

SB JSC “Bank Home Credit”

Financial Statements
for the year ended 31 December 2019

Contents

Independent Auditors’ Report	
Statement of Profit or Loss and Other Comprehensive Income	7
Statement of Financial Position	8
Statement of Cash Flows	9
Statement of Changes in Equity	10
Notes to the Financial Statements	11-70



«КПМГ Аудит» жауапкершілігі
шектеулі серіктестік
Қазақстан 050051 Алматы,
Достық д-лы 180,
Тел./факс 8 (727) 298-08-98, 298-07-08

KPMG Audit LLC
050051 Almaty, Kazakhstan
180 Dostyk Avenue,
E-mail: company@kpmg.kz

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 2019, 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 2019, 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 Code of Ethics for Professional Accountants (including International Independence Standards) 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 International Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Expected credit losses (ECL) for loans to retail customers

Please refer to Notes 3 (e), 4 and 14 in the financial statements.

The key audit matter	How the matter was addressed in our audit
<p>Loans to retail customers represent 76% 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>The Bank applies the 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"> - 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 IFRS 9); - assessment of probability of default and loss given default; - assessment of add-on adjustment to account for forward-looking information. <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 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"> – 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; – We agreed input data to supporting documents on a sample basis. – We assessed the predictive capability of the Bank’s methodology by comparing the estimates made as at 31 December 2018 with actual results for 2019. <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
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



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

6 March 2020

SB JSC "Bank Home Credit"
Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2019

	Note	2019 KZT'000	2018 KZT'000
Interest income calculated using the effective interest method	5	93,035,675	74,329,217
Interest expense	5	(29,537,657)	(22,076,864)
Net interest income		63,498,018	52,252,353
Fee and commission income	6	20,120,980	15,607,776
Fee and commission expense	6	(2,707,563)	(2,171,762)
Net fee and commission income		17,413,417	13,436,014
Net loss on financial instruments at fair value through profit or loss	7	(7,465,536)	(279,458)
Net foreign exchange gain/(loss)	8	887,188	(3,877,268)
Income from penalties		4,326,628	2,058,362
Other operating income, net		550,930	655,423
Operating income		79,210,645	64,245,426
Recovery/(charge) for credit losses on debt financial assets	9	622,700	(4,075,227)
General administrative expenses	10	(33,981,357)	(30,194,617)
Profit before income tax		45,851,988	29,975,582
Income tax expense	11	(9,342,467)	(6,249,356)
Profit for the year		36,509,521	23,726,226
Other comprehensive income, net of income tax			
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Movement in fair value reserve (debt instruments):			
- Net change in fair value		(77,187)	21,434
- Net change in expected credit losses		24,318	51,930
- Net amount reclassified to profit or loss		21,434	33,922
Other comprehensive (loss)/income for the year, net of income tax		(31,435)	107,286
Total comprehensive income for the year		36,478,086	23,833,512
Earnings per share, in KZT (basic and diluted)	29	1,046,418	680,029

The financial statements as set out on pages 7 to 70 were signed by Management on 6 March 2020 by:


Karel Horak
Chairman of the Board




Gaukhar Massangaliyeva
Chief Accountant

SB JSC “Bank Home Credit”
Statement of Financial Position as at 31 December 2019

	Note	31 December 2019 KZT'000	31 December 2018* KZT'000
ASSETS			
Cash and cash equivalents	12	65,153,329	70,259,604
Placements with banks	13	1,916,430	2,473,653
Loans to retail customers	14	332,943,998	267,900,659
Investment securities:			
- Pledged under sale and repurchase agreements	15	13,268,098	9,458,245
- Not pledged under sale and repurchase agreements	15	7,503,037	7,474,998
Financial instruments at fair value through profit or loss	19	195,912	795,930
Property, equipment and intangible assets	17	11,828,426	8,652,491
Other assets	18	6,138,807	4,377,829
Total assets		438,948,037	371,393,409
LIABILITIES			
Financial instruments at fair value through profit or loss	19	2,714,267	301,083
Deposits and balances from banks	20	63,493,833	62,372,082
Current accounts and deposits from customers:			
- Current accounts and deposits from retail customers	21	98,059,917	79,227,545
- Current accounts and deposits from corporate customers	21	74,142,230	62,429,017
Debt securities issued	22	40,447,348	50,542,872
Other borrowed funds	23	45,047,424	35,915,808
Certificates of deposit	25	19,834,825	7,673,418
Lease liabilities	34	3,426,397	-
Other liabilities	26	9,874,180	10,002,039
Total liabilities		357,040,421	308,463,864
EQUITY	27		
Share capital		5,199,503	5,199,503
Retained earnings		76,666,184	57,656,678
Fair value reserve		41,929	73,364
Total equity		81,907,616	62,929,545
Total liabilities and equity		438,948,037	371,393,409
Book value per share, in KZT	28	2,223,208	1,684,689

* The Bank has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2(f).

SB JSC “Bank Home Credit”
Statement of Cash Flows for the year ended 31 December 2019

	2019 KZT'000	2018 * KZT'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	93,374,934	72,716,507
Interest payments	(27,733,212)	(21,416,278)
Fee and commission receipts	20,145,916	15,572,365
Fee and commission payments	(2,900,561)	(1,784,396)
Net payments from financial instruments at fair value through profit or loss	(4,452,334)	(866,727)
Net receipts/(payments) from foreign exchange	178,645	(30,691)
Receipts from penalties	4,326,628	2,058,362
Other income receipts, net	550,930	655,423
General administrative expenses	(29,441,900)	(25,204,818)
(Increase)/decrease in operating assets		
Loans to retail customers	(66,279,159)	(84,952,870)
Placements with banks	523,584	(2,352,100)
Investment securities	(3,847,581)	(3,608,008)
Other assets	(182,975)	(264,133)
Increase in operating liabilities		
Current accounts and deposits from customers	30,432,150	42,762,152
Deposits and balances from banks	267,172	23,960,340
Certificates of deposit	12,149,388	6,746,895
Other liabilities	179,919	73,052
Net cash provided from operating activities before income tax paid	27,291,544	24,065,075
Income tax paid	(9,449,619)	(6,504,758)
Cash flows provided from operating activities	17,841,925	17,560,317
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, equipment and intangible assets	(3,498,306)	(4,363,391)
Proceeds from sale of property and equipment	29,135	58,075
Cash flows used in investing activities	(3,469,171)	(4,305,316)
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts of other borrowed funds	57,584,807	46,793,733
Repayments of other borrowed funds	(48,165,300)	(29,006,700)
Issue of debt securities	5,033,700	28,179,045
Repayment of debt securities	(14,768,502)	-
Dividends paid	(17,500,015)	(5,000,002)
Payments on lease liabilities	(1,457,824)	-
Net cash (used in)/from financing activities	(19,273,134)	40,966,076
Net (decrease)/increase in cash and cash equivalents	(4,900,380)	54,221,077
Effect of changes in exchange rates on cash and cash equivalents	(206,367)	1,827,500
Effect of changes in ECL in cash and cash equivalents	472	-
Cash and cash equivalents as at the beginning of the year	70,259,604	14,211,027
Cash and cash equivalents as at the end of the year (Note 12)	65,153,329	70,259,604

* The Bank has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2(f).

KZT'000	Share capital	Fair value reserve	Retained earnings	Total equity
Balance as at 31 January 2017	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)
Restated balance as at 1 January 2018	5,199,503	(33,922)	38,930,454	44,096,035
Total comprehensive income				
Profit for the year	-	-	23,726,226	23,726,226
Other comprehensive income				
<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	-	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
Total comprehensive income for the year	-	107,286	23,726,226	23,833,512
Transactions with owners, recorded directly in equity				
Dividends declared and paid (Note 27 (b))	-	-	(5,000,002)	(5,000,002)
Balance as at 31 December 2018	5,199,503	73,364	57,656,678	62,929,545
Balance as at 1 January 2019	5,199,503	73,364	57,656,678	62,929,545
Total comprehensive income				
Profit for the year	-	-	36,509,521	36,509,521
Other comprehensive loss				
<i>Items that are or may be reclassified subsequently to profit or loss:</i>				
Movement in fair value reserve (debt instruments):				
- Net change in fair value	-	(77,187)	-	(77,187)
- Net change in expected credit losses	-	24,318	-	24,318
- Net amount reclassified to profit or loss	-	21,434	-	21,434
Total other comprehensive loss	-	(31,435)	-	(31,435)
Total comprehensive income for the year	-	(31,435)	36,509,521	36,478,086
Transactions with owners, recorded directly in equity				
Dividends declared and paid (Note 27 (b))	-	-	(17,500,015)	(17,500,015)
Balance as at 31 December 2019	5,199,503	41,929	76,666,184	81,907,616

1 Introduction

(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 2019, the Bank had 17 branches and 48 bank offices (31 December 2018: 17 branches and 45 bank offices).

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

As at 31 December 2019 and 2018 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. Depreciation of the Kazakhstan Tenge and volatility in the global price of oil, also increases 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 16 *Leases* has been applied. The related changes to significant accounting policies are described in Note 2(f).

(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 are stated at fair value.

(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 judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, 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.

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

- impairment of financial instruments: determining inputs into the ECL measurement model – Note 4;
- recognition of fee and commission income from insurance – Note 6;
- estimates of fair values of financial assets and liabilities – Note 37.

(e) Measurement of fair values

A number of the Bank’s accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Bank uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- *Level 1:* quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2:* inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- *Level 3:* inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Bank recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following Note 37 – financial assets and liabilities: fair values and accounting classification.

(f) Changes in accounting policies and presentation

IFRS 16

The Bank initially applied IFRS 16 *Leases* from 1 January 2019.

The Bank applied IFRS 16 using the modified retrospective approach. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

Definition of a lease

Previously, the Bank determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining whether an Arrangement contains a Lease*. The Bank now assesses whether a contract is or contains a lease based on the new definition of a lease.

On transition to IFRS 16, the Bank elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Bank applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee

The Bank leases mainly property items (offices).

The Bank previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and incidental to ownership of the underlying asset to the Bank. Under IFRS 16, the Bank recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

Leases classified as operating leases under IAS 17

Previously, the Bank classified property leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Bank’s incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Bank has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

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

- did not to recognise right-of-use assets and liabilities for leases of low-value assets;
- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

Impact on financial statements*

On transition to IFRS 16, the Bank recognised additional right-of-use assets and additional lease liabilities. The impact on transition is summarised below.

KZT’000	1 January 2019
Right-of-use assets - property, plant and equipment	3,593,498
Lease liabilities	3,593,498

*For the impact of IFRS 16 on profit or loss for the period, see Note 34. For the details of accounting policies under IFRS 16 and IAS 17, see Note 3 (o).

When measuring lease liabilities for leases that were classified as operating leases, the Bank discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 12.39%.

KZT'000	1 January 2019
Operating lease commitments at 31 December 2018 as disclosed under IAS 17	(6,363,850)
Effect of discounting using the incremental borrowing rate at 1 January 2019	2,630,016
Lease liabilities recognised as at 31 December 2018	-
– Recognition exemption for leases of low-value assets	87,175
– Recognition exemption for leases with less than 12 months of lease term at transition	53,161
Lease liabilities recognised at 1 January 2019	(3,593,498)

New amendments and interpretations

A number of new standards and amendments to the existing standards are effective from 1 January 2019 but they do not have a material effect on the Bank's financial statements.

3 Significant accounting policies

The accounting policies set out below applied consistently to all periods presented in these financial statements, except as explained below, related to the Bank's adoption of IFRS 16 (Note 2(f)), which is applicable from 1 January 2019.

(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. 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

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.

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.

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).

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.

(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.

(e) Financial assets and financial liabilities**(i) Classification*****Financial assets***

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

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

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 Bank’s management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; 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 Bank’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 Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

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

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.

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. 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 liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL. See Note 37.

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 in a transaction in which substantially all of 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.

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.

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

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 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.

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.

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.

(iv) **Impairment**

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.

The Bank measures loss allowances at an amount equal to lifetime ECLs, except for the following, for which they 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 net investments in finance leases) 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 (if the credit risk has increased significantly since the initial recognition, but the financial instruments are not credit-impaired) and ‘Stage 3’ financial instruments (if the financial instruments are credit-impaired).

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.

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost, debt financial assets carried at FVOCI and net investments in finance leases 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 reasonable expectation of recovering a financial asset in its entirety or a portion thereof. 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.

(f) Loans to customers

'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.

(g) Investment securities

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)).

(h) Repurchase agreements

Securities sold under sale and repurchase ("repo") agreements are accounted for as secured financing transactions, with the securities retained in the statement of financial position and the counterparty liability included in amounts payable under repo transactions within deposits and balances from banks. The difference between the sale and repurchase prices represents interest expense and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

(i) 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.

(j) 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 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.

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

For other loan commitments the Bank recognises a loss allowance (see Note 3(e)(iv));

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

(k) Property and equipment

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.

(l) 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.

(m) 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.

(n) 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.

(o) Leases

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

Policy applicable from 1 January 2019

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

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

(i) As a lessee

At commencement or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

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

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

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

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

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

The Bank presents right-of-use assets in ‘property, equipment and intangible assets’ and lease liabilities as a separate line in the statement of financial position.

Policy applicable before 1 January 2019

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

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met;
- the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
- the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
- facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

(i) As a lessee

In the comparative period, as a lessee the Bank classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

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

(p) Segment reporting

The Bank’s operations constitute one operating business segment for the purposes of IFRS 8 *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.

(q) New standards and interpretations not yet adopted

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

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

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

4 Financial risk review

This note presents information about the Bank’s exposure to financial risks. For information on the Bank’s financial risk management framework, see Note 31.

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), behavioural 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 at 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.

Corporate exposure	All exposures (corporate and retail exposures)
<ul style="list-style-type: none"> • 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 • Data from credit reference agencies, press articles, changes in external credit ratings • Quoted bond and credit default swap (CDS) prices for the borrower where available • Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities 	<ul style="list-style-type: none"> • Payment record – this includes overdue status as well as a range of variables about payment ratios • Utilisation of the granted limit • Requests for and granting of forbearance • Existing and forecast changes in business, financial and economic conditions

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).

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 Bank’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 behaviour 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.

Measurement of ECL

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

- probability of default (“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.

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

	Carrying amount at 31 December 2019 KZT'000	External benchmarks used	
		PD	LGD
Cash and cash equivalents	56,942,175		For local bank exposures
Placements with banks	1,916,430	Moody's default study	LGD statistics is based on recovery of defaults of banks and financial institutions in Kazakhstan /
Investment securities	20,771,135		Moody's recovery studies

5 Net interest income

	2019 KZT'000	2018 KZT'000
Interest income calculated using the effective interest method:		
Loans to retail customers	88,606,102	72,881,990
Cash and cash equivalents	3,357,348	1,194,918
Investment securities	1,072,225	252,309
Total interest income calculated using the effective interest method	93,035,675	74,329,217
Interest expense		
Current accounts and deposits from customers	(14,119,850)	(13,810,409)
Debt securities issued	(5,898,865)	(3,059,565)
Deposits and balances from banks	(4,487,509)	(3,241,225)
Other borrowed funds	(2,434,479)	(1,709,899)
Certificates of deposit	(2,117,587)	(255,766)
Lease liabilities	(479,367)	-
Total interest expense	(29,537,657)	(22,076,864)
Net interest income	63,498,018	52,252,353

6 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.

	2019 KZT'000	2018 KZT'000
Fee and commission income:		
Commission income from insurance	16,386,657	11,489,707
Fees from retailers	2,215,575	2,600,718
Fees for early loan repayments	653,397	909,233
Card operations	391,171	179,606
Transfer operations	356,662	298,382
Other fee and commission income	117,518	130,130
Total fee and commission income	20,120,980	15,607,776
Fee and commission expense:		
Commissions paid for verification services	(1,025,975)	(757,051)
Card processing	(664,185)	(348,723)
Settlements	(358,115)	(160,188)
Commissions paid to partners	(281,261)	(277,383)
Deposit insurance fund contributions	(256,934)	(560,408)
Other	(121,093)	(68,009)
Total fee and commission expense	(2,707,563)	(2,171,762)

The fees and commission presented in this note include income of KZT 20,003,462 thousand (2018: KZT 15,477,646 thousand) and expense of KZT 2,228,355 thousand (2018: KZT 1,943,565 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.

Contract balances

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

KZT'000	31 December 2019	31 December 2018
Receivables, which are included in 'other assets' (Note 18)	3,601,989	2,799,455

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Bank recognizes 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.

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15
Insurance service	<p>The Bank provides insurance agent services to retail customers (insurance policy) under the framework agreement concluded between the Bank and insurance company. 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>As insurance policy purchase is voluntary and is not a condition to obtain a loan, it does not affect the interest rate on the loan. Therefore the insurance fee was not considered as part of effective interest rate.</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.

7 Net loss on financial instruments at fair value through profit or loss

	2019 KZT'000	2018 KZT'000
1 to 2-year currency swaps with PPF Banka A.S., net	(5,707,395)	203,640
1-year currency swaps with VTB Bank JSC, net	(1,614,962)	-
2-year currency swaps with Sovcombank JSC, net	(149,556)	-
Short-term currency swaps on KASE, net	6,377	(483,098)
	(7,465,536)	(279,458)

8 Net foreign exchange gain/(loss)

	2019 KZT'000	2018 KZT'000
Translation differences, net	862,879	(3,856,725)
Dealing, net	24,309	(20,543)
	887,188	(3,877,268)

9 Recovery/(charge) for credit losses on debt financial assets

	2019 KZT'000	2018 KZT'000
Loans to retail customers (Note 14)	754,618	(3,809,918)
Cash and cash equivalents (Note 12)	472	(802)
Loan commitments	(180)	(272)
Investment securities (Note 15)	(6,817)	(51,930)
Other assets (Note 18)	(125,393)	(212,305)
	622,700	(4,075,227)

10 General administrative expenses

	2019 KZT'000	2018 KZT'000
Employee compensation and payroll related taxes	15,731,011	14,653,448
Depreciation and amortisation	4,200,521	3,014,702
Information technology	2,711,788	2,489,967
Professional services	2,580,304	2,043,610
Telecommunication and postage	2,539,246	1,967,847
Advertising and marketing	1,986,200	1,074,033
Collectors' services	1,382,315	1,052,596
Taxes other than income tax	971,077	1,345,828
Occupancy	677,182	1,420,250
Travel expenses	356,703	343,990
Other	845,010	788,346
	33,981,357	30,194,617

11 Income tax expense

	2019 KZT'000	2018 KZT'000
Income tax expense		
Current year	10,410,330	6,253,681
Overprovided in prior years	(257,141)	(133,668)
	10,153,189	6,120,013
Deferred tax expense		
Origination and reversal of temporary differences	(810,722)	129,343
Total income tax expense	9,342,467	6,249,356

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

Reconciliation of effective tax rate:

	2019 KZT'000	%	2018 KZT'000	%
Profit before income tax	45,851,988		29,975,582	
Income tax at the applicable tax rate	9,170,398	20.0	5,995,116	20.0
Non-deductible costs	429,210	0.9	387,908	1.3
Overprovided in prior years	(257,141)	(0.6)	(133,668)	(0.5)
	9,342,467	20.3	6,249,356	20.8

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 2019 and 31 December 2018. 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 2019 and 2018 are presented below.

2019 KZT'000	Balance 1 January 2019	Effect of transition to IFRS 16	Recognised in profit or loss	Balance 31 December 2019
Property, equipment and intangible assets	(436,735)	-	41,270	(395,465)
Right-of-use assets	-	718,700	(5,678)	713,022
Other assets	(98,056)	-	57,145	(40,911)
Financial instruments at fair value through profit or loss	(98,900)	-	602,570	503,670
Deposits and balances from banks	74,143	-	(4,896)	69,247
Lease liabilities	-	(718,700)	33,421	(685,279)
Other liabilities	963,715	-	86,890	1,050,605
	404,167	-	810,722	1,214,889
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
	533,510		(129,343)	404,167

12 Cash and cash equivalents

	2019 KZT'000	2018 KZT'000
Cash on hand	8,211,154	5,882,559
Nostro accounts with the NBRK (rated BBB-)	17,054,910	14,077,562
Nostro accounts with other banks		
- rated from BBB- to BBB+	1,082,373	4,365,500
- rated from BB- to BB+	2,100,111	44,927
- rated below B+	46,641	474,635
- not rated	86	-
Nostro accounts with other banks	3,229,211	4,885,062
Loss allowance	(345)	(282)
Net total nostro accounts with other banks	3,228,866	4,884,780
Cash equivalents		
Term deposits with the NBRK (rated BBB-)	36,658,399	45,030,938
Term deposits with other banks		
- rated B	-	384,285
Total term deposits with other banks	-	384,285
Loss allowance	-	(520)
Net total term deposits with other banks	-	383,765
Total cash equivalents	36,658,399	45,414,703
Total cash and cash equivalents	65,153,329	70,259,604

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 2019 the Bank had exposure towards one banking counterparty (31 December 2018: one banking counterparty) exceeding 10% of the Bank's equity with the gross value of KZT 53,713,309 thousand (31 December 2018: KZT 59,108,500 thousand).

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

KZT'000	2019		2018	
	Stage 1	Total	Stage 1	Total
Cash and cash equivalents				
Balance at 1 January	802	802	-	-
Net remeasurement of loss allowance	(479)	(479)	282	282
New financial assets originated or purchased	7	7	520	520
Foreign exchange and other movements	15	15	-	-
Balance at 31 December	345	345	802	802

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 2019, the minimum reserve is KZT 2,908,297 thousand (31 December 2018: KZT 5,316,336 thousand).

13 Placements with banks

	2019 KZT'000	2018 KZT'000
- rated from BBB- to BBB+	1,753,410	-
- not rated	163,020	2,473,653
Total placements with banks	1,916,430	2,473,653

During the fourth quarter of 2019 the Bank opened deposit for the total amount of KZT 1,916,430 thousand with a fixed interest rate of 1.5% per annum, which serves as collateral for currency swap operations (31 December 2018: KZT 2,473,653 thousand with a fixed interest rate of 0.0010% per annum with PPF Banka A.S.).

14 Loans to retail customers

	2019 KZT'000	2018 KZT'000
Loans to retail customers		
Cash loans	170,639,386	150,212,027
POS loans	135,658,454	109,201,408
Credit cards	40,041,998	20,908,557
Total loans to retail customers	346,339,838	280,321,992
Loss allowance	(13,395,840)	(12,421,333)
Net loans to retail customers	332,943,998	267,900,659

In 2019 the increase in gross carrying amount of the portfolio was caused by issuance of loans in amount of KZT 268,556,746 thousand (2018: KZT 200,550,705 thousand), and the relevant increase in the loss allowance was KZT 6,870,938 thousand (2018: KZT 6,030,846 thousand).

In 2019 loans in the amount of KZT 192,351,427 thousand (2018: KZT 115,656,113 thousand) were repaid resulting in the relevant decrease in the loss allowance of KZT 4,995,298 thousand (2018: KZT 2,368,020 thousand).

Writing-off of loans with carrying amount of KZT 10,331,949 thousand (2018: KZT 9,041,901 thousand) has led to decreased loss allowance by the same amount for loans included in Stage 3.

(a) Analysis of movements in the credit loss allowance

	2019			
KZT'000	Stage 1	Stage 2	Stage 3	Total
Loans to retail customers at amortised cost				
Balance at 1 January	3,803,935	1,831,057	6,786,341	12,421,333
Transfer to Stage 1	72,387	(72,387)	-	-
Transfer to Stage 2	(132,271)	132,271	-	-
Transfer to Stage 3	(73,544)	(1,217,804)	1,291,348	-
New financial assets originated or purchased*	3,554,461	1,168,005	2,148,472	6,870,938
Net remeasurement of loss allowance**	(2,897,680)	14,639	(4,742,515)	(7,625,556)
(Write-offs)/recoveries**	-	-	189,968	189,968
Unwinding of discount on present value of ECLs	-	-	1,539,157	1,539,157
Balance at 31 December	4,327,288	1,855,781	7,212,771	13,395,840

	2018			
KZT'000	Stage 1	Stage 2	Stage 3	Total
Loans to retail customers at amortised cost				
Balance at 1 January	2,810,097	1,271,004	4,249,477	8,330,578
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)
(Write-offs)/recoveries	-	-	(1,199,493)	(1,199,493)
Unwinding of discount on present value of ECLs	-	-	1,480,330	1,480,330
Balance at 31 December	3,803,935	1,831,057	6,786,341	12,421,333

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

** During 2019, the Bank recovered KZT 10,521,917 thousand on overdue loans previously written-off, followed by stopgap measures to collect debts that were written-off against the allowance account, including claims to second-tier banks and intensive work with involvement of private court bailiffs. As a result of this, the Bank revised its approach to writing-off loans that are overdue more than 360 days and expected recoveries thereto. The Bank is in the process of finalising with the Group an approach to writing-off overdue debts, including increase in the number of days overdue, upon occurrence of which the debts are to be written-off of the Bank's balance sheet.

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

(b) Credit quality of loans to retail customers

The Bank considers loans which are contractually overdue for more than 90 days to be non-performing. As at 31 December 2019 total impairment allowance to non-performing loans was 90% (31 December 2018: 114%).

31 December 2019				
KZT'000	Stage 1 12-month ECL	Stage 2 Lifetime ECL for assets not credit- impaired	Stage 3 Lifetime ECL for assets credit- impaired	Total
<i>Loans to retail customers at amortised cost:</i>				
<i>Cash loans</i>				
Not overdue	142,221,073	15,144,599	-	157,365,672
Overdue less than 30 days	2,215,226	1,328,296	-	3,543,522
Overdue 31-90 days	-	2,125,470	-	2,125,470
Overdue 91-180 days	-	-	2,877,163	2,877,163
Overdue 181-360 days	-	-	3,120,924	3,120,924
Overdue more than 360 days	-	-	1,606,635	1,606,635
Total gross carrying amount	144,436,299	18,598,365	7,604,722	170,639,386
Loss allowance	(2,134,259)	(962,541)	(3,664,577)	(6,761,377)
Carrying amount	142,302,040	17,635,824	3,940,145	163,878,009
<i>POS loans</i>				
Not overdue	121,699,537	4,186,414	-	125,885,951
Overdue less than 30 days	1,510,881	627,421	-	2,138,302
Overdue 31-90 days	-	1,632,697	-	1,632,697
Overdue 91-180 days	-	-	2,056,027	2,056,027
Overdue 181-360 days	-	-	2,583,764	2,583,764
Overdue more than 360 days	-	-	1,361,713	1,361,713
Total gross carrying amount	123,210,418	6,446,532	6,001,504	135,658,454
Loss allowance	(2,051,630)	(767,682)	(2,978,165)	(5,797,477)
Carrying amount	121,158,788	5,678,850	3,023,339	129,860,977
<i>Credit cards</i>				
Not overdue	36,962,522	708,275	-	37,670,797
Overdue less than 30 days	540,857	55,599	-	596,456
Overdue 31-90 days	-	508,351	-	508,351
Overdue 91-180 days	-	-	505,717	505,717
Overdue 181-360 days	-	-	642,725	642,725
Overdue more than 360 days	-	-	117,952	117,952
Total gross carrying amount	37,503,379	1,272,225	1,266,394	40,041,998
Loss allowance	(141,399)	(125,558)	(570,029)	(836,986)
Carrying amount	37,361,980	1,146,667	696,365	39,205,012
Total loans to retail customers	305,150,096	26,317,122	14,872,620	346,339,838
Loss allowance	(4,327,288)	(1,855,781)	(7,212,771)	(13,395,840)
Loans to retail customers net of loss allowance	300,822,808	24,461,341	7,659,849	332,943,998

31 December 2018				
KZT'000	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit- impaired	Total
Loans to retail customers at amortised cost:				
<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
Total gross carrying amount	118,292,679	26,777,747	5,141,601	150,212,027
Loss allowance	(1,821,557)	(1,042,361)	(3,034,657)	(5,898,575)
Carrying amount	116,471,122	25,735,386	2,106,944	144,313,452
<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
Total gross carrying amount	96,787,537	7,389,794	5,024,077	109,201,408
Loss allowance	(1,908,973)	(704,322)	(3,271,183)	(5,884,478)
Carrying amount	94,878,564	6,685,472	1,752,894	103,316,930
<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
Total gross carrying amount	19,501,069	618,199	789,289	20,908,557
Loss allowance	(73,405)	(84,374)	(480,501)	(638,280)
Carrying amount	19,427,664	533,825	308,788	20,270,277
Total loans to retail customers	234,581,285	34,785,740	10,954,967	280,321,992
Loss allowance	(3,803,935)	(1,831,057)	(6,786,341)	(12,421,333)
Loans to retail customers net of loss allowance	230,777,350	32,954,683	4,168,626	267,900,659

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

The Bank compute present value of estimated loss – discounting is new under IFRS 9.

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 25%-28% 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 2019 would be KZT 3,329,440 thousand lower/higher (31 December 2018: KZT 2,679,007 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 2019, the Bank had no borrowers whose loan balances exceed 10% of the Bank's equity (31 December 2018: none).

(f) Loan maturities

The maturity of the loan portfolio is presented in Note 31(d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

15 Investment securities

	2019 KZT'000	2018 KZT'000
Investment securities measured at fair value through other comprehensive income	20,771,135	16,933,243
Total investment securities	20,771,135	16,933,243

Investment securities measured at fair value through other comprehensive income

	2019 KZT'000	2018 KZT'000
<i>Debt securities</i>		
Corporate bonds		
- rated from B- to B+	7,503,037	7,474,998
Pledged under sale and repurchase agreements		
US Treasury bills		
- rated AAA	13,268,098	9,458,245
	20,771,135	16,933,243

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:

	2019		2018	
KZT'000	Stage 1	Total	Stage 1	Total
Investment securities at FVOCI				
Balance at 1 January	51,930	51,930	-	-
New financial assets originated or purchased	-	-	51,930	51,930
Net remeasurement of loss allowance	6,817	6,817	-	-
Balance at 31 December	58,747	58,747	51,930	51,930

The above loss allowance is not recognised in the statement of financial position because the carrying amount of investment securities at FVOCI is their fair value.

16 Transfer of financial assets

Transferred financial assets that are not derecognised in their entirety

2018	Investment
KZT'000	securities
Carrying amount of assets	9,458,245
Carrying amount of associated liabilities	8,763,233

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 15. 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 20). 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.

2019	Investment
KZT'000	securities
Carrying amount of assets	13,268,098
Carrying amount of associated liabilities	13,276,476

17 Property, equipment and intangible assets

KZT'000	Land and buildings	Computers	Vehicles	Leasehold improvements	Other fixed assets	Intangible assets	Right-of-use assets	Total
Cost								
Balance at 1 January 2019	489,910	3,505,120	306,410	1,504,163	1,762,602	8,656,161	-	16,224,366
Recognition of right-of-use asset on initial application of IFRS 16	-	-	-	-	-	-	3,593,498	3,593,498
Adjusted balance at 1 January 2019	489,910	3,505,120	306,410	1,504,163	1,762,602	8,656,161	3,593,498	19,817,864
Additions	674	569,383	80,639	5,896	358,544	2,617,172	978,242	4,610,550
Disposals/Write-offs	-	(1,084,781)	(37,398)	(47,390)	(117,082)	(1,280,745)	(457,890)	(3,025,286)
At 31 December 2019	490,584	2,989,722	349,651	1,462,669	2,004,064	9,992,588	4,113,850	21,403,128
Depreciation and amortisation								
Balance at 1 January 2019	(49,238)	(1,541,931)	(98,529)	(662,766)	(714,010)	(4,505,401)	-	(7,571,875)
Depreciation and amortisation for the year	(9,409)	(759,773)	(45,008)	(404,398)	(329,240)	(1,790,697)	(861,996)	(4,200,521)
Disposals/Write-offs	-	1,069,869	29,560	47,390	116,455	643,416	291,004	2,197,694
Balance at 31 December 2019	(58,647)	(1,231,835)	(113,977)	(1,019,774)	(926,795)	(5,652,682)	(570,992)	(9,574,702)
Carrying amounts at 31 December 2019	431,937	1,757,887	235,674	442,895	1,077,269	4,339,906	3,542,858	11,828,426
	Land and buildings	Computers	Vehicles	Leasehold improvements	Other fixed assets	Intangible assets	Equipment and software for installation	Total
Cost								
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)	-
At 31 December 2018	489,910	3,505,120	306,410	1,504,163	1,762,602	8,656,161	-	16,224,366
Depreciation and amortisation								
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	1,306,050	-	1,949,671
Balance at 31 December 2018	(49,238)	(1,541,931)	(98,529)	(662,766)	(714,010)	(4,505,401)	-	(7,571,875)
Carrying amounts at 31 December 2018	440,672	1,963,189	207,881	841,397	1,048,592	4,150,760	-	8,652,491

18 Other assets

	2019 KZT'000	2018 KZT'000
Receivables from retailer fees	2,512,659	2,164,671
Commission fee receivable from insurance company	509,183	534,119
Impairment allowance	(944)	(16,575)
Total other financial assets	3,020,898	2,682,215
Deferred tax asset	1,214,889	404,167
Prepayments on capital expenditure	580,147	100,665
Inventory	408,299	286,655
Prepayments	396,040	334,665
Receivables from employees	84,815	89,175
Prepayment of taxes other than income tax	10,772	11,026
Current tax asset	-	30,214
Other	497,884	488,520
Impairment allowance	(74,937)	(49,473)
Total other non-financial assets	3,117,909	1,695,614
Total other assets	6,138,807	4,377,829

Credit quality of other financial assets

The following table provides information on the credit quality of other financial assets as at 31 December 2019.

	2019			
KZT'000	Stage 1	Stage 2	Stage 3	Total
Other financial assets				
Not overdue	2,920,454	-	-	2,920,454
Overdue less than 30 days	87,620	-	-	87,620
Overdue more than 30 days	-	11,784	1,984	13,768
Gross carrying amount	3,008,074	11,784	1,984	3,021,842
Loss allowance	(669)	(85)	(190)	(944)
Carrying amount	3,007,405	11,699	1,794	3,020,898

	2018			
KZT'000	Stage 1	Stage 2	Stage 3	Total
Other financial assets				
Not overdue	2,091,139	-	-	2,091,139
Overdue less than 30 days	604,499	-	-	604,499
Overdue more than 30 days	-	2,952	200	3,152
Gross carrying amount	2,695,638	2,952	200	2,698,790
Loss allowance	(16,138)	(237)	(200)	(16,575)
Carrying amount	2,679,500	2,715	-	2,682,215

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.

	2019			
KZT'000	Stage 1	Stage 2	Stage 3	Total
Other financial assets				
Balance at 1 January	16,138	237	200	16,575
Net remeasurement of loss allowance	(15,469)	(152)	(10)	(15,631)
Balance at 31 December	669	85	190	944

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

Movements in the impairment allowance are as follows:

	2019		
	Other financial assets	Other non-financial assets	Total
KZT'000			
Balance at 1 January	16,575	49,473	66,048
Net charge	(15,631)	141,024	125,393
Write-offs	-	(115,560)	(115,560)
Balance at 31 December	944	74,937	75,881

	2018		
	Other financial assets	Other non-financial assets	Total
KZT'000			
Balance at 1 January	-	38,196	38,196
Net charge	16,575	195,730	212,305
Write-offs	-	(184,453)	(184,453)
Balance at 31 December	16,575	49,473	66,048

19 Financial instruments at fair value through profit or loss

Financial instruments at fair value through profit or loss comprise:

	2019 KZT'000	2018 KZT'000
ASSETS		
Derivative financial instruments		
Foreign currency swap transactions	195,912	681,000
Foreign currency spot transactions	-	114,930
	195,912	795,930
LIABILITIES		
Derivative financial instruments		
Foreign currency swap transactions	(2,714,267)	(186,501)
Foreign currency spot transactions	-	(114,582)
	(2,714,267)	(301,083)

As at 31 December 2019 and 2018, 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:

2019						
Type of instrument	Notional amount KZT'000	Maturity	Payments to be made by the Bank KZT'000	Payments to be received by the Bank KZT'000	Fair value, assets, KZT'000	Counter-party
Foreign currency swap	USD 10,000	28/12/2020	KZT 3,742,000 at maturity	USD 10,000 at maturity	32,254	PPF Banka a.s.
Foreign currency swap	USD 20,000	28/12/2020	KZT 7,550,000 at maturity	USD 20,000 at maturity	42,836	PPF Banka a.s.
Foreign currency swap	USD 20,000	04/10/2021	KZT 7,520,000 at maturity	USD 20,000 at maturity	65,232	PPF Banka a.s.
Foreign currency swap	USD 26,184	01/11/2021	GBP 20,000 at maturity	USD 26,184 at maturity	55,590	PPF Banka a.s.
Total					195,912	
2019						
Type of instrument	Notional amount KZT'000	Maturity	Payments to be made by the Bank KZT'000	Payments to be received by the Bank KZT'000	Fair value, liabilities, KZT'000	Counter-party
Foreign currency swap	GBP 20,000	01/11/2021	KZT 9,946,000 at maturity	GBP 20,000 at maturity	(115,129)	PPF Banka a.s.
Foreign currency swap	USD 15,000	21/10/2020	KZT 5,850,000 at maturity	USD 15,000 at maturity	(327,466)	VTB Bank JSC
Foreign currency swap	USD 15,000	21/10/2020	KZT 5,850,000 at maturity	USD 15,000 at maturity	(333,185)	VTB Bank JSC
Foreign currency swap	USD 16,635	30/10/2020	EUR 15,000 at maturity	USD 16,635 at maturity	(52,676)	VTB Bank JSC
Foreign currency swap	EUR 15,000	30/10/2020	KZT 6,454,350 at maturity	EUR 15,000 at maturity	(301,177)	VTB Bank JSC
Foreign currency swap	USD 27,775	02/11/2020	EUR 25,000 at maturity	USD 27,775 at maturity	(77,825)	VTB Bank JSC
Foreign currency swap	EUR 25,000	02/11/2020	KZT 10,778,750 at maturity	EUR 25,000 at maturity	(514,132)	VTB Bank JSC
Foreign currency swap	USD 38,871	21/11/2021	GBP 30,000 at maturity	USD 38,871 at maturity	(212,342)	PPF Banka a.s.
Foreign currency swap	GBP 30,000	21/11/2021	KZT 15,064,500 at maturity	GBP 30,000 at maturity	(623,436)	PPF Banka a.s.
Foreign currency swap	USD 13,020	30/12/2021	GBP 10,000 at maturity	USD 13,020 at maturity	(14,229)	Sovcombank JSC
Foreign currency swap	GBP 10,000	30/12/2021	KZT 4,960,620 at maturity	GBP 10,000 at maturity	(142,670)	Sovcombank JSC
					(2,714,267)	

Type of instrument	Notional amount KZT'000	Maturity	2018		Fair value assets, KZT'000	Counter-party
			Payments to be made by the Bank KZT'000	Payments to be received by the Bank KZT'000		
Foreign currency swap	USD 10,000	26/08/2019	KZT 4,000 at maturity	USD 10,000 at maturity	63,477	PPF Banka a.s.
Foreign currency swap	USD 10,000	26/08/2019	KZT 4,005 at maturity	USD 10,000 at maturity	58,843	PPF Banka a.s.
Foreign currency swap	USD 10,000	20/09/2019	KZT 4,040 at maturity	USD 10,000 at maturity	51,481	PPF Banka a.s.
Foreign currency swap	USD 20,000	04/10/2019	KZT 8,103,000 at maturity	USD 20,000 at maturity	85,085	PPF Banka a.s.
Foreign currency swap	USD 17,790	25/10/2019	EUR 15,000 at maturity	USD 17,790 at maturity	73,494	PPF Banka a.s.
Foreign currency swap	USD 17,623	30/10/2019	EUR 15,000 at maturity	USD 17,623 at maturity	22,882	PPF Banka a.s.
Foreign currency swap	USD 26,070	01/11/2019	GBP 20,000 at maturity	USD 26,070 at maturity	102,075	PPF Banka a.s.
Foreign currency swap	USD 19,238	04/02/2019	GBP 15,000 at maturity	USD 19,238 at maturity	56,169	PPF Banka a.s.
Foreign currency swap	GBP 15,000	04/02/2019	KZT 7,343,100 at maturity	GBP 15,000 at maturity	43,145	PPF Banka a.s.
Foreign currency swap	EUR15,000	07/06/2019	KZT 6,798,000 at maturity	EUR 15,000 at maturity	124,349	PPF Banka a.s.
Total					681,000	

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

20 Deposits and balances from banks

	2019 KZT'000	2018 KZT'000
Loro accounts	237,338	137,107
Term deposits	49,980,019	53,471,742
Sale and repurchase agreements	13,276,476	8,763,233
	63,493,833	62,372,082

As at 31 December 2019 the Bank had two counterparties whose balances exceeded 10% of the Bank's equity (31 December 2018: two counterparties). As at 31 December 2019 these balances amounted to KZT 33,812,260 thousand (31 December 2018: KZT 40,083,874 thousand).

As at 31 December 2019 amounts payable under sale and repurchase agreements were secured by investment securities equal KZT 13,268,098 thousands (31 December 2018: KZT 9,458,245 thousand) (Note 15). These transactions are conducted under terms that are usual and customary to standard lending activities.

21 Current accounts and deposits from customers

	2019 KZT'000	2018 KZT'000
Corporate		
- Current accounts	611,477	2,015,611
- Term deposits	73,530,753	60,413,406
Current accounts and deposits from corporate customers	74,142,230	62,429,017
Retail		
- Current accounts	21,484,484	13,756,609
- Term deposits	76,575,433	65,470,936
Current accounts and deposits from retail customers	98,059,917	79,227,545
	172,202,147	141,656,562

As at 31 December 2019, the Bank had two customers (31 December 2018: one customer), whose balances exceeded 10% of the Bank's equity. As at 31 December 2019 these balances amounted to KZT 22,806,083 thousand (31 December 2018: KZT 6,347,376 thousand).

22 Debt securities issued

	Maturity	Coupon rate, %	2019 KZT'000	2018 KZT'000
Unsecured KZT denominated bonds of the 1 st issue program 2*	February 2019	9.5	-	7,008,148
Unsecured KZT denominated bonds of the 3 ^d issue program 2*	October 2019	12.5	-	8,168,030
Unsecured KZT denominated bonds of the 2 nd issue program 2*	May 2020	15.0	10,141,162	10,130,564
Unsecured KZT denominated bonds of the 1 th issue program 3*	December 2021	13.0	20,589,596	15,570,316
Unsecured KZT denominated bonds of the 4 th issue program 2*	December 2022	13.0	9,716,590	9,665,814
			40,447,348	50,542,872

* Quoted on the Kazakhstan Stock Exchange

During 2019 the Bank has repaid KZT-denominated unsecured bonds of the first and third issue, as part of the second bond programme, with the total nominal value of KZT 14,768,502 thousand.

During 2019 the Bank placed KZT-denominated unsecured bonds of the first issue within the third bond programme with a total nominal value of KZT 5,000,000 thousand and KZT-denominated unsecured bonds of the forth issue within the second programme with a total nominal value of KZT 52,450 thousand.

23 Other borrowed funds

	<u>Issue date</u>	<u>Maturity date</u>	<u>Currency</u>	<u>Weighted-average effective interest rate, %</u>	<u>2019 KZT'000</u>	<u>2018 KZT'000</u>
Other borrowed funds						
Unsecured loans and borrowings	29/11/2019	25/10/2021	USD	7.00	34,219,254	-
Unsecured loans and borrowings and borrowings	24/12/2019	24/06/2021	KZT	13.5	5,970,455	-
Unsecured loans and borrowings	14/11/2019	25/10/2021	USD	7.00	1,930,432	-
Unsecured loans and borrowings	29/11/2019	25/10/2021	USD	7.00	1,924,853	-
Unsecured loans and borrowings	25/12/2019	20/03/2020	KZT	12.50	1,002,430	-
Unsecured loans and borrowings*	09/08/2018	31/12/2020	USD	7.60	-	15,380,977
Unsecured loans and borrowings and borrowings**	09/08/2018	27/06/2019	USD	7.40	-	8,459,350
Unsecured loans and borrowings	04/07/2018	27/06/2019	EUR	4.80	-	6,593,186
Unsecured loans and borrowings	27/12/2018	27/12/2019	KZT	12.5	-	5,482,295
					<u>45,047,424</u>	<u>35,915,808</u>

* prolonged to 31 December 2020 and early repaid in October 2019

**early repaid in March 2019

24 Other borrowed funds, debt securities issued movements

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

KZT'000	Liabilities			Total
	Other borrowed funds	Debt securities issued	Lease liabilities	
Balance at 1 January 2019	35,915,808	50,542,872	3,593,498	90,052,178
Changes from financing cash flows				
Proceeds from other borrowed funds, net of transaction costs	57,584,807	-	-	57,584,807
Repayment of other borrowed funds	(48,165,300)	-	-	(48,165,300)
Proceeds from issued of debt securities, net of transaction costs	-	5,033,700	-	5,033,700
Repayment of debt securities	-	(14,768,502)	-	(14,768,502)
Payments on lease liabilities	-	-	(1,457,824)	(1,457,824)
Total changes from financing cash flows	9,419,507	(9,734,802)	(1,457,824)	(1,773,119)
The effect of changes in foreign exchange rates	(757,043)	-	-	(757,043)
Other changes				
New leases, net of cancelled leases	-	-	811,356	811,356
Interest expense	2,434,479	5,898,865	479,367	8,812,711
Interest paid	(1,965,327)	(6,259,587)	-	(8,224,914)
Balance at 31 December 2019	45,047,424	40,447,348	3,426,397	88,921,169

KZT'000	Liabilities			Total
	Other borrowed funds	Debt securities issued	Lease liabilities	
Balance at 1 January 2018	14,911,830	22,158,530	-	37,070,360
Changes from financing cash flows				
Proceeds from other borrowed funds, net of transaction costs	46,793,733	-	-	46,793,733
Repayment of other borrowed funds	(29,006,700)	-	-	(29,006,700)
Proceeds from issued of debt securities, net of transaction costs	-	28,179,045	-	28,179,045
Total changes from financing cash flows	17,787,033	28,179,045	-	45,966,078
The effect of changes in foreign exchange rates	3,229,337	-	-	3,229,337
Other changes				
Interest expense	1,709,899	3,059,565	-	4,769,464
Interest paid	(1,722,291)	(2,854,268)	-	(4,576,559)
Balance at 31 December 2018	35,915,808	50,542,872	-	86,458,680

25 Certificates of deposit

	Interest rate, %	2019 KZT'000	2018 KZT'000
Certificates of deposit	15.0	19,666,879	7,673,418
Certificates of deposit	16.0	167,946	-
		19,834,825	7,673,418

As at 31 December 2019 the Bank issued to individuals unsecured 1-year and 2-year bank certificates of deposit with a total nominal value of KZT 19,705,783 thousand, which bear a fixed interest rate of 15-16% per annum paid at maturity (31 December 2018: 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).

26 Other liabilities

	2019 KZT'000	2018 KZT'000
Payables to partners	3,353,515	4,477,487
Payables for services	3,493,548	3,140,340
Provisions for credit losses from undrawn credit limits	593	413
Total other financial liabilities	6,847,656	7,618,240
Payables to employees	1,123,902	1,206,731
Vacation reserve	817,578	746,882
Current tax liability	673,356	-
Taxes payable other than income tax	368,430	355,044
Other non-financial liabilities	43,258	75,142
Total other non-financial liabilities	3,026,524	2,383,799
Total other liabilities	9,874,180	10,002,039

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

27 Equity

(a) Issued capital

As at 31 December 2019 the authorised share capital comprised 160,240 ordinary shares (31 December 2018: 160,240 ordinary shares) and issued and outstanding share capital comprised 34,890 ordinary shares (31 December 2018: 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 2019 reserves available for distribution amounted to KZT 14,813,237 thousand (31 December 2018: KZT 11,318,663 thousand).

During 2019, the Bank has declared and paid dividends of KZT 17,500,015 thousand or KZT 501,577 per share (2018: the Bank has declared and paid dividends of KZT 5,000,002 thousand or KZT 143,308 per share).

28 Book value per share

The calculation of book value per share as at 31 December 2019 is based on the number of outstanding ordinary shares of 34,890 (31 December 2018: 34,890) and net assets calculated in accordance with the Listing rules of Kazakhstan Stock Exchange as follows:

KZT'000	2019	2018
Total assets	438,948,037	371,393,409
Intangible assets	(4,339,906)	(4,150,760)
Total liabilities	(357,040,421)	(308,463,864)
Net assets	77,567,710	58,778,785

The following table shows the book value per share calculations as at 31 December 2019 and 31 December 2018:

	2019	2018
Net assets, KZT'000	77,567,710	58,778,785
Outstanding number of ordinary shares at the end of the year, share	34,890	34,890
Book value per share, in KZT	2,223,208	1,684,689

29 Earnings per share

The calculation of basic earnings per share as at 31 December 2019 is based on the net profit for the year attributable to ordinary shareholders and weighted average number of ordinary shares outstanding calculated as follows:

	2019	2018
Net profit attributable to ordinary shareholders, KZT'000	36,509,521	23,726,226
Weighted average number of ordinary shares, share	34,890	34,890
Earnings per share, in KZT (basic and diluted)	1,046,418	680,029

There are no potentially dilutive shares for the year ended 31 December 2019 and 31 December 2018.

30 Analysis by segment

The Bank's operations are highly integrated and constitute a single business segment for the purposes of IFRS 8 *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.

31 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”).

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.

No significant fluctuations in foreign currency exchange rates and/or interest rates took place from 31 December 2018, which is the date of the Bank’s most recent financial statements.

(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:

KZT'000	Less than 3 months	3-6 months	6-12 months	1-5 years	Carrying amount
31 December 2019					
Interest-bearing financial assets					
Cash and cash equivalents	36,658,399	-	-	-	36,658,399
Placements with banks	-	-	1,753,411	-	1,753,411
Loans to retail customers	67,398,440	62,492,816	96,017,207	107,035,535	332,943,998
Investment securities	207,472	56,528	15,798,910	4,708,225	20,771,135
	104,264,311	62,549,344	113,569,528	111,743,760	392,126,943
Interest-bearing financial liabilities					
Deposits and balances from banks	17,148,659	5,627,171	40,480,665	-	63,256,495
Term deposits from customers	14,223,693	21,610,185	71,793,506	42,478,802	150,106,186
Debt securities issued	-	10,308,348	-	30,139,000	40,447,348
Other borrowed funds	1,481,417	-	-	43,566,007	45,047,424
Certificates of deposit	3,499,007	3,954,179	11,067,464	1,314,175	19,834,825
	36,352,776	41,499,883	123,341,635	117,497,984	318,692,278
Net position as at 31 December 2019	67,911,535	21,049,461	(9,772,107)	(5,754,224)	73,434,665
KZT'000	Less than 3 months	3-6 months	6-12 months	1-5 years	Carrying amount
31 December 2018					
Interest-bearing financial assets					
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
Investment securities	-	-	9,458,245	7,474,998	16,933,243
	98,060,583	47,648,124	85,844,824	101,168,727	332,722,258
Interest-bearing financial liabilities					
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
	48,293,179	40,719,626	140,901,462	52,474,255	282,388,522
Net position as at 31 December 2018	49,767,404	6,928,498	(55,056,638)	48,694,472	50,333,736

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 2019 and 31 December 2018 is as follows:

	2019 KZT'000	2018 KZT'000
100 bp parallel fall	(561,084)	(272,901)
100 bp parallel rise	561,084	272,901

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 2019 and 2018 and a simplified scenario of a 100 bp symmetrical fall or rise in all yield curves is as follows:

	2019 Equity KZT'000	2018 Equity KZT'000
100 bp parallel rise	(218,943)	(351,940)
100 bp parallel fall	220,803	490,337

(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	
	2019	2018	2019	2018
USD	382.75	344.71	382.59	384.20
EUR	428.51	406.66	429	439.37

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

	USD KZT'000	Other currencies* KZT'000	Total KZT'000
ASSETS			
Cash and cash equivalents	8,614,601	11,768,587	20,383,188
Placements with banks	1,753,410	163,020	1,916,430
Investment securities	13,268,098	-	13,268,098
Other financial assets	23,724	2,048	25,772
Total assets	23,659,833	11,933,655	35,593,488
LIABILITIES			
Deposits and balances from banks	32,423,302	9,076,892	41,500,194
Current accounts and deposits from customers	31,609,806	1,324,311	32,934,117
Other borrowed funds	38,074,539	-	38,074,539
Other financial liabilities	12,084	1,825,897	1,837,981
Total liabilities	102,119,731	12,227,100	114,346,831
Net position	(78,459,898)	(293,445)	(78,753,343)
Effect of derivatives held for risk management	77,468,736	-	77,468,736
Net position after derivatives held for risk management purposes	(991,162)	(293,445)	(1,284,607)

* Other currencies are mainly represented by EUR.

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

	USD KZT'000	Other currencies* KZT'000	Total KZT'000
ASSETS			
Cash and cash equivalents	13,132,088	5,202,477	18,334,565
Placements with banks	-	2,473,653	2,473,653
Investment securities	9,458,245	-	9,458,245
Other financial assets	4,287	30,527	34,814
Total assets	22,594,620	7,706,657	30,301,277
LIABILITIES			
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
Total liabilities	85,548,836	15,356,799	100,905,635
Net position	(62,954,216)	(7,650,142)	(70,604,358)
Effect of derivatives held for risk management	62,424,816	6,590,550	69,015,366
Net position after derivatives held for risk management purposes	(529,400)	(1,059,592)	(1,588,992)

* Other currencies are mainly represented by EUR.

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

	2019 KZT'000	2018 KZT'000
20% appreciation of USD against KZT	(158,586)	(84,704)
20% appreciation of other currencies against KZT	(46,951)	(169,535)

A strengthening of the KZT against the above currencies at 31 December 2019 and 31 December 2018 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.

(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:

	2019 KZT'000	2018 KZT'000
ASSETS		
Cash and cash equivalents	56,942,175	64,377,045
Placements with banks	1,916,430	2,473,653
Loans to retail customers	332,943,998	267,900,659
Investment securities	20,771,135	16,933,243
Financial instruments at fair value through profit or loss	195,912	795,930
Other financial assets	3,020,898	2,782,880
Total maximum exposure	415,790,548	355,263,410

For the analysis of the concentration of credit risk in respect of loans to retail customers refer to Note 14.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in Note 33.

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.

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 2019:

Types of financial assets/liabilities	Gross amounts of recognised financial assets/liabilities	Gross amount of recognised financial assets/liabilities offset in the statement of financial position	Net amount of financial assets/liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position		Net amount
				Financial instruments	Cash collateral received	
Financial instruments at fair value through profit or loss	195,912	-	195,912	-	-	195,912
Total financial assets	195,912	-	195,912	-	-	195,912
Financial instruments at fair value through profit or loss	2,714,267	-	2,714,267	-	-	2,714,267
Deposits and balances from banks (sale and repurchase agreements)	13,276,476	-	13,276,476	(13,276,476)	-	-
Total financial liabilities	15,990,743	-	15,990,743	(13,276,476)	-	2,714,267

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 statement of financial position	Net amount of financial assets/liabilities presented in the 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
Total financial assets	795,930	-	795,930	-	-	795,930
Financial instruments at fair value through profit or loss	301,083	-	301,083	-	-	301,083
Deposits and balances from banks (sale and repurchase agreements)	8,763,233	-	8,763,233	(8,763,233)	-	-
Total financial liabilities	9,064,316	-	9,064,316	(8,763,233)	-	301,083

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 15) 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 honour all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Board of Directors.

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.

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 2019 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
Non-derivative liabilities							
Deposits and balances from banks	10,905,452	6,525,923	5,792,126	43,243,340	-	66,466,841	63,493,833
Current accounts and deposits from customers	27,738,611	12,059,843	24,708,685	76,084,474	44,858,788	185,450,401	172,202,147
Debt securities issued	-	-	12,722,637	1,972,637	35,548,342	50,243,616	40,447,348
Other borrowed funds	764,524	1,151,190	880,580	1,766,382	47,340,971	51,903,647	45,047,424
Certificates of deposit	1,241,695	2,908,032	4,463,705	11,705,593	1,356,319	21,675,344	19,834,825
Lease liabilities	158,992	208,303	276,126	603,906	4,660,052	5,907,379	3,426,397
Other financial liabilities	5,260,203	1,570,125	-	593	16,735	6,847,656	6,847,656
Total non-derivative liabilities	46,069,477	24,423,416	48,843,859	135,376,925	133,781,207	388,494,884	351,299,630
Credit related commitments	34,671,332	-	-	-	-	34,671,332	34,671,332
Derivative liabilities							
<i>Gross settled derivatives</i>	-	-	-	-	-	-	2,714,267
- Inflow	-	-	-	(57,106,222)	(67,727,114)	(124,833,336)	-
- Outflow	-	-	-	57,385,100	67,695,720	125,080,820	-

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
Non-derivative liabilities							
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
Total non-derivative liabilities	39,408,169	35,912,016	41,683,152	150,437,750	62,340,151	329,781,238	305,778,982
Credit related commitments	19,129,695	-	-	-	-	19,129,695	19,129,695
Derivative liabilities							
<i>Gross settled derivatives</i>	-	-	-	-	-	-	301,083
- 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	-

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:

	2019 KZT'000	2018 KZT'000
Demand and less than 1 month	4,451,754	8,387,270
From 1 to 3 months	9,771,939	20,172,988
From 3 to 6 months	21,610,185	21,741,015
From 6 to 12 months	71,793,506	58,404,614
More than 1 year	42,478,802	17,178,455
	150,106,186	125,884,342

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2019:

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Assets								
Cash and cash equivalents	65,153,329	-	-	-	-	-	-	65,153,329
Placements with banks	-	-	1,916,430	-	-	-	-	1,916,430
Loans to retail customers	4,673,931	46,316,294	158,510,023	107,035,535	-	-	16,408,215	332,943,998
Investment securities	207,472	-	15,855,438	4,708,225	-	-	-	20,771,135
Financial instruments at fair value through profit or loss	-	-	75,090	120,822	-	-	-	195,912
Property, equipment and intangible assets	-	-	-	-	-	11,828,426	-	11,828,426
Other assets	3,932,144	1,014	663,788	1,441,257	-	-	100,604	6,138,807
Total assets	73,966,876	46,317,308	177,020,769	113,305,839	-	11,828,426	16,508,819	438,948,037
Liabilities								
Financial instruments at fair value through profit or loss	-	-	1,606,461	1,107,806	-	-	-	2,714,267
Deposits and balances from banks	10,877,450	6,508,547	46,107,836	-	-	-	-	63,493,833
Current accounts and deposits from customers	26,547,715	9,771,939	93,403,691	42,478,802	-	-	-	172,202,147
Debt securities issued	-	-	10,308,348	30,139,000	-	-	-	40,447,348
Other borrowed funds	481,417	1,000,000	-	43,566,007	-	-	-	45,047,424
Certificates of deposit	1,004,558	2,494,449	15,021,643	1,314,175	-	-	-	19,834,825
Lease liabilities	116,453	125,230	538,984	1,356,157	1,289,573	-	-	3,426,397
Other liabilities	5,621,660	2,446,563	1,491,527	268,819	-	-	45,611	9,874,180
Total liabilities	44,649,253	22,346,728	168,478,490	120,230,766	1,289,573	-	45,611	357,040,421
Net position	29,317,623	23,970,580	8,542,279	(6,924,927)	(1,289,573)	11,828,426	16,463,208	81,907,616

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

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

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	No maturity	Overdue	Total
Assets							
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
Investment securities	-	-	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
Total assets	78,087,339	36,058,690	134,571,983	101,815,184	8,652,491	12,207,722	371,393,409
Liabilities							
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
Total liabilities	38,854,831	34,288,934	182,554,884	52,765,215	-	-	308,463,864
Net position	39,232,508	1,769,756	(47,982,901)	49,049,969	8,652,491	12,207,722	62,929,545

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

32 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 2019, this minimum level of tier 1 capital to risk weighted assets, contingent liabilities, operational and market risk was 0.055 (31 December 2018: 0.055) and the minimum level of total capital to risk weighted assets, contingent liabilities, operational and market risk was 0.080 (31 December 2018: 0.080). The Bank was in compliance with the statutory capital requirements as at 31 December 2019 and 31 December 2018.

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

	2019 KZT'000	2018 KZT'000
Tier 1 capital		
Share capital	5,199,503	5,199,503
Retained earnings of prior years	40,156,663	33,930,452
Profit for the period	36,509,521	23,726,226
Intangible assets	(4,339,906)	(4,150,760)
Fair value reserve	(16,818)	73,364
Total tier 1 capital	77,508,963	58,778,785
Total tier 2 capital	-	-
Total capital	77,508,963	58,778,785
Total credit risk-weighted assets	502,653,255	416,603,663
Total credit risk-weighted assets and liabilities, including market and operational risk	587,600,468	465,989,998
Total capital expressed as a percentage of credit risk-weighted assets and liabilities, including market and operational risk (total capital ratio)	13.2%	12.6%
Total tier 1 capital expressed as a percentage of credit risk-weighted assets and liabilities, including market and operational risk (tier 1 capital ratio)	13.2%	12.6%

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.

33 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.

	2019 KZT'000	2018 KZT'000
Contracted amount		
Loan and credit line commitments	34,671,332	19,129,695
	34,671,332	19,129,695

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 2019 the Bank had no counterparties whose commitment balances exceeded 10% of the Bank's equity (31 December 2018: none).

The table below provides an analysis of the of loan and credit line commitments by the stages of the credit risk grade in accordance with IFRS 9:

	31 December 2019 KZT'000	31 December 2018 KZT'000
Loan and credit line commitments		
Stage 1	34,324,026	18,953,864
Stage 2	347,306	175,831
	34,671,332	19,129,695

34 Leases

(a) Leases as lessee

The Bank leases mainly property items. The leases typically run for a period 3 years. Some leases include an option to renew the lease for additional 5 years after the end of non-cancellable period. Some leases provide for additional rent payments that are based on changes in local price indices. Previously, these leases were classified as operating leases under IAS 17.

Information about leases for which the Bank is a lessee is presented below.

(i) Right-of-use assets

Right-of-use assets related to leased properties that do not meet the definition of investment property are presented as property, equipment and intangible assets (see Note 17).

KZT'000	Real estate	Total
Balance at 1 January 2019	3,593,498	3,593,498
Depreciation charge for the year	(861,996)	(861,996)
Additions to right-of-use assets	978,242	978,242
Derecognition of right-of-use assets	(166,886)	(166,886)
Balance at 31 December 2019	3,542,858	3,542,858

(ii) Lease liabilities

Terms and conditions of outstanding lease liabilities as at 31 December 2019 were as follows:

KZT'000	Currency	Year of maturity	Face value	Carrying amount
Lease liabilities	KZT	2020-2030	5,907,379	3,426,397

(iii) Amounts recognised in profit or loss

	KZT'000
2019 – Leases under IFRS 16	
Interest on lease liabilities	479,367
Expenses relating to short-term leases	677,182
2018 – Operating leases under IAS 17	
Lease expense	1,420,250

(iv) **Amounts recognised in statement of cash flows**

KZT'000	2019
Total cash outflow for leases	<u><u>1,457,824</u></u>

35 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.

(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.

36 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 2019 and 31 December 2018 was as follows:

	2019 KZT'000	2018 KZT'000
Members of the Board of Directors	392,313	1,100,332
Members of the Management Board	1,253,192	578,288
	<u><u>1,645,505</u></u>	<u><u>1,678,620</u></u>

The outstanding balances and average interest rates as at 31 December 2019 and 31 December 2018 for transactions with the members of the Board of Directors and the Management Board were as follows:

	2019 KZT'000	Average interest rate, %	2018 KZT'000	Average interest rate, %
Statement of financial position				
LIABILITIES				
Current accounts and deposits from customers	56,252	2.99	13,814	0.62

Total amounts included in profit or loss in relation to transactions with the members of the Board of Directors and the Management Board for the years ended 31 December 2019 and 31 December 2018 were as follows:

	2019 KZT'000	2018 KZT'000
Statement of profit or loss and other comprehensive income		
Interest expense	(774)	(607)
	(774)	(607)

(c) Transactions with the parent

As at 31 December 2019 and 31 December 2018 balances with the parent included in the statement of financial position were as follows:

	2019 KZT'000	Average interest rate, %	2018 KZT'000	Average interest rate, %
Statement of financial position				
ASSETS				
Cash and cash equivalents				
-In USD	138	-	138	-
-In EUR	136	-	139	-
-In RUB	33	-	40	-
LIABILITIES				
Deposits and balances from banks				
-In KZT	3	-	3	-
-In USD	20,536,167	7.90	31,320,638	7.43

During 2019 and 2018 transactions with the parent included in the statement of profit or loss and other comprehensive income were as follows:

	2019 KZT'000	2018 KZT'000
Statement of profit or loss and other comprehensive income		
Interest expense		
Deposits and balances from banks		
-In USD	(1,593,681)	(589,594)
	(1,593,681)	(589,594)

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

As at 31 December 2019 and 31 December 2018 balances with entities controlled by the ultimate controlling owner included in the statement of financial position were as follows:

	2019 KZT'000	Average interest rate, %	2018 KZT'000	Average interest rate, %
Statement of financial position				
ASSETS				
Placements with banks				
-In EUR	163,020	-	2,473,653	0.001
Property, equipment and intangible assets*				
-In KZT	3,653,645	-	3,120,457	-
Financial instruments at fair value through profit or loss				
-In USD/KZT/EUR	195,912	-	681,000	-
Other assets				
-In USD	13,222	-	-	-
LIABILITIES				
Deposits and balances from banks				
-In KZT	236,953	-	136,720	-
- In EUR	2,193,858	4.00	-	-
Current accounts and deposits of customers				
- In USD	5,739,931	6.78	-	-
Other borrowed funds				
-In USD	-	-	23,840,327	7.53
-In EUR	-	-	6,593,186	4.80
Financial instruments at fair value through profit or loss				
- In KZT	950,907	-	186,501	-
Debt securities issued				
- in KZT	5,021,996	-	-	-
Other financial liabilities				
-In EUR	1,566,756	-	1,588,310	-

*During 2019, the Bank has purchased software licenses for development of IT systems from the related party for the total amount of KZT 1,830,913 thousand (2018: KZT 1,248,165 thousand). These licenses were recognised as intangible assets.

During 2019 and 2018 transactions with entities controlled by the ultimate controlling owner included in the statement of profit or loss and other comprehensive income were as follows:

	2019 KZT'000	2018 KZT'000
Statement of profit or loss and other comprehensive income		
Interest expense		
Deposits and balances from banks		
- In EUR	(48,759)	-
	(48,759)	-
Current accounts and deposits from customers		
- In USD	(203,832)	-
	(203,832)	-
Other borrowed funds		
-In USD	(942,535)	(1,025,232)
-In EUR	(248,427)	(54,699)
	(1,190,962)	(1,079,931)
Debt securities issued		
- In KZT	(348,165)	-
	(348,165)	-
Net (loss)/gain on financial instruments at fair value through profit or loss		
-In USD	(5,707,395)	203,640
	(5,707,395)	203,640
General administrative expenses		
General administrative expenses	(4,899,616)	(4,644,629)
	(4,899,616)	(4,644,629)

37 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 2019:

KZT'000	FVTPL	FVOCI	Amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	-	56,942,175	56,942,175	56,942,175
Placements with banks	-	-	1,916,430	1,916,430	1,916,430
Loans to customers	-	-	332,943,998	332,943,998	339,904,666
Investments securities	-	20,771,135	-	20,771,135	20,771,135
Financial instruments at fair value through profit or loss	195,912	-	-	195,912	195,912
Other financial assets	-	-	3,020,898	3,020,898	3,020,898
	195,912	20,771,135	394,823,501	415,790,548	422,751,216
Financial instruments at fair value through profit or loss	2,714,267	-	-	2,714,267	2,714,267
Deposits and balances from banks	-	-	63,493,833	63,493,833	64,164,124
Current accounts and deposits from customers	-	-	172,202,147	172,202,147	173,319,423
Debt securities issued	-	-	40,447,348	40,447,348	40,022,407
Other borrowed funds	-	-	45,047,424	45,047,424	46,118,293
Certificates of deposit	-	-	19,834,825	19,834,825	19,834,825
Lease liabilities	-	-	3,426,397	3,426,397	3,426,397
Other financial liabilities	-	-	6,847,656	6,847,656	6,847,656
	2,714,267	-	351,299,630	354,013,897	356,447,392

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

KZT'000	FVTPL	FVOCI	Amortised cost	Total carrying amount	Fair value
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
Investments securities	-	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	-	-	2,682,215	2,682,215	2,682,215
	795,930	16,933,243	337,433,572	355,162,745	358,043,322
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
	301,083	-	305,778,982	306,080,065	309,943,941

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 22.55%, 21.44% and 36.58% are used for discounting future cash flows from credit cards, POS and cash loans, respectively;
- discount rates of 0.3%-1.5% and 1%-1.4% are used for discounting future cash flows from USD-denominated current accounts and deposits of corporate and retail customers, respectively, and 7.3%-8.4% and 7.3%-9.4% are used for discounting future cash flows from KZT-denominated deposits of corporate and retail customers, respectively;
- discount rates of 1.15%-1.25% are used for discounting future cash flows from USD and EUR-denominated deposits and balances from banks and other borrowed funds and 8.52% 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.
- *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:

	2019 KZT'000	2018 KZT'000
	Level 1	
Investments securities		
- pledged under sale and repurchase agreements	13,268,098	9,458,245
	Level 2	
- corporate bonds	7,503,037	7,474,998
	20,771,135	16,933,243
	2019 KZT'000	2018 KZT'000
	Level 2	
Financial instruments at fair value through profit or loss		
- derivative assets	195,912	795,930
	195,912	795,930
- derivative liabilities	2,714,267	301,083
	2,714,267	301,083

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 2019:

KZT'000	Level 2	Level 3	Total fair values	Total carrying amount
Assets				
Cash and cash equivalents	56,942,175	-	56,942,175	56,942,175
Placements with banks	1,916,430	-	1,916,430	1,916,430
Loans to retail customers	332,244,817	7,659,849	339,904,666	332,943,998
Other financial assets	3,020,898	-	3,020,898	3,020,898
Liabilities				
Deposits and balances from banks	64,164,124	-	64,164,124	63,493,833
Current accounts and deposits from customers	173,319,423	-	173,319,423	172,202,147
Debt securities issued	40,022,407	-	40,022,407	40,447,348
Other borrowed funds	46,118,293	-	46,118,293	45,047,424
Certificates of deposit	19,834,825	-	19,834,825	19,834,825
Other financial liabilities	6,847,656	-	6,847,656	6,847,656

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
Assets				
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	2,682,215	-	2,682,215	2,682,215
Liabilities				
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