# ForteBank Joint Stock Company

## Consolidated financial statements

*Year ended 31 December 2019*
*together with independent auditor's report*

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# Independent auditor's report

To the Shareholders and Board of Directors of ForteBank Joint Stock Company

## *Opinion*

We have audited the consolidated financial statements of ForteBank Joint Stock Company and its subsidiaries (the "Group"), which comprise the consolidated statement of comprehensive income for the year ended 31 December 2019, the consolidated statement of financial position as at 31 December 2019, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated 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 consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards) (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.

## *Key audit matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements.

The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

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| Key audit matter | How the matter was addressed in the audit |
| --- | --- |
| *Allowance for expected credit losses of loans to customers* | |
| Estimation of allowance for expected credit losses on loans to customers in accordance with IFRS 9 is a key area of the Group's management judgment. Identification of factors of a significant increase in credit risk since the initial recognition, including identification of changes in default risk during the remaining term of a financial instrument, as well as determining probability of default and loss given default rates, requires significant use of professional judgment, assumptions and analysis of various historical, current and forward-looking information.<br><br>The use of different models and assumptions may significantly affect the amount of allowance for expected credit losses on loans to customers. Due to the materiality of loans to customers of the Group as at 31 December 2019, as well as the significant use of professional judgment, the estimation of the allowance for expected credit losses was a key audit issue.<br><br>Information on expected credit losses on loans to customers is presented in Note 9 *Credit loss expense*, Note 16 *Loans to customers* and Note 26 *Risk management* to the consolidated financial statements. | Our audit procedures included analyzing the methodology for estimating the allowance for expected credit losses on the loan portfolio, as well as analyzing and testing controls over the process of identification of factors of significant increase in credit risk on loans to customers since initial recognition and events of default, including the term overdue debt and changes in internal credit ratings.<br><br>We performed, on a sample basis, testing of input data and analysis of the assumptions used by the Group in estimation of allowance for expected credit losses, including statistical information on debt servicing, borrower's financial and non-financial information, expected recoveries in the events of default from sale of collateral held as well as forecast macroeconomic factors.<br><br>We made recalculations on the allowance for expected credit losses.<br><br>We have analyzed information on the allowance for expected credit losses on loans to customers disclosed in the Notes to the consolidated financial statements. |

| Key audit matter | How the matter was addressed in the audit |
|---|---|
| ***Valuation of fair value of investment securities of NAC Kazatomprom JSC*** | |
| We considered this matter as one of the key audit matters due to materiality of the investments in these securities, as well as complex and subjective judgments of the Group's management used in determination of the fair value of investment securities not quoted in an active market at initial recognition.<br><br>Information on investment securities is disclosed in Note 17 *Investment securities* to the consolidated financial statements. | Our audit procedures comprised an assessment of the methodology and the valuation model, as well as testing of input data used by the Group in determining the fair value. We involved valuation specialists to assess the key inputs used in the valuation, such as risk-free rate and credit spread, as well as performed benchmarking them with external data.<br><br>We have analyzed the information on investment securities disclosed in Notes to the consolidated financial statements. |

***Other information included in the Annual report of the Group for 2019***

Other information consists of the information included in the Annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

The Annual report is expected to be made available to us after the date of this audit report.

Our opinion on the consolidated financial statements does not cover other information and we do not express any conclusion providing assurance in any form with regard to this information.

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

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***Responsibility of management and the Board of Directors for the consolidated financial statements***

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

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

The Board of Directors is responsible for the supervision of the Group's consolidated financial reporting process.

***Auditor's responsibilities for the audit of the consolidated financial statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. Besides, we perform the following:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures in response to these risks, obtain audit evidence, which is sufficient and appropriate to serve as a basis for our audit 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;

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- 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 Group'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 Group's ability to continue as a going concern. If we determine the existence of material uncertainty, we shall draw attention in our opinion to the related disclosure in the consolidated financial statements or, if such disclosure is 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 result in the Group's loss of ability to continue as a going concern;
- evaluate the overall presentation of the consolidated financial statements, their structure and content, including disclosure of information, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

We also provide the Board of Directors with the statement that we complied with all respective ethical requirements with regard to independence and communicated to them all relations and other matters that may be reasonably considered as affecting the auditor's independence, and where applicable, related safeguards.

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

The partner in charge of the audit resulting in this independent auditor's report is Paul Cohn.

Ernst & Young LLP

Paul Cohn
Audit partner

Olga Khegay
Auditor

Auditor's 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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10 March 2020

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## for the year ended 31 December 2019

*(millions of tenge)*

| | *Notes* | *2019* | *2018** |
|---|---|---|---|
| Interest revenue calculated using effective interest rate | 6 | **163,249** | 122,542 |
| Other interest revenue | 6 | **304** | 395 |
| Interest expense | 6 | **(85,259)** | (73,543) |
| **Net interest income** | | **78,294** | 49,394 |
| | | | |
| Fee and commission income | 7 | **33,203** | 20,206 |
| Fee and commission expense | 7 | **(11,058)** | (5,845) |
| Net (losses)/gains on derecognition of investment securities at fair value through other comprehensive income | | **(107)** | 875 |
| Net gains on initial recognition of financial assets measured at amortised cost | 17 | **7,053** | 802 |
| Net gains from foreign currencies | 8 | **10,603** | 1,255 |
| Gain on derecognition of financial liabilities | 22 | **–** | 9,160 |
| Other income | 11 | **4,378** | 4,854 |
| **Non-interest income** | | **44,072** | 31,307 |
| | | | |
| Credit loss expense | 9 | **(20,417)** | (5,000) |
| Net losses from financial instruments at fair value through profit or loss | | **(4,274)** | (426) |
| General and administrative expenses | 10 | **(42,751)** | (35,861) |
| Other expenses | 11 | **(9,933)** | (5,415) |
| **Non-interest expense** | | **(77,375)** | (46,702) |
| **Profit before corporate income tax expense** | | **44,991** | 33,999 |
| | | | |
| Corporate income tax expense | 12 | **(2,758)** | (4,891) |
| **Profit for the year** | | **42,233** | 29,108 |
| | | | |
| **Attributable to:** | | | |
| - shareholders of the Bank | | **42,233** | 29,038 |
| - non-controlling interests | | **–** | 70 |
| | | **42,233** | 29,108 |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

| | Notes | 2019 | 2018* |
|---|---|---|---|
| **Other comprehensive income** | | | |
| *Other comprehensive income/(loss) to be reclassified subsequently to profit or loss* | | | |
| Net change in fair value of debt instruments at fair value through other comprehensive income | | 4,276 | (2,342) |
| Change in allowance for expected credit losses of debt instruments at fair value through other comprehensive income | | (217) | 1,412 |
| Reclassification of cumulative loss/(gain) on derecognition of debt instruments at fair value through other comprehensive income to profit or loss | | 107 | (875) |
| Income tax relating to components of other comprehensive income | | (667) | 323 |
| **Other comprehensive income/(loss) for the year, net of tax** | | 3,499 | (1,482) |
| **Total comprehensive income for the year** | | 45,732 | 27,626 |
| | | | |
| **Attributable to:** | | | |
| - shareholders of the Bank | | 45,732 | 27,556 |
| - non-controlling interests | | – | 70 |
| | | 45,732 | 27,626 |
| | | | |
| **Basic and diluted earnings per share (in tenge)** | 25 | 0.47 | 0.32 |

* *Certain amounts included in these columns do not agree to the consolidated financial statements for 2018 as they reflect the reclassifications made and disclosed in Note 2.*

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

Guram Andronikashvili
Chairman of the Management Board

10 March 2020

Yetekbayeva Y. A.
Chief accountant-
Executive Director

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## as at 31 December 2019

*(millions of tenge)*

| | *Notes* | *31 December 2019* | *31 December 2018** | *31 December 2017* |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | 13 | **347,242** | 225,147 | 231,820 |
| Amounts due from financial institutions | 14 | **28,205** | 19,711 | 6,393 |
| Trading securities | 15 | **6,452** | 9,511 | 290,919 |
| Loans to customers | 16 | **785,068** | 689,645 | 671,851 |
| Investment securities | 17 | **719,466** | 570,475 | 82,398 |
| Property and equipment | 18 | **70,655** | 51,496 | 49,009 |
| Intangible assets | | **9,839** | 5,441 | 3,741 |
| Deferred income tax assets | 12 | **–** | 2,279 | 6,740 |
| Other assets | 19 | **103,043** | 115,018 | 101,769 |
| **Total assets** | | **2,069,970** | 1,688,723 | 1,444,640 |
| | | | | |
| **Liabilities** | | | | |
| Current accounts and deposits of customers | 20 | **1,336,949** | 1,075,628 | 981,225 |
| Amounts due to banks and other financial institutions | 21 | **117,806** | 72,128 | 75,894 |
| Amounts payable under repurchase agreements | 28 | **116,741** | 56,392 | 36,639 |
| Debt securities issued | 22 | **229,263** | 253,584 | 125,121 |
| Deferred income tax liabilities | 12 | **1,621** | 183 | 122 |
| Subordinated debt | 23 | **25,951** | 22,648 | 22,740 |
| Other liabilities | | **12,687** | 7,521 | 8,698 |
| **Total liabilities** | | **1,841,018** | 1,488,084 | 1,250,439 |
| | | | | |
| **Equity** | | | | |
| Share capital | 24 | **332,815** | 332,815 | 332,815 |
| Additional paid-in capital | | **21,109** | 21,116 | 21,116 |
| Treasury shares | 24 | **(4,438)** | (1,311) | (1,293) |
| Fair value reserve | | **5,858** | 2,359 | 598 |
| Accumulated losses | | **(126,392)** | (155,051) | (159,676) |
| **Total equity attributable to shareholders of the Bank** | | **228,952** | 199,928 | 193,560 |
| | | | | |
| Non-controlling interests | | **–** | 711 | 641 |
| **Total equity** | | **228,952** | 200,639 | 194,201 |
| **Total equity and liabilities** | | **2,069,970** | 1,688,723 | 1,444,640 |

* *Certain amounts included in this column do not agree to the consolidated financial statements as at 31 December 2018 as they reflect the reclassifications made and disclosed in Note 2.*

# CONSOLIDATED STATEMENT OF CASH FLOWS

## for the year ended 31 December 2019

*(millions of tenge)*

| | Notes | 2019 | 2018* |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest income received | | **145,874** | 108,373 |
| Interest expense paid | | **(74,175)** | (67,997) |
| Fee and commission income received | | **32,802** | 19,688 |
| Fee and commission expense paid | | **(11,058)** | (5,845) |
| Net realised losses from financial instruments at fair value through profit or loss | | **(4,360)** | (348) |
| Net realised gains on dealing in foreign currencies | | **10,904** | 886 |
| General and administrative expenses paid | | **(41,792)** | (33,379) |
| Other operating expenses paid | | **(623)** | (1,012) |
| | | | |
| **(Increase)/decrease in operating assets** | | | |
| Amounts due from financial institutions | | **(7,568)** | (12,674) |
| Trading securities | | **3,221** | (1,934) |
| Loans to customers | | **(50,058)** | (29,673) |
| Other assets | | **24,041** | 9,261 |
| | | | |
| **Increase/(decrease) in operating liabilities** | | | |
| Current accounts and deposits of customers | | **170,342** | (46,022) |
| Amounts due to banks and other financial institutions | | **39,464** | 4,405 |
| Amounts payable under repurchase agreements | | **60,281** | 19,741 |
| Other liabilities | | **1,709** | 1,423 |
| **Net cash flows from / (used in) operating activities before income tax** | | **299,004** | (35,107) |
| | | | |
| Corporate income tax paid | | **(240)** | (46) |
| **Net cash from / (used in) operating activities** | | **298,764** | (35,153) |
| | | | |
| **Cash flows from investing activities** | | | |
| Acquisition of subsidiaries, net of cash acquired | 5 | **30,163** | – |
| Acquisition of non-controlling interest | | **(480)** | – |
| Purchase of investment securities at fair value through other comprehensive income | | **(925,995)** | (982,173) |
| Proceeds from sale of investment securities at fair value through other comprehensive income | | **108,820** | 20,001 |
| Redemption of investment securities at fair value through other comprehensive income | | **757,162** | 935,445 |
| Purchase of investment securities measured at amortised cost | | **(73,610)** | (149,748) |
| Purchase of property and equipment and intangible assets | | **(18,263)** | (12,279) |
| Proceeds from sale of property and equipment and intangible assets | | **138** | 952 |
| **Net cash used in investing activities** | | **(122,065)** | (187,802) |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds from return of instruments unclaimed by creditors | | **–** | 1,647 |
| Repurchase of own shares | 24 | **(3,127)** | (18) |
| Dividends paid to shareholders of the Bank | 24 | **(11,376)** | (7,748) |
| Proceeds from placement of debt securities issued | 29 | **14,992** | 220,154 |
| Repurchase of debt securities issued | 29 | **(4)** | (10,870) |
| Redemption of debt securities issued | 29 | **(51,005)** | (7,903) |
| Repayment of lease liability | 3 | **(1,250)** | – |
| **Net cash (used in) / from financing activities** | | **(51,770)** | 195,262 |
| | | | |
| Effect of exchange rate changes on cash and cash equivalents | | **(2,832)** | 21,022 |
| Effect of expected credit losses on cash and cash equivalents | | **(2)** | (2) |
| **Net change in cash and cash equivalents** | | **122,095** | (6,673) |
| | | | |
| Cash and cash equivalents, beginning | | **225,147** | 231,820 |
| **Cash and cash equivalents, ending** | 13 | **347,242** | 225,147 |
| | | | |
| **Non-monetary transactions** | | | |
| Repossession of collateral on loans to customers | 16 | **12,592** | 16,322 |

* *Certain amounts included in this column do not agree to the consolidated financial statements for 2018 as they reflect the reclassifications made and disclosed in Note 2.*

*The accompanying notes on pages 6 to 86 are an integral part of these consolidated financial statements.*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## for the year ended 31 December 2019

*(millions of tenge)*

| | Equity attributable to the shareholders of the Bank | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | *Share capital* | *Additional paid-in capital* | *Treasury shares* | *Fair value reserve* | *Accumulated losses* | *Total* | *Non-controlling interests* | *Total equity* |
| **At 1 January 2019** | 332,815 | 21,116 | (1,311) | 2,359 | (155,051) | 199,928 | 711 | 200,639 |
| Impact of adopting IFRS 16 *(Note 3)* | – | – | – | – | **(428)** | **(428)** | – | **(428)** |
| **Restated balance in accordance with IFRS 16 at the beginning of the year** | **332,815** | **21,116** | **(1,311)** | **2,359** | **(155,479)** | **199,500** | **711** | **200,211** |
| Profit for the year | – | – | – | – | **42,233** | **42,233** | – | **42,233** |
| Other comprehensive income for the year | – | – | – | **3,499** | – | **3,499** | – | **3,499** |
| **Total comprehensive income for the year** | – | – | – | **3,499** | **42,233** | **45,732** | – | **45,732** |
| **Transactions with owners recorded directly in equity** | | | | | | | | |
| Purchase of treasury shares *(Note 24)* | – | **(7)** | **(3,127)** | – | – | **(3,134)** | – | **(3,134)** |
| Acquisition of non-controlling interests | – | – | – | – | **228** | **228** | **(711)** | **(483)** |
| Acquisition of subsidiaries *(Note 5)* | – | – | – | – | **(1,998)** | **(1,998)** | – | **(1,998)** |
| Dividends declared *(Note 24)* | – | – | – | – | **(11,376)** | **(11,376)** | – | **(11,376)** |
| **At 31 December 2019** | **332,815** | **21,109** | **(4,438)** | **5,858** | **(126,392)** | **228,952** | – | **228,952** |
| **At 1 January 2018** | 332,815 | 21,116 | (1,293) | 598 | (159,676) | 193,560 | 641 | 194,201 |
| Impact of adopting IFRS 9 *(Note 3)* | – | – | – | 3,243 | (16,665) | (13,422) | – | (13,422) |
| **Restated balance in accordance with IFRS 9 at the beginning of the year** | 332,815 | 21,116 | (1,293) | 3,841 | (176,341) | 180,138 | 641 | 180,779 |
| Profit for the year | – | – | – | – | 29,038 | 29,038 | 70 | 29,108 |
| Other comprehensive income for the year | – | – | – | (1,482) | – | (1,482) | – | (1,482) |
| **Total comprehensive income for the year** | – | – | – | (1,482) | 29,038 | 27,556 | 70 | 27,626 |
| **Transactions with owners recorded directly in equity** | | | | | | | | |
| Purchase of treasury shares *(Note 24)* | – | – | (18) | – | – | (18) | – | (18) |
| Dividends declared *(Note 24)* | – | – | – | – | (7,748) | (7,748) | – | (7,748) |
| **At 31 December 2018** | 332,815 | 21,116 | (1,311) | 2,359 | (155,051) | 199,928 | 711 | 200,639 |

*(millions of tenge)*

# 1. General information

### Corporate structure and activities

These consolidated financial statements include financial statements of ForteBank Joint Stock Company (hereinafter – the "Bank") and its subsidiaries (together, the "Group").

The Bank was established in 1999 under the laws of the Republic of Kazakhstan. On 10 February 2015, the Bank was reregistered to ForteBank JSC (formerly, Alliance Bank JSC).

Legal address of the Bank's head office: 8/1, Dostyk str., 010017, Nur-Sultan, Republic of Kazakhstan. The Bank's activities are regulated by the National Bank of the Republic of Kazakhstan (hereinafter – the "NBRK"). The Bank operates under license No. 1.2.29/197/36 for conducting banking and other activities and operations on securities market stipulated by the banking legislation, issued by the NBRK on 27 February 2015.

The Group's primary business is related to commercial banking activities, granting of loans and guarantees, accepting deposits, exchanging foreign currencies, dealing with securities, transferring cash payments, as well as providing other banking services. Certain debt securities issued by the Bank are listed on the London Stock Exchange, the Luxembourg Stock Exchange and the Kazakhstan Stock Exchange (hereinafter – the "KASE") and Astana International Exchange.

The Bank is a participant of the Kazakhstan Deposit Insurance Fund (hereinafter − the "KDIF"). The primary objective of the KDIF is to protect interests of depositors in the event of forced liquidation of the participant bank. As at 31 December 2019 and 2018, depositors can receive limited insurance coverage for deposits, depending on the currency of the deposit: in tenge – up to KZT 10 million, in foreign currencies – up to KZT 5 million.

As at 31 December 2019 and 2018, the Group includes the following subsidiaries:

| *Name* | *Country of incorporation* | *Principal activities* | *Ownership, %* 31 December 2019 | *Ownership, %* 31 December 2018 |
|---|---|---|---|---|
| ForteLeasing JSC | Republic of Kazakhstan | Leasing operations | **100.0** | 80.6 |
| OUSA Alliance LLP | Republic of Kazakhstan | Management of doubtful and bad assets | **100.0** | 100.0 |
| OUSA-F LLP | Republic of Kazakhstan | Management of doubtful and bad assets | **100.0** | 100.0 |
| Bank Kassa Nova JSC | Republic of Kazakhstan | Banking operations | **100.0** | – |
| ONE Technologies LLP | Republic of Kazakhstan | Software development | **100.0** | – |

During May and July 2019, the Group increased its share in equity of ForteLeasing JSC by acquiring shares from non-controlling shareholders. As a result, the Bank's ownership in ForteLeasing JSC increased to 100%.

On 23 April 2019, the Bank acquired 100% ownership in ONE Technologies LLP. On 29 April 2019, the Bank acquired 100% ownership of Bank Kassa Nova JSC.

### Shareholders

As at 31 December 2019, B.Zh. Utemuratov owns 90.10% of the outstanding common shares of the Bank and is an ultimate controlling shareholder of the Group (as at 31 December 2018: 88.47%). The rest of the shares are held by other shareholders, none of which owns more than 5% of the shares.

On 18 March 2019, Mr. Utemuratov B.Zh. entered into the trust management agreement with Nova Leasing JSC in respect of 54% of the outstanding shares of the Bank. Mr. Utemuratov B.Zh. is a 100% shareholder of Nova Leasing JSC.

# 2. Basis of preparation

### General

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

### Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention except for trading securities and investment securities at fair value through other comprehensive income, which have been measured at fair value.

*(millions of tenge)*

## 2. Basis of preparation (continued)

**Functional and presentation currency of the consolidated financial statements**

The functional currency of the Bank and its subsidiaries is tenge, as being the national currency of the Republic of Kazakhstan, it reflects the economic substance of the majority of the Group's transactions and circumstances relevant to them affecting its activities.

The Kazakhstani tenge is also the presentation currency for the purposes of these consolidated financial statements.

Financial information of the consolidated financial statements is rounded to the nearest million.

**Reclassifications**

The following reclassification has been made in the consolidated statement of comprehensive income for the year ended 31 December 2018 to conform to the 2019 presentation:

| | *For the year ended 31 December 2018* | | |
|---|---|---|---|
| ***Consolidated statement of comprehensive income*** | ***As previously reported*** | ***Reclassification*** | ***As reclassified*** |
| Net gains on initial recognition of financial assets measured at amortised cost | – | 802 | 802 |
| Other income | 5,656 | (802) | 4,854 |
| | **5,656** | **–** | **5,656** |
| **Non-interest income** | **31,307** | **–** | **31,307** |

The following reclassifications have been made in the consolidated statement of financial position as at 31 December 2018 to conform to the 2019 presentation:

| | *As at 31 December 2018* | | |
|---|---|---|---|
| ***Consolidated statement of financial position*** | ***As previously reported*** | ***Reclassification*** | ***As reclassified*** |
| Cash and cash equivalents | 224,121 | 1,026 | 225,147 |
| Amounts due from financial institutions | 18,215 | 1,496 | 19,711 |
| Other assets | 117,540 | (2,522) | 115,018 |
| | **359,876** | **–** | **359,876** |
| **Total assets** | **1,688,723** | **–** | **1,688,723** |
| Share capital | 331,504 | 1,311 | 332,815 |
| Treasury shares | – | (1,311) | (1,311) |
| | **331,504** | **–** | **331,504** |
| **Total equity** | **200,639** | **–** | **200,639** |

The following reclassifications have been made in the consolidated statement of cash flows for the year ended 31 December 2018 to conform to the 2019 presentation:

| | *For the year ended 31 December 2018* | | |
|---|---|---|---|
| ***Consolidated statement of cash flows*** | ***As previously reported*** | ***Reclassification*** | ***As reclassified*** |
| **(Increase)/decrease in operating assets** | | | |
| Amounts due from financial institutions | (11,178) | (1,496) | (12,674) |
| Other assets | 6,739 | 2,522 | 9,261 |
| | **(4,439)** | **1,026** | **(3,413)** |
| **Net cash flows (used in) / from operating activities before income tax** | **(36,133)** | **1,026** | **(35,107)** |
| **Net cash (used in) / from operating activities** | **(36,179)** | **1,026** | **(35,153)** |
| **Net change in cash and cash equivalents** | **(7,699)** | **1,026** | **(6,673)** |
| **Cash and cash equivalents, ending** | **224,121** | **1,026** | **225,147** |

*(millions of tenge)*

## 3. Summary of accounting policies

**Changes in accounting policies**

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018, except for the adoption of new standards effective as at 1 January 2019. The nature and the effect of these changes are disclosed below. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

*IFRS 16 Leases*

IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The effect of adoption of IFRS 16 on the interim condensed consolidated statement of financial position is as follows:

| | ***1 January 2019*** |
|---|---|
| **Assets** | |
| Property and equipment | 5,453 |
| Deferred tax assets | 103 |
| **Total assets** | **5,556** |
| **Liabilities** | |
| Other liabilities | 5,984 |
| **Total liabilities** | **5,984** |
| **Net effect on equity** | **(428)** |

*(a) Nature of the effect of adoption of IFRS 16*

The Group has lease contracts for various items of property and equipment. Before the adoption of IFRS 16, the Group classified each of its leases as lessee at the inception date as an operating lease. The leased property was not capitalised, and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under Other assets and Other liabilities, respectively.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Group.

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

*(millions of tenge)*

## 3. Summary of accounting policies (continued)

**Changes in accounting policies (continued)**

*IFRS 16 Leases (continued)*

*(a) Nature of the effect of adoption of IFRS 16 (continued)*

Based on the foregoing, as at 1 January 2019:

- Right-of-use assets of KZT 5,453 million were recognised and included in property and equipment;
- Additional lease liabilities of KZT 5,984 million (included in other liabilities) were recognised;
- Deferred income tax assets increased by KZT 103 million because of the deferred income tax impact of the changes in assets and liabilities;
- The net effect of these adjustments had been adjusted to retained earnings (KZT 428 million).

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as at 31 December 2018 as follows:

| | |
|---|---|
| **Operating lease commitments as at 31 December 2018** | **5,794** |
| Weighted average incremental borrowing rate as at 1 January 2019 | 0.82-9.35% |
| **Discounted operating lease commitments at 1 January 2019** | **5,495** |
| | |
| **Less:** | |
| Commitments relating to short-term leases | (250) |
| Commitments relating to leases of low-value assets | – |
| | |
| **Add:** | |
| Payments in optional extension periods not recognised as at 31 December 2018 | 739 |
| **Lease liabilities as at 1 January 2019** | **5,984** |

*(b) Summary of new accounting policies*

Set out below are the new accounting policies of the Group upon adoption of IFRS 16:

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

*(millions of tenge)*

## 3. Summary of accounting policies (continued)

**Changes in accounting policies (continued)**

*IFRS 16 Leases (continued)*

*(b) Summary of new accounting policies (continued)*

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional terms of three to five years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

Amounts recognised in the consolidated statement of financial position and consolidated statement of comprehensive income

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

| | ***Right-of-use assets*** | | ***Lease liabilities*** |
|---|---|---|---|
| | ***Buildings*** | ***Total*** | |
| **As at 1 January 2019** | 5,453 | 5,453 | 5,984 |
| Additions | **1,464** | **1,464** | **1,464** |
| Disposals | **(4,380)** | **(4,380)** | **(4,525)** |
| Depreciation expense | **(802)** | **(802)** | **–** |
| Interest expense | **–** | **–** | **164** |
| Payments | **–** | **–** | **(1,250)** |
| **As at 31 December 2019** | **1,735** | **1,735** | **1,837** |

*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 *Income Taxes*. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest 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.

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

The interpretation became effective for annual reporting periods beginning on 1 January 2019 or after this date. The interpretation did not have any impact on the consolidated financial statements of the Group.

*(millions of tenge)*

## 3. Summary of accounting policies (continued)

**Changes in accounting policies (continued)**

*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 interest on the principal amount outstanding' (the SPPI 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 SPPI criterion regardless of an 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.

These amendments had no impact on the consolidated financial statements of the Group.

*Amendments to IAS 19 Plan Amendment, Curtailment or Settlement*

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event. An entity is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to remeasure that net defined benefit liability (asset).

These amendments had no impact on the consolidated financial statements of the Group.

*Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures*

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 *Investments in Associates and Joint Ventures*.

These amendments had no impact on the consolidated financial statements as the Group does not have long-term interests in its associate and joint venture.

***Annual improvements 2015-2017 cycle***

Amendments to IFRS improvements were as follows:

*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 interest 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 had no impact on the consolidated financial statements of the Group as there is no transaction where a joint control is obtained.

*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 had no impact on the consolidated financial statements of the Group as there is no transaction where a joint control is obtained.

*(millions of tenge)*

## 3. Summary of new accounting policies (continued)

**Changes in accounting policies (continued)**

***Annual improvements 2015-2017 cycle (continued)***

*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 it originally recognised those past transactions or events.

An entity applies the amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When the 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 Group's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

*IAS 23 Borrowing Costs*

The amendments clarify that an entity treats as part of general borrowings any borrowing 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.

The entity applies the amendments to borrowing 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 Group's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

**Basis of consolidation**

Subsidiaries, which are those entities that are controlled by the Group, are consolidated. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

If the Group loses control over a subsidiary, it derecognises the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognises the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

*(millions of tenge)*

## 3. Summary of accounting policies (continued)

**Business combinations**

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the acquirer measures the non-controlling interests in the acquiree that are present ownership interests either at fair value or at the proportionate share of the acquiree's identifiable net assets and other components of non-controlling interests at their acquisition date fair value. Acquisition costs incurred are expensed.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IFRS 9 either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

*Acquisition of subsidiaries from parties under common control*

Acquisitions of subsidiaries from parties under common control are accounted for using the pooling of interests method.

The assets and liabilities of the subsidiary transferred under common control are recorded in these consolidated financial statements at the carrying amounts of the transferring entity (the predecessor) at the date of the transfer. Related goodwill inherent in the predecessor's original acquisition is also recorded in these consolidated financial statements. Any difference between the total book value of net assets, including the predecessor's goodwill, and the consideration paid is accounted for in these consolidated financial statements as an adjustment to the shareholders' equity.

**Fair value measurement**

The Group measures financial instruments carried at fair value through profit or loss (FVPL) and fair value through other comprehensive income (FVOCI) and non-financial assets such as investment property, at fair value at each balance sheet date.

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 Group. 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.

The Group 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.

*(millions of tenge)*

## 3. Summary of accounting policies (continued)

**Fair value measurement (continued)**

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within 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.

In the event of assets and liabilities recognised in the financial statements on a recurring basis, the Group determines the fact of transfer between levels of hierarchy sources by re-assessing categorisation (based on the lowest level input that is significant for fair value measurement in whole) at the end of each reporting period.

**Financial instruments**

**Initial recognition**

*Date of recognition*

All regular way purchases and sales of financial assets and liabilities are recognised on the trade date i.e. the date that the Group commits to purchase the asset or liability. Regular way 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.

*Initial measurement*

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.

*Measurement categories of financial assets and liabilities*

The Group 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;
- FVOCI;
- FVPL.

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

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

*Amounts due from credit institutions, loans to customers, investments securities at amortised cost*

The Group only measures amounts due from credit institutions, loans to customers 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 solely payments of principal and interest on the principal amount outstanding (SPPI).

The details of these conditions are outlined below.

## 3. Summary of accounting policies (continued)

**Financial instruments (continued)**

***Initial recognition (continued)***

*Business model assessment*

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

The Group'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 Group'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 Group's original expectations, the Group 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 SPPI test*

As a second step of its classification process the Group assesses the contractual terms of financial asset to identify whether they meet the SPPI 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 (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

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 lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

*Debt instruments at FVOCI*

The Group measures debt instruments 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 SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest 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 OCI are reclassified from OCI 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 OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the asset.

*(millions of tenge)*

## 3. Summary of accounting policies (continued)

**Financial instruments (continued)**

***Initial recognition (continued)***

*Equity instruments at FVOCI*

Upon initial recognition, the Group 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 Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. 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 loan commitments*

The Group issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in profit or loss, and an ECL allowance.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

The Group occasionally issues loan commitments at below market interest rates drawdown. Such commitments are initially recognised at fair value and subsequently measured at the higher of the amount of the ECL allowance and the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

*Performance guarantees*

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Performance guarantees do not transfer credit risk. 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 Group does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Group changes the business model for managing financial assets. Financial liabilities are never reclassified. The Group did not reclassify any of its financial assets and liabilities in 2019.

### Cash and cash equivalents

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

### Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the consolidated statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from credit institutions or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest revenue and accrued over the life of repo agreements using the effective interest method.

Securities lent to counterparties are retained in the consolidated statement of financial position. Securities borrowed are not recorded in the consolidated statement of financial position, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in profit or loss. The obligation to return them is recorded at fair value as a trading liability.

*(millions of tenge)*

## 3. Summary of accounting policies (continued)

**Financial instruments (continued)**

**Derivative financial instruments**

In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are held for trading and 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. Derivatives 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 consolidated statement of comprehensive income as net gains/(losses) from financial instruments at fair value through profit or loss or net gains/(losses) from foreign currencies, depending on the nature of the instrument.

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

Derivatives embedded in liabilities and non-financial host contacts are treated as separate derivatives and recorded at fair value if they met the definition of a derivative (as defined above), their economic characteristics and risks were not closely related to those of the host contract, and the host contract was not itself held for trading or designated at FVPL. The embedded derivatives separated from the host were carried at fair value in the trading portfolio with changes in fair value recognised in the consolidated statement of comprehensive income.

Financial assets are classified based on the business model and SPPI assessments.

**Borrowings**

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to the NBRK, amounts due to credit institutions, current accounts and deposits of customers, debt securities issued, other borrowed funds and subordinated loans. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the borrowings are derecognised as well as through the amortisation process.

If the Group purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in profit or loss.

**Offsetting of financial instruments**

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

*(millions of tenge)*

## 3. Summary of accounting policies (continued)

**Renegotiated loans**

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

The Group derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, 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 loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be purchased or originated credit-impaired (POCI). When assessing whether or not to derecognise a loan to a customer, amongst others, the Group considers the following factors:

- Change in currency of the loan;
- Change in counterparty;
- If the modification is such that the instrument would no longer meet the SPPI 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 EIR, the Group records a modification gain or loss, presented within other income in profit or loss, to the extent that an impairment loss has not already been recorded.

For modifications not resulting in derecognition, the Group 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-month probation period. In order for the restructured loan to be reclassified out of Stage 3, regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period in accordance with the modified payment schedule.

**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 Group 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; and
- The Group 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.

Where the Group 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 Group'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 Group 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 Group's continuing involvement is the amount of the transferred asset that the Group 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 Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

*Write-off*

Financial assets are written off either partially or in their entirety only when the Group 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.

*(millions of tenge)*

## 3. Summary of accounting policies (continued)

**Derecognition of financial assets and liabilities (continued)**

***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 lender 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 profit or loss.

**Government grants**

Government grants are recognised if it is virtually certain that they will be received and all conditions associated with them will be met. If a grant is issued to finance a specific expenditure, it must be recognised as income on a systematic basis in the same periods in which the corresponding expenses incurred that it must compensate. Such subsidies are deducted from the related expenses when they are recorded in the consolidated financial statements.

When the Group receives subsidies in the form of non-monetary assets, the asset and the subsidy are accounted for at nominal amounts and are recorded in profit or loss in equal parts annually in accordance with the structure of consumption of the benefits from the underlying asset during the expected useful life.

The benefit received from a loan provided by the government at an interest rate below the market rate is recorded as a government grant. The loan is recognised and measured in accordance with IFRS 9 *Financial Instruments*. The benefit from using interest rates below market is estimated as the difference between the initial carrying amount of the loan, determined in accordance with IFRS 9, and the funds received.

**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 the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation of an asset begins when it is available for use, that is, when its location and state allow it to operate in a mode consistent with the intentions of the Group's management. Land, construction in progress and assets for installation are not depreciated. The estimated useful lives are as follows:

| | ***Years*** |
|---|---|
| Buildings | 10-100 |
| Computer hardware | 5-7 |
| Vehicles | 5-7 |
| Other | 2-25 |

The asset's residual values, useful lives and depreciation 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**

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

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

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives of intangible assets are 1 to 8 years.

*(millions of tenge)*

## 3. Summary of accounting policies (continued)

**Inventories**

Inventories are valued at the lower of acquisition cost and net realisable value. Net realisable value is the estimated asset's selling price in the ordinary course of the Group's business, less the estimated costs to sell.

**Retirement and other employee benefit obligations**

The Group does not have any pension arrangements separate from the state pension system of Kazakhstan, which requires withholdings by the employer calculated as a percentage from current gross salary payments. Such expense is charged in the period the related salaries are accrued, and is included to "General and administrative expenses" in the consolidated statement of comprehensive income. The Group contributes social tax to the budget of the Republic of Kazakhstan for its employees. The Group has no post-retirement benefits.

**Provisions**

Provisions are recognised when the Group 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.

**Contingencies**

Contingent liabilities are not recognised in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

**Equity**

*Share capital*

Common shares and non-redeemable preferred shares with discretionary dividends are both 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 equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

*Treasury shares*

Where the Bank or its subsidiaries acquire the Bank's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from total equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at weighted average cost.

*Dividends*

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue.

**Taxation**

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

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

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

*(millions of tenge)*

## 3. Summary of accounting policies (continued)

**Taxation (continued)**

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

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

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that taxable profit will be available against which the deductible temporary differences can be utilised.

**Income and expense recognition**

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

*Interest and similar revenue and expense*

The Group calculates interest revenue on debt financial assets measured at amortised cost or at FVOCI by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets. EIR 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 interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest revenue or expense.

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

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

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

*Fee and commission income*

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period as respective performance obligations are satisfied. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as where the Group's performance obligation is the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees that are linked to certain performance obligations are recognised after fulfilling the corresponding criteria. When the contract provides for a variable consideration, fee and commission income is only recognised to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognised will not occur until the uncertainty associated with the variable consideration is subsequently resolved.

*(millions of tenge)*

## 3. Summary of accounting policies (continued)

### Income and expense recognition (continued)

*Customer loyalty programs*

The Group offers a number customer loyalty programs. Accounting for such programs varies depending on who is identified as the customer, and whether the Group acts as an agent or as a principal under the contract. For point-based programs, the Group generally recognised a liability for the accumulated points that are expected to be utilised by the customers, which is reversed to profit or loss as the points expire. Cashbacks on plastic card transactions reduce fee and commission income.

*Dividend income*

Revenue is recognised when the Group's right to receive the payment is established.

### Segment reporting

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

### Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into KZT at the market exchange rate established by the KASE on the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated 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 KASE exchange rate on the date of the transaction are included in Net gains/(losses) from foreign currencies.

As at 31 December 2019, the official exchange rate used for translation of monetary balances on foreign currency accounts was KZT 382.59 for 1 US Dollar (as at 31 December 2018: KZT 384.20 for USD 1).

### Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

*IFRS 17 Insurance Contracts*

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach);
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. IFRS 17 is not expected to have a significant impact on the Group's consolidated financial statements.

*(millions of tenge)*

## 3. Summary of accounting policies (continued)

### Standards issued but not yet effective (continued)

*Amendments to IFRS 3 Definition of a Business*

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 *Business Combinations* to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

*Amendments to IAS 1 and IAS 8 Definition of Material*

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements.

*Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7*

Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7 includes a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. As a result of interest rate benchmark reform, there may be uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR). This may lead to uncertainty whether a forecast transaction is highly probable and whether prospectively the hedging relationship is expected to be highly effective.

The amendments come into effect from 1 January 2020, but entities may choose to apply them earlier. The amendments are not expected to have a significant impact on the Group's consolidated financial statements.

## 4. Significant accounting judgements and estimates

### Estimation uncertainty

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

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

*Fair value of financial instruments*

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values.

*Collateral assessment*

The Bank management performs monitoring of collateral on a regular basis. The management of the Bank uses experienced judgements or an independent assessment in order to adjust the cost of collateral considering the current market conditions.

*(millions of tenge)*

## 4. Significant accounting judgements and estimates (continued)

**Estimation uncertainty (continued)**

*Expected credit losses on financial assets*

The measurement of impairment losses under IFRS 9 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 Group'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 Group's internal credit grading model, which assigns PDs to the individual grades;
- The Group'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, such as unemployment levels 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.

The amount of allowance for loan impairment recognised in consolidated statement of financial position at 31 December 2019 was KZT 71,059 million (2018: KZT 73,153 million). More details are provided in *Notes 16* and *26*.

*Taxation*

The Republic of Kazakhstan currently has a single Tax Code that regulates main taxation matters. The existing taxes include value added tax, corporate income tax, social and other taxes. Implementing regulations are often unclear or non-existent and insignificant amount of precedents has been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organisations; thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges. These facts create tax risks in Kazakhstan substantially more significant than typically found in countries with more developed tax systems.

The management believes that the Bank's tax position as at 31 December 2019 and 2018 was in compliance with tax laws of the Republic of Kazakhstan regulating its activities. However, the risk remains that relevant authorities could take differing positions with regard to interpretive tax issues.

Assessment of recoverability of deferred income tax assets requires to use subjective judgements by the Group's management around the likely timing and the level of future taxable profit together with the tax planning strategy.

The management believes that deferred tax assets as at 31 December 2019 are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised, and deferred income tax assets are reduced to the extent that taxable profit will be available against which the deductible temporary differences can be utilised.

## 5. Business combination

**Acquisition of Bank Kassa Nova JSC**

On 29 April 2019, the Group acquired 100% of the voting shares of Bank Kassa Nova JSC, following the approvals given by the NBRK. Its main activity is banking operations. The Group has acquired Bank KassaNova JSC because of strategic initiatives aimed at increasing market share and gaining synergy effect.

Bank Kassa Nova JSC was purchased from NovaLeasing JSC, which is owned by Mr. Utemuratov B.Zh., therefore it is considered to be an acquisition of entity under common control and pooling of interest method was applied without historical restatement.

*(millions of tenge)*

## 5. Business combination (continued)

**Acquisition of Bank Kassa Nova JSC (continued)**

Assets and liabilities of Bank Kassa Nova JSC as at the date of acquisition were:

| | *29 April 2019 (unaudited)* |
|---|---|
| **Assets** | |
| Cash and cash equivalents | 42,785 |
| Amounts due from credit institutions | 601 |
| Loans to customers | 74,870 |
| Investment securities | 2,073 |
| Property and equipment | 5,675 |
| Intangible assets | 1,108 |
| Other assets | 3,252 |
| **Total assets** | **130,364** |
| **Liabilities** | |
| Current accounts and deposits of customers | 94,093 |
| Amounts due to banks and other financial institutions | 16,268 |
| Deferred income tax liabilities | 917 |
| Subordinated debt | 3,277 |
| Other liabilities | 1,683 |
| **Total liabilities** | **116,238** |
| **Net assets acquired** | **14,126** |
| Purchase consideration transferred | (11,277) |
| **Gain on acquisition of subsidiary recognised in equity** | **2,849** |

From the date of acquisition, Bank Kassa Nova JSC has contributed KZT 4,656 million of net interest income, KZT 1,268 million of non-interest income and KZT 1,880 million to the net profit before tax of the Group. If the combination had taken place at the beginning of the year, the profit of the Group for the year ended 31 December 2019 would have been KZT 42,990 million, net interest income would have been KZT 81,814 million, and non-interest income would have been KZT 45,029 million.

**Acquisition of ONE Technologies LLP**

On 23 April 2019, the Group acquired 100% of the equity of ONE Technologies LLP, following the approvals given by the NBRK. Its main activity is development of software. The Group has acquired ONE Technologies LLP because of strategic initiatives aimed at digitalisation of core banking processes and developing banking applications.

ONE Technologies LLP was acquired from individuals closely related to the ultimate shareholder and a legal entity, controlled by Mr. Utemuratov B.Zh., therefore it is considered to be an acquisition of entity under common control and pooling of interest method was applied without historical restatement.

Assets and liabilities of ONE Technologies LLP as at the date of acquisition were:

| | *23 April 2019 (unaudited)* |
|---|---|
| **Assets** | |
| Cash and cash equivalents | 130 |
| Loans to customers | 27 |
| Property and equipment | 172 |
| Intangible assets | 545 |
| Other assets | 352 |
| **Total assets** | **1,226** |
| Other liabilities | 173 |
| **Total liabilities** | **173** |
| **Net assets acquired** | **1,053** |
| Purchase consideration transferred | (5,900) |
| **Loss on acquisition of subsidiary recognised in equity** | **(4,847)** |

*(millions of tenge)*

## 5. Business combination (continued)

**Acquisition of ONE Technologies LLP (continued)**

From the date of acquisition, ONE Technologies LLP has contributed income of KZT 121 million to net profit before tax of the Group. If the combination had taken place at the beginning of the year, profit for the year of the Group would have been KZT 41,751 million.

**Cash outflow on acquisition of the subsidiaries**

| | *Bank KassaNova JSC* | *ONE Technologies LLP* | *Total* |
|---|---|---|---|
| Net cash acquired with the subsidiary (included in cash flows from investing activities) | 42,785 | 130 | 42,915 |
| Cash paid (included in cash flows from investing activities) | (11,277) | (5,900) | (17,177) |
| **Net cash outflow** | **31,508** | **(5,770)** | **25,738** |

Total consideration paid for acquisition of ONE Technologies LLP includes the amount of KZT 4,425 million prepaid by the Bank in 2018.

## 6. Net interest income

Net interest income is presented as follows:

| | *2019* | *2018* |
|---|---|---|
| **Interest revenue calculated using effective interest rate** | | |
| Loans to customers | **115,572** | 92,779 |
| Debt investment securities at FVOCI | **25,341** | 22,963 |
| Investment securities at amortised cost | **15,486** | 4,763 |
| Amounts due from financial institutions | **5,383** | 1,157 |
| Amounts receivable under reverse repurchase agreements | **1,467** | 880 |
| | **163,249** | 122,542 |
| **Other interest income** | | |
| Trading securities | **304** | 395 |
| | **163,553** | 122,937 |
| **Interest expense** | | |
| Current accounts and deposits of customers | **(47,415)** | (50,030) |
| Debt securities issued | **(30,686)** | (18,077) |
| Amounts due to banks and other financial institutions | **(3,849)** | (3,021) |
| Subordinated debt | **(2,037)** | (1,792) |
| Amounts payable under repurchase agreements | **(1,272)** | (623) |
| | **(85,259)** | (73,543) |
| **Net interest income** | **78,294** | 49,394 |

Interest income for the year ended 31 December 2019 includes interest income of KZT 9,611 million accrued on impaired financial assets (2018: KZT 7,852 million).

## 7. Fee and commission income/(expense)

Fee and commission income is presented as follows:

| | *2019* | *2018* |
|---|---|---|
| Card operations | **18,689** | 9,591 |
| Settlement transactions | **7,095** | 5,640 |
| Cash operations | **4,255** | 2,732 |
| Guarantees and letters of credit | **1,805** | 1,137 |
| Foreign currency transactions and transactions with securities | **338** | 256 |
| Trust management, custody and other fiduciary services | **–** | 54 |
| Other | **1,021** | 796 |
| | **33,203** | 20,206 |

*(millions of tenge)*

## 7. Fee and commission income/(expense) (continued)

Fee and commission expense comprises the following:

| | *2019* | *2018* |
|---|---|---|
| Maintenance of card accounts | **(9,299)** | (4,363) |
| Maintenance of nostro accounts | **(343)** | (262) |
| Settlement transactions | **(271)** | (186) |
| Customer accounts services by financial agents | **(254)** | (360) |
| Foreign currency transactions and transactions with securities | **(87)** | (72) |
| Other | **(804)** | (602) |
| | **(11,058)** | (5,845) |

## 8. Net gains from foreign currencies

Net gains from foreign currencies are presented as follows:

| | *2019* | *2018* |
|---|---|---|
| Dealing transactions, net | **10,903** | 886 |
| Translation differences, net | **(300)** | 369 |
| | **10,603** | 1,255 |

## 9. Credit loss expense

Credit loss expense for 2019 and 2018 is presented as follows:

| | *2019* | | | | |
|---|---|---|---|---|---|
| | *Stage 1* | *Stage 2* | *Stage 3* | *POCI* | *Total* |
| Amounts due from financial institutions | **94** | **–** | **–** | **–** | **94** |
| Loans to customers *(Note 16)* | **(1,584)** | **(4,814)** | **(16,212)** | **2,602** | **(20,008)** |
| Investment securities at amortised cost | **(99)** | **–** | **–** | **–** | **(99)** |
| Investment securities at FVOCI | **217** | **–** | **–** | **–** | **217** |
| Other financial assets | **–** | **–** | **(535)** | **–** | **(535)** |
| Financial guarantees, letters of credit and loan commitment | **(86)** | **–** | **–** | **–** | **(86)** |
| | **(1,458)** | **(4,814)** | **(16,747)** | **2,602** | **(20,417)** |

| | *2018* | | | | |
|---|---|---|---|---|---|
| | *Stage 1* | *Stage 2* | *Stage 3* | *POCI* | *Total* |
| Amounts due from financial institutions | (20) | – | – | – | (20) |
| Loans to customers *(Note 16)* | (1,699) | 3,831 | (5,266) | 574 | (2,560) |
| Investment securities at amortised cost | (15) | (489) | – | – | (504) |
| Investment securities at FVOCI | (521) | (891) | – | – | (1,412) |
| Other financial assets | – | – | (670) | – | (670) |
| Financial guarantees, letters of credit and loan commitment | 166 | – | – | – | 166 |
| | (2,089) | 2,451 | (5,936) | 574 | (5,000) |

*(millions of tenge)*

## 10. General and administrative expenses

General and administrative expenses are presented as follows:

| | *2019* | *2018* |
|---|---|---|
| Personnel expenses and related taxes | **(23,701)** | (19,005) |
| Depreciation and amortisation | **(5,764)** | (4,164) |
| Taxes other than corporate income tax | **(2,815)** | (2,375) |
| Repair and maintenance | **(1,841)** | (1,716) |
| Advertising and marketing | **(1,630)** | (1,290) |
| Maintenance of buildings | **(1,473)** | (1,323) |
| Security | **(921)** | (873) |
| Telecommunication and information services | **(807)** | (1,071) |
| Other professional services | **(705)** | (217) |
| Rent | **(524)** | (1,579) |
| Encashment | **(429)** | (395) |
| Charity and sponsorship | **(427)** | (748) |
| Transportation | **(352)** | (358) |
| Business trips | **(321)** | (265) |
| Insurance | **(145)** | – |
| Office supplies | **(137)** | – |
| Legal services | **(22)** | (10) |
| Representative expenses | **(13)** | – |
| Other | **(724)** | (472) |
| | **(42,751)** | (35,861) |

General and administrative expenses are presented as follows:

| | *2019* | *2018* |
|---|---|---|
| Sales and marketing | **(25,756)** | (21,926) |
| Technology and new product development | **(2,120)** | (1,959) |
| Other | **(14,875)** | (11,976) |
| | **(42,751)** | (35,861) |

## 11. Other income and expenses

Other income and expenses are presented as follows:

| | *2019* | *2018* |
|---|---|---|
| **Other income** | | |
| Income from operating lease | **2,245** | 2,332 |
| Net gain on sale of repossessed collateral | **1,203** | – |
| Gain from purchase of investment securities | **–** | 1,407 |
| Other | **930** | 1,115 |
| | **4,378** | 4,854 |
| | | |
| **Other expenses** | | |
| Net loss on derecognition of mortgage loans | **(4,133)** | (361) |
| Other expense on non-banking operations | **(1,361)** | (1,430) |
| Loss on redemption of debt securities | **(1,282)** | – |
| Net loss on sale of inventory | **–** | (861) |
| Loss on modification of loans to customers | **–** | (783) |
| Loss on repurchase of debt securities issued | **–** | (628) |
| Other | **(3,157)** | (1,352) |
| | **(9,933)** | (5,415) |

Net loss on derecognition of mortgage loans includes a loss recognised as a result of a significant modification of mortgage loans less gain from government subsidy under the state program for refinancing mortgage loans. In accordance with the terms of this program, the Group attracted long-term deposits from Kazakhstan Sustainability Fund JSC at below-market interest rates to compensate losses from refinancing mortgage loans in foreign currency on non-market terms. The fair value of deposits at initial recognition was determined by the Group using market rates from 13.13% to 14.50% per annum. The fair value of mortgage loans as a result of significant modification upon initial recognition was determined by the Group using market rates from 17.13% to 18.50% per annum.

*(millions of tenge)*

## 12. Corporate income tax expense

Corporate income tax expense comprises:

| | ***2019*** | ***2018*** |
|---|---|---|
| Current corporate income tax change | **(522)** | (46) |
| Deferred corporate income tax charge – origination and reversal of temporary differences | **(2,236)** | (4,845) |
| **Corporate income tax expense** | **(2,758)** | (4,891) |

The Bank and its subsidiaries are subject to taxation in the Republic of Kazakhstan. Kazakhstan legal entities are required to file independently income tax returns with the tax authorities, and the statutory corporate income tax rate in 2019 and 2018 was 20%.

Below is the reconciliation of corporate income tax expense based on statutory rate with corporate income tax expense recorded in the consolidated financial statements:

| | ***2019*** | ***2018*** |
|---|---|---|
| **Profit before corporate income tax expense** | **44,991** | 33,999 |
| Statutory corporate income tax rate | **20%** | 20% |
| **Theoretical corporate income tax expense at the statutory rate** | **(8,998)** | (6,800) |
| Non-taxable income on government securities and securities officially listed at the KASE | **7,467** | 5,166 |
| Change in unrecognised deferred tax assets | **2,180** | (875) |
| Adjustment of corporate income tax expense/(benefit) of prior years | **1,109** | (575) |
| Non-deductible expected credit losses | **(224)** | (1,024) |
| Other | **(4,292)** | (783) |
| **Corporate income tax expense** | **(2,758)** | (4,891) |

Deferred tax assets and liabilities as at 31 December, as well as their movements for the respective years comprise the following:

| | *2017* | *Origination and reversal of temporary differences in profit or loss* | *Origination and reversal of temporary differences in other comprehensive income* | *2018* | *Effect of adoption of IFRS 16 (Note 3)* | *Effect of business combination (Note 5)* | *Origination and reversal of temporary differences in profit or loss* | *Origination and reversal of temporary differences in other comprehensive income* | *2019* |
|---|---|---|---|---|---|---|---|---|---|
| Tax losses carried forward | 40,982 | (9,722) | – | 31,260 | **–** | **–** | **(6,847)** | **–** | **24,413** |
| Loans to customers | (196) | 1,974 | – | 1,778 | **–** | **167** | **1,627** | **–** | **3,572** |
| Investment securities at FVOCI | 14 | (831) | 323 | (494) | **–** | **–** | **972** | **(667)** | **(189)** |
| Investment securities measured at amortised cost | – | (110) | – | (110) | **–** | **–** | **(1,313)** | **–** | **(1,423)** |
| Debt securities issued | (267) | (16,401) | – | (16,668) | **–** | **–** | **1,489** | **–** | **(15,179)** |
| Subordinated debt | – | – | – | – | **–** | **(347)** | **5** | **–** | **(342)** |
| Dynamic reserve | (7,809) | 7,809 | – | – | **–** | **–** | **–** | **–** | **–** |
| Current accounts and deposits of customers | (15,997) | 13,520 | – | (2,477) | **–** | **(581)** | **(1,418)** | **–** | **(4,476)** |
| Property and equipment and intangible assets | 1,763 | 647 | – | 2,410 | **–** | **(240)** | **824** | **–** | **2,994** |
| Other | 618 | (856) | – | (238) | **103** | **84** | **245** | **–** | **194** |
| **Deferred tax assets** | 19,108 | (3,970) | 323 | 15,461 | **103** | **(917)** | **(4,416)** | **(667)** | **9,564** |
| Unrecognised deferred corporate income tax assets | (12,490) | (875) | – | (13,365) | **–** | **–** | **2,180** | **–** | **(11,185)** |
| **Deferred tax assets/ (liabilities), net** | 6,618 | (4,845) | 323 | 2,096 | **103** | **(917)** | **(2,236)** | **(667)** | **(1,621)** |
| Deferred tax assets | 6,740 | (4,784) | 323 | 2,279 | **103** | **–** | **(2,382)** | **–** | **–** |
| **Deferred tax liabilities** | (122) | (61) | – | (183) | **–** | **(917)** | **146** | **(667)** | **(1,621)** |

*(millions of tenge)*

## 13. Cash and cash equivalents

Cash and cash equivalents comprise:

| | ***31 December 2019*** | ***31 December 2018*** |
|---|---|---|
| Cash on hand | **61,370** | 54,463 |
| Cash on current accounts with the NBRK rated BBB- | **35,762** | 54,365 |
| Cash on current accounts with other banks | | |
| - rated from A- to A+ | **32,573** | 33,839 |
| - rated from BBB- to BBB+ | **6,888** | 2,908 |
| - rated from BB- to BB+ | **1,831** | 664 |
| - rated below B+ | **203** | 443 |
| - not rated | **543** | 150 |
| Time deposits with the NBRK rated BBB- with contractual maturity of 90 days or less | **152,640** | – |
| Amounts receivable under reverse repurchase agreements *(Note 28)* | **55,440** | 78,317 |
| **Cash and cash equivalents before ECL allowance** | **347,250** | 225,149 |
| ECL allowance | **(8)** | (2) |
| **Cash and cash equivalents** | **347,242** | 225,147 |

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

As at 31 December 2019 and 2018, all balances of cash equivalents are allocated to Stage 1 for ECL measurement purposes.

As at 31 December 2019, the Group entered into reverse repurchase agreements at the Kazakhstan Stock Exchange. The subject of these agreements are the government bonds with the fair value of KZT 56,857 million as at 31 December 2019 (as at 31 December 2018: KZT 79,739 million).

### Minimum reserve requirements

In accordance with regulations issued by the NBRK, minimum reserve requirements are calculated as a percentage of specified banks liabilities. Banks are required to comply with these requirements by maintaining average reserve assets (cash in local currency and on current accounts with the NBRK) equal or in excess of the average minimum requirements. As at 31 December 2019, minimum reserve requirements of the Bank amount to KZT 27,712 million (as at 31 December 2018: KZT 17,876 million).

### Concentration of cash and cash equivalents

As at 31 December 2019, the Group has accounts with one bank which balances exceed 10% of total cash and cash equivalents (as at 31 December 2018: two bank). The total balance on the accounts with the above counterparties as at 31 December 2019 amounts to KZT 188,402 million (as at 31 December 2018: KZT 82,657 million).

*(millions of tenge)*

## 14. Amounts due from financial institutions

Amounts due from financial institutions comprise:

| | *31 December 2019* | *31 December 2018* |
|---|---|---|
| Current accounts with the NBRK rated BBB-, restricted in use | **8,221** | 1,263 |
| Loans and deposits with other banks: | | |
| - rated below B+ | **3,209** | 3,250 |
| - not rated | **622** | 591 |
| Contingent deposits and deposits pledged as a collateral: | | |
| - rated from AA- to AA+ | **150** | 19 |
| - rated from A- to A+ | **5,185** | 3,879 |
| - rated from BBB- to BBB+ | **3,147** | – |
| - rated from BB- to BB+ | **–** | 8,343 |
| - not rated | **8,368** | 3,154 |
| **Amounts due from financial institutions before ECL allowance** | **28,902** | 20,499 |
| ECL allowance | **(697)** | (788) |
| **Amounts due from financial institutions** | **28,205** | 19,711 |

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

Amounts on current accounts with the NBRK restricted in use represent funds received by the Bank as part of participation in the state program of lending to businesses.

As at 31 December 2019 and 2018, all balances of amounts due from financial institutions are allocated to Stage 1 for ECL measurement purposes.

As at 31 December 2019 contingent deposits and deposits pledged as collateral include contingent deposits, restricted in use on transactions with providers of payment operation services in the amount of KZT 6,987 million (as at 31 December 2018: KZT 5,512 million) and deposits pledged as collateral under counter-guarantees, issued to the clients of the Group, in the amount of KZT 3,147 million (as at 31 December 2018: 8,343 million).

### Concentration of amounts due from financial institutions

As at 31 December 2019, the Group has amounts due from five financial institutions which balances exceed 10% of total amounts due from financial institutions (as at 31 December 2018: three). The total value of these balances as at 31 December 2019 is KZT 25,693 million (as at 31 December 2018: KZT 15,377 million).

## 15. Trading securities

Trading securities comprise:

| | *31 December 2019* | *31 December 2018* |
|---|---|---|
| **Bonds of banks** | | |
| - rated from BB- to BB+ | **5,012** | 8,046 |
| **Total bonds of banks** | **5,012** | 8,046 |
| Equity instruments | **1,440** | 1,465 |
| **Trading securities** | **6,452** | 9,511 |

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

*(millions of tenge)*

## 16. Loans to customers

Loans to customers comprise:

| | *31 December 2019* | | | | |
|---|---|---|---|---|---|
| | ***Stage 1*** | ***Stage 2*** | ***Stage 3*** | ***POCI*** | ***Total*** |
| Individually significant loans | **188,466** | **7,563** | **38,337** | **–** | **234,366** |
| **Total individually significant loans** | **188,466** | **7,563** | **38,337** | **–** | **234,366** |
| **Individually insignificant loans** | | | | | |
| Corporate loans | **120,258** | **6,758** | **25,803** | **31** | **152,850** |
| Mortgage loans | **32,797** | **1,463** | **24,627** | **9,311** | **68,198** |
| Consumer loans | **182,768** | **3,326** | **4,973** | **–** | **191,067** |
| Car loans | **1,495** | **2** | **458** | **–** | **1,955** |
| Credit cards | **4,903** | **168** | **620** | **–** | **5,691** |
| Other loans secured by collateral | **124,553** | **6,801** | **58,674** | **13,199** | **203,227** |
| **Total individually insignificant loans** | **466,774** | **18,518** | **115,155** | **22,541** | **622,988** |
| **Loans to customers before ECL allowance** | **655,240** | **26,081** | **153,492** | **22,541** | **857,354** |
| ECL allowance | **(6,758)** | **(2,035)** | **(66,382)** | **2,889** | **(72,286)** |
| **Loans to customers** | **648,482** | **24,046** | **87,110** | **25,430** | **785,068** |

| | *31 December 2018* | | | | |
|---|---|---|---|---|---|
| | ***Stage 1*** | ***Stage 2*** | ***Stage 3*** | ***POCI*** | ***Total*** |
| Individually significant loans | 190,875 | 15,999 | 45,765 | – | 252,639 |
| **Total individually significant loans** | 190,875 | 15,999 | 45,765 | – | 252,639 |
| **Individually insignificant loans** | | | | | |
| Corporate loans | 86,701 | 5,884 | 22,475 | 69 | 115,129 |
| Mortgage loans | 37,512 | 1,826 | 32,796 | 5,644 | 77,778 |
| Consumer loans | 120,789 | 1,756 | 9,755 | – | 132,300 |
| Car loans | 1,401 | 5 | 2,120 | – | 3,526 |
| Credit cards | 2,114 | 56 | 217 | – | 2,387 |
| Other loans secured by collateral | 99,135 | 6,816 | 66,365 | 6,723 | 179,039 |
| **Total individually insignificant loans** | 347,652 | 16,343 | 133,728 | 12,436 | 510,159 |
| **Loans to customers before ECL allowance** | 538,527 | 32,342 | 179,493 | 12,436 | 762,798 |
| ECL allowance | (4,326) | (1,369) | (68,032) | 574 | (73,153) |
| **Loans to customers** | 534,201 | 30,973 | 111,461 | 13,010 | 689,645 |

*(millions of tenge)*

## 16. Loans to customers (continued)

**Quality of individually significant corporate loans**

Information on the quality of individually significant loans at 31 December 2019 is presented in the table below:

| | *31 December 2019* | | | |
|---|---|---|---|---|
| | ***Loans before ECL allowance*** | ***ECL allowance*** | ***Loans net of ECL allowance*** | ***ECL allowance to loans before ECL allowance, (%)*** |
| **Individually significant loans** | | | | |
| **Stage 1 loans** | **188,466** | **(1,250)** | **187,216** | **0.66** |
| **Stage 2 and 3 loans** | | | | |
| - not overdue | **11,201** | **(1,825)** | **9,376** | **16.29** |
| - overdue for less than 90 days | **3,624** | **(1,689)** | **1,935** | **46.61** |
| - overdue for 90 days to 360 days | **3,220** | **(1,392)** | **1,828** | **43.23** |
| - overdue for more than 360 days | **27,855** | **(21,270)** | **6,585** | **76.36** |
| **Total Stage 2 and 3 loans** | **45,900** | **(26,176)** | **19,724** | **57.03** |
| **Total individually significant loans** | **234,366** | **(27,426)** | **206,940** | **11.70** |

Information on the quality of individually significant loans at 31 December 2018 is presented in the table below:

| | *31 December 2018* | | | |
|---|---|---|---|---|
| | ***Loans before ECL allowance*** | ***ECL allowance*** | ***Loans net of ECL allowance*** | ***ECL allowance to loans before ECL allowance, (%)*** |
| **Individually significant loans** | | | | |
| **Stage 1 loans** | 190,875 | (1,635) | 189,240 | 0.86 |
| **Stage 2 and 3 loans** | | | | |
| - not overdue | 19,661 | (2,618) | 17,043 | 13.32 |
| - overdue for less than 90 days | 3,939 | (68) | 3,871 | 1.73 |
| - overdue for 90 days to 360 days | 8,952 | (3,038) | 5,914 | 33.94 |
| - overdue for more than 360 days | 29,212 | (21,797) | 7,415 | 74.62 |
| **Total Stage 2 and 3 loans** | 61,764 | (27,521) | 34,243 | 44.56 |
| **Total individually significant loans** | 252,639 | (29,156) | 223,483 | 11.54 |

*(millions of tenge)*

## 16. Loans to customers (continued)

**Quality of individually significant corporate loans (continued)**

*Analysis of movements in gross carrying value and ECL*

An analysis of changes in the gross carrying value and corresponding ECL in relation to individually significant loans during the year ended 31 December 2019 is as follows:

| | *2019* | | | | |
|---|---|---|---|---|---|
| | ***Stage 1*** | ***Stage 2*** | ***Stage 3*** | ***POCI*** | ***Total*** |
| **Gross carrying value as at 1 January 2019** | **190,875** | **15,999** | **45,765** | **–** | **252,639** |
| Acquisition of subsidiaries | **2,149** | **1,311** | **1,162** | **–** | **4,622** |
| New assets originated or purchased | **197,437** | **–** | **–** | **–** | **197,437** |
| Assets derecognised or repaid (excluding write-offs) | **(216,575)** | **(1,247)** | **(8,331)** | **–** | **(226,153)** |
| Transfers to Stage 1 | **11,303** | **(10,277)** | **(1,026)** | **–** | **–** |
| Transfers to Stage 2 | **(1,737)** | **2,231** | **(494)** | **–** | **–** |
| Transfers to Stage 3 | **(410)** | **(4,255)** | **4,665** | **–** | **–** |
| Transfer between categories | **538** | **–** | **(3,700)** | **–** | **(3,162)** |
| Net change in accrued interest | **5,564** | **3,797** | **4,073** | **–** | **13,434** |
| Unwinding of discount | **–** | **–** | **2,722** | **–** | **2,722** |
| Recoveries | **–** | **–** | **2,012** | **–** | **2,012** |
| Write-offs | **–** | **–** | **(8,383)** | **–** | **(8,383)** |
| Effect from changes in exchange rates | **(678)** | **4** | **(128)** | **–** | **(802)** |
| **At 31 December 2019** | **188,466** | **7,563** | **38,337** | **–** | **234,366** |

| | *2019* | | | | |
|---|---|---|---|---|---|
| | ***Stage 1*** | ***Stage 2*** | ***Stage 3*** | ***POCI*** | ***Total*** |
| **ECL as at 1 January 2019** | **(1,635)** | **(558)** | **(26,963)** | **–** | **(29,156)** |
| Acquisition of subsidiaries | **–** | **–** | **(4)** | **–** | **(4)** |
| New assets originated or purchased | **(1,700)** | **–** | **–** | **–** | **(1700)** |
| Assets derecognised or repaid (excluding write-offs) | **2,094** | **73** | **2,382** | **–** | **4,549** |
| Transfers to Stage 1 | **(30)** | **30** | **–** | **–** | **–** |
| Transfers to Stage 2 | **1** | **(1)** | **–** | **–** | **–** |
| Transfers to Stage 3 | **–** | **582** | **(582)** | **–** | **–** |
| Impact on period end ECL of exposures transferred between stages and changes to inputs used for ECL calculations during the period | **(70)** | **(162)** | **(5,510)** | **–** | **(5,742)** |
| Transfer between categories | **(8)** | **–** | **899** | **–** | **891** |
| Unwinding of discount | **–** | **–** | **(2,722)** | **–** | **(2,722)** |
| Recoveries | **–** | **–** | **(2,012)** | **–** | **(2,012)** |
| Write-offs | **–** | **–** | **8,383** | **–** | **8,383** |
| Effect from changes in exchange rates | **98** | **1** | **(12)** | **–** | **87** |
| **At 31 December 2019** | **(1,250)** | **(35)** | **(26,141)** | **–** | **(27,426)** |

*(millions of tenge)*

## 16. Loans to customers (continued)

**Quality of individually significant corporate loans (continued)**

*Analysis of movements in gross carrying value and ECL (continued)*

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

| | *2018* | | | | |
|---|---|---|---|---|---|
| | ***Stage 1*** | ***Stage 2*** | ***Stage 3*** | ***POCI*** | ***Total*** |
| **Gross carrying value as at 1 January 2018** | 151,290 | 59,693 | 27,942 | – | 238,925 |
| New assets originated or purchased | 122,980 | – | – | – | 122,980 |
| Assets derecognised or repaid (excluding write-offs) | (89,888) | (28,027) | (9,485) | – | (127,400) |
| Transfers to Stage 1 | 6,279 | (6,279) | – | – | – |
| Transfers to Stage 2 | (12,796) | 15,383 | (2,587) | – | – |
| Transfers to Stage 3 | – | (21,473) | 21,473 | – | – |
| Net change in accrued interest | (102) | (3,483) | 7,017 | – | 3,432 |
| Changes to contractual cash flows due to modifications not resulting in derecognition | – | – | (783) | – | (783) |
| Recoveries | – | – | 4,191 | – | 4,191 |
| Write-offs | – | – | (3,886) | – | (3,886) |
| Effect from changes in exchange rates | 13,112 | 185 | 1,883 | – | 15,180 |
| **At 31 December 2018** | 190,875 | 15,999 | 45,765 | – | 252,639 |

| | *2018* | | | | |
|---|---|---|---|---|---|
| | ***Stage 1*** | ***Stage 2*** | ***Stage 3*** | ***POCI*** | ***Total*** |
| **ECL as at 1 January 2018** | (2,038) | (2,265) | (19,495) | – | (23,798) |
| New assets originated or purchased | (259) | – | – | – | (259) |
| Assets derecognised or repaid (excluding write-offs) | 370 | 986 | 6,079 | – | 7,435 |
| Transfers to Stage 1 | (61) | 61 | – | – | – |
| Transfers to Stage 2 | 159 | (3,867) | 3,708 | – | – |
| Transfers to Stage 3 | – | 482 | (482) | – | – |
| Impact on period end ECL of exposures transferred between stages and changes to inputs used for ECL calculations during the period | 347 | 4,087 | (14,150) | – | (9,716) |
| Changes to contractual cash flows due to modifications not resulting in derecognition | – | – | 783 | – | 783 |
| Unwinding of discount | – | – | (1,922) | – | (1,922) |
| Recoveries | – | – | (4,191) | – | (4,191) |
| Write-offs | – | – | 3,886 | – | 3,886 |
| Effect from changes in exchange rates | (153) | (42) | (1,179) | – | (1,374) |
| **At 31 December 2018** | (1,635) | (558) | (26,963) | – | (29,156) |

*(millions of tenge)*

## 16. Loans to customers (continued)

### Quality of individually insignificant loans

The following table provides information on the credit quality of individually insignificant loans for which expected credit losses are assessed collectively as at 31 December 2019:

| | *31 December 2019* | | | |
|---|---|---|---|---|
| | *Loans before ECL allowance* | *ECL allowance* | *Loans net of ECL allowance* | *ECL allowance to loans before ECL allowance, (%)* |
| **Individually insignificant corporate loans** | | | | |
| Not overdue | **126,435** | **(730)** | **125,705** | **0.58** |
| Overdue for less than 30 days | **2,272** | **(9)** | **2,263** | **0.40** |
| Overdue for 30 to 89 days | **2,352** | **(25)** | **2,327** | **1.06** |
| Overdue for 90 to 179 days | **1,005** | **(24)** | **981** | **2.39** |
| Overdue for 180 to 360 days | **1,209** | **(136)** | **1,073** | **11.25** |
| Overdue for more than 360 days | **19,546** | **(8,676)** | **10,870** | **44.39** |
| POCI | **31** | **16** | **47** | **–** |
| **Total individually insignificant corporate loans** | **152,850** | **(9,584)** | **143,266** | **6.27** |
| | | | | |
| **Mortgage loans** | | | | |
| Not overdue | **33,170** | **(266)** | **32,904** | **0.80** |
| Overdue for less than 30 days | **1,557** | **(14)** | **1,543** | **0.90** |
| Overdue for 30 to 89 days | **668** | **(21)** | **647** | **3.14** |
| Overdue for 90 to 179 days | **306** | **(23)** | **283** | **7.52** |
| Overdue for 180 to 360 days | **554** | **(61)** | **493** | **11.01** |
| Overdue for more than 360 days | **22,632** | **(9,362)** | **13,270** | **41.37** |
| POCI | **9,311** | **1,112** | **10,423** | **–** |
| **Total mortgage loans** | **68,198** | **(8,635)** | **59,563** | **12.66** |
| | | | | |
| **Consumer loans** | | | | |
| Not overdue | **176,889** | **(3,274)** | **173,615** | **1.85** |
| Overdue for less than 30 days | **5,506** | **(795)** | **4,711** | **14.44** |
| Overdue for 30 to 89 days | **3,376** | **(1,686)** | **1,690** | **49.94** |
| Overdue for 90 to 179 days | **3,378** | **(2,681)** | **697** | **79.37** |
| Overdue for 180 to 360 days | **1,328** | **(1,046)** | **282** | **78.77** |
| Overdue for more than 360 days | **590** | **(434)** | **156** | **73.56** |
| **Total consumer loans** | **191,067** | **(9,916)** | **181,151** | **5.19** |
| | | | | |
| **Car loans** | | | | |
| Not overdue | **1,498** | **(2)** | **1,496** | **0.13** |
| Overdue for less than 30 days | **6** | **–** | **6** | **0.00** |
| Overdue for 30 to 89 days | **4** | **–** | **4** | **0.00** |
| Overdue for 90 to 179 days | **4** | **(2)** | **2** | **50.00** |
| Overdue for 180 to 360 days | **5** | **(1)** | **4** | **20.00** |
| Overdue for more than 360 days | **438** | **(86)** | **352** | **19.63** |
| **Total car loans** | **1,955** | **(91)** | **1,864** | **4.65** |
| | | | | |
| **Credit cards** | | | | |
| Not overdue | **4,801** | **(988)** | **3,813** | **20.58** |
| Overdue for less than 30 days | **206** | **(101)** | **105** | **49.03** |
| Overdue for 30 to 89 days | **149** | **(131)** | **18** | **87.92** |
| Overdue for 90 to 179 days | **139** | **(116)** | **23** | **83.45** |
| Overdue for 180 to 360 days | **152** | **(125)** | **27** | **82.24** |
| Overdue for more than 360 days | **244** | **(211)** | **33** | **86.48** |
| **Total credit cards** | **5,691** | **(1,672)** | **4,019** | **29.38** |
| | | | | |
| **Other loans secured by collateral** | | | | |
| Not overdue | **119,588** | **(229)** | **119,359** | **0.19** |
| Overdue for less than 30 days | **9,279** | **(34)** | **9,245** | **0.37** |
| Overdue for 30 to 89 days | **5,896** | **(39)** | **5,857** | **0.66** |
| Overdue for 90 to 179 days | **2,106** | **(42)** | **2,064** | **1.99** |
| Overdue for 180 to 360 days | **3,162** | **(169)** | **2,993** | **5.34** |
| Overdue for more than 360 days | **49,996** | **(16,210)** | **33,786** | **32.42** |
| POCI | **13,200** | **1,761** | **14,961** | **–** |
| **Total other loans secured by collateral** | **203,227** | **(14,962)** | **188,265** | **7.36** |
| **Total individually insignificant loans** | **622,988** | **(44,860)** | **578,128** | **7.20** |

*(millions of tenge)*

## 16. Loans to customers (continued)

### Quality of individually insignificant loans (continued)

The following table provides information on the credit quality of individually insignificant loans for which expected credit losses are assessed collectively as at 31 December 2018:

| | *Loans before ECL allowance* | *ECL allowance* | *Loans net of ECL allowance* | *ECL allowance to loans before ECL allowance, (%)* |
|---|---|---|---|---|
| **Individually insignificant corporate loans** | | | | |
| Not overdue | 92,639 | (235) | 92,404 | 0.25 |
| Overdue for less than 30 days | 1,517 | (42) | 1,475 | 2.77 |
| Overdue for 30 to 89 days | 1,507 | (27) | 1,480 | 1.79 |
| Overdue for 90 to 179 days | 437 | (5) | 432 | 1.14 |
| Overdue for 180 to 360 days | 958 | (56) | 902 | 5.85 |
| Overdue for more than 360 days | 18,002 | (5,546) | 12,456 | 30.81 |
| POCI | 69 | 13 | 82 | – |
| **Total individually insignificant corporate loans** | 115,129 | (5,898) | 109,231 | 5.12 |
| | | | | |
| **Mortgage loans** | | | | |
| Not overdue | 37,901 | (382) | 37,519 | 1.01 |
| Overdue for less than 30 days | 1,807 | (44) | 1,763 | 2.43 |
| Overdue for 30 to 89 days | 1,017 | (27) | 990 | 2.65 |
| Overdue for 90 to 179 days | 284 | (53) | 231 | 18.66 |
| Overdue for 180 to 360 days | 461 | (48) | 413 | 10.41 |
| Overdue for more than 360 days | 30,664 | (9,647) | 21,017 | 31.46 |
| POCI | 5,644 | 108 | 5,752 | – |
| **Total mortgage loans** | 77,778 | (10,093) | 67,685 | 12.98 |
| | | | | |
| **Consumer loans** | | | | |
| Not overdue | 117,058 | (1,711) | 115,347 | 1.46 |
| Overdue for less than 30 days | 3,849 | (410) | 3,439 | 10.65 |
| Overdue for 30 to 89 days | 1,699 | (692) | 1,007 | 40.73 |
| Overdue for 90 to 179 days | 1,283 | (1,084) | 199 | 84.49 |
| Overdue for 180 to 360 days | 1,798 | (1,509) | 289 | 83.93 |
| Overdue for more than 360 days | 6,613 | (5,023) | 1,590 | 75.96 |
| **Total consumer loans** | 132,300 | (10,429) | 121,871 | 7.88 |
| | | | | |
| **Car loans** | | | | |
| Not overdue | 1,406 | (2) | 1,404 | 0.14 |
| Overdue for less than 30 days | 3 | – | 3 | 0.00 |
| Overdue for 30 to 89 days | 5 | – | 5 | 0.00 |
| Overdue for 90 to 179 days | 4 | – | 4 | 0.00 |
| Overdue for 180 to 360 days | 2 | (1) | 1 | 50.00 |
| Overdue for more than 360 days | 2,106 | (480) | 1,626 | 22.79 |
| **Total car loans** | 3,526 | (483) | 3,043 | 13.70 |
| | | | | |
| **Credit cards** | | | | |
| Not overdue | 1,953 | (380) | 1,573 | 19.46 |
| Overdue for less than 30 days | 164 | (76) | 88 | 46.34 |
| Overdue for 30 to 89 days | 56 | (47) | 9 | 83.93 |
| Overdue for 90 to 179 days | 49 | (42) | 7 | 85.71 |
| Overdue for 180 to 360 days | 32 | (27) | 5 | 84.38 |
| Overdue for more than 360 days | 133 | (113) | 20 | 84.96 |
| **Total credit cards** | 2,387 | (685) | 1,702 | 28.70 |
| | | | | |
| **Other loans secured by collateral** | | | | |
| Not overdue | 97,242 | (531) | 96,711 | 0.55 |
| Overdue for less than 30 days | 6,518 | (27) | 6,491 | 0.41 |
| Overdue for 30 to 89 days | 4,547 | (25) | 4,522 | 0.55 |
| Overdue for 90 to 179 days | 2,227 | (215) | 2,012 | 9.65 |
| Overdue for 180 to 360 days | 2,667 | (138) | 2,529 | 5.17 |
| Overdue for more than 360 days | 59,115 | (15,926) | 43,189 | 26.94 |
| POCI | 6,723 | 453 | 7,176 | – |
| **Total other loans secured by collateral** | 179,039 | (16,409) | 162,630 | 9.17 |
| **Total individually insignificant loans** | 510,159 | (43,997) | 466,162 | 8.62 |

*(millions of tenge)*

## 16. Loans to customers (continued)

**Quality of individually insignificant loans (continued)**

*Analysis of movements in gross carrying value and ECL*

An analysis of changes in the gross carrying value and corresponding ECL in relation to individually insignificant corporate loans during the year ended 31 December 2019 is as follows:

| ***Iindividually insignificant corporate loans*** | ***2019*** | | | | |
|---|---|---|---|---|---|
| | ***Stage 1*** | ***Stage 2*** | ***Stage 3*** | ***POCI*** | ***Total*** |
| **Gross carrying value at 1 January 2019** | **86,701** | **5,884** | **22,475** | **69** | **115,129** |
| Acquisition of subsidiaries | **23,278** | **1,497** | **4,213** | **–** | **28,988** |
| New assets originated or purchased | **167,536** | **–** | **–** | **25** | **167,561** |
| Assets derecognised or repaid (excluding write-offs) | **(149,683)** | **(6,660)** | **(11,766)** | **(64)** | **(168,173)** |
| Transfers to Stage 1 | **1,444** | **(663)** | **(781)** | **–** | **–** |
| Transfers to Stage 2 | **(9,182)** | **9,492** | **(310)** | **–** | **–** |
| Transfers to Stage 3 | **(2,094)** | **(2,981)** | **5,075** | **–** | **–** |
| Transfer between categories | **(539)** | **–** | **3,700** | **–** | **3,161** |
| Net change in accrued interest | **2,800** | **192** | **1,101** | **1** | **4,094** |
| Unwinding of discount | **–** | **–** | **972** | – | **972** |
| Recoveries | **–** | **–** | **3,728** | **–** | **3,728** |
| Write-offs | **–** | **–** | **(2,541)** | **–** | **(2,541)** |
| Effect from changes in exchange rates | **(3)** | **(3)** | **(63)** | **–** | **(69)** |
| **At 31 December 2019** | **120,258** | **6,758** | **25,803** | **31** | **152,850** |

| ***Individually insignificant corporate loans*** | ***2019*** | | | | |
|---|---|---|---|---|---|
| | ***Stage 1*** | ***Stage 2*** | ***Stage 3*** | ***POCI*** | ***Total*** |
| **ECL at 1 January 2019** | **–** | **(30)** | **(5,881)** | **13** | **(5,898)** |
| Acquisition of subsidiaries | **(6)** | **(4)** | **(1,123)** | **–** | **(1,133)** |
| New assets originated or purchased | **(245)** | **–** | **–** | **–** | **(245)** |
| Assets derecognised or repaid (excluding write-offs) | **555** | **166** | **3,830** | **4** | **4,555** |
| Transfers to Stage 1 | **(73)** | **70** | **3** | **–** | **–** |
| Transfers to Stage 2 | **22** | **(169)** | **147** | **–** | **–** |
| Transfers to Stage 3 | **40** | **125** | **(165)** | **–** | **–** |
| Impact on period end ECL of exposures transferred between stages and changes to inputs used for ECL calculations during the period | **(596)** | **(361)** | **(2,845)** | **(1)** | **(3,803)** |
| Transfer between categories | **8** | **–** | **(899)** | **–** | **(891)** |
| Unwinding of discount | **–** | **–** | **(972)** | **–** | **(972)** |
| Recoveries | **–** | **–** | **(3,728)** | **–** | **(3,728)** |
| Write-offs | **–** | **–** | **2,541** | **–** | **2,541** |
| Effect from changes in exchange rates | **1** | **–** | **(11)** | **–** | **(10)** |
| **At 31 December 2019** | **(294)** | **(203)** | **(9,103)** | **16** | **(9,584)** |

*(millions of tenge)*

## 16. Loans to customers (continued)

### Quality of individually insignificant loans (continued)

*Analysis of movements in gross carrying value and ECL (continued)*

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

| *Iindividually insignificant corporate loans* | *2018* Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| **Gross carrying value at 1 January 2018** | 70,285 | 14,261 | 24,009 | – | 108,555 |
| New assets originated or purchased | 158,642 | – | – | 70 | 158,712 |
| Assets derecognised or repaid (excluding write-offs) | (140,362) | (6,365) | (8,481) | (2) | (155,210) |
| Transfers to Stage 1 | 5,531 | (5,531) | – | – | – |
| Transfers to Stage 2 | (7,346) | 8,158 | (812) | – | – |
| Transfers to Stage 3 | – | (3,722) | 3,722 | – | – |
| Net change in accrued interest | (260) | (917) | 1,254 | 1 | 78 |
| Recoveries | – | – | 2,545 | – | 2,545 |
| Write-offs | – | – | (3,184) | – | (3,184) |
| Effect from changes in exchange rates | 211 | – | 3,422 | – | 3,633 |
| **At 31 December 2018** | 86,701 | 5,884 | 22,475 | 69 | 115,129 |

| *Individually insignificant corporate loans* | *2018* Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| **ECL at 1 January 2018** | (45) | (62) | (7,215) | – | (7,322) |
| New assets originated or purchased | (261) | – | – | – | (261) |
| Assets derecognised or repaid (excluding write-offs) | 479 | 72 | 5,479 | 13 | 6,043 |
| Transfers to Stage 1 | (54) | 54 | – | – | – |
| Transfers to Stage 2 | 56 | (87) | 31 | – | – |
| Transfers to Stage 3 | – | 124 | (124) | – | – |
| Impact on period end ECL of exposures transferred between stages and changes to inputs used for ECL calculations during the period | (141) | (131) | (2,942) | – | (3,214) |
| Unwinding of discount | – | – | (538) | – | (538) |
| Recoveries | – | – | (2,545) | – | (2,545) |
| Write-offs | – | – | 3,184 | – | 3,184 |
| Effect from changes in exchange rates | (34) | – | (1,211) | – | (1,245) |
| **At 31 December 2018** | – | (30) | (5,881) | 13 | (5,898) |

*(millions of tenge)*

## 16. Loans to customers (continued)

### Quality of individually insignificant loans (continued)

*Analysis of movements in gross carrying value and ECL (continued)*

An analysis of changes in the gross carrying value and corresponding ECL in relation to mortgage loans during the year ended 31 December 2019 is as follows:

| | 2019 | | | | |
|---|---|---|---|---|---|
| ***Mortgage loans*** | ***Stage 1*** | ***Stage 2*** | ***Stage 3*** | ***POCI*** | ***Total*** |
| **Gross carrying value at 1 January 2019** | **37,512** | **1,826** | **32,796** | **5,644** | **77,778** |
| Acquisition of subsidiaries | **1,943** | **130** | **390** | **809** | **3,272** |
| New assets originated or purchased | **7,801** | **–** | **–** | **6,163** | **13,964** |
| Assets derecognised or repaid (excluding write-offs) | **(14,590)** | **(384)** | **(11,650)** | **(3,831)** | **(30,455)** |
| Transfers to Stage 1 | **312** | **(216)** | **(96)** | **–** | **–** |
| Transfers to Stage 2 | **(657)** | **770** | **(113)** | **–** | **–** |
| Transfers to Stage 3 | **(485)** | **(702)** | **1,187** | **–** | **–** |
| Net change in accrued interest | **961** | **45** | **3,594** | **287** | **4,887** |
| Unwinding of discount | **–** | **–** | **1,378** | **–** | **1,378** |
| Recoveries | **–** | **–** | **5,086** | **270** | **5,356** |
| Write-offs | **–** | **–** | **(7,902)** | **(31)** | **(7,933)** |
| Effect from changes in exchange rates | **–** | **(6)** | **(43)** | **–** | **(49)** |
| **At 31 December 2019** | **32,797** | **1,463** | **24,627** | **9,311** | **68,198** |

| | 2019 | | | | |
|---|---|---|---|---|---|
| ***Mortgage loans*** | ***Stage 1*** | ***Stage 2*** | ***Stage 3*** | ***POCI*** | ***Total*** |
| **ECL at 1 January 2019** | **(92)** | **(22)** | **(10,087)** | **108** | **(10,093)** |
| Acquisition of subsidiaries | **–** | **–** | **(68)** | **–** | **(68)** |
| New assets originated or purchased | **(22)** | **–** | **–** | **–** | **(22)** |
| Assets derecognised or repaid (excluding write-offs) | **172** | **25** | **5,102** | **419** | **5,718** |
| Transfers to Stage 1 | **(54)** | **31** | **23** | **–** | **–** |
| Transfers to Stage 2 | **5** | **(18)** | **13** | **–** | **–** |
| Transfers to Stage 3 | **–** | **18** | **(18)** | **–** | **–** |
| Impact on period end ECL of exposures transferred between stages and changes to inputs used for ECL calculations during the period | **(90)** | **(44)** | **(6,059)** | **832** | **(5,361)** |
| Unwinding of discount | **–** | **–** | **(1,378)** | **–** | **(1,378)** |
| Recoveries | **–** | **–** | **(5,086)** | **(270)** | **(5,356)** |
| Write-offs | **–** | **–** | **7,902** | **23** | **7,925** |
| **At 31 December 2019** | **(81)** | **(10)** | **(9,656)** | **1,112** | **(8,635)** |

*(millions of tenge)*

## 16. Loans to customers (continued)

**Quality of individually insignificant loans (continued)**

*Analysis of movements in gross carrying value and ECL (continued)*

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

| | 2018 | | | | |
|---|---|---|---|---|---|
| ***Mortgage loans*** | ***Stage 1*** | ***Stage 2*** | ***Stage 3*** | ***POCI*** | ***Total*** |
| **Gross carrying value at 1 January 2018** | 41,209 | 4,060 | 40,196 | 5,606 | 91,071 |
| New assets originated or purchased | 8,269 | – | – | 340 | 8,609 |
| Assets derecognised or repaid (excluding write-offs) | (6,351) | (210) | (22,253) | (436) | (29,250) |
| Transfers to Stage 1 | 1,717 | (1,717) | – | – | – |
| Transfers to Stage 2 | (6,245) | 6,654 | (409) | – | – |
| Transfers to Stage 3 | – | (6,351) | 6,351 | – | – |
| Net change in accrued interest | (1,178) | (615) | 6,857 | 134 | 5,198 |
| Recoveries | – | – | 8,018 | – | 8,018 |
| Write-offs | – | – | (8,396) | – | (8,396) |
| Effect from changes in exchange rates | 91 | 5 | 2,432 | – | 2,528 |
| **At 31 December 2018** | 37,512 | 1,826 | 32,796 | 5,644 | 77,778 |

| | 2018 | | | | |
|---|---|---|---|---|---|
| ***Mortgage loans*** | ***Stage 1*** | ***Stage 2*** | ***Stage 3*** | ***POCI*** | ***Total*** |
| **ECL at 1 January 2018** | (42) | (47) | (10,580) | – | (10,669) |
| New assets originated or purchased | (788) | – | – | – | (788) |
| Assets derecognised or repaid (excluding write-offs) | 769 | 32 | 13,256 | 108 | 14,165 |
| Transfers to Stage 1 | (33) | 33 | – | – | – |
| Transfers to Stage 2 | 16 | (23) | 7 | – | – |
| Transfers to Stage 3 | – | 34 | (34) | – | – |
| Impact on period end ECL of exposures transferred between stages and changes to inputs used for ECL calculations during the period | (14) | (51) | (11,065) | – | (11,130) |
| Unwinding of discount | – | – | (1,817) | – | (1,817) |
| Recoveries | – | – | (8,018) | – | (8,018) |
| Write-offs | – | – | 8,396 | – | 8,396 |
| Effect from changes in exchange rates | – | – | (232) | – | (232) |
| **At 31 December 2018** | (92) | (22) | (10,087) | 108 | (10,093) |

*(millions of tenge)*

## 16. Loans to customers (continued)

### Quality of individually insignificant loans (continued)

*Analysis of movements in gross carrying value and ECL (continued)*

An analysis of changes in the gross carrying value and corresponding ECL in relation to consumer loans during the year ended 31 December 2019 is as follows:

| | 2019 | | | | |
|---|---|---|---|---|---|
| ***Consumer loans*** | ***Stage 1*** | ***Stage 2*** | ***Stage 3*** | ***POCI*** | ***Total*** |
| **Gross carrying value at 1 January 2019** | **120,789** | **1,756** | **9,755** | **–** | **132,300** |
| Acquisition of subsidiaries | **3,007** | **130** | **313** | **–** | **3,450** |
| New assets originated or purchased | **169,420** | **–** | **–** | **–** | **169,420** |
| Assets derecognised or repaid (excluding write-offs) | **(104,535)** | **(1,398)** | **(4,256)** | **–** | **(110,189)** |
| Transfers to Stage 1 | **668** | **(446)** | **(222)** | **–** | **–** |
| Transfers to Stage 2 | **(9,499)** | **9,555** | **(56)** | | **–** |
| Transfers to Stage 3 | **(2,458)** | **(6,373)** | **8,831** | **–** | **–** |
| Net change in accrued interest | **5,376** | **102** | **220** | **–** | **5,698** |
| Unwinding of discount | **–** | **–** | **2,174** | **–** | **2,174** |
| Recoveries | **–** | **–** | **704** | **–** | **704** |
| Write-offs | **–** | **–** | **(12,490)** | **–** | **(12,490)** |
| **At 31 December 2019** | **182,768** | **3,326** | **4,973** | **–** | **191,067** |

| | 2019 | | | | |
|---|---|---|---|---|---|
| ***Consumer loans*** | ***Stage 1*** | ***Stage 2*** | ***Stage 3*** | ***POCI*** | ***Total*** |
| **ECL at 1 January 2019** | **(2,074)** | **(688)** | **(7,667)** | **–** | **(10,429)** |
| Acquisition of subsidiaries | **(266)** | **(60)** | **(227)** | **–** | **(553)** |
| New assets originated or purchased | **(2,875)** | **(2)** | **(3)** | **–** | **(2,880)** |
| Assets derecognised or repaid (excluding write-offs) | **1,945** | **338** | **4,091** | **–** | **6,374** |
| Transfers to Stage 1 | **(1,479)** | **1,075** | **404** | **–** | **–** |
| Transfers to Stage 2 | **593** | **(673)** | **80** | **–** | **–** |
| Transfers to Stage 3 | **371** | **2,888** | **(3,259)** | **–** | **–** |
| Impact on period end ECL of exposures transferred between stages and changes to inputs used for ECL calculations during the period | **(221)** | **(4,481)** | **(7,338)** | **–** | **(12,040)** |
| Unwinding of discount | **–** | **–** | **(2,174)** | **–** | **(2,174)** |
| Recoveries | **–** | **–** | **(704)** | **–** | **(704)** |
| Write-offs | **–** | **–** | **12,490** | **–** | **12,490** |
| **At 31 December 2019** | **(4,006)** | **(1,603)** | **(4,307)** | **–** | **(9,916)** |

*(millions of tenge)*

## 16. Loans to customers (continued)

### Quality of individually insignificant loans (continued)

*Analysis of movements in gross carrying value and ECL (continued)*

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

| | *2018* | | | | |
|---|---|---|---|---|---|
| ***Consumer loans*** | ***Stage 1*** | ***Stage 2*** | ***Stage 3*** | ***POCI*** | ***Total*** |
| **Gross carrying value at 1 January 2018** | 74,920 | 2,064 | 7,176 | – | 84,160 |
| New assets originated or purchased | 124,706 | – | – | – | 124,706 |
| Assets derecognised or repaid (excluding write-offs) | (74,877) | (796) | (1,657) | – | (77,330) |
| Transfers to Stage 1 | 3,441 | (3,441) | – | – | – |
| Transfers to Stage 2 | (7,810) | 7,963 | (153) | – | – |
| Transfers to Stage 3 | – | (4,066) | 4,066 | – | – |
| Net change in accrued interest | 409 | 32 | 2,228 | – | 2,669 |
| Recoveries | – | – | 759 | – | 759 |
| Write-offs | – | – | (2,664) | – | (2,664) |
| Effect from changes in exchange rates | – | – | – | – | – |
| **At 31 December 2018** | 120,789 | 1,756 | 9,755 | – | 132,300 |

| | *2018* | | | | |
|---|---|---|---|---|---|
| ***Consumer loans*** | ***Stage 1*** | ***Stage 2*** | ***Stage 3*** | ***POCI*** | ***Total*** |
| **ECL at 1 January 2018** | (1,248) | (493) | (6,177) | – | (7,918) |
| New assets originated or purchased | (1,189) | – | – | – | (1,189) |
| Assets derecognised or repaid (excluding write-offs) | 309 | 202 | 1,508 | – | 2,019 |
| Transfers to Stage 1 | (571) | 571 | – | – | – |
| Transfers to Stage 2 | 917 | (1,056) | 139 | – | – |
| Transfers to Stage 3 | – | 1,328 | (1,328) | – | – |
| Impact on period end ECL of exposures transferred between stages and changes to inputs used for ECL calculations during the period | (292) | (1,240) | (1,936) | – | (3,468) |
| Unwinding of discount | – | – | (1,778) | – | (1,778) |
| Recoveries | – | – | (759) | – | (759) |
| Write-offs | – | – | 2,664 | – | 2,664 |
| Effect from changes in exchange rates | – | – | – | – | – |
| **At 31 December 2018** | (2,074) | (688) | (7,667) | – | (10,429) |

*(millions of tenge)*

## 16. Loans to customers (continued)

**Quality of individually insignificant loans (continued)**

*Analysis of movements in gross carrying value and ECL (continued)*

An analysis of changes in the gross carrying value and corresponding ECL in relation to car loans during the year ended 31 December 2019 is as follows:

| | 2019 | | | | |
|---|---|---|---|---|---|
| ***Car loans*** | ***Stage 1*** | ***Stage 2*** | ***Stage 3*** | ***POCI*** | ***Total*** |
| **Gross carrying value at 1 January 2019** | **1,401** | **5** | **2,120** | **–** | **3,526** |
| Acquisition of subsidiaries | **26** | **–** | **–** | **–** | **26** |
| New assets originated or purchased | **752** | **–** | **–** | **–** | **752** |
| Assets derecognised or repaid (excluding write-offs) | **(722)** | **(4)** | **(924)** | **–** | **(1,650)** |
| Transfers to Stage 1 | **–** | **–** | **–** | **–** | **–** |
| Transfers to Stage 2 | **(2)** | **5** | **(3)** | **–** | **–** |
| Transfers to Stage 3 | **(2)** | **(2)** | **4** | **–** | **–** |
| Net change in accrued interest | **42** | **(2)** | **875** | **–** | **915** |
| Unwinding of discount | **–** | **–** | **45** | **–** | **45** |
| Recoveries | **–** | **–** | **182** | **–** | **182** |
| Write-offs | **–** | **–** | **(1,841)** | **–** | **(1,841)** |
| **At 31 December 2019** | **1,495** | **2** | **458** | **–** | **1,955** |

| | 2019 | | | | |
|---|---|---|---|---|---|
| ***Car loans*** | ***Stage 1*** | ***Stage 2*** | ***Stage 3*** | ***POCI*** | ***Total*** |
| **ECL at 1 January 2019** | **–** | **–** | **(483)** | **–** | **(483)** |
| New assets originated or purchased | **(1)** | **–** | **–** | **–** | **(1)** |
| Assets derecognised or repaid (excluding write-offs) | **–** | **–** | **896** | **–** | **896** |
| Impact on period end ECL of exposures transferred between stages and changes to inputs used for ECL calculations during the period | **1** | **–** | **(2,118)** | **–** | **(2,117)** |
| Unwinding of discount | **–** | **–** | **(45)** | **–** | **(45)** |
| Recoveries | **–** | **–** | **(182)** | **–** | **(182)** |
| Write-offs | **–** | **–** | **1,841** | **–** | **1,841** |
| **At 31 December 2019** | **–** | **–** | **(91)** | **–** | **(91)** |

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

| | 2018 | | | | |
|---|---|---|---|---|---|
| ***Car loans*** | ***Stage 1*** | ***Stage 2*** | ***Stage 3*** | ***POCI*** | ***Total*** |
| **Gross carrying value at 1 January 2018** | 1,436 | – | 2,009 | – | 3,445 |
| New assets originated or purchased | 571 | – | – | – | 571 |
| Assets derecognised or repaid (excluding write-offs) | (591) | (5) | (226) | – | (822) |
| Transfers to Stage 1 | 10 | (10) | – | – | – |
| Transfers to Stage 2 | (25) | 25 | – | – | – |
| Transfers to Stage 3 | – | (5) | 5 | – | – |
| Net change in accrued interest | – | – | 315 | – | 315 |
| Recoveries | – | – | 195 | – | 195 |
| Write-offs | – | – | (312) | – | (312) |
| Effect from changes in exchange rates | – | – | 134 | – | 134 |
| **At 31 December 2018** | 1,401 | 5 | 2,120 | – | 3,526 |

*(millions of tenge)*

## 16. Loans to customers (continued)

**Quality of individually insignificant loans (continued)**

*Analysis of movements in gross carrying value and ECL (continued)*

| | | | *2018* | | |
|---|---|---|---|---|---|
| ***Car loans*** | ***Stage 1*** | ***Stage 2*** | ***Stage 3*** | ***POCI*** | ***Total*** |
| **ECL at 1 January 2018** | (1) | (1) | (240) | – | (242) |
| New assets originated or purchased | (1) | – | – | – | (1) |
| Assets derecognised or repaid (excluding write-offs) | 2 | 1 | 287 | – | 290 |
| Impact on period end ECL of exposures transferred between stages and changes to inputs used for ECL calculations during the period | – | – | (581) | – | (581) |
| Unwinding of discount | – | – | (57) | – | (57) |
| Recoveries | – | – | (195) | – | (195) |
| Write-offs | – | – | 312 | – | 312 |
| Effect from changes in exchange rates | – | – | (9) | – | (9) |
| **At 31 December 2018** | – | – | (483) | – | (483) |

An analysis of changes in the gross carrying value and corresponding ECL in relation to credit cards during the year ended 31 December 2019 is as follows:

| | | | *2019* | | |
|---|---|---|---|---|---|
| ***Credit cards*** | ***Stage 1*** | ***Stage 2*** | ***Stage 3*** | ***POCI*** | ***Total*** |
| **Gross carrying value at 1 January 2019** | **2,114** | **56** | **217** | **–** | **2,387** |
| Acquisition of subsidiaries | **539** | **5** | **84** | **–** | **628** |
| New assets originated or purchased | **21,751** | **–** | **–** | **–** | **21,751** |
| Assets derecognised or repaid (excluding write-offs) | **(19,309)** | **(2)** | **(191)** | **–** | **(19,502)** |
| Transfers to Stage 1 | **97** | **(69)** | **(28)** | **–** | **–** |
| Transfers to Stage 2 | **(174)** | **194** | **(20)** | **–** | **–** |
| Transfers to Stage 3 | **(323)** | **(250)** | **573** | **–** | **–** |
| Net change in accrued interest | **208** | **234** | **26** | **–** | **468** |
| Unwinding of discount | **–** | **–** | **69** | **–** | **69** |
| Recoveries | **–** | **–** | **16** | **–** | **16** |
| Write-offs | **–** | **–** | **(126)** | **–** | **(126)** |
| Effect from changes in exchange rates | **–** | **–** | **–** | **–** | **–** |
| **At 31 December 2019** | **4,903** | **168** | **620** | **–** | **5,691** |

*(millions of tenge)*

## 16. Loans to customers (continued)

**Quality of individually insignificant loans (continued)**

*Analysis of movements in gross carrying value and ECL (continued)*

| | | | *2019* | | |
|---|---|---|---|---|---|
| ***Credit cards*** | ***Stage 1*** | ***Stage 2*** | ***Stage 3*** | ***POCI*** | ***Total*** |
| **ECL at 1 January 2019** | **(453)** | **(48)** | **(184)** | **–** | **(685)** |
| Acquisition of subsidiaries | **(16)** | **(1)** | **(77)** | | **(94)** |
| New assets originated or purchased | **(1,069)** | **–** | **–** | **–** | **(1,069)** |
| Assets derecognised or repaid (excluding write-offs) | **832** | **19** | **44** | **–** | **895** |
| Transfers to Stage 1 | **(88)** | **63** | **25** | **–** | **–** |
| Transfers to Stage 2 | **45** | **(28)** | **(17)** | **–** | **–** |
| Transfers to Stage 3 | **49** | **210** | **(259)** | **–** | **–** |
| Impact on period end ECL of exposures transferred between stages and changes to inputs used for ECL calculations during the period | **(295)** | **(373)** | **(94)** | **–** | **(762)** |
| Unwinding of discount | **–** | **–** | **(69)** | **–** | **(69)** |
| Recoveries | **–** | **–** | **(16)** | **–** | **(16)** |
| Write-offs | **–** | **–** | **126** | **–** | **126** |
| Effect from changes in exchange rates | **–** | **2** | **–** | **–** | **2** |
| **At 31 December 2019** | **(995)** | **(156)** | **(521)** | **–** | **(1,672)** |

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

| | | | *2018* | | |
|---|---|---|---|---|---|
| ***Credit cards*** | ***Stage 1*** | ***Stage 2*** | ***Stage 3*** | ***POCI*** | ***Total*** |
| **Gross carrying value at 1 January 2018** | 338 | 16 | 119 | – | 473 |
| New assets originated or purchased | 4,137 | – | – | – | 4,137 |
| Assets derecognised or repaid (excluding write-offs) | (2,187) | (14) | (35) | – | (2,236) |
| Transfers to Stage 1 | 74 | (74) | – | – | – |
| Transfers to Stage 2 | (248) | 306 | (58) | – | – |
| Transfers to Stage 3 | – | (178) | 178 | – | – |
| Net change in accrued interest | – | – | 12 | – | 12 |
| Recoveries | – | – | 43 | – | 43 |
| Write-offs | – | – | (42) | – | (42) |
| Effect from changes in exchange rates | – | – | – | – | – |
| **At 31 December 2018** | 2,114 | 56 | 217 | – | 2,387 |

*(millions of tenge)*

## 16. Loans to customers (continued)

**Quality of individually insignificant loans (continued)**

*Analysis of movements in gross carrying value and ECL (continued)*

| | | | *2018* | | |
|---|---|---|---|---|---|
| ***Credit cards*** | ***Stage 1*** | ***Stage 2*** | ***Stage 3*** | ***POCI*** | ***Total*** |
| **ECL at 1 January 2018** | (63) | (13) | (55) | – | (131) |
| New assets originated or purchased | (239) | – | – | – | (239) |
| Assets derecognised or repaid (excluding write-offs) | 245 | 2 | 63 | – | 310 |
| Transfers to Stage 1 | (65) | 65 | – | – | – |
| Transfers to Stage 2 | 88 | (92) | 4 | – | – |
| Transfers to Stage 3 | – | 71 | (71) | – | – |
| Impact on period end ECL of exposures transferred between stages and changes to inputs used for ECL calculations during the period | (419) | (81) | (90) | – | (590) |
| Unwinding of discount | – | – | (34) | – | (34) |
| Recoveries | – | – | (43) | – | (43) |
| Write-offs | – | – | 42 | – | 42 |
| Effect from changes in exchange rates | – | – | – | – | – |
| **At 31 December 2018** | (453) | (48) | (184) | – | (685) |

| | | | *2019* | | |
|---|---|---|---|---|---|
| ***Other loans secured by collateral*** | ***Stage 1*** | ***Stage 2*** | ***Stage 3*** | ***POCI*** | ***Total*** |
| **Gross carrying value at 1 January 2019** | **99,135** | **6,816** | **66,365** | **6,723** | **179,039** |
| Acquisition of subsidiaries | **29,915** | **885** | **4,219** | **1,032** | **36,051** |
| New assets originated or purchased | **64,540** | | | **12,560** | **77,100** |
| Assets derecognised or repaid (excluding write-offs) | **(66,004)** | **(2,363)** | **(8,816)** | **(7,547)** | **(84,730)** |
| Transfers to Stage 1 | **2,894** | **(1,798)** | **(1,096)** | **–** | **–** |
| Transfers to Stage 2 | **(6,803)** | **7,608** | **(805)** | **–** | **–** |
| Transfers to Stage 3 | **(1,938)** | **(4,543)** | **6,481** | **–** | **–** |
| Net change in accrued interest | **2,820** | **196** | **1,285** | **391** | **4,692** |
| Unwinding of discount | **–** | **–** | **2,711** | **–** | **2,711** |
| Recoveries | **–** | **–** | **6,455** | **–** | **6,455** |
| Write-offs | **–** | **–** | **(18,071)** | **40** | **(18,031)** |
| Effect from changes in exchange rates | **(6)** | **–** | **(54)** | **–** | **(60)** |
| **At 31 December 2019** | **124,553** | **6,801** | **58,674** | **13,199** | **203,227** |

*(millions of tenge)*

## 16. Loans to customers (continued)

**Quality of individually insignificant loans (continued)**

*Analysis of movements in gross carrying value and ECL (continued)*

| | | | *2019* | | |
|---|---|---|---|---|---|
| ***Other loans secured by collateral*** | ***Stage 1*** | ***Stage 2*** | ***Stage 3*** | ***POCI*** | ***Total*** |
| **ECL at 1 January 2019** | **(72)** | **(23)** | **(16,767)** | **453** | **(16,409)** |
| Acquisition of subsidiaries | **(4)** | **(9)** | **(222)** | **–** | **(235)** |
| New assets originated or purchased | **(287)** | **–** | **–** | **–** | **(287)** |
| Assets derecognised or repaid (excluding write-offs) | **270** | **27** | **6,802** | **69** | **7,168** |
| Transfers to Stage 1 | **(98)** | **41** | **57** | **–** | **–** |
| Transfers to Stage 2 | **17** | **(80)** | **63** | **–** | **–** |
| Transfers to Stage 3 | **24** | **55** | **(79)** | **–** | **–** |
| Impact on period end ECL of exposures transferred between stages and changes to inputs used for ECL calculations during the period | **18** | **(39)** | **(15,392)** | **1,279** | **(14,134)** |
| Unwinding of discount | **–** | **–** | **(2,711)** | **–** | **(2,711)** |
| Recoveries | **–** | **–** | **(6,455)** | **–** | **(6,455)** |
| Write-offs | **–** | **–** | **18,071** | **(40)** | **18,031** |
| Effect from changes in exchange rates | **–** | **–** | **70** | **–** | **70** |
| **At 31 December 2019** | **(132)** | **(28)** | **(16,563)** | **1,761** | **(14,962)** |

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

| | | | *2018* | | |
|---|---|---|---|---|---|
| ***Other loans secured by collateral*** | ***Stage 1*** | ***Stage 2*** | ***Stage 3*** | ***POCI*** | ***Total*** |
| **Gross carrying value at 1 January 2018** | 106,124 | 10,230 | 74,464 | 5,919 | 196,737 |
| New assets originated or purchased | 34,109 | – | – | 1,120 | 35,229 |
| Assets derecognised or repaid (excluding write-offs) | (18,841) | (2,897) | (37,120) | (493) | (59,351) |
| Transfers to Stage 1 | 2,278 | (2,278) | – | – | – |
| Transfers to Stage 2 | (24,886) | 25,497 | (611) | – | – |
| Transfers to Stage 3 | – | (23,744) | 23,744 | – | – |
| Net change in accrued interest | – | (5) | 4,654 | 177 | 4,826 |
| Recoveries | – | – | 11,058 | – | 11,058 |
| Write-offs | – | – | (15,040) | – | (15,040) |
| Effect from changes in exchange rates | 351 | 13 | 5,216 | – | 5,580 |
| **At 31 December 2018** | 99,135 | 6,816 | 66,365 | 6,723 | 179,039 |

*(millions of tenge)*

## 16. Loans to customers (continued)

### Quality of individually insignificant loans (continued)

*Analysis of movements in gross carrying value and ECL (continued)*

| | 2018 | | | | |
|---|---|---|---|---|---|
| ***Other loans secured by collateral*** | ***Stage 1*** | ***Stage 2*** | ***Stage 3*** | ***POCI*** | ***Total*** |
| **ECL at 1 January 2018** | (73) | (46) | (15,427) | – | (15,546) |
| New assets originated or purchased | (1,079) | – | – | – | (1,079) |
| Assets derecognised or repaid (excluding write-offs) | 676 | 93 | 16,297 | – | 17,066 |
| Transfers to Stage 1 | (21) | 21 | – | – | – |
| Transfers to Stage 2 | 639 | (672) | 33 | – | – |
| Transfers to Stage 3 | – | 722 | (722) | – | – |
| Impact on period end ECL of exposures transferred between stages and changes to inputs used for ECL calculations during the period | (214) | (141) | (18,254) | 453 | (18,156) |
| Unwinding of discount | – | – | (2,236) | – | (2,236) |
| Recoveries | – | – | (11,058) | – | (11,058) |
| Write-offs | – | – | 15,040 | – | 15,040 |
| Effect from changes in exchange rates | – | – | (440) | – | (440) |
| **At 31 December 2018** | (72) | (23) | (16,767) | 453 | (16,409) |

The table below includes an analysis of non-performing loans presented at stage 3 and POCI loans:

| | ***31 December 2019*** | ***31 December 2018*** |
|---|---|---|
| **Stage 3 and POCI** | | |
| Non-performing loans not overdue | **12,309** | 10,426 |
| Non-performing loans overdue and restructured loans | **60,933** | 68,859 |
| Other impaired loans | **102,791** | 112,644 |
| | **176,033** | 191,929 |
| ECL allowance | **(63,493)** | (67,458) |
| | **112,540** | 124,471 |

Non-performing loans in the table above include loans that were non-performing as at 1 October 2014 and are in the work of the Bank's division of problem loans.

The amount of undiscounted ECL at initial recognition on purchased credit-impaired loans and advances to customers that were initially recognised during the year ended 31 December 2019 and 2018 was as follows:

| | ***2019*** | ***2018*** |
|---|---|---|
| Individually insignificant corporate loans | **–** | 16 |
| Mortgage loans | **626** | 1,511 |
| Other loans secured by collateral | **1,101** | 1,855 |
| **Total undiscounted ECL at initial recognition of POCI** | **1,727** | 3,382 |

### Modified and restructured loans

The table below includes Stage 2 and 3 assets that were modified during the period, with the related modification loss suffered by the Group.

| | ***2019*** | ***2018*** |
|---|---|---|
| **Loans modified during the period** | | |
| Amortised cost before modification | **–** | 12,420 |
| Net modification loss not resulting in derecognition | **–** | (783) |

*(millions of tenge)*

## 16. Loans to customers (continued)

### Modified and restructured loans (continued)

*Analysis of collateral and other enhancements*

Individually significant corporate loans are subject to assessment and impairment testing on an individual basis. The creditworthiness of a corporate customer is generally the main indicator of the issued loan quality. However, collateral represents additional securities, and the Group generally asks corporate borrowers for its provision.

Guarantees and suretyship from individuals including shareholders of borrowers represented by small and medium-sized businesses are not taken into account in impairment assessment. Recoverability of neither past due nor individually impaired loans mainly depends on creditworthiness of the borrower rather than on value of collateral.

For certain mortgage loans and other loans to individuals, the Group updates the estimated values of collateral obtained at inception of the loan to the current values considering the approximate changes in property values. The Group may also carry out a specific individual valuation of collateral at each reporting date where indications of impairments exist.

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.

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions – cash or securities;
- For commercial lending – real estate properties, inventory and trade receivables;
- For retail lending – residential properties.

As at 31 December 2019, loans net of ECL allowance with overdue over 90 days amount to KZT 80,961 million (as at 31 December 2018: KZT 102,267 million). As at 31 December 2019 total fair value of collateral held on such loans, limited to the gross value of the respective loans, was equal to KZT 121,345 million (as at 31 December 2018: KZT 139,834 million).

*Repossessed collateral*

During 2019, the Group repossessed collateral on loans to customers, represented by real estate, with a carrying amount totalling to KZT 12,592 million (2018: KZT 16,322 million) *(Note 19)*. The Group's policy assumes sale of these assets as soon as it is practicable.

### Concentration of loans to customers

As at 31 December 2019, the concentration of loans issued by the Group to the ten largest independent borrowers amounted to KZT 120,211 million or 14% of the total loan portfolio (as of 31 December 2018: KZT 140,662 million or 18.4% of the total loan portfolio). ECL allowance on these loans is KZT 1,201 million (as at 31 December 2018: KZT 2,199 million).

Loans were issued primarily to customers operating within the Republic of Kazakhstan in the following economic sectors:

| | *31 December 2019* | *31 December 2018* |
|---|---|---|
| Loans to retail customers | **470,138** | 395,030 |
| Metallurgy | **61,447** | 65,710 |
| Wholesale trading | **60,512** | 53,986 |
| Real estate activities | **50,495** | 59,870 |
| Services provided by small and medium businesses | **40,185** | 31,743 |
| Construction | **34,082** | 39,405 |
| Retail services | **33,624** | 22,928 |
| Food industry | **18,696** | 18,293 |
| Financial services | **15,748** | 13,093 |
| Transportation | **12,063** | 10,639 |
| Production of crude oil and natural gas | **6,763** | 6,402 |
| Textile production | **5,943** | 5,956 |
| Production of metal goods | **3,233** | 3,069 |
| Agriculture | **2,907** | 3,657 |
| Manufacturing | **2,429** | 3,042 |
| Chemical industry | **1,373** | 1,286 |
| Post and communication | **1,111** | 1,068 |
| Machine-engineering | **462** | 441 |
| Other | **36,143** | 27,180 |
| | **857,354** | 762,798 |
| ECL allowance | **(71,059)** | (73,153) |
| | **786,295** | 689,645 |

*(millions of tenge)*

## 17. Investment securities

Investment securities, including those pledged under repurchase agreements, comprise:

| | *31 December 2019* | *31 December 2018* |
|---|---|---|
| **Debt investment securities measured at amortised cost** | | |
| **Government bonds** | | |
| Treasury bills of the Ministry of Finance of the Republic of Kazakhstan rated BBB- | **19,398** | 15,703 |
| Bonds of foreign countries rated from BB- to BB+ | **771** | 776 |
| **Total government bonds** | **20,169** | 16,479 |
| | | |
| **Corporate bonds** | | |
| Rated from BBB- to BBB+ | **76,655** | – |
| Rated from BB- to BB+ | **160,266** | 160,369 |
| **Total corporate bonds** | **236,921** | 160,369 |
| | | |
| **Bonds of banks** | | |
| Rated from B- to B+ | **4,760** | 4,807 |
| **Total bonds of banks** | **4,760** | 4,807 |
| **Investment securities measured at amortised cost before ECL allowance** | **261,850** | 181,655 |
| | | |
| ECL allowance | **(808)** | (715) |
| **Investment securities measured at amortised cost** | **261,042** | 180,940 |
| | | |
| **Debt securities at FVOCI** | | |
| **Government bonds** | | |
| Treasury bills of the United States of America rated AAA | **–** | 19,185 |
| Notes of the NBRK rated BBB- | **265,726** | 121,320 |
| Treasury bills of the Ministry of Finance of the Republic of Kazakhstan rated BBB- | **90,793** | 85,848 |
| Bonds of the Sultanate of Oman rated BB | **1,156** | 4,756 |
| **Total government bonds** | **357,675** | 231,109 |
| | | |
| **Corporate bonds** | | |
| Rated from AA- to AA+ | **794** | 732 |
| Rated from BBB- to BBB+ | **36,517** | 92,072 |
| **Total corporate bonds** | **37,311** | 92,804 |
| | | |
| **Bonds of banks** | | |
| Rated from A- to A+ | **8,259** | 8,222 |
| Rated from BBB- to BBB+ | **18,723** | 18,460 |
| Rated from BB- to BB+ | **30,521** | 28,866 |
| Rated below B+ | **5,935** | 10,074 |
| **Total bonds of banks** | **63,438** | 65,622 |
| **Investment securities at FVOCI** | **458,424** | 389,535 |

*(millions of tenge)*

## 17. Investment securities (continued)

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

As at 31 December 2019, investment securities at FVOCI, represented by treasury bills of the Ministry of Finance of the Republic of Kazakhstan, notes of the NBRK and corporate bonds of "Mortgage organisation "Baspana" JSC with the fair value of KZT 44,238 million, KZT 59,667 million and KZT 15,185 million, respectively, were pledged under the repurchase agreements entered into at KASE *(Note 28)*.

As at 31 December 2018, treasury bills of the Ministry of Finance of the Republic of Kazakhstan with the fair value of KZT 57,994 million were pledged under the repurchase agreements entered into at KASE *(Note 28)*.

On 11 October 2018, the Group acquired bonds of NAC Kazatomprom JSC, indexed to the US Dollar and maturing on 11 November 2019 with a nominal value of KZT 70,000 million, which were sold in September 2019. In September 2019, the Group purchased new bonds of NAC Kazatomprom JSC indexed to the US Dollar and maturing on 27 October 2024 with a nominal value of KZT 70,000 million KZT and bearing a coupon of 4% per annum. The fair value of the bonds at initial recognition amounted to KZT 77,053 million measured using the effective interest rate of 1.89%. The net gain on initial recognition of bonds recognised in profit or loss amounted to KZT 7,053 million. The Group classified these bonds as investment securities measured at amortised cost.

On 25 September 2018 and 28 September 2018, the Group purchased corporate bonds of National Welfare Fund "Samruk Kazyna" JSC and "Kazakhstan Temir Zholy" JSC maturing on 15 November 2024 and classified as investment securities measured at amortised cost with fair value at initial recognition of KZT 75,274 million and KZT 75,275 million, respectively

Debt securities issued by the Group, which are held by NWF Samruk-Kazyna JSC *(Note 22)* with a total nominal value of KZT 220,000 million, act as a collateral for obligations to the Group on the above listed bonds.

*(millions of tenge)*

## 18. Property and equipment

The movements in property and equipment were as follows:

| | *Land* | *Buildings* | *Computers* | *Vehicles* | *Construction-in-progress and equipment for installation* | *Other* | *Right-of-use assets (Note 3)* | *Total* |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| **1 January 2018** | 1,754 | 32,681 | 3,177 | 397 | 4,160 | 21,709 | – | 63,878 |
| Additions | 11 | 2,717 | 804 | 51 | 7 | 3,317 | – | 6,907 |
| Transfers | – | 1,255 | – | – | (1,255) | – | – | – |
| Disposals | (151) | (902) | (590) | (41) | – | (4,582) | – | (6,266) |
| **31 December 2018** | 1,614 | 35,751 | 3,391 | 407 | 2,912 | 20,444 | – | 64,519 |
| Impact of adopting IFRS 16 *(Note 3)* | **–** | **–** | **–** | **–** | **–** | **–** | **6,764** | **6,764** |
| Acquisition through business combinations *(Note 5)* | **322** | **4,502** | **808** | **26** | **–** | **1,194** | **276** | **7,128** |
| Additions | **1,213** | **5,359** | **1,362** | **56** | **4,519** | **6,018** | **1,219** | **19,746** |
| Transfers | **–** | **–** | **(115)** | **–** | **(195)** | **310** | **–** | **–** |
| Disposals | **(6)** | **(2,265)** | **(455)** | **(8)** | **–** | **(725)** | **(5,706)** | **(9,165)** |
| **31 December 2019** | **3,143** | **43,347** | **4,991** | **481** | **7,236** | **27,241** | **2,553** | **88,992** |
| **Accumulated depreciation** | | | | | | | | |
| **1 January 2018** | – | (2,299) | (1,911) | (231) | – | (10,428) | – | (14,869) |
| Depreciation charge | – | (866) | (422) | (51) | – | (2,248) | – | (3,587) |
| Disposals | – | 278 | 589 | 35 | – | 4,531 | – | 5,433 |
| **31 December 2018** | – | (2,887) | (1,744) | (247) | – | (8,145) | – | (13,023) |
| Impact of adopting IFRS 16 *(Note 3)* | **–** | **–** | **–** | **–** | **–** | **–** | **(1,311)** | **(1,311)** |
| Acquisition through business combinations *(Note 5)* | **–** | **(209)** | **(476)** | **(3)** | **–** | **(562)** | **(31)** | **(1,281)** |
| Depreciation charge | **–** | **(978)** | **(518)** | **(53)** | **–** | **(3,061)** | **(802)** | **(5,412)** |
| Disposals | **–** | **653** | **364** | **4** | **–** | **343** | **1,326** | **2,690** |
| **31 December 2019** | **–** | **(3,421)** | **(2,374)** | **(299)** | **–** | **(11,425)** | **(818)** | **(18,337)** |
| **Net book value** | | | | | | | | |
| **1 January 2018** | 1,754 | 30,382 | 1,266 | 166 | 4,160 | 11,281 | – | 49,009 |
| **31 December 2018** | 1,614 | 32,864 | 1,647 | 160 | 2,912 | 12,299 | – | 51,496 |
| **31 December 2019** | **3,143** | **39,926** | **2,617** | **182** | **7,236** | **15,816** | **1,735** | **70,655** |

*(millions of tenge)*

## 19. Other assets

Other assets comprise:

| | *31 December 2019* | *31 December 2018* |
|---|---|---|
| Other receivables from banking activities | **12,323** | 19,881 |
| Other receivables | **17,472** | 10,587 |
| | **29,795** | 30,468 |
| ECL allowance | **(3,014)** | (3,363) |
| **Other financial assets** | **26,781** | 27,105 |
| Repossessed collaterals | **59,684** | 65,774 |
| Prepayments and other receivables | **7,141** | 12,381 |
| Inventories held for sale | **5,648** | 4,566 |
| Prepaid taxes, other than corporate income tax | **2,630** | 3,303 |
| Investment property | **592** | 1,256 |
| Inventories | **624** | 687 |
| Other | **65** | 80 |
| | **76,384** | 88,047 |
| Provisions | **(122)** | (134) |
| **Other non-financial assets** | **76,262** | 87,913 |
| **Total other assets** | **103,043** | 115,018 |

In 2019, the Group took possession of collaterals with a total value of KZT 12,592 million (2018: KZT 16,322 million). Even though the Bank is currently working actively to dispose these assets, most of them have not been sold within short period of time. Management still intends to sell the repossessed collateral.

## 20. Current accounts and deposits of customers

Current accounts and deposits of customers comprise:

| | *31 December 2019* | *31 December 2018* |
|---|---|---|
| **Current accounts and demand deposits** | | |
| - Retail customers | **77,686** | 56,364 |
| - Corporate customers | **366,126** | 276,719 |
| **Time deposits** | | |
| - Retail customers | **502,476** | 439,744 |
| - Corporate customers | **326,046** | 237,853 |
| **Guarantee deposits** | | |
| - Retail customers | **23,538** | 15,642 |
| - Corporate customers | **41,077** | 49,306 |
| | **1,336,949** | 1,075,628 |
| **Held as collateral under letters of credit and guarantees *(Note 31)*** | **(1,689)** | (144) |

### Concentration of current accounts and deposits of customers

As at 31 December 2019 total amount of account balances of top 10 clients amounted to KZT 193,526 million or 14% of total current accounts and deposits of customers (as at 31 December 2018: KZT 226,872 million or 21%).

As at 31 December 2019 time deposits include deposits of individuals in the amount of KZT 245,716 million (as at 31 December 2018: KZT 213,259 million), which are guaranteed by KFGD on behalf of the government.

In accordance with the Kazakhstan Civil Code, the Bank is obliged to repay time deposits upon demand of a depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest is not paid or paid at considerably lower interest rate depending on the terms specified in the agreement.

*(millions of tenge)*

## 21. Amounts due to banks and other financial institutions

Amounts due to banks and other financial institutions include the following:

| | *31 December 2019* | *31 December 2019* |
|---|---|---|
| Loans from governmental organisations | **110,262** | 56,483 |
| Loans from other financial institutions | **7,543** | 14,946 |
| Current accounts and deposits of banks | **1** | 699 |
| | **117,806** | 72,128 |

As at 31 December 2019, loans from governmental organisations included loans from Entrepreneurship Development Fund "Damu" JSC and Kazakhstan Development Bank JSC in the amount of KZT 68,136 million and KZT 10,984 million, respectively (at 31 December 2018: KZT 22,840 million and KZT 9,683 million, respectively), as part of the state program to support small and medium-sized businesses by the banking sector. The loans are denominated in KZT, bear interest rates of 1.0-9.58% per annum and mature in 2020-2035.

As at 31 December 2019 loans from governmental organisations also include deposits in the amount of KZT 27,272 million (as at 31 December 2018: KZT 22,968 million) received from Kazakhstan Sustainability Fund JSC as part of the governmental program for refinancing of mortgage and housing loans to customers. The deposits are denominated in tenge, have an interest rate of 0.1-2.99% per annum (effective rate 13.2-14.5% per annum) and mature in 2038.

As at 31 December 2019 loans from other financial institutions include loans in the amount of KZT 3,267 million (as at 31 December 2018: KZT 10,653 million) received from European Bank for Reconstruction and Development as part of the program for supporting of investments in micro, small and medium businesses in the Republic of Kazakhstan and Women in Business program. The loans are denominated in tenge, bear interest rate of 7.95-9.50% per annum and mature in 2020.

## 22. Debt securities issued

Debt securities issued include the following:

| | *Maturity date* | *Coupon rate* | *31 December 2019* | *31 December 2018* |
|---|---|---|---|---|
| **Bonds denominated in US Dollars** | | | | |
| Eurobonds issued in 2019 | 2022 | 3.00% | **14,946** | – |
| Eurobonds issued in 2010 | 2022 | 14% | **13,757** | 12,765 |
| Bonds issued in 2019 | 2024 | 11.75% | **–** | 50,539 |
| | | | **28,703** | 63,304 |
| **Bonds denominated in tenge** | | | | |
| Bonds issued in 2018 | 2024 | 4.00% | **148,755** | 138,982 |
| Bonds issued in 2015 | 2025 | 10.13% | **47,813** | 47,306 |
| Bonds issued in 2010 | 2020 | 8% (1% + inflation index) | **3,992** | 3,992 |
| | | | **200,560** | 190,280 |
| | | | **229,263** | 253,584 |

In September 2018, the Bank issued debt securities with a total nominal value of KZT 220,000 million, coupon rate of 4% p.a. and maturity in 2024. The securities were acquired by National Welfare Fund Samruk-Kazyna in exchange for KZT 220,000 million deposit placed with the Bank on similar terms. The difference between carrying value of the abovementioned deposit and fair value of the bonds at initial recognition of KZT 9,160 million was recognised by the Group as net gain on derecognition of financial liabilities in the consolidated statement of comprehensive income.

In 2018 the Group redeemed bonds with the carrying value at the date of transaction amounted to KZT 10,242 million for KZT 10,870 million. Net loss on derecognition of the bonds amounted to KZT 628 million which was recognised in other expenses of the consolidated statement of comprehensive income.

On 15 December 2019, the Group redeemed Eurobonds issued in 2014 with a coupon rate of 11.75% per annum and maturity in 2024. The bonds were repaid in the amount of 108% of redeemed principal amount together with interest accrued but unpaid on the principal amount redeemed to, but excluding, the date fixed for redemption.

In August-December 2019, the Group issued debt securities with a total nominal value of KZT 14,768 million, a coupon rate of 3% per annum and maturity in 2022.

As at 31 December 2019, bonds denominated in tenge and issued in 2010 are secured by the Group's mortgage loans issued to customers with a total value of KZT 11,158 million (as at 31 December 2018: KZT 11,142 million).

*(millions of tenge)*

## 23. Subordinated debt

Subordinated debt comprises the following:

| | *31 December 2019* | *31 December 2018* |
|---|---|---|
| Subordinated debt securities issued | **22,648** | 22,648 |
| Long-term loans denominated in tenge | **1,919** | – |
| Long-term loans denominated in US Dollars | **364** | – |
| Debt component of preferred shares | **1,020** | – |
| | **25,951** | 22,648 |

As at 31 December 2019 and 31 December 2018, subordinated debt securities include subordinated bonds denominated in tenge, maturing in 2020-2031 with a fixed coupon rate of 8% per annum. The coupon is paid semi-annually.

In December 2010 the Group placed 1,000,000 preferred shares at the placement value of KZT 1,000 per share. These preferred shares do not have any voting rights unless payment of preferred dividends has been delayed for three months and carry a cumulative dividend of a minimum of 8% per annum, but not less than dividends on ordinary shares.

In accordance with IAS 32, if the non-redeemable preferred share establishes a contractual right to a dividend, it contains a financial liability in respect of the dividends, whereby the net present value of the obligation to distribute dividends is shown as a liability and the balance of the issue proceeds as equity. For the year ended 31 December 2019 and 2018, expenses on dividends accrued on preferred shares amounted to KZT 40 million and were classified as interest expenses in accordance with IAS 32.

## 24. Share capital

The number of authorised, issued and outstanding common shares and share capital as at 31 December 2019 and 2018 are as follows:

| | *31 December 2019* | *31 December 2018* |
|---|---|---|
| **Common shares** | | |
| Number of authorised shares | **150,003,000,000** | 150,003,000,000 |
| Number of issued shares | **92,387,104,089** | 92,387,104,089 |
| Number of re-acquired shares | **(2,893,522,817)** | (1,246,952,788) |
| Number of outstanding shares | **89,493,581,272** | 91,140,151,301 |
| **Total share capital, millions of tenge** | **328,377** | 331,504 |

Movements in outstanding, placed and fully paid shares were as follows:

| | *Number of common shares* | *Placement value of common shares* |
|---|---|---|
| **At 1 January 2019** | 91,140,151,301 | 331,504 |
| Repurchase of own shares | **(1,646,570,029)** | **(3,127)** |
| **At 31 December 2019** | **89,493,581,272** | **328,377** |
| | | |
| **At 1 January 2018** | 91,381,593,246 | 331,522 |
| Return of shares not claimed by creditors | (223,792,003) | – |
| Repurchase of own shares | (17,649,942) | (18) |
| **At 31 December 2018** | 91,140,151,301 | 331,504 |

In accordance with the decision of the shareholders dated 29 April 2019, the Bank declared dividends on common shares for the year ended 31 December 2018 in the amount of KZT 11,376 million.

The Bank declared dividends on common shares for the year ended 31 December 2017 in the amount of KZT 7,748 million.

*(millions of tenge)*

## 25. Earnings per share

The following table reflects net profit and share information used in the basic and diluted earnings per share computations:

| | *2019* | *2018* |
|---|---|---|
| Net profit | **42,233** | 29,038 |
| The weighted average number of common shares for the year | **90,212,217,439** | 91,155,112,522 |
| Basic and diluted earnings per share, in tenge | **0.47** | 0.32 |

As at 31 December 2019 and 2018, the Bank did not have any financial instruments diluting earnings per share.

## 26. Risk management

### Introduction

Risk management is inherent in the bank activities and is an essential element of the Group's operations. The major risks faced by the Group are those related to market risk, credit risk, liquidity risk and operational risks.

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

### Risk management structure

*Board of Directors*

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

*Management Board*

The Management Board is responsible for monitoring and implementation of risk mitigation measures and ensuring that the Group operates within the established risk parameters. The Head of Risk Service (Credit Risk Department and Collateral Department) is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. The Head of Risk Service reports directly to the Chairman of the Management Board and indirectly to the Board of Directors.

*Risk Committees*

Credit, market and liquidity risks, both at the portfolio and transactional levels are managed and controlled through a system of credit committees and the Asset and Liability Management Committee ("ALCO"). For improving the efficiency of decision-making process, the Group has established a hierarchy of credit committees depending on the type and amount of risk exposure.

*Credit Risk Department*

Both external and internal risk factors are identified and managed throughout the Group. Particular attention is given to identifying the full range of risk factors and determining the level of adequacy of the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Credit Risk Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their respective areas of expertise.

*Bank Treasury*

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

*Internal Audit*

Risk management processes throughout the Group are audited annually by the internal audit function that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

*(millions of tenge)*

## 26. Risk management (continued)

**Risk management structure (continued)**

*Risk measurement and reporting systems*

The Group'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 Group 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 Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information collected 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 risk committees, and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, 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 quarterly 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 Group.

For all levels throughout the Group, 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.

A daily briefing is given to the Management Board and all other relevant employees of the Group on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

*Risk mitigation*

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies and exposures arising from forecast transactions.

The Group actively uses collateral to reduce its credit risks.

*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 Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio.

### Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Group 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 Group 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 Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

*Credit-related commitments risks*

The Group makes available to its customers guarantees that may require that the Group make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Bank to similar risks to loans and the same control processes and policies mitigate these.

*(millions of tenge)*

## 26. Risk management (continued)

**Credit risk (continued)**

*Credit-related commitments risks (continued)*

The maximum exposure to credit risk for the components of the consolidated statement of financial position, 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 value represents the current credit risk exposure but not the maximum risk exposure that could arise in the future because of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown in *Note 16*.

*Impairment assessment*

The Group calculates ECL based on several probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. 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 exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

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 lender would expect to receive, including from the realisation of any 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 credit 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 represent 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 Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Group groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

Stage 1: When loans are first recognised, the Group recognises an allowance based on 12mECL.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECL.

Stage 3: Loans considered credit-impaired. The Group 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 interest revenue is subsequently recognised based on a credit-adjusted EIR. ECL are only recognised or released to the extent that there is a subsequent change in the lifetime expected credit losses.

*(millions of tenge)*

## 26. Risk management (continued)

**Credit risk (continued)**

*Definition of default and cure*

The Group considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due and more on its contractual payments.

As a part of a qualitative assessment of whether a customer is in default, the Group also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Group 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 borrower indicating default or near-default;
- The borrower is deceased;
- A covenant breach not waived by the Group;
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy, declared bankrupt by court decision or by the borrower itself;
- Debtor's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties;
- Debt was restructured due to worsening financial condition of the borrower;
- Transfer of the borrower to bad debt recovery division.

It is the Group's policy to consider a financial instrument as "cured" and therefore re-classified out of Stage 3 when none of the default criteria have been observed as of reporting date, subject to reduction of debt amount for this financial instrument or, in case of restructuring, at least twelve consecutive months passed after restructuring. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

*Internal rating and PD estimation process*

The Group Credit Risk Department operates its internal rating models. For borrowers of corporate business and small and medium-sized businesses, a single rating model is used. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information that could affect the borrower's behaviour. Where practical, they also build on information from the national and international external rating agencies. PDs, incorporating forward looking information and the IFRS 9 stage classification of the exposure, are assigned for each grade. This is repeated for each economic scenario as appropriate.

*Treasury and interbank relationships*

The Group's treasury and interbank relationships and counterparties comprise financial services institutions, banks, broker-dealers, exchanges and clearing-houses. For these relationships, the Group's Strategic Risk Department analyses publicly available information such as external ratings international rating agencies that are used for ECL estimation.

*Corporate and small business lending*

For corporate loans, the borrowers are assessed by Credit Risk Department of the Group. The credit risk assessment is based on a financial model that takes 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 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.

*(millions of tenge)*

## 26. Risk management (continued)

**Credit risk (continued)**

*Retail lending*

Retail lending comprises secured and unsecured loans to individuals and credit cards. These products are rated by an automated scorecard tool primarily driven by days past due. Other key inputs into the models are personal indebtedness, monthly loan payment to salary coefficient, for residential mortgages, loan-to-value ratios and the collateral value in the case of other loans secured by collateral.

*Exposure at default*

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential to reduce debt through repayments. To calculate the EAD for a Stage 1 loan, the Group assesses the possible default events within 12 months for the calculation of the 12mECL. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

The Group determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of Group's models.

The Group's product offering includes a variety of corporate and retail overdraft and credit cards facilities, in which the Group has the right to cancel and/or reduce the facilities with one day's notice. The Group does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Group's expectations of the customer behaviour, its likelihood of default and the Group's future risk mitigation procedures, which could include reducing or cancelling the facilities. The interest rate used to discount the ECLs for credit cards is based on the average effective interest rate that is expected to be charged over the expected period of exposure to the facilities.

*Loss given default*

For corporate lending, LGD values are assessed at least monthly by account managers and reviewed and approved by the Group's Credit Risk department.

The credit risk assessment is based on a standardised LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

The Group segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics.

Where appropriate, further recent data and forward-looking economic scenarios are used in order to determine the IFRS 9 LGD rate for each group of financial instruments. When assessing forward-looking information, the expectation is based on multiple scenarios. Examples of key inputs involve changes in, collateral values including property prices for mortgages, payment status or other factors that are indicative of losses in the group.

LGD rates are estimated for the Stage 1, Stage 2, Stage 3 and POCI segment of each asset class. The inputs for these LGD rates are estimated and, where possible, calibrated through back testing against recent recoveries.

*Significant increase in credit risk*

The Group 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 Group assesses whether there has been a significant increase in credit risk since initial recognition. Except for retail loans, the Group considers an exposure to have significantly increased in credit risk when there was a decrease in the borrower's rating compared to the rating at the time of initial recognition based on an analysis of the Group's statistics confirming the materiality of such a reduction in relation to the increase in credit risk.

The Group also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as deterioration of the Bank's communication with the borrower, which, in the Bank's opinion, may lead to difficulties in repaying the loan or granting a grace period of more than 1 month when the client contacts. In certain cases, the Group may also consider that events explained in "Definition of default" section above are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

*(millions of tenge)*

## 26. Risk management (continued)

**Credit risk (continued)**

*Grouping financial assets measured on a collective basis*

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

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

- All Stage 3 assets, regardless of the class of financial assets;
- Stage 2 and Stage 3 corporate lending portfolio;
- The large and unique exposures of the small business lending portfolio;
- The treasury and interbank relationships (such as amounts due from banks, cash equivalents and debt investment securities at amortised cost and FVOCI);
- Exposures that have been classified as POCI when the original loan was derecognised and a new loan was recognised as a result of a credit driven debt restructuring.

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

- The smaller and more generic balances of the Group's small business lending;
- Stage 1 and 2 retail mortgages and consumer lending and Stage 1 corporate lending portfolio;
- Purchased POCI exposures managed on a collective basis.

The Group groups these exposures into smaller homogeneous portfolios, based on a combination of internal and external characteristics of the loans, for example internal grade, overdue bucket, product type, loan-to-value ratios, or borrower's industry.

*Forward-looking information and multiple economic scenarios*

In its ECL models, the Group relies on a broad range of forward looking information as economic inputs, such as:

- GDP growth;
- Volume of oil and gas condensate production;
- Unemployment rates;
- Level of trading in retail industry;
- NBRK base rates;
- Inflation rates;
- Real wage index;
- Foreign exchange rates.

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally may be used as temporary adjustments when such differences are significantly material.

*(millions of tenge)*

## 26. Risk management (continued)

**Credit risk (continued)**

*Forward-looking information and multiple economic scenarios (continued)*

The Group obtains the forward-looking information from third party sources (external rating agencies, governmental bodies e.g. central banks, and international financial institutions). Experts of the Group's Credit Risk Department determine the weights attributable to the multiple scenarios. The tables show the values of the key forward looking economic variables/assumptions used in each of the economic scenarios for the ECL calculations.

| *Key drivers* | *ECL scenario* | *Assigned probabilities, %* | *2020* |
|---|---|---|---|
| **GDP growth, %** | | | |
| | Upside | 10% | 10.07% |
| | Base case | 80% | 7.35% |
| | Downside | 10% | 1.20% |
| **Index of physical volume of industrial production (in % to the previous year)** | | | |
| | Upside | 10% | 111.56% |
| | Base case | 80% | 105.00% |
| | Downside | 10% | 99.88% |
| **Volume of oil and gas condensate production (million tons)** | | | |
| | Upside | 10% | 73.58% |
| | Base case | 80% | 88.00% |
| | Downside | 10% | 45.12% |
| **Index of physical volume of gross output (services) of agriculture, as % of the previous year** | | | |
| | Upside | 10% | 115.32% |
| | Base case | 80% | 103.37% |
| | Downside | 10% | 91.66% |

*Credit quality per class of financial assets*

The credit quality of financial assets is managed by the Group by means of analysis of overdue days for loans, for other financial instruments – based on ratings assigned by international rating agencies according to the table below. Credit quality analysis is presented in notes of related financial assets *(Note 16)*.

| *Rating of external international rating agency (Moody's)* | *Rating of external international rating agency (Fitch)* | *Annual PD* |
|---|---|---|
| Aa1 to Aaa | AA+ to AAA | |
| Aa2 | AA | |
| A1 to Aa3 | A+ to AA- | 0.00-0.08% |
| A3 to A2 | A- to A | |
| Baa1 | BBB+ | |
| Baa2 | BBB | |
| Baa3 | BBB- | |
| Ba1 | BB+ | 0.06-0.48% |
| Ba3 to Ba2 | BB- to BB | |
| B3 to B1 | B- to B+ | |
| Caa2 to Caa1 | CCC to CCC+ | 1.51-5.08% |
| Ca to Caa3 | C to CCC- | 22.63-36.43% |
| Default | D | 100% |

*(millions of tenge)*

## 26. 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 prices. Market risks comprise currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices and marker exchange rates.

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

Overall authority for market risk is vested in the ALCO. Market risk limits are approved by the ALCO based on recommendations of the Market Risk Management Division of the Credit Risk Department and subsequently agreed by the Board of Directors.

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

In addition, the Group uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by the Group include risk factor stress testing, where stress movements are applied to each risk category, and ad hoc stress testing, which includes applying possible stress events to specific positions.

Interest rate risk is also managed by monitoring the interest rate gap and is supplemented by monitoring the sensitivity of net interest margin to various standard and non-standard interest rate movements scenarios.

*Interest rate risk*

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

*Interest rate revision analysis*

Interest rate risk is managed principally through monitoring interest rate gaps. As the majority of the financial instruments bear fixed interest rates the interest gap analysis is similar to the maturity analysis.

*Interest rate sensitivity analysis*

The management of interest rate risk, based on an interest rate gap analysis, is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of the sensitivity of net profit and equity to changes in interest rates (repricing risk), based on a simplified scenario of a 100 basis points symmetrical fall or 300 basis points rise in yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2019 and 2018 is as follows:

| | ***2019*** | ***2018*** |
|---|---|---|
| | ***Effect on profit*** | ***Effect on profit*** |
| Decrease by 100 basis points | **5,276** | 3,430 |
| Increase by 300 basis points | **(15,828)** | (10,291) |

An analysis of the sensitivity of net profit or loss and equity as a result of changes in fair value of financial instruments at fair value through profit or loss and debt securities at FVOCI due to changes in interest rates based on positions existing as at 31 December 2019 and 2018 and a simplified scenario of a 100 basis points symmetrical fall or 300 basis points rise in yield curves is as follows:

| | ***2019*** | | ***2018*** | |
|---|---|---|---|---|
| | ***Effect on profit*** | ***Effect on other comprehensive income*** | ***Effect on profit*** | ***Effect on other comprehensive income*** |
| Decrease by 100 basis points | **135** | **5,273** | 289 | 6,989 |
| Increase by 300 basis points | **(378)** | **(15,122)** | (798) | (17,725) |

*(millions of tenge)*

## 26. Risk management (continued)

**Market risk (continued)**

*Currency risk*

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

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. Despite the fact that the Group hedges its exposure to currency risk, such transactions do not qualify as hedging relationships in accordance with IFRS.

The following table shows financial assets and liabilities by foreign currencies:

| *At 31 December 2019* | *Tenge* | *US Dollar* | *Euro* | *Other currencies* | *Total* |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | **258,930** | **66,766** | **17,416** | **4,130** | **347,242** |
| Amounts due from financial institutions | **18,134** | **10,071** | **–** | **–** | **28,205** |
| Trading securities | **1,440** | **5,012** | **–** | **–** | **6,452** |
| Loans to customers | **674,234** | **110,384** | **68** | **382** | **785,068** |
| Investment securities | **490,431** | **213,843** | **15,192** | **–** | **719,466** |
| Other financial assets | **21,091** | **5,626** | **60** | **4** | **26,781** |
| **Total financial assets** | **1,464,260** | **411,702** | **32,736** | **4,516** | **1,913,214** |
| **Liabilities** | | | | | |
| Current accounts and deposits of customers | **740,248** | **559,209** | **32,455** | **5,037** | **1,336,949** |
| Amounts due to banks and other financial institutions | **113,531** | **4,275** | **–** | **–** | **117,806** |
| Amounts payable under repurchase agreements | **116,741** | **–** | **–** | **–** | **116,741** |
| Debt securities issued | **200,560** | **28,703** | **–** | **–** | **229,263** |
| Subordinated debt | **25,587** | **364** | **–** | **–** | **25,951** |
| Other financial liabilities | **8,432** | **551** | **88** | **24** | **9,095** |
| **Total financial liabilities** | **1,205,099** | **593,102** | **32,543** | **5,061** | **1,835,805** |
| **Net position** | **259,161** | **(181,400)** | **193** | **(545)** | **77,409** |
| Impact of derivative instruments held for the purpose of risk management | **(171,124)** | **175,506** | **–** | **(4,384)** | **(2)** |
| **Net position adjusted for impact of derivative instruments held for the purpose of risk management** | **88,037** | **(5,894)** | **193** | **(4,929)** | **77,407** |

*(millions of tenge)*

## 26. Risk management (continued)

**Market risk (continued)**

*Currency risk (continued)*

| *At 31 December 2018* | *Tenge* | *US Dollar* | *Euro* | *Other currencies* | *Total* |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | 110,432 | 94,480 | 16,671 | 3,564 | 225,147 |
| Amounts due from financial institutions | 5,431 | 14,280 | – | – | 19,711 |
| Trading securities | 1,465 | 8,046 | – | – | 9,511 |
| Loans to customers | 533,186 | 155,976 | 72 | 411 | 689,645 |
| Investment securities | 326,553 | 240,376 | 3,546 | – | 570,475 |
| Other financial assets | 26,429 | 622 | 53 | 1 | 27,105 |
| **Total financial assets** | 1,003,496 | 513,780 | 20,342 | 3,976 | 1,541,594 |
| **Liabilities** | | | | | |
| Current accounts and deposits of customers | 553,398 | 498,058 | 20,305 | 3,867 | 1,075,628 |
| Amounts due to banks and other financial institutions | 67,136 | 4,978 | 14 | – | 72,128 |
| Amounts payable under repurchase agreements | 56,392 | – | – | – | 56,392 |
| Debt securities issued | 190,280 | 63,304 | – | – | 253,584 |
| Subordinated debt | 22,648 | – | – | – | 22,648 |
| Other financial liabilities | 5,474 | 430 | 135 | 20 | 6,059 |
| **Total financial liabilities** | 895,328 | 566,770 | 20,454 | 3,887 | 1,486,439 |
| **Net position** | 108,168 | (52,990) | (112) | 89 | 55,155 |
| Impact of derivative instruments held for the purpose of risk management | (48,353) | 48,870 | – | – | 517 |
| **Net position adjusted for impact of derivative instruments held for the purpose of risk management** | 59,815 | (4,120) | (112) | 89 | 55,672 |

The tables below indicate the currencies to which the Group had significant exposure at 31 December on its non-trading monetary assets and liabilities and its forecast cash flows. This analysis was made on a before tax basis and is based on foreign currency exchange rate movements that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. Negative amounts in the table reflect a potential net reduction in profit or equity, while a positive amount reflects a net potential increase.

| | *2019* | | *2018* | |
|---|---|---|---|---|
| *Currency* | *Increase in currency rate, %* | *Effect on profit before tax* | *Increase in currency rate, %* | *Effect on profit before tax* |
| US Dollar | **12** | **(707)** | 14 | (577) |
| Euro | **12** | **23** | 14 | (16) |

| | *2019* | | *2018* | |
|---|---|---|---|---|
| *Currency* | *Decrease in currency rate, %* | *Effect on profit before tax* | *Decrease in currency rate, %* | *Effect on profit before tax* |
| US Dollar | **(9)** | **531** | (10) | 412 |
| Euro | **(9)** | **(17)** | (10) | 11 |

*(millions of tenge)*

## 26. Risk management (continued)

### Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or can lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access rights, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

### Liquidity risk

Liquidity risk is the risk that the Group may encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity risk management. Due to diversity of transactions and a related uncertainty, exact matching of maturities of assets and liabilities is not a usual practice for financial institutions. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

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

The Group seeks to actively support a diversified and stable funding base comprising issued debt securities, long-term and short-term loans from other banks, deposits of the main corporate customers and individuals as well as diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements. The liquidity risk management includes the following procedures:

- Projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- Maintaining a diverse range of funding sources;
- Managing the concentration and profile of debts;
- Maintaining debt financing plans;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against liquidity gaps;
- Maintaining liquidity and funding contingency plans;
- Monitoring compliance with liquidity ratios implied by regulatory requirements.

The Treasury of the Bank receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of projected cash flows arising from future business. The Treasury then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The daily liquidity position is monitored by the Treasury and regular liquidity stress testing under a variety of scenarios covering both normal and more unfavourable market conditions is performed by the Credit Risk Department. Under normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a monthly basis. Decisions on liquidity management are made by the ALCO and implemented by the Treasury.

*(millions of tenge)*

## 26. Risk management (continued)

**Liquidity risk (continued)**

The following tables show the undiscounted contractual cash flows on financial assets, liabilities and credit-related commitments on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial assets, liabilities or credit related commitments. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee can be called.

The maturity analysis for financial assets and liabilities and contingent and contractual liabilities based on undiscounted contractual cash flows as at 31 December 2019 is as follows:

| | *On demand and less than 1 month* | *From 1 to 3 months* | *From 3 to 12 months* | *From 1 to 5 years* | *More than 5 years* | *Without maturity* | *Total* | *Carrying amount* |
|---|---|---|---|---|---|---|---|---|
| **Non-derivative financial assets** | | | | | | | | |
| Cash and cash equivalents | 347,547 | – | – | – | – | – | 347,547 | 347,242 |
| Amounts due from financial institutions | 6,297 | – | 6,634 | 4,815 | 10,632 | – | 28,378 | 28,205 |
| Trading securities | 6,452 | – | 133 | 533 | – | – | 7,118 | 6,452 |
| Loans to customers | 107,026 | 58,912 | 236,478 | 919,597 | 223,522 | – | 1,545,535 | 785,068 |
| Investment securities | 91,667 | 57,951 | 196,106 | 429,977 | 67,143 | – | 842,844 | 719,466 |
| Other financial assets | 1,495 | 46 | 7,891 | 17,508 | 10 | – | 26,950 | 26,781 |
| **Total non-derivative financial assets** | 560,484 | 116,909 | 447,242 | 1,372,430 | 301,307 | – | 2,798,372 | 1,913,214 |
| **Non-derivative financial liabilities** | | | | | | | | |
| Current accounts and deposits of customers | (647,296) | (86,134) | (464,115) | (165,053) | (18,802) | – | (1,381,400) | (1,336,949) |
| Amounts due to banks and other financial institutions | (76) | (1,947) | (47,325) | (13,230) | (82,430) | – | (145,008) | (117,806) |
| Amounts payable under repurchase agreements | (116,936) | – | – | – | – | – | (116,936) | (116,741) |
| Debt securities issued | (2,530) | (4,197) | (4,582) | (218,117) | (55,123) | – | (284,549) | (229,263) |
| Subordinated debt | (71) | (59) | (3,966) | (12,385) | (23,718) | (1,000) | (41,199) | (25,951) |
| Other financial liabilities | (6,602) | (30) | (385) | (2,061) | (145) | – | (9,223) | (9,095) |
| **Total non-derivative financial liabilities** | (773,511) | (92,367) | (520,373) | (410,846) | (180,218) | (1,000) | (1,978,315) | (1,835,805) |
| **Net liquidity gap on financial assets and financial liabilities** | (213,027) | 24,542 | (73,131) | 961,584 | 121,089 | (1,000) | 820,057 | – |
| **Contingent liabilities** | 7,115 | 4,919 | 17,599 | 14,915 | 94 | – | 44,642 | |

In accordance with Kazakhstan legislation, depositors can withdraw their term deposits at any time, losing in most of the cases the right to receive the accrued interest income. The Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay. Accordingly, in the above table, deposits of individuals are presented in accordance with contractual terms with consideration of this assumption.

*(millions of tenge)*

## 26. Risk management (continued)

**Liquidity risk (continued)**

Management expects that the repayment of liabilities and disposal of assets may be different from their contractual terms either because management has the discretionary ability to manage the cash flows or because past experience indicates that cash flows on these financial assets and liabilities may differ from contractual terms.

The maturity analysis for financial assets and liabilities and contingent and contractual liabilities based on undiscounted contractual cash flows as at 31 December 2018 is as follows:

| | *On demand and less than 1 month* | *From 1 to 3 months* | *From 3 to 12 months* | *From 1 to 5 years* | *More than 5 years* | *Without maturity* | *Total* | *Carrying amount* |
|---|---|---|---|---|---|---|---|---|
| **Non-derivative financial assets** | | | | | | | | |
| Cash and cash equivalents | 225,147 | – | – | – | – | – | 225,147 | 225,147 |
| Amounts due from financial institutions | 1,496 | – | 5,054 | 10,483 | 2,849 | – | 19,882 | 19,711 |
| Trading securities | 9,511 | – | 224 | 1,344 | – | – | 11,079 | 9,511 |
| Loans to customers | 111,536 | 50,517 | 203,826 | 749,830 | 204,452 | – | 1,320,161 | 689,645 |
| Investment securities | 86,423 | 13,063 | 151,674 | 137,609 | 247,769 | – | 636,538 | 570,475 |
| Other financial assets | 1,525 | 505 | 18,557 | 10,020 | 3,427 | – | 34,034 | 27,105 |
| **Total non-derivative financial assets** | 435,638 | 64,085 | 379,335 | 909,286 | 458,497 | – | 2,246,841 | 1,541,594 |
| | | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | | |
| Current accounts and deposits of customers | (477,674) | (48,165) | (360,225) | (176,480) | (59,408) | – | (1,121,952) | (1,075,628) |
| Amounts due to banks and other financial institutions | (946) | (2,620) | (9,068) | (15,059) | (62,571) | – | (90,264) | (72,128) |
| Amounts payable under repurchase agreements | (56,439) | – | – | – | – | – | (56,439) | (56,392) |
| Debt securities issued | (1,515) | (156) | (21,538) | (115,603) | (214,435) | – | (353,247) | (253,584) |
| Subordinated debt | (25) | – | (1,674) | (14,226) | (18,754) | – | (34,679) | (22,648) |
| Other financial liabilities | (5,997) | (30) | (16) | (14) | (2) | – | (6,059) | (6,059) |
| **Total non-derivative financial liabilities** | (542,596) | (50,971) | (392,521) | (321,382) | (355,170) | – | (1,662,640) | (1,486,439) |
| **Net liquidity gap on financial assets and financial liabilities** | (106,958) | 13,114 | (13,186) | 587,904 | 103,327 | – | 584,201 | 55,155 |
| **Contingent liabilities** | (4,900) | (3,960) | (6,400) | (18,215) | (110) | – | (33,585) | |

*(millions of tenge)*

## 27. Maturity analysis of assets and liabilities

The following table shows the expected maturities of assets and liabilities as at 31 December 2019 and 2018:

| *At 31 December 2019* | *Less than 1 month* | *From 1 to 3 months* | *From 3 to 12 months* | *From 1 to 5 years* | *Over 5 years* | *Without maturity* | *Overdue* | *Total* |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Cash and cash equivalents | 347,242 | – | – | – | – | – | – | 347,242 |
| Amounts due from financial institutions | 6,297 | – | 6,461 | 4,815 | 9,856 | 776 | – | 28,205 |
| Trading securities | 6,452 | – | – | – | – | – | – | 6,452 |
| Loans to customers | 37,577 | 41,018 | 151,651 | 403,488 | 84,602 | – | 66,732 | 785,068 |
| Investment securities | 91,056 | 56,569 | 171,289 | 347,439 | 53,113 | – | – | 719,466 |
| Property and equipment | – | – | – | – | – | 70,655 | – | 70,655 |
| Intangible assets | – | – | – | – | – | 9,839 | – | 9,839 |
| Deferred tax assets | – | – | – | – | – | – | – | – |
| Other assets | 4,711 | 405 | 78,899 | 16,286 | 685 | 1,729 | 328 | 103,043 |
| **Total assets** | 493,335 | 97,992 | 408,300 | 772,028 | 148,256 | 82,999 | 67,060 | 2,069,970 |
| **Liabilities** | | | | | | | | |
| Current accounts and deposits of customers | (644,666) | (81,500) | (450,883) | (143,558) | (16,342) | – | – | (1,336,949) |
| Amounts due to banks and other financial institutions | (37) | (2,206) | (43,224) | (6,193) | (66,146) | – | – | (117,806) |
| Amounts payable under repurchase agreements | (116,741) | – | – | – | – | – | – | (116,741) |
| Debt securities issued | (2,152) | (3,992) | (545) | (176,912) | (45,662) | – | – | (229,263) |
| Deferred tax liabilities | – | – | – | (1,621) | – | – | – | (1,621) |
| Subordinated debt | (71) | (40) | (2,432) | (5,988) | (16,420) | (1,000) | – | (25,951) |
| Other liabilities | (9,885) | (84) | (1,072) | (1,582) | – | (27) | (37) | (12,687) |
| **Total liabilities** | (773,552) | (87,822) | (498,156) | (335,854) | (144,570) | (1,027) | (37) | (1,841,018) |
| **Net position** | (280,217) | 10,170 | (89,856) | 436,174 | 3,686 | 81,972 | 67,023 | 228,952 |
| **Net accumulated position** | (280,216) | (270,046) | (359,902) | 76,272 | 79,958 | 161,930 | 228,953 | |

*(millions of tenge)*

## 27. Maturity analysis of assets and liabilities (continued)

| *At 31 December 2018* | *Less than 1 month* | *From 1 to 3 months* | *From 3 to 12 months* | *From 1 to 5 years* | *Over 5 years* | *Without maturity* | *Overdue* | *Total* |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Cash and cash equivalents | 225,147 | – | – | – | – | – | – | 225,147 |
| Amounts due from financial institutions | 1,496 | – | 4,884 | 10,482 | 2,849 | – | – | 19,711 |
| Trading securities | 9,511 | – | – | – | – | – | – | 9,511 |
| Loans to customers | 23,491 | 36,931 | 139,025 | 335,295 | 70,394 | – | 84,509 | 689,645 |
| Investment securities | 86,152 | 12,770 | 131,920 | 110,316 | 229,317 | – | – | 570,475 |
| Property and equipment | – | – | – | – | – | 51,496 | – | 51,496 |
| Intangible assets | – | – | – | – | – | 5,441 | – | 5,441 |
| Deferred tax assets | – | – | – | 2,279 | – | – | – | 2,279 |
| Other assets | 15,262 | 807 | 89,770 | 5,696 | 3,427 | – | 56 | 115,018 |
| **Total assets** | 361,059 | 50,508 | 365,599 | 464,068 | 305,987 | 56,937 | 84,565 | 1,688,723 |
| **Liabilities** | | | | | | | | |
| Current accounts and deposits of customers | (475,408) | (43,686) | (346,375) | (155,623) | (54,536) | – | – | (1,075,628) |
| Amounts due to banks and other financial institutions | (753) | (2,394) | (7,708) | (9,455) | (51,818) | – | – | (72,128) |
| Amounts payable under repurchase agreements | (56,392) | – | – | – | – | – | – | (56,392) |
| Debt securities issued | (1,135) | (91) | (8,510) | (45,370) | (198,478) | – | – | (253,584) |
| Deferred tax liabilities | – | – | – | (183) | – | – | – | (183) |
| Subordinated debt | (25) | – | (229) | (8,189) | (14,205) | – | – | (22,648) |
| Other liabilities | (6,816) | (30) | (52) | (581) | (3) | – | (39) | (7,521) |
| **Total liabilities** | (540,529) | (46,201) | (362,874) | (219,401) | (319,040) | – | (39) | (1,488,084) |
| **Net position** | (179,470) | 4,307 | 2,725 | 244,667 | (13,053) | 56,937 | 84,526 | 200,639 |
| **Net accumulated position** | (179,470) | (175,163) | (172,438) | 72,229 | 59,176 | 116,113 | 200,639 | |

*(millions of tenge)*

## 28. Offsetting of financial instruments

Disclosures in the tables below include information on financial assets and financial liabilities, which:

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

Similar financial instruments include derivative financial assets, sales and repurchase agreements, reverse sale and repurchase agreements and securities borrowing and lending agreements. Financial instruments such as loans and deposits are not disclosed in the table below, unless they are offset in the consolidated statement of financial position.

The Group receives and accepts collateral in the form of cash and marketable securities in respect of the repurchase and reverse repurchase agreements. Such collateral is subject to the standard industry terms of the ISDA Credit Support Annex. This means that securities received/given as collateral can be pledged or sold during the term of the transaction but must be returned before maturity of the transaction. The terms also give each counterparty the right to terminate the related transactions upon the counterparty's failure to post collateral.

As at 31 December 2019 the Group has amounts payable under repurchase agreements for KZT 116,741 million, which were collateralised by investment securities with fair value of KZT 119,090 million (treasury bills of the Ministry of Finance, notes of NBRK and corporate bonds of "Mortgage organisation "Baspana" with fair value KZT 44,238 million, KZT 59,667 million and KZT 15,185 million, correspondingly) *(Note 17)*.

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2019.

| *At 31 December 2019* | *Gross amount of recognised financial liabilities* | *Gross amount of recognised financial assets offset in the consolidated statement of financial position* | *Net amount of financial liabilities presented in the consolidated statement of financial position* | *Related amounts not offset in the consolidated statement of financial position: Financial instruments* | *Net amount* |
|---|---|---|---|---|---|
| Amounts receivable under repurchase agreements *(Note 13)* | **55,440** | **–** | **55,440** | **(56,857)** | **(1,417)** |
| Amounts payable under repurchase agreements *(Note 17)* | **(116,741)** | **–** | **(116,741)** | **119,090** | **2,349** |
| | **(61,301)** | **–** | **(61,301)** | **62,233** | **932** |

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2018:

| *At 31 December 2018* | *Gross amount of recognised financial liabilities* | *Gross amount of recognised financial assets offset in the consolidated statement of financial position* | *Net amount of financial liabilities presented in the consolidated statement of financial position* | *Related amounts not offset in the consolidated statement of financial position: Financial instruments* | *Net amount* |
|---|---|---|---|---|---|
| Amounts receivable under repurchase agreements *(Note 13)* | 78,317 | – | 78,317 | (79,739) | (1,422) |
| Amounts payable under repurchase agreements *(Note 17)* | (56,392) | – | (56,392) | 57,994 | 1,602 |
| | 21,925 | – | 21,925 | (21,745) | 180 |

*(millions of tenge)*

## 29. Changes in liabilities arising from financing activities

| | *Notes* | *Debt securities issued* | *Subordinated debt* | *Total liabilities from financing activities* |
|---|---|---|---|---|
| **Carrying amount at 31 December 2017** | | 125,121 | 22,740 | 147,861 |
| Proceeds from issue | | 220,154 | – | 220,154 |
| Repurchase | | (10,870) | – | (10,870) |
| Loss on repurchase | 11 | 628 | – | 628 |
| Redemption | | (7,903) | – | (7,903) |
| Interest accrual | | 18,077 | 1,792 | 19,869 |
| Interest payment | | (16,968) | (1,884) | (18,852) |
| Foreign currency translation | | 10,542 | – | 10,542 |
| Discount | | (83,705) | – | (83,705) |
| Proceeds from return of instruments unclaimed by creditors | | (1,492) | – | (1,492) |
| **Carrying amount at 31 December 2018** | | 253,584 | 22,648 | 276,232 |
| Acquisition of subsidiaries | 5 | **–** | **3,277** | **3,277** |
| Proceeds from issue | | **14,992** | **–** | **14,992** |
| Repurchase | | **(4)** | **–** | **(4)** |
| Loss on repurchase | 11 | **1,282** | **–** | **1,282** |
| Redemption | | **(51,005)** | **–** | **(51,005)** |
| Interest accrual | | **24,531** | **2,030** | **26,561** |
| Interest payment | | **(23,570)** | **(1,999)** | **(25,569)** |
| Foreign currency translation | | **135** | **(5)** | **130** |
| Discount | | **9,318** | **–** | **9,318** |
| Proceeds from return of instruments unclaimed by creditors | | **–** | **–** | **–** |
| **Carrying amount at 31 December 2019** | | **229,263** | **25,951** | **255,214** |

The Group classifies interest paid as cash flows from operating activities.

## 30. Capital management

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

As at 31 December 2019 and 2018, the Bank had complied in full with all its externally imposed capital requirements.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and 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 sets and monitors capital requirements for the Bank.

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

- A ratio of core capital to the sum of credit risk weighted assets and contingent liabilities, market risk and a quantitative measure of operating risk weighted assets and contingent liabilities (k1) in the value not less than 5.5%;
- A ratio of tier 1 capital less investments to the sum of credit risk-weighted assets and contingent liabilities, market risk and a quantitative measure of operational risk weighted assets, contingent assets and liabilities (k1.2) in the value not less than 6.5%;
- A ratio of own capital to the sum of credit risk weighted assets and contingent liabilities, market risk and a quantitative measure of operating risk weighted assets and contingent liabilities (k2) in the value not less than 8%.

Investments for the purposes of calculation of the above ratios represent investments into share capital (interest in the charter capital) of a legal entity and subordinated debt of a legal entity if their total exceeds 10% of the total of tier 1 and tier 2 capital of the Bank.

*(millions of tenge)*

## 30. Capital management (continued)

The following table shows the composition of the Bank's capital position calculated in accordance with the NBRK requirements as at 31 December 2019 and 2018:

| | *31 December 2019* | *31 December 2018* |
|---|---|---|
| Tier 1 capital | **212,322** | 185,528 |
| Tier 2 capital | **16,601** | 18,238 |
| Deduction of regulatory provisions from capital | **–** | (61) |
| **Total regulatory capital** | **228,923** | 203,705 |
| Risk-weighted statutory assets, contingent liabilities, operational and market risk | **1,251,120** | 1,142,057 |
| Ratio k1 | **17.0%** | 16.2% |
| Ratio k1.2 | **17.0%** | 16.2% |
| Ratio k.2 | **18.3%** | 17.8% |

In February 2020 the Group's asset quality review as at 1 April 2019 initiated by the NBRK was completed. As at the date of this review, the Group had the capacity of its own capital taking into account the results of the review.

## 31. Commitments and contingencies

### Political and economic 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 Kazakhstani economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government.

Interest rates of attracting funds in KZT remain high in 2019 resulting in limited access to capital, a high cost of capital and increased uncertainty regarding further economic growth, which could negatively affect the Group's future financial position, results of operations and business prospects. The management of the Group believes that it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

### Credit related commitments

The Group has contingent liabilities to provide credit resources. These credit related contingencies take the form of approved loans and credit card limits and overdraft facilities.

The Group provides bank guarantees and issues letters of credit to ensure that their customers' obligations to third parties are met. These agreements have fixed limits and generally extend for a period of up to five years.

In providing financial guarantees, credit related contingencies and letters of credit, the Group applies the same risk management policies and procedures used when issuing loans to customers.

The contractual amounts of credit related contingencies are set out in the table by category. The amounts reflected in the table for credit related contingencies assume that the indicated contingencies will be fully settled. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed to fulfil their contractual obligations.

| | *31 December 2019* | *31 December 2018* |
|---|---|---|
| Loan and credit line commitments | **139,352** | 61,795 |
| Guarantees issued | **44,209** | 33,358 |
| Letters of credit | **223** | 179 |
| | **183,784** | 95,332 |
| Less: current accounts and deposits of customers, held as collateral under letters of credit and guarantees *(Note 20)* | **(1,689)** | (144) |
| Less: provisions for ECL | **(299)** | (223) |
| | **181,796** | 94,965 |

The loan commitment agreements stipulate the right of the Group to unilaterally withdraw from the agreement should any conditions unfavourable to the Group arise, including change of the refinance rate, inflation, exchange rates and other conditions. The total outstanding contractual amount of commitments on issuance of loans, letters of credit and guarantees does not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

*(millions of tenge)*

## 31. Commitments and contingencies (continued)

### Operating lease commitments

Operating lease commitments that could not be unilaterally cancelled could be presented as follows:

| | *31 December 2019* | *31 December 2018* |
|---|---|---|
| Not later than 1 year | – | 1,209 |
| 1 to 5 years | – | 4,079 |
| Over 5 years | – | 506 |
| | – | 5,794 |

### Litigation

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

Management is unaware of any significant actual, pending or threatened claims against the Group.

### Taxation contingencies

The taxation system in the Republic of Kazakhstan is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. The adequacy of tax assessment in the reporting period may be reviewed during the next five calendar years. However, under certain circumstances a tax year may remain open for a longer period of time.

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 consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

## 32. Related party transactions

### Remuneration of members of the Board of Directors and the Management Board

Total remuneration to 15 members of the Management Board and Board of Directors included in general and administrative expenses for 2019 and 2018 is as follows:

| | *2019* | *2018* |
|---|---|---|
| Members of the Board of Directors and the Management Board of the Group | **2,896** | 1,668 |
| | **2,896** | 1,668 |

These amounts include cash benefits in respect of the members of the Board of Directors and the Management Board and related taxes.

As at 31 December 2019, total Group's liabilities on remuneration payments to the members of the Board of Directors and the Management Board were equal to KZT 1,834 million (as at 31 December 2018: KZT 1,639 million) and in accordance with the Decree of NBRK No. 74 from 24 February 2012, should be paid during the period of not less than three years, under the specified conditions.

*(millions of tenge)*

## 32. Related party transactions (continued)

### Transactions with related parties

Other related parties include the key management personnel and entities jointly controlled by the key management personnel. The outstanding balances and the related average effective interest rates as at 31 December 2019 and related income or expense amounts from transactions with related parties for 2019 are as follows:

| | *2019* | | | | | | |
|---|---|---|---|---|---|---|---|
| | *Shareholders* | | *Entities under common control* | | *Other related parties* | | *Total* |
| | *In million tenge* | *Average effective interest rate (%)* | *In million tenge* | *Average effective interest rate (%)* | *In million tenge* | *Average effective interest rate (%)* | *In million tenge* |
| **Assets** | | | | | | | |
| Loans to customers | – | – | – | – | 3,940 | 5.00-13.49 | 3,940 |
| Other assets | – | – | 87 | – | – | – | 87 |
| **Liabilities** | | | | | | | |
| Current accounts and deposits of customers | 9,859 | 1.20 | 9,520 | 1.13 | 12,915 | 0.38 | 32,294 |
| Amounts due to banks and other financial institutions | – | – | – | – | – | – | – |
| Subordinated debt | – | – | – | – | 1,040 | 8.00 | 1,040 |
| Other liabilities | – | – | 39 | – | – | – | 39 |
| Contingent liabilities | – | – | – | – | 107 | – | 107 |

| | *2019* | | | |
|---|---|---|---|---|
| | *Shareholders* | *Entities under common control* | *Other related parties* | *Total* |
| **Income/(expenses)** | | | | |
| Interest income | – | – | 208 | 208 |
| Interest expense | (126) | (77) | (342) | (545) |
| Fee and commission income | 1 | 37 | 25 | 63 |
| Net gains from foreign currencies | – | – | 115 | 115 |
| Other expenses | – | (567) | (79) | (646) |

*(millions of tenge)*

## 32. Related party transactions (continued)

**Transactions with related parties (continued)**

The outstanding balances and the related average effective interest rates as at 31 December 2018 and related income or expense amounts from transactions with related parties for 2018 are as follows:

| | *2018* | | | | | | |
|---|---|---|---|---|---|---|---|
| | *Shareholders* | | *Entities under common control* | | *Other related parties* | | *Total* |
| | *In million tenge* | *Average effective interest rate (%)* | *In million tenge* | *Average effective interest rate (%)* | *In million tenge* | *Average effective interest rate (%)* | *In million tenge* |
| **Assets** | | | | | | | |
| Loans to customers | – | – | – | – | 170 | 5.83 | 170 |
| **Liabilities** | | | | | | | |
| Current accounts and deposits of customers | 2,790 | 1.17 | 10,569 | 0.20 | 9,791 | 0.94 | 23,150 |
| Amounts due to banks and other financial institutions | – | – | 685 | – | – | – | 685 |
| Other liabilities | – | – | 16 | – | – | – | 16 |
| Contingent liabilities | – | – | – | – | 4 | – | 4 |

| | *2018* | | | |
|---|---|---|---|---|
| | *Shareholders* | *Entities under common control* | *Other related parties* | *Total* |
| **Income/(expenses)** | | | | |
| Interest income | – | 147 | 14 | 161 |
| Interest expense | (53) | (27) | (185) | (265) |
| Fee and commission income | – | 17 | 11 | 28 |
| Other income | – | 5 | – | 5 |
| Other expenses | – | (231) | (2) | (233) |

## 33. Segment information

The Group has five reporting segments and business lines ("Other" segment is indicated separately with description of transactions, which are not related to activities of business lines). These segments / business lines offer a variety of products and services in the financial/banking area. The following is a brief description of transactions of each segment.

- Corporate business (CB) – includes issuance of loans, attracting deposits, settlement and cash services, transactions on guarantees and other transactions with corporate clients (large entities and individual entrepreneurs);
- Small and medium businesses (SMB) – includes issuance of loans, attracting deposits, settlement and cash services, transactions on guarantees and other transactions with small and medium business clients (legal entities and individual entrepreneurs;
- Retail banking (RB) – includes issuance of loans, attracting deposits, settlement and cash services, exchange transactions and other transactions with retail clients (individuals);
- Investing activities – responsible for financing the Group's operations (repo operations, raising funds from banks and financial institutions, issuance of bonds, subordinated debt), securities transactions, use of derivative financial instruments and foreign currency transactions;
- Other – other transactions with debtors/creditors, fixed assets, amounts on transit accounts and other transactions that are not related to segments / business lines (CB, SMB, RB, Heritage, Investing activities).

*(millions of tenge)*

## 33. Segment information (continued)

Performance of each reportable segment is presented below. Performance results of segment / business line are evaluated on the basis of derived profit, which includes the effective management of a portfolio of borrowed and placed funds. Profit from segment / business line is used to measure performance. Pricing is performed on the basis of borrowing / placement rates approved by the authorised body of the Bank.

| | *31 December 2019* | | | | | |
|---|---|---|---|---|---|---|
| | ***CB*** | ***SMB*** | ***RB*** | ***Investing activities*** | ***Other*** | ***Total*** |
| **Assets** | | | | | | |
| Cash and cash equivalents | **90,069** | **63,702** | **144,178** | **–** | **49,293** | **347,242** |
| Amounts due from financial institutions | **–** | **–** | **–** | **28,205** | **–** | **28,205** |
| Trading securities | **–** | **–** | **–** | **6,452** | **–** | **6,452** |
| Loans to customers | **127,822** | **206,294** | **369,772** | **–** | **81,180** | **785,068** |
| Investment securities | **–** | **–** | **–** | **719,466** | **–** | **719,466** |
| Property and equipment | **–** | **–** | **–** | **–** | **70,655** | **70,655** |
| Intangible assets | **–** | **–** | **–** | **–** | **9,839** | **9,839** |
| Deferred income tax assets | **–** | **–** | **–** | **–** | **–** | **–** |
| Other assets | **44** | **1,233** | **2,804** | **20** | **98,942** | **103,043** |
| **Total assets** | **217,935** | **271,229** | **516,754** | **754,143** | **309,909** | **2,069,970** |
| **Liabilities** | | | | | | |
| Current accounts and deposits of customers | **430,489** | **291,532** | **614,924** | **–** | **4** | **1,336,949** |
| Amounts due to banks and other financial institutions | **9,624** | **73,331** | **4,511** | **4,282** | **26,058** | **117,806** |
| Amounts payable under repurchase agreements | **–** | **–** | **–** | **116,741** | **–** | **116,741** |
| Debt securities issued | **47,813** | **–** | **14,927** | **148,755** | **17,768** | **229,263** |
| Subordinated debt | **–** | **–** | **–** | **3,303** | **22,648** | **25,951** |
| Deferred income tax liabilities | **–** | **–** | **–** | **–** | **1,621** | **1,621** |
| Other liabilities | **28** | **355** | **2,025** | **135** | **10,144** | **12,687** |
| **Total liabilities** | **487,954** | **365,218** | **636,387** | **273,216** | **78,243** | **1,841,018** |
| **Equity** | | | | | | |
| Share capital | **–** | **–** | **–** | **–** | **332,815** | **332,815** |
| Additional paid-in capital | **–** | **–** | **–** | **–** | **21,109** | **21,109** |
| Treasury shares | **–** | **–** | **–** | **–** | **(4,438)** | **(4,438)** |
| Fair value reserve | **–** | **–** | **–** | **–** | **5,858** | **5,858** |
| Accumulated losses | **–** | **–** | **–** | **–** | **(126,392)** | **(126,392)** |
| **Total equity attributable to shareholders of the Bank** | **–** | **–** | **–** | **–** | **228,952** | **228,952** |

*(millions of tenge)*

## 33. Segment information (continued)

Information on the main reporting segments for 2019 is presented as follows:

| | 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | *CB* | *SMB* | *RB* | *Investing activities* | *Other* | *Elimi-nation* | *Total* |
| Interest income | 9,660 | 23,420 | 69,331 | 48,087 | 13,055 | – | 163,553 |
| Allocated (internal) income | 22,207 | 12,755 | 30,301 | 9,779 | 15,007 | (90,049) | – |
| Interest expense | (19,492) | (5,753) | (28,467) | (15,479) | (16,068) | – | (85,259) |
| Allocated (internal) expense | (7,598) | (13,073) | (30,038) | (45,675) | (6,014) | 102,398 | – |
| **Net interest income** | 4,777 | 17,349 | 41,127 | (3,288) | 5,980 | 12,349 | 78,294 |
| Fee and commission income | 1,062 | 14,411 | 16,875 | 164 | 691 | – | 33,203 |
| Fee and commission expense | (22) | (4,538) | (5,876) | (267) | (355) | – | (11,058) |
| Net losses from derecognition of investment securities at fair value through other comprehensive income | – | – | – | (107) | – | – | (107) |
| Net gain on initial recognition of financial assets measured at amortised cost | – | – | – | 7,053 | – | – | 7,053 |
| Net gains/(losses) from foreign currencies | 3,260 | 4,173 | 2,346 | 137 | 687 | – | 10,603 |
| Other income | – | 4 | 461 | 2 | 3,911 | – | 4,378 |
| **Non-interest income** | 4,300 | 14,050 | 13,806 | 6,982 | 4,934 | – | 44,072 |
| Credit loss expense | (681) | (938) | (13,911) | 154 | (5,041) | – | (20,417) |
| Net losses from financial instruments at fair value through profit or loss | – | – | – | (4,274) | – | – | (4,274) |
| General and administrative expenses | (1,847) | (9,010) | (23,077) | (1,692) | (7,125) | – | (42,751) |
| Other expense | (11) | (223) | – | (33) | (9,666) | – | (9,933) |
| **Non-interest expenses** | (2,539) | (10,171) | (36,988) | (5,845) | (21,832) | – | (77,375) |
| **Other allocated (internal) income and expense** | (1,393) | (1,034) | 9,462 | 32,755 | (27,441) | (12,349) | – |
| **Profit before corporate income tax expense** | 5,145 | 20,194 | 27,407 | 30,604 | (38,359) | – | 44,991 |
| Corporate income tax expenses | (170) | (668) | (907) | (1,013) | – | – | (2,758) |
| **Profit for the period** | 4,975 | 19,526 | 26,500 | 29,591 | (38,359) | – | 42,233 |

*(millions of tenge)*

## 33. Segment information (continued)

| | 31 December 2018 | | | | | |
|---|---|---|---|---|---|---|
| | *CB* | *SMB* | *RB* | *Investing activities* | *Other* | *Total* |
| **Assets** | | | | | | |
| Cash and cash equivalents | 62,116 | 44,685 | 105,316 | 1,026 | 12,004 | 225,147 |
| Amounts due from financial institutions | – | – | – | 19,711 | – | 19,711 |
| Trading securities | – | – | – | 9,511 | – | 9,511 |
| Loans to customers | 157,636 | 158,305 | 284,530 | – | 89,174 | 689,645 |
| Investment securities | – | – | – | 570,475 | – | 570,475 |
| Property and equipment | – | – | – | – | 51,496 | 51,496 |
| Intangible assets | – | – | – | – | 5,441 | 5,441 |
| Deferred income tax assets | – | – | – | – | 2,279 | 2,279 |
| Other assets | 37 | 1,757 | 2,727 | 78 | 110,419 | 115,018 |
| **Total assets** | 219,789 | 204,747 | 392,573 | 600,801 | 270,813 | 1,688,723 |
| **Liabilities** | | | | | | |
| Current accounts and deposits of customers | 343,483 | 208,457 | 523,687 | – | 1 | 1,075,628 |
| Amounts due to banks and other financial institutions | 8,037 | 33,492 | 2,633 | 4,998 | 22,968 | 72,128 |
| Amounts payable under repurchase agreements | – | – | – | 56,392 | – | 56,392 |
| Debt securities issued | 47,306 | – | – | 138,981 | 67,297 | 253,584 |
| Subordinated debt | – | – | – | – | 22,648 | 22,648 |
| Deferred income tax liabilities | – | – | – | – | 183 | 183 |
| Other liabilities | 28 | 490 | 1,159 | 110 | 5,734 | 7,521 |
| **Total liabilities** | 398,854 | 242,439 | 527,479 | 200,481 | 118,831 | 1,488,084 |
| **Equity** | | | | | | |
| Share capital | – | – | – | – | 332,815 | 332,815 |
| Additional paid-in capital | – | – | – | – | 21,116 | 21,116 |
| Treasury shares | – | – | – | – | (1,311) | (1,311) |
| Fair value reserve | – | – | – | – | 2,359 | 2,359 |
| Accumulated losses | – | – | – | – | (155,051) | (155,051) |
| **Total equity attributable to shareholders of the Bank** | – | – | – | – | 199,928 | 199,928 |

*(millions of tenge)*

## 33. Segment information (continued)

Information on the main reporting segments for 2018 is presented as follows:

| | 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | *CB* | *SMB* | *RB* | *Heritage* | *Investing activities* | *Other* | *Total* |
| Interest income | 10,923 | 20,478 | 52,214 | 30,158 | 9,164 | – | 122,937 |
| Allocated (internal) income | 14,355 | 10,155 | 28,357 | 895 | 25,848 | (79,610) | – |
| Interest expense | (15,325) | (4,536) | (26,193) | (6,139) | (21,350) | – | (73,543) |
| Allocated (internal) expense | (7,979) | (12,869) | (26,615) | (26,412) | (8,069) | 81,944 | – |
| **Net interest income** | 1,974 | 13,228 | 27,763 | (1,498) | 5,593 | 2,334 | 49,394 |
| Fee and commission income | 933 | 9,573 | 9,635 | 65 | – | – | 20,206 |
| Fee and commission expense | (18) | (1,987) | (3,668) | (172) | – | – | (5,845) |
| Net gains from derecognition of investment securities at fair value through other comprehensive income | – | – | – | 875 | – | – | 875 |
| Net gains from financial at amortised cost | – | – | – | – | 802 | – | 802 |
| Net gains/(losses) from foreign currencies | 1,852 | 1,745 | 1,586 | 601 | (4,529) | – | 1,255 |
| Gain on derecognition of financial liabilities | – | – | – | – | 9,160 | – | 9,160 |
| Other income | – | 35 | 222 | 1 | 4,596 | – | 4,854 |
| **Non-interest income** | 2,767 | 9,366 | 7,775 | 1,370 | 10,029 | – | 31,307 |
| Credit loss expense | 959 | (288) | (7,341) | (1,957) | 3,627 | – | (5,000) |
| Net losses from financial instruments at fair value through profit or loss | – | – | – | (426) | – | – | (426) |
| General and administrative expenses | (1,941) | (8,201) | (18,213) | (1,817) | (5,689) | – | (35,861) |
| Other expense | (688) | (585) | (177) | (665) | (3,300) | – | (5,415) |
| **Non-interest expenses** | (1,670) | (9,074) | (25,731) | (4,865) | (5,362) | – | (46,702) |
| Other allocated (internal) income and expense | (1,360) | (961) | (2,313) | 21,069 | (14,101) | (2,334) | – |
| **Profit before corporate income tax expense** | 1,711 | 12,559 | 7,494 | 16,076 | (3,841) | – | 33,999 |
| Corporate income tax expenses | (214) | (1,626) | (970) | (2,081) | – | – | (4,891) |
| **Profit for the period** | 1,497 | 10,933 | 6,524 | 13,995 | (3,841) | – | 29,108 |

*(millions of tenge)*

## 34. Fair values of financial instruments

### Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2019:

| | *31 December 2019* | | | | |
|---|---|---|---|---|---|
| | ***Assets and liabilities measured at fair value*** | ***Assets and liabilities whose fair value is disclosed*** | ***Total carrying amount*** | ***Fair values*** | ***Unrecog-nised gain/(loss)*** |
| Cash and cash equivalents | **–** | **347,242** | **347,242** | **347,242** | **–** |
| Amounts due from financial institutions | **–** | **28,205** | **28,205** | **28,205** | **–** |
| Trading securities | **6,452** | **–** | **6,452** | **6,452** | **–** |
| Loans to customers | **–** | **785,068** | **785,068** | **792,513** | **7,445** |
| Investment securities at FVOCI | **458,424** | **–** | **458,424** | **458,424** | **–** |
| Investment securities at amortised cost | **–** | **261,042** | **261,042** | **291,313** | **30,271** |
| Other financial assets | **–** | **26,781** | **26,781** | **26,781** | **–** |
| | **464,876** | **1,448,338** | **1,913,214** | **1,950,930** | **37,716** |
| Current accounts and deposits of customers | **–** | **1,336,949** | **1,336,949** | **1,338,691** | **(1,742)** |
| Amounts due to banks and other financial institutions | **–** | **117,806** | **117,806** | **112,293** | **5,513** |
| Amounts payable under repurchase agreements | **–** | **116,741** | **116,741** | **116,741** | **–** |
| Debt securities issued | **–** | **229,263** | **229,263** | **260,546** | **(31,283)** |
| Subordinated debt | **–** | **25,951** | **25,951** | **26,562** | **(611)** |
| Other financial liabilities | **–** | **9,095** | **9,095** | **9,048** | **47** |
| | **–** | **1,835,805** | **1,835,805** | **1,863,881** | **(28,076)** |
| | | | | | **9,640** |

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

| | *31 December 2018* | | | | |
|---|---|---|---|---|---|
| | ***Assets and liabilities measured at fair value*** | ***Assets and liabilities whose fair value is disclosed*** | ***Total carrying amount*** | ***Fair values*** | ***Unrecog-nised gain/(loss)*** |
| Cash and cash equivalents | – | 225,147 | 225,147 | 225,147 | – |
| Amounts due from financial institutions | – | 19,711 | 19,711 | 19,711 | – |
| Trading securities | 9,511 | – | 9,511 | 9,511 | – |
| Loans to customers | – | 689,645 | 689,645 | 684,520 | (5,125) |
| Investment securities at FVOCI | 389,535 | – | 389,535 | 389,535 | – |
| Investment securities at amortised cost | – | 180,940 | 180,940 | 185,191 | 4,251 |
| Other financial assets | – | 27,105 | 27,105 | 27,105 | – |
| | 399,046 | 1,142,548 | 1,541,594 | 1,540,720 | (874) |
| Current accounts and deposits of customers | – | 1,075,628 | 1,075,628 | 1,075,873 | (245) |
| Amounts due to banks and other financial institutions | – | 72,128 | 72,128 | 73,198 | (1,070) |
| Amounts payable under repurchase agreements | – | 56,392 | 56,392 | 56,392 | – |
| Debt securities issued | – | 253,584 | 253,584 | 293,238 | (39,654) |
| Subordinated debt | – | 22,648 | 22,648 | 22,432 | 216 |
| Other financial liabilities | – | 6,059 | 6,059 | 6,059 | – |
| | – | 1,486,439 | 1,486,439 | 1,527,192 | (40,753) |
| | | | | | (41,627) |

*(millions of tenge)*

## 34. Fair values of financial instruments (continued)

### Accounting classifications and fair values (continued)

The estimate of fair value is intended to approximate the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However, considering the uncertainties and the use of judgements, the fair value should not be interpreted as realisable within the framework of an immediate sale of assets or the transfer of liabilities.

The fair value of financial assets and financial liabilities that are traded in active markets is based on quoted market quotes or dealers' prices. The Group determines fair value of all other financial instruments using various valuation techniques.

The purpose of valuation techniques is to achieve a method of fair value measurement that reflects the price of a transaction on an organised market for the sale of an asset or transfer a liability between market participants at the measurement date.

Valuation techniques include net present value valuation models and discounting of cash flows, comparison with similar instruments with known market quotations, as well as other valuation models. Assumptions and inputs used in valuation techniques include risk-free and base interest rates, credit spreads and other adjustments used in estimating discount rates, shares and bonds quotations, and expected price movements and their comparison. Valuation techniques focused on determining the fair value, which reflects the value of a financial instrument as at the reporting date that would have been determined by independent market participants.

The Group uses widely recognised valuation techniques for determining the fair value of standard and more simple financial instruments, such as interest rate and currency swaps, and such techniques use only observable market data and do not require management judgements or estimates. Observable quotations and model inputs are usually available in the market for publicly traded debt and equity securities, derivatives traded on the stock exchange, as well as simple off-market financial derivatives, such as interest rate swaps.

The Group uses its own valuation models for more sophisticated instruments. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Certain loans and securities for which there is no active market can be an example of instruments the estimation of which is based on the use of unobservable inputs.

*Assets for which fair value approximates carrying value*

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

*Financial assets and financial liabilities carried at amortised cost*

Fair value of the quoted notes and bonds is based on price quotations at the reporting date. The fair value of unquoted instruments, loans to customers, customer deposits, amounts due from financial institutions, deposits of banks and other financial institutions, other financial assets and liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

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

- To discount the future cash flows from loans to corporate customers the discount rate in the range from 3.69% to 13.96% (as at 31 December 2018: 4.89% to 14.56%) was used;
- To calculate the future cash flows from loans to individuals the discount rate in the range from 3.76% to 22.85% (as at 31 December 2018: 3.81% to 23.05%) was used.

### Fair value hierarchy

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: models for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

*(millions of tenge)*

## 34. Fair values of financial instruments (continued)

**Fair value hierarchy (continued)**

The following table analyses financial instruments carried at fair value as at 31 December 2019, by fair value hierarchy, into which the fair value measurement is categorised. The amounts are based on amounts carried in the consolidated statement of financial position.

| | *Notes* | *Level 1* | *Level 2* | *Level 3* | *Total* |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Trading securities | 15 | **5,102** | **–** | **1,350** | **6,452** |
| Investment securities at FVOCI | 17 | **357,675** | **100,749** | **–** | **458,424** |
| | | **362,777** | **100,749** | **1,350** | **464,876** |

The following table analyses financial instruments carried at fair value as at 31 December 2018, by fair value hierarchy, into which the fair value measurement is categorised. The amounts are based on amounts carried in the consolidated statement of financial position.

| | *Notes* | *Level 1* | *Level 2* | *Level 3* | *Total* |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Trading securities | 15 | 8,161 | – | 1,350 | 9,511 |
| Investment securities at FVOCI | 17 | 231,109 | 83,216 | 75,210 | 389,535 |
| | | 239,270 | 83,216 | 76,560 | 399,046 |

The following table shows a reconciliation of Level 3 assets for 2019 which are recorded at fair value:

| | *Trading securities* | *Investment securities at FVOCI* |
|---|---|---|
| **Balance as at 1 January 2019** | **1,350** | **75,210** |
| Sale | **–** | **(76,750)** |
| Net gains/(losses) from financial instruments at fair value through profit or loss | **–** | **1,752** |
| Net gains from derecognition of investment securities at fair value through other comprehensive income | **–** | **(212)** |
| **Balance as at 31 December 2019** | **1,350** | **–** |

The following table shows a reconciliation of Level 3 assets for 2018 which are recorded at fair value:

| | *Trading securities* | *Investment securities at FVOCI* |
|---|---|---|
| **Balance as at 1 January 2018** | 1,350 | – |
| Purchase | – | 74,263 |
| Net gains/(losses) from financial instruments at fair value through profit or loss | – | 735 |
| Net gains from derecognition of investment securities at fair value through other comprehensive income | – | 212 |
| **Balance as at 31 December 2018** | 1,350 | 75,210 |

Gains and losses on financial instruments of Level 3 included in the consolidated statement of comprehensive income for the years ended 31 December 2019 and 2018 comprise:

| | *2019* | | *2018* | |
|---|---|---|---|---|
| | *Realised gains* | *Unrealised losses* | *Realised gains* | *Unrealised gains* |
| (Losses)/gains recognised in profit or loss | **(763)** | **(212)** | 735 | 212 |

*(millions of tenge)*

## 34. Fair values of financial instruments (continued)

**Fair value hierarchy (continued)**

The following table shows the quantitative information about significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy:

| *31 December 2018* | *Carrying amount* | *Valuation techniques* | *Unobservable input* | *Range (weighted average)* |
|---|---|---|---|---|
| Investment securities at FVOCI | 75,210 | Discounted cash flow | Probability of default | 1.20-1.32% (1.31%) |
| | | | Loss sensitivity | 75% |

The following table shows the quantitative information about sensitivity of the fair value measurement categorised within Level 3 of the fair value hierarchy to changes in significant unobservable inputs:

| | *31 December 2018* | |
|---|---|---|
| | *Carrying amount* | *Effect of reasonably possible alternative assumptions* |
| **Financial assets** | | |
| Investment securities at FVOCI | 75,210 | 317 |

Gains/(losses) from operations with derivative financial instruments are recognised in profit or loss of the consolidated statement of comprehensive income as "Net losses from financial instruments at fair value through profit or loss".

The following table analyses financial instruments not measured at fair value but for which fair value is disclosed as at 31 December 2019, by fair value hierarchy:

| | *31 December 2019* | | | | |
|---|---|---|---|---|---|
| | *Level 1* | *Level 2* | *Level 3* | *Total fair value* | *Total carrying value* |
| **Assets** | | | | | |
| Cash and cash equivalents | – | **347,242** | – | **347,242** | **347,242** |
| Amounts due from financial institutions | – | **28,205** | – | **28,205** | **28,205** |
| Loans to customers | – | – | **792,513** | **792,513** | **785,068** |
| Investment securities at amortised cost | **23,105** | **268,208** | – | **291,313** | **261,042** |
| Other financial assets | – | **26,781** | – | **26,781** | **26,781** |
| **Liabilities** | | | | | |
| Current accounts and deposits of customers | – | **1,338,691** | – | **1,338,691** | **1,336,949** |
| Amounts due to banks and other financial institutions | – | **112,293** | – | **112,293** | **117,806** |
| Amounts payable under repurchase agreements | – | **116,741** | – | **116,741** | **116,741** |
| Debt securities issued | – | **260,546** | – | **260,546** | **229,263** |
| Subordinated debt | – | **26,562** | – | **26,562** | **25,951** |
| Other financial liabilities | – | **9,048** | – | **9,048** | **9,095** |

*(millions of tenge)*

## 34. Fair values of financial instruments (continued)

**Fair value hierarchy (continued)**

The following table analyses financial instruments not measured at fair value but for which fair value is disclosed as at 31 December 2018, by fair value hierarchy:

| | *31 December 2018* | | | | |
|---|---|---|---|---|---|
| | *Level 1* | *Level 2* | *Level 3* | *Total fair value* | *Total carrying value* |
| **Assets** | | | | | |
| Cash and cash equivalents | – | 225,147 | – | 225,147 | 225,147 |
| Amounts due from financial institutions | – | 19,711 | – | 19,711 | 19,711 |
| Loans to customers | – | – | 684,520 | 684,520 | 689,645 |
| Investment securities at amortised cost | 16,179 | 169,012 | – | 185,191 | 180,940 |
| Other financial assets | – | 27,105 | – | 27,105 | 27,105 |
| **Liabilities** | | | | | |
| Current accounts and deposits of customers | – | 1,075,873 | – | 1,075,873 | 1,075,628 |
| Amounts due to banks and other financial institutions | – | 73,198 | – | 73,198 | 72,128 |
| Amounts payable under repurchase agreements | – | 56,392 | – | 56,392 | 56,392 |
| Debt securities issued | – | 293,238 | – | 293,238 | 253,584 |
| Subordinated debt | – | 22,432 | – | 22,432 | 22,648 |
| Other financial liabilities | – | 6,059 | – | 6,059 | 6,059 |

## 35. Events after the reporting period

On 27 December 2019, the Bank signed loan agreements with the European Bank for Reconstruction and Development under the programs for financing micro, small and medium business in the Republic of Kazakhstan and Women in Business program for the total amount of KZT 22,589 million, which was received by the Bank on 25 February 2020. The loans are denominated in tenge and mature in 2023.

On 14 February 2020 the Bank placed debt securities for the total amount of USD 3,400,000 (tenge equivalent – KZT 1,280 million), issued on 5 August 2019 as part of private bond issuance with the total nominal value of USD 100,000,000 listed at Astana International Exchange.

In February 2020, the Bank signed agreements with Kazakhstan Sustainability Fund JSC as part of the program for refinancing of mortgage loans approved by the NBRK according to which the tenure of the received deposits was extended to 30 years. Deposits will be repaid at maturity.