# Subsidiary VTB Bank (Kazakhstan) JSC

## Financial statements

*for 2019*
*together with independent auditor's report*

# CONTENT

«Эрнст энд Янг» ЖШС
Әл-Фараби д-лы, 77/7
«Есентай Тауэр» ғимараты
Алматы қ., 050060
Қазақстан Республикасы
Тел.: +7 727 258 59 60
Факс: +7 727 258 59 61
www.ey.com

ТОО «Эрнст энд Янг»
пр. Аль-Фараби, д. 77/7
здание «Есентай Тауэр»
г. Алматы, 050060
Республика Казахстан
Тел.: +7 727 258 59 60
Факс: +7 727 258 59 61
www.ey.com

Ernst & Young LLP
Al-Farabi ave., 77/7
Esentai Tower
Almaty, 050060
Republic of Kazakhstan
Tel.: +7 727 258 59 60
Fax: +7 727 258 59 61
www.ey.com

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# Independent auditor's report

To the Shareholder and Board of Directors of
Subsidiary Joint Stock Company VTB Bank (Kazakhstan)

### *Opinion*

We have audited the financial statements of Subsidiary JSC VTB Bank (Kazakhstan) (the "Bank"), which comprise the statement of financial position as at 31 December 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each of the matters 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 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 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 financial statements.

| **Key audit matter** | **How the matter was addressed in the audit** |
|---|---|
| **Allowance for expected credit losses on loans to customers** | |
| Estimation of allowance for expected credit losses on loans to customers in accordance with IFRS 9 *"Financial Instruments"* is a key area of the Bank's management judgment. Identification of factors of a significant increase in credit risk since initial recognition of an asset, including identification of changes in risk of default during the remaining life of a financial instrument, as well as determination of probability of default and loss given at default rates, require 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.<br><br>Due to the substantial amount of loans to customers and the significant use of professional judgment, estimation of allowance for expected credit losses was a key audit matter.<br><br>Information on expected credit losses on loans to customers and the Bank's management approach to estimation of allowance for expected credit losses is presented in Note 9 *Loans to customers* and Note 24 *Risk management* to the financial statements. | Our audit procedures included the analysis of methodology for estimation of expected credit losses on loans to customers and analysis and testing of controls on identification of factors of significant increase in credit risk since initial recognition of loans to customers, including debt overdue period, existence of credit driven debt restructuring and change in internal credit rating.<br><br>We performed, on a sample basis, testing of input data and analysis of assumptions used by the Bank in estimating the allowance for expected credit losses on loans to customers on a collective basis, including statistical data on debt servicing, expected recoveries in the event of default as a result of sale of collateral and repayments in cash and impact of forecast macroeconomic factors.<br><br>For individual assessment of allowance for expected credit losses on loans to customers we performed, on a sample basis, analysis of financial and non-financial information on borrowers and scenarios of recovery in the event of default used by Bank, including as a result of sale of collateral.<br><br>We have recalculated the allowance for expected credit losses.<br><br>We have analyzed information on allowance for expected credit losses on loans to customers disclosed in the Notes to the financial statements. |

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| Assessment of loans received from financial institutions | |
|---|---|
| We consider this issue to be a key audit matter due to the substantial amounts recognized, the complexity and use of the Bank's management judgment to determine the fair value of liabilities at initial recognition.<br><br>Information on loans received is presented in Note 14 *Amounts due to banks and other financial institutions* to the financial statements. | Our audit procedures included the analysis of valuation methodology and the model and testing of inputs used by the Bank to determine the fair value of loans received at initial recognition. We engaged valuation specialists for assessment of key inputs used in the estimation, such as risk-free interest rate and credit spread, and compared them with observable market data.<br><br>We have reviewed information on loans received disclosed in the Notes to the financial statements. |

***Other information included in the Bank's 2019 Annual Report***

Other information consists of the information included in the Bank's 2019 Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Bank's 2019 Annual Report is expected to be made available to us after the date of this auditor's report.

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

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

***Responsibilities of management and Board of Directors for the financial statements***

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

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

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

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

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

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

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

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

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our 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 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

Gulmira Turmagambetova
General Director
Ernst & Young LLP

Auditor qualification certificate
№МФ-0000286 dated 25 September 2015

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

050060, Kazakhstan, Almaty
Al-Farabi Ave, 77/7, Esentai Tower

20 March 2020

# STATEMENT OF FINANCIAL POSITION

## As at 31 December 2019

*(in thousands of Tenge)*

| | *Note* | *2019* | *2018* |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 6 | 66,175,037 | 49,318,138 |
| Trading securities | | – | 4,765,761 |
| Amounts due from financial institutions | 7 | 7,145,522 | 6,198,765 |
| Derivative financial assets | 8 | 34,724 | – |
| Loans to customers | 9 | 122,928,338 | 91,358,640 |
| Investment securities | | – | 592,067 |
| Property and equipment | 10 | 6,787,627 | 2,589,072 |
| Intangible assets | 11 | 3,181,796 | 2,128,155 |
| Current corporate income tax assets | 12 | 21,061 | 5,134 |
| Deferred corporate income tax assets | 12 | 154,063 | 1,344,591 |
| Other assets | 13 | 2,903,533 | 3,796,969 |
| **Total assets** | | 209,331,701 | 162,097,292 |
| | | | |
| **Liabilities** | | | |
| Amounts due to banks and other financial institutions | 14 | 31,129,443 | 12,790,308 |
| Government grants | 14 | 3,026,766 | 355,286 |
| Derivative financial liabilities | 9 | 206,488 | 50,061 |
| Amounts due to customers | 15 | 123,511,277 | 88,965,891 |
| Debt securities issued | 16 | 14,759,142 | 20,407,415 |
| Lease liabilities | 3 | 3,226,602 | – |
| Subordinated debt | 17 | 9,264,867 | 13,840,183 |
| Other liabilities | 13 | 2,828,660 | 4,782,752 |
| **Total liabilities** | | 187,953,245 | 141,191,896 |
| | | | |
| **Equity** | | | |
| Share capital | 18 | 29,957,000 | 29,957,000 |
| Accumulated deficit | | (8,578,544) | (9,022,000) |
| Fair value reserve | | – | (29,604) |
| **Total equity** | | 21,378,456 | 20,905,396 |
| **Total equity and liabilities** | | 209,331,701 | 162,097,292 |

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

Zabello D.A. Chairperson of the Management Board

A. V. Lavrentyeva Chief accountant

20 March 2020

# STATEMENT OF COMPREHENSIVE INCOME

## For the year ended 31 December 2019

*(in thousands of Tenge)*

| | *Note* | *2019* | *2018* |
|---|---|---|---|
| **Interest income calculated using effective interest rate** | | | |
| Cash and cash equivalents | | 652,635 | 1,067,076 |
| Amounts due from financial institutions | | 716,450 | 25,379 |
| Loans to customers | | 16,378,097 | 14,410,064 |
| Investment securities | | 11,547 | 37,630 |
| | | 17,758,729 | 15,540,149 |
| **Other interest income** | | | |
| Trading securities | | 111,072 | 1,434,343 |
| | | 17,869,801 | 16,974,492 |
| **Interest expense** | | | |
| Amounts due to banks and other financial institutions | | (1,259,907) | (1,438,838) |
| Amounts due to customers | | (3,567,240) | (2,284,976) |
| Debt securities issued | | (1,526,826) | (2,154,258) |
| Subordinated debt | | (854,626) | (1,453,250) |
| Lease liabilities | | (337,089) | – |
| | | (7,545,688) | (7,331,322) |
| **Net interest income before credit loss expense** | | 10,324,113 | 9,643,170 |
| Credit loss expense | 19 | (3,064,481) | (2,557,028) |
| **Net interest income after credit loss expense** | | 7,259,632 | 7,086,142 |
| Net fee and commission income | 21 | 3,364,713 | 2,727,705 |
| Net gains on initial recognition of financial assets measured at amortized cost | 14 | 366,931 | – |
| Net gains on derecognition of financial assets at fair value through other comprehensive income | | 3,122 | 12,184 |
| Net gains from transactions with financial instruments at fair value through profit or loss | | – | 2,207 |
| Net gains from transactions in foreign currencies: | | | |
| - dealing | | 5,533,333 | 4,529,517 |
| - translation differences | | (1,406,735) | (134,347) |
| Other income | | 158,841 | 56,913 |
| **Non-interest income** | | 8,020,205 | 7,194,179 |
| Personnel expenses | 22 | (5,273,127) | (4,795,651) |
| Other operating expenses | 22 | (2,545,224) | (3,435,510) |
| Depreciation and amortization | 10, 11 | (1,481,380) | (778,954) |
| Taxes other than corporate income tax | | (75,745) | (123,024) |
| Other expenses | | (150,670) | (64,863) |
| **Non-interest expense** | | (9,526,146) | (9,198,002) |
| **Profit before corporate income tax expense** | | 5,753,691 | 5,082,319 |
| Corporate income tax expense | 12 | (1,190,528) | (962,612) |
| **Profit for the year** | | 4,563,163 | 4,119,707 |
| **Other comprehensive income** | | | |
| *Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods* | | | |
| Net change in fair value of debt instruments at fair value through other comprehensive income | | 36,886 | 27,475 |
| Change in allowance for expected credit losses of debt instruments at fair value through other comprehensive income | | (7,282) | 4,540 |
| **Other comprehensive income for the year, net of tax** | | 29,604 | 32,015 |
| **Total comprehensive income for the year** | | 4,592,767 | 4,151,722 |
| **Basic and diluted earnings per share (in Tenge)** | 23 | 1,523.24 | 1,450.19 |

# STATEMENT OF CHANGES IN EQUITY

## For the year ended 31 December 2019

*(in thousands of Tenge)*

| | *Share capital* | *Accumulated deficit* | *Fair value reserve* | *Total equity* |
|---|---|---|---|---|
| As at 31 December 2017 | 27,357,000 | (11,253,230) | (61,619) | 16,042,151 |
| Profit for the year | – | 4,119,707 | – | 4,119,707 |
| Other comprehensive income for the year | – | – | 32,015 | 32,015 |
| Total comprehensive income for the year | – | 4,119,707 | 32,015 | 4,151,722 |
| Increase in share capital | 2,600,000 | – | – | 2,600,000 |
| Dividends declared *(Note 18)* | – | (1,888,477) | – | (1,888,477) |
| As at 31 December 2018 | 29,957,000 | (9,022,000) | (29,604) | 20,905,396 |
| Profit for the year | – | 4,563,163 | – | 4,563,163 |
| Other comprehensive income for the year | – | – | 29,604 | 29,604 |
| Total comprehensive income for the year | – | 4,563,163 | 29,604 | 4,592,767 |
| Dividends declared *(Note 18)* | – | (4,119,707) | – | (4,119,707) |
| As at 31 December 2019 | 29,957,000 | (8,578,544) | – | 21,378,456 |

# STATEMET OF CASH FLOWS

## For the year ended 31 December 2019

*(in thousands of Tenge)*

| | *Note* | *2019* | *2018* |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest received | | 15,721,937 | 13,081,420 |
| Interest paid | | (7,127,731) | (6,988,525) |
| Fees and commissions received | | 4,482,014 | 3,562,201 |
| Fees and commissions paid | | (1,106,610) | (824,478) |
| Gains less losses from transactions with financial instruments at fair value through profit or loss | | – | 2,207 |
| Realised gains less losses from dealing in foreign currencies | | 5,639,388 | 4,529,517 |
| Personnel expenses paid | | (5,114,823) | (4,578,470) |
| Other income received | | 60,313 | – |
| Other operating expenses paid | | (2,657,832) | (3,424,087) |
| **Cash from operating activities before changes in operating assets and liabilities** | | 9,896,656 | 5,359,785 |
| *Net decrease/(increase) in operating assets* | | | |
| Trading securities | | 4,876,333 | 19,216,093 |
| Amounts due from financial institutions | | (880,390) | (714,582) |
| Loans to customers | | (35,537,078) | (17,836,381) |
| Other assets | | 1,433,898 | (1,987,415) |
| *Net increase/(decrease) in operating liabilities* | | | |
| Amounts due to banks and other financial institutions | | 18,267,912 | (4,990,236) |
| Government grants | | 5,141,363 | 355,286 |
| Derivative financial liabilities | | – | 44,341 |
| Amounts due to customers | | 34,511,926 | 2,874,830 |
| Other liabilities | | (2,565,425) | 2,429,270 |
| **Net cash from operating activities before corporate income tax** | | 35,145,195 | 4,750,991 |
| Corporate income tax paid | | – | – |
| **Net cash flow from operating activities** | | 35,145,195 | 4,750,991 |
| **Cash flows from investing activities** | | | |
| Proceeds from redemption of debt investment securities | | 603,123 | 12,184 |
| Purchase of property and equipment | | (1,455,989) | (799,961) |
| Purchase of intangible assets | | (1,015,480) | (666,049) |
| **Net cash used in investing activities** | | (1,868,346) | (1,453,826) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of debt securities | 28 | 14,299,410 | – |
| Redemption of debt securities issued | 28 | (20,000,000) | (25,000) |
| Repayment of subordinated loan | 28 | (5,800,000) | – |
| Proceeds from issue of shares | | – | 2,600,000 |
| Lease payments | 3 | (678,252) | |
| Dividends paid to the shareholder of the Bank | 18 | (4,119,707) | (1,888,477) |
| **Net cash (used in) / from financing activities** | | (16,298,549) | 686,523 |
| Effect of exchange rates changes on cash and cash equivalents | | (121,396) | 1,961,630 |
| Effect of expected credit losses on cash and cash equivalents | | (5) | (40) |
| **Net increase in cash and cash equivalents** | | 16,856,899 | 5,945,278 |
| Cash and cash equivalents, beginning | | 49,318,138 | 43,372,860 |
| **Cash and cash equivalents, ending** | 6 | 66,175,037 | 49,318,138 |
| **Non-cash transactions** | | | |
| Offset of current income tax assets against other tax liabilities | | 15,927 | 47,649 |
| Repossessed collateral | | 527,377 | – |

*The accompanying notes on pages 5 to 60 are an integral part of these financial statements.*

*(in thousands of Tenge, unless otherwise is stated)*

## 1. Principal activities

Subsidiary JSC VTB Bank (Kazakhstan) (the "Bank") was formed on 19 September 2008 as a joint stock company under the laws of the Republic of Kazakhstan. As at 31 December 2019, the Bank operated under a general license for conducting banking and other activities and operations on securities market No. 1.2.14/39 issued by the National Bank of the Republic of Kazakhstan (hereinafter, the "NBRK") on 16 April 2019, which supersedes previous licenses.

The Bank accepts deposits from the public and extends credit, transfers payments in Kazakhstan and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. As at 31 December 2019, the Bank's registered legal address is: 050040, Almaty, 26/29 Timiryazev Str., Republic of Kazakhstan. As at 31 December 2019 the Bank had 17 branches throughout Kazakhstan (31 December 2018: 17).

The Bank is a member of the deposit insurance system. The system operates under the laws of the Republic of Kazakhstan and is governed by the NBRK. Insurance covers the Bank's liabilities to individual depositors for an amount up to 10 million Kazakhstani Tenge on deposits in national currency for each individual in the event of business failure and revocation of the banking licence.

As at 31 December 2019 and 2018, the sole shareholder of the Bank is Public Joint-Stock Company Bank VTB (Russia) (the "Parent"). The ultimate controlling party of the Bank is the Government of the Russian Federation.

## 2. Basis of preparation

### General provisions

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

The financial statements are prepared under the historical cost convention except as mentioned in Summary of significant accounting policies.

These financial statements are presented in thousands of Tenge, unless otherwise indicated.

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 (31 December 2018: 384.2 Tenge to 1 US Dollar).

### Functional and presentation currency of financial statements

The functional currency of the Bank is Tenge as, being the national currency of the Republic of Kazakhstan, reflects the economic substance of the majority of the Bank's transactions and circumstances relevant to them that affect its activities.

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

Financial information of the financial statements is rounded to the nearest thousand.

## 3. Summary of accounting policies

### Changes in accounting policy

The Bank applied for the first time certain amendments to standards, which are effective for annual periods beginning on or after 1 January 2019. The Bank has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective. The nature and impact of each amendment are described below:

*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 the majority of 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.

The Bank applied IFRS 16 using the modified retrospective method from 1 January 2019. According to this method, the standard is applied retrospectively with recognition of the cumulative effect from its initial application at the date of initial application. On transition to the standard, the Bank decided to apply the practical expedient that allows the standard to be applied only to contracts that were previously identified as leases using IAS 17 and Interpretations IFRIC 4 at the date of initial application. The Bank 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') as well as for lease contracts in which an underlying asset is of low value (lease of assets of low value).

*(in thousands of Tenge, unless otherwise is stated)*

## 3. Summary of accounting policies (continued)

### Changes in accounting policy (continued)

*IAS 16 Leases (continued)*

The effects of applying IFRS 16 as at 1 January 2019 are as follows:

| | |
|---|---|
| **Assets** | |
| Property and equipment (right-of-use assets) | 3,262,953 |
| Other assets | (136,665) |
| **Total assets** | 3,126,288 |
| | |
| **Liabilities** | |
| Lease liabilities | 3,126,288 |
| **Total liabilities** | 3,126,288 |

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

The Bank has lease contracts for various items of property and equipment. Before the adoption of IFRS 16, the Bank classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Bank; otherwise it was classified as an operating lease. Finance leases was capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were distributed between interest and a decrease in lease obligations. In 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.

As a result of application of IFRS 16 the Bank 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 Bank.

<u>Leases previously accounted for as operating leases</u>

The Bank 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. In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised.

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 Bank 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.

Based on the above, as at 1 January 2019:

- "Right-of-use assets" in the amount of KZT 3,262,953 million were recognized and presented as part of "Property and Equipment";
- Additional lease liabilities in the amount of KZT 3,126,288 thousand were recognized and presented as a separate line item in the statement of financial position; and
- Advance payments in the amount of KZT 136,665 thousand related to a previously recognized operating lease were derecognized.

*(in thousands of Tenge, unless otherwise is stated)*

## 3. Summary of accounting policies (continued)

### Changes in accounting policy (continued)

*IAS 16 Leases (continued)*

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

Leases previously classified as operating leases (continued)

The reconciliation of lease liabilities as at 1 January 2019 with operating lease contractual commitments as at 31 December 2018 is presented below:

| | |
|---|---|
| Operating lease commitments as of 31 December 2018 | 5,523,605 |
| Exclusion of liabilities for periods for which an option is provided to terminate the lease and there is sufficient confidence that the lessee will exercise this option | (884,500) |
| Operating lease liabilities as at 1 January 2019 | 4,639,105 |
| | |
| Weighted average incremental borrowing rate as at 1 January 2019 | 11.24% |
| Discounted operating lease commitments as of 1 January 2019 | 3,150,855 |
| | |
| *Less:* | |
| Commitments relating to short-term leases | (20,779) |
| Commitments relating to leases of low-value assets | (3,788) |
| Lease liabilities as at 1 January 2019 | 3,126,288 |

*(b) Summary of new accounting policies*

Set out below are the new accounting policies of the Bank upon adoption of IFRS 16, which have been applied from the date of initial application:

Right-of-use assets

The Bank recognizes right-of-use assets at the commencement date of the lease (that is, the date on which the underlying asset becomes 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 Bank 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 or the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Bank 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 Bank and payments of penalties for terminating a lease, if the lease term reflects the Bank 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 Bank 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.

Short-term leases and leases of low-value assets

The Bank applies the short-term lease recognition exemption to short-term leases (i.e. contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option). The Bank also applies the low value assets lease recognition exemption to contracts of lease of office equipment whose value is considered to be low (i.e. less than USD 5 thousand). 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.

*(in thousands of Tenge, unless otherwise is stated)*

## 3. Summary of accounting policies (continued)

### Changes in accounting policy (continued)

*IAS 16 Leases (continued)*

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

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

The Bank 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 Bank has the option, under some of its leases to lease the assets for additional term of three to five years. The Bank applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, the Bank considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Bank 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 recognized in the statement of financial position and statement of comprehensive income

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

| | *Right-of-use assets (buildings)* | *Lease liabilities* |
|---|---|---|
| As at 1 January 2019 | 3,262,953 | 3,126,288 |
| Additions | 441,477 | 441,477 |
| Depreciation expense | (546,848) | – |
| Interest expense | – | 337,089 |
| Payments | – | (678,252) |
| As at 31 December 2019 | 3,157,582 | 3,226,602 |

*IFRIC Interpretation 23 — Uncertainty over Income Tax Treatments*

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 *Income Taxes*. The interpretation 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 Bank 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 Bank applies significant judgments in identifying uncertainties regarding the rules for calculating an income tax. These interpretations have no impact on the financial statements of the Bank.

Upon adoption of the Interpretation, the Bank considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The tax filings of the Bank in various jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Bank determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. This clarification had no impact on the financial statements of the Bank.

## 3. Summary of accounting policies (continued)

### Changes in accounting policy (continued)

*Prepayment Features with Negative Compensation – Amendments to IFRS 9*

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 enabling such 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 did not have any impact on financial statements of the Bank.

*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 must also determine 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 did not have any impact on financial statements of the Bank.

*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 did not have an effect on the financial statements of the Bank because the Bank does not have the addressed long-term investments in an associate or a joint venture.

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

These improvements include:

*IFRS 3 Business Combinations*

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

These amendments did not have an effect on the Bank's financial statements due to absence of transactions in which the Bank obtains joint control.

*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. Early application is permitted.

These amendments did not have an effect on the Bank's financial statements due to absence of transactions in which the Bank obtains joint control.

*(in thousands of Tenge, unless otherwise is stated)*

## 3. Summary of accounting policies (continued)

### Changes in accounting policy (continued)

#### *Annual improvements 2015-2017 cycle (issued in December 2017) (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 those amendments for annual reporting periods beginning on or after 1 January 2019. Early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

Since the current policy of the Bank complies with the requirements of the amendments, their application did not have an effect on the interim condensed financial statements of the Bank.

*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.

An entity applies those 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. Early application is permitted. Since the current policy of the Bank complies with the requirements of the amendments, their application did not have an effect on the interim condensed financial statements of the Bank.

### Fair value measurement

The Bank measures financial instruments at fair value through profit or loss (FVPL) and fair value through other comprehensive income (FVOCI), and at fair value at each reporting date. Information on fair value of financial instruments measured at amortized cost is disclosed in *Note 25*.

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

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

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

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – quoted (unadjusted) 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 – techniques for which all inputs that relate to the lower hierarchy level which have a significant effect on the fair value are not observable.

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

*(in thousands of Tenge, unless otherwise is stated)*

## 3. Summary of accounting policies (continued)

### Financial assets and liabilities

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

- Amortised cost;
- FVOCI;
- FVPL.

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

Financial liabilities, other than 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 financial institutions and loans to customers*

The Bank only measures due from financial institutions, loans to customers and other financial assets 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 (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below.

*Business model assessment*

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

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

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

*(in thousands of Tenge, unless otherwise is stated)*

## 3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

### *Initial measurement (continued)*

*Business model assessment (continued)*

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

*The SPPI test*

As a second step of its classification process the Bank 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 Bank 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.

*Financial guarantees, letters of credit and undrawn loan commitments*

The Bank 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 Bank'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 expected credit loss (ECL) provision.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan or a letter of credit with pre-specified terms to the customer. Commitments to extend loans and letters of credit are described in IFRS 9 as fixed contractual obligations to provide a loan or letter of credit under certain conditions. The requirements for assessing ECL apply to such obligations.

The Bank occasionally issues loan commitments at below market interest rates drawdown. Such commitments are initially recognized 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 Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank changes the business model for managing financial assets. Financial liabilities are never reclassified.

*(in thousands of Tenge, unless otherwise is stated)*

## 3. Summary of accounting policies (continued)

### Cash and cash equivalents

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

### Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments, including forwards, swaps and options on currency markets. Such financial instruments are held for trading and are recorded at fair value. The fair value is 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 profit or loss within transactions with trading securities or within foreign currency transactions (trading operations), depending on the nature of the financial 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 are carried at fair value within the trading portfolio with changes in the fair value recognised in profit or loss.

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 Bank 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 National Bank of the Republic of Kazakhstan, amounts due to financial institutions, amounts due to 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.

### Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

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

This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

## 3. Summary of accounting policies (continued)

### Renegotiated loans

Where possible, the Bank 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 Bank 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 POCI. When assessing whether or not to derecognise a loan to a customer, amongst others, the Bank 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 Bank records a modification gain or loss, presented within interest revenue calculated using EIR in profit or loss, to the extent that an impairment loss has not already been recorded.

For modifications not resulting in derecognition, the Bank also reassesses whether here has been a significant increase in credit risk or whether the assets should be classified as credit-impaired. Once an asset has been classified as credit-impaired as the result of modification, it will remain in Stage 3 for a minimum 6-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 Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- The Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

*Write-offs*

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

*Financial liabilities*

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

Where an existing financial liability is replaced by another from the same 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.

*(in thousands of Tenge, unless otherwise is stated)*

## 3. Summary of accounting policies (continued)

### Taxation

The current income tax expense is calculated in accordance with the regulations of the Republic of Kazakhstan.

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

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Kazakhstan also has various operating taxes that are assessed on the Bank's activities. These taxes are included as a component of other operating expenses.

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

| | *Years* |
|---|---|
| Leasehold improvements | Up to 10 |
| Computer hardware | 2-10 |
| Vehicles | 7 |
| Other | 2-16 |

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalisation.

### Intangible assets

Intangible assets include software and licenses and are initially measured at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised over the useful economic lives from 5 to 17 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

### Provisions

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

### Retirement and other employee benefit obligations

The Bank does not have any pension arrangements separate from the State pension system of the Republic of Kazakhstan, which requires current contributions by the employer calculated as a percentage of current gross salary payments. Such expenses are charged in the period the related salaries are earned. In addition, the Bank has no post-retirement benefits or other compensated benefits requiring accrual.

*(in thousands of Tenge, unless otherwise is stated)*

## 3. Summary of accounting policies (continued)

### Share capital

Ordinary shares are classified as equity. Share capital is measured at the fair value of consideration received. External costs directly attributable to the issue of new shares 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.

### 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 financial statements are authorised.

### Segment reporting

The Bank's segmental reporting is based on the following operating segments: "Corporate – investment banking", including the following sub-segments: "Investment banking", "Loans and deposits" and "Cash and liquidity management", "Medium corporate business", including the following sub-segments: "Investment banking", "Loans and deposits" and "Cash and liquidity management", "Retail banking", "Treasury" and "Other".

### Contingent assets and liabilities

Contingent liabilities are not recognised in the 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 statement of financial position but disclosed when an inflow of economic benefits is probable.

### Recognition of income and expenses

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

#### *Interest and similar income and expenses*

The Bank calculates interest revenue on debt financial assets measured at amortized cost or at FVOCI by applying the EIR to the gross carrying amount of financial assets other than credit-impaired financial 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 Bank 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.

In case of a financial asset that becomes credit impaired, the Bank calculates interest income 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 Bank reverts to calculating interest revenue on a gross basis.

For purchased or originated credit-impaired (POCI) financial assets, the Bank 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.

#### *Fee and commission income and expenses*

The Bank 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 and commission income earned from services that are provided over a certain period of time*

Fee and commission income obtained for rendering the services during a certain period of time are accrued during this period. These items include commission income and fees for the issuance of guarantees and letters of credit. 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 loans.

*(in thousands of Tenge, unless otherwise is stated)*

## 3. Summary of accounting policies (continued)

### Recognition of income and expenses (continued)

#### *Fee and commission income and expenses (continued)*

*Commission income from providing transaction services*

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as purchase or sale of currency, transfer transactions or cash transactions are recognised on completion of such transaction.

The Bank's expenses for the agent's services are recognized as fee and commission expenses in the statement of comprehensive income.

### Foreign currency translation

The financial statements are presented in Kazakh Tenge, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially translated into functional currency at the official exchange rate at the date of the transaction established by the Kazakhstan Stock Exchange (hereinafter – the "KASE") and published by the NBRK. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of comprehensive income as net gains/losses from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Non-monetary items measured at fair value in a foreign currency are translated using the official 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 official exchange rate on the date of the transaction are included in net gains/(losses) from dealing in foreign currencies.

### Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Bank's financial statements are listed below. The Bank plans, if necessary, to adopt these standards 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 replaces 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 insurance contracts with direct participation terms (the variable fee approach);
- A simplified approach (the premium allocation approach) is mainly for short-duration contracts.

IFRS 17 is effective for annual periods beginning on or after 1 January 2021, with early application permitted. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. In 2019, the Bank will continue assessing the potential effect of IFRS 17 on its financial statements.

*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 output, 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 Bank will not be affected by these amendments on the date of transition.

*(in thousands of Tenge, unless otherwise is stated)*

## 3. Summary of accounting policies (continued)

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

*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. According to a new definition, "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 Bank's financial statements.

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

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. 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 Bank's financial statements.

## 4. Significant accounting judgements and estimates

### Estimation uncertainty

The preparation of 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 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. More details are provided in *Note 25*.

*Expected credit losses on financial assets*

The measurement of impairment losses 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 the ECL and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's internal credit grading model, which assigns PDs to the individual grades;
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas 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 model.

*(in thousands of Tenge, unless otherwise is stated)*

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

### Estimation uncertainty (continued)

*Leases – estimating the incremental borrowing rate*

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Bank 'would have to pay', which requires estimation when no observable rates are available (such as when the Bank did not enter into financing transactions in a respective period) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when the lease term differs from the financing term).

The Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the stand-alone credit rating).

*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 nonexistent 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.

Management believes that the Bank is in compliance with the tax laws of the Republic of Kazakhstan regulating its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretive tax issues.

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

The management believes that deferred corporate income tax assets as at 31 December 2018 are recorded to the extent that it is probable that future taxable profits will be available to cover temporary differences, unused tax losses and unused tax benefits , and deferred corporate income tax assets are reduced to the extent that it is not probable that taxable profit will be available against which the deductible temporary differences can be utilized.

## 5. Segment information

Disclosure of segment information is presented on the basis consistent with IFRS data about reportable segments, adjusted if necessary, on intersegment reallocation. Qualitative and quantitative information about operating segments is reported to the management of the Bank in order to make decisions about allocation of resources to the segment and assess its performance.

Income disclosed in this note comprises the following: net interest income, net commission income, gains less losses on transactions with financial assets at fair value through profit or loss, gains less losses from foreign currencies and other operating income. Each of these items is considered in determining the income of a particular sub-segment / segment without sub-segments, if its value for this sub-segment / segment without sub-segments is positive. Totals are calculated as the sum of item-by-item components.

Transactions between segments are carried out mainly in the normal course of business.

*(in thousands of Tenge, unless otherwise is stated)*

## 5. Segment information (continued)

Below is the information about the reportable segments of the Bank as at 31 December 2019 and 2018, and segment results for the years ended 31 December 2019 and 2018.

| | *Corporate – investment banking* | | | | *Medium corporate business* | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *2019* | *Investment banking* | *Loans and deposits* | *Transactional business* | *Total CIB* | *Investment banking* | *Loans and deposits* | *Transactional business* | *Total MCB* | *Retail banking* | *Treasury* | *Total prior to elimination of inter-segment transactions* | *Elimination of inter-segment transactions* | *Total* |
| Cash and cash equivalents | – | – | – | – | – | – | – | – | 3,505,599 | 62,669,438 | 66,175,037 | – | 66,175,037 |
| Amounts due from financial institutions | 1,004,477 | 5,851,233 | – | 6,855,710 | – | – | – | – | 246,032 | 43,780 | 7,145,522 | – | 7,145,522 |
| Loans to customers | – | 27,229,803 | – | 27,229,803 | – | 50,860,904 | – | 50,860,904 | 44,837,631 | – | 122,928,338 | – | 122,928,338 |
| Derivative financial assets | 34,724 | – | – | 34,724 | – | – | – | – | – | – | 34,724 | – | 34,724 |
| Property and equipment | 111,214 | 106,469 | 162,445 | 380,128 | 33,739 | 969,157 | 1,170,427 | 2,173,323 | 4,195,557 | 38,619 | 6,787,627 | – | 6,787,627 |
| Intangible assets | 78,463 | 103,891 | 110,897 | 293,251 | 12,087 | 462,812 | 537,314 | 1,012,213 | 1,873,839 | 2,493 | 3,181,796 | – | 3,181,796 |
| Current corporate income tax assets | 409 | 714 | 713 | 1,836 | – | 5,504 | 1,033 | 6,537 | 12,688 | – | 21,061 | – | 21,061 |
| Deferred corporate income tax assets | 4,672 | 4,925 | 8,875 | 18,472 | 1,196 | 47,964 | 28,671 | 77,831 | 275,236 | (217,476) | 154,063 | – | 154,063 |
| Other assets | 110,052 | 39,746 | 73,356 | 223,154 | – | 908,883 | 238,245 | 1,147,128 | 1,431,117 | 102,134 | 2,903,533 | – | 2,903,533 |
| Intersegment/intersub-segment transfer of funds | 305,480 | 8,054,628 | 64,509,094 | 72,869,202 | 19,181 | 10,387,085 | 33,489,484 | 43,895,750 | 39,142,955 | 34,612,527 | 190,520,434 | (190,520,434) | – |
| Total assets | 1,649,491 | 41,391,409 | 64,865,380 | 107,906,280 | 66,203 | 63,642,309 | 35,465,174 | 99,173,686 | 95,520,654 | 97,251,515 | 399,852,135 | (190,520,434) | 209,331,701 |
| | | | | | | | | | | | | | |
| Amounts due to banks and other financial institutions | – | 1,796,219 | 11,674,961 | 13,471,180 | – | 4,657,315 | – | 4,657,315 | 2,418,621 | 10,582,327 | 31,129,443 | – | 31,129,443 |
| Amounts due to customers | – | 5,495,949 | 52,148,926 | 57,644,875 | – | 3,804,556 | 32,013,763 | 35,818,319 | 30,048,083 | – | 123,511,277 | – | 123,511,277 |
| Debt securities issued | – | – | – | – | – | – | – | – | – | 14,759,142 | 14,759,142 | – | 14,759,142 |
| Subordinated debt | – | – | – | – | – | – | – | – | – | 9,264,867 | 9,264,867 | – | 9,264,867 |
| Government grants | – | – | – | – | – | 86,355 | – | 86,355 | 2,940,411 | – | 3,026,766 | – | 3,026,766 |
| Derivative financial liabilities | 35,147 | – | – | 35,147 | – | – | – | – | – | 171,341 | 206,488 | – | 206,488 |
| Other liabilities | 149,305 | 52,770 | 572,919 | 774,994 | – | 483,765 | 648,626 | 1,132,391 | 892,706 | 28,569 | 2,828,660 | – | 2,828,660 |
| Lease liability | 57,780 | 87,455 | 100,522 | 245,757 | 18,760 | 513,288 | 547,740 | 1,079,788 | 1,894,475 | 6,582 | 3,226,602 | – | 3,226,602 |
| Intersegment/intersub-segment transfer of funds | 1,402,084 | 29,618,086 | 329,258 | 31,349,428 | 54,232 | 45,209,300 | 1,790,062 | 47,053,594 | 47,210,684 | 64,906,728 | 190,520,434 | (190,520,434) | – |
| Total liabilities | 1,644,316 | 37,050,479 | 64,826,586 | 103,521,381 | 72,992 | 54,754,579 | 35,000,191 | 89,827,762 | 85,404,980 | 99,719,556 | 378,473,679 | (190,520,434) | 187,953,245 |
| | | | | | | | | | | | | | |
| Total equity | 44,188 | 4,277,290 | 126,130 | 4,447,608 | – | 8,874,905 | 325,829 | 9,200,734 | 7,458,099 | 272,015 | 21,378,456 | – | 21,378,456 |
| Total equity and liabilities | 1,688,504 | 41,327,769 | 64,952,716 | 107,968,989 | 72,992 | 63,629,484 | 35,326,020 | 99,028,496 | 92,863,079 | 99,991,571 | 399,852,135 | (190,520,434) | 209,331,701 |

*(in thousands of Tenge, unless otherwise is stated)*

## 5. Segment information (continued)

| 2018 | *Corporate – investment banking* Investment banking | *Corporate – investment banking* Loans and deposits | *Corporate – investment banking* Transactional business | Total CIB | *Medium corporate business* Investment banking | *Medium corporate business* Loans and deposits | *Medium corporate business* Transactional business | Total MCB | Retail Banking | Treasury | Total prior to elimination of inter-segment transactions | Elimination of inter-segment transactions | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | – | – | – | – | – | – | – | – | 939,374 | 48,378,764 | 49,318,138 | – | 49,318,138 |
| Trading securities | 4,765,761 | – | – | 4,765,761 | – | – | – | – | – | – | 4,765,761 | – | 4,765,761 |
| Amounts due from financial institutions | – | 5,366,050 | – | 5,366,050 | – | – | – | – | 545,064 | 287,651 | 6,198,765 | – | 6,198,765 |
| Loans to customers | – | 11,786,520 | – | 11,786,520 | – | 41,608,264 | – | 41,608,264 | 37,963,856 | – | 91,358,640 | – | 91,358,640 |
| Investment securities | 592,067 | – | – | 592,067 | – | – | – | – | – | – | 592,067 | – | 592,067 |
| Property and equipment | 26,879 | 26,051 | 42,727 | 95,657 | – | 303,135 | 379,625 | 682,760 | 1,807,604 | 3,051 | 2,589,072 | – | 2,589,072 |
| Intangible assets | 60,621 | 58,202 | 70,210 | 189,033 | – | 330,518 | 396,798 | 727,316 | 1,208,646 | 3,160 | 2,128,155 | – | 2,128,155 |
| Current corporate income tax assets | 48 | 587 | 559 | 1,194 | – | 378 | 581 | 959 | 1,892 | 1,089 | 5,134 | – | 5,134 |
| Deferred corporate income tax assets | 12,452 | 153,854 | 146,528 | 312,834 | – | 99,046 | 152,100 | 251,146 | 495,500 | 285,111 | 1,344,591 | – | 1,344,591 |
| Other assets | 102,716 | 60,547 | 164,434 | 327,697 | – | 1,032,454 | 339,758 | 1,372,212 | 1,840,176 | 256,884 | 3,796,969 | – | 3,796,969 |
| Intersegment/intersub-segment transfer of funds | 200,924 | 275,623 | 47,928,697 | 48,405,244 | – | 5,983,718 | 27,977,490 | 33,961,208 | 21,835,921 | 36,989,525 | 141,191,898 | (141,191,898) | – |
| Total assets | 5,761,468 | 17,727,434 | 48,353,155 | 71,842,057 | – | 49,357,513 | 29,246,352 | 78,603,865 | 66,638,033 | 86,205,235 | 303,289,190 | (141,191,898) | 162,097,292 |
| Amounts due to banks and other financial institutions | – | 100 | 5,766,097 | 5,766,197 | – | 4,318,702 | – | 4,318,702 | 144,992 | 2,560,417 | 12,790,308 | – | 12,790,308 |
| Amounts due to customers | – | 237,034 | 39,361,153 | 39,598,187 | – | 1,189,751 | 27,552,303 | 28,742,054 | 20,625,650 | – | 88,965,891 | – | 88,965,891 |
| Debt securities issued | – | – | – | – | – | – | – | – | – | 20,407,415 | 20,407,415 | – | 20,407,415 |
| Subordinated debt | – | – | – | – | – | – | – | – | – | 13,840,183 | 13,840,183 | – | 13,840,183 |
| Government grants | – | – | – | – | – | – | – | – | 355,286 | – | 355,286 | – | 355,286 |
| Derivative financial liabilities | 50,061 | – | – | 50,061 | – | – | – | – | – | – | 50,061 | – | 50,061 |
| Other liabilities | 152,316 | 40,589 | 2,801,322 | 2,994,227 | – | 475,685 | 425,714 | 901,399 | 705,718 | 181,408 | 4,782,752 | – | 4,782,752 |
| Intersegment/intersub-segment transfer of funds | 5,535,509 | 14,946,379 | 286,318 | 20,768,206 | – | 32,762,936 | 815,393 | 33,578,329 | 37,925,395 | 48,919,968 | 141,191,898 | (141,191,898) | – |
| Total liabilities | 5,737,886 | 15,224,102 | 48,214,890 | 69,176,878 | – | 38,747,074 | 28,793,410 | 67,540,484 | 59,757,041 | 85,909,391 | 282,383,794 | (141,191,898) | 141,191,896 |
| Total equity | 23,581 | 2,503,332 | 138,264 | 2,665,177 | – | 10,610,438 | 452,943 | 11,063,381 | 6,880,995 | 295,843 | 20,905,396 | – | 20,905,396 |
| Total equity and liabilities | 5,761,467 | 17,727,434 | 48,353,154 | 71,842,055 | – | 49,357,512 | 29,246,353 | 78,603,865 | 66,638,036 | 86,205,234 | 303,289,190 | (141,191,898) | 162,097,292 |

*(in thousands of Tenge, unless otherwise is stated)*

## 5. Segment information (continued)

| | *Corporate - investment banking (CIB)* | | | | | | | | *Medium corporate business (MCB)* | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Investment banking* | | *Loans and deposits* | | *Cash and liquidity management* | | *Total CIB* | | *Investment banking* | | *Loans and deposits* | | *Cash and liquidity management* | | *Total MCB* | | *Retail banking* | | *Treasury* | | *Elimi-nation of inter-segment transact-tions* | |
| *2019* | *External customers* | *Other segments* | *External customers* | *Other segments* | *External customers* | *Other segments* | *External customers* | *Other segments* | *External customers* | *Other segments* | *External customers* | *Other segments* | *External customers* | *Other segments* | *External customers* | *Other segments* | *External customers* | *Other segments* | *External customers* | *Other customers* | | *Total* |
| Interest income | 122,619 | 5,486 | 3,172,633 | 69,210 | – | 3,033,527 | 3,295,252 | 3,108,223 | – | – | 5,247,480 | 636,894 | – | 1,451,365 | 5,247,480 | 2,088,259 | 8,678,219 | 1,551,670 | 648,850 | 9,348,224 | 16,096,376 | 17,869,801 |
| Interest expense | (12,527) | (237,388) | (13,051) | (2,048,206) | (2,322,311) | – | (2,347,889) | (2,285,594) | (2,028) | – | (542,812) | (3,484,853) | (641,484) | – | (1,186,324) | (3,484,853) | (1,532,580) | (3,990,463) | (2,478,895) | (6,335,466) | (16,096,376) | (7,545,688) |
| Net interest income before credit loss expense | 110,092 | (231,902) | 3,159,582 | (1,978,996) | (2,322,311) | 3,033,527 | 947,363 | 822,629 | (2,028) | – | 4,704,668 | (2,847,959) | (641,484) | 1,451,365 | 4,061,156 | (1,396,594) | 7,145,639 | (2,438,793) | (1,830,045) | 3,012,758 | – | 10,324,113 |
| Credit loss expense | 7,282 | – | (304,458) | – | (219,943) | – | (517,119) | – | – | – | (473,680) | – | (257,658) | – | (731,338) | – | (1,826,848) | – | 10,824 | – | – | (3,064,481) |
| Net interest income | 117,374 | (231,902) | 2,855,124 | (1,978,996) | (2,542,254) | 3,033,527 | 430,244 | 822,629 | (2,028) | – | 4,230,988 | (2,847,959) | (899,142) | 1,451,365 | 3,329,818 | (1,396,594) | 5,318,791 | (2,438,793) | (1,819,221) | 3,012,758 | – | 7,259,632 |
| Net fee and commission income | 221,026 | (85,187) | – | – | 152,261 | – | 373,287 | (85,187) | – | 85,187 | – | – | 1,037,587 | – | 1,037,587 | 85,187 | 2,141,790 | – | (187,951) | – | – | 3,364,713 |
| Net gains on initial recognition of financial assets measured at amortized cost | – | – | 178,247 | – | – | – | 178,247 | – | – | – | 159,902 | – | – | – | 159,902 | – | 28,782 | – | – | – | – | 366,931 |
| Net gains on derecognition of financial assets at FVOCI | 3,122 | – | – | – | – | – | 3,122 | – | – | – | – | – | – | – | – | – | – | – | – | – | – | 3,122 |
| Net gains from transactions in foreign currencies: | 4,873,289 | (36,030) | – | – | – | – | 4,873,289 | (36,030) | – | 324, 192 | – | – | – | – | – | 324,192 | 60,225 | 13,885 | 599,819 | (302,047) | – | 5,533,333 |
| - dealing | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| - translation differences | (1,406,735) | – | – | – | – | – | (1,406,735) | – | – | – | – | – | – | – | – | – | – | – | – | – | – | (1,406,735) |
| Other operating income | 4,094 | – | – | – | – | – | 4,094 | – | – | – | 11,735 | – | – | – | 11,735 | – | 119,165 | – | 23,847 | – | – | 158,841 |
| Non-interest income | 3,694,796 | (121,217) | 178,247 | – | 152,261 | – | 4,025,304 | (121,217) | – | 409,379 | 171,637 | – | 1,037,587 | – | 1,209,224 | 409,379 | 2,349,962 | 13,885 | 435,715 | (302,047) | – | 8,020,205 |
| Net operating income | 3,812,170 | (353,119) | 3,033,371 | (1,978,996) | (2,389,993) | 3,033,527 | 4,455,548 | 701,412 | (2,028) | 409,379 | 4,402,625 | (2,847,959) | 138,445 | 1,451,365 | 4,539,042 | (987,215) | 7,668,753 | (2,424,908) | (1,383,506) | 2,710,711 | – | 15,279,837 |
| Non-interest expense | (578,521) | – | (538,264) | – | (397,340) | – | (1,514,125) | – | (64,762) | – | (1,847,834) | – | (1,412,001) | – | (3,324,597) | – | (4,653,985) | – | (33,439) | – | – | (9,526,146) |
| Profit before corporate income tax expense | 3,233,649 | (353,119) | 2,495,107 | (1,978,996) | (2,787,333) | 3,033,527 | 2,941,423 | 701,412 | (66,790) | 409,379 | 2,554,791 | (2,847,959) | (1,273,556) | 1,451,365 | 1,214,445 | (987,215) | 3,014,768 | (2,424,908) | (1,416,945) | 2,710,711 | – | 5,753,691 |
| Corporate income tax expense | (573,428) | – | (105,104) | – | (49,181) | – | (727,713) | – | (68,438) | – | 58,450 | – | (35,405) | – | (45,393) | – | 58,948 | – | (476,370) | – | – | (1,190,528) |
| Profit for the year | 2,660,221 | (353,119) | 2,390,003 | (1,978,996) | (2,836,514) | 3,033,527 | 2,213,710 | 701,412 | (135,228) | 409,379 | 2,613,241 | (2,847,959) | (1,308,961) | 1,451,365 | 1,169,052 | (987,215) | 3,073,716 | (2,424,908) | (1,893,315) | 2,710,711 | – | 4,563,163 |
| Segment result | | | | | | | – | 2,915,122 | | | | | | | – | 181,837 | – | 648,808 | – | 817,396 | – | 4,563,163 |

*(in thousands of Tenge, unless otherwise is stated)*

## 5. Segment information (continued)

| | *Corporate – investment banking (CIB)* | | | | | | | | *Medium corporate business (MCB)* | | | | | | | | | | | | *Elimi-nation of inter-segment transact-tions* | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Investment banking* | | *Loans and deposits* | | *Cash and liquidity management* | | *Total CIB* | | *Investment banking* | | *Loans and deposits* | | *Cash and liquidity management* | | *Total MCB* | | *Retail banking* | | *Treasury* | | | |
| *2018* | *External customers* | *Other segments* | *External customers* | *Other segments* | *External customers* | *Other segments* | *External customers* | *Other segments* | *External customers* | *Other segments* | *External customers* | *Other segments* | *External customers* | *Other segments* | *External customers* | *Other segments* | *External customers* | *Other segments* | *External customers* | *Other customers* | | *Total* |
| Interest income | 1,471,973 | 1,116,751 | 1,940,239 | 4,402 | – | 2,097,280 | 3,412,212 | 3,218,433 | – | – | 5,260,888 | 533,082 | – | 1,356,744 | 5,260,888 | 1,889,826 | 7,839,360 | 1,181,551 | 462,033 | 9,702,796 | 15,992,607 | 16,974,492 |
| Interest expense | – | (1,347,570) | – | (1,011,260) | (1,613,824) | – | (1,613,824) | (2,358,830) | – | – | (663,710) | (3,249,782) | (485,657) | – | (1,149,367) | (3,249,782) | (886,049) | (3,737,783) | (3,682,082) | (6,646,212) | (15,992,607) | (7,331,322) |
| Net interest income before credit loss expense | 1,471,973 | (230,819) | 1,940,239 | (1,006,858) | (1,613,824) | 2,097,280 | 1,798,388 | 859,603 | – | – | 4,597,178 | (2,716,700) | (485,657) | 1,356,744 | 4,111,521 | (1,359,956) | 6,953,311 | (2,556,232) | (3,220,049) | 3,056,584 | – | 9,643,170 |
| Credit loss expense | (4,540) | – | (303,531) | – | (245,701) | – | (553,772) | – | – | – | (858,112) | – | (79,798) | – | (937,910) | – | (1,052,554) | – | (12,792) | – | – | (2,557,028) |
| Net interest income | 1,467,433 | (230,819) | 1,636,708 | (1,006,858) | (1,859,525) | 2,097,280 | 1,244,616 | 859,603 | – | – | 3,739,066 | (2,716,700) | (565,455) | 1,356,744 | 3,173,611 | (1,359,956) | 5,900,757 | (2,556,232) | (3,232,841) | 3,056,584 | – | 7,086,142 |
| | | | | | | | | | – | – | | | | | | | | | | | | |
| Net fee and commission income | 154,749 | – | – | – | 204,522 | – | 359,271 | – | – | – | – | – | 1,238,270 | – | 1,238,270 | – | 1,400,244 | – | (270,080) | – | – | 2,727,705 |
| Net gains on derecognition of financial assets at FVOCI | 12,184 | – | – | – | – | – | 12,184 | – | – | – | – | – | – | – | – | – | – | – | – | – | – | 12,184 |
| Net gains from transactions with financial instruments at fair value through profit or loss | 2,207 | – | – | – | – | – | 2,207 | – | – | – | – | – | – | – | – | – | – | – | – | – | – | 2,207 |
| Net gains from transactions in foreign currencies: | 3,220,727 | – | – | – | – | – | 3,220,727 | – | 276,230 | – | – | – | – | – | 276,230 | – | 160,054 | – | 738,159 | – | – | 4,395,170 |
| - dealing | 3,328,230 | – | – | – | – | – | 3,328,230 | – | 276,230 | – | – | – | – | – | 276,230 | – | 164,335 | – | 760,722 | – | – | 4,529,517 |
| - translation differences | (107,503) | – | – | – | – | – | (107,503) | – | – | – | – | – | – | – | – | – | (4,281) | – | (22,563) | – | – | (134,347) |
| Other operating income | 7,035 | – | 443 | – | – | – | 7,478 | – | – | – | 6,470 | – | – | – | 6,470 | – | 27,529 | – | 15,436 | – | – | 56,913 |
| Non-interest income | 3,396,902 | – | 443 | – | 204,522 | – | 3,601,867 | – | 276,230 | – | 6,470 | – | 1,238,270 | – | 1,520,970 | – | 1,587,827 | – | 483,515 | – | – | 7,194,179 |
| Net operating income | 4,864,335 | (230,819) | 1,637,151 | (1,006,858) | (1,655,003) | 2,097,280 | 4,846,483 | 859,603 | 276,230 | – | 3,745,536 | (2,716,700) | 672,815 | 1,356,744 | 4,694,581 | (1,359,956) | 7,488,584 | (2,556,232) | (2,749,326) | 3,056,584 | – | 14,280,321 |
| Non-interest expense | (396,713) | – | (394,012) | – | (337,111) | – | (1,127,836) | – | (19,031) | – | (1,647,086) | – | (1,457,310) | – | (3,123,427) | – | (4,920,294) | (2) | (26,443) | – | – | (9,198,002) |
| Profit before corporate income tax expense | 4,467,622 | (230,819) | 1,243,139 | (1,006,858) | (1,992,114) | 2,097,280 | 3,718,647 | 859,603 | 257,199 | – | 2,098,450 | (2,716,700) | (784,495) | 1,356,744 | 1,571,154 | (1,359,956) | 2,568,290 | (2,556,234) | (2,775,769) | 3,056,584 | – | 5,082,319 |
| | | | | | | | | | | – | | | | | | | | | | | | |
| Corporate income tax expense | (765,535) | – | (42,693) | – | (19,002) | – | (827,230) | – | (59,000) | – | 111,710 | – | (90,871) | – | (38,161) | – | (2,178) | – | (95,043) | – | – | (962,612) |
| Profit for the year | 3,702,087 | (230,819) | 1,200,446 | (1,006,858) | (2,011,116) | 2,097,280 | 2,891,417 | 859,603 | 198,199 | – | 2,210,160 | (2,716,700) | (875,366) | 1,356,744 | 1,532,993 | (1,359,956) | 2,566,112 | (2,556,234) | (2,870,812) | 3,056,584 | – | 4,119,707 |
| Segment result | | | | | | | – | 3,751,020 | | | | | | | – | 173,037 | – | 9,878 | – | 185,772 | – | 4,119,707 |

All revenues of the Bank are generated in Kazakhstan. Geographic areas of the Bank activities are presented in *Note 24* to these financial statements with reference to the actual location of the counteragent, i.e. based on economic risk rather than legal risk of the counteragent.

*(in thousands of Tenge, unless otherwise is stated)*

## 6. Cash and cash equivalents

Cash and cash equivalents comprise:

| | *2019* | *2018* |
|---|---|---|
| Cash on hand | 4,849,014 | 7,866,011 |
| Current accounts with the NBRK | 38,004,446 | 31,017,642 |
| Current accounts with other banks | 7,312,901 | 1,602,552 |
| Time deposits with the NBRK with contractual maturity of up to 90 days | 16,008,721 | 8,003,667 |
| Time deposits with other banks with contractual maturity of up to 90 days | – | 828,306 |
| | 66,175,082 | 49,318,178 |
| Less: allowance for ECL | (45) | (40) |
| | 66,175,037 | 49,318,138 |

Under Kazakh legislation, the Bank is required to maintain obligatory reserves, which are computed as a percentage of certain liabilities of the Bank. Such reserves must be held on the current account with the NBRK or physical cash computed based on average balances of the aggregate of cash balances on current account with the NBRK or physical cash during the period of reserve creation.

As at 31 December 2019 and 2018, obligatory reserves amounted to KZT 1,956,743 thousand and KZT 1,458,106 thousand, respectively.

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

| | *2019* | *2018* |
|---|---|---|
| ECL allowance as at 1 January | (40) | (12) |
| Net change in the allowance for the year *(Note 19)* | (3) | (27) |
| Foreign exchange differences | (2) | (1) |
| ECL allowance as at 31 December | (45) | (40) |

## 7. Amounts due from financial institutions

Amounts due from financial institutions comprise:

| | *2019* | *2018* |
|---|---|---|
| Loans with contractual maturity of more than 90 days | 5,970,391 | 5,482,274 |
| Restricted cash | 1,307,602 | 846,456 |
| | 7,277,993 | 6,328,730 |
| Less: allowance for ECL | (132,471) | (129,965) |
| | 7,145,522 | 6,198,765 |

As at 31 December 2019 and 31 December 2018, loans with contractual maturity of more than 90 days included a loan placed with a Kazakhstan bank in the amount of KZT 6,000,000 thousand and KZT 5,500,000 thousand, respectively. The loan is denominated in Tenge, has an interest rate of 13.5% per annum (31 December 2018: 12.5% per annum) and maturity in 2021 (31 December 2018: in 2019).

As at 31 December 2019, restricted cash included deposits that secured the Bank's liabilities to the KASE in the amount of KZT 1,060,333 thousand (31 December 2018: KZT 300,000 thousand) and organizations providing payment transaction services in the amount of KZT 139,369 thousand (31 December 2018: KZT 543,657 thousand).

*(in thousands of Tenge, unless otherwise is stated)*

## 7. Amounts due from financial institutions (continued)

All balances of amounts due from financial institutions are allocated to Stage 1 for the purpose of measuring ECL. An analysis of changes in gross carrying value and corresponding ECL allowance for the year is as follows:

| | *2019* | *2018* |
|---|---|---|
| Gross carrying amount at 1 January | 6,328,730 | 5,505,846 |
| New assets originated or purchased | 32,140,130 | 9,252,570 |
| Assets repaid | (31,205,303) | (8,537,997) |
| Change in accrued interest | 5,617 | 30,193 |
| Foreign exchange differences | 8,819 | 78,118 |
| At 31 December | 7,277,993 | 6,328,730 |

| | *2019* | *2018* |
|---|---|---|
| ECL allowance as at 1 January | (129,965) | (61,533) |
| Net change in ECL for the year *(Note 19)* | (2,338) | (68,230) |
| Foreign exchange differences | (168) | (202) |
| At 31 December | (132,471) | (129,965) |

## 8. Derivative financial assets and liabilities

The Bank enters into derivative financial instruments for trading purposes. The table below shows the fair values of derivative financial instruments, recorded as assets and liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

| | *2019* | | | *2018* | | |
|---|---|---|---|---|---|---|
| | *Notional* | *Fair values* | | *Notional* | *Fair values* | |
| | *amount* | *Asset* | *Liability* | *amount* | *Asset* | *Liability* |
| Foreign exchange contracts | | | | | | |
| Forwards – domestic contracts | 278,850 | 10,568 | – | 1,613,883 | – | (50,061) |
| Swaps – domestic contracts | 26,819,559 | 24,156 | (34,703) | – | – | – |
| Swaps – foreign contracts | 37,949,613 | – | (171,785) | – | – | – |
| Derivative financial assets/(liabilities) | 65,048,022 | 34,724 | (206,488) | 1,613,883 | – | (50,061) |

### Forwards

Forwards contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market.

### Swaps

Swaps are contractual agreements between two parties to exchange movements in foreign currency rates based on notional amounts.

## 9. Loans to customers

Loans to customers comprise:

| | *2019* | *2018* |
|---|---|---|
| Commercial lending | 68,458,978 | 45,866,024 |
| Small business lending | 17,637,830 | 16,665,151 |
| Consumer lending | 42,278,197 | 34,101,681 |
| Mortgage lending | 5,124,635 | 6,339,819 |
| Gross loans to customers | 133,499,640 | 102,972,675 |
| Less allowance for ECL | (10,571,302) | (11,614,035) |
| Loans to customers | 122,928,338 | 91,358,640 |

*(in thousands of Tenge, unless otherwise is stated)*

## 9. Loans to customers (continued)

### Provision for impairment of loans to customers

Below is an analysis of changes in gross carrying amount and relevant ECL allowance for the year ended 31 December 2019:

| *Commercial lending* | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|---|
| Gross carrying amount as at 1 January 2019 | 34,076,286 | 748,009 | 11,041,729 | 45,866,024 |
| New assets originated or purchased | 94,491,475 | – | – | 94,491,475 |
| Assets repaid | (65,650,028) | – | (4,797,345) | (70,447,373) |
| Transfers to Stage 1 | 700,080 | (700,080) | – | – |
| Transfers to Stage 2 | (4,179,725) | 4,179,725 | – | – |
| Transfers to Stage 3 | – | (4,234,741) | 4,234,741 | – |
| Change in accrued interest | (693,389) | 7,087 | 108,412 | (577,890) |
| Change in classification of borrowers | 901,910 | – | – | 901,910 |
| Unwinding of discount | – | – | 570,529 | 570,529 |
| Amounts written off | – | – | (2,296,381) | (2,296,381) |
| Foreign exchange adjustments | (46,771) | – | (2,545) | (49,316) |
| As at 31 December 2019 | 59,599,838 | – | 8,859,140 | 68,458,978 |

| *Commercial lending* | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|---|
| Allowance for ECL as at 1 January 2019 | (297,143) | (28,880) | (6,141,444) | (6,467,467) |
| New assets originated or purchased | (469,344) | – | – | (469,344) |
| Assets repaid | 391,117 | – | 378,185 | 769,302 |
| Transfers to Stage 1 | (5,367) | 5,367 | – | – |
| Transfers to Stage 2 | 89,664 | (89,664) | – | – |
| Transfers to Stage 3 | – | 176,996 | (176,996) | – |
| Impact on ECL of exposures transferred between stages and changes in inputs | 40,920 | (63,819) | (841,550) | (864,449) |
| Change in classification of borrowers | (6,457) | – | – | (6,457) |
| Unwinding of discount | – | – | (570,529) | (570,529) |
| Amounts written off | – | – | 2,296,381 | 2,296,381 |
| Foreign exchange adjustments | 171 | – | 1,745 | 1,916 |
| As at 31 December 2019 | (256,439) | – | (5,054,208) | (5,310,647) |

| *Small business lending* | *Stage 1* | *Stage 2* | *Stage 3* | *POCI* | *Total* |
|---|---|---|---|---|---|
| Gross carrying amount as at 1 January 2019 | 12,623,383 | 68,113 | 3,973,655 | – | 16,665,151 |
| New assets originated or purchased | 22,523,652 | – | – | 91,133 | 22,614,785 |
| Assets repaid | (20,225,390) | (6,817) | (573,445) | (3,321) | (20,808,973) |
| Transfers to Stage 1 | 70,011 | (70,011) | – | – | – |
| Transfers to Stage 2 | (359,510) | 414,566 | (55,056) | – | – |
| Transfers to Stage 3 | – | (317,153) | 317,153 | – | – |
| Change in accrued interest | 27,664 | (17,943) | 269,319 | – | 279,040 |
| Change in classification of borrowers | (901,910) | – | – | – | (901,910) |
| Unwinding of discount | – | – | 360,720 | – | 360,720 |
| Amounts written off | – | – | (531,523) | – | (531,523) |
| Foreign exchange adjustments | (22,181) | 8,267 | (25,546) | – | (39,460) |
| As at 31 December 2019 | 13,735,719 | 79,022 | 3,735,277 | 87,812 | 17,637,830 |

*(in thousands of Tenge, unless otherwise is stated)*

## 9. Loans to customers (continued)

### Provision for impairment of loans to customers (continued)

| *Small business lending* | *Stage 1* | *Stage 2* | *Stage 3* | *POCI* | *Total* |
|---|---|---|---|---|---|
| Allowance for ECL as at 1 January 2019 | (50,964) | (5,375) | (2,612,585) | – | (2,668,924) |
| New assets originated or purchased | (140,436) | – | – | – | (140,436) |
| Assets repaid | 115,893 | – | – | – | 115,893 |
| Transfers to Stage 1 | (3,790) | 3,790 | – | – | – |
| Transfers to Stage 2 | 1,507 | (31,477) | 29,970 | – | – |
| Transfers to Stage 3 | – | 25,721 | (25,721) | – | – |
| Impact on ECL of exposures transferred between stages and changes in inputs | 11,450 | 4,750 | (195,035) | | (178,835) |
| Change in classification of borrowers | 6,457 | – | – | – | 6,457 |
| Unwinding of discount | – | – | (360,720) | – | (360,720) |
| Amounts written off | – | – | 531,523 | – | 531,523 |
| Foreign exchange adjustments | – | – | (413) | – | (413) |
| As at 31 December 2019 | (59,883) | (2,591) | (2,632,981) | – | (2,695,455) |

| *Consumer lending* | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|---|
| Gross carrying amount as at 1 January 2019 | 29,181,205 | 585,872 | 4,334,604 | 34,101,681 |
| New assets originated or purchased | 27,875,001 | – | – | 27,875,001 |
| Assets repaid | (16,433,214) | (585,565) | (258,147) | (17,276,926) |
| Assets sold | – | – | (602,542) | (602,542) |
| Transfers to Stage 1 | 2,460,573 | (2,460,573) | – | – |
| Transfers to Stage 2 | (4,660,045) | 5,582,825 | (922,780) | – |
| Transfers to Stage 3 | | (2,646,148) | 2,646,148 | – |
| Change in accrued interest | (27,320) | 1,823 | (133,710) | (159,207) |
| Unwinding of discount | – | – | 123,753 | 123,753 |
| Amounts written off | – | – | (1,786,593) | (1,786,593) |
| Foreign exchange adjustments | 1,540 | – | 1,490 | 3,030 |
| As at 31 December 2019 | 38,397,740 | 478,234 | 3,402,223 | 42,278,197 |

| *Consumer lending* | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|---|
| Allowance for ECL as at 1 January 2019 | (853,032) | (179,791) | (1,305,216) | (2,338,039) |
| New assets originated or purchased | (814,275) | – | – | (814,275) |
| Assets repaid | 430,071 | 24,790 | 90,442 | 545,303 |
| Transfers to Stage 1 | (454,410) | 454,410 | – | – |
| Transfers to Stage 2 | 127,043 | (381,203) | 254,160 | – |
| Transfers to Stage 3 | – | 989,301 | (989,301) | – |
| Impact on ECL of exposures transferred between stages and changes in inputs | 557,777 | (1,105,033) | (914,010) | (1,461,266) |
| Unwinding of discount | – | – | (123,753) | (123,753) |
| Amounts written off | – | – | 1,786,593 | 1,786,593 |
| Foreign exchange adjustments | (86) | – | (462) | (548) |
| As at 31 December 2019 | (1,006,912) | (197,526) | (1,201,547) | (2,405,985) |

*(in thousands of Tenge, unless otherwise is stated)*

## 9. Loans to customers (continued)

### Provision for impairment of loans to customers (continued)

| *Mortgage lending* | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|---|
| Gross carrying amount as at 1 January 2019 | 5,186,816 | 52,180 | 1,100,823 | 6,339,819 |
| Assets repaid | (989,225) | (14,233) | (215,295) | (1,218,753) |
| Transfers to Stage 1 | 563,109 | (563,109) | – | – |
| Transfers to Stage 2 | (179,161) | 731,908 | (552,747) | – |
| Transfers to Stage 3 | – | (195,541) | 195,541 | – |
| Change in accrued interest | (9,857) | 1,318 | 37,257 | 28,718 |
| Unwinding of discount | – | – | 16,065 | 16,065 |
| Amounts written off | – | – | (41,214) | (41,214) |
| As at 31 December 2019 | 4,571,682 | 12,523 | 540,430 | 5,124,635 |

| *Mortgage lending* | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|---|
| Allowance for ECL as at 1 January 2019 | (22,638) | (1,007) | (115,960) | (139,605) |
| Assets repaid | 46 | – | 7,227 | 7,273 |
| Transfers to Stage 1 | (236) | 236 | – | – |
| Transfers to Stage 2 | 2,336 | (51,394) | 49,058 | – |
| Transfers to Stage 3 | – | 8,630 | (8,630) | – |
| Impact on ECL of exposures transferred between stages and changes in inputs | 12,618 | 43,535 | (108,185) | (52,032) |
| Unwinding of discount | – | – | (16,065) | (16,065) |
| Amounts written off | – | – | 41,214 | 41,214 |
| As at 31 December 2019 | (7,874) | – | (151,341) | (159,215) |

Below is an analysis of changes in gross carrying amount and relevant ECLs for the year ended 31 December 2018:

| *Commercial lending* | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|---|
| Gross carrying amount as at 1 January 2018 | 19,463,154 | – | 11,685,859 | 31,149,013 |
| New assets originated or purchased | 69,351,719 | – | – | 69,351,719 |
| Assets repaid | (54,070,868) | (666,596) | (1,550,994) | (56,288,458) |
| Transfers to Stage 2 | (1,695,238) | 1,695,238 | – | – |
| Transfers to Stage 3 | – | (282,759) | 282,759 | – |
| Change in accrued interest | 101,065 | 2,126 | 626,222 | 729,413 |
| Unwinding of discount | – | – | 348,917 | 348,917 |
| Changes to contractual cash flows due to modification not resulting in derecognition | – | – | (99,011) | (99,011) |
| Amounts written off | – | – | (252,023) | (252,023) |
| Foreign exchange adjustments | 926,454 | – | – | 926,454 |
| As at 31 December 2018 | 34,076,286 | 748,009 | 11,041,729 | 45,866,024 |

| *Commercial lending* | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|---|
| Allowance for ECL as at 1 January 2018 | (172,601) | – | (5,309,859) | (5,482,460) |
| New assets originated or purchased | (595,958) | – | – | (595,958) |
| Assets repaid | 469,694 | 6,322 | 428,874 | 904,890 |
| Transfers to Stage 2 | 14,874 | (14,874) | – | – |
| Transfers to Stage 3 | – | 26,459 | (26,459) | – |
| Impact on ECL of exposures transferred between stages and changes in inputs | (10,890) | (46,787) | (1,236,117) | (1,293,794) |
| Changes to contractual cash flows due to modification not resulting in derecognition | – | – | 99,011 | 99,011 |
| Unwinding of discount | – | – | (348,917) | (348,917) |
| Amounts written off | – | – | 252,023 | 252,023 |
| Foreign exchange adjustments | (2,262) | – | – | (2,262) |
| As at 31 December 2018 | (297,143) | (28,880) | (6,141,444) | (6,467,467) |

*(in thousands of Tenge, unless otherwise is stated)*

## 9. Loans to customers (continued)

### Provision for impairment of loans to customers (continued)

| *Small business lending* | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|---|
| Gross carrying amount as at 1 January 2018 | 12,278,220 | – | 4,028,209 | 16,306,429 |
| New assets originated or purchased | 21,956,973 | – | – | 21,956,973 |
| Assets repaid | (21,035,650) | (15,146) | (386,327) | (21,437,123) |
| Transfers to Stage 1 | 195,514 | (195,514) | – | – |
| Transfers to Stage 2 | (755,262) | 946,247 | (190,985) | – |
| Transfers to Stage 3 | – | (668,916) | 668,916 | – |
| Change in accrued interest | (16,412) | 1,442 | (121,026) | (135,996) |
| Unwinding of discount | – | – | 134,459 | 134,459 |
| Changes to contractual cash flows due to modification not resulting in derecognition | – | – | (10,429) | (10,429) |
| Amounts written off | – | – | (149,162) | (149,162) |
| As at 31 December 2018 | 12,623,383 | 68,113 | 3,973,655 | 16,665,151 |

| *Small business lending* | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|---|
| Allowance for ECL as at 1 January 2018 | (23,449) | – | (2,481,804) | (2,505,253) |
| New assets originated or purchased | (61,827) | – | – | (61,827) |
| Assets repaid | 59,354 | 69 | 145,792 | 205,215 |
| Transfers to Stage 1 | (3,907) | 3,907 | – | – |
| Transfers to Stage 2 | 2,257 | (123,848) | 121,591 | – |
| Transfers to Stage 3 | – | 34,666 | (34,666) | – |
| Impact on ECL of exposures transferred between stages and changes in inputs | (23,392) | 79,831 | (388,630) | (332,191) |
| Changes to contractual cash flows due to modification not resulting in derecognition | – | – | 10,429 | 10,429 |
| Unwinding of discount | – | – | (134,459) | (134,459) |
| Amounts written off | – | – | 149,162 | 149,162 |
| As at 31 December 2018 | (50,964) | (5,375) | (2,612,585) | (2,668,924) |

| *Consumer lending* | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|---|
| Gross carrying amount as at 1 January 2018 | 26,286,096 | 296,174 | 2,475,170 | 29,057,440 |
| New assets originated or purchased | 18,525,125 | – | – | 18,525,125 |
| Assets repaid | (13,453,798) | (136,343) | (427,899) | (14,018,040) |
| Assets sold | – | – | (272,812) | (272,812) |
| Transfers to Stage 1 | 2,287,586 | (2,287,586) | – | – |
| Transfers to Stage 2 | (4,988,696) | 6,395,224 | (1,406,528) | – |
| Transfers to Stage 3 | – | (3,689,002) | 3,689,002 | – |
| Change in accrued interest | 519,413 | 6,474 | 89,895 | 615,782 |
| Unwinding of discount | – | – | 23,987 | 23,987 |
| Recoveries | – | – | 272,812 | 272,812 |
| Amounts written off | (9,077) | – | (121,163) | (130,240) |
| Foreign exchange adjustments | 14,556 | 931 | 12,140 | 27,627 |
| As at 31 December 2018 | 29,181,205 | 585,872 | 4,334,604 | 34,101,681 |

*(in thousands of Tenge, unless otherwise is stated)*

## 9. Loans to customers (continued)

### Provision for impairment of loans to customers (continued)

| *Consumer lending* | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|---|
| Allowance for ECL as at 1 January 2018 | (711,587) | (61,860) | (440,716) | (1,214,163) |
| New assets originated or purchased | (526,891) | – | – | (526,891) |
| Assets repaid | 417,068 | 35,449 | 149,765 | 602,282 |
| Assets sold | – | – | 272,812 | 272,812 |
| Transfers to Stage 1 | (198,257) | 198,257 | – | – |
| Transfers to Stage 2 | 551,165 | (605,130) | 53,965 | – |
| Transfers to Stage 3 | – | 740,647 | (740,647) | – |
| Impact on ECL of exposures transferred between stages and changes in inputs | (393,192) | (486,900) | (422,128) | (1,302,220) |
| Unwinding of discount | – | – | (23,987) | (23,987) |
| Recoveries | – | – | (272,812) | (272,812) |
| Amounts written off | 9,077 | – | 121,163 | 130,240 |
| Foreign exchange adjustments | (415) | (254) | (2,631) | (3,300) |
| As at 31 December 2018 | (853,032) | (179,791) | (1,305,216) | (2,338,039) |

| *Mortgage lending* | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|---|
| Gross carrying amount as at 1 January 2018 | 4,169,989 | 171,129 | 747,969 | 5,089,087 |
| New assets originated or purchased | 2,418,801 | – | – | 2,418,801 |
| Assets repaid | (893,498) | (17,218) | (182,705) | (1,093,421) |
| Transfers to Stage 1 | 786,501 | (786,501) | – | – |
| Transfers to Stage 2 | (1,283,002) | 1,888,754 | (605,752) | – |
| Transfers to Stage 3 | – | (1,217,100) | 1,217,100 | – |
| Change in accrued interest | (11,225) | 13,116 | (2,975) | (1,084) |
| Unwinding of discount | – | – | 2,387 | 2,387 |
| Amounts written off | (750) | – | (75,201) | (75,951) |
| As at 31 December 2018 | 5,186,816 | 52,180 | 1,100,823 | 6,339,819 |

| *Mortgage lending* | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|---|
| Allowance for ECL as at 1 January 2018 | (4,914) | (2,362) | (100,726) | (108,002) |
| New assets originated or purchased | (29,814) | – | – | (29,814) |
| Assets repaid | 1,218 | – | 56,528 | 57,746 |
| Transfers to Stage 1 | (73) | 73 | – | – |
| Transfers to Stage 2 | 10,068 | (81,065) | 70,997 | – |
| Transfers to Stage 3 | – | 12,065 | (12,065) | – |
| Impact on ECL of exposures transferred between stages and changes in inputs | 127 | 70,282 | (203,508) | (133,099) |
| Unwinding of discount | – | – | (2,387) | (2,387) |
| Amounts written off | 750 | – | 75,201 | 75,951 |
| As at 31 December 2018 | (22,638) | (1,007) | (115,960) | (139,605) |

### Modified and restructured loans

The Bank 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 POCI.

*(in thousands of Tenge, unless otherwise is stated)*

## 9. Loans to customers (continued)

### Modified and restructured loans (continued)

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 Bank records a modification gain or loss to the extent that an impairment loss has not already been recorded.

The table below shows Stage 2 and Stage 3 assets, the terms of which were revised during the period and which as a result are recorded as restructured, reflecting the relevant modification losses incurred by the Bank.

| | *2019* | *2018* |
|---|---|---|
| Loans to customers modified during the year | | |
| Amortized cost before modification | 5,677,769 | 2,512,737 |
| Net loss from modification | – | (109,440) |

### Collateral and other credit enhancements

The amount and type of collateral required by the Bank 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 commercial lending, charges over real estate properties, production equipment, inventory and trade receivables;
- For retail lending, mortgages over residential properties, charges over transport, cash and cash equivalents and guarantees of third parties.

The Bank also receives guarantees of the parents on loans issued to subsidiaries.

Management monitors the market value of collateral and requests additional collateral in accordance with the underlying agreement during its review of the adequacy of the allowance for loan impairment.

In absence of collateral or other credit enhancements, ECL in respect of Stage 3 loans to customers as at 31 December 2019 and 2018 would have been higher by:

| | *2019* | *2018* |
|---|---|---|
| Commercial lending | 1,175,223 | 1,065,665 |
| Small business lending | 1,081,038 | 1,250,152 |
| Consumer lending | 1,225,649 | 1,027,544 |
| Mortgage lending | 362,903 | 366,213 |
| | 3,844,813 | 3,709,574 |

During the year, the Bank took possession of different assets in exchange of indebtness of respective borrowers. The Bank is in the process of selling of those assets. It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

The carrying value of the assets repossessed during the period and held as at the reporting date is as follows:

| | *2019* | *2018* |
|---|---|---|
| Buildings and land *(Note 13)* | 431,872 | 471,060 |
| Total repossessed property | 431,872 | 471,060 |

*(in thousands of Tenge, unless otherwise is stated)*

## 9. Loans to customers (continued)

### Concentration of loans to customers

As at 31 December 2019, the Bank had a concentration of loans represented by KZT 34,853,947 thousand issued by the Company to the ten largest third party entities or 26.1% of gross loan portfolio (31 December 2018: KZT 29,576,087 thousand or 28.7%). As at 31 December 2019, an allowance for ECL of KZT 174,338 thousand was formed against these loans (31 December 2018: KZT 3,689,268 thousand).

Loans have been extended to the following types of customers:

| | *2019* | *2018* |
|---|---|---|
| Private entities | 86,096,808 | 62,531,175 |
| Individuals | 47,402,832 | 40,441,500 |
| | 133,499,640 | 102,972,675 |

Loans were mainly extended to the customers in Kazakhstan performing their activities in the following economic sectors:

| | *2019* | *2018* |
|---|---|---|
| Individuals | 47,402,832 | 40,441,500 |
| Wholesale trading | 15,663,542 | 14,360,569 |
| Transportation | 11,049,623 | 4,273,017 |
| Food industry | 7,522,797 | 3,840,870 |
| Retail trading | 6,879,564 | 7,914,367 |
| Mining industry | 6,405,844 | 1,101,015 |
| Energy | 6,343,045 | 5,535,574 |
| Communication | 5,087,740 | – |
| Oil and gas industry | 4,573,803 | 6,373,474 |
| Housing construction | 2,841,418 | 6,576,664 |
| Agriculture | 2,332,501 | 158,280 |
| Healthcare | 2,252,046 | 2,263,303 |
| Investments in real estate | 2,036,243 | 1,486,012 |
| Machinery and equipment production | 1,758,829 | 1,093,346 |
| Production of construction materials | 1,547,651 | 1,096,111 |
| Consumer goods industry | 1,515,842 | 1,399,447 |
| Hotel business and restaurants | 1,290,706 | 1,313,184 |
| Recreation and tourist activities | 1,023,066 | 604,684 |
| Financial services | 420,291 | 105,969 |
| Education | 199,321 | 214,989 |
| Road and industrial construction | 61,572 | 444,305 |
| Other | 5,291,364 | 2,375,995 |
| | 133,499,640 | 102,972,675 |

*(in thousands of Tenge, unless otherwise is stated)*

## 10. Property and equipment

Movement in property and equipment is presented as follows:

| | *Leasehold impro-vement* | *Computer equipment* | *Motor vehicles* | *Assets to be installed* | *Other assets* | *Right-of-use assets* | *Total* |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| At 31 December 2017 | 1,106,736 | 1,988,283 | 38,429 | 169,042 | 2,359,956 | – | 5,662,446 |
| Additions | 1,014 | 138,859 | 51,577 | 242,115 | 72,194 | – | 505,759 |
| Disposals | (87,601) | (15,109) | – | (316) | (72,964) | – | (175,990) |
| Transfers | – | 37,758 | – | (53,242) | 15,484 | – | – |
| At 31 December 2018 | 1,020,149 | 2,149,791 | 90,006 | 357,599 | 2,374,670 | – | 5,992,215 |
| Impact of adopting IFRS 16 *(Note 3)* | – | – | – | – | – | 3,262,953 | 3,262,953 |
| At 1 January 2019 | 1,020,149 | 2,149,791 | 90,006 | 357,599 | 2,374,670 | 3,262,953 | 9,255,168 |
| Additions | 13,013 | 126,564 | 446 | 1,533,502 | 77,464 | 441,477 | 2,192,466 |
| Disposals | (277,117) | (22,473) | – | – | (280,365) | – | (579,955) |
| Transfers | 417,498 | 404,013 | – | (1,228,002) | 406,491 | – | – |
| At 31 December 2019 | 1,173,543 | 2,657,895 | 90,452 | 663,099 | 2,578,260 | 3,704,430 | 10,867,679 |
| **Accumulated depreciation** | | | | | | | |
| At 31 December 2017 | (529,389) | (939,367) | (26,259) | – | (1,473,026) | – | (2,968,041) |
| Depreciation charge | (148,365) | (205,959) | (5,039) | – | (251,048) | – | (610,411) |
| Disposals | 87,601 | 15,109 | – | – | 72,599 | – | 175,309 |
| At 31 December 2018 | (590,153) | (1,130,217) | (31,298) | – | (1,651,475) | – | (3,403,143) |
| Depreciation charge | (198,325) | (233,250) | (11,327) | – | (267,114) | (546,848) | (1,256,864) |
| Disposals | 277,118 | 21,434 | – | – | 281,403 | – | 579,955 |
| At 31 December 2019 | (511,360) | (1,342,033) | (42,625) | – | (1,637,186) | (546,848) | (4,080,052) |
| **Carrying value** | | | | | | | |
| At 31 December 2017 | 577,347 | 1,048,916 | 12,170 | 169,042 | 886,930 | – | 2,694,405 |
| At 31 December 2018 | 429,996 | 1,019,574 | 58,708 | 357,599 | 723,195 | – | 2,589,072 |
| At 31 December 2019 | 662,183 | 1,315,862 | 47,827 | 663,099 | 941,074 | 3,157,582 | 6,787,627 |

At 31 December 2019, the original cost of fully depreciated property and equipment in use of the Bank amounted to KZT 1,270,361 thousand (31 December 2018: KZT 1,206,416 thousand).

*(in thousands of Tenge, unless otherwise is stated)*

## 11. Intangible assets

The movements in intangible assets were as follows:

| | *Licenses and software* | *Assets to be installed* | *Total* |
|---|---|---|---|
| Cost | | | |
| At 31 December 2017 | 2,451,033 | 189,348 | 2,640,381 |
| Additions | 214,716 | 432,917 | 647,633 |
| Disposal | (5,088) | (61,878) | (66,966) |
| Transfers | 101,006 | (101,006) | – |
| At 31 December 2018 | 2,761,667 | 459,381 | 3,221,048 |
| | | | |
| Additions | 601,636 | 709,290 | 1,310,926 |
| Disposal | (11,695) | (21,508) | (33,203) |
| Transfers | 623,837 | (623,837) | – |
| At 31 December 2019 | 3,975,445 | 523,326 | 4,498,771 |
| | | | |
| Accumulated amortization | | | |
| At 31 December 2017 | (925,118) | – | (925,118) |
| Amortisation charge | (168,543) | – | (168,543) |
| Disposal | 768 | – | 768 |
| At 31 December 2018 | (1,092,893) | – | (1,092,893) |
| | | | |
| Amortisation charge | (224,516) | – | (224,516) |
| Disposal | 434 | – | 434 |
| At 31 December 2019 | (1,316,975) | – | (1,316,975) |
| | | | |
| Carrying amount | | | |
| At 31 December 2017 | 1,525,915 | 189,348 | 1,715,263 |
| At 31 December 2018 | 1,668,774 | 459,381 | 2,128,155 |
| At 31 December 2019 | 2,658,470 | 523,326 | 3,181,796 |

## 12. Taxation

The corporate income tax expense comprises:

| | *2019* | *2018* |
|---|---|---|
| Current corporate income tax charge | – | 44,303 |
| Deferred corporate income tax charge - origination and reversal of temporary differences | 1,190,528 | 918,309 |
| Corporate income tax expense | 1,190,528 | 962,612 |

The Republic of Kazakhstan was only one tax jurisdiction in which the Bank's income is taxable. In accordance with tax legislation the applied corporate income tax rate is 20% in 2019 and 2018.

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

| | *2019* | *2018* |
|---|---|---|
| Profit before tax | 5,753,691 | 5,082,319 |
| Statutory rate | 20% | 20% |
| Theoretical corporate income tax expense at the statutory rate | 1,150,738 | 1,016,464 |
| | | |
| Non-deductible interest expense | 28,892 | 2,713 |
| Non-deductible operating expenses | 19,578 | 7,563 |
| Withholding income tax | – | 44,303 |
| Non-deductible impairment charge | 16,462 | 76,429 |
| Non taxable income on state securities and securities officially listed at KASE | (25,142) | (297,827) |
| Other differences | – | 112,967 |
| Corporate income tax expenses | 1,190,528 | 962,612 |

*(in thousands of Tenge, unless otherwise is stated)*

## 12. Taxation (continued)

At 31 December 2019, current corporate income tax assets comprised KZT 21,064 thousand (31 December 2018: KZT 5,134 thousand).

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

| | *2017* | *Effect of adopting IFRS 9 (Note 3)* | *Origination and reversal of temporary differences in profit or loss* | *2018* | *Origination and reversal of temporary differences in profit or loss* | *2019* |
|---|---|---|---|---|---|---|
| Tax effect of deductible temporary differences | | | | | | |
| Loans to customers | – | 70,485 | (70,485) | – | 396,415 | 396,415 |
| Tax losses carry-forward | 2,616,525 | – | (1,014,668) | 1,601,857 | (1,056,531) | 545,326 |
| Accrued expenses for unused vacations | 11,424 | – | 1,308 | 12,732 | 2,443 | 15,175 |
| Accrued expenses on premiums | 23,200 | – | 53,214 | 76,414 | 36,706 | 113,120 |
| Lease contracts | – | – | – | – | 13,804 | 13,804 |
| Allowances for doubtful debts | 6,857 | – | (3,990) | 2,867 | (2,867) | – |
| Other accrued expenses | 23,356 | – | 1,512 | 24,868 | 38,604 | 63,472 |
| Deferred corporate income tax assets | 2,681,362 | 70,485 | (1,033,109) | 1,718,738 | (571,426) | 1,147,312 |
| Tax effect of taxable temporary differences | | | | | | |
| Amounts due to banks and other financial institutions | – | – | – | – | (462,698) | (462,698) |
| Dynamic reserves | (202,360) | – | 202,360 | – | – | – |
| Property and equipment | (286,587) | – | (87,560) | (374,147) | (156,404) | (530,551) |
| Deferred corporate income tax liabilities | (488,947) | – | 114,800 | (374,147) | (619,102) | (993,249) |
| Deferred corporate income tax assets, net | 2,192,415 | 70,485 | (918,309) | 1,344,591 | (1,190,528) | 154,063 |

In Kazakhstan tax losses are carried forward for a period of ten years. The Bank expects that tax losses carried forward will be used.

## 13. Other assets and liabilities

Other assets comprise at 31 December:

| | *31 December 2019* | *31 December 2018* |
|---|---|---|
| Other financial assets | | |
| Receivables from transferred assets | 801,157 | – |
| Accounts receivable on guarantees and letters of credits | 395,138 | 379,254 |
| Banking settlements | 283,389 | 548,047 |
| Receivables on currency transactions | 82,700 | 123,635 |
| Other | 101,579 | 231,340 |
| | 1,663,963 | 1,282,276 |
| Less: allowance for ECL | (177,288) | (150,896) |
| | 1,486,675 | 1,131,380 |
| Other non-financial assets | | |
| Repossessed collateral | 431,872 | 471,060 |
| Other prepayments and deferred expenses | 399,805 | 511,860 |
| Advances paid for property and equipment and intangible assets | 215,202 | 870,175 |
| Rent prepayment | 128,271 | 478,926 |
| State duties payable | 115,852 | 202,706 |
| Inventory | 72,621 | 74,898 |
| Other | 53,235 | 55,964 |
| | 1,416,858 | 2,665,589 |
| Other assets | 2,903,533 | 3,796,969 |

*(in thousands of Tenge, unless otherwise is stated)*

## 13. Other assets and liabilities (continued)

As at 31 December 2019, receivables for transferred assets comprised claims for payment for transferred repossessed collateral.

As at 31 December 2019, advances for property and equipment and intangible assets include advances for the purchase of equipment with software in the amount of KZT 37,690 thousand (as of 31 December 2018: KZT 419,517 thousand) and improvement of leased property in the amount of KZT 17,150 thousand (31 December 2018: KZT 118,000 thousand).

As at 31 December 2019 and 2018, the repossessed collateral comprises land and buildings obtained under collateral agreements on loans to customers. These assets are offered for sale by public auction.

The movement in the allowances for other financial assets for 2019 and 2018 is presented below:

| | *Stage 3* |
|---|---|
| As at 31 December 2017 | 100,577 |
| Net change in ECL for the year *(Note 19)* | 66,247 |
| Write-offs | (60,040) |
| Foreign exchange adjustments | 44,112 |
| As at 31 December 2018 | 150,896 |
| Net change in ECL for the year *(Note 19)* | 49,711 |
| Write-offs | (31,356) |
| Foreign exchange adjustments | 8,037 |
| As at 31 December 2019 | 177,288 |

As at 31 December other liabilities comprise:

| | *2019* | *2018* |
|---|---|---|
| Financial liabilities | | |
| ECL allowance on contingent liabilities *(Note 20)* | 875,125 | 398,435 |
| Accrued administrative expenses | 145,893 | 185,420 |
| Fee and commission expenses accrued | 112,386 | 85,811 |
| Guarantee fees for forward contracts | 95,699 | 107,415 |
| Banking settlements | 94,502 | 254,958 |
| Professional services payable | 34,070 | 30,878 |
| Insurance payables | 3,324 | 6,820 |
| Currency transactions liabilities | 93 | 139,583 |
| Other | 3,709 | 24,382 |
| | 1,364,801 | 1,233,702 |
| Non-financial liabilities | | |
| Premiums accrued | 565,598 | 382,070 |
| Liabilities to Kazakhstan Deposit Insurance Fund (“KDIF”). | 251,104 | 2,430,128 |
| Deferred commission income | 312,622 | 269,035 |
| Taxes other than corporate income tax payable | 187,223 | 169,686 |
| Accrued expenses for unused vacations | 75,873 | 63,657 |
| Other | 71,439 | 234,474 |
| | 1,463,859 | 3,549,050 |
| | 2,828,660 | 4,782,752 |

According to the results of the competition held by KFGD, the Bank was selected by the agent bank and received funds for the payment of guarantee compensation on deposits of individuals and individual entrepreneurs placed in the forcibly-liquidated Qazaq Bank JSC. Payment to depositors of Qazaq Bank JSC began on 24 December 2018 and will last until 24 June 2020.

*(in thousands of Tenge, unless otherwise is stated)*

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

As at 31 December 2019 amounts due to banks and other financial institutions comprise:

| | *2019* | *2018* |
|---|---|---|
| Current accounts | 16,755,355 | 8,326,514 |
| Term deposits and loans | 14,374,088 | 4,463,794 |
| | 31,129,443 | 12,790,308 |

As at 31 December 2019, term deposits and loans include loans received from Entrepreneurship Development Fund "DAMU" JSC in the amount of KZT 2,768,208 thousand (31 December 2018: KZT 2,628,559 thousand) as part of the state program to support small and medium-sized businesses by the banking sector. The loans are denominated in Tenge, bear interest rates of 1.0-8.5% per annum and mature in 2019-2025.

At 31 December 2019, term deposits and loans from financial institutions also include a short-term loan received from a Kazakhstan bank in the amount of KZT 5,501,833 thousand (31 December 2018: KZT nil thousand). The loan is denominated in Tenge, it has an interest rate of 12% per annum and matures in January 2020.

As at 31 December 2019 and 2018, current accounts include cash placed by a kazakhstani bank for a total of KZT 11,675,182 thousand and KZT 5,766,097 thousand, respectively.

As at 31 December 2019 and 2018, current accounts also include cash placed by the Parent company for a total of KZT 1,995,506 thousand and KZT 2,541,678 thousand, respectively *(Note 27)*.

In 2019 and 2018, the Bank attracted loans from Development Bank of Kazakhstan JSC in the amount of KZT 6,000,000 thousand and KZT 500,000 thousand, respectively, with an interest rate of 1.0% per annum and maturity in 2029-2037. The loans were attracted as part of the government program to support domestic automakers, at the below market rate to recover losses from subsequent concessional automobile lending. The fair value of borrowed loans at the date of initial recognition amounted to KZT 2,164,536 thousand and KZT 144,714 thousand, respectively, and was determined by the Bank using market rates in the amount of 12.50% and 12.91% per annum, respectively. Also, in 2019, the Bank attracted loans from Agrarian Credit Corporation JSC in the amount of KZT 4,927,000 thousand with an interest rate of 2.8% per annum and maturity in 2024-2026. The loans were attracted within the state program "Agribusiness" at the below market rate for compensation for losses from subsequent concessional lending to agricultural entities. The fair value of borrowed loans at the date of initial recognition amounted to KZT 3,621,101 thousand and was determined by the Bank using market rates in the amount of 10.00-12.90% per annum. In 2019 and 2018, the difference between the nominal and fair value of loans received upon initial recognition in the amount of KZT 5,141,363 thousand and KZT 355,286 thousand, respectively, was recognized by the Bank as a liability as a result of receiving a government grant in accordance with IAS 20. In 2019, income recognized as a result of meeting the conditions for receiving government grants under the above programs amounted to KZT 2,469,883 thousand. The loss incurred by the Bank in 2019 as a result of the initial recognition of loans provided to customers on concessional terms within the above programs amounted to KZT 2,102,952 thousand and was disclosed in the statement of comprehensive income net of income from government grants in the "Net income from initial recognition of financial assets".

## 15. Amounts due to customers

Loans to customers comprised the following at 31 December:

| | *2019* | *2018* |
|---|---|---|
| Time deposits | 90,185,670 | 49,439,114 |
| Current accounts | 33,325,607 | 39,526,777 |
| | 123,511,277 | 88,965,891 |
| Term deposits held as security against guarantees and letters of credit *(Note 20)* | 745,025 | 492,751 |

As at 31 December 2019, the Bank's ten largest customers accounted for KZT 41,670,885 thousand or 33.7% of total amounts due to customers (31 December 2018: KZT 34,369,030 thousand or 38,6%).

Included in time deposits are deposits of individuals in the amount of KZT 27,734,860 thousand (31 December 2018: KZT 17,553,654 thousand). In accordance with the Civil Code of Kazakhstan, the Bank is obliged to repay the deposit 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.

*(in thousands of Tenge, unless otherwise is stated)*

## 15. Amounts due to customers (continued)

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

| | *2019* | *2018* |
|---|---|---|
| Private enterprises | 90,681,111 | 67,364,129 |
| Individuals | 32,830,166 | 21,601,762 |
| | 123,511,277 | 88,965,891 |

An analysis of customer accounts by economic sector follows:

| | *2019* | *2018* |
|---|---|---|
| Individuals | 32,830,166 | 21,601,762 |
| Non-credit financial institutions | 31,965,228 | 8,803,357 |
| Wholesale trading | 12,896,644 | 14,395,658 |
| Construction | 9,652,838 | 6,354,659 |
| Metallurgy | 7,437,830 | 250,247 |
| Food industry | 4,797,235 | 492,709 |
| Retail trading | 3,693,419 | 2,790,385 |
| Transport and communication | 2,630,905 | 4,712,674 |
| Energy | 2,568,024 | 917,394 |
| Machinery and equipment production | 2,183,517 | 2,791,274 |
| Entertainment | 1,474,128 | 427,323 |
| Agriculture | 1,225,858 | 376,593 |
| Oil and gas production | 1,211,585 | 13,414,111 |
| Chemical industry | 1,196,347 | 889,097 |
| Production of construction materials | 1,189,350 | 999,421 |
| Mining industry | 1,011,503 | 4,536,582 |
| Investments in real estate | 771,877 | 618,973 |
| Education | 307,836 | 107,224 |
| Research and development | 186,050 | 357,571 |
| Consumer goods industry | 87,723 | 505,322 |
| Other | 4,193,214 | 3,623,555 |
| | 123,511,277 | 88,965,891 |

## 16. Debt securities issued

Debt securities issued comprise:

| | *2019* | *2018* |
|---|---|---|
| Debt securities issued at KASE | 15,328,288 | 20,724,444 |
| Less unamortised discount | (569,146) | (317,029) |
| | 14,759,142 | 20,407,415 |

As at 31 December 2019 and 2018, the Bank's debt securities comprise unsecured coupon bonds placed under the first bond program with the aggregate nominal value of KZT 14,935,113 thousand and KZT 20,000,000 thousand, respectively. These bonds have a nominal interest rate of 8% per annum and maturity in 2021 and 2019, respectively.

## 17. Subordinated debt

As at 31 December 2019, the Bank's subordinated debt comprises a loan received from the Parent in the amount of KZT 9,264,867 thousand (31 December 2018: loans received from the Parent in the amount of KZT 13,840,183 thousand) with an interest rate of 8.93% per annum (31 December 2018: 8.93-10.76% per annum) and maturity in 2025 (31 December 2018: 2021-2025). The loans were received in Russian Roubles.

## 18. Share capital

As at 31 December 2019 and 2018 authorised and issued common shares in the amount of 2,995,700 shares, respectively, were fully paid by the Parent at the price of placement of KZT 10 thousand per one common share.

Subject to the decision of the sole shareholder dated 31 May 2019, the Bank declared and paid dividends on common shares for the year ended 31 December 2018, in the amount of KZT 4,119,707 thousand. Subject to the decision of the sole shareholder dated 31 May 2018, the Bank declared and paid dividends on common shares for the year ended 31 December 2017, in the amount of KZT 1,888,477 thousand.

*(in thousands of Tenge, unless otherwise is stated)*

## 19. Credit loss expenses

The table below shows the ECL charges on financial instruments recorded in profit or loss for the year ended 31 December 2019:

| | *Note* | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|---|---|
| Cash and cash equivalents | 6 | (3) | – | – | (3) |
| Amounts due from financial institutions | 7 | (2,338) | – | – | (2,338) |
| Loans to customers | 9 | 135,837 | (1,095,777) | (1,582,926) | (2,542,866) |
| Investment securities at fair value through other comprehensive income | | 7,282 | – | – | 7,282 |
| Other financial assets | 13 | – | – | (49,711) | (49,711) |
| Financial guarantees | 20 | 43,908 | (30,350) | (482,314) | (468,756) |
| Undrawn loan commitments | 20 | 1,098 | – | – | 1,098 |
| Letters of credit | 20 | (9,187) | – | – | (9,187) |
| Total credit loss expense | | 176,597 | (1,126,127) | (2,114,951) | (3,064,481) |

The table below shows the ECL charges on financial instruments recorded in profit or loss for the year ended 31 December 2018:

| | *Note* | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|---|---|
| Cash and cash equivalents | 6 | (27) | – | – | (27) |
| Amounts due from financial institutions | 7 | (68,230) | – | – | (68,230) |
| Loans to customers | 9 | (318,377) | (150,575) | (1,654,457) | (2,123,409) |
| Investment securities at fair value through other comprehensive income | | (4,540) | – | – | (4,540) |
| Other financial assets | 13 | (66,247) | – | | (66,247) |
| Financial guarantees | 20 | (29,517) | – | (243,136) | (272,653) |
| Undrawn loan commitments | 20 | (21,575) | – | – | (21,575) |
| Letters of credit | 20 | (347) | – | – | (347) |
| Total credit loss expense | | (508,860) | (150,575) | (1,897,593) | (2,557,028) |

## 20. Commitments and contingencies

### Operating environment

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 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 in Tenge remain high in 2019, which resulted in a reduced access to capital, a higher cost of capital, and increase in uncertainty regarding economic growth, which could negatively affect the Bank's future financial position, results of operations and business prospects. The management of the Bank believes that it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances.

### Taxation

The tax environment in the Republic of Kazakhstan is subject to change and inconsistent application and interpretations. Differences in the interpretation of Kazakhstan laws and regulations of the Bank and Kazakh authorities may lead to the accrual of additional taxes, fines and penalties.

Kazakhstani legislation and tax practices are continually evolving and are therefore subject to varying interpretations and frequent changes that may be retroactive. In certain cases, in order to determine the tax base, tax legislation refers to the provisions of IFRS, whereas the interpretation of the respective provisions of IFRS by the Kazakh tax authorities may differ from accounting policies, judgements and estimates applied by the management in preparation of these separate financial statements, which may result in additional tax liabilities for the Bank. The tax authorities may perform a retrospective tax audit during five years after the ending of the tax year.

The Bank's management believes that its interpretations of the relevant legislation are appropriate and the Bank's tax position will be sustained.

### Legal issues

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

The Bank assesses the likelihood of material liabilities arising from individual circumstances and makes provision in its financial statements only where it is probable that events giving rise to the liability will occur and the amount of the liability can be reasonably estimated. No provision has been made in these financial statements for any of the above described contingent liabilities.

*(in thousands of Tenge, unless otherwise is stated)*

## 20. Commitments and contingencies (continued)

### Commitments and contingencies

Commitments and contingencies of the Bank as at 31 December comprise:

| | *2019* | *2018* |
|---|---|---|
| **Credit related commitments** | | |
| Undrawn loan commitments | 15,740,759 | 15,361,069 |
| Financial guarantees | 7,816,754 | 8,443,648 |
| Letters of credit | 1,019,429 | 73,984 |
| | 24,576,942 | 23,878,701 |
| **Operating lease commitments** | | |
| Not later than 1 year | – | 1,446,196 |
| 1 to 5 years | – | 4,028,359 |
| More than 5 years | – | 49,050 |
| | – | 5,523,605 |
| Less: allowance for ECL for credit related commitments | (875,125) | (398,435) |
| Commitments and contingencies (before deducting collateral) | 23,701,817 | 29,003,871 |
| Less: funds held as security against guarantees and letters of credit *(Note 15)* | (745,025) | (492,751) |
| Commitments and contingencies | 22,956,792 | 28,511,120 |

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

The loan commitment agreements stipulate the right of the Bank to unilaterally withdraw from the agreement should any conditions unfavourable to the Bank arise, including change of the refinance rate, inflation, exchange rates and other conditions.

Below is an analysis of changes in allowances for ECL for the year ended 31 December 2019:

| *Financial guarantees* | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|---|
| Allowance for ECL as at 1 January 2019 | (102,019) | – | (243,136) | (345,155) |
| New exposures | (34,575) | – | – | (34,575) |
| Expired exposures | 61,813 | – | – | 61,813 |
| Transfers to Stage 2 | 9,437 | (9,437) | – | – |
| Transfers to Stage 3 | – | 39,787 | (39,787) | – |
| Changes to models and inputs used for ECL calculations | 16,670 | (30,350) | (482,314) | (495,994) |
| Foreign exchange adjustments | – | – | – | – |
| As at 31 December 2019 | (48,674) | – | (765,237) | (813,911) |

| *Undrawn loan commitments* | *Stage 1* | *Total* |
|---|---|---|
| Allowance for ECL as at 1 January 2019 | (52,923) | (52,923) |
| New exposures | (37,316) | (37,316) |
| Expired exposures | 38,414 | 38,414 |
| Foreign exchange adjustments | 23 | 23 |
| At 31 December 2019 | (51,802) | (51,802) |

| *Letters of credit* | *Stage 1* | *Total* |
|---|---|---|
| Allowance for ECL as at 1 January 2019 | (357) | (357) |
| New exposures | (9,187) | (9,187) |
| Foreign exchange adjustments | 132 | 132 |
| At 31 December 2019 | (9,412) | (9,412) |

*(in thousands of Tenge, unless otherwise is stated)*

## 20. Commitments and contingencies (continued)

### Commitments and contingencies (continued)

Below is an analysis of changes in allowances for ECL for the year ended 31 December 2018:

| *Financial guarantees* | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|---|
| ECL allowance as at 1 January 2018 | (68,811) | – | – | (68,811) |
| New exposures | (83,880) | – | – | (83,880) |
| Expired exposures | 54,363 | – | – | 54,363 |
| Transfers to Stage 2 | 14,580 | (14,580) | – | – |
| Transfers to Stage 3 | – | 115,305 | (115,305) | – |
| Changes to models and inputs used for ECL calculations | (14,580) | (100,725) | (127,831) | (243,136) |
| Foreign exchange adjustments | (3,691) | – | – | (3,691) |
| As at 31 December 2018 | (102,019) | – | (243,136) | (345,155) |

| *Undrawn loan commitments* | *Stage 1* | *Total* |
|---|---|---|
| Allowance for ECL as at 1 January 2018 | (31,280) | (31,280) |
| New exposures | (53,995) | (53,995) |
| Expired exposures | 32,420 | 32,420 |
| Foreign exchange adjustments | (68) | (68) |
| As at 31 December 2018 | (52,923) | (52,923) |

| *Letters of credit* | *Stage 1* | *Total* |
|---|---|---|
| Allowance for ECL as at 1 January 2018 | – | – |
| New exposures | (194) | (194) |
| Modification of models and inputs used to evaluate ECL | (153) | (153) |
| Foreign exchange adjustments | (10) | (10) |
| As at 31 December 2018 | (357) | (357) |

## 21. Net fee and commission income

Net fee and commission income comprise:

| | *2019* | *2018* |
|---|---|---|
| Transfer operations | 1,803,863 | 1,499,253 |
| Cash operations | 1,000,909 | 1,048,458 |
| Processing of payment cards | 684,369 | 312,862 |
| Agency services | 304,404 | 20,565 |
| Guarantees issued | 242,883 | 287,928 |
| Foreign currency transactions | 221,026 | 219,321 |
| Settlement transactions | 91,931 | 126,814 |
| Online banking | 50,241 | 49,154 |
| Letters of credit issued | 6,370 | 4,754 |
| Other | 91,902 | 57,739 |
| Fee and commission income | 4,497,898 | 3,626,848 |
| Settlement transactions | (671,074) | (505,198) |
| Transfer operations | (219,397) | (277,508) |
| Correspondent accounts with the NBRK | (172,772) | (56,074) |
| Custodian services | (25,336) | (32,343) |
| Agency services | (13,171) | (8,748) |
| Letters of credit and guarantees issued | (264) | (7,402) |
| Other | (31,171) | (11,870) |
| Fee and commission expense | (1,133,185) | (899,143) |
| Net fee and commission income | 3,364,713 | 2,727,705 |

*(in thousands of Tenge, unless otherwise is stated)*

## 22. Personnel and other operating expenses

Personnel and other operating expenses comprise:

| | *2019* | *2018* |
|---|---|---|
| Salaries and bonuses | (4,820,622) | (4,399,998) |
| Social security contributions | (452,505) | (395,653) |
| Personnel expenses | (5,273,127) | (4,795,651) |
| | | |
| Security | (389,226) | (416,157) |
| Licenses | (357,354) | (292,583) |
| Information services | (333,248) | (287,824) |
| Telecommunication services | (217,675) | (221,623) |
| Rent | (209,677) | (1,226,639) |
| Marketing and advertising | (158,870) | (194,805) |
| Business trip expenses | (149,965) | (132,252) |
| Contributions to KDIF | (89,906) | (84,537) |
| Transportation | (84,767) | (78,287) |
| Cash collection | (77,651) | (59,173) |
| Repair and maintenance of property and equipment | (75,120) | (123,337) |
| Legal and consultancy | (58,277) | (63,842) |
| Membership fees | (43,173) | (10,884) |
| Office supplies | (38,536) | (37,917) |
| Representational expenses | (16,174) | (13,398) |
| Translation services | (7,514) | (7,080) |
| Insurance | (7,513) | (1,688) |
| Other | (230,578) | (183,484) |
| Other operating expenses | (2,545,224) | (3,435,510) |

## 23. Earnings per share

Basic earnings per share is calculated by dividing the net profit for the year attributable to common shareholders by the weighted average number of participating shares outstanding during the period. The Bank does not have any share options or convertible debt or equity instruments.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

| | *2019* | *2018* |
|---|---|---|
| Net profit for the year attributable to the shareholder of the Bank | 4,563,163 | 4,119,707 |
| Weighted average number of common shares for basic and diluted earnings per share computation | 2,995,700 | 2,840,799 |
| Basic and diluted earnings per share (in Tenge) | 1,523.24 | 1,450.19 |

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

The carrying amount of one ordinary share calculated in accordance with the methodology indicated in the Listing Rules of Kazakhstan Stock Exchange as at 31 December 2019 and 2018 is presented below:

| | *31 December 2019* | | | *31 December 2018* | | |
|---|---|---|---|---|---|---|
| *Type of shares* | *Number of outstanding shares* | *Net assets (thousands of Tenge)* | *Book value per share (Tenge)* | *Number of outstanding shares* | *Net assets (thousands of Tenge)* | *Book value per share (Tenge)* |
| Common | 2,995,700 | 18,196,660 | 6,074.26 | 2,995,700 | 18,777,241 | 6,268.06 |

*(in thousands of Tenge, unless otherwise is stated)*

## 24. Risk Management

### Introduction

Risk is inherent in the Bank's activities. The Bank manages these risks through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk. It is also subject to operating risks. In managing risks the Bank applies approved group-wide standards and approaches.

*Risk management structure*

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

*Board of Directors*

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

*Management Board*

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

*Risk Controlling*

The Risk Control Department is responsible for monitoring compliance with risk principles, policies and limits, across the Bank, for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This unit also ensures the complete capture of the risks in risk measurement and reporting systems. It monitors and controls quality of credit portfolio, coverage of credit risk by liquid collateral. The unit is responsible for implementation of the credit policies of the Bank and fulfilment of requirements of internal documents and state regulatory authorities. It takes part in making decisions on accepting different risks. The unit develops methods of quantitative estimation of risks attributable to the Bank, and provides recommendation to different departments of the Bank on minimisation and effective control over risks. It develops and implements methodology and analytical instruments, which allow evaluating risks, controlling level of risk and organising procedures to mitigate risks.

*Bank Treasury*

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

*Internal audit*

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

*Risk measurement and reporting systems*

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

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

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. The above information is provided to the Board of Directors, Management Board of the Bank, Committees of the Bank and managers of units. The report includes aggregate credit exposure, hold limit exceptions, liquidity ratios, risk profile changes. On a monthly basis detailed reporting of industry, customer and geography risks takes place. The appropriateness of the allowance for credit losses is assessed on a monthly basis. The Board of Directors receives a comprehensive risk report once a month which is designed to provide all the necessary information to assess the risks of the Bank.

*(in thousands of Tenge, unless otherwise is stated)*

## 24. Risk Management (continued)

### Introduction (continued)

*Risk mitigation*

As part of its overall risk management, the Bank uses financial instruments to manage exposures resulting from changes in interest rates, foreign currencies and exposures arising from forecast transactions. The Bank actively uses collateral to reduce its credit risks (see below for more detail).

*Excessive risk concentration*

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

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

### Credit risk

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

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

*Derivative financial instruments*

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

*Credit-related commitments risks*

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

The carrying amount of components of the statement of financial position without the influence of risk mitigation through the use of master netting agreements and collateral agreements, most accurately reflects the maximum credit exposure on these components.

Where financial instruments are recorded at fair value, their carrying amounts represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result 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 presented in *Note 9 “Loans to customers”* and *Note 20* “Contractual commitments and contingencies”.

*(in thousands of Tenge, unless otherwise is stated)*

## 24. Risk Management (continued)

### Credit risk (continued)

*Impairment assessment*

The Bank 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:

| | |
|---|---|
| Probability of default (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. |
| The Loss Given Default (LGD) | The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the 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 Bank 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 Bank groups its loans as described below:

| | |
|---|---|
| Stage 1: | When loans are first recognised, the Bank recognises an allowance based on 12m ECL. Stage 1 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 2. |
| Stage 2: | When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3. |
| Stage 3: | Loans considered credit-impaired. The Bank recognizes 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. |

*Definition of default and cure*

The Bank 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 on its contractual payments. The Bank considers amounts due from banks defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

*(in thousands of Tenge, unless otherwise is stated)*

## 24. Risk management (continued)

### Credit risk (continued)

*Definition of default and cure (continued)*

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

- Assignment of the status "Bad debts" to the borrower;
- More than 60 calendar days' overdue payments of principal and/or interest for individually assessed borrowers, and more than 90 for collectively assessed borrowers;
- Restructuring of a loan due to deterioration in the financial condition of the borrower;
- The borrower is deceased;
- Availability of the Bank's confirmed information on force majeure, as well as other circumstances that caused substantial material damage to the borrower and do not allow the borrower to continue its business activities;
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy application or declaring bankruptcy.

In accordance with the Bank's policy, financial instruments are considered "cured" and, therefore, are transferred from Stage 3 to Stage 2, subject to the following conditions:

- The borrower repays the debt that results in a decrease in the gross carrying amount of the financial asset at the date of creation of provisions (reserves) to a level equal to or lower than the outstanding amount at the time the financial asset is allocated to Stage 3;
- There are no new default events inherent to the borrower in addition to the previously identified event, on the basis of which the borrower was assigned to Stage 3;
- Repayment by the borrower of at least 30% of the principal amount in accordance with the terms of the new agreement / new parameters of the agreement concluded as a result of the restructuring;
- The expiration of a 2-year period after default restructuring, subject to a positive assessment of the borrower's creditworthiness (including qualitative and quantitative factors characterizing the financial condition of the borrower) in accordance with the procedure established by the Bank.

*Internal rating and PD estimation process*

The Bank's independent Credit Risk Department operates its internal rating models on corporate clients. 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 national and international 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.

*(in thousands of Tenge, unless otherwise is stated)*

## 24. Risk management (continued)

### Credit risk (continued)

*Treasury and interbank relationships*

The Bank's treasury and interbank relationships and counterparties comprise financial services institutions, banks, broker-dealers, exchanges and clearing-houses. For these relationships, the Bank's credit risk department analyses publicly available information such as financial information and other external data, e.g., the external ratings, and assigns the internal rating, as shown in the table below.

| *International external rating agency (Standard and poor) rating* | *Internal rating grade* | *Internal rating description* | *Probability of default, 12-month PD* |
|---|---|---|---|
| AA+ to AAA | | | 0.00 |
| AA+ | | | 0.00 |
| AA | | | 0.01 |
| AA- | | | 0.02 |
| A+ | | | 0.04 |
| A | | | 0.05 |
| A- | | | 0.07 |
| BBB+ | | | 0.13 |
| BBB | | | 0.22 |
| BBB- | | | 0.24 |
| BB+ | A1 | | 0.5 |
| BB | A2 | High | 0.72 |
| BB | A3 | | 0.72 |
| BB- | B1 | | 1.22 |
| BB- | B2 | | 1.22 |
| B+ | B3 | Standard grade | 2.1 |
| B+ | C1 | | 2.1 |
| B | C2 | | 5.97 |
| B | C3 | Sub-standard | 5.97 |
| B- | D1 | | 8.82 |
| CCC/C | D2 | Default | 24.17 |

*Commercial and small business lending*

For commercial lending, credit quality assessment is carried out by the Bank's Credit Risk Department. The credit risk assessment is based on a credit scoring 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 or CDS prices or press releases and articles.
- Macroeconomic information.
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.

*Consumer lending and residential mortgages*

Retail business lending comprises lending for purposes not related to commercial and entrepreneurial activities, including non-collateralized lending. Evaluation of these products is carried out using an automated system for processing credit applications, which includes scoring social and demographic data about the client, data from the credit history bureau and other sources of information about the client, allowing to evaluate its creditworthiness and solvency.

*(in thousands of Tenge, unless otherwise is stated)*

## 24. Risk management (continued)

### Credit risk (continued)

*Exposure at default*

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation. To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12mECL. For Stage 2 and Stage 3 assets the Bank assesses the probability of default over the lifetime of the instrument.

*Loss given default*

LGD values are assessed on a monthly basis by the Bank's Risk Department. The credit risk assessment is based on a LGD assessment framework consisting of two indicators: "Recovery cash" and collateral. "Recovery cash" takes into account historical data on real cash repayments on loans that have defaulted since the default status was assigned. The cost of collateral is assessed taking into account a decrease by a fixed ratio (depending on the type of collateral) and then discounted for 2 years at the original effective rate. Certain levels of LGD are established as a result of applying these methods.

The Bank segments its retail lending products into homogeneous groups based on similar parameters. In particular, the Bank determines product groups by such parameters as: by type of collateral, by maturities, by the characteristics of the borrower, etc.

LGD rates are estimated for the Stage 1, Stage 2, Stage 3 and POCI segment of each asset class.

*Significant increase in credit risk*

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk. The Bank believes that the credit risk on a financial instrument has increased significantly since initial recognition and the financial asset is allocated to Stage 2 in the following cases:

- For commercial lending, late payments on a financial instrument increased by 30 to 90 days; assignment of a "potentially problematic transaction" characteristic to a financial instrument; decrease in client rating from the moment a financial asset is recognized by 3 or more positions (depending on the initially assigned rating at the time of recognition of a financial asset);
- For retail and small business loans, late payments on a financial instrument increased by 30 to 90 days.

*Assessment of ECL allowances*

Assessment of ECL allowances is carried out according to the following scenarios:

<u>Commercial lending</u>

For the entire portfolio, in the context of each financial asset, the following indicators are assessed: probability of default of the client (based on a rating determined and established for each client); LGD, which provides for an assessment of "Recovery cash" and the distributional value of collateral. The LGD is assessed individually for each financial asset.

<u>Small business lending, consumer lending and mortgage lending</u>

Similar to a commercial lending portfolio, the following indicators are assessed for the entire portfolio of each financial asset: probability of default of the client (based on transition matrices (Markov Chains method); LGD, which provides for the assessment of "Recovery cash" and the distributional value of collateral. In connection with the individual assessment of LGD for each financial asset, calculation of allowance for a portfolio of small businesses, consumer lending and mortgage lending is also carried out individually in the context of each financial asset. Exceptions include "Cash loan" products, card products. Assessment of ECL allowance in the portfolio of these products is carried out on a collective basis. This is due to the lack of collateral, which excludes an individual assessment of LGD, in this regard, ECL allowance in these products is assessed on a collective basis.

Regardless of the portfolio, all financial assets that are assigned to Stage 3 have a default probability of 100%.

The assessment of allowance for ECL on financial assets referred to Stage 3 in the portfolio of commercial lending and the portfolio of lending to small businesses with a carrying amount of more than 0.2% of the Bank's equity is carried out on an individual basis based on multiple economic scenarios.

*(in thousands of Tenge, unless otherwise is stated)*

## 24. Risk management (continued)

### Credit risk (continued)

*Assessment of ECL allowances (continued)*

Forward-looking information and multiple economic scenarios

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

- GDP growth rate;
- the cost of a barrel of Brent crude oil;
- Copper cost growth rate (LME).

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 made as temporary adjustments when such differences are significantly material.

The Bank obtains the forward-looking information from third party sources (external rating agencies, governmental bodies for example, central banks and international financial institutions).

| *Key drivers* | *ECL scenario* | *Assigned probabilities, %* | *2020* | *2021* | *2022* |
|---|---|---|---|---|---|
| GDP growth, % | | | | | |
| | Upside | 10 | 4.964 | 5.138 | 5.307 |
| | Basic | 80 | 3.800 | 4.000 | 4.200 |
| | Downside | 10 | 1.304 | 1.538 | 1.767 |
| Copper cost growth rate (LME) | | | | | |
| | Upside | 10 | 1.261 | 1.288 | 1.272 |
| | Basic | 80 | 1.002 | 1.032 | 1.021 |
| | Downside | 10 | 0.822 | 0.852 | 0.839 |
| Brent oil price, in US dollars | | | | | |
| | Upside | 10 | 1.283 | 1.315 | 1.301 |
| | Basic | 80 | 0.975 | 1.016 | 1.013 |
| | Downside | 10 | 0.604 | 0.645 | 0.642 |

*Credit quality per class of financial assets*

With the exception of small business loans, consumer and mortgage loans, the Bank manages the credit quality of financial assets using an internal rating system.

The table below shows the credit quality by class of asset for statement of financial position lines as at 31 December 2019, based on the Bank's credit rating system.

| | *Note* | | *High grade* | *Standard grade* | *Sub-standard* | *Default* | *Total* |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents, except for cash on hand | 6 | Stage 1 | 56,945,142 | 4,380,881 | – | – | 61,326,023 |
| Amounts due from financial institutions | 8 | Stage 1 | 246,125 | 6,899,397 | – | – | 7,145,522 |
| Loans to customers at amortised cost: | 9 | | | | | | |
| - Commercial lending | | Stage 1 | 14,808,736 | 38,104,434 | 6,430,229 | – | 59,343,399 |
| | | Stage 3 | – | – | – | 3,804,932 | 3,804,932 |
| Financial guarantees | 20 | | | | | | |
| - Commercial lending | | Stage 1 | 1,342,551 | 1,214,086 | 757,949 | – | 3,314,586 |
| | | Stage 3 | – | – | – | 1,759,546 | 1,759,546 |
| Undrawn loan commitments | | | | | | | |
| - Commercial lending | | Stage 1 | 5,620,194 | 2,149,598 | 5,479,458 | – | 13,249,250 |
| Letters of credit | 20 | Stage 1 | – | 1,010,017 | – | – | 1,010,017 |
| | | | 78,962,748 | 53,758,413 | 12,667,636 | 5,564,478 | 150,953,275 |

*(in thousands of Tenge, unless otherwise is stated)*

## 24. Risk management (continued)

### Credit risk (continued)

*Credit quality per class of financial assets (continued)*

The table below shows the credit quality by class of asset for statement of financial position lines as at 31 December 2018, based on the Bank's credit rating system.

| | *Note* | | *High grade* | *Standard grade* | *Sub-standard* | *Default* | *Total* |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents, except for cash on hand | 6 | Stage 1 | 39,021,229 | 2,430,898 | – | – | 41,452,127 |
| Amounts due from financial institutions | 8 | Stage 1 | 660,946 | 5,537,819 | – | – | 6,198,765 |
| Loans to customers at amortised cost | 9 | | | | | | |
| - Commercial lending | | Stage 1 | 8,849,889 | 23,694,231 | 1,235,023 | – | 33,779,143 |
| | | Stage 2 | – | – | 719,129 | – | 719,129 |
| | | Stage 3 | – | – | – | 4,900,285 | 4,900,285 |
| Debt investment securities at FVOCI | 10 | Stage 1 | – | 592,067 | – | – | 592,067 |
| Financial guarantees | 22 | Stage 1 | 1,418,809 | 5,481,511 | – | – | 6,900,320 |
| | | Stage 3 | – | – | – | 1,198,173 | 1,198,173 |
| Undrawn loan commitments | 22 | Stage 1 | 2,374,447 | 10,147,450 | 2,786,249 | – | 15,308,146 |
| Letters of credit | 22 | Stage 1 | 73,627 | – | – | – | 73,627 |
| | | | 52,398,947 | 47,883,976 | 4,740,401 | 6,098,458 | 111,121,782 |

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

Financial guarantees, letters of credit and loan commitments are assessed and a provision for expected credit losses is calculated in similar manner as for loans.

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

| | *2019* | | | |
|---|---|---|---|---|
| | *Kazakhstan* | *CIS and other non OECD countries* | *OECD countries* | *Total* |
| **Assets** | | | | |
| Cash and cash equivalents | 58,875,671 | 288,102 | 7,011,264 | 66,175,037 |
| Amounts due from financial institutions | 7,005,801 | 19,506 | 120,215 | 7,145,522 |
| Loans to customers | 122,887,908 | 40,430 | – | 122,928,338 |
| Other financial assets | 1,388,981 | 77,833 | 19,861 | 1,486,675 |
| | 190,158,361 | 425,871 | 7,151,340 | 197,735,572 |
| **Liabilities** | | | | |
| Amounts due to banks and other financial institutions | 26,049,278 | 1,999,730 | 3,080,435 | 31,129,443 |
| Amounts due to customers | 120,469,495 | 1,471,574 | 1,570,208 | 123,511,277 |
| Debt securities issued | 14,759,142 | – | – | 14,759,142 |
| Lease liabilities | 3,226,602 | – | – | 3,226,602 |
| Subordinated debt | – | 9,264,867 | – | 9,264,867 |
| Other financial liabilities | 1,329,431 | 18,456 | 16,914 | 1,364,801 |
| | 165,833,948 | 12,754,627 | 4,667,557 | 183,256,132 |
| Net assets/(liabilities) | 24,324,413 | (12,328,756) | 2,483,783 | 14,479,440 |

*(in thousands of Tenge, unless otherwise is stated)*

## 24. Risk management (continued)

### Credit risk (continued)

*Credit quality per class of financial assets (continued)*

| | *2018* | | | |
|---|---|---|---|---|
| | *Kazakhstan* | *CIS and other non OECD countries* | *OECD countries* | *Total* |
| Assets | | | | |
| Cash and cash equivalents | 47,724,683 | 73,003 | 1,520,452 | 49,318,138 |
| Trading securities | 4,765,761 | – | – | 4,765,761 |
| Amounts due from financial institutions | 5,835,659 | 19,206 | 343,900 | 6,198,765 |
| Loans to customers | 91,358,640 | – | – | 91,358,640 |
| Investment securities | 592,067 | – | – | 592,067 |
| Other financial assets | 764,195 | 2,496 | 364,689 | 1,131,380 |
| | 151,041,005 | 94,705 | 2,229,041 | 153,364,751 |
| Liabilities | | | | |
| Amounts due to banks and other financial institutions | 10,229,891 | 2,553,833 | 6,584 | 12,790,308 |
| Amounts due to customers | 87,475,572 | 1,074,330 | 415,989 | 88,965,891 |
| Debt securities issued | 20,407,415 | – | – | 20,407,415 |
| Subordinated debt | – | 13,840,183 | – | 13,840,183 |
| Other financial liabilities | 1,209,502 | 10,266 | 13,934 | 1,233,702 |
| | 119,322,380 | 17,478,612 | 436,507 | 137,237,499 |
| Net assets/(liabilities) | 31,718,625 | (17,383,907) | 1,792,534 | 16,127,252 |

### Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. In order to limit this risk the management ensured availability of different funding sources in addition to the existing minimal amount of bank deposits. Management also controls assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

For the purpose of evaluation and decrease of risk of liquidity as well as to manage this risk, the Bank uses the following ways:

- Analysis of contractual maturities and forecasting cash flows (gap analysis), as well as analysis of deposit base concentration;
- Establishing limits for maturity gaps (gap limit) as well as establishing and regular updating of limits on the total volume of financing considering current and forecast levels of liquidity;
- Distribution and using of treasury securities portfolio to manage current liquidity;
- Development of emergency action plans (plans for emergency financing).

The Bank is also obliged to comply with liquidity requirements established by the regulators including requirements of the NBRK represented by obligatory norms.

The Banks monitors a number of internal liquidity indicators in a daily basis. The Bank's Treasury Department manages short-term liquidity on an on-going basis using cash position and portfolio of highly marketable securities.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. In addition, the Bank maintains cash (obligatory reserve) with the NBKR, the amount of which depends on the amount of liabilities of the Bank.

*(in thousands of Tenge, unless otherwise is stated)*

## 24. Risk management (continued)

### Liquidity risk and funding management (continued)

*Analysis of financial liabilities by remaining contractual maturities*

The tables below summarize the maturity profile of the Bank's financial liabilities at 31 December based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not require repayment on the earliest date at which the Bank will be required to make an appropriate payment and presents term deposits of physical persons by maturities based on this assumption in the table below:

| | *2019* | | | | |
|---|---|---|---|---|---|
| *Financial liabilities* | *Less than 3 months* | *From 3 to 12 months* | *1 to 5 years* | *Over 5 years* | *Total* |
| Amounts due to banks and other financial institutions | 22,325,536 | 1,067,742 | 6,684,612 | 7,497,763 | 37,575,653 |
| Amounts due to customers | 45,908,982 | 45,710,319 | 34,918,315 | – | 126,537,616 |
| Debt securities issued | 356,909 | 917,213 | 16,209,235 | – | 17,483,357 |
| Lease liabilities | 215,766 | 539,876 | 2,426,086 | 1,261,075 | 4,442,803 |
| Subordinated debt | 205,718 | 621,675 | 3,302,789 | 9,298,776 | 13,428,958 |
| Other financial liabilities | 1,364,801 | – | – | – | 1,364,801 |
| Total undiscounted financial liabilities | 70,377,712 | 48,856,825 | 63,541,037 | 18,057,614 | 200,833,188 |

| | *2018* | | | | |
|---|---|---|---|---|---|
| *Financial liabilities* | *Less than 3 months* | *From 3 to 12 months* | *1 to 5 years* | *Over 5 years* | *Total* |
| Amounts due to banks and other financial institutions | 8,435,344 | 1,916,235 | 1,027,532 | 2,883,188 | 14,262,299 |
| Amounts due to customers | 51,681,759 | 28,164,443 | 10,175,673 | 308,850 | 90,330,725 |
| Debt securities issued | 724,444 | 20,087,319 | – | – | 20,811,763 |
| Subordinated debt | 40,183 | 333,339 | 6,534,832 | 13,068,053 | 19,976,407 |
| Other financial liabilities | 1,233,702 | – | – | – | 1,233,702 |
| Total undiscounted financial liabilities | 62,115,432 | 50,501,336 | 17,738,037 | 16,260,091 | 146,614,896 |

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

In accordance with the Civil Code of the Republic of Kazakhstan, the Bank is obliged to repay the customer deposits upon demand of depositors.

The table below shows the contractual expiry by maturity of the Bank's financial commitments and contingencies: each undrawn commitment on lending is included in the time band containing the earliest date it can be drawn down. In the case of financial guarantee contracts the maximum amount of guarantee applies to the earliest period in which this guarantee may be called.

| | *2019* | | | | |
|---|---|---|---|---|---|
| | *Less than 3 months* | *From 3 to 12 months* | *1 to 5 years* | *Over 5 years* | *Total* |
| Commitments and contingencies | 17,548,614 | 3,371,611 | 2,935,840 | 720,877 | 24,576,942 |

| | *2018* | | | | |
|---|---|---|---|---|---|
| | *Less than 3 months* | *From 3 to 12 months* | *1 to 5 years* | *Over 5 years* | *Total* |
| Commitments and contingencies | 18,801,626 | 3,109,116 | 5,576,500 | 1,915,064 | 29,402,306 |

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

*(in thousands of Tenge, unless otherwise is stated)*

## 24. Risk management (continued)

### Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchanges. The market risk for the trading and non-trading portfolio is managed and monitored based on sensitivity analysis. Except for the concentrations within foreign currency, the Bank has no significant concentration of market risk.

*Currency risk*

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Risk Committee established limits on foreign currency positions based on the NBRK standards. Positions are monitored on a daily basis.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against Tenge, with all other variables held constant on profit or loss (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on profit or loss. All other parameters are held constant. The negative amount in the table reflects a potential net reduction in profit or loss or equity, while a positive amount reflects a net potential increase.

| | *2019* | | | |
|---|---|---|---|---|
| *Currency* | *Change in currency rate in %* | *Effect on profit before tax* | *Change in currency rate in %* | *Effect on profit before tax* |
| US dollar | 12% | (3,495,269) | -9% | 2,621,452 |
| Euro | 12% | 3,624,815 | -9% | (2,718,611) |
| Russian rouble | 12% | (993,821) | -12% | 993,821 |
| GBP | 12% | 3,051 | -9% | (2,289) |

| | *2018* | | | |
|---|---|---|---|---|
| *Currency* | *Change in currency rate in %* | *Effect on loss before tax* | *Change in currency rate in %* | *Effect on loss before tax* |
| USD | 14.00% | (2,699,682) | (10.00%) | 1,928,344 |
| Euro | 14.00% | 3,119,899 | (10.00%) | (2,228,499) |
| Russian rouble | 14.00% | (1,681,880) | (9.00%) | 1,081,208 |
| GBP | 15.00% | 1,832 | (15.00%) | (1,832) |

### 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 lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access rights, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

## 25. Fair value of financial instruments

The Bank determines determines the policies and procedures for both recurring fair value measurement, such as unquoted available-for-sale securities and for non-recurring measurement, such as assets held for sale.

At each reporting date, the Bank analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Bank's accounting policies. For this analysis, the Bank verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Bank also compares each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable. On an interim basis, the Bank presents the valuation results to the audit committee and the Bank's independent auditors. In addition, main assumptions used in measurement are discussed.

*(in thousands of Tenge, unless otherwise is stated)*

## 25. Fair value of financial instruments (continued)

The following table presents analysis of assets and liabilities based on the assets and liabilities nature, characteristics and risks as well as the hierarchy of fair value sources.

| *31 December 2019* | *Date of valuation* | *Quoted prices in active markets (Level 1)* | *Significant observable inputs (Level 2)* | *Significant non-observable inputs (Level 3)* | *Total* |
|---|---|---|---|---|---|
| Assets measured at fair value | | | | | |
| Derivative financial assets | 31 December 2019 | 34,724 | – | – | 34,724 |
| Assets for which fair values are disclosed | | | | | |
| Cash and cash equivalents | 31 December 2019 | – | 66,175,037 | – | 66,175,037 |
| Amounts due from financial institutions | 31 December 2019 | – | 7,145,522 | – | 7,145,522 |
| Loans to customers | 31 December 2019 | – | – | 129,222,011 | 129,222,011 |
| Other financial assets | 31 December 2019 | – | – | 1,486,675 | 1,486,675 |
| Liabilities measured at fair value | | | | | |
| Derivative financial liabilities | 31 December 2019 | 206,488 | – | – | 206,488 |
| Liabilities for which fair values are disclosed | | | | | |
| Amounts due to banks and other financial institutions | 31 December 2019 | – | 29,728,507 | – | 29,728,507 |
| Amounts due to customers | 31 December 2019 | – | – | 123,459,666 | 123,459,666 |
| Debt securities issued | 31 December 2019 | – | 14,761,369 | – | 14,761,369 |
| Lease liabilities | 31 December 2019 | – | – | 3,226,602 | 3,226,602 |
| Subordinated debt | 31 December 2019 | – | 9,264,867 | – | 9,264,867 |
| Other financial liabilities | 31 December 2019 | – | – | 1,364,801 | 1,364,801 |

| *31 December 2018* | *Date of valuation* | *Quoted prices in active markets (Level 1)* | *Significant observable inputs (Level 2)* | *Significant non-observable inputs (Level 3)* | *Total* |
|---|---|---|---|---|---|
| Assets measured at fair value | | | | | |
| Trading securities | 31 December 2018 | 4,765,761 | – | – | 4,765,761 |
| Investment securities at fair value through other comprehensive income | 31 December 2018 | 592,067 | – | – | 592,067 |
| Assets for which fair values are disclosed | | | | | |
| Cash and cash equivalents | 31 December 2018 | – | 49,318,138 | – | 49,318,138 |
| Amounts due from financial institutions | 31 December 2018 | – | 6,198,765 | – | 6,198,765 |
| Loans to customers | 31 December 2018 | – | – | 100,049,549 | 100,049,549 |
| Other financial assets | 31 December 2018 | – | – | 1,131,380 | 1,131,380 |
| Liabilities measured at fair value | | | | | |
| Derivative financial liabilities | 31 December 2018 | 50,061 | – | – | 50,061 |
| Liabilities for which fair values are disclosed | | | | | |
| Amounts due to banks and other financial institutions | 31 December 2018 | – | 12,586,430 | – | 12,586,430 |
| Amounts due to customers | 31 December 2018 | – | 88,645,023 | – | 88,645,023 |
| Debt securities issued | 31 December 2018 | – | 20,248,640 | – | 20,248,640 |
| Subordinated debt | 31 December 2018 | – | 13,840,183 | – | 13,840,183 |
| Other financial liabilities | 31 December 2018 | – | – | 1,233,702 | 1,233,702 |

During 2019 and 2018 the Bank did not make transfers between levels of the fair value hierarchy for financial instruments recorded at fair value.

*(in thousands of Tenge, unless otherwise is stated)*

## 25. Fair value of financial instruments (continued)

### Fair value of financial assets and liabilities not carried at fair value

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

| | *2019* | | | *2018* | | |
|---|---|---|---|---|---|---|
| | *Carrying amount* | *Fair value* | *Unrecogni-sed gain/ (loss)* | *Carrying value* | *Fair value* | *Unrecogni-sed gain/ (loss)* |
| Financial assets | | | | | | |
| Cash and cash equivalents | 66,175,037 | 66,175,037 | – | 49,318,138 | 49,318,138 | – |
| Amounts due from financial institutions | 7,145,522 | 7,145,522 | – | 6,198,765 | 6,198,765 | – |
| Loans to customers | 122,928,338 | 129,222,011 | 6,293,673 | 91,358,640 | 100,049,549 | 8,690,909 |
| Other financial assets | 1,486,675 | 1,486,675 | – | 1,131,380 | 1,131,380 | – |
| Financial liabilities | | | | | | |
| Amounts due to banks and other financial institutions | 31,129,443 | 29,728,507 | 1,400,936 | 12,790,308 | 12,586,430 | 203,878 |
| Amounts due to customers | 123,511,277 | 123,459,666 | 51,611 | 88,965,891 | 88,645,023 | 320,868 |
| Debt securities issued | 14,759,142 | 14,761,369 | (2,227) | 20,407,415 | 20,248,640 | 158,775 |
| Lease liabilities | 3,226,602 | 3,226,602 | – | – | – | – |
| Subordinated debt | 9,264,867 | 9,264,867 | – | 13,840,183 | 13,840,183 | – |
| Other financial liabilities | 1,364,801 | 1,364,801 | – | 1,233,702 | 1,233,702 | – |
| Total unrecognised change in unrealized fair value | | | 7,743,993 | | | 9,374,430 |

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

### 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.

### Fixed and variable rate financial instruments

In the event of quoted debt instruments, fair value is based on quoted market prices. 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. In determining the current interest rate, the Bank uses available information published on the official site of NBRK.

### Significant non-observable source data and sensitivity of financial instruments of Level 3 measured at fair value to changes in key assumptions

As at 31 December 2019 and 2018, the Bank had no financial instruments of Level 3 measured at fair value.

*(in thousands of Tenge, unless otherwise is stated)*

## 26. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See *Note 24 "Risk management"* for the Bank's contractual undiscounted repayment obligations.

| | *2019* | | | *2018* | | |
|---|---|---|---|---|---|---|
| | *Within one year* | *More than one year* | *Total* | *Within one year* | *More than one year* | *Total* |
| Cash and cash equivalents | 66,175,037 | – | 66,175,037 | 49,318,138 | – | 49,318,138 |
| Trading securities | – | – | – | 4,765,761 | – | 4,765,761 |
| Amounts due from financial institutions | 1,312,292 | 5,833,230 | 7,145,522 | 6,198,765 | – | 6,198,765 |
| Derivative financial assets | 34,724 | – | 34,724 | – | – | – |
| Loans to customers | 51,852,091 | 71,076,247 | 122,928,338 | 33,657,942 | 57,700,698 | 91,358,640 |
| Investment securities at fair value through other comprehensive income | – | – | – | 592,067 | – | 592,067 |
| Property and equipment | – | 6,787,627 | 6,787,627 | – | 2,589,072 | 2,589,072 |
| Intangible assets | – | 3,181,796 | 3,181,796 | – | 2,128,155 | 2,128,155 |
| Current corporate income tax assets | 21,061 | – | 21,061 | 5,134 | – | 5,134 |
| Deferred corporate income tax assets | – | 154,063 | 154,063 | – | 1,344,591 | 1,344,591 |
| Other assets | 1,890,865 | 1,012,668 | 2,903,533 | 2,717,482 | 1,079,487 | 3,796,969 |
| Total | 121,286,070 | 88,045,631 | 209,331,701 | 97,255,289 | 64,842,003 | 162,097,292 |
| | | | | | | |
| Amounts due to banks and other financial institutions | 22,433,963 | 8,695,480 | 31,129,443 | 10,016,757 | 2,773,551 | 12,790,308 |
| Government grants | 3,026,766 | – | 3,026,766 | 275,078 | 80,208 | 355,286 |
| Derivative financial liabilities | 206,488 | – | 206,488 | 50,061 | – | 50,061 |
| Amounts due to customers | 90,972,002 | 32,539,275 | 123,511,277 | 78,894,253 | 10,071,638 | 88,965,891 |
| Debt securities issued | 393,175 | 14,365,967 | 14,759,142 | 20,407,415 | – | 20,407,415 |
| Lease liabilities | – | 3,226,602 | 3,226,602 | – | – | – |
| Subordinated debt | 24,867 | 9,240,000 | 9,264,867 | 40,183 | 13,800,000 | 13,840,183 |
| Other liabilities | 2,054,606 | 774,054 | 2,828,660 | 4,573,282 | 209,470 | 4,782,752 |
| Total | 119,111,867 | 68,841,378 | 187,953,245 | 114,257,029 | 26,934,867 | 141,191,896 |
| Net position | 2,174,203 | 19,204,253 | 21,378,456 | (17,001,740) | 37,907,136 | 20,905,396 |

The Bank's capability to repay its liabilities relies on its ability to realise an equivalent amount of assets within the same period of time.

## 27. Related party transactions

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

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

### Transactions with government-related entities

The Russian Federation controls the Bank through the Federal Agency for the Administration of State Property of the Russian Federation.

The Russian Federation through its state agencies and other institutions directly and indirectly controls and has significant influence over a significant number of entities (together referred to as "entities associated with the state").

In the course of its daily activities, the Bank performs all transactions with related parties at prices established on the basis of market rates.

*(in thousands of Tenge, unless otherwise is stated)*

## 27. Related party transactions (continued)

### Transactions with government-related entities (continued)

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

| | *2019* | | | |
|---|---|---|---|---|
| | *Parent* | *Entities under common control of the Parent* | *Government-related entities* | *Key management personnel* |
| Cash and cash equivalents as at 1 January | 73,003 | 29,965 | – | – |
| Receipts on current accounts during the year | 2,376,525,138 | 487,070,511 | – | – |
| Payments from the current accounts during the year | (2,376,310,167) | (487,027,393) | – | – |
| Cash and cash equivalents as at 31 December before allowance | 287,974 | 73,083 | – | – |
| Less allowance for ECL | (39) | (1) | – | – |
| Cash and cash equivalents as at 31 December less allowance for ECL | 287,935 | 73,082 | – | – |
| Loans to customers as at 1 January | – | – | – | 334 |
| Loans issued during the year | – | – | – | – |
| Loans repaid during the year | – | – | – | (334) |
| Loans to customers at 31 December | – | – | – | – |

| | *2019* | | | |
|---|---|---|---|---|
| | *Parent* | *Entities under common control of the Parent* | *Government-related entities* | *Key management personnel* |
| Investment securities at 1 January | – | – | 592,067 | – |
| Investment securities redeemed during the year | – | – | (600,000) | – |
| Change in accrued interest on debt securities at fair value through other comprehensive income | | | (28,953) | |
| Change in fair value on debt securities at fair value through other comprehensive income | – | – | 36,886 | – |
| Investment securities as at 31 December before deducting ECL allowance | – | – | – | – |
| Less allowance for ECL | – | – | – | – |
| Investment securities as at 31 December less ECL allowance | – | – | – | – |
| Amounts due to banks and other financial institutions as at 1 January | 2,541,678 | 9,282 | – | – |
| Proceeds during the year | 2,061,889,398 | 164,674,791 | – | – |
| Payments during the year | (2,062,435,555) | (164,671,147) | – | – |
| Amounts due to banks and other financial institutions as at 31 December | 1,995,521 | 12,926 | – | – |
| Amounts due to customers at 1 January | – | – | – | 7,612 |
| Receipts on current accounts during the year | – | – | – | 413,183 |
| Payments from the current accounts during the year | – | – | – | (412,922) |
| Amounts due to customers at 31 December | – | – | – | 7,873 |
| Subordinated debt as at 1 January | 13,840,183 | – | – | – |
| Repayments during the year | (5,800,000) | – | – | – |
| Accrual of interest on subordinated debt | 854,626 | – | – | – |
| Payment of interest on subordinated debt | (886,868) | – | – | – |
| Effect from changes in exchange rates | 1,256,926 | – | – | – |
| Subordinated debt as at 31 December | 9,264,867 | – | – | – |

*(in thousands of Tenge, unless otherwise is stated)*

## 27. Related party transactions (continued)

### Transactions with government-related entities (continued)

| | *2018* | | | |
|---|---|---|---|---|
| | *Parent* | *Entities under common control of the Parent* | *Government-related entities* | *Key management personnel* |
| Cash and cash equivalents as at 1 January | 660,927 | 250,143 | – | – |
| Receipts on current accounts during the year | 218,746,904 | 82,857,280 | – | – |
| Payments from the current accounts during the year | (219,334,827) | (83,077,458) | – | – |
| Cash and cash equivalents as at 31 December before allowance for ECL | 73,004 | 29,965 | – | – |
| Less allowance for ECL | (1) | (37) | – | – |
| Cash and cash equivalents as at 31 December less allowance for ECL | 73,003 | 29,928 | – | – |
| Loans to customers as at 1 January | – | – | – | 251 |
| Loans issued during the year | – | – | – | 83 |
| Loans to customers at 31 December | – | – | – | 334 |

| | *2018* | | | |
|---|---|---|---|---|
| | *Parent* | *Entities under common control of the Parent* | *Government-related entities* | *Key management personnel* |
| Investment securities at 1 January | – | – | 580,104 | – |
| Change in accrued interest on debt securities at fair value through other comprehensive income | – | – | (12,770) | – |
| Change in fair value on debt securities at fair value through other comprehensive income | – | – | 32,015 | – |
| Investment securities as at 31 December before deducting ECL allowance | – | – | 599,349 | – |
| Less allowance for ECL | – | – | (7,282) | – |
| Investment securities as at 31 December less ECL allowance | – | – | 592,067 | – |
| Amounts due to banks and other financial institutions as at 1 January | 882,638 | 2,512 | – | – |
| Proceeds during the year | 131,003,213 | 6,770 | – | – |
| Payments during the year | (129,344,173) | – | – | – |
| Amounts due to banks and other financial institutions as at 31 December | 2,541,678 | 9,282 | – | – |
| Amounts due to customers at 1 January | – | – | – | 6,016 |
| Receipts on current accounts during the year | – | – | – | 25,447 |
| Payments from the current accounts during the year | – | – | – | (23,851) |
| Amounts due to customers at 31 December | – | – | – | 7,612 |
| Subordinated debt as at 1 January | 14,476,889 | – | – | – |
| Accrual of interest on subordinated debt | 1,453,250 | – | – | – |
| Payment of interest on subordinated debt | (1,464,956) | – | – | – |
| Effect from changes in exchange rates | (625,000) | – | – | – |
| Subordinated debt as at 31 December | 13,840,183 | – | – | – |

*(in thousands of Tenge, unless otherwise is stated)*

## 27. Related party transactions (continued)

### Transactions with government-related entities (continued)

| | *2019* | | | | *2018* | | | |
|---|---|---|---|---|---|---|---|---|
| | *Parent* | *Entities under common control of the Parent* | *Govern-ment-related entities* | *Key mana-gement personnel* | *Parent* | *Entities under common control of the Parent* | *Govern-ment-related entities* | *Key mana-gement personnel* |
| Cash and cash equivalents | | | | | | | | |
| Interest income | 1,527 | – | – | – | 1,957 | 769 | – | – |
| Interest rates | 0.5% | – | – | – | 0.50% | 6.75% | – | – |
| Loans to customers | | | | | | | | |
| Interest income | – | – | – | – | – | – | – | 36 |
| Interest rates | – | – | – | 20% | – | – | – | 13.00% |
| Investment securities | | | | | | | | |
| Interest income | – | – | 11,547 | – | – | – | 37,630 | – |
| Interest rates | – | – | 8.75% | – | – | – | 8.75% | – |
| Amounts due to banks and other financial institutions | | | | | | | | |
| Interest expense | (9,760) | – | – | – | (464) | (8,829) | – | – |
| Interest rates | 0.01-7.5% | – | – | – | 2.50-7.50% | 8.50% | – | – |
| Subordinated debt | | | | | | | | |
| Interest expenses | (854,626) | – | – | – | (1,453,250) | – | – | – |
| Interest rates | 8.93-10.76% | – | – | – | 8.93-10.76% | – | – | – |

Compensation to key management personnel totalling 6 persons (in 2018 – 7 persons) includes the following:

| | *2019* | *2018* |
|---|---|---|
| Salaries and other short-term benefits | 310,824 | 204,046 |
| Social security contributions | 29,554 | 16,044 |
| Total compensation to the key management personnel | 340,378 | 220,090 |

## 28. Changes in liabilities arising from financing activities

| | *Debt securities issued* | *Subordinated debt* |
|---|---|---|
| Carrying amount as at 31 December 2017 | 19,878,909 | 14,476,889 |
| Repayment | (25,000) | – |
| Foreign exchange differences | – | (625,000) |
| Other | 553,506 | (11,706) |
| Carrying amount as at 31 December 2018 | 20,407,415 | 13,840,183 |
| | | |
| Issue | 14,299,410 | – |
| Repayment | (20,000,000) | (5,800,000) |
| Foreign exchange differences | – | 1,240,000 |
| Other | 52,317 | (15,316) |
| Carrying amount as at 31 December 2019 | 14,759,142 | 9,264,867 |

The "Other" line includes the effect of accrued but not yet paid interest on debt securities issued and subordinated loans. The Bank classifies interest paid as cash flows from operating activities.

*(in thousands of Tenge, unless otherwise is stated)*

## 29. Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored 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 maximize 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 basic 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 and (k1);
- 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);
- 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 and (k2).

The Bank's equity is calculated as the sum of tier 1 capital and tier 2 capital net of foreign exchange gains calculated in accordance with requirements of the NBRK.

Investments for the purposes of calculation of the above ratios represent investments into share capital (interest in the share 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.

In February 2020, an assessment of the quality of the Bank's assets as of 1 April 2019 initiated by the NBRK was completed. As at the assessment date, the Bank has a reserve of equity, taking into account the results of the assessment.

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

| | *2019* | *2018* |
|---|---|---|
| Tier 1 capital | 17,915,075 | 17,585,029 |
| Tier 2 capital | 9,240,000 | 8,280,000 |
| Foreign exchange gains subject to deduction from equity | – | – |
| Equity | 27,155,075 | 25,865,029 |
| Risk-weighted statutory assets, contingent and possible liabilities, operational and market risk | 174,178,677 | 124,580,799 |
| Ratio k1 (min. 5.5%) | 10.30% | 14.10% |
| Ratio k1-2 (min. 6.5%) | 10.30% | 14.10% |
| Ratio k.2 (min. 8.0%) | 15.60% | 20.76% |

## 30. Subsequent events

An outbreak of coronavirus continues to spread throughout the world. The Bank will closely monitor the development of the coronavirus situation, however, it is impossible to assess its financial effect at this stage.

In March 2020 the exchange rate of Tenge was devalued against US dollar and other major currencies. The currency exchange rate of KASE as at 20 March 2020 amounted KZT 444.80 to USD 1.