

**SB JSC “Bank Home Credit”**

Financial Statements  
for the year ended 31 December 2018

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## Independent Auditors' Report

### To the Board of Directors and Management Board of SB JSC “Bank Home Credit”

#### Opinion

We have audited the financial statements of SB JSC “Bank Home Credit” (the Bank), which comprise the statement of financial position as at 31 December 2018, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

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

#### Key Audit Matter

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.

### Expected credit losses (‘ECL’) for loans to retail customers

Please refer to Notes 2 (e), 3 (e), 4 and 15 in the financial statements.

The key audit matter	How the matter was addressed in our audit
<p>Loans to retail customers represent 72% of assets and are stated net of allowance for expected credit losses (ECL) that is estimated on a regular basis and is sensitive to assumptions used.</p> <p>From 1 January 2018 the Bank implemented a new ECL valuation model, which requires management to apply professional judgement and to make assumptions related to the following key areas:</p> <ul style="list-style-type: none"> <li>- timely identification of significant increase in credit risk and default events related to loans to retail customers (allocation between stages 1, 2 and 3 in accordance with the IFRS 9);</li> <li>- assessment of probability of default and loss given default;</li> <li>- assessment of add-on adjustment to account for forward-looking information.</li> </ul> <p>According to the Bank’s policy, ECL for loans to retail customers is calculated using mathematical models. Loans to retail customers have no collateral, loss given default is calculated based on statistics of loan repayments.</p> <p>Due to the significant volume of loans to retail customers, adoption of the new ECL model and the related estimation uncertainty, this area is a key audit matter.</p>	<p>We analysed the key aspects of the Bank’s methodology and policies related to the ECL estimate for compliance with the requirements of IFRS 9, with the involvement of our own financial risks management specialists.</p> <p>To analyse the adequacy of professional judgement and assumptions made by the management in relation to the allowance for ECL estimate, we performed the following:</p> <ul style="list-style-type: none"> <li>- We tested design and operating effectiveness of controls over completeness and accuracy of data inputs into ECL calculation models, timely reflection of delinquency events and loan repayments in the underlying systems and allocation of loans into stages of credit risk. We agreed input data to supporting documents on a sample basis.</li> </ul> <p>We assessed the predictive capability of the Bank’s methodology by comparing the estimates made as at 1 January 2018 with actual results for 2018.</p> <p>We also assessed whether the financial statements disclosures appropriately reflect the Bank’s exposure to credit risk.</p>



## Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditors’ report thereon. The annual report is expected to be made available to us after the date of this auditors’ 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 Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

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

## Auditors’ 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 auditors’ report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the 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 auditors' 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 auditors' 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

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



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

**KPMG Audit LLC**

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



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

5 March 2019

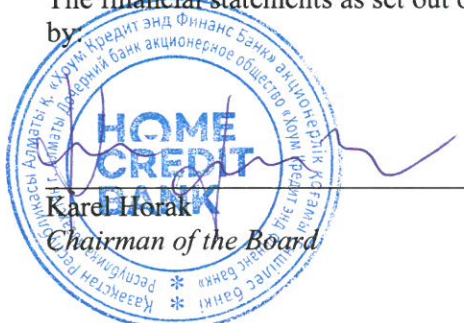


**SB JSC "Bank Home Credit"**  
*Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2018*

	Note	2018 KZT'000	2017* KZT'000
Interest income calculated using the effective interest method	6	74,329,217	54,093,618
Interest expense	6	(22,076,864)	(15,100,538)
<b>Net interest income</b>		<b>52,252,353</b>	<b>38,993,080</b>
Fee and commission income	7	17,666,138	14,569,000
Fee and commission expense	7	(2,171,762)	(1,667,112)
<b>Net fee and commission income</b>		<b>15,494,376</b>	<b>12,901,888</b>
Net loss on financial instruments at fair value through profit or loss	8	(279,458)	(515,063)
Net foreign exchange loss	9	(3,877,268)	(166,115)
Other operating income		655,423	356,034
<b>Operating income</b>		<b>64,245,426</b>	<b>51,569,824</b>
(Charge)/recovery for credit losses on debt financial assets	10	(4,075,227)	668,219
General administrative expenses	11	(30,194,617)	(24,522,592)
<b>Profit before income tax</b>		<b>29,975,582</b>	<b>27,715,451</b>
Income tax expense	12	(6,249,356)	(5,735,946)
<b>Profit for the year</b>		<b>23,726,226</b>	<b>21,979,505</b>
<b>Other comprehensive income, net of income tax</b>			
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Movement in fair value reserve (debt instruments):			
- Net change in fair value		21,434	(33,922)
- Net change in expected credit losses		51,930	-
- Net amount reclassified to profit or loss		33,922	-
<b>Other comprehensive income for the year, net of income tax</b>		<b>107,286</b>	<b>(33,922)</b>
<b>Total comprehensive income for the year</b>		<b>23,833,512</b>	<b>21,945,583</b>
Earnings per share, in KZT (basic and diluted)	30	680,029	629,966

\*The Bank has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 2(e)). As a result of adoption of IFRS 9 the Bank changed presentation of certain captions, comparative information is re-presented accordingly (see Note 3(o)).

The financial statements as set out on pages 7 to 81 were signed by Management on 5 March 2019 by:



  
 Gaukhar Massangaliyeva  
 Chief Accountant

**SB JSC “Bank Home Credit”**  
Statement of Financial Position as at 31 December 2018

	Note	2018 KZT'000	2017* KZT'000
<b>ASSETS</b>			
Cash and cash equivalents	13	70,259,604	14,211,027
Placements with banks	14	2,473,653	-
Loans to retail customers	15	267,900,659	188,109,945
Investment securities:			
- Pledged under sale and repurchase agreements	16	9,458,245	11,488,680
- Not pledged under sale and repurchase agreements	16	7,474,998	-
Financial instruments at fair value through profit or loss	20	795,930	145,635
Property, equipment and intangible assets	18	8,652,491	7,349,792
Other assets	19	4,377,829	3,723,593
<b>Total assets</b>		<b>371,393,409</b>	<b>225,028,672</b>
<b>LIABILITIES</b>			
Financial instruments at fair value through profit or loss	20	301,083	238,057
Deposits and balances from banks	21	62,372,082	35,368,377
Current accounts and deposits from customers			
- Current accounts and deposits from retail customers	22	79,227,545	62,309,097
- Current accounts and deposits from corporate customers	22	62,429,017	34,615,178
Debt securities issued	23	50,542,872	22,158,530
Other borrowed funds	24	35,915,808	14,911,830
Certificates of deposit	26	7,673,418	850,223
Other liabilities	27	10,002,039	9,446,036
<b>Total liabilities</b>		<b>308,463,864</b>	<b>179,897,328</b>
<b>EQUITY</b>			
	28		
Share capital		5,199,503	5,199,503
Retained earnings		57,656,678	39,965,763
Fair value reserve		73,364	(33,922)
<b>Total equity</b>		<b>62,929,545</b>	<b>45,131,344</b>
<b>Total liabilities and equity</b>		<b>371,393,409</b>	<b>225,028,672</b>
Book value per share, in KZT	29	1,684,689	1,171,393

\*The Bank has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 2(e)). As a result of adoption of IFRS 9 the Bank changed presentation of certain captions, comparative information is re-presented accordingly (see Note 3(o)).



**SB JSC “Bank Home Credit”**  
*Statement of Cash Flows for the year ended 31 December 2018*

	<b>2018</b> <b>KZT'000</b>	<b>2017</b> <b>KZT'000</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Interest receipts	72,716,507	56,738,291
Interest payments	(21,416,278)	(14,949,707)
Fee and commission receipts	17,630,727	14,619,328
Fee and commission payments	(1,784,396)	(1,705,382)
Net payments from financial instruments at fair value through profit or loss	(866,727)	(635,072)
Net (payments) receipts from foreign exchange	(30,691)	33,479
Other income receipts, net	655,423	356,034
General administrative expenses	(25,204,818)	(21,471,882)
<b>Increase in operating assets</b>		
Loans to retail customers	(84,952,870)	(69,817,734)
Placements with banks	(2,352,100)	-
Investment securities	(3,608,008)	(11,822,926)
Other assets	(264,133)	(443,082)
<b>Increase (decrease) in operating liabilities</b>		
Current accounts and deposits from customers	42,762,152	23,412,084
Deposits and balances from banks	23,960,340	15,255,412
Certificates of deposit	6,746,895	494,900
Other liabilities	73,052	48,303
<b>Net cash provided from (used in) operating activities before income tax paid</b>	<b>24,065,075</b>	<b>(9,887,954)</b>
Income tax paid	(6,504,758)	(6,054,855)
<b>Cash flows provided from (used in) operating activities</b>	<b>17,560,317</b>	<b>(15,942,809)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property, equipment and intangible assets	(4,363,391)	(3,154,470)
Proceeds from sale of property and equipment	58,075	22,691
<b>Cash flows used in investing activities</b>	<b>(4,305,316)</b>	<b>(3,131,779)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Receipts of other borrowed funds	46,793,733	14,881,203
Repayments of other borrowed funds	(29,006,700)	-
Issue of debt securities	28,179,045	14,931,927
Dividends paid	(5,000,002)	(13,000,049)
<b>Cash flows from financing activities</b>	<b>40,966,076</b>	<b>16,813,081</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>54,221,077</b>	<b>(2,261,507)</b>
Effect of changes in exchange rates on cash and cash equivalents	1,827,500	43,717
Cash and cash equivalents as at the beginning of the year	14,211,027	16,428,817
<b>Cash and cash equivalents as at the end of the year (note 13)</b>	<b>70,259,604</b>	<b>14,211,027</b>

**SB JSC “Bank Home Credit”**  
Statement of Changes in Equity for the year ended 31 December 2018

<b>KZT'000</b>	<b>Share capital</b>	<b>Fair value reserve</b>	<b>Retained earnings</b>	<b>Total equity</b>
<b>Balance as at 1 January 2017</b>	5,199,503	-	30,986,307	36,185,810
<b>Total comprehensive income</b>				
Profit for the year	-	-	21,979,505	21,979,505
<b>Other comprehensive income</b>				
<i>Items that are or may be reclassified subsequently to profit or loss:</i>				
Net change in fair value of available-for-sale financial assets, net of deferred tax	-	(33,922)	-	(33,922)
Total other comprehensive income	-	(33,922)	-	(33,922)
<b>Total comprehensive income for the year</b>	-	(33,922)	21,979,505	21,945,583
<b>Transactions with owners, recorded directly in equity</b>				
Dividends declared (Note 28 (b))	-	-	(13,000,049)	(13,000,049)
<b>Balance as at 31 December 2017</b>	<b>5,199,503</b>	<b>(33,922)</b>	<b>39,965,763</b>	<b>45,131,344</b>
<b>Balance as at 1 January 2018</b>	5,199,503	(33,922)	39,965,763	45,131,344
Impact of adopting IFRS 9 as at 1 January 2018*	-	-	(1,035,309)	(1,035,309)
<b>Restated balance as at 1 January 2018</b>	5,199,503	(33,922)	38,930,454	44,096,035
<b>Total comprehensive income</b>				
Profit for the year	-	-	23,726,226	23,726,226
<b>Other comprehensive income</b>				
<i>Items that are or may be reclassified subsequently to profit or loss:</i>				
Fair value reserve (debt instruments):				
- Net change in fair value		21,434	-	21,434
- Net change in expected credit losses	-	51,930	-	51,930
- Net amount reclassified to profit or loss	-	33,922	-	33,922
Total other comprehensive income	-	107,286	-	107,286
<b>Total comprehensive income for the year</b>	-	107,286	23,726,226	23,833,512
<b>Transactions with owners, recorded directly in equity</b>				
Dividends declared (Note 28 (b))	-	-	(5,000,002)	(5,000,002)
<b>Balance as at 31 December 2018</b>	<b>5,199,503</b>	<b>73,364</b>	<b>57,656,678</b>	<b>62,929,545</b>

\*The Bank has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 2(e)).

## **1 Reporting entity**

### **(a) Organisation and operations**

Private Bank FTD was established in 1993 and subsequently renamed to Bank Alma-Ata in December 1994. In December 1995, the Bank was re-registered as Open Joint Stock Company International Bank Alma-Ata. Due to a change in legislation, the Bank was re-registered as a joint stock company in November 2004. On 4 November 2008, International Bank Alma-Ata JSC was renamed to Home Credit Bank JSC. In January 2013 the Bank was acquired by Home Credit and Finance Bank incorporated in the Russian Federation, in this connection the Bank was renamed to Subsidiary Bank Joint Stock Company Home Credit and Finance Bank (short name SB JSC “Bank Home Credit”) on 4 April 2013.

The principal activities of the Bank are retail lending, deposit taking and customer accounts maintenance, issuing guarantees, cash and settlement operations and foreign exchange. The activities of the Bank are regulated by the National Bank of the Republic of Kazakhstan (the “NBRK”). The Bank holds license #1.2.36/40 dated 11 January 2016 to carry out banking activity and activity on securities market.

The registered address of the Bank’s head office is 248, Nursultan Nazarbayev av., Almaty, Republic of Kazakhstan, 050059. As at 31 December 2018, the Bank had 17 branches and 45 bank offices (31 December 2017: 17 branches and 41 bank offices).

Debt securities issued by the Bank are listed on Kazakhstan Stock Exchange (KASE).

As at 31 December 2018 and 2017 the Bank was 100% owned by Home Credit and Finance Bank incorporated in the Russian Federation. The ultimate controlling owner of the Bank is Petr Kellner, who exercises control over Home Credit and Finance Bank through PPF Financial Holdings B.V. registered in the Netherlands.

### **(b) Kazakhstan business environment**

The Bank’s operations are primarily located in Kazakhstan. Consequently, the Bank is exposed to the economic and financial markets of Kazakhstan, which display emerging market characteristics. Legal, tax and regulatory frameworks continue to develop, but are subject to varying interpretations and frequent changes that, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in Kazakhstan. In addition, the depreciation of the Kazakhstan tenge which took place during 2015, and a reduction in the global price of oil, have increased the level of uncertainty in the business environment. The financial statements reflect the management’s assessment of the impact of the Kazakhstan business environment on the operations and financial position of the Bank. The future business environment may differ from the management’s assessment.

## **2 Basis of accounting**

### **(a) Statement of compliance**

The accompanying financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

This is the first set of the Bank’s financial statements in which IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* have been applied. Changes to significant accounting policies are described in Note 2(e).

### **(b) Basis of measurement**

The financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and financial assets at fair value through other comprehensive income (2017: available-for-sale financial assets) are stated at fair value.

## **2 Basis of accounting, continued**

### **(c) Functional and presentation currency**

The functional currency of the Bank is the Kazakhstan Tenge (KZT) as, being the national currency of the Republic of Kazakhstan, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

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

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

### **(d) Use of estimates and judgments**

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 results could differ from those estimates.

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

#### **Judgements**

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

- Applicable to 2018 only
  - classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding – Note 3(e)(i);
  - significant increase in credit risk: when determining whether the credit risk has increased significantly since initial recognition the Bank considers the factors such as negative external information (i.e. delinquency of borrowers' loans in other banks), behavioral scoring assessment (past credit history, etc.), application to financial protection products (services such as payment holidays, change in due date) – Note 4;
  - determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL – Note 4.
- Applicable to 2018 and 2017
  - classification of other borrowed funds in the statement of cash flows;
  - commission income from insurance – Notes 3 (c) and 7;
  - level classification of the fair value hierarchy of financial assets and liabilities – Note 39.

#### **Assumptions and estimations uncertainty**

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

- Applicable to 2018 only
  - impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information – Note 4.
- Applicable to 2018 and 2017
  - impairment of loans to retail customers – Note 15.
  - fair value of financial assets and liabilities – Note 39.

## **2 Basis of accounting, continued**

### **(e) Changes in accounting policies and presentation**

The Bank has initially adopted IFRS 9 and IFRS 15 from 1 January 2018.

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

Due to the transition methods chosen by the Bank in applying IFRS 9, comparative information throughout these financial statements has not generally been restated to reflect its requirements.

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

- an increase in impairment losses recognised on financial assets (see Note 5);
- additional disclosures related to IFRS 9 (see Notes 4 and 5);
- additional disclosure related to IFRS 15 (see Note 7).

#### **IFRS 9 Financial Instruments**

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

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

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

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

#### ***Classification of financial assets and financial liabilities***

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

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

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

#### ***Impairment of financial assets***

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

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

## 2 Basis of accounting, continued

### (e) Changes in accounting policies and presentation, continued

#### **IFRS 9 Financial Instruments**

##### *Transition*

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

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

The Bank used the exemption not to restate comparative periods but considering that the amendments made by IFRS 9 to IAS 1 introduced the requirement to present ‘interest income calculated using the effective interest rate’ as a separate line item in the statement of profit or loss and other comprehensive income and changed the description of the line item from ‘interest income’ reported in 2017 to ‘interest income calculated using the effective interest method’.

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
  - The determination of the business model within which a financial asset is held.

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

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

#### **IFRS 15 Revenue from Contracts with Customers**

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 ‘Revenue’, IAS 11 ‘Construction Contracts and related interpretations’.

The Bank initially applied IFRS 15 on 1 January 2018 retrospectively in accordance with IAS 8. The timing or amount of the Bank’s fee and commission income from contracts with customers was not impacted by the adoption of IFRS 15. The impact of IFRS 15 was limited to the new disclosure requirements (see Note 7).

## 3 Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these financial statements, except as explained below, related to the Bank’s adoption of IFRS 9 (Note 2(e)), which is applicable from January 2018.

### (a) Foreign currency

Transactions in foreign currencies are translated to the functional currency of the Bank at exchange rate at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting year.



### **3 Significant accounting policies, continued**

#### **(a) Foreign currency, continued**

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in profit or loss.

#### **(b) Interest**

##### ***Policy applicable from 1 January 2018***

##### ***Effective interest rate***

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

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

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

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

##### ***Amortised cost and gross carrying amount***

The ‘amortised cost’ of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

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

##### ***Calculation of interest income and expense***

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

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

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

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

### **3 Significant accounting policies, continued**

#### **(b) Interest, continued**

##### *Policy applicable from 1 January 2018, continued*

##### *Presentation*

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

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

Interest expense presented in the statement of profit or loss and other comprehensive income includes:

- financial liabilities measured at amortised cost.

##### *Policy applicable before 1 January 2018*

##### *Effective interest rate*

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

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

#### **(c) Fees and commission**

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

A contract with a customer that results in a recognised financial instrument in the Bank's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

#### **(d) Cash and cash equivalents**

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with the NBRK and other banks, mandatory reserve deposit with the NBRK, and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of short-term commitments. The mandatory reserve deposit with the NBRK is not considered to be a cash equivalent, due to restrictions on its withdrawability. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

### **3 Significant accounting policies, continued**

#### **(e) Financial assets and financial liabilities**

##### ***i. Classification***

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

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

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

- interest income using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

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

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment-by-investment basis.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in other comprehensive income. Cumulative gains and losses recognised in other comprehensive income are transferred to retained earnings on disposal of an investment.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

### 3 Significant accounting policies, continued

#### (e) Financial assets and financial liabilities, continued

##### i. Classification, continued

###### **Business model assessment**

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management’s strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company’s management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company’s stated objective for managing the financial assets is achieved and how cash flows are realised.

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

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

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

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Company considers:

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

All of the Bank’s retail loans contain prepayment features.

A prepayment is consistent with the SPPI criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract.

### 3 Significant accounting policies, continued

#### (e) Financial assets and financial liabilities, continued

##### *i. Classification, continued*

##### **Assessment whether contractual cash flows are solely payments of principal and interest, continued**

In addition, a prepayment feature is treated as consistent with this criterion if a financial asset is acquired or originated at a premium or discount to its contractual par amount, the prepayment amount substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable compensation for early termination), and the fair value of the prepayment feature is insignificant on initial recognition.

##### **Reclassification**

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

##### ***Financial assets – Policy applicable before 1 January 2018***

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

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

See Note 3(f),(h).

##### ***Financial liabilities***

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL. See Note 39.

##### **Reclassification**

Financial liabilities are not reclassified subsequent to their initial recognition.

#### *(ii) Derecognition*

##### **Financial assets**

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised separately as asset or liability.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

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

### **3 Significant accounting policies, continued**

#### **(e) Financial assets and financial liabilities, continued**

##### **(ii) Derecognition, continued**

###### **Financial assets, continued**

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

###### **Financial liabilities**

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

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

###### ***Policy applicable from 1 January 2018***

###### **Financial assets**

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as ‘substantial modification’), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

Changes in cash flows on existing financial assets or financial liabilities are not considered as modification, if they result from existing contractual terms.

The Bank performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Bank assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In making this evaluation the Bank analogises to the guidance on the derecognition of financial liabilities.

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

- change the currency of the financial asset;
- change in collateral or other credit enhancement;
- inclusion of conversion feature.



### 3 Significant accounting policies, continued

#### (e) Financial assets and financial liabilities, continued

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

###### *Policy applicable from 1 January 2018, continued*

###### **Financial assets, continued**

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases. The Bank further performs qualitative evaluation of whether the modification is substantial.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower (see Note 3(e)(iv)), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest method. (see Note 3(b)).

For fixed-rate loans, where the borrower has an option to prepay the loan at par without significant penalty, the Bank treats the modification of an interest rate to a current market rate using the guidance on floating-rate financial instruments. This means that the effective interest rate is adjusted prospectively.

###### **Financial liabilities**

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

The Bank performs a quantitative and qualitative evaluation of whether the modification is substantial considering qualitative factors, quantitative factors and combined effect of qualitative and quantitative factors. The Bank concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial liability;
- change in collateral or other credit enhancement;
- inclusion of conversion option;
- change in the subordination of the financial liability.

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

### **3 Significant accounting policies, continued**

#### **(e) Financial assets and financial liabilities, continued**

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

###### ***Policy applicable from 1 January 2018, continued***

###### **Financial liabilities, continued**

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

###### ***Policy applicable before 1 January 2018***

###### **Financial assets**

If the terms of a financial asset were modified, then the Bank evaluated whether the cash flows of the modified asset were substantially different. If the cash flows were substantially different, then the contractual rights to cash flows from the original financial asset were deemed to have expired. In this case, the original financial asset was derecognised (see Note 3(e)(ii)) and a new financial asset was recognised at fair value.

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

###### **Financial liabilities**

The Bank derecognised a financial liability when its terms were modified and the cash flows of the modified liability were substantially different. In this case, a new financial liability based on the modified terms was recognised at fair value. The difference between the carrying amount of the financial liability extinguished and consideration paid was recognised in profit or loss. Consideration paid included non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

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

#### **iv. Impairment**

See also Note 4.

###### ***Policy applicable from 1 January 2018***

The Bank recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- loan commitments and financial guarantee contracts issued (previously, impairment was measured under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*).

No impairment loss is recognised on equity investments.

### 3 Significant accounting policies, continued

#### (e) Financial assets and financial liabilities, continued

##### iv. Impairment, continued

###### *Policy applicable from 1 January 2018, continued*

The Bank measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured as 12-month ECLs:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition (see Note 4).

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

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

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised are referred to as ‘Stage 2’ financial instruments.

#### **Measurement of ECL**

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

- *financial assets that are not credit-impaired at the reporting date*: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive);
- *financial assets that are credit-impaired at the reporting date*: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- *undrawn loan commitments*: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- *financial guarantee contracts*: the present value of expected payments to reimburse the holder less any amounts that the Bank expects to recover.

#### **Restructured financial assets**

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset (see Note 4).
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

### 3 Significant accounting policies, continued

#### (e) Financial assets and financial liabilities, continued

##### iv. Impairment, continued

##### **Credit-impaired financial assets**

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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

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

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

##### **Presentation of allowance for ECL in the statement of financial position**

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

- *financial assets measured at amortised cost*: as a deduction from the gross carrying amount of the assets;
- *loan commitments*: generally, as a provision;
- *where a financial instrument includes both a drawn and an undrawn component, and the Company cannot identify the ECL on the loan commitment component separately from those on the drawn component*: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- *debt instruments measured at FVOCI*: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

##### **Write-offs**

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank’s procedures for recovery of amounts due.

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

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

### **3 Significant accounting policies, continued**

#### **(e) Financial assets and financial liabilities, continued**

##### ***iv. Impairment, continued***

##### ***Policy applicable before 1 January 2018***

##### **Objective evidence of impairment**

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

In addition, a retail loan that was overdue for 90 days or more was considered impaired.

Objective evidence that financial assets were impaired included:

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

A loan that was renegotiated due to a deterioration in the borrower’s condition was usually considered to be impaired unless there was evidence that the risk of not receiving contractual cash flows had reduced significantly and there were no other indicators of impairment.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost was objective evidence of impairment.

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

##### **Individual or collective assessment**

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

The collective allowance for groups of homogeneous loans was established using statistical methods or, for small portfolios with insufficient information, a formula approach based on historical loss rate experience. The roll rate methodology used statistical analysis of historical data on delinquency to estimate the amount of loss. Management applied judgement to ensure that the estimate of loss arrived at on the basis of historical information was appropriately adjusted to reflect the economic conditions and product mix at the reporting date. Roll rates and loss rates were regularly benchmarked against actual loss experience.

### **3 Significant accounting policies, continued**

#### **(e) Financial assets and financial liabilities, continued**

##### ***iv. Impairment, continued***

##### ***Policy applicable before 1 January 2018***

##### **Individual or collective assessment, continued**

The IBNR allowance covered credit losses inherent in portfolios of loans and receivables with similar credit risk characteristics when there was objective evidence to suggest that they contained impaired items but the individual impaired items could not yet be identified.

In assessing the need for collective loss allowance, management considered factors such as credit quality, portfolio size, concentrations and economic factors. To estimate the required allowance, assumptions were made to define how inherent losses were modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowance depended on the model assumptions and parameters used in determining the collective allowance.

Loans that were subject to a collective IBNR provision were not considered impaired.

##### **Measurement of impairment**

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

##### **Reversal of impairment**

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

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

##### **Presentation**

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

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

##### **Write-off**

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



### **3 Significant accounting policies, continued**

#### **(f) Loans to customers**

##### ***Policy applicable from 1 January 2018***

‘Loans to retail customers’ caption in the statement of financial position include:

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

##### ***Policy applicable before 1 January 2018***

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

Loans to customers included:

- those classified as loans and receivables;

Loans to customers were initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

#### **(g) Investment securities**

##### ***Policy applicable from 1 January 2018***

The ‘investment securities’ caption in the statement of financial position includes:

- debt investment securities measured at amortised cost (see Note 3(e)(i)); these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt securities measured at FVOCI (see Note 3(e)(i)).

##### ***Policy applicable before 1 January 2018***

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

##### **Available-for-sale**

Available-for-sale investments were non-derivative investments that were designated as available-for-sale or were not classified as another category of financial assets. Available-for-sale investments comprise debt securities. All available-for-sale investments were measured at fair value after initial recognition.

Interest income was recognised in profit or loss using the effective interest method. Dividend income was recognised in profit or loss when the Bank became entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments were recognised in profit or loss. Impairment losses were recognised in profit or loss (see Note 3(e)(iv)).

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

A non-derivative financial asset might be reclassified from the available-for-sale category to the loans and receivables category if it would otherwise have met the definition of loans and receivables and if the Bank had the intention and ability to hold that financial asset for the foreseeable future or until maturity.

### **3 Significant accounting policies, continued**

#### **(h) Deposits, debt securities issued and other borrowed funds**

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

#### **(i) Loan commitments**

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured as follows:

- *from 1 January 2018*: at the higher of the loss allowance determined in accordance with IFRS 9 (see Note 3(e)(iv)) and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15; and
- *before 1 January 2018*: at the higher the amount representing the initial fair value amortised over the life of the guarantee or the commitment and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

The Bank has issued no loan commitments that are measured at FVTPL.

For other loan commitments:

- *from 1 January 2018*: the Bank recognises a loss allowance (see Note 3(e)(iv));
- *before 1 January 2018*: the Bank recognised a provision in accordance with IAS 37 if the contract was considered to be onerous.

Liabilities arising from financial guarantees and loan commitments are included within provisions.

#### **(j) Property and equipment**

##### **(i) Owned assets**

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

Buildings	50 years
Computers	2-5 years
Vehicles	7 years
Leasehold improvements	7-10 years
Other assets	2-10 years.

#### **(k) Intangible assets**

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

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

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 1 to 7 years.

### **3 Significant accounting policies, continued**

#### **(l) Share capital**

##### **(i) Ordinary shares**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

##### **(ii) Dividends**

The ability of the Bank to declare and pay dividends is subject to the rules and regulations of the Kazakhstan legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the year when they are declared.

#### **(m) Taxation**

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

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

Deferred tax assets and liabilities are recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are not recognised for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit or loss.

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

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

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

#### **(n) Segment reporting**

The Bank's operations constitute one operating business segment for the purposes of IFRS 9 *Operating Segments*. An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Bank), whose operating results are regularly reviewed by the chief operating decision maker, the Management Board, to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Assets are concentrated primarily in the Republic of Kazakhstan, and the majority of revenues and net income are derived from operations in, and connected with the Republic of Kazakhstan.

### 3 Significant accounting policies, continued

#### (o) Comparative information

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

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

The effect of main changes in presentation of the statement of financial position as at 31 December 2017 is as follows:

- “Financial assets available-for-sale” were presented within “investment securities” line item.

The effect of the changes above on the statement of financial position is summarised in the table below:

<b>KZT'000</b>	<b>As previously reported</b>	<b>Effect of reclassifications</b>	<b>As reclassified</b>
Financial assets available-for-sale	11,488,680	(11,488,680)	-
Investment securities	-	11,488,680	11,488,680

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

- “Interest income” were presented within “Interest income calculated using the effective interest method” line item.

The effect of main changes in presentation of the statement of cash flows for the year ended 31 December 2017 is as follows:

<b>KZT'000</b>	<b>As previously reported</b>	<b>Effect of reclassifications</b>	<b>As reclassified</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Increase in operating assets</b>			
Financial assets available-for-sale	(11,822,926)	11,822,926	-
Investment securities	-	(11,822,926)	(11,822,926)

#### (p) New standards and interpretations not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2019 with earlier application permitted; however, the Bank has not early adopted them in preparing these financial statements

Of those standards that are not yet effective, IFRS 16 is expected to have a significant impact on the Bank's financial statements in the period of initial application.

##### **IFRS 16 Leases**

The Bank is required to adopt IFRS 16 *Leases* from 1 January 2019. The Bank has assessed the estimated impact that initial application of IFRS 16 will have on its financial statements, as described below. The actual impacts of adopting the standard on 1 January 2019 may change because:

- the Bank has not yet finalised the testing and assessment of controls over its new IT systems; and
- the new accounting policies are subject to change until the Bank presents its first financial statements that include the date of initial application.

### 3 Significant accounting policies, continued

#### (p) New standards and interpretations not yet adopted, continued

##### IFRS 16 Leases, continued

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

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

##### *i. Leases in which the Bank is a lessee*

The Bank has completed an initial assessment of the potential impact on its financial statements but has not yet completed its detailed assessment. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, the development of the Bank's lease portfolio, the Bank's assessment of whether it will exercise any lease renewal options and the extent to which the Bank chooses to use practical expedients and recognition exemptions.

The Bank will recognise new assets and liabilities for its operating leases of office buildings. The nature of expenses related to those leases will now change because IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Bank recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

As at 31 December 2018, the Bank's future minimum lease payments under non-cancellable operating leases amounted to KZT 3,593,498 thousand, on an undiscounted basis, which the Bank estimates it will recognise as additional lease liabilities.

##### *ii. Transition*

The Bank plans to apply IFRS 16 initially on 1 January 2019, using a modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

The Bank plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

##### Other standards

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

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

## 4 Financial risk review

This note presents information about the Bank’s exposure to financial risks. For information on the Bank’s financial risk management framework, see Note 32.

### **Credit risk - Amounts arising from ECL**

#### **Inputs, assumptions and techniques used for estimating impairment**

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

#### ***Significant increase in credit risk***

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank’s historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

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

- qualitative indicators such as negative external information (i.e. delinquency of borrowers’ loans in other banks), behavioral scoring assessment (past credit history, etc.), application to financial protection products (services such as payment holidays, change in due date); and
- backstop of 30 days past due, except for due from bank exposures and securities, for which a backstop of 7 days is applied.

#### ***Credit risk grades***

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The Bank uses these grades in identifying significant increases in credit risk under IFRS 9. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default. These factors may vary depending on the nature of the exposure and the type of borrower.

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

Each exposure is allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

<b>Corporate exposure</b>	<b>All exposures (corporate and retail exposures)</b>
<ul style="list-style-type: none"> <li>• Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes</li> <li>• Data from credit reference agencies, press articles, changes in external credit ratings</li> <li>• Quoted bond and credit default swap (CDS) prices for the borrower where available</li> <li>• Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities</li> </ul>	<ul style="list-style-type: none"> <li>• Payment record – this includes overdue status as well as a range of variables about payment ratios</li> <li>• Utilisation of the granted limit</li> <li>• Requests for and granting of forbearance</li> <li>• Existing and forecast changes in business, financial and economic conditions</li> </ul>

## 4 Financial risk review, continued

### Credit risk - Amounts arising from ECL, continued

#### *Generating the term structure of PD*

Credit risk grades and client's score are primary inputs into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analysed by jurisdiction, by type of product and borrower and by credit risk grading. For some portfolios, information purchased from external credit reference agencies may also be used.

The Bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

#### *Determining whether credit risk has increased significantly*

The Bank assesses whether credit risk has increased significantly since initial recognition at each reporting period. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower, and the geographical region. What is considered significant will differ for different types of lending, in particular between corporate and retail.

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Bank's credit risk management processes (Note 2 (d)) that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as placement on a watch list. Such qualitative factors are based on its expert judgement and relevant historical experience.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due and for due from bank exposures and securities is more than 7 days. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency of forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases the Bank determines a probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes history of up-to-date payment performance against the modified contractual terms (12 month probation period).

#### *Definition of default*

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

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Bank. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding;
- due from bank exposures and securities are past due more than 7 days.

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

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status; and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources (e.g. insolvency or bankruptcy loan registers).

## 4 Financial risk review, continued

### Credit risk - Amounts arising from ECL, continued

#### *Definition of default, continued*

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

#### *Incorporating of forward-looking information*

The Bank incorporates forward-looking information into assessment of whether the credit risk of an instrument has increased significantly since initial recognition and – where possible – as part of measurement of ECLs.

The Bank uses – based on data availability and credibility of sources (external public information, official site of the NBRK) – an analysis of historical data to estimate relationships between macro-economic variables and credit risk and credit losses. For most exposures, key macro-economic indicator is likely to be GDP growth.

#### *Modified financial assets*

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

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

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

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

The Bank renegotiates loans to retail customers in financial difficulties (referred to as ‘forbearance activities’) to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants.

For financial assets modified as part of the Bank's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect interest and principal and the Bank's previous experience of similar forbearance action. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired (see Note 3(e)(iv)). A customer needs to demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.



## 4 Financial risk review, continued

### Credit risk - Amounts arising from ECL, continued

#### *Measurement of ECL*

The key inputs into the measurement of ECLs are – in general – the following variables:

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

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

The methodology of estimating PDs is discussed above under the heading “Generating the term structure of PD”.

The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. It is calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EAD is potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

For retail portfolio PD and EAD is usually estimated together using statistical models (stochastic Markov chain based model of simple Roll Rate model) based on internally compiled data. Where it is available, market data may also be used to derive the PD for large corporate counterparties where there is not enough internally available data for statistical modelling.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower’s extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Group considers a longer period.

For retail credit card facilities that include both a loan and an undrawn commitment component, the Bank measures ECLs over a period when the Bank’s ability to demand repayment and cancel the undrawn commitment does not limit the Bank’s exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Bank can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Bank becomes aware of an increase in credit risk at the facility level. This period is estimated taking into account the credit risk management actions that the Bank expects to take and that serve to mitigate ECLs. These include a reduction in limits and cancellation of the facility.

Where modelling of a parameter is carried out on a collective basis, the financial instruments shall be grouped on the basis of shared risk characteristics, such as product type and credit risk gradings (past due grading).

The groupings is subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

For portfolios in respect of which the Bank has limited historical data, external benchmark information is used to supplement the internally available data.

## 4 Financial risk review, continued

### Credit risk - Amounts arising from ECL, continued

#### Measurement of ECL, continued

The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows.

	Exposure at 31 December 2018 KZT'000	External benchmarks used	
		PD	LGD
Cash and cash equivalents	70,259,604	Moody's default study	For local bank exposures LGD statistics is based on recovery of defaults of banks and financial institutions in Kazakhstan / Moody's recovery studies
Placements with banks	2,473,653		
Financial assets at fair value through other comprehensive income	16,933,243		

### Credit quality analysis

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

Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in Note 3(e)(iv).

#### KZT'000

	31 December 2018			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	
<b>Cash and cash equivalents</b>				
National Bank of the Republic of Kazakhstan	59,108,500	-	-	59,108,500
Nostro accounts with other banks:				
rated from BBB- to BBB+	4,365,500	-	-	4,365,500
rated from BB- to BB+	44,927	-	-	44,927
rated below B+	474,635	-	-	474,635
Placements with banks due within one month				
rated below B+	384,285	-	-	384,285
	<b>64,377,847</b>	-	-	<b>64,377,847</b>
Loss allowance	(802)	-	-	(802)
<b>Carrying amount</b>	<b>64,377,045</b>	-	-	<b>64,377,045</b>
<b>Financial assets at fair value through other comprehensive income</b>				
Rated AA+	9,466,609	-	-	9,466,609
Rated from B- to B+	7,445,808	-	-	7,445,808
<b>Gross carrying amount</b>	<b>16,912,417</b>	-	-	<b>16,912,417</b>
Loss allowance	(50,930)	-	-	(50,930)
<b>Carrying amount – fair value</b>	<b>16,933,243</b>	-	-	<b>16,933,243</b>
<b>Placements with banks</b>				
Not rated	2,473,653	-	-	2,473,653
Loss allowance	-	-	-	-
<b>Carrying amount</b>	<b>2,473,653</b>	-	-	<b>2,473,653</b>
<b>Loans to retail customers at amortised cost:</b>				
<b>Cash loans</b>				
Not overdue	117,122,570	22,491,822	-	139,614,392
Overdue less than 30 days	1,170,109	2,378,310	-	3,548,419
Overdue 31-90 days	-	1,907,615	-	1,907,615
Overdue 91-180 days	-	-	1,831,444	1,831,444
Overdue 181-360 days	-	-	3,310,157	3,310,157
	<b>118,292,679</b>	<b>26,777,747</b>	<b>5,141,601</b>	<b>150,212,027</b>
Loss allowance	(1,821,557)	(1,042,361)	(3,034,657)	(5,898,575)
<b>Carrying amount</b>	<b>116,471,122</b>	<b>25,735,386</b>	<b>2,106,944</b>	<b>144,313,452</b>

## 4 Financial risk review, continued

### Credit quality analysis, continued

	31 December 2018			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit- impaired	
<b>KZT'000</b>				
<i>POS loans</i>				
Not overdue	95,516,435	5,243,646	-	100,760,081
Overdue less than 30 days	1,271,102	747,257	-	2,018,359
Overdue 31-90 days	-	1,398,891	-	1,398,891
Overdue 91-180 days	-	-	1,636,690	1,636,690
Overdue 181-360 days	-	-	3,387,387	3,387,387
	<b>96,787,537</b>	<b>7,389,794</b>	<b>5,024,077</b>	<b>109,201,408</b>
Loss allowance	(1,908,973)	(704,322)	(3,271,183)	(5,884,478)
<b>Carrying amount</b>	<b>94,878,564</b>	<b>6,685,472</b>	<b>1,752,894</b>	<b>103,316,930</b>
<i>Credit cards</i>				
Not overdue	19,121,762	260,147	-	19,381,909
Overdue less than 30 days	379,307	30,679	-	409,986
Overdue 31-90 days	-	327,373	-	327,373
Overdue 91-180 days	-	-	289,181	289,181
Overdue 181-360 days	-	-	500,108	500,108
	<b>19,501,069</b>	<b>618,199</b>	<b>789,289</b>	<b>20,908,557</b>
Loss allowance	(73,405)	(84,374)	(480,501)	(638,280)
<b>Carrying amount</b>	<b>19,427,664</b>	<b>533,825</b>	<b>308,788</b>	<b>20,270,277</b>
<i>Other financial assets</i>				
Not overdue	2,191,804	-	-	2,191,804
Overdue less than 30 days	604,499	-	-	604,499
Overdue more than 30 days	-	2,952	200	3,152
	<b>2,796,303</b>	<b>2,952</b>	<b>200</b>	<b>2,799,455</b>
Loss allowance	(16,138)	(237)	(200)	(16,575)
<b>Carrying amount</b>	<b>2,780,165</b>	<b>2,715</b>	<b>-</b>	<b>2,782,880</b>

## 5 Transition to IFRS 9

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

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

KZT'000	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	Reclassification	Remeasurement	New carrying amount under IFRS 9
<b>Financial assets</b>							
Cash and cash equivalents	12	Loans and receivables	Amortised cost	14,211,027	-	-	14,211,027
Loans to retail customers	13	Loans and receivables	Amortised cost	188,109,945	-	(1,293,960)	186,815,985
Financial assets available-for-sale		Available for sale	FVOCI (debt instruments)	11,488,680	(11,488,680)	-	-
Financial assets at fair value through other comprehensive income		Available for sale	FVOCI (debt instruments)	-	11,488,680	-	11,488,680
Financial instruments at fair value through profit or loss	14	FVTPL	FVTPL (mandatory)	145,635	-	-	145,635
Other financial assets		Loans and receivables	Amortised cost	1,991,062	-	-	1,991,062
<b>Total financial assets</b>				<b>215,946,349</b>	<b>-</b>	<b>(1,293,960)</b>	<b>214,652,389</b>
<b>Financial liabilities</b>							
Financial instruments at fair value through profit or loss	14	FVTPL	FVTPL (mandatory)	238,057	-	-	238,057
Deposits and balances from banks	15	Amortised cost	Amortised cost	35,368,377			35,368,377
Current accounts and deposits from customers	16	Amortised cost	Amortised cost	96,924,275	-	-	96,924,275
Debt securities issued		Amortised cost	Amortised cost	22,158,530	-	-	22,158,530
Other borrowed funds	17	Amortised cost	Amortised cost	14,911,830	-	-	14,911,830
Certificates of deposit		Amortised cost	Amortised cost	850,223	-	-	850,223
Other financial liabilities		Amortised cost	Amortised cost	6,416,456	-	-	6,416,456
<b>Total financial liabilities</b>				<b>176,867,748</b>	<b>-</b>	<b>-</b>	<b>176,867,748</b>

## 5 Transition to IFRS 9, continued

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

The following table summarises the impact, net of tax, of transition to IFRS 9 on the opening balance of reserves and retained earnings:

KZT'000	Impact of adopting IFRS 9 at 1 January 2018
<b>Retained earnings:</b>	
Closing balance under IAS 39 (31 December 2017)	39,965,763
Recognition of expected credit losses under IFRS 9	(1,294,101)
Income tax effect	258,792
<b>Opening balance under IFRS 9 (1 January 2018)</b>	<b>38,930,454</b>

The following table reconciles:

- the closing impairment allowance for financial assets in accordance with IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as at 31 December 2017; to
- the opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018.

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

KZT'000	Impairment allowance and provisions			
	31 December 2017 (IAS 39/ IAS 37)	Reclassi- fication	Remeasu- rement	1 January 2018 (IFRS 9)
Loans to retail customers under IAS 39/financial assets at amortised cost under IFRS 9	(7,036,618)	-	(1,293,960)	(8,330,578)
<b>Subtotal</b>	<b>(7,036,618)</b>	<b>-</b>	<b>(1,293,960)</b>	<b>(8,330,578)</b>
Loan commitments	-	-	(141)	(141)
<b>Subtotal</b>	<b>-</b>	<b>-</b>	<b>(141)</b>	<b>(141)</b>
<b>Total</b>	<b>(7,036,618)</b>	<b>-</b>	<b>(1,294,101)</b>	<b>(8,330,719)</b>

## 6 Net interest income

	<b>2018</b> <b>KZT'000</b>	<b>2017</b> <b>KZT'000</b>
<b>Interest income calculated using the effective interest method:</b>		
Interest income on financial assets recorded at amortised cost:		
Loans to retail customers	72,881,990	53,133,092
Cash and cash equivalents	1,194,918	921,841
Investment securities	252,309	38,685
<b>Total interest income calculated using the effective interest method</b>	<b>74,329,217</b>	<b>54,093,618</b>
<b>Interest expense</b>		
<b>Interest expense on financial liabilities recorded at amortised cost:</b>		
Current accounts and deposits from customers	13,810,409	10,707,008
Debt securities issued	3,059,565	1,699,329
Deposits and balances from banks	1,861,306	2,218,542
Other borrowed funds	1,709,899	30,552
Sale and repurchase agreements	1,379,919	350,036
Certificates of deposit	255,766	95,071
<b>Total interest expense on financial liabilities recorded at amortised cost</b>	<b>22,076,864</b>	<b>15,100,538</b>
<b>Net interest income</b>	<b>52,252,353</b>	<b>38,993,080</b>

Included within various line items under interest income in 2018 is a total of KZT 1,880,958 thousand (2017: KZT 1,152,801 thousand) accrued on impaired loans to retail customers.

## 7 Net fee and commission income

In the following table, fee and commission income from contracts with customers in the scope of IFRS 15 is disaggregated by major types of commission income.

	<b>2018</b> <b>KZT'000</b>	<b>2017</b> <b>KZT'000</b>
<b>Fee and commission income:</b>		
Commission income from insurance	11,489,707	9,907,197
Fees from retailers	2,600,718	2,113,138
Contractual penalties from customers	2,058,362	1,477,576
Fees for early loan repayments	909,233	715,213
Transfer operations	298,382	90,621
Cards' operations	179,606	122,664
Other fee and commission income	130,130	142,591
<b>Total fee and commission income:</b>	<b>17,666,138</b>	<b>14,569,000</b>
<b>Fee and commission expense:</b>		
Commissions paid for verification services	(757,051)	(628,757)
Deposit insurance fund contributions	(560,408)	(202,393)
Card processing	(348,723)	(158,692)
Commissions paid to partners	(277,383)	(608,521)
Settlements	(160,188)	(43,924)
Other	(68,009)	(24,825)
<b>Total fee and commission expense</b>	<b>(2,171,762)</b>	<b>(1,667,112)</b>

The fees and commission presented in this note include income of KZT 17,536,008 thousand (2017: KZT 14,426,409 thousand) and expense of KZT 1,943,565 thousand (2017: KZT 1,598,363 thousand) relating to financial assets and financial liabilities not measured at FVTPL. These figures exclude amounts incorporated in determining the effective interest rate on such financial assets and financial liabilities.

## 7 Fee and commission income and expense, continued

### *Contract balances*

The following table provides information about receivables and contract liabilities from contracts with customers.

<b>KZT'000</b>	<b>31 December 2018</b>	<b>31 December 2017</b>	<b>1 January 2017</b>
Receivables, which are included in ‘other assets’ (Note 19)	2,799,455	1,990,300	1,490,585
Contract liabilities, which are included in ‘other liabilities’	-	-	-

### *Performance obligations and revenue recognition policies*

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Bank recognises revenue when it transfers control over a service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

<b>Type of service</b>	<b>Nature and timing of satisfaction of performance obligations, including significant payment terms</b>	<b>Revenue recognition under IFRS 15 (applicable from 1 January 2018)</b>
Insurance service	<p>The Bank provides insurance agent services to retail customers (insurance policies) under the framework agreement concluded between the Bank and insurance company.</p> <p>The Bank acts as an insurance agent and offers customers insurance policies on behalf of the insurance company. The Bank is paid an agency fee proportionate to premiums subscribed.</p> <p>There are two types of contracts with retail customers: (1) purchase of an insurance policy along with a loan, payment for the policy is made using cash obtained under a loan agreement and (2) purchase an insurance policy on its own.</p> <p>Insurance policy purchase is voluntary.</p>	Revenue related to transactions is recognised at the point in time when the transaction takes place.
Fees from retailers	<p>The Bank provides agency services to third parties under the framework agreement concluded between the Bank and trade companies.</p> <p>The Bank acts as an agent of trade companies and offers additional services at sale points. These services provided by trade companies relate to lost item return service subscription under the package called “Keeper”. Customer receives key ring and two stickers with information about reward for return and contact numbers of trade companies for those who find lost item. The Bank is paid an agency fee proportionate to services subscribed by customers.</p> <p>The agreement for the purpose of IFRS 15 will be framework agreement between Bank and Trade Company in combination with individual agreements concluded between Trade Company and retail customer.</p>	Revenue related to transactions is recognised at the point in time when the transaction takes place.

## 8 Net loss on financial instruments at fair value through profit or loss

For the year ended 31 December 2018 the Bank recognised net loss on financial instruments at fair value through profit or loss on short-term currency swap operations concluded on the Kazakhstan stock exchange in the amount of KZT 483,098 thousand (for the year ended 31 December 2017: net gain of KZT 301,748 thousand), and net gain on 1-year currency swap operations concluded with PPF Banka A.S. in the amount of KZT 203,640 thousand (Note 20) (for the year ended 31 December 2017: net loss on short-term swap operations concluded with PPF Banka A.S. equalled to KZT 816,811 thousand).

## 9 Net foreign exchange loss

	2018 KZT'000	2017 KZT'000
Translation differences, net	(3,856,725)	(181,643)
Dealing, net	(20,543)	15,528
	<b>(3,877,268)</b>	<b>(166,115)</b>

## 10 (Charge) recovery for credit losses on debt financial assets

	2018 KZT'000	2017 KZT'000
Loans to retail customers (Note 15)	(3,809,918)	905,308
Other assets (Note 19)	(212,305)	(237,089)
Investment securities (Note 16)	(51,930)	-
Cash and cash equivalents (Note 13)	(802)	-
Loan commitments	(272)	-
	<b>(4,075,227)</b>	<b>668,219</b>

## 11 General administrative expenses

	2018 KZT'000	2017 KZT'000
Employee compensation and payroll related taxes	14,653,448	12,880,998
Depreciation and amortisation	3,014,702	2,408,825
Information technology	2,489,967	2,016,656
Professional services	2,043,610	1,134,287
Telecommunication and postage	1,967,847	1,164,832
Occupancy	1,420,250	1,168,892
Taxes other than income tax	1,345,828	793,220
Advertising and marketing	1,074,033	890,809
Collectors' services	1,052,596	1,090,090
Travel expenses	343,990	317,169
Other	788,346	656,814
	<b>30,194,617</b>	<b>24,522,592</b>



## 12 Income tax expense

	2018 KZT'000	2017 KZT'000
<b>Current tax expense</b>		
Current year tax expense	6,253,681	6,124,181
Current tax expense overprovided in prior years	(133,668)	(54,073)
	<b>6,120,013</b>	<b>6,070,108</b>
<b>Deferred tax expense</b>		
Deferred taxation movement due to origination and reversal of temporary differences	129,343	(334,162)
<b>Total income tax expense</b>	<b>6,249,356</b>	<b>5,735,946</b>

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

### Reconciliation of effective tax rate:

	2018 KZT'000	%	2017 KZT'000	%
<b>Profit before income tax</b>	<b>29,975,582</b>		<b>27,715,451</b>	
Income tax at the applicable tax rate	5,995,116	20.0	5,543,090	20.0
Non-deductible costs	387,908	1.3	246,929	0.9
Overprovided in prior years	(133,668)	(0.5)	(54,073)	(0.2)
	<b>6,249,356</b>	<b>20.8</b>	<b>5,735,946</b>	<b>20.7</b>

### Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to a net deferred tax assets as at 31 December 2018 and 31 December 2017. These deferred tax assets are recognized in these financial statements.

The deductible temporary differences do not expire under current tax legislation.

Movements in temporary differences in 2018 and 2017 are presented below.

2018 KZT'000	Balance 1 January 2018	Recognised in profit or loss	Balance 31 December 2018
Property, equipment and intangible assets	(411,492)	(25,243)	(436,735)
Other assets	(267,773)	169,717	(98,056)
Financial instruments at fair value through profit or loss	25,593	(124,493)	(98,900)
Deposits and balances from banks	76,376	(2,233)	74,143
Other liabilities	1,110,806	(147,091)	963,715
	<b>533,510</b>	<b>(129,343)</b>	<b>404,167</b>
2017 KZT'000	Balance 1 January 2017	Recognised in profit or loss	Balance 31 December 2017
Property, equipment and intangible assets	(374,379)	(37,113)	(411,492)
Other assets	(115,866)	(151,907)	(267,773)
Financial instruments at fair value through profit or loss	42,486	(16,893)	25,593
Deposits and balances from banks	156,575	(80,199)	76,376
Other liabilities	490,532	620,274	1,110,806
	<b>199,348</b>	<b>334,162</b>	<b>533,510</b>

## 13 Cash and cash equivalents

	<b>2018</b> <b>KZT'000</b>	<b>2017</b> <b>KZT'000</b>
Cash on hand	5,882,559	4,486,752
Nostro accounts with the NBRK (rated BBB-)	14,077,562	5,274,332
Nostro accounts with other banks		
- rated from A- to A+	-	1,865,287
- rated from BBB- to BBB+	4,365,500	-
- rated from BB- to BB+	44,927	85,528
- rated below B+	474,635	97,278
<b>Nostro accounts with other banks</b>	<b>4,885,062</b>	<b>2,048,093</b>
Loss allowance	(282)	-
<b>Net total nostro accounts with other banks</b>	<b>4,884,780</b>	<b>2,048,093</b>
<b>Cash equivalents</b>		
Term deposits with the NBRK (rated BBB-)	45,030,938	2,401,850
Term deposits with other banks		
- rated B	384,285	-
<b>Total term deposits with other banks</b>	<b>384,285</b>	<b>-</b>
Loss allowance	(520)	-
<b>Net total term deposits with other banks</b>	<b>383,765</b>	<b>-</b>
<b>Total cash equivalents</b>	<b>45,414,703</b>	<b>2,401,850</b>
<b>Total cash and cash equivalents</b>	<b>70,259,604</b>	<b>14,211,027</b>

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

All cash and cash equivalents are included in Stage 1 of the credit risk grade.

As at 31 December 2018 the Bank had exposure towards one banking counterparty (31 December 2017: one banking counterparty) exceeding 10% of the Bank's equity with the gross value of KZT 59,108,500 thousand (31 December 2017: KZT 7,676,182 thousand).

The following table shows reconciliations from opening and closing balances of the loss allowance on cash and cash equivalents.

	<b>2018</b>				<b>2017</b>
<b>KZT'000</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>	<b>Total</b>
<b>Cash and cash equivalents</b>					
Balance at 1 January	-	-	-	-	-
Net remeasurement of loss allowance	282	-	-	282	-
New financial assets originated or purchased	520	-	-	520	-
<b>Balance at 31 December</b>	<b>802</b>	<b>-</b>	<b>-</b>	<b>802</b>	<b>-</b>

### Minimum reserve requirements

In accordance with regulations issued by the NBRK, minimum reserve requirements are calculated as a total of specified proportions of different groups of banks liabilities. Banks are required to comply with these requirements by maintaining average reserve assets (local currency cash and NBRK balances) equal or in excess of the average minimum requirements. As at 31 December 2018, the minimum reserve is KZT 5,316,336 thousand (31 December 2017: KZT 1,802,515 thousand).

## 14 Placements with banks

During December 2018 the Bank opened an intragroup deposit for the total amount of KZT 2,473,653 thousand with a fixed interest rate of 0.0010% per annum, which serves as collateral for currency swap operations concluded with PPF Banka A.S. (Note 20).

## 15 Loans to retail customers

	2018 KZT'000	2017 KZT'000
<b>Loans to individuals</b>		
Cash loans	150,212,027	105,048,786
POS loans	109,201,408	79,681,855
Credit cards	20,908,557	10,415,922
<b>Total loans to individuals</b>	<b>280,321,992</b>	<b>195,146,563</b>
Impairment allowance	(12,421,333)	(7,036,618)
<b>Net loans to individuals</b>	<b>267,900,659</b>	<b>188,109,945</b>

Significant changes in the gross carrying amount of loans to retail customers during the period that contributed to changes in loss allowance were as follows:

	2018			
KZT'000	Stage 1	Stage 2	Stage 3	Total
<b>Loans to retail customers at amortised cost</b>				
Balance at 1 January	169,852,060	15,623,505	9,670,998	195,146,563
Transfer to Stage 1	1,584,169	(1,584,169)	-	-
Transfer to Stage 2	(648,172)	648,177	(5)	-
Transfer to Stage 3	(2,138,652)	(3,303,734)	5,442,386	-
New financial assets originated or purchased*	167,192,460	33,358,245	-	200,550,705
Repayments	(101,260,580)	(9,956,284)	(4,439,249)	(115,656,113)
(Write-offs) recoveries	-	-	(1,199,493)	(1,199,493)
Unwinding of discount on present value of ECLs	-	-	1,480,330	1,480,330
<b>Balance at 31 December</b>	<b>234,581,285</b>	<b>34,785,740</b>	<b>10,954,967</b>	<b>280,321,992</b>

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

### (a) Analysis of movements in the credit loss allowance

	2018				2017
KZT'000	Stage 1	Stage 2	Stage 3	Total	Total
<b>Loans to retail customers at amortised cost</b>					
Balance at 1 January	2,810,097	1,271,004	4,249,477	8,330,578	6,797,502
Transfer to Stage 1	38,312	(38,312)	-	-	-
Transfer to Stage 2	(126,545)	126,548	(3)	-	-
Transfer to Stage 3	(455,186)	(1,093,849)	1,549,035	-	-
New financial assets originated or purchased*	2,922,779	3,108,067	-	6,030,846	-
Net remeasurement of loss allowance**	(1,385,522)	(1,542,401)	706,995	(2,220,928)	(905,308)
(Write-offs) recoveries	-	-	(1,199,493)	(1,199,493)	1,144,424
Unwinding of discount on present value of ECLs	-	-	1,480,330	1,480,330	-
<b>Balance at 31 December</b>	<b>3,803,935</b>	<b>1,831,057</b>	<b>6,786,341</b>	<b>12,421,333</b>	<b>7,036,618</b>

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

\*\*Due to changes in estimates, effect of repayments (including early repayments).

## 15 Loans to retail customers, continued

### (a) Analysis of movements in the credit loss allowance, continued

Comparative amounts for the year ended 31 December 2017 reflect management basis under IAS 39. Movements in the loan impairment allowance by classes of loans to retail customers for the year ended 31 December 2017 were as follows:

	Cash loans KZT'000	POS loans KZT'000	Credit cards KZT'000	Total KZT'000
Balance at the beginning of the year	4,071,398	2,479,704	246,400	6,797,502
Net (reversals)/charge	(3,274,772)	2,063,605	305,859	(905,308)
Net recoveries (write-offs)	2,349,369	(989,152)	(215,793)	1,144,424
<b>Balance at the end of the year</b>	<b>3,145,995</b>	<b>3,554,157</b>	<b>336,466</b>	<b>7,036,618</b>

### (b) Credit quality of loans to retail customers

The following table provides information on the credit quality of loans to retail customers as at 31 December 2018:

	31 December 2018			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit- impaired	Total
<b>KZT'000</b>				
<i>Loans to retail customers at amortised cost:</i>				
<i>Cash loans</i>				
Not overdue	117,122,570	22,491,822	-	139,614,392
Overdue less than 30 days	1,170,109	2,378,310	-	3,548,419
Overdue 31-90 days	-	1,907,615	-	1,907,615
Overdue 91-180 days	-	-	1,831,444	1,831,444
Overdue 181-360 days	-	-	3,310,157	3,310,157
<b>Total cash loans</b>	<b>118,292,679</b>	<b>26,777,747</b>	<b>5,141,601</b>	<b>150,212,027</b>
Loss allowance	(1,821,557)	(1,042,361)	(3,034,657)	(5,898,575)
<b>Cash loans net of loss allowance</b>	<b>116,471,122</b>	<b>25,735,386</b>	<b>2,106,944</b>	<b>144,313,452</b>
<i>POS loans</i>				
Not overdue	95,516,435	5,243,646	-	100,760,081
Overdue less than 30 days	1,271,102	747,257	-	2,018,359
Overdue 31-90 days	-	1,398,891	-	1,398,891
Overdue 91-180 days	-	-	1,636,690	1,636,690
Overdue 181-360 days	-	-	3,387,387	3,387,387
<b>Total POS loans</b>	<b>96,787,537</b>	<b>7,389,794</b>	<b>5,024,077</b>	<b>109,201,408</b>
Loss allowance	(1,908,973)	(704,322)	(3,271,183)	(5,884,478)
<b>POS loans net of loss allowance</b>	<b>94,878,564</b>	<b>6,685,472</b>	<b>1,752,894</b>	<b>103,316,930</b>
<i>Credit cards</i>				
Not overdue	19,121,762	260,147	-	19,381,909
Overdue less than 30 days	379,307	30,679	-	409,986
Overdue 31-90 days	-	327,373	-	327,373
Overdue 91-180 days	-	-	289,181	289,181
Overdue 181-360 days	-	-	500,108	500,108
<b>Total credit cards</b>	<b>19,501,069</b>	<b>618,199</b>	<b>789,289</b>	<b>20,908,557</b>
Loss allowance	(73,405)	(84,374)	(480,501)	(638,280)
<b>Credit cards net of loss allowance</b>	<b>19,427,664</b>	<b>533,825</b>	<b>308,788</b>	<b>20,270,277</b>
<b>Total loans to retail customers</b>	<b>234,581,285</b>	<b>34,785,740</b>	<b>10,954,967</b>	<b>280,321,992</b>
Loss allowance	(3,803,935)	(1,831,057)	(6,786,341)	(12,421,333)
<b>Loans to retail customers net of loss allowance</b>	<b>230,777,350</b>	<b>32,954,683</b>	<b>4,168,626</b>	<b>267,900,659</b>

## 15 Loans to retail customers, continued

### (b) Credit quality of loans to retail customers, continued

The following table provides information on the credit quality of the loans to retail customers as at 31 December 2017:

	Gross loans KZT'000	Impairment allowance KZT'000	Net loans KZT'000	Impairment allowance to gross loans, %
<b>Loans to individuals</b>				
- not overdue	180,989,818	(895,525)	180,094,293	0.49
- overdue less than 90 days	6,893,179	(1,768,053)	5,125,126	25.65
- overdue 90-360 days	7,263,566	(4,373,040)	2,890,526	60.21
<b>Total loans to individuals</b>	<b>195,146,563</b>	<b>(7,036,618)</b>	<b>188,109,945</b>	<b>3.61</b>

The Bank considers loans which are contractually overdue for more than 90 days to be non-performing. As at 31 December 2018 total impairment allowance to non-performing loans is 114% (31 December 2017: 97%).

Loans overdue 360 days are written off.

### (c) Key assumptions and judgments for estimating loan impairment

The Bank compute present value of estimated loss – discounting is new under IFRS9.

The Bank estimates the impairment losses on loans to retail customers based on current status of credit and past experience of actually incurred impairment losses on each loan type. The key assumptions used in estimating impairment losses for the current year are as follows:

- loss migration rates are constant and can be estimated based on the historical loss migration pattern for the past twelve months;
- unsecured loans which borrowers are unable to repay in full can be partially recovered through further collection actions for 21%-25% of the loan's outstanding principal balances.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus or minus one percent, the loan impairment allowance on loans to retail customers as at 31 December 2018 would be KZT 2,679,007 thousand lower/higher (31 December 2017: KZT 1,881,099 thousand).

### (d) Loan collateral

The recoverability of loans is primarily dependent on the creditworthiness of the borrowers. Loans to retail customers are not secured.

### (e) Significant credit exposures

As at 31 December 2018, the Bank had no borrowers whose loan balances exceed 10% of the Bank's equity (31 December 2017: none).

### (f) Loan maturities

The maturity of the loan portfolio is presented in note 32(d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

## 16 Investment securities

	<b>2018</b> <b>KZT'000</b>	<b>2017</b> <b>KZT'000</b>
Investment securities measured at fair value through other comprehensive income	16,933,243	-
Financial assets available-for-sale	-	11,488,680
<b>Total investment securities</b>	<b>16,933,243</b>	<b>11,488,680</b>

### Investment securities measured at fair value through other comprehensive income

	<b>2018</b> <b>KZT'000</b>	<b>2017</b> <b>KZT'000</b>
<i>Debt securities</i>		
Corporate bonds		
- rated from B- to B+	7,474,998	-
<b>Pledged under sale and repurchase agreements</b>		
US Treasury bills		
- rated AAA	9,458,245	11,488,680
	<b>16,933,243</b>	<b>11,488,680</b>

All investment securities are included in Stage 1 of the credit risk grade.

### Loss allowance

The following tables show reconciliations from the opening to the closing balances of the loss allowance on investment securities at FVOCI (2017: available-for-sale). Comparative amounts for 2017 represent allowance account for credit losses and reflect measurement basis under IAS 39.

	<b>2018</b>				<b>2017</b>
<b>KZT'000</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>	<b>Total</b>
<b>Investment securities at FVOCI</b>					
<b>(2017: financial assets available-for-sale)</b>					
Balance at 1 January	-	-	-	-	-
New financial assets originated or purchased	51,930	-	-	51,930	-
<b>Balance at 31 December</b>	<b>51,930</b>	<b>-</b>	<b>-</b>	<b>51,930</b>	<b>-</b>

The above loss allowance is not recognised in the statement of financial position because the carrying amount of investment securities at FVOCI (2017: available-for-sale) is their fair value.

## 17 Transfer of financial assets

### Transferred financial assets that are not derecognised in their entirety

<b>2018</b> <b>KZT'000</b>	<b>Financial assets at fair value through other comprehensive income</b>
Carrying amount of assets	9,458,245
Carrying amount of associated liabilities	8,763,233
<b>2017</b> <b>KZT'000</b>	<b>Financial assets available-for-sale</b>
Carrying amount of assets	11,488,680
Carrying amount of associated liabilities	11,433,870

## **17 Transfer of financial assets, continued**

### *Securities*

The Bank has transactions to lend securities and to sell securities under agreements to repurchase and to purchase securities under agreements to resell. Sale and repurchase agreements are transactions in which the Bank sells a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at a fixed price on a future date. Securities lending agreements are transactions in which the Bank lends securities for a fee and receives cash as a collateral.

The securities lent or sold under agreements to repurchase are transferred to a third party and the Bank receives cash in exchange. These financial assets may be repledged or resold by counterparties in the absence of any default by the Bank, but the counterparty has an obligation to return the securities when the contract matures. The Bank has determined that it retains substantially all the risks and rewards related to these securities and therefore has not derecognised them. These securities are presented as “pledged under sale and repurchase agreements” in note 16. The cash received is recognised as a financial asset and a financial liability is recognised for the obligation to repay the purchase price for this collateral, and is included in deposits and balances from banks (note 22). Because the Bank sells the contractual rights to the cash flows of the securities, it cannot use the transferred assets during the term of the agreement.

**18 Property, equipment and intangible assets**

<b>KZT'000</b>	<b>Land and buildings</b>	<b>Computers</b>	<b>Vehicles</b>	<b>Leasehold improvements</b>	<b>Other fixed assets</b>	<b>Intangible assets</b>	<b>Equipment and software for installation</b>	<b>Total</b>
<b>Cost</b>								
Balance at 1 January 2018	489,910	2,343,730	250,973	1,099,875	1,401,654	8,267,986	2,508	13,856,636
Additions	-	1,665,687	120,577	504,715	466,533	1,908,326	-	4,665,838
Disposals/Write-offs	-	(506,805)	(65,140)	(100,427)	(105,585)	(1,520,151)	-	(2,298,108)
Transfers	-	2,508	-	-	-	-	(2,508)	-
<b>At 31 December 2018</b>	<b>489,910</b>	<b>3,505,120</b>	<b>306,410</b>	<b>1,504,163</b>	<b>1,762,602</b>	<b>8,656,161</b>	<b>-</b>	<b>16,224,366</b>
<b>Depreciation and amortisation</b>								
Balance at 1 January 2018	(39,838)	(1,307,462)	(91,174)	(537,245)	(524,577)	(4,006,548)	-	(6,506,844)
Depreciation and amortisation for the year	(9,400)	(640,453)	(41,208)	(225,948)	(292,790)	(1,804,903)	-	(3,014,702)
Disposals/Write-offs	-	405,984	33,853	100,427	103,357	1,306,036	-	1,949,657
<b>Balance at 31 December 2018</b>	<b>(49,238)</b>	<b>(1,541,931)</b>	<b>(98,529)</b>	<b>(662,766)</b>	<b>(714,010)</b>	<b>(4,505,401)</b>	<b>-</b>	<b>(7,571,875)</b>
<b>Carrying amounts at 31 December 2018</b>	<b>440,672</b>	<b>1,963,189</b>	<b>207,881</b>	<b>841,397</b>	<b>1,048,592</b>	<b>4,150,760</b>	<b>-</b>	<b>8,652,491</b>
<b>Cost</b>								
Balance at 1 January 2017	489,410	1,742,074	245,033	963,432	908,727	6,658,424	156,596	11,163,696
Additions	500	102,541	14,830	123,287	127,771	1,606,674	1,004,065	2,979,668
Disposals	-	(138,738)	(27,690)	(50,569)	(61,879)	-	(7,852)	(286,728)
Transfers	-	637,853	18,800	63,725	427,035	2,888	(1,150,301)	-
<b>At 31 December 2017</b>	<b>489,910</b>	<b>2,343,730</b>	<b>250,973</b>	<b>1,099,875</b>	<b>1,401,654</b>	<b>8,267,986</b>	<b>2,508</b>	<b>13,856,636</b>
<b>Depreciation and amortisation</b>								
Balance at 1 January 2017	(30,440)	(1,006,779)	(68,827)	(392,568)	(375,854)	(2,466,374)	-	(4,340,842)
Depreciation and amortisation for the year	(9,398)	(436,390)	(37,217)	(191,930)	(193,716)	(1,540,174)	-	(2,408,825)
Disposals	-	135,707	14,870	47,253	44,993	-	-	242,823
<b>Balance at 31 December 2017</b>	<b>(39,838)</b>	<b>(1,307,462)</b>	<b>(91,174)</b>	<b>(537,245)</b>	<b>(524,577)</b>	<b>(4,006,548)</b>	<b>-</b>	<b>(6,506,844)</b>
<b>Carrying amounts at 31 December 2017</b>	<b>450,072</b>	<b>1,036,268</b>	<b>159,799</b>	<b>562,630</b>	<b>877,077</b>	<b>4,261,438</b>	<b>2,508</b>	<b>7,349,792</b>

There were no capitalised borrowing costs related to the acquisition or construction of property and equipment during 2018 (2017: nil).



## 19 Other assets

	<b>2018</b> <b>KZT'000</b>	<b>2017</b> <b>KZT'000</b>
Receivables from retailer fees	2,799,455	1,990,300
Loans and advances to banks	-	762
Impairment allowance	(16,575)	-
<b>Total other financial assets</b>	<b>2,782,880</b>	<b>1,991,062</b>
Deferred tax asset	404,167	533,510
Prepayments	334,665	500,328
Inventory	286,655	289,792
Receivables from employees	89,175	69,006
Current tax asset	30,214	-
Prepayment of taxes other than income tax	11,026	14,498
Other	488,520	363,593
Impairment allowance	(49,473)	(38,196)
<b>Total other non-financial assets</b>	<b>1,594,949</b>	<b>1,732,531</b>
<b>Total other assets</b>	<b>4,377,829</b>	<b>3,723,593</b>

### Credit quality of other financial assets

The following table provides information on the credit quality of other financial assets as at 31 December 2018.

	<b>2018</b>				<b>2017</b>
<b>KZT'000</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>	<b>Total</b>
<b>Other financial assets</b>					
Not overdue	2,191,804	-	-	2,191,804	1,991,062
Overdue less than 30 days	604,499	-	-	604,499	-
Overdue more than 30 days	-	2,952	200	3,152	-
<b>Gross carrying amount</b>	<b>2,796,303</b>	<b>2,952</b>	<b>200</b>	<b>2,799,455</b>	<b>1,991,062</b>
Loss allowance	(16,138)	(237)	(200)	(16,575)	-
<b>Carrying amount</b>	<b>2,780,165</b>	<b>2,715</b>	<b>-</b>	<b>2,782,880</b>	<b>1,991,062</b>

### Analysis of movements in the impairment allowance

The following table shows reconciliations from opening and closing balances of the loss allowance on other financial assets.

	<b>2018</b>				<b>2017</b>
<b>KZT'000</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>	<b>Total</b>
<b>Other financial assets</b>					
Balance at 1 January	-	-	-	-	-
New financial assets originated or purchased	16,138	237	200	16,575	-
<b>Balance at 31 December</b>	<b>16,138</b>	<b>237</b>	<b>200</b>	<b>16,575</b>	<b>-</b>

Movements in the impairment allowance for the year ended 31 December 2018 are as follows:

	<b>2018</b>			<b>2017</b>
<b>KZT'000</b>	<b>Other financial assets</b>	<b>Other non-financial assets</b>	<b>Total</b>	<b>Other non-financial assets</b>
Balance at the beginning of the year	-	38,196	38,196	29,052
Net charge	16,575	195,730	212,305	237,089
Write-offs	-	(184,453)	(184,453)	(227,945)
<b>Balance at the end of the year</b>	<b>16,575</b>	<b>49,473</b>	<b>66,048</b>	<b>38,196</b>

## 20 Financial instruments at fair value through profit or loss

Financial instruments at fair value through profit or loss comprise:

	2018 KZT'000	2017 KZT'000
<b>ASSETS</b>		
<b>Derivative financial instruments</b>		
Foreign currency swap transactions	681,000	145,635
Foreign currency spot transactions	114,930	-
	<b>795,930</b>	<b>145,635</b>
<b>LIABILITIES</b>		
<b>Derivative financial instruments</b>		
Foreign currency swap transactions	(186,501)	(238,057)
Foreign currency spot transactions	(114,582)	-
	<b>(301,083)</b>	<b>(238,057)</b>

As at 31 December 2018 and 2017, the resultant unrealised gains and losses on unmatured contracts, together with the amounts payable and receivable on the matured but unsettled contracts, are recognised in profit or loss and in financial instruments at fair value through profit or loss, as appropriate, as follows:

2018						
Type of instrument	Notional amount	Maturity	Payments to be made by the Bank	Payments to be received by the Bank	Fair value assets, KZT'000	Counter-party
Foreign currency swap	USD 10,000,000	26/08/2019	KZT 4,000,000 thousand at maturity	USD 10,000,000 at maturity	63,477	PPF Banka a.s.
Foreign currency swap	USD 10,000,000	26/08/2019	KZT 4,005,000 thousand at maturity	USD 10,000,000 at maturity	58,843	PPF Banka a.s.
Foreign currency swap	USD 10,000,000	20/09/2019	KZT 4,040,000 thousand at maturity	USD 10,000,000 at maturity	51,481	PPF Banka a.s.
Foreign currency swap	USD 20,000,000	04/10/2019	KZT 8,103,000 thousand at maturity	USD 20,000,000 at maturity	85,085	PPF Banka a.s.
Foreign currency swap	USD 17,790,000	25/10/2019	EUR 15,000,000 at maturity	USD 17,790,000 at maturity	73,494	PPF Banka a.s.
Foreign currency swap	USD 17,622,500	30/10/2019	EUR 15,000,000 at maturity	USD 17,622,500 at maturity	22,882	PPF Banka a.s.
Foreign currency swap	USD 26,070,000	01/11/2019	GBP 20,000,000 at maturity	USD 26,070,000 at maturity	102,075	PPF Banka a.s.
Foreign currency swap	USD 19,237,500	04/02/2019	GBP 15,000,000 at maturity	USD 19,237,500 at maturity	56,169	PPF Banka a.s.
Foreign currency swap	GBP 15,000,000	04/02/2019	KZT 7,343,100 thousand at maturity	GBP 15,000,000 at maturity	43,145	PPF Banka a.s.
Foreign currency swap	EUR 15,000,000	07/06/2019	KZT 6,798,000 thousand at maturity	EUR 15,000,000 at maturity	124,349	PPF Banka a.s.
<b>Total</b>					<b>681,000</b>	

## 20 Financial instruments at fair value through profit or loss, continued

Type of instrument	Notional amount	Maturity	2018		Fair value liability, KZT'000	Counter-party
			Payments to be made by the Bank	Payments to be received by the Bank		
Foreign currency swap	USD 20,000,000	18/10/2019	KZT 8,277,222 thousand at maturity	USD 20,000,000 at maturity	(46,256)	PPF Banka a.s.
Foreign currency swap	EUR 15,000,000	25/10/2019	KZT 7,302,750 thousand at maturity	EUR 15,000,000 at maturity	(15,816)	PPF Banka a.s.
Foreign currency swap	EUR 15,000,000	30/10/2019	KZT 7,350,000 thousand at maturity	EUR 15,000,000 at maturity	(44,975)	PPF Banka a.s.
Foreign currency swap	USD 11,720,000	30/10/2019	EUR 10,000,000 at maturity	USD 11,720,000 at maturity	(5,367)	PPF Banka a.s.
Foreign currency swap	EUR 10,000,000	30/10/2019	KZT 4,905,500 thousand at maturity	EUR 10,000,000 at maturity	(34,956)	PPF Banka a.s.
Foreign currency swap	GBP 20,000,000	01/11/2019	KZT 10,750,000 thousand at maturity	GBP 20,000,000 at maturity	(39,131)	PPF Banka a.s.
<b>Total</b>					<b>(186,501)</b>	

Type of instrument	Notional amount'000	Maturity	2017		Fair value assets, KZT'000	Counter-party
			Payments to be made by the Bank'000	Payments to be received by the Bank'000		
Foreign currency swap	EUR 14,850	07/06/2018	GBP 13,000 at maturity	EUR 14,850 at maturity	95,584	PPF Banka a.s.
Foreign currency swap	EUR 15,000	30/10/2018	KZT 6,559,800 at maturity	EUR 15,000 at maturity	50,051	PPF Banka a.s.
<b>Total</b>					<b>145,635</b>	

Type of instrument	Notional amount'000	Maturity	2017		Fair value liability, KZT'000	Counter-party
			Payments to be made by the Bank'000	Payments to be received by the Bank'000		
Foreign currency swap	USD 10,000	17/08/2018	KZT 3,624,000 at maturity	USD 10,000 at maturity	(64,174)	PPF Banka a.s.
Foreign currency swap	USD 10,000	24/08/2018	KZT 3,609,000 at maturity	USD 10,000 at maturity	(42,797)	PPF Banka a.s.
Foreign currency swap	USD 10,000	19/09/2018	KZT 3,645,500 at maturity	USD 10,000 at maturity	(47,857)	PPF Banka a.s.
Foreign currency swap	USD 18,105	30/10/2018	EUR 15,000 at maturity	USD 18,105 at maturity	(19,074)	PPF Banka a.s.
Foreign currency swap	EUR 10,000	05/03/2018	KZT 4,036,500 at maturity	EUR 10,000 at maturity	(7,825)	PPF Banka a.s.
Foreign currency swap	GBP 13,000	07/06/2018	KZT 6,150,300 at maturity	GBP 13,000 at maturity	(56,330)	PPF Banka a.s.
Foreign currency swap	KZT 7,465,553	31/12/2017	USD 22,500 at maturity	KZT 7,465,553 at maturity	-	PPF Banka a.s. Kazakhstan Stock Exchange
<b>Total</b>					<b>(238,057)</b>	

## 21 Deposits and balances from banks

	<b>2018</b> <b>KZT'000</b>	<b>2017</b> <b>KZT'000</b>
Vostro accounts	137,107	66,513
Term deposits	53,471,742	23,867,994
Sale and repurchase agreements	8,763,233	11,433,870
	<b>62,372,082</b>	<b>35,368,377</b>

As at 31 December 2018 the Bank had two counterparties whose balances exceeded 10% of the Bank's equity (31 December 2017: two counterparties). As at 31 December 2018 these balances amounted to KZT 40,083,874 thousand (31 December 2017: KZT 18,152,540 thousand).

As at 31 December 2018 amounts payable under sale and repurchase agreements were secured by financial assets at fair value through other comprehensive income equal KZT 9,458,245 thousands (31 December 2017: KZT 11,488,680 thousand) (Note 16). These transactions are conducted under terms that are usual and customary to standard lending activities.

## 22 Current accounts and deposits from customers

	<b>2018</b> <b>KZT'000</b>	<b>2017</b> <b>KZT'000</b>
Corporate		
- Current accounts	2,015,611	414,616
- Term deposits	60,413,406	34,200,562
<b>Current accounts and deposits from corporate customers</b>	<b>62,429,017</b>	<b>34,615,178</b>
Retail		
- Current accounts	13,756,609	9,901,327
- Term deposits	65,470,936	52,407,770
<b>Current accounts and deposits from retail customers</b>	<b>79,227,545</b>	<b>62,309,097</b>
	<b>141,656,562</b>	<b>96,924,275</b>

As at 31 December 2018, the Bank had one customer (31 December 2017: nil), whose balances exceeded 10% of the Bank's equity. As at 31 December 2018 these balances amounted to KZT 6,347,376 thousand.

## 23 Debt securities issued

	<b>Maturity</b>	<b>Coupon rate, %</b>	<b>2018</b> <b>KZT'000</b>	<b>2017</b> <b>KZT'000</b>
Unsecured KZT denominated bonds of the 1 <sup>st</sup> issue program 2*	February 2019	9.5	7,008,148	6,962,759
Unsecured KZT denominated bonds of the 3 <sup>d</sup> issue program 2*	October 2019	12.5	8,168,030	5,074,373
Unsecured KZT denominated bonds of the 2 <sup>nd</sup> issue program 2*	May 2020	15.0	10,130,564	10,121,398
Unsecured KZT denominated bonds of the 1 <sup>th</sup> issue program 3*	December 2021	13.0	15,570,316	-
Unsecured KZT denominated bonds of the 4 <sup>th</sup> issue program 2*	December 2022	13.0	9,665,814	-
			<b>50,542,872</b>	<b>22,158,530</b>

\* Quoted on the Kazakhstan Stock Exchange

## 24 Other borrowed funds

	<b>Issue date</b>	<b>Maturity date</b>	<b>Currency</b>	<b>Weighted-average effective interest rate, %</b>	<b>2018 KZT'000</b>	<b>2017 KZT'000</b>
<b>Other borrowed funds</b>						
Unsecured loans	09/08/2018	09/08/2019	USD	7.60	15,380,977	-
Unsecured loans	09/08/2018	27/06/2019	USD	7.40	8,459,350	-
Unsecured loans	04/07/2018	27/06/2019	EUR	4.80	6,593,186	-
Unsecured loans	27/12/2018	27/12/2019	KZT	12.5	5,482,295	-
Unsecured loans	12/12/2017	07/06/2018	EUR	4.0	-	9,981,414
Unsecured loans	29/12/2017	29/12/2018	KZT	12.2	-	4,930,416
					<b>35,915,808</b>	<b>14,911,830</b>

## 25 Other borrowed funds, debt securities issued movements

### Reconciliation of movements of liabilities to cash flows arising from financing activities

<b>KZT'000</b>	<b>Liabilities</b>		
	<b>Other borrowed funds</b>	<b>Debt securities issued</b>	<b>Total</b>
<b>Balance at 1 January 2018</b>	<b>14,911,830</b>	<b>22,158,530</b>	<b>37,070,360</b>
<b>Changes from financing cash flows</b>			
Proceeds from other borrowed funds	46,796,310	-	46,796,310
Repayment of other borrowed funds	(29,006,700)	-	(29,006,700)
Proceeds from debt securities	-	28,295,800	28,295,800
Transaction costs related to other borrowed funds and debt securities	(2,577)	(116,755)	(119,332)
<b>Total changes from financing cash flows</b>	<b>17,787,033</b>	<b>28,179,045</b>	<b>45,966,078</b>
<b>The effect of changes in foreign exchange rates</b>	<b>3,229,337</b>	<b>-</b>	<b>3,229,337</b>
<b>Other changes</b>			
Interest expense	1,709,899	3,059,565	4,769,464
Interest paid	(1,722,291)	(2,854,268)	(4,576,559)
<b>Balance at 31 December 2018</b>	<b>35,915,808</b>	<b>50,542,872</b>	<b>86,458,680</b>

## 25 Other borrowed funds, debt securities issued movements, continued

### Reconciliation of movements of liabilities to cash flows arising from financing activities, continued

KZT'000	Liabilities		
	Other borrowed funds	Debt securities issued	Total
<b>Balance at 1 January 2017</b>	-	6,920,282	6,920,282
<b>Changes from financing cash flows</b>			
Proceeds from other borrowed funds	14,905,750	-	14,905,750
Repayment of other borrowed funds	-	-	-
Proceeds from debt securities	-	14,931,927	14,931,927
Repayment of debt securities	-	-	-
Transaction costs related to other borrowed funds and debt securities	(24,547)	-	(24,547)
<b>Total changes from financing cash flows</b>	<b>14,881,203</b>	<b>14,931,927</b>	<b>29,813,130</b>
<b>The effect of changes in foreign exchange rates</b>	<b>75</b>	<b>-</b>	<b>75</b>
<b>Other changes</b>			
Interest expense	30,552	1,699,329	1,750,714
Interest paid	-	(1,393,008)	(1,393,008)
<b>Balance at 31 December 2017</b>	<b>14,911,830</b>	<b>22,158,530</b>	<b>37,070,360</b>

## 26 Certificates of deposit

During the year ended 31 December 2018 the Bank issued to individuals unsecured 1-year bank certificates of deposit with a total nominal value of KZT 7,556,395 thousand, which bear a fixed interest rate of 15% per annum paid at maturity (31 December 2017: 1-year bank certificates of deposit with a total nominal value of KZT 809,500 thousand, which bear a fixed interest rate of 16% per annum paid at maturity).

## 27 Other liabilities

	2018 KZT'000	2017 KZT'000
Payables to partners	4,477,487	5,317,766
Payables for services	3,140,340	1,098,690
Provisions for credit losses from undrawn credit limits	413	-
<b>Total other financial liabilities</b>	<b>7,618,240</b>	<b>6,416,456</b>
Payables to employees	1,206,731	1,344,158
Vacation reserve	746,882	760,924
Current tax liability	-	613,323
Taxes payable other than income tax	355,044	278,756
Other non-financial liabilities	75,142	32,419
<b>Total other non-financial liabilities</b>	<b>2,383,799</b>	<b>3,029,580</b>
<b>Total other liabilities</b>	<b>10,002,039</b>	<b>9,446,036</b>

Payables to partners represent the Bank's liabilities to organisations which sell the goods on bank credit.

## 28 Equity

### (a) Issued capital

As at 31 December 2018 the authorised share capital comprised 160,240 ordinary shares (31 December 2017: 160,240 ordinary shares) and issued and outstanding share capital comprised 34,890 ordinary shares (31 December 2017: 34,890 ordinary shares). The shares do not have nominal value.

### (b) Dividends

The amount of available for distribution reserves of the Bank is based on the actual values of the capital adequacy ratios of the bank k1, k1-2 and k2, taking into account the equity buffers, which must be at least equal to the capital adequacy ratios established by the legislation of the Republic of Kazakhstan, taking into account these equity buffers. In the event that the actual values of the Bank's capital ratios k1, k1-2 and k2 are not lower than those established by the legislation of the Republic of Kazakhstan, but any of these ratios is lower than the established values of capital adequacy ratios taking into account the equity buffers, then the use of retained earnings of the Bank is subject to a restriction according to the minimum amount of the restriction of undistributed net income in accordance with the legislation of the Republic of Kazakhstan, regarding the termination of payment of dividends and redemption of shares, except for cases stipulated by the law of the Republic of Kazakhstan "On Joint Stock Companies".

As at 31 December 2018 reserves available for distribution amounted to KZT 11,318,663 thousand (31 December 2017: KZT 7,993,153 thousand).

The following dividends were declared and paid as follows:

	<b>2018</b> <b>KZT'000</b>	<b>2017</b> <b>KZT'000</b>
KZT 143,308 per ordinary share (2017: KZT 372,601)	5,000,002	13,000,049

## 29 Book value per share

The calculation of book value per share as at 31 December 2018 is based on the number of outstanding ordinary shares of 34,890 (31 December 2017: 34,890) and net assets calculated in accordance with the Listing rules of Kazakhstan Stock Exchange as follows:

	<b>2018</b> <b>KZT'000</b>	<b>2017</b> <b>KZT'000</b>
Total assets	371,393,409	225,028,672
Intangible assets	(4,150,760)	(4,261,438)
Total liabilities	(308,463,864)	(179,897,328)
<b>Net assets</b>	<b>58,778,785</b>	<b>40,869,906</b>

The following table shows the book value per share calculations as at 31 December 2018 and 31 December 2017:

	<b>2018</b>	<b>2017</b>
Net assets, KZT'000	58,778,785	40,869,906
Outstanding number of ordinary shares at the end of the year, share	34,890	34,890
<b>Book value per share, in KZT</b>	<b>1,684,689</b>	<b>1,171,393</b>

### 30 Earnings per share

The calculation of basic earnings per share as at 31 December 2018 is based on the net profit for the year attributable to ordinary shareholders and weighted average number of ordinary shares outstanding calculated as follows:

	<b>2018</b>	<b>2017</b>
Net profit attributable to ordinary shareholders, KZT'000	23,726,226	21,979,505
Weighted average number of ordinary shares	34,890	34,890
<b>Earnings per share, in KZT</b>	<b>680,029</b>	<b>629,966</b>

There are no potentially dilutive shares for the year ended 31 December 2018 or 31 December 2017.

### 31 Analysis by segment

The Bank's operations are highly integrated and constitute a single business segment for the purposes of IFRS 8 Segment Reporting. An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Bank), whose operating results are regularly reviewed by the chief operating decision maker, the Management Board, to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Assets are concentrated primarily in the Republic of Kazakhstan, and the majority of revenues and net income are derived from operations in, and connected with the Republic of Kazakhstan.

### 32 Risk management

Management of risk is fundamental to the business of banking and forms an essential element of the Bank's operations. The major risks faced by the Bank are those related to market risk, credit risk and liquidity risk.

#### (a) Risk management policies and procedures

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

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

The Bank's Management Board is responsible for monitoring and implementing risk mitigation measures and ensuring that the Bank operates within the established risk parameters. The Chief Risk Officer (CRO) is responsible for the overall risk management, ensuring, together with the Head of Legal and Head of Compliance, the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. The CRO reports directly to the Chairman of the Board and indirectly to the Board of Directors.

Credit, market and liquidity risks at the portfolio and transactional levels are under control of the Credit Committee, and an Assets and Liabilities Management Committee (ALCO).



## **32 Risk management, continued**

### **(a) Risk management policies and procedures, continued**

Decisions made throughout the organisation take into account both external and internal risk factors, particularly, determination of assurance level over the current risk mitigation procedures. Apart from the standard credit and market risks, general risks management system of the Bank captures other risk frameworks related to liquidity, operational, IT, information security, compliance, equity and profitability risks which guarantee business continuity. All mentioned risk areas supported by internal control requirements fixed in each department within the organisation. Financial and non-financial risks are monitored through the regular meetings with operational units in order to obtain expert assessment in certain areas.

### **(b) Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk and interest rate risk. Market risk arises from volatile currency and interest rates together with adverse pricing of financial instruments.

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

The Management Board is the authority for market risk control and strategy. Market risk limits such as open currency position volumes, currency gaps, net interest rate margins and spreads are under control of a Market risks unit reported to the local CRO. The Board of Directors approves market risk limits based on the recommendations of the Market risks unit.

#### **(i) Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The instruments used by the Bank for liquidity attraction purposes are swap contracts, which may have highly volatile rates in the market during stressed periods. All the other instruments are considered as fixed, in terms of their interest rates, which in fact keep financial position under low sensibility to market fluctuations. Net interest margin and interest rate spreads are controlled by the ALCO under early warning settings to timely impact the pricing strategies.

#### ***Interest rate gap analysis***

The Management Board controls interest rate gaps and approves appropriate limits for negative gap volumes in order to maintain the proper balance between interest earning and bearing financial instruments. A summary of the interest gap position for major interest-bearing financial instruments is as follows:

## 32 Risk management, continued

### (b) Market risk, continued

#### (i) Interest rate risk, continued

##### *Interest rate gap analysis, continued*

<b>KZT'000</b>	<b>Less than 3 months</b>	<b>3-6 months</b>	<b>6-12 months</b>	<b>1-5 years</b>	<b>Carrying amount</b>
<b>31 December 2018</b>					
<b>Interest-bearing financial assets</b>					
Cash and cash equivalents	45,414,703	-	-	-	45,414,703
Placements with banks	-	-	2,473,653	-	2,473,653
Loans to retail customers	52,645,880	47,648,124	73,912,926	93,693,729	267,900,659
Financial assets at fair value through other comprehensive income	-	-	9,458,245	7,474,998	16,933,243
	<b>98,060,583</b>	<b>47,648,124</b>	<b>85,844,824</b>	<b>101,168,727</b>	<b>332,722,258</b>
<b>Interest-bearing financial liabilities</b>					
Deposits and balances from banks	12,635,074	2,918,556	46,818,452	-	62,372,082
Term deposits from customers	28,560,258	21,741,015	58,404,614	17,178,455	125,884,342
Debt securities issued	7,008,148	238,924	8,000,000	35,295,800	50,542,872
Other borrowed funds	-	15,052,536	20,863,272	-	35,915,808
Certificates of deposit	89,699	768,595	6,815,124	-	7,673,418
	<b>48,293,179</b>	<b>40,719,626</b>	<b>140,901,462</b>	<b>52,474,255</b>	<b>282,388,522</b>
<b>Net position as at 31 December 2018</b>	<b>49,767,404</b>	<b>6,928,498</b>	<b>(55,056,638)</b>	<b>48,694,472</b>	<b>50,333,736</b>

## 32 Risk management, continued

### (b) Market risk, continued

#### (i) Interest rate risk, continued

KZT'000	Less than 3 months	3-6 months	6-12 months	1-5 years	Carrying amount
<b>31 December 2017</b>					
<b>Interest-bearing financial assets</b>					
Cash and cash equivalents	2,401,850	-	-	-	2,401,850
Loans to retail customers	46,099,636	35,500,648	49,139,291	57,370,370	188,109,945
Financial assets available- for-sale	-	-	11,488,680	-	11,488,680
Other financial assets	-	-	762	-	762
	<b>48,501,486</b>	<b>35,500,648</b>	<b>60,628,733</b>	<b>57,370,370</b>	<b>202,001,237</b>
<b>Interest-bearing financial liabilities</b>					
Deposits and balances from banks	14,917,369	5,980,788	14,470,220	-	35,368,377
Term deposits from customers	19,936,047	10,676,742	38,476,977	17,518,566	86,608,332
Debt securities issued	248,272	274,306	-	21,635,952	22,158,530
Other borrowed funds	3,994,689	5,986,724	4,930,417	-	14,911,830
Certificates of deposit	148,166	97,171	604,886	-	850,223
	<b>39,244,543</b>	<b>23,015,731</b>	<b>58,482,500</b>	<b>39,154,518</b>	<b>159,897,292</b>
<b>Net position as at 31 December 2017</b>	<b>9,256,943</b>	<b>12,484,917</b>	<b>2,146,233</b>	<b>18,215,852</b>	<b>42,103,945</b>

#### *Interest rate sensitivity analysis*

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

	<b>2018 KZT'000</b>	<b>2017 KZT'000</b>
100 bp parallel fall	(272,901)	(131,516)
100 bp parallel rise	272,901	131,516

An analysis of sensitivity of equity as a result of changes in the fair value of financial instruments measured at fair value through other comprehensive income due to changes in the interest rates based on the positions existing as at 31 December 2018 and 2017 and a simplified scenario of a 100 bp symmetrical fall or rise in all yield curves is as follows:

	<b>2018 Equity KZT'000</b>	<b>2017 Equity KZT'000</b>
100 bp parallel fall	(351,940)	(84,782)
100 bp parallel rise	490,337	83,746

## 32 Risk management, continued

### (b) Market risk, continued

#### (ii) Currency risk

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

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

The following exchange rates have been applied during the year:

	Average rate		Reporting date spot rate		
	2018	2017	2018	2017	2016
USD	344.71	326.00	384.20	332.33	333.29
EUR	406.66	368.32	439.37	398.23	354.42

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

	USD KZT'000	Other currencies* KZT'000	Total KZT'000
<b>ASSETS</b>			
Cash and cash equivalents	13,132,088	5,202,477	18,334,565
Placements with banks	-	2,473,653	2,473,653
Financial assets at fair value through other comprehensive income	9,458,245	-	9,458,245
Other financial assets	4,287	30,527	34,814
<b>Total assets</b>	<b>22,594,620</b>	<b>7,706,657</b>	<b>30,301,277</b>
<b>LIABILITIES</b>			
Deposits and balances from banks	38,692,230	6,839,964	45,532,194
Current accounts and deposits from customers	23,013,651	258,291	23,271,942
Other borrowed funds	23,840,327	6,593,186	30,433,513
Other financial liabilities	2,628	1,665,358	1,667,986
<b>Total liabilities</b>	<b>85,548,836</b>	<b>15,356,799</b>	<b>100,905,635</b>
<b>Net position</b>	<b>(62,954,216)</b>	<b>(7,650,142)</b>	<b>(70,604,358)</b>
<b>Effect of derivatives held for risk management</b>	<b>62,424,816</b>	<b>6,590,550</b>	<b>69,015,366</b>
<b>Net position after derivatives held for risk management purposes</b>	<b>(529,400)</b>	<b>(1,059,592)</b>	<b>(1,588,992)</b>

\* Other currencies are mainly represented by EUR.

## 32 Risk management, continued

### (b) Market risk, continued

#### (ii) Currency risk, continued

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

	USD KZT'000	Other currencies* KZT'000	Total KZT'000
<b>ASSETS</b>			
Cash and cash equivalents	2,706,277	75,875	2,782,152
Financial assets available-for-sale	11,488,680	-	11,488,680
Other financial assets	2,600	179,744	182,344
<b>Total assets</b>	<b>14,197,557</b>	<b>255,619</b>	<b>14,453,176</b>
<b>LIABILITIES</b>			
Deposits and balances from banks	15,760,279	-	15,760,279
Current accounts and deposits from customers	6,849,554	123,889	6,973,443
Other borrowed funds	-	9,981,414	9,981,414
Other financial liabilities	69,556	194,717	264,273
<b>Total liabilities</b>	<b>22,679,389</b>	<b>10,300,020</b>	<b>32,979,409</b>
<b>Net position</b>	<b>(8,481,832)</b>	<b>(10,044,401)</b>	<b>(18,526,233)</b>
<b>Effect of derivatives held for risk management</b>	<b>8,509,310</b>	<b>9,895,819</b>	<b>18,405,129</b>
<b>Net position after derivatives held for risk management purposes</b>	<b>27,478</b>	<b>(148,582)</b>	<b>(121,104)</b>

\* Other currencies are mainly represented by EUR.

A weakening of the KZT, as indicated below, against the following currencies at 31 December 2018 and 31 December 2017 would have reduced equity and profit or loss by the amounts shown below. This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting year. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2018 KZT'000	2017 KZT'000
20% appreciation of USD against KZT	(84,704)	4,396
20% appreciation of other currencies against KZT	(169,535)	(23,773)

A strengthening of the KZT against the above currencies at 31 December 2018 and 31 December 2017 would have had the equal but opposite effect on equity and profit or loss by the amounts shown above, on the basis that all other variables remained constant.

## 32 Risk management, continued

### (c) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Bank has policies and procedures for the management of credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. The credit policy is reviewed and approved by the Board of Directors.

The credit policy establishes:

- procedures for review and approval of loan applications
- methodology for the credit assessment of borrowers (retail)
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures.

The Portfolio reporting unit develops scoring models and data verification procedures for credit approval purposes.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the statement of financial position and unrecognised contractual commitment amounts. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

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

	2018 KZT'000	2017 KZT'000
<b>ASSETS</b>		
Cash and cash equivalents	64,377,045	9,724,275
Loans to retail customers	267,900,659	188,109,945
Placements with banks	2,473,653	-
Financial instruments at fair value through profit or loss	795,930	145,635
Investment securities	16,933,243	11,488,680
Other financial assets	2,782,880	1,991,062
<b>Total maximum exposure</b>	<b>355,263,410</b>	<b>211,459,597</b>

For the analysis of the concentration of credit risk in respect of loans to retail customers refer to note 15.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in note 34.

#### Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

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

Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements and securities borrowing and lending agreements.

## 32 Risk management, continued

### (c) Credit risk, continued

#### Offsetting financial assets and financial liabilities, continued

The Bank conducts derivative transactions that are not transacted on the exchange through a central counterparty. Management believes that such settlements are, in effect, equivalent to net settlement and that, the Bank meets the net settlement criterion as this gross settlement mechanism has features that eliminate or result in insignificant credit and liquidity risk, and that the Bank will process receivables and payables in a single settlement process or cycle.

The Bank receives and accepts collateral in the form of cash and marketable securities in respect of the following transactions:

- derivatives
- sale and repurchase, and reverse sale and repurchase agreements, and
- securities lending and borrowing

Such collateral is subject to the standard industry terms of the International Swaps and Derivatives Association (“ISDA”) Credit Support Annex. This means that securities received/given as collateral can be pledged or sold during the term of the transaction but must be returned on maturity of the transaction. The terms also give each counterparty the right to terminate the related transactions upon the counterparty’s failure to post collateral.

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

Types of financial assets/liabilities	Gross amounts of recognised financial assets/liabilities	Gross amount of recognised financial assets/liabilities offset in the separate statement of financial position	Net amount of financial assets/liabilities presented in the separate statement of financial position	Related amounts not offset in the separate statement of financial position		Net amount
				Financial instruments	Cash collateral received	
Financial instruments at fair value through profit or loss	795,930	-	795,930	-	-	795,930
<b>Total financial assets</b>	<b>795,930</b>	<b>-</b>	<b>795,930</b>	<b>-</b>	<b>-</b>	<b>795,930</b>
Financial instruments at fair value through profit or loss	301,083	-	301,083	-	(301,083)	-
Deposits and balances with banks and financial institutions (sale and repurchase agreements)	8,763,233	-	8,763,233	(8,763,233)	-	-
<b>Total financial liabilities</b>	<b>9,064,316</b>	<b>-</b>	<b>9,064,316</b>	<b>(8,763,233)</b>	<b>(301,083)</b>	<b>-</b>

## 32 Risk management, continued

### (c) Credit risk, continued

#### Offsetting financial assets and financial liabilities, continued

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2017:

Types of financial assets/liabilities	Gross amounts of recognised financial assets/liabilities	Gross amount of recognised financial assets/liabilities offset in the separate statement of financial position	Net amount of financial assets/liabilities presented in the separate statement of financial position	Related amounts not offset in the separate statement of financial position		Net amount
				Financial instruments	Cash collateral received	
Financial instruments at fair value through profit or loss	145,635	-	145,635	-	-	145,635
<b>Total financial assets</b>	<b>145,635</b>	<b>-</b>	<b>145,635</b>	<b>-</b>	<b>-</b>	<b>145,635</b>
Financial instruments at fair value through profit or loss	238,057	-	238,057	-	-	238,057
Deposits and balances with banks and financial institutions (sale and repurchase agreements)	11,433,870	-	11,433,870	(11,433,870)	-	-
<b>Total financial liabilities</b>	<b>11,671,927</b>	<b>-</b>	<b>11,671,927</b>	<b>(11,433,870)</b>	<b>-</b>	<b>238,057</b>

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the statement of financial position that are disclosed in the above tables are measured in the statement of financial position on the following basis:

Assets and liabilities resulting from sale and repurchase agreements, reverse sale and repurchase agreements and securities lending and borrowing – amortised cost.

The securities pledged under repurchased agreements (Note 17) represent the transferred financial assets that are not derecognised in their entirety. The securities lent or sold under agreements to repurchase are transferred to a third party and the Bank receives cash in exchange. These financial assets may be repledged or resold by counterparties in the absence of default by the Bank, but the counterparty has an obligation to return the securities at the maturity of the contract. The Bank has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. Because the Bank sells the contractual rights to the cash flows of the securities it does not have the ability to use the transferred assets during the term of the agreement.

### (d) Liquidity risk

Liquidity risk is the risk of inability to deliver cash or trade financial asset in order to meet contractual obligations. Liquidity risk exists when the maturities of assets and liabilities do not match or when financial assets lose their trading options.

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



## **32 Risk management, continued**

### **(d) Liquidity risk, continued**

The Bank seeks to actively support a diversified and stable funding base comprising long-term and short-term deposits from other banks, core corporate and retail customer deposits and debt securities issued, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- maintaining debt financing plans;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;
- monitoring liquidity ratios against regulatory requirements.

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

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Market Risks Unit. Under the normal market conditions, liquidity reports covering the liquidity position are presented to senior management.

## 32 Risk management, continued

### (d) Liquidity risk, continued

The following tables show undiscounted cash flows on financial liabilities and credit-related commitments on the basis of their remaining contractual maturity. The total gross outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liability or commitment.

As at 31 December 2018 KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow	Carrying amount
<b>Non-derivative liabilities</b>							
Deposits and balances from banks	7,865,641	4,795,272	3,027,882	49,555,104	-	65,243,899	62,372,082
Current accounts and deposits from customers	25,192,968	21,985,609	22,174,169	60,874,797	18,390,890	148,618,433	141,656,562
Debt securities issued	-	7,081,379	-	10,930,552	43,949,217	61,961,148	50,542,872
Other borrowed funds	57,292	634,261	15,748,536	21,340,040	-	37,780,129	35,915,808
Certificates of deposit	89,980	-	732,565	7,736,844	-	8,559,389	7,673,418
Other financial liabilities	6,202,288	1,415,495	-	413	44	7,618,240	7,618,240
<b>Derivative liabilities</b>							
Net settled derivatives		(47,948)	207,450	3,699,482	-	3,858,984	301,083
<i>Gross settled derivatives</i>	-	-	-	-	-	-	-
- Inflow	-	(14,712,998)	(6,590,550)	(82,371,168)	-	(103,674,716)	-
- Outflow	-	14,665,050	6,798,000	86,070,650	-	107,533,700	-
<b>Total financial liabilities</b>	<b>39,408,169</b>	<b>35,864,068</b>	<b>41,890,602</b>	<b>154,137,232</b>	<b>62,340,151</b>	<b>333,640,222</b>	<b>306,080,065</b>
Credit related commitments	19,589,067	-	-	-	-	19,589,067	19,589,067

## 32 Risk management, continued

### (d) Liquidity risk, continued

As at 31 December 2017 KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow	Carrying amount
<b>Non-derivative liabilities</b>							
Deposits and balances from banks	4,850,964	10,145,020	6,181,364	15,722,308	-	36,899,656	35,368,377
Current accounts and deposits from customers	17,152,119	15,498,184	12,560,185	41,193,286	18,298,764	104,702,538	96,924,275
Debt securities issued	-	321,503	1,058,334	1,399,976	24,859,690	27,639,503	22,158,530
Other borrowed funds	-	4,022,565	6,090,928	5,537,672	-	15,651,165	14,911,830
Certificates of deposit	28,536	122,496	103,588	684,400	-	939,020	850,223
Other financial liabilities	5,526,642	820,303	69,467	-	44	6,416,456	6,416,456
<b>Derivative liabilities</b>							
Net settled derivatives	11,872	-	-	1,742,547	-	1,754,419	238,057
<i>Gross settled derivatives</i>							
- Inflow	(7,465,553)	-	-	(37,687,933)	-	(45,153,486)	-
- Outflow	7,477,425	-	-	39,430,480	-	46,907,905	-
<b>Total financial liabilities</b>	<b>27,570,133</b>	<b>30,930,071</b>	<b>26,063,866</b>	<b>66,280,189</b>	<b>43,158,498</b>	<b>194,002,757</b>	<b>176,867,748</b>
Credit related commitments	13,866,137	-	-	-	-	13,866,137	13,866,137

In accordance with the Kazakhstan legislation, depositors can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest. These deposits are classified in accordance with their stated maturity dates.

The breakdown of the carrying amount of such deposits, by each time band, is as follows:

	2018 KZT'000	2017 KZT'000
Demand and less than 1 month	8,387,270	5,958,942
From 1 to 3 months	20,172,988	13,977,105
From 3 to 6 months	21,741,015	10,676,742
From 6 to 12 months	58,404,614	38,476,977
More than 1 year	17,178,455	17,518,566
	<b>125,884,342</b>	<b>86,608,332</b>

## 32 Risk management, continued

### (d) Liquidity risk, continued

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2018:

<b>KZT'000</b>	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 12 months</b>	<b>From 1 to 5 years</b>	<b>No maturity</b>	<b>Overdue</b>	<b>Total</b>
<b>Assets</b>							
Cash and cash equivalents	70,259,604	-	-	-	-	-	70,259,604
Placements with banks	-	-	2,473,653	-	-	-	2,473,653
Loans to retail customers	4,427,772	36,058,690	121,561,050	93,693,729	-	12,159,418	267,900,659
Financial assets at fair value through other comprehensive income	-	-	9,458,245	7,474,998	-	-	16,933,243
Financial instruments at fair value through profit or loss	114,930	-	681,000	-	-	-	795,930
Property, equipment and intangible assets	-	-	-	-	8,652,491	-	8,652,491
Other assets	3,285,033	-	398,035	646,457	-	48,304	4,377,829
<b>Total assets</b>	<b>78,087,339</b>	<b>36,058,690</b>	<b>134,571,983</b>	<b>101,815,184</b>	<b>8,652,491</b>	<b>12,207,722</b>	<b>371,393,409</b>
<b>Liabilities</b>							
Financial instruments at fair value through profit or loss	114,582	-	186,501	-	-	-	301,083
Deposits and balances from banks	7,862,515	4,772,559	49,737,008	-	-	-	62,372,082
Current accounts and deposits from customers	24,159,490	20,172,988	80,145,629	17,178,455	-	-	141,656,562
Debt securities issued	-	7,008,148	8,238,924	35,295,800	-	-	50,542,872
Other borrowed funds	-	-	35,915,808	-	-	-	35,915,808
Certificates of deposit	89,699	-	7,583,719	-	-	-	7,673,418
Other liabilities	6,628,545	2,335,239	747,295	290,960	-	-	10,002,039
<b>Total liabilities</b>	<b>38,854,831</b>	<b>34,288,934</b>	<b>182,554,884</b>	<b>52,765,215</b>	<b>-</b>	<b>-</b>	<b>308,463,864</b>
<b>Net position</b>	<b>39,232,508</b>	<b>1,769,756</b>	<b>(47,982,901)</b>	<b>49,049,969</b>	<b>8,652,491</b>	<b>12,207,722</b>	<b>62,929,545</b>

Included in the category from 3 to 12 months are short-term borrowing obtained from related parties which could be renewed after maturity.

## 32 Risk management, continued

### (d) Liquidity risk, continued

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2017:

<b>KZT'000</b>	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 12 months</b>	<b>From 1 to 5 years</b>	<b>No maturity</b>	<b>Overdue</b>	<b>Total</b>
<b>Assets</b>							
Cash and cash equivalents	14,211,027	-	-	-	-	-	14,211,027
Loans to retail customers	9,525,580	28,558,404	84,639,939	57,370,370	-	8,015,652	188,109,945
Financial assets available-for-sale	-	-	11,488,680	-	-	-	11,488,680
Financial instruments at fair value through profit or loss			145,635				145,635
Property, equipment and intangible assets	-	-	-	-	7,349,792	-	7,349,792
Other assets	2,382,025	-	497,927	829,739	-	13,902	3,723,593
<b>Total assets</b>	<b>26,118,632</b>	<b>28,558,404</b>	<b>96,772,181</b>	<b>58,200,109</b>	<b>7,349,792</b>	<b>8,029,554</b>	<b>225,028,672</b>
<b>Liabilities</b>							
Financial instruments at fair value through profit or loss	-	-	238,057	-	-	-	238,057
Deposits and balances from banks	4,834,061	10,083,308	20,451,008	-	-	-	35,368,377
Current accounts and deposits from customers	16,274,885	13,977,105	49,153,719	17,518,566	-	-	96,924,275
Debt securities issued	-	248,272	274,306	21,635,952	-	-	22,158,530
Other borrowed funds	-	3,994,689	10,917,141	-	-	-	14,911,830
Certificates of deposit	28,718	119,448	702,057	-	-	-	850,223
Other liabilities	6,435,060	1,688,757	830,391	491,828	-	-	9,446,036
<b>Total liabilities</b>	<b>27,572,724</b>	<b>30,111,579</b>	<b>82,566,679</b>	<b>39,646,346</b>	<b>-</b>	<b>-</b>	<b>179,897,328</b>
<b>Net position</b>	<b>(1,454,092)</b>	<b>(1,553,175)</b>	<b>14,205,502</b>	<b>18,553,763</b>	<b>7,349,792</b>	<b>8,029,554</b>	<b>45,131,344</b>

### 33 Capital management

The NBRK sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the NBRK the Bank has to maintain: a ratio of tier 1 capital to risk weighted assets, contingent liabilities, operational and market risk and a ratio of total capital to risk weighted assets, contingent liabilities, operational and market risk above the prescribed minimum levels. As at 31 December 2018, this minimum level of tier 1 capital to risk weighted assets, contingent liabilities, operational and market risk was 0.055 (31 December 2017: 0.055) and the minimum level of total capital to risk weighted assets, contingent liabilities, operational and market risk was 0.080 (31 December 2017: 0.080). The Bank was in compliance with the statutory capital requirements as at 31 December 2018 and 31 December 2017.

The following table shows the composition of the capital position calculated in accordance with the requirements of the NBRK:

	<b>2018</b> <b>KZT'000</b>	<b>2017</b> <b>KZT'000</b>
<b>Tier 1 capital</b>		
Share capital	5,199,503	5,199,503
Retained earnings of prior years	33,930,452	17,986,258
Profit for the period	23,726,226	21,979,505
Intangible assets	(4,150,760)	(4,261,438)
Fair value reserve	73,364	(33,922)
<b>Total tier 1 capital</b>	<b>58,778,785</b>	<b>40,869,906</b>
<b>Total tier 2 capital</b>	<b>-</b>	<b>-</b>
<b>Total capital</b>	<b>58,778,785</b>	<b>40,869,906</b>
<b>Total credit risk-weighted assets</b>	<b>416,603,663</b>	<b>279,422,608</b>
<b>Total credit risk-weighted assets and liabilities, including market and operational risk</b>	<b>465,989,998</b>	<b>317,410,247</b>
<b>Total capital expressed as a percentage of credit risk-weighted assets and liabilities, including market and operational risk (total capital ratio)</b>	<b>12.6%</b>	<b>12.9%</b>
<b>Total tier 1 capital expressed as a percentage of credit risk-weighted assets and liabilities, including market and operational risk (tier 1 capital ratio)</b>	<b>12.6%</b>	<b>12.9%</b>

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and advantages and security afforded by a sound capital position.

## 34 Commitments

The Bank has outstanding commitments to extend loans. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced.

	<b>2018</b> <b>KZT'000</b>	<b>2017</b> <b>KZT'000</b>
<b>Contracted amount</b>		
Loan and credit line commitments	19,589,067	13,866,137
	<b>19,589,067</b>	<b>13,866,137</b>

The total outstanding contractual commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

As at 31 December 2018 the Bank had no counterparties whose commitment balances exceeded 10% of the Bank's equity (31 December 2017: none).

## 35 Operating leases

The Bank leases a number of premises under operating leases. The leases typically run for an initial period of one to five years, with an option to renew the lease after that date. Usually lease agreements are concluded on the terms that allow the Bank to cancel the lease at any time during the lease term. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

During 2018 KZT 1,272,449 thousand was recognised as an expense in the statement of profit or loss and other comprehensive income in respect of operating leases (2017: KZT 1,019,038 thousand).

As at 31 December 2018 the Bank reported KZT 1,675 thousand of prepayments included in the balance of other assets serving as security deposits in case of an early termination of lease agreements (31 December 2017: KZT 1,671 thousand).

## 36 Contingencies

### (a) Insurance

The insurance industry in the Republic of Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on its property or relating to operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the operations and financial position.

### (b) Litigation

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

## 37 Contingencies, continued

### (c) Taxation contingencies

The taxation system in Kazakhstan is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities, including opinions with respect to IFRS treatment of revenues, expenses and other items in the financial statements. Taxes are subject to review and investigation by various levels of authorities, which have the authority to impose severe fines and interest charges. A tax year generally remains open for review by the tax authorities for five subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

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

## 38 Related party transactions

### (a) Control relationships

The Bank’s parent company is Home Credit and Finance Bank (Russia). The Bank’s ultimate controlling owner is Petr Kellner. Publicly available financial statements are produced by the Bank’s parent company.

### (b) Transactions with the members of the Board of Directors and the Management Board

Total remuneration included in personnel expenses for the year ended 31 December 2018 and 31 December 2017 was as follows:

	2018 KZT’000	2017 KZT’000
Members of the Board of Directors	1,100,332	362,577
Members of the Management Board	578,288	450,528
	<b>1,678,620</b>	<b>813,105</b>

The outstanding balances and average interest rates as at 31 December 2018 and 31 December 2017 for balances with members of the Board of Directors and the Management Board were as follows:

	2018 KZT’000	Average interest rate, %	2017 KZT’000	Average interest rate, %
<b>Statement of financial position</b>				
<b>LIABILITIES</b>				
Current accounts and deposits from customers	13,814	0.62	49,864	2.73



### 38 Related party transactions, continued

**(b) Transactions with the members of the Board of Directors and the Management Board, continued**

Total amounts included in profit or loss in relation to transactions with members of the Board of Directors and the Management Board for 2018 and 2017 were as follows:

	2018 KZT'000	2017 KZT'000
<b>Statement of profit or loss and other comprehensive income</b>		
Interest expense	(607)	(1,813)
	<b>(607)</b>	<b>(1,813)</b>

**(c) Transactions with the parent**

As at 31 December 2018 and 31 December 2017 balances with the parent included in the statement of financial position were as follows:

	2018 KZT'000	Average interest rate, %	2017 KZT'000	Average interest rate, %
<b>Statement of financial position</b>				
<b>ASSETS</b>				
Cash and cash equivalents				
-In USD	138	-	120	-
-In EUR	139	-	126	-
-In RUB	40	-	42	-
<b>LIABILITIES</b>				
Deposits and balances from banks				
-In KZT	3	-	10	-
-In USD	31,320,638	7.43	6,718,660	3.50

During 2018 and 2017 transactions with the parent included in the statement of profit or loss and other comprehensive income were as follows:

	2018 KZT'000	2017 KZT'000
<b>Statement of profit or loss and other comprehensive income</b>		
<b>Interest expense</b>		
Deposits and balances from banks		
-In USD	(589,594)	(75,434)
	<b>(589,594)</b>	<b>(75,434)</b>
<b>Net foreign exchange income</b>		
-In USD	-	14,829
	<b>-</b>	<b>14,829</b>

### 38 Related party transactions, continued

#### (d) Transactions with entities controlled by the ultimate controlling owner

As at 31 December 2018 and 31 December 2017 balances with entities controlled by the ultimate controlling owner included in the statement of financial position were as follows:

	2018 KZT'000	Average interest rate, %	2017 KZT'000	Average interest rate, %
<b>Statement of financial position</b>				
<b>ASSETS</b>				
Placements with banks				
-In EUR	2,473,653	0.001	-	-
Property, equipment and intangible assets*				
-In KZT	3,120,457	-	3,234,154	-
Financial instruments at fair value through profit or loss				
-In EUR	681,000	-	145,635	-
Other assets				
-In EUR	-	-	140,423	-
<b>LIABILITIES</b>				
Deposits and balances from banks				
-In KZT	136,720	-	66,170	-
Other borrowed funds				
-In USD	23,840,327	7.53	-	-
-In EUR	6,593,186	4.80	9,981,414	4.0
Financial instruments at fair value through profit or loss				
-In USD/GBP/EUR	186,501	-	238,057	-
Other financial liabilities				
-In EUR	1,588,310	-	681,748	-

\*During 2018, the Bank purchased software licenses from the related party for the total amount of KZT 1,248,165 thousand (2017: KZT 1,193,435 thousand). These licenses were recognised as intangible assets.

### 38 Related party transactions, continued

#### (d) Transactions with entities controlled by the ultimate controlling owner, continued

During 2018 and 2017 transactions with entities controlled by the ultimate controlling owner included in the statement of profit or loss and other comprehensive income were as follows:

	2018 KZT'000	2017 KZT'000
<b>Statement of profit or loss and other comprehensive income</b>		
<b>Interest expense</b>		
Other borrowed funds		
-In USD	(1,025,232)	-
-In EUR	(54,699)	(25,385)
	<u>(1,079,931)</u>	<u>(25,385)</u>
Deposits and balances from banks		
-In KZT	-	(11,223)
	<u>-</u>	<u>(11,223)</u>
<b>Net gain (loss) on financial instruments at fair value through profit or loss</b>		
-In USD	203,640	(816,811)
	<u>203,640</u>	<u>(816,811)</u>
<b>General administrative expenses</b>		
General administrative expenses	(4,644,629)	(3,270,443)
	<u>(4,644,629)</u>	<u>(3,270,443)</u>

### 39 Financial assets and liabilities: fair values and accounting classifications

#### (a) Accounting classifications and fair values

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

<b>KZT'000</b>	<b>FVTPL</b>	<b>FVOCI</b>	<b>Amortised cost</b>	<b>Total carrying amount</b>	<b>Fair value</b>
Cash and cash equivalents	-	-	64,377,045	64,377,045	64,377,045
Placements with banks	-	-	2,473,653	2,473,653	2,473,653
Loans to customers	-	-	267,900,659	267,900,659	270,781,236
Financial assets at fair value through other comprehensive income	-	16,933,243	-	16,933,243	16,933,243
Financial instruments at fair value through profit or loss	795,930	-	-	795,930	795,930
Other financial assets	-	-	2,782,880	2,782,880	2,782,880
	<b>795,930</b>	<b>16,933,243</b>	<b>337,534,237</b>	<b>355,263,410</b>	<b>358,143,987</b>
Financial instruments at fair value through profit or loss	301,083	-	-	301,083	301,083
Deposits and balances from banks	-	-	62,372,082	62,372,082	62,651,178
Current accounts and deposits from customers	-	-	141,656,562	141,656,562	144,756,312
Debt securities issued	-	-	50,542,872	50,542,872	50,733,727
Other borrowed funds	-	-	35,915,808	35,915,808	36,209,983
Certificates of deposit	-	-	7,673,418	7,673,418	7,673,418
Other financial liabilities	-	-	7,618,240	7,618,240	7,618,240
	<b>301,083</b>	<b>-</b>	<b>305,778,982</b>	<b>306,080,065</b>	<b>309,943,941</b>

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2017:

<b>KZT'000</b>	<b>Held for trading</b>	<b>Loans and receivables</b>	<b>Other amortised cost</b>	<b>Total carrying amount</b>	<b>Fair value</b>
Cash and cash equivalents	-	9,724,275	-	9,724,275	9,724,275
Loans to retail customers	-	188,109,945	-	188,109,945	188,109,945
Financial assets available-for-sale	11,488,680	-	-	11,488,680	11,488,680
Financial instruments at fair value through profit or loss	145,635	-	-	145,635	145,635
Other financial assets	-	1,991,062	-	1,991,062	1,991,062
	<b>11,634,315</b>	<b>199,825,282</b>	<b>-</b>	<b>211,459,597</b>	<b>211,459,597</b>
Financial instruments at fair value through profit or loss	238,057	-	-	238,057	238,057
Deposits and balances from banks	-	-	35,368,377	35,368,377	36,103,231
Current accounts and deposits from customers	-	-	96,924,275	96,924,275	99,391,653
Debt securities issued	-	-	22,158,530	22,158,530	22,383,242
Other borrowed funds	-	-	14,911,830	14,911,830	15,560,676
Certificates of deposit	-	-	850,223	850,223	850,223
Other financial liabilities	-	-	6,416,456	6,416,456	6,416,456
	<b>238,057</b>	<b>-</b>	<b>176,629,691</b>	<b>176,867,748</b>	<b>180,943,538</b>

## **39 Financial assets and liabilities: fair values and accounting classifications, continued**

### **(a) Accounting classifications and fair values, continued**

The estimates of fair value are intended to approximate the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of assets or transfer of liabilities.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair values using other valuation techniques.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market-observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Bank uses widely recognised valuation models for determining the fair value of financial instruments. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps.

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

- average market rates of 18.14%, 26.04% and 41.15% are used for discounting future cash flows from credit cards, POS and Cash loans, respectively;
- discount rates of 0.1% – 2.4% and 0.7% - 0.9% are used for discounting future cash flows from USD-denominated current accounts and deposits of corporate and retail customers, respectively and 4.3% - 7.2% and 7.3% - 10.8% are used for discounting future cash flows from KZT-denominated current accounts and deposits of corporate and retail customers, respectively;
- discount rates of 4.8% - 7.4% are used for discounting future cash flows from USD and EUR-denominated deposits and balances from banks and other borrowed funds and 8.3% is used for discounting future cash flows from KZT-denominated deposits and balances from banks and other borrowed funds.
- quoted market prices are used for determination of fair value of debt securities issued.

### **(b) Fair value hierarchy**

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

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

### 39 Financial assets and liabilities: fair values and accounting classifications, continued

#### (b) Fair value hierarchy, continued

- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument’s valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The table below analyses financial instruments measured at fair value, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position:

	<b>2018</b>	<b>2017</b>
	<b>KZT’000</b>	<b>KZT’000</b>
	<b>Level 1</b>	
Financial assets at fair value through other comprehensive income (financial assets available-for-sale)		
- Pledged under sale and repurchase agreements	9,458,245	11,488,680
	<b>Level 2</b>	
- Corporate bonds	7,474,998	-
	<b>16,933,243</b>	<b>11,488,680</b>
	<b>Level 2</b>	
Financial instruments at fair value through profit or loss		
- Derivative assets	795,930	145,635
	<b>795,930</b>	<b>145,635</b>
- Derivative liabilities	301,083	238,057
	<b>301,083</b>	<b>238,057</b>

### 39 Financial assets and liabilities: fair values and accounting classifications, continued

#### (b) Fair value hierarchy, continued

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

KZT'000	Level 2	Level 3	Total fair values	Total carrying amount
<b>Assets</b>				
Cash and cash equivalents	64,377,045	-	64,377,045	64,377,045
Placements with banks	2,473,653	-	2,473,653	2,473,653
Loans to retail customers	266,612,610	4,168,626	270,781,236	267,900,659
Other financial assets	2,782,880	-	2,782,880	2,782,880
<b>Liabilities</b>				
Deposits and balances from banks	64,103,826	-	64,103,826	62,372,082
Current accounts and deposits from customers	144,756,312	-	144,756,312	141,656,562
Debt securities issued	50,733,727	-	50,733,727	50,542,872
Other borrowed funds	37,036,074	-	37,036,074	35,915,808
Certificates of deposit	7,673,418	-	7,673,418	7,673,418
Other financial liabilities	7,618,240	-	7,618,240	7,618,240

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2017:

KZT'000	Level 2	Level 3	Total fair values	Total carrying amount
<b>Assets</b>				
Cash and cash equivalents	9,724,275	-	9,724,275	9,724,275
Loans to retail customers	180,094,293	8,015,652	188,109,945	188,109,945
Other financial assets	1,991,062	-	1,991,062	1,991,062
<b>Liabilities</b>				
Deposits and balances from banks	36,103,231	-	36,103,231	35,368,377
Current accounts and deposits from customers	99,391,653	-	99,391,653	96,924,275
Debt securities issued	22,383,242	-	22,383,242	22,158,530
Other borrowed funds	15,560,676	-	15,560,676	14,911,831
Certificates of deposit	850,223	-	850,223	850,223
Other financial liabilities	6,416,456	-	6,416,456	6,416,456