for impairment of receivables from Islamic finance activities and provisions for financing contingent liabilities in accordance with the IFRS to perform an assessment on a monthly basis by considering the change in the credit risk occurring over the remaining life of the financial instrument. Based on the above process, the Bank groups its Islamic finance instruments into Stage 1, Stage 2, Stage 3 and POCI, as described below:

Stage 1:	When Islamic finance instruments are first recognised, the Bank recognises an allowance based on 12mECL.
Stage 2:	When an asset under Islamic finance activities has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL. Stage 2 assets also include facilities, where the credit risk has improved and the asset has been reclassified from Stage 3.
Stage 3:	Islamic finance instruments considered credit-impaired. The Bank records an allowance for the LTECL.
POCI:	Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and profit revenue is subsequently recognised based on a credit-adjusted effective profit rate. ECL are only recognised or released to the extent that there is a subsequent change in the lifetime expected credit losses.

Definition of default

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the obligor becomes 60 days past due on its contractual payments.

(In thousands of tenge)

28. Risk management (continued)

Credit risk (continued)

Definition of default (continued)

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Internal rating of the obligor indicating default or near-default;
- The obligor was included in the list of problem projects;
- The Bank made a restructuring of the obligor financing due to deterioration of the obligor's financial condition during a period of less than 12 months from the reporting date;
- The availability of reasoned and verifiable information about the significant financial difficulties of the obligor;
- Availability of confirmed information on force majeure, as well as other circumstances that caused substantial material damage to the obligor or do not allow the obligor to continue its business activities;
- The obligor filing for bankruptcy.

Internal rating model for corporate customers

The Bank's independent Risk Management Department operates its internal risk rating models. All corporate risk assessment models operate on Moody's Analytics Risk System Platform provided by Moody's Analytics, which automatically generates a risk rating. The basic principles and the obligor risk rating appropriation process are derived from the principles of Basel II and best practices. The Bank runs separate models in which its customers are rated from 1 to 22 using internal grades. The models incorporate both qualitative and quantitative information and, in addition to information specific to the obligor, utilise supplemental external information that could affect the obligor's behavior. PDs, incorporating forward looking information are assigned for each grade.

PD estimation process for corporate portfolio

For its corporate portfolio, the Bank developed an expert model for calculating the 12mECL based on the available external (macro-indicators) and internal (level of defaults) information (macro indicators and the level of defaults of international rating agencies). Historical data on macroeconomic factors are obtained from independent sources, which are available without undue cost and effort. The Bank does not have its own statistical data on corporate customer's events of defaults; therefore the model for calculating collective provisions for the Stage 1 corporate portfolio was developed on the basis of open data on defaults by international rating agencies. In order to include "forward looking" information to assessment of the probability of default, as required by IFRS 9, the Bank makes the adjustment for Kazakhstan macroeconomic data.

PD estimation process for retail portfolio

The PD estimation process for the retail portfolio is carried out on statistical data acquired from "First Credit Bureau" LLP until the Bank accumulates its own sufficient statistics. The Bank groups the retail portfolio into pools of homogeneous assets based on the general characteristics of credit risk. The calculation of the 12 months PD for retail portfolio pools is carried out on a collective basis. PDs for each retail portfolio pool are adjusted for macroeconomic indicators.

Treasury and interbank relationships

The Bank's treasury and interbank relationships and counterparties comprise banks and other financial services institutions. The Bank's Risk Management Department analyses publicly available information such as financial information and other external data, e.g., the external ratings, and assigns the internal rating, as shown in the table below on page 35.

(In thousands of tenge)

28. Risk management (continued)

Credit risk (continued)

Corporate financing

For corporate financing, the obligors are assessed by the Corporate Banking Department with further review by the Risk Management Department of the Bank. The credit risk assessment is based on a risk rating model and financial analysis techniques that take into account various historical, current and forward-looking information such as:

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention;
- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports, publicly traded bond/sukuk prices or press releases and articles;
- Any macro-economic or geopolitical information, e.g., GDP growth relevant for the specific industry and geographical segments where the client operates;
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.

The complexity and granularity of the analysis varies based on the exposure of the Bank and the complexity and size of the customer.

Retail financing

Retail financing are rated by a scorecard tool primarily driven by application and credit behavioral data. Credit underwriting also considers finance-to-value (FTV) ratio, list of restricted employers and positions, quality of collateral, verification process etc.

The Bank's internal obligor risk rating grades are as follows:

Risk rating scale	*Moody's grades*	*S&P grades*	*Fitch grades*	*Level category*
1	Aaa	AAA	AAA	Investment grade
2+	Aa1	AA+	AA+	
2	Aa2	AA	AA	
2-	Aa3	AA-	AA-	
3+	A1	A+	A+	
3	A2	A	A	
3-	A3	A-	A-	
4+	Baa1	BBB+	BBB+	
4	Baa2	BBB	BBB	
4-	Baa3	BBB-	BBB-	
5+	Ba1	BB+	BB+	Sub-investment grade
5	Ba2	BB	BB	
5-	Ba3	BB-	BB-	
6+	B1	B+	B+	
6	B2	B	B	
6-	B3	B-	B-	
7+	Caa1	CCC+	CCC+	Watch-list grade
7	Caa2	CCC	CCC	
7-	Caa3	CCC-	CCC-	
8	D		D	Impaired
9	D		D	
10	D		D	

(In thousands of tenge)

28. Risk management (continued)

Credit risk (continued)

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation.

Loss given default

LGD is calculated for each facility separately. LGD rates take into account the financing in comparison to the amount expected to be recovered or realised from any collateral held and restricted Wakala deposits.

Grouping financial assets measured on a collective basis

Dependent on the factors below, the Bank calculates ECLs either on a collective or on an individual basis.

Asset classes where the Bank calculates ECL on an individual basis include:

- Stage 2 and Stage 3 corporate financing portfolio;
- Stage 2 and Stage 3 related party exposures;
- Stage 2 and Stage 3 individual exposures to retail customers;
- Stage 2 and Stage 3 treasury and interbank relationships (such as amounts due from banks, cash equivalents and Islamic investment securities at amortised cost and FVOCI).

Asset classes where the Bank calculates ECL on a collective basis include:

- Retail homogeneous portfolios;
- Stage 1 related parties exposures;
- Stage 1 corporate financing portfolio;
- Stage 1 treasury and interbank relationships.

The Bank groups these exposures into smaller homogeneous portfolios, based on a combination of internal and external characteristics of the financing instruments, for example product type, type of collateral, purpose of financing etc.

Significant increase in credit risk

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition. The Bank considers an exposure to have significantly increased in credit risk when internal rating of the obligor downgrades by 4 notches and more from the initial recognition.

The Bank also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or a material decrease in the underlying collateral value. Regardless of the change in risk rating grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

When estimating ECLs on a collective basis for a group of similar assets, the Bank applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

Forward-looking information and multiple economic scenarios

In its ECL models, the Bank relies on forward looking information as economic inputs. The Bank obtains the forward-looking information from third party sources (external rating agencies, governmental bodies e.g. central banks, and statistic agencies, reputable analytic agencies).

(In thousands of tenge)

28. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank internal credit ratings, as described above. The table below shows the credit quality by class of asset for financing-related lines in the statement of financial position, based on the Bank's credit rating system.

As at 31 December 2018	*Notes*		*Investment grade*	*Sub-investment grade*	*Watch list grade*	*Impaired*	*Total*
Cash and cash equivalents, except for cash on hand	6	Stage 1	22,935,014	–	–	–	22,935,014
Receivables under Murabaha agreements at amortised cost	7						
- Receivables under Commodity Murabaha agreements – corporate		Stage 1	–	8,104,101	–	–	8,104,101
		Stage 2	–	–	–	–	–
		Stage 3	–	–	–	–	–
		POCI	–	–	–	–	–
- Receivables under Home Murabaha agreements – retail		Stage 1	–	378,554	–	–	378,554
		Stage 2	–	–	–	–	–
		Stage 3	–	–	–	–	–
		POCI	–	–	–	–	–
- Receivables under Commodity Murabaha agreements – retail		Stage 1	–	29,292	–	–	29,292
		Stage 2	–	–	–	–	–
		Stage 3	–	–	–	–	–
		POCI	–	–	–	–	–
Wakala investment deposits at amortised cost	8	Stage 1	–	72,493	–	–	72,493
		Stage 2	–	–	–	–	–
		Stage 3	–	–	–	–	–
		POCI	–	–	–	–	–
Ijara at amortised cost	9	Stage 1	–	–	–	–	–
		Stage 2	–	–	–	–	–
		Stage 3	–	–	507,857	–	507,857
		POCI	–	–	–	–	–
Guarantees issued	27	Stage 1	1,281,473	2,590,939	–	–	3,872,412
		Stage 2	–	–	–	–	–
		Stage 3	–	–	–	–	–
Total			24,216,487	11,175,379	507,857	–	35,899,723

(In thousands of tenge)

28. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets (continued)

The table below shows gross balances under IAS 39 as at 31 December 2017 based on the Bank's internal credit rating system:

		Neither past due nor impaired					
As at 31 December 2017	***Notes***	***Investment grade***	***Sub investment grade***	***Watch list grade***	***Past due but not impaired***	***Individually impaired***	***Total***
Cash and cash equivalents, except for cash on hand	6	12,328,746	–	–	–	–	12,328,746
Receivables under Murabaha agreements at amortised cost	7						
- Receivables under Commodity Murabaha agreements – corporate		500,240	5,808,691	–	–	–	6,308,931
- Receivables under Commodity Murabaha agreements – retail		42,447	–	–	–	–	42,447
Wakala investment deposits	8	413,393	–	–	–	–	413,393
Ijara	9	–	–	–	–	699,798	699,798
Bank participation in Wakala and Mudaraba pool	10	2,203,100	–	–	–	–	2,203,100
Other financial assets	14	5,361	–	–	–	–	5,361
Total		15,493,287	5,808,691	–	–	699,798	22,001,776

In the table above instruments of investment grade are those having a minimal level of credit risk, normally with a credit rating on or close to sovereign level. Other obligors with good financial position, good debt service and very well collateralised are included in the sub investment grade.

The Bank had no past due financial assets as at 31 December 2017.

It is the Bank's policy to maintain accurate and consistent risk ratings across the financing portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly.

(In thousands of tenge)

28. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets (continued)

The geographical concentration of Bank's financial assets and liabilities is set out below:

	2018		
	Kazakhstan	*UAE*	*Total*
Assets			
Cash and cash equivalents	**12,855,504**	**12,025,976**	**24,881,480**
Receivables under Murabaha agreements	**8,439,531**	**–**	**8,439,531**
Wakala investment deposits	**72,493**	**–**	**72,493**
Ijara	**465,875**	**–**	**465,875**
Other financial assets	**96,689**	**–**	**96,689**
	21,930,092	**12,025,976**	**33,956,068**
Liabilities			
Amounts due to other banks	**32,505**	**–**	**32,505**
Amounts due to customers	**17,823,903**	**–**	**17,823,903**
Amounts due to Wakala and Mudaraba pool	**532,065**	**–**	**532,065**
Other financial liabilities	**84,400**	**–**	**84,400**
	18,472,873	**–**	**18,472,873**
Net financial assets	**3,457,219**	**12,025,976**	**15,483,195**

	2017		
	Kazakhstan	*UAE*	*Total*
Assets			
Cash and cash equivalents	7,929,123	4,721,967	12,651,090
Receivables under Murabaha agreements	6,286,962	–	6,286,962
Wakala investment deposits	413,393	–	413,393
Ijara	699,798	–	699,798
Bank participation in Wakala and Mudaraba pool	2,203,100	–	2,203,100
Other financial assets	5,361	–	5,361
	17,537,737	4,721,967	22,259,704
Liabilities			
Amounts due to other banks	101,526	–	101,526
Amounts due to customers	7,498,720	–	7,498,720
Other financial liabilities	43,856	–	43,856
	7,644,102	–	7,644,102
Net financial assets	9,893,635	4,721,967	14,615,602

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stressed circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains a portfolio of diverse assets the terms to maturity of which provide sufficient liquidity to manage unforeseen interruptions of cash flow. In addition, the Bank maintains a minimum cash balance (obligatory reserve) with the NBRK, the amount of which depends on the level of customer funds attracted.

The liquidity position is assessed and managed by the Bank primarily based on certain liquidity ratios established by the NBRK.

(In thousands of tenge)

28. Risk management (continued)

Liquidity risk and funding management (continued)

Analysis of financial liabilities by remaining contractual maturities

The tables below summarise the maturity profile of the Bank's financial liabilities at 31 December based on contractual undiscounted payment obligations. Payments, which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request payment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

As at 31 December 2018	*Less than 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*Over 5 years*	*Total*
Financial liabilities					
Amounts due to other banks	**32,505**	–	–	–	**32,505**
Amounts due to customers	**17,823,903**	–	–	–	**17,823,903**
Amounts due to Wakala and Mudaraba pool	**532,065**	–	–	–	**532,065**
Other financial liabilities	–	**84,400**	–	–	**84,400**
Total undiscounted financial liabilities	**18,388,473**	**84,400**	–	–	**18,472,873**

As at 31 December 2017	*Less than 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*Over 5 years*	*Total*
Financial liabilities					
Amounts due to other banks	101,526	–	–	–	101,526
Amounts due to customers	7,498,720	–	–	–	7,498,720
Other financial liabilities	–	43,856	–	–	43,856
Total undiscounted financial liabilities	7,600,246	43,856	–	–	7,644,102

The table below shows the contractual maturity of the Bank's financial commitments and contingencies. Each undrawn commitment on a receivable is included in the time band containing the earliest date it can be drawn down.

2018	*Less than 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*Over 5 years*	*Total*
Undrawn commitments on receivables from Islamic finance activities	**2,348,292**	–	**8,674,122**	–	**11,022,414**
Guarantees issued	**2,414,843**	**1,444,246**	**13,323**	–	**3,872,412**

2017	*Less than 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*Over 5 years*	*Total*
Undrawn commitments on receivables from Islamic finance activities	–	6,120,004	4,569,718	–	10,689,722
Guarantees issued	2,320,916	1,081,940	214,624	–	3,617,480
Letters of credit issued	12,396	12,983	116,315	–	141,694

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

In accordance with Kazakhstan legislation, the Bank is obliged to pay term deposits of individuals upon demand of a depositor. The Bank is not obliged to return the utilised portion of Wakala and Mudaraba deposits, except when the deposit is lost due to misconduct, negligence or violation of the conditions agreed upon by the Bank, in which case such losses would be borne by the Bank. For information on expected maturity of assets and liabilities of the Bank, see *Note 30.*

(In thousands of tenge)

28. Risk management (continued)

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as foreign exchange rates and profit rates.

Profit rate risk

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

Profit rate sensitivity analysis

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

	2018		*2017*	
Inflation	***Increase in basis points by***	***Sensitivity of net profit***	***Increase in basis points by***	***Sensitivity of net profit***
Currency				
KZT	**100**	**26,218**	100	23,127

	2018		*2017*	
Inflation	***Decrease in basis points by***	***Sensitivity of net profit***	***Decrease in basis points by***	***Sensitivity of net profit***
Currency				
KZT	**100**	**(26,218)**	100	(23,127)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Asset and Liability Committee has set limits on positions by currency based on the NBRK regulations. Positions are monitored on a daily basis.

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

As at 31 December 2018	***KZT***	***USD***	***EUR***	***AED***	***Total***
Assets					
Cash and cash equivalents	**7,908,110**	**16,553,006**	**302,973**	**117,391**	**24,881,480**
Receivables under Murabaha agreements	**8,439,531**	**–**	**–**	**–**	**8,439,531**
Wakala investment deposits	**72,493**	**–**	**–**	**–**	**72,493**
Ijara	**465,875**	**–**	**–**	**–**	**465,875**
Other financial assets	**9,568**	**–**	**–**	**–**	**9,568**
Total assets	**16,895,577**	**16,553,006**	**302,973**	**117,391**	**33,868,947**
Liabilities					
Amounts due to other banks	**–**	**–**	**–**	**32,505**	**32,505**
Amounts due to customers	**1,951,196**	**15,514,122**	**291,094**	**67,491**	**17,823,903**
Amounts due to Wakala and Mudaraba pool	**–**	**532,065**	**–**	**–**	**532,065**
Other financial liabilities	**84,400**	**–**	**–**	**–**	**84,400**
Total liabilities	**2,035,596**	**16,046,187**	**291,094**	**99,996**	**18,472,873**
Net position	**14,859,981**	**506,819**	**11,879**	**17,395**	**15,396,074**

(In thousands of tenge)

28. Risk management (continued)

Market risk (continued)

Currency risk (continued)

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

As at 31 December 2017	*KZT*	*USD*	*EUR*	*AED*	*Total*
Assets					
Cash and cash equivalents	7,667,449	4,701,978	39,370	242,293	12,651,090
Receivables under Murabaha agreements	5,790,195	496,767	–	–	6,286,962
Wakala investment deposits	413,393	–	–	–	413,393
Ijara	699,798	–	–	–	699,798
Bank participation in Wakala and Mudaraba pool	2,203,100	–	–	–	2,203,100
Other financial assets	5,361	–	–	–	5,361
Total assets	16,779,296	5,198,745	39,370	242,293	22,259,704
Liabilities					
Amounts due to other banks	–	–	–	101,526	101,526
Amounts due to customers	2,949,100	4,315,815	124,968	108,837	7,498,720
Other financial liabilities	43,856	–	–	–	43,856
Total liabilities	2,992,956	4,315,815	124,968	210,363	7,644,102
Net position	13,786,340	882,930	(85,598)	31,930	14,615,602

The table below indicates the currencies to which the Bank had significant exposure at 31 December on certain monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against tenge, with all other variables held constant on the profit or loss (due to the fair value of certain currency sensitive certain monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in the statement of comprehensive income, while a positive amount reflects a net potential increase.

	2018		*2017*	
Currency	*Change in currency rate, in %*	*Effect on profit before tax*	*Change in currency rate, in %*	*Effect on profit before tax*
USD	**+14%**	**53,549**	+10%	(19,526)
EUR	**+14%**	**1,219**	+13.5%	7,667
AED	**+14%**	**501**	+10%	(3,098)

	2018		*2017*	
Currency	*Change in currency rate, in %*	*Effect on profit before tax*	*Change in currency rate, in %*	*Effect on profit before tax*
USD	**-10%**	**6,817**	-10%	19,526
EUR	**-10%**	**(33)**	-13.5%	(7,667)
AED	**-10%**	**64**	-10%	3,098

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors (other than credit, market and liquidity risks) such as those arising from legal, Sharia and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

(In thousands of tenge)

28. Risk management (continued)

Operational risk (continued)

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management and the Internal Control and Operational Risk Department. This responsibility is supported by the development of overall Bank policies for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with Sharia, regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational losses and proposed remedial action;
- Development of contingency plans;
- Training and professional development;
- Ethical and business standards; and
- Risk mitigation.

Compliance with the Bank's standards is supported by a program of periodic reviews undertaken by Internal Audit and Sharia Audit. The results of Internal Audit and Sharia Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Board of Directors, Islamic Finance Principles Board and senior management of the Bank.

29. Fair values of financial instruments

At each reporting date, management of the Bank analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Bank's accounting policies. For this analysis, management of the Bank verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. Management of the Bank, in conjunction with the Bank's external appraisers also compares each change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of disclosing those fair values, the Bank determined classes of assets and liabilities based on the nature, characteristics and risks of those assets and liabilities as well as the hierarchy of fair value sources.

		Fair value measurement using			
As at 31 December 2018	*Date of valuation*	*Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant non-observable inputs (Level 3)*	*Total*
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2018	24,881,480	–	–	24,881,480
Receivables under Murabaha agreements	31 December 2018	–	–	8,403,705	8,403,705
Wakala investment deposits	31 December 2018	–	71,806	–	71,806
Ijara	31 December 2018	–	–	494,670	494,670
Other financial assets	31 December 2018	–	–	9,568	9,568
Liabilities for which fair values are disclosed					
Amounts due to other banks	31 December 2018	–	32,505	–	32,505
Amounts due to customers	31 December 2018	–	17,823,903	–	17,823,903
Amounts due to Wakala and Mudaraba pool	31 December 2018	–	532,065	–	532,065
Other financial liabilities	31 December 2018	–	84,400	–	84,400

(In thousands of tenge)

29. Fair values of financial instruments (continued)

		Fair value measurement using			
As at 31 December 2017	*Date of valuation*	*Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant non-observable inputs (Level 3)*	*Total*
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2017	12,651,090	–	–	12,651,090
Receivables under Murabaha agreements	31 December 2017	–	–	6,252,689	6,252,689
Wakala investment deposits	31 December 2017	–	402,085	–	402,085
Ijara	31 December 2017	–	–	781,603	781,603
Bank participation in Wakala and Mudaraba pool	31 December 2017	–	2,203,100	–	2,203,100
Other financial assets	31 December 2017	–	–	5,361	5,361
Liabilities for which fair values are disclosed					
Amounts due to other banks	31 December 2017	–	101,526	–	101,526
Amounts due to customers	31 December 2017	–	7,498,720	–	7,498,720
Other financial liabilities	31 December 2017	–	43,856	–	43,856

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not recorded at fair value in the financial statements.

Assets for which fair value approximates carrying amount

For financial assets and financial liabilities that are liquid or have a short term to maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to demand deposits and term deposit accounts without a specific maturity.

Financial instruments with fixed and floating rates

If assets and liabilities are not measured at fair values but the fair values are disclosed in the financial statements, future cash flows are discounted at the average market rate of financial instruments with similar maturities and risk characteristics. The source of those rates is the NBRK statistics.

The future cash flows are calculated by applying the weighted average profit rate of the financing portfolio to the principal amount as at the end of the reporting period. The following assumptions are applied by the Bank while determining the fair values:

1. The principal amount of the financial instrument is repaid at the weighted average maturity date of the portfolio.
2. Profit payments are made evenly each year until the weighted average maturity date of the portfolio.

The above calculation is applied in determining the fair value of receivables under Islamic finance activities, amounts due from customers and amounts due from financing institutions.

(In thousands of tenge)

29. Fair values of financial instruments (continued)

Financial instruments with fixed and floating rates (continued)

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

As at 31 December 2018	*Carrying amount*	*Fair value*	*Unrecognised gain/(loss)*
Financial assets			
Cash and cash equivalents	**24,881,480**	**24,881,480**	–
Receivables under Murabaha agreements	**8,439,531**	**8,403,705**	**(35,826)**
Wakala investment deposits	**72,493**	**71,806**	**(687)**
Ijara	**465,875**	**494,670**	**28,795**
Other financial assets	**9,568**	**9,568**	–
Financial liabilities			
Amounts due to other banks	**32,505**	**32,505**	–
Amounts due to customers	**17,823,903**	**17,823,903**	–
Amounts due to Wakala and Mudaraba pool	**532,065**	**532,065**	–
Other financial liabilities	**84,400**	**84,400**	–
Total unrecognised change in unrealised fair value			**(7,718)**

As at 31 December 2017	*Carrying amount*	*Fair value*	*Unrecognised gain/(loss)*
Financial assets			
Cash and cash equivalents	12,651,090	12,651,090	–
Receivables under Murabaha agreements	6,286,962	6,252,689	(34,273)
Wakala investment deposits	413,393	402,085	(11,308)
Ijara	699,798	781,603	81,805
Bank participation in Wakala and Mudaraba pool	2,203,100	2,203,100	–
Other financial assets	5,361	5,361	–
Financial liabilities			
Amounts due to other banks	101,526	101,526	–
Amounts due to customers	7,498,720	7,498,720	–
Other financial liabilities	43,856	43,856	–
Total unrecognised change in unrealised fair value			36,224

During 2018 and 2017, there were no transfers between levels of the fair value hierarchy.

(In thousands of tenge)

30. Maturity analysis of assets and liabilities

The tables below show an analysis of assets and liabilities according to when they are expected to be recovered or settled. See *Note 28* "Risk management" for the Bank's contractual undiscounted repayment obligations.

	2018		
	Within one year	*More than one year*	*Total*
Cash and cash equivalents	24,881,480	–	24,881,480
Receivables under Murabaha agreements	8,035,166	404,365	8,439,531
Wakala investment deposits	72,493	–	72,493
Ijara	203,236	262,639	465,875
Property and equipment	–	439,571	439,571
Intangible assets	–	158,561	158,561
Current corporate income tax assets	204,409	–	204,409
Deferred corporate income tax assets	–	63,145	63,145
Other assets	265,932	87,121	353,053
Total	**33,662,716**	**1,415,402**	**35,078,118**
Amounts due to other banks	32,505	–	32,505
Amounts due to customers	17,823,903	–	17,823,903
Amounts due to Wakala and Mudaraba pool	532,065	–	532,065
Unamortised commission income	52,879	–	52,879
Provisions	273,940	–	273,940
Other liabilities	433,328	–	433,328
Total	**19,148,620**	–	**19,148,620**
Net assets	**14,514,096**	**1,415,402**	**15,929,498**

	2017		
	Within one year	*More than one year*	*Total*
Cash and cash equivalents	12,651,090	–	12,651,090
Receivables under Murabaha agreements	6,245,436	41,526	6,286,962
Wakala investment deposits	165,209	248,184	413,393
Ijara	699,195	603	699,798
Bank participation in Wakala and Mudaraba pool	2,203,100	–	2,203,100
Property and equipment	–	468,454	468,454
Intangible assets	–	61,811	61,811
Current corporate income tax assets	221,000	122,815	343,815
Deferred corporate income tax assets	–	31,593	31,593
Other assets	93,109	64,734	157,843
Total	22,278,139	1,039,720	23,317,859
Amounts due to other banks	101,526	–	101,526
Amounts due to customers	7,498,720	–	7,498,720
Unamortised commission income	9,387	–	9,387
Other liabilities	293,445	–	293,445
Total	7,903,078	–	7,903,078
Net assets	14,375,061	1,039,720	15,414,781

31. Related party disclosures

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related-party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

(In thousands of tenge)

31. Related party disclosures (continued)

The outstanding balances of related-party transactions are as follows:

	31 December 2018				31 December 2017			
Statement of financial position	*Share-holder*	*Entities under common control*	*Key manage-ment personnel*	*Other related parties*	*Share-holder*	*Entities under common control*	*Key manage-ment personnel*	*Other related parties*
Cash and cash equivalents	**12,025,976**	**–**	**–**	**–**	4,721,967	–	–	–
Receivables under Murabaha agreements	**–**	**–**	**19,822**	**–**	–	–	–	–
Amounts due to customers	**175**	**267,731**	**292**	**–**	337	242,985	17,462	–

	31 December 2018				31 December 2017			
Off balance sheet (trust activities)	*Share-holder*	*Entities under common control*	*Key manage-ment personnel*	*Other related parties*	*Share-holder*	*Entities under common control*	*Key manage-ment personnel*	*Other related parties*
Amounts due to Wakala depositors	**33,540,660**	**–**	**41,404**	**671,150**	19,090,309	–	13,000	555,662
Amounts due to Mudaraba depositors	**–**	**–**	**24,551**	**–**	–	–	1,500	–
Wakala investment deposits	**2,689,400**	**–**	**–**	**–**	2,326,310	–	–	–

The income and expenses arising from related-party transactions are as follows:

	2018				2017			
	Share-holder	*Entities under common control*	*Key manage-ment personnel*	*Other related parties*	*Share-holder*	*Entities under common control*	*Key manage-ment personnel*	*Other related parties*
Off balance sheet (trust activities)								
Expense from Islamic finance activities	**(465,593)**	**–**	**(1,443)**	**(16,926)**	(234,833)	–	(325)	(2,457)
Revenue from Wakala investment deposits	**16,833**	**–**	**–**	**–**	44,000	–	–	–
Revenue from Murabaha	**–**	**–**	**990**	**–**	–	–	–	–
Statement of comprehensive income								
Rent expense	**–**	**(44,400)**	**–**	**–**	–	(44,400)	–	–

Compensation of four (2017: four) members of key management personnel comprise:

	2018	*2017*
Salaries and other short-term benefits	**228,295**	206,360
Social security costs	**20,580**	20,575
Total key management personnel compensation	**248,875**	226,935

(In thousands of tenge)

32. Capital adequacy

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

As at 31 December 2018, the Bank had complied with all its externally imposed capital requirements.

The primary objectives of the Bank's capital management policies are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains healthy capital ratios in order to support its business and to maximise shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities.

The NBRK requires the Bank to maintain a Tier 1 capital adequacy ratio (K1) of not less than 6% of the total assets and a capital adequacy ratio (K2) of not less than 7.5% of risk weighted assets, computed based on the requirements of the NBRK.

As at 31 December 2018 and 2017, the Bank's Tier 1 and Tier 2 capital adequacy ratios on this basis exceeded the required minimums.

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

	2018	*2017*
Tier 1 capital		
Share capital	**10,732,338**	10,732,338
Retained earnings	**4,682,443**	3,865,639
Total tier 1 capital	**15,414,781**	14,597,977
Tier 2 capital		
Net income of the current year	**563,599**	816,804
	563,599	816,804
Total capital base	**15,978,380**	15,414,781
Risk weighted assets		
Credit risk	**11,724,405**	14,346,293
Market risk	**697,400**	59,589
Operational risk	**1,273,786**	1,368,927
Total risk weighted assets	**13,695,591**	15,774,809
Capital ratios		
Total capital expressed as a percentage of total risk weighted assets	**107%**	98%
Tier 1 capital expressed as a percentage of total risk weighted assets	**113%**	93%

33. Zakah

The Articles of Association of the Bank do not require management of the Bank to pay Zakah on behalf of the Shareholder. Consequently, the Zakah obligation is to be discharged by the Shareholder.

34. Subsequent events

On 29 January 2019, the Boards of Directors of Abu Dhabi Commercial Bank (ADCB) and Union National Bank (UNB) approved and recommended, and subsequently on 21 March 2019 the shareholders of each of ADCB and UNB likewise approved, the acquisition of 100% of the issued share capital of Al Hilal Bank PJSC (the sole shareholder of the Bank) after completion of a merger between ADCB and UNB.