



**Mortgage Organisation Kazakhstan**  
**Mortgage Company JSC**

Financial Statements  
for the year ended 31 December 2019

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## Independent Auditors' Report

### To the Board of Directors of Mortgage Organisation Kazakhstan Mortgage Company JSC

#### Opinion

We have audited the financial statements of Mortgage Organisation Kazakhstan Mortgage Company JSC (the "Company"), 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 Company 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 Company 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 consolidated 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.

«КПМГ Аудит» ЖШС, Қазақстанда тіркелген жауапкершілігі шектеулі серіктестік, Швейцария заңнамасы бойынша тіркелген KPMG International Cooperative ("KPMG International") қауымдастығына кіретін KPMG тәуелсіз фирмалар желісінің мүшесі

KPMG Audit LLC, a company incorporated under the Laws of the Republic of Kazakhstan, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.



**Expected credit losses (ECL) on loans to customers and finance lease receivables**

Please refer to the Notes 13 and 14 in the financial statements.

The key audit matter	How the matter was addressed in our audit
<p>Loans to customers and finance lease receivables represent more than 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 Company uses ECL valuation model, which requires management to apply professional judgement and to make assumptions related to the following key areas:</p> <ul style="list-style-type: none"> <li>- timely identification of significant increase in credit risk and default events related to loans to customers and finance lease receivables;</li> <li>- assessment of probability of default (PD) and loss given default (LGD);</li> <li>- expected cash flows forecast for loans to customers and finance lease receivables, which are credit-impaired.</li> </ul> <p>Due to the significant volume of loans to customers and finance lease receivables, ECL model and the related estimation uncertainty, this area is a key audit matter.</p>	<p>We analysed the key aspects of the Company's methodology and policies related to the ECL estimate for compliance with the requirements of IFRS 9, with the involvement of our own financial risks management specialists.</p> <p>To analyse the adequacy of professional judgement and assumptions made by the management in relation to the allowance for ECL estimate, we performed the following:</p> <ul style="list-style-type: none"> <li>- We tested design and operating effectiveness of controls over allocation of loans and finance lease receivables into credit risk stages.</li> <li>- For a sample of loans, for which the potential changes in ECL estimate may have a significant impact on the financial statements, we tested whether stages are correctly assigned by the Company by analysing financial and non-financial information, as well as assumptions and professional judgements, applied by the Company.</li> <li>- Regarding the mortgage loans issued to customers and finance lease receivables assigned to stages 1 and 2, for which ECL is assessed collectively, we tested the design and implementation of the related models, as well as agreeing input data to supporting documents on a sample basis.</li> </ul> <p>We also assessed whether the financial statements disclosures appropriately reflect the Company'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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company'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 Company'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 Company'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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

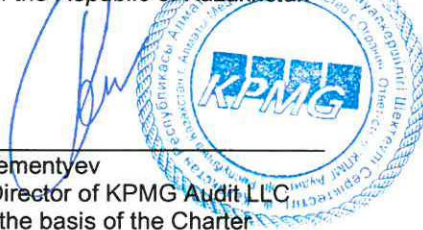
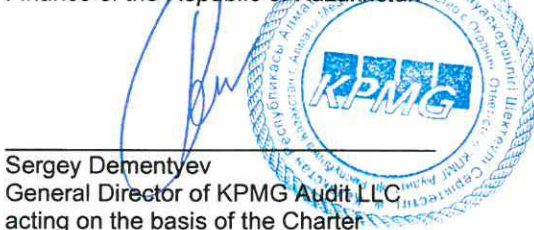
The engagement partner on the audit resulting in this independent auditors' report is:



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

**KPMG Audit LLC**

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



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



**Mortgage Organisation Kazakhstan Mortgage Company JSC**  
*Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2019*

	Note	2019 '000 KZT	2018 '000 KZT
Interest income calculated using the effective interest method		11,308,769	8,781,322
Other interest income		9,077,209	8,415,454
Interest expense		(7,939,522)	(7,381,735)
<b>Net interest income</b>	5	<b>12,446,456</b>	<b>9,815,041</b>
Fee and commission income		13,045	3,857
Fee and commission expense		(285,583)	(201,252)
<b>Net fee and commission expense</b>		<b>(272,538)</b>	<b>(197,395)</b>
Net foreign exchange loss		(4,719)	(4,418)
Net realised gain on investment securities measured at fair value through profit or loss		99,509	142,692
Other operating income		202,877	396,503
<b>Operating income</b>		<b>12,471,585</b>	<b>10,152,423</b>
Impairment gains/(losses) on debt financial instruments	6	882,225	(921,017)
Personnel expenses	7	(1,676,499)	(1,546,733)
General and administrative expenses	8	(1,715,606)	(1,442,533)
Net loss arising from derecognition of financial assets measured at amortised cost	24(c)	(42,594)	(427,226)
<b>Profit before income tax</b>		<b>9,919,111</b>	<b>5,814,914</b>
Income tax expense	9	(1,327,345)	(1,195,768)
<b>Profit and total comprehensive income for the year</b>		<b>8,591,766</b>	<b>4,619,146</b>
Basic and diluted earnings per share (in KZT)	23(e)	1,413	760

The financial statements as set out on pages 7 to 69 were approved by management on 28 February 2020 and were signed on its behalf by:

  
  
**A.B. Mukhamedzhanov**  
*Chairman of the Management Board*

  
**B.D. Sagimkulova**  
*Managing Director*

  
**A.T. Toktarkozha**  
*Chief Accountant*



*Mortgage Organisation Kazakhstan Mortgage Company JSC*  
*Statement of Financial Position as at 31 December 2019*

	Note	2019 ‘000 KZT	2018 ‘000 KZT
<b>ASSETS</b>			
Cash and cash equivalents	10	32,735,123	45,903,390
Placements with banks and other financial institutions	11	2,013,628	2,402,821
Investment securities:			
- measured at fair value through profit or loss	12	2,719,292	4,764,226
- measured at amortised cost	12	19,918,195	12,119,171
Loans to customers	13	62,663,247	43,066,563
Finance lease receivables	14	143,791,036	141,153,096
Current tax asset		1,135,442	2,045,362
Advances paid for acquisition and construction of real estate	15	581,978	972,687
Assets to be transferred under finance lease agreements	16	2,274,682	5,180,554
Construction-in-progress	17	1,534,061	5,643,479
Property, plant and equipment		1,968,153	2,129,083
Investment property		187,421	647,704
Other assets	18	1,183,936	1,297,734
<b>Total assets</b>		<b>272,706,194</b>	<b>267,325,870</b>
<b>LIABILITIES</b>			
Debt securities issued	19	67,683,718	66,920,124
Other borrowed funds	20	33,389,460	31,320,645
Deferred income	21	98,052,131	102,126,287
Deferred tax liability	9	1,870,669	1,604,292
Other liabilities	22	2,617,680	3,467,988
<b>Total liabilities</b>		<b>203,613,658</b>	<b>205,439,336</b>
<b>EQUITY</b>	23		
Share capital		63,313,800	63,313,800
Share premium		12,661	12,661
Treasury shares		(2,597,522)	(2,597,522)
Additional paid-in capital		5,822,856	5,822,856
Reserve capital		2,734,447	2,734,447
Accumulated losses		(193,706)	(7,399,708)
<b>Total equity</b>		<b>69,092,536</b>	<b>61,886,534</b>
<b>Total equity and liabilities</b>		<b>272,706,194</b>	<b>267,325,870</b>

*Mortgage Organisation Kazakhstan Mortgage Company JSC*  
Statement of Cash Flows for the year ended 31 December 2019

	2019 ‘000 KZT	2018 ‘000 KZT
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Interest receipts	15,384,760	13,054,649
Interest payments	(6,501,788)	(4,893,531)
Fee and commission receipts	12,870	3,874
Fee and commission payments	(255,471)	(115,565)
Other income receipts	369,779	291,068
Personnel expenses paid	(1,635,305)	(1,547,831)
General and administrative expenses payments	(1,322,393)	(1,265,085)
	<b>6,052,452</b>	<b>5,527,579</b>
<b>(Increase)/decrease in operating assets</b>		
Placements with banks and other financial institutions	459,270	3,654,403
Financial assets measured at fair value through profit or loss	2,003,151	1,846
Loans to customers	(19,042,721)	7,537,021
Assets to be transferred under finance lease agreements	(1,889,871)	(1,085,272)
Construction-in-progress	(666,445)	(6,430,219)
Finance lease receivables	6,449,271	5,378,036
Other assets	761,708	588,875
<b>Increase/(decrease) in operating liabilities</b>		
Grants	(340,297)	(84,025)
Other liabilities	(163,128)	(4,850,022)
<b>Net cash (used in)/from operating activities before income tax paid</b>	<b>(6,376,610)</b>	<b>10,238,222</b>
Income tax paid	(37,775)	(33,067)
<b>Cash flows (used in)/from operating activities</b>	<b>(6,414,385)</b>	<b>10,205,155</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of investment securities measured at amortised cost	(86,481,398)	(10,157,463)
Repayment of investment securities measured at amortised cost	79,500,000	3,218,541
Acquisition of property, plant and equipment and intangible assets	(245,843)	(95,332)
Proceeds from sale of investment property	297,954	71,059
<b>Cash flows used in investing activities</b>	<b>(6,929,287)</b>	<b>(6,963,195)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repurchase/redemption of debt securities issued	(10,000,000)	(7,920,500)
Proceeds from issue of debt securities	11,425,002	31,356,189
Repayment of other borrowed funds	-	(1,621,372)
Dividends paid	(1,385,764)	(1,108,575)
<b>Cash flows from financing activities</b>	<b>39,238</b>	<b>20,705,742</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(13,304,434)</b>	<b>23,947,702</b>
Effect of changes in expected credit losses on cash and cash equivalents	139,339	71,805
Effect of movements in exchange rates on cash and cash equivalents	(3,172)	83,687
Cash and cash equivalents at the beginning of the year	45,903,390	21,800,196
<b>Cash and cash equivalents as at the end of year (Note 10)</b>	<b>32,735,123</b>	<b>45,903,390</b>

*Mortgage Organisation Kazakhstan Mortgage Company JSC*  
*Statement of Changes in Equity for the year ended 31 December 2019*

<b>‘000 KZT</b>	<b>Share capital</b>	<b>Share premium</b>	<b>Treasury shares</b>	<b>Additional paid-in capital</b>	<b>Reserve capital</b>	<b>Accumulated losses</b>	<b>Total</b>
<b>Balance as at 1 January 2018</b>	<b>63,313,800</b>	<b>12,661</b>	<b>(2,597,522)</b>	<b>5,822,856</b>	<b>2,734,447</b>	<b>(10,910,279)</b>	<b>58,375,963</b>
<b>Total comprehensive income and profit for the year</b>							
Profit and comprehensive income for the year	-	-	-	-	-	4,619,146	4,619,146
<b>Transactions with owners, recorded directly in equity</b>							
Dividends declared (Note 23(b))	-	-	-	-	-	(1,108,575)	(1,108,575)
<b>Balance as at 31 December 2018</b>	<b>63,313,800</b>	<b>12,661</b>	<b>(2,597,522)</b>	<b>5,822,856</b>	<b>2,734,447</b>	<b>(7,399,708)</b>	<b>61,886,534</b>

<b>‘000 KZT</b>	<b>Share capital</b>	<b>Share premium</b>	<b>Treasury shares</b>	<b>Additional paid-in capital</b>	<b>Reserve capital</b>	<b>Accumulated losses</b>	<b>Total</b>
<b>Balance as at 1 January 2019</b>	<b>63,313,800</b>	<b>12,661</b>	<b>(2,597,522)</b>	<b>5,822,856</b>	<b>2,734,447</b>	<b>(7,399,708)</b>	<b>61,886,534</b>
<b>Total comprehensive income and profit for the year</b>							
Profit and comprehensive income for the year	-	-	-	-	-	8,591,766	8,591,766
<b>Transactions with owners, recorded directly in equity</b>							
Dividends declared (Note 23(b))	-	-	-	-	-	(1,385,764)	(1,385,764)
<b>Balance as at 31 December 2019</b>	<b>63,313,800</b>	<b>12,661</b>	<b>(2,597,522)</b>	<b>5,822,856</b>	<b>2,734,447</b>	<b>(193,706)</b>	<b>69,092,536</b>

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements.



## **1 Reporting entity**

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

Mortgage Organisation Kazakhstan Mortgage Company JSC (the “Company”) was established on 29 December 2000 in accordance with the Decree No.469 of the National Bank of the Republic of Kazakhstan (the “NBRK”) dated 20 December 2000. The principal activity of the Company is acquisition of rights on mortgage loans, finance leasing and issuance of mortgage loans in accordance with the license of regulatory authorities. The Company may additionally perform trust, factoring, forfeiting and leasing operations.

On 12 April 2010 the Company obtained a banking license No.5.1.69 to carry out banking lending transactions.

The activities of the Company are regulated by the National Bank of the Republic of Kazakhstan.

The Company’s registered office is: 98, Karasay Batyr Street, Almaty, Republic of Kazakhstan, A05E3B4. On 26 October 2018 the Company’s Board of Directors made decision to close the Company representative office in the city of Astana beginning from 1 January 2019; also according to the Order No.0008 dated 3 January 2019, the Department of Justice of Yessil District of the city of Astana, the Company’s representative office in the city of Astana was deregistered.

### **(b) Shareholders**

As at 31 December 2019 and 31 December 2018 the Company is wholly-owned by the National Management Holding Baiterek JSC (hereinafter the “Parent Company”). The party with ultimate control over the Company is the Government of the Republic of Kazakhstan.

### **(c) Kazakhstan business environment**

The Company’s operations are primarily located in Kazakhstan. Consequently, the Company is exposed to the economic and financial markets of the Republic of Kazakhstan which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Kazakhstan.

The financial statements reflect management’s assessment of the impact of the Kazakhstan business environment on the operations and the financial position of the Company. The future business environment may differ from management’s assessment.

## **2 Basis of accounting**

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

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

This is the first set of the Company’s annual financial statements where IFRS 16 *Leases* has been applied.

### **(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.

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

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

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

## **Judgements**

Information about critical judgments in applying accounting policies, that significantly affected the amounts reported in the financial statements is described in the following notes:

- classification of financial assets: assessment of the business model within which the assets are held, and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding — Note 3 (e) (i).
- establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information in the assessment of ECL, and selection and approval models used to measure ECL - Note 4

## **Assumptions and estimation uncertainty**

Information about assumptions and estimation uncertainties that have a significant risk resulting in a material adjustment to the financial statements for the years ended December 31, 2019 and 2018 are disclosed in the following notes:

- impairment of financial instruments: determining inputs into the ECL measurement model, including the incorporation of forward-looking information - Note 4.
- impairment of loans to customers and finance lease receivables - Note 6, Note 13, Note 14.
- estimates of fair value of financial assets and liabilities - Note 28.

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

The functional currency of the Company 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.

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

All financial information presented in KZT has been rounded to the nearest thousand, except when otherwise indicated.

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

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

The Company has initially adopted IFRS 16 *Leases* from 1 January 2019.

A number of new pronouncements are also effective from 1 January 2019 but they do not have a material effect on the Company's financial statements.

### **Definition of a lease**

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining Whether an Arrangement contains a Lease*. The Company now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It 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.

### **As a lessee**

The Company leases assets, including properties.

As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership for underlying asset.



However, the Company has elected not to recognise right-of-use assets and lease liabilities for some leases of low-value assets. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

#### ***Transition***

The Company used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17, i.e. applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.

#### **As a lessor**

The accounting policies applicable to the Company as a lessor are not different from those under IAS 17.

The Company is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor.

#### **Impacts on financial statements**

##### ***Impacts on transition***

On transition to IFRS 16, the Company has no items to recognise additional right-of-use assets.

### **3 Significant accounting policies**

Except for the changes disclosed in Note 2(e), the Company has consistently applied the following accounting policies to all periods presented in these financial statements.

#### **(a) Foreign currency**

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates 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 period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items 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) 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, 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 Company the management of short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

#### **(c) Interest income and expense**

##### ***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 Company 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. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

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

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

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

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 includes interest expense on financial liabilities.

***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 includes interest expense on financial liabilities measured at amortised cost.



**(d) Fee and commissions**

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 (see Note 3(c)).

Other fee and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

A contract with a customer that results in a recognised financial instrument in the Company'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 Company 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.

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

the stated policies and objectives for the portfolio and the operation of those policies in practice, In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;

- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

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

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, 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 a profit margin.

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

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

#### **Reclassification**

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

### **Financial liabilities**

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

#### **Reclassification**

Financial liabilities are not reclassified subsequent to their initial recognition.

### **(ii) Derecognition**

#### **Financial assets**

The Company 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 or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

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, as explained in Note 3(e)(i). Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognised as a separate asset or liability.

The Company 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 Company 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 Company 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 Company 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 Company 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, e.g. changes in interest rates initiated by the Company due to changes in the NBRK key rate, if the loan agreement entitles the Company to do so.



The Company 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 Company 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 Company analogises to the guidance on the derecognition of financial liabilities.

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

- the change in the currency of a financial asset;
- change in collateral or other credit enhancement.

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 Company 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 Company 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 Company 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(c)).

For fixed-rate loans, where the borrower has an option to prepay the loan at par without significant penalty, the Company 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 Company 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 Company 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. The Company 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 feature;
- change 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**

See also Note 4.

The Company 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;
- finance lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

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

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

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

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

**Measurement of ECL**

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

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

See also Note 4.



### ***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 (see Note 3(e)(iii)) 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 Company assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI, and net investments in finance leases are credit-impaired (are referred to as 'Stage 3' financial assets). 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 Company on terms that the Company 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 retail loan that is overdue for 90 days or more is considered credit-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 and financial guarantee contracts*: 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 Company 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 Company 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. This assessment is carried out at the individual asset level.

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 Company's procedures for recovery of amounts due.

### **Objective evidence of impairment**

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

Objective evidence that financial assets were impaired included:

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

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be 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, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

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

### **Individual or collective assessment**

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

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



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

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

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

### **Measurement of impairment**

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

### **Reversal of impairment**

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

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

### **Presentation**

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

Impairment losses on available-for-sale investment securities were recognised by transferring the cumulative loss that is recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss.

### **Write-off**

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

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

'Loans to 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.



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

Loans to customers included those classified as loans and receivables.

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

**(g) Investment securities**

The 'debt 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 and equity investment securities mandatorily measured at FVTPL or designated as at FVTPL (see Note 3(e)(i)); these are measured at fair value with changes recognised immediately in profit or loss.

**(h) Deposits, debt securities issued and subordinated liabilities**

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

**(i) Repurchase and reverse 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 other borrowed funds. 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.

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repurchase agreements within cash and cash equivalents. The difference between the purchase and resale prices represents interest income and is recognised in profit or loss over the term of the repo agreement using the effective interest method. If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

**(j) Offsetting**

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. The Company currently has a legally enforceable right to set off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the Company and all counterparties.

**(k) Leases**

***Policy applicable from 1 January 2019***

At inception of a contract, the Company 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 Company 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 Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.



The Company 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 Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company 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 Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

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

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

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 Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company 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 Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

**(ii) As a lessor**

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

When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.



When the Company is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Company applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Company applies IFRS 15 to allocate the consideration in the contract. The Company applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Company further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Company recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other revenue'.

Generally, the accounting policies applicable to the Company as a lessor in the comparative period were not different from IFRS 16.

***Policy applicable before 1 January 2019***

For contracts entered into before 1 January 2019, the Company 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;
- 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 Company 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 Company'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.

**(ii) As a lessor**

When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

**(I) Foreclosed assets**

Foreclosed assets are measured at the lower of cost or net realisable value. The cost of foreclosed assets is based on the specific identification principle, and recorded at net book value of the underlying loan or lease base at foreclosure date. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.



**(m) Property, plant and equipment**

**(i) Owned assets**

Items of property, plant 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.

**(ii) Depreciation**

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	8-100 years;
- Computer equipment	2-10 years;
- Vehicles	5-7 years;
- Other assets	3-20 years.

**(n) 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 year for programme software to 20 years for licenses.

**(o) Investment property**

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment property is stated at cost less accumulated depreciation and impairment losses.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

**(p) Assets held for sale**

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Company's accounting policies. Such assets, or disposal group, are generally measured at the lower of their carrying amount and fair value less cost to sell.

**(q) Inventories**

Inventories include assets to be transferred under finance lease agreements and other inventory. Assets to be transferred under finance lease are real estate objects acquired by the Company and transferred to the lessees once the title of ownership on objects is obtained. Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

**(r) Impairment of non-financial assets**

Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised if the carrying amount of an asset or its related CGU exceeds its estimated recoverable amount.

All impairment losses in respect of non-financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**(s) Government grants**

Government grants are assistance by the Government, Government agencies and state-owned entities in the form of transfers of resources to the Company in return for past or future compliance with certain conditions relating to the operating activities of the Company. Government grants are not recognised until there is reasonable assurance that the Company will comply with the conditions attached to them and the grants will be received, provided that there are terms that may require repayment. The benefit of a government loan at a below-market rate of interest is treated as a government grant. The benefit of the below-market rate of interest is measured as the difference between the initial carrying value of the loan and the proceeds received.

Government grants that compensate the Company for expenses incurred are recognised in profit or loss as expenses on a systematic basis in the same periods in which the expenses are recognised.

**(t) 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) Repurchase of share capital**

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a decrease in equity.

**(iii) Dividends**

The ability of the Company to declare and pay dividends is subject to the current legislation of the Republic of Kazakhstan.

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

**(u) 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**

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustments 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 are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits are considered. 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; such reductions are reversed when the probability of future taxable profits improves. Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is 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.

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

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In determining the amount of current and deferred tax the Company takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Company believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

**(v) Segment reporting**

An operating segment is a component of the Company 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 Company); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

**(w) New standards and interpretations not yet adopted**

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

The following amended standards and interpretations are not expected to have a significant impact on the Company's standalone 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 Company's exposure to financial risks. For information on the Company's financial risk management framework, see Note 24.

### **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 Company 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 Company'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).

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

The Company 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. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors 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. The monitoring typically involves use of the following data.

<b>Corporate exposure</b>	<b>All exposures (corporate and retail exposures)</b>
<ul style="list-style-type: none"> <li>• Information obtained during periodic review of borrower files – e.g. audited financial statements, management accounts, budgets and projections.</li> <li>• Data from credit reference agencies, press articles, changes in external credit ratings;</li> <li>• Quoted bond and credit default swap (CDS) prices for the issuer where available;</li> <li>• Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities.</li> </ul>	<ul style="list-style-type: none"> <li>• Payment record – this includes overdue status.</li> <li>• Requests for and granting of forbearance;</li> <li>• Existing and forecast changes in business, financial and economic conditions.</li> </ul>

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

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Company collects performance and default information about its credit risk exposures analysed by jurisdiction or region, type of product and borrower as well as by credit risk grading.



The Company 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.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicator is likely to be GDP growth.

The Company uses expert judgment in assessment of forward-looking information. This assessment is based also on external information (see discussion below on incorporation of forward-looking information). The Company then uses these forecasts to adjust its estimates of PDs.

*Determining whether credit risk has increased significantly*

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

Using its expert credit judgement and, where possible, relevant historical experience, the Company may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Company considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. 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.

*Definition of default*

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

- there is a delay in payments of 90 (ninety) days and more as at the reporting date;
- there is a delay in payments of 7 (seven) days and more on interbank claims and securities as at the reporting date;
- the financial instrument has been restructured due to the borrower's financial difficulties, which resulted in decrease in the net present value of the operating cash flows by 10% and more;
- according to information from the publicly available information sources the counterparty is in the state of bankruptcy;
- the external credit rating of the financial instrument/counterparty is CC- (hereinafter according to the rating scales of Standard&Poor's, Moody's, etc.);
- at the current reporting date the Company has defaulted on another financial instrument of the counterparty;
- other indicators which evidence the counterparty's impaired ability to fulfil its financial liabilities to the Company and deterioration of the state of financial asset/increased probability of fulfilment by the Company of the contingent liabilities.

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

- qualitative – e.g. breaches of covenant;
- quantitative – e.g. overdue status and non-payment of another obligation of the same issuer to the Company; and
- based on data developed internally and obtained from external sources.

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 Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Company uses expert judgment in assessment of forward-looking information. This assessment is based also on external information. External information may include economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Company operates, such as the National Bank of the Republic of Kazakhstan and selected private sector and academic forecasters.

### *Modified financial assets*

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions and other factors not related to a current or potential credit deterioration of the borrower. 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 and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects 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 Company renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Company's forbearance policy, loan forbearance is granted on a selective basis if the customer 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. Both retail and corporate loans are subject to the forbearance policy.

For financial assets modified as part of the Company's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Company's ability to collect interest and principal and the Company's previous experience of similar forbearance action. As part of this process, the Company evaluates the counteragent'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(c)(iv)) /in default. 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 ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- 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 Company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD.

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

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Company 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 risk management purposes, the Company considers a longer period. The maximum contractual period extends to the date at which the Company has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- instrument type;
- credit risk gradings;
- collateral type;
- date of initial recognition;
- remaining term to maturity;
- financing program.

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

For portfolios in respect of which the Company 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.

‘000 KZT	Exposure	External benchmarks used	
		PD	LGD
Cash and cash equivalents	32,735,123	Moody's default study Probability of default model	For local credit exposures
Placements with banks and other financial institutions	2,031,628		LGD statistics is based on
Investment securities measured at amortised cost	19,918,195		recovery after defaults of banks and financial institutions in Kazakhstan
Other financial assets	46,091		

## 5 Net interest income

	2019 ‘000 KZT	2018 ‘000 KZT
<b>Interest income calculated using the effective interest method</b>		
<b>Financial assets measured at amortised cost</b>		
Loans to customers	6,145,347	5,154,079
Investment securities measured at amortised cost	2,137,620	1,404,823
Reverse repurchase agreements	1,222,915	914,757
Placements with banks and other financial institutions	1,209,255	362,110
Cash and cash equivalents	412,375	869,257
Other assets	181,257	76,296
	<b>11,308,769</b>	<b>8,781,322</b>
<b>Other interest income</b>		
Finance lease receivables	8,804,157	8,017,419
Investment securities measured at fair value through profit or loss	273,052	398,035
	<b>9,077,209</b>	<b>8,415,454</b>
<b>Interest expense</b>		
Debt securities issued	(5,662,460)	(5,039,926)
Other borrowed funds	(2,276,541)	(2,310,921)
Recognition of discount on long-term receivables	(521)	(30,888)
	<b>(7,939,522)</b>	<b>(7,381,735)</b>
<b>Net interest income</b>	<b>12,446,456</b>	<b>9,815,041</b>

Included within various line items under interest income for the year ended 31 December 2019 is a total of KZT 214,191 thousand (2018: KZT 402,815 thousand) accrued on impaired financial assets allocated to Stage 3 in 2019. Interest income on finance lease receivables for the period ended 31 December 2019 comprises amortisation of deferred income of KZT 4,074,156 thousand (2018: KZT 3,758,780 thousand) (Note 21).

## 6 Income/(losses) on impairment of debt financial instruments

	2019 ‘000 KZT	2018 ‘000 KZT
Finance lease receivables (Note 14)	(183,789)	(354,201)
Cash and cash equivalents (Note 10)	139,339	71,805
Loans to customers (Note 13)	297,210	(218,974)
Placements with banks and other financial institutions (Note 11)	68,117	(29,770)
Investment securities measured at amortised cost (Note 12)	(20,447)	88,477
Other assets (Note 18)	581,795	(478,354)
	<b>882,225</b>	<b>(921,017)</b>

## 7 Personnel expenses

	2019 ‘000 KZT	2018 ‘000 KZT
Employee compensation	1,533,838	1,416,137
Salary related taxes	142,661	130,596
	<b>1,676,499</b>	<b>1,546,733</b>



## 8 General and administrative expenses

	2019 ‘000 KZT	2018 ‘000 KZT
Depreciation and amortisation	275,432	144,860
Taxes other than income tax	250,609	276,622
Repair and maintenance of property, plant and equipment and intangible assets	179,393	82,932
Land-use planning expenses	161,588	30,532
Advertising and marketing	150,972	141,292
Outsourcing	137,970	97,569
Consulting services	68,119	20,999
Insurance expenses	67,362	59,194
Utilities	52,384	160,364
Occupancy	50,330	51,673
Security	39,176	70,097
Business travel	37,200	34,477
Communication services	35,420	29,319
Medical care expenses	31,624	29,000
Auditor's fee	26,120	20,147
Employee training and advanced training - external	21,934	21,870
Board of Directors expenses	20,553	32,684
Supplies	19,936	10,625
Information services	18,392	15,304
Stationery and printing	2,183	1,648
State Center for Pension Payments' services expenses	1,934	8,740
Other	66,975	102,030
	<b>1,715,606</b>	<b>1,442,533</b>

## 9 Income tax expense

	2019 ‘000 KZT	2018 ‘000 KZT
Current year tax expense	(1,058,141)	(787,798)
Underprovided in prior years	(2,827)	(113,631)
Movement in deferred tax assets and liabilities due to origination and reversal of temporary differences and movement in valuation allowance	(266,377)	(294,339)
<b>Total income tax expense</b>	<b>(1,327,345)</b>	<b>(1,195,768)</b>

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

### Reconciliation of effective tax rate for the year ended 31 December:

	2019 ‘000 KZT	%	2018 ‘000 KZT	%
<b>Profit before income tax</b>	<b>9,919,111</b>	<b>100</b>	<b>5,814,914</b>	<b>100</b>
Income tax at the applicable tax rate	(1,983,822)	(20)	(1,162,983)	(20)
Non-taxable interest income on securities	482,130	5	356,437	6
Non-taxable income on reversal of allowance / (non-deductible impairment losses)	117,003	1	(186,396)	(3)
Other non-deductible expenses	(74,981)	(1)	(89,195)	(2)
Change in deferred tax asset for the previous year	135,152	1	-	-
Underprovided in prior periods	(2,827)	-	(113,631)	(2)
	<b>(1,327,345)</b>	<b>(14)</b>	<b>(1,195,768)</b>	<b>(21)</b>

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to deferred tax assets as at 31 December 2019 and 31 December 2018, respectively.

### Deferred tax assets and liabilities

Movements in temporary differences for the year ended 31 December 2019 are presented as follows:

'000 KZT	1 January 2019	Recognised in profit or loss	31 December 2019
Property, plant and equipment	(76,183)	68,921	(7,262)
Other assets	19,357	47,564	66,921
Loans issued	41,580	28,787	70,367
Placements		49,773	49,773
Other borrowed funds	(22,052,229)	413,763	(21,638,466)
Deferred income	20,425,257	(814,831)	19,610,426
Issued bonds	-	(62,439)	(62,439)
Other liabilities	37,926	2,085	40,011
Tax loss carry-forwards	370,994	-	370,994
	<b>(1,233,298)</b>	<b>(266,377)</b>	<b>(1,499,675)</b>
Unrecognised deferred tax asset	(370,994)	-	(370,994)
	<b>(1,604,292)</b>	<b>(266,377)</b>	<b>(1,870,669)</b>

Movements in temporary differences for the year ended 31 December 2018 are presented as follows:

'000 KZT	1 January 2018	Recognised in profit or loss	31 December 2018
Property, plant and equipment	(72,970)	(3,213)	(76,183)
Available-for-sale financial assets	3,299	(3,299)	-
Other assets	8,072	11,285	19,357
Loans issued	-	41,580	41,580
Other borrowed funds	(22,674,344)	622,115	(22,052,229)
Deferred income	21,378,684	(953,427)	20,425,257
Other liabilities	47,306	(9,380)	37,926
Tax loss carry-forwards	370,994	-	370,994
	<b>(938,959)</b>	<b>(294,339)</b>	<b>(1,233,298)</b>
Unrecognised deferred tax asset	(370,994)	-	(370,994)
	<b>(1,309,953)</b>	<b>(294,339)</b>	<b>(1,604,292)</b>

## 10 Cash and cash equivalents

'000 KZT

	31 December 2019		
	12-month expected credit losses (ECL)	Lifetime ECL of assets not credit-impaired	Lifetime ECL for credit- impaired assets
			Total
Nostro accounts with the NBRK	437,861	-	-
Nostro accounts with other banks			437,861
- rated BBB-	2,824,961	-	-
- rated BBB+	750,132	-	-
- rated BB+	83,029	-	-
- rated BB-	19,116	-	-
- rated B+	386	-	-
- rated B	27,565	-	-
- rated B-	5,443	-	-
- not rated	-	-	-
		2,066,083	2,066,083
<b>Total Nostro accounts with banks before impairment allowance</b>	<b>4,148,493</b>	<b>-</b>	<b>2,066,083</b>
<b>Loss allowance</b>	<b>(6,804)</b>	<b>-</b>	<b>(2,066,083)</b>
<b>Reverse repurchase agreements</b>			<b>(2,072,887)</b>
- rated from AAA- to AAA+	4,206,527	-	-
- rated from BBB- to BBB+	24,386,907	-	-
<b>Total cash and cash equivalents</b>	<b>32,735,123</b>	<b>-</b>	<b>32,735,123</b>



‘000 KZT

	31 December 2018			
	12-month expected credit losses (ECL)	Lifetime ECL of assets not credit-impaired	Lifetime ECL for credit- impaired assets	Total
<b>Nostro accounts with the NBRK</b>	179,831	-	-	179,831
<b>Nostro accounts with other banks</b>				
- rated BBB-	11,937,932	-	-	11,937,932
- rated BB+	479	-	-	479
- rated BB	4,428,405	-	-	4,428,405
- rated BB-	7,534,735	-	-	7,534,735
- rated B	195,575	-	-	195,575
- rated B-	221	-	-	221
-not rated	-	-	2,139,533	2,139,533
<b>Total Nostro accounts with banks before impairment allowance</b>	<b>24,277,178</b>	<b>-</b>	<b>2,139,533</b>	<b>26,416,711</b>
<b>Loss allowance</b>	<b>(101,458)</b>	<b>-</b>	<b>(2,110,826)</b>	<b>(2,212,284)</b>
<b>Reverse repurchase agreements</b>				
- rated from BBB- to BBB+	21,698,963	-	-	21,698,963
<b>Total cash and cash equivalents</b>	<b>45,874,683</b>	<b>-</b>	<b>28,707</b>	<b>45,903,390</b>

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

On 27 December 2016 the NBRK revoked the licence of Kazinvestbank JSC (KIB) citing its repeated failures to fulfil its payment operation liabilities. As at 31 December 2019 the Company considers the nostro account held with KIB for the total amount of KZT 2,066,083 thousand fully impaired as based on its understanding of the KIB’s current position and credit risk (31 December 2018: KZT 2,106,153 thousand).

As at 31 December 2019 the Company has no banks (2018: two banks), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2018 is KZT 19,442,212 thousand.

In 2019, the Company entered into reverse repurchase agreements with counterparties at Kazakhstan Stock Exchange (KASE). These transactions are collateralised with the treasury bills of the Ministry of Finance of the Republic of Kazakhstan, Eurasian Development Bank, and Baspana Mortgage Organisation JSC and with notes of the NBRK and International Finance Corporation. As at 31 December 2019 the fair value of financial assets collateralising reverse repurchase agreements is KZT 29,653,837 thousand (31 December 2018: KZT 22,655,276 thousand).

#### Analysis of movements in loss allowance

‘000 KZT

	Year ended 31 December 2019			
	12-month expected credit losses (ECL)	Lifetime ECL of assets not credit-impaired	Lifetime ECL for credit- impaired assets	Total
Balance at 1 January	101,368	-	2,110,916	2,212,284
Net recovery of loss allowance	(94,506)	-	(44,833)	(139,339)
Foreign exchange and other movements	(58)	-	-	(58)
<b>Impairment allowance as at the end of the period</b>	<b>6,804</b>	<b>-</b>	<b>2,066,083</b>	<b>2,072,887</b>

'000 KZT	Year ended 31 December 2018		
	12-month expected credit losses (ECL)	Lifetime ECL of assets not credit-impaired	Lifetime ECL for credit- impaired assets
Balance at 1 January	140,770	-	2,141,045
Transfer to Stage 3	(45)	-	45
Net recovery of loss allowance	(41,631)	-	(30,174)
Foreign exchange and other movements	2,274	-	-
<b>Impairment allowance as at the end of the period</b>	<b>101,368</b>	<b>-</b>	<b>2,110,916</b>
			<b>2,212,284</b>

## 11 Placements with banks and other financial institutions

'000 KZT	31 December 2019	31 December 2018
	12-month expected credit losses (ECL)	12-month expected credit losses (ECL)
- rated BBB+	564,716	-
- rated BB+	1,452,694	-
- rated BB	-	48,221
- rated B+	-	2,426,499
	<b>2,017,410</b>	<b>2,474,720</b>
<b>Loss allowance</b>	<b>(3,782)</b>	<b>(71,899)</b>
<b>Total placements with banks and other financial institutions</b>	<b>2,013,628</b>	<b>2,402,821</b>

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

None of the balances of placements are past due.

As at 31 December 2019 the Company placed term deposits with annual interest rates of 8.50%, 8.60% and 9.00% (2018: 13.00%), which have maturities in January, February and September 2020, respectively (2018: April 2019).

As at 31 December 2019 the Company has no banks (2018: no banks), whose balances exceed 10% of equity.

### Analysis of movements in loss allowance

	31 December 2019 '000 KZT	31 December 2018 '000 KZT
<b>12-month expected credit losses</b>		
Balance at 1 January	(71,899)	(42,129)
Net recovery/charge of loss allowance	71,899	(29,770)
New financial assets originated or purchased	(3,782)	-
<b>Loss allowance as at the end of the period</b>	<b>(3,782)</b>	<b>(71,899)</b>

## 12 Investment securities

	31 December 2019 '000 KZT	31 December 2018 '000 KZT
<b>Investment securities measured at fair value through profit or loss</b>		
Corporate bonds rated from BB- to BB+	-	2,052,732
Corporate bonds rated from B- to B+	1,785,702	1,745,312
Corporate bonds not rated	933,590	966,182
	<b>2,719,292</b>	<b>4,764,226</b>



‘000 KZT

‘000 KZT	31 December 2019			Total
	12-month expected credit losses (ECL)	Lifetime ECL of assets not credit- impaired	Lifetime ECL for credit-impaired assets	
<i>Investment securities measured at amortised cost</i>				
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	1,494,714	-	-	1,494,714
Notes of the National Bank of the RK	7,457,807	-	-	7,457,807
- rated from B+ to B-	10,988,970	-	-	10,988,970
-not rated	-	-	2,102,726	2,102,726
	19,941,491	-	2,102,726	22,044,217
Loss allowance	(23,296)	-	(2,102,726)	(2,126,022)
Carrying amount	19,918,195	-	-	19,918,195

‘000 KZT

‘000 KZT	31 December 2018			Total
	12-month expected credit losses (ECL)	Lifetime ECL of assets not credit- impaired	Lifetime ECL for credit-impaired assets	
<i>Investment securities measured at amortised cost</i>				
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	1,501,776	-	-	1,501,776
Rated from B+ to B- -not rated	10,620,244	-	-	10,620,244
	-	-	2,102,726	2,102,726
	12,122,020	-	2,102,726	14,224,746
Loss allowance	(2,849)	-	(2,102,726)	(2,105,575)
Carrying amount	12,119,171	-	-	12,119,171

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

In April 2019 the Company acquired coupon bonds issued by Bank CenterCredit JSC for the amount of KZT 368,266 thousand.

In July 2019, the Company redeemed coupon bonds issued by Kaspi Bank JSC for the amount of KZT 2,000,000 thousand.

During 2019, the Company acquired notes of the National Bank of the RK for total amount of KZT 86,113,432 thousand and redeemed notes for total amount of KZT 79,500,000 thousand.

Corporate bonds are interest-bearing securities, issued by local companies and banks. These securities are freely tradable on Kazakhstan Stock Exchange (“KASE”), except for the bonds of Kazakhstan Kagazy JSC (“KK”) and “Corporation “APK Invest” LLC (“APK”) with gross amounts of KZT 1,117,796 thousand and KZT 984,930 thousand, respectively (31 December 2018: bonds of KK and APK with gross amounts of KZT 1,117,796 thousand and KZT 984,930 thousand, respectively). Bonds of KK and APK were excluded from trading on KASE on 13 November 2015 and 4 July 2017, respectively.

As at 31 December 2019 and 2018 the Company considers bonds fully impaired as based on its understanding of the issuers’ financial positions it does not expect probable future cash flows from the assets.

### Analysis of movements in loss allowance

Year ended 31 December 2019			
	12-month expected credit losses (ECL)	Lifetime ECL for credit- impaired assets	'000 KZT
Balance at 1 January	2,849	2,102,726	2,105,575
Net remeasurement of loss allowance,	(191)	-	(191)
New financial assets originated or purchased	20,638	-	20,638
<b>Loss allowance as at the end of the period</b>	<b>23,296</b>	<b>2,102,726</b>	<b>2,126,022</b>

Year ended 31 December 2018			
	12-month expected credit losses (ECL)	Lifetime ECL for credit- impaired assets	'000 KZT
Balance at 1 January	19,842	2,668,610	2,688,452
Net recovery of impairment allowance	(16,993)	(71,484)	(88,477)
Financial assets that have been derecognised (written-off)	-	(494,400)	(494,400)
<b>Impairment allowance as at the end of the period</b>	<b>2,849</b>	<b>2,102,726</b>	<b>2,105,575</b>

## 13 Loans to customers

Loans to customers comprise mortgage loans purchased from commercial banks and credit institutions of the Republic of Kazakhstan and mortgage loans issued to individuals. The loan portfolio comprises KZT- and USD-denominated mortgage loans extended to individuals, citizens of the Republic of Kazakhstan.

	2019 '000 KZT	2018 '000 KZT
Gross mortgage loans to customers	66,981,591	47,753,274
Impairment allowance	(4,318,344)	(4,686,711)
<b>Net loans to customers</b>	<b>62,663,247</b>	<b>43,066,563</b>

During the year ended 31 December 2019 the Company acquired mortgage loan portfolios from two commercial banks (2018: acquired mortgage loan portfolios from one commercial bank). The loans acquired during 2019 were recognised at fair value totalling KZT 23,746,429 thousand (2018: KZT 4,940,099 thousand).

### (a) Credit quality of mortgage loans

The following table provides information on the credit quality of mortgage loans to customers as at 31 December 2019 and 31 December 2018:

31 December 2019					
'000 KZT	12-month expected credit losses (ECL)	Lifetime ECL of assets not credit-impaired	Lifetime ECL for credit- impaired assets	Acquired assets credit-impaired on initial recognition	Total
- not overdue	58,132,344	667,173	1,306,676	144,605	60,250,798
- overdue less than 30 days	1,796,065	-	225,443	1,475	2,022,983
- overdue 30-89 days	-	847,345	158,023	4,359	1,009,727
- overdue 90-179 days	-	-	554,486	1,257	555,743
- overdue 180-360 days	-	-	70,793	-	70,793
- overdue more than 360 days	-	-	3,071,547	-	3,071,547
	<b>59,928,409</b>	<b>1,514,518</b>	<b>5,386,968</b>	<b>151,696</b>	<b>66,981,591</b>
<b>Loss allowance</b>	<b>(614,135)</b>	<b>(209,234)</b>	<b>(3,343,279)</b>	<b>(151,696)</b>	<b>(4,318,344)</b>
<b>Carrying amount</b>	<b>59,314,274</b>	<b>1,305,284</b>	<b>2,043,689</b>	<b>-</b>	<b>62,663,247</b>



**31 December 2018**

'000 KZT	12-month expected credit losses (ECL)	Lifetime ECL of assets not credit-impaired	Lifetime ECL for credit- impaired assets	Acquired assets credit-impaired on initial recognition	Total
- not overdue	38,669,319	-	1,785,681	-	40,455,000
- overdue less than 30 days	1,552,562	-	166,962	-	1,719,524
- overdue 30-89 days	-	572,732	529,209	-	1,101,941
- overdue 90-179 days	-	-	492,810	-	492,810
- overdue 180-360 days	-	-	632,256	-	632,256
- overdue more than 360 days	-	-	3,351,743	-	3,351,743
	<b>40,221,881</b>	<b>572,732</b>	<b>6,958,661</b>	<b>-</b>	<b>47,753,274</b>
<b>Loss allowance</b>	<b>(651,134)</b>	<b>(59,750)</b>	<b>(3,975,827)</b>	<b>-</b>	<b>(4,686,711)</b>
<b>Carrying amount</b>	<b>39,570,747</b>	<b>512,982</b>	<b>2,982,834</b>	<b>-</b>	<b>43,066,563</b>

As at 31 December 2019 carrying amounts of loans with full recourse and partial recourse to the seller were KZT 23,668,110 thousand and KZT 5,661,955 thousand, respectively (31 December 2018: KZT 8,338,280 thousand and KZT 14,047,193 thousand, respectively).

In accordance with agreements on partial recourse, the recourse option does not exceed 20% of the total principal amount of mortgage loans at the date of purchase of those loans.

**(b) Analysis of movements in loss allowance**

The significant changes in the gross carrying amount of the mortgage portfolio are further explained below:

	Year ended 31 December 2019				
	12-month expected credit losses (ECL)	Lifetime ECL of assets not credit-impaired	Lifetime ECL for credit- impaired assets	POCI	Total '000 KZT
Impairment allowance as at the beginning of the period	651,134	59,750	3,975,827	-	4,686,711
Transfer to Stage 1	5,187	(2,590)	(2,597)	-	-
Transfer to Stage 2	(32,783)	54,971	(22,188)	-	-
Transfer to Stage 3	(7,801)	(8,489)	16,290	-	-
Net remeasurement	(393,262)	99,177	(564,589)	-	(858,674)
New financial assets originated or purchased	409,768	-	-	151,696	561,464
Transfers on newly created loans to other stages	(18,054)	6,203	11,851	-	-
Write-off	-	-	(159,047)	-	(159,047)
Foreign currency translation differences	(54)	-	-	-	(54)
Unwinding of discount	-	212	87,732	-	87,944
<b>Impairment allowance as at the end of the period</b>	<b>614,135</b>	<b>209,234</b>	<b>3,343,279</b>	<b>151,696</b>	<b>4,318,344</b>

	Year ended 31 December 2018			Total ‘000 KZT
	12-month expected credit losses (ECL)	Lifetime ECL of assets not credit-impaired	Lifetime ECL for credit- impaired assets	
Impairment allowance as at the beginning of the period	635,112	-	3,955,211	4,590,323
Transfer to Stage 1	9,035	(8,982)	(53)	-
Transfer to Stage 2	(5,849)	5,849	-	-
Transfer to Stage 3	(10,284)	(9,723)	20,007	-
Net remeasurement	(23,459)	67,965	133,611	178,117
New financial assets originated or purchased	40,856	-	-	40,856
Transfers on newly created loans to other stages	(1,387)	1,185	202	-
Write-off	-	-	(133,559)	(133,559)
Foreign currency translation differences	7,110	3,456	408	10,974
<b>Impairment allowance as at the end of the period</b>	<b>651,134</b>	<b>59,750</b>	<b>3,975,827</b>	<b>4,686,711</b>

The significant changes in the gross carrying amount of the mortgage portfolio are further explained below:

‘000 KZT	2019				
	Stage 1	Stage 2	Stage 3	POCI	Total
<b>Loans to customers</b>					
Balance at 1 January	40,221,881	572,732	6,958,661	-	47,753,274
Transfer to Stage 1	490,162	(228,644)	(261,518)	-	-
Transfer to Stage 2	(1,034,144)	1,177,677	(143,533)	-	-
Transfer to Stage 3	(343,167)	(70,232)	261,703	151,696	-
New financial assets originated or purchased	32,563,048	-	-	-	32,563,048
Transfers on newly created loans to other stages	(590,555)	261,326	329,229	-	-
Repayments (early or partial repayment)	(11,378,816)	(198,553)	(1,686,259)	-	(13,263,628)
Write-offs	-	-	(159,047)	-	(159,047)
Unwinding of discount	-	212	87,732	-	87,944
<b>Balance at 31 December</b>	<b>59,928,409</b>	<b>1,514,518</b>	<b>5,386,968</b>	<b>151,696</b>	<b>66,981,591</b>

‘000 KZT	2018			
	Stage 1	Stage 2	Stage 3	Total
<b>Loans to customers</b>				
Balance at 1 January	46,493,117	588,240	6,976,459	54,057,816
Transfer to Stage 1	446,686	(421,146)	(25,540)	-
Transfer to Stage 2	(476,744)	477,905	(1,161)	-
Transfer to Stage 3	(720,697)	(51,336)	772,033	-
New financial assets originated or purchased	6,288,494	-	-	6,288,494
Transfers on newly created loans to other stages	(429,335)	364,199	65,136	-
Repayments (early or partial repayment)	(11,379,640)	(385,130)	(828,266)	(12,593,036)
<b>Balance at 31 December</b>	<b>40,221,881</b>	<b>572,732</b>	<b>6,958,661</b>	<b>47,753,274</b>



**(c) Analysis of collateral**

Mortgage loans are secured by the underlying housing real estate. For loans with recourse to the seller, the commercial banks-partners are responsible for monitoring of collateral on a periodic basis according to requirements of the NBRK. The recoverability of these loans is primarily dependent on the creditworthiness of the commercial banks-partners rather than the value of collateral, and the current value of the collateral has lesser impact on the impairment assessment.

The following tables provide information on the fair value of collateral securing mortgage loans (net of impairment allowance):

	Carrying amount of loans to customers	Fair value of collateral: for collateral assessed as of reporting date	Fair value of collateral: for collateral assessed as of loan inception date	Fair value of collateral not determined
<b>31 December 2019</b>				
'000 KZT				
Not overdue loans	59,181,074	35,362,320	44,922	23,773,832
Overdue loans	3,482,173	2,785,484	-	696,689
	<b>62,663,247</b>	<b>38,147,804</b>	<b>44,922</b>	<b>24,470,521</b>
<b>31 December 2018</b>				
Not overdue loans	39,413,303	37,558,619	1,821,684	33,000
Overdue loans	3,653,260	3,587,447	64,863	950
	<b>43,066,563</b>	<b>41,146,066</b>	<b>1,886,547</b>	<b>33,950</b>

The tables above exclude overcollateralization.

The Company updates the appraised values of collateral obtained at inception of the loan to the present value considering the approximate changes in property values. The Company may also obtain a specific individual valuation of collateral at each reporting date where there are indications of impairment.

*Reposessed collateral*

The Company obtains certain assets by taking possession of collateral for loans to retail customers. As at 31 December 2019, the carrying amount of such assets was KZT 606,257 thousand (2018: KZT 946,615 thousand), which reposessed collateral consisted of investment property of KZT 32,431 thousand (2018: KZT 647,704 thousand) and other assets of KZT 573,827 thousand (2018: KZT 298,911 thousand).

The Company's policy is to sell these assets.

**(d) Asset securitisation**

The amount of principal of loans to customers of KZT 7,588,178 thousand (2018: KZT 18,218,416 thousand) serves as collateral for debt securities issued by the Company

As at 31 December 2019, the carrying amount of these debt securities is KZT 6,560,590 thousand (31 December 2018: KZT 16,840,429 thousand) see Note 19.

**(e) Significant credit exposures**

As at 31 December 2019 the Company has no banks not rated (2018: one bank not rated) to whom the Company has recourse in respect of its purchased loans, whose loan exposures exceed 10% of equity. The gross value of these balances as at 31 December 2018: KZT 10,609,795 thousand.

**(f) Loan maturities**

The maturity of the loan portfolio is presented in Note 24(e), which shows the remaining period from the reporting date to the contractual maturity of the loans.

## 14 Finance lease receivables

The components of net investments in finance lease as at 31 December 2019 and 2018 and are as follows:

'000 KZT	31 December 2019	31 December 2018
Less than 1 year	10,777,612	10,298,630
From 1 to 2 years	10,966,770	10,392,946
From 2 to 3 years	10,966,455	10,389,940
From 3 to 4 years	10,964,345	10,387,262
From 4 to 5 years	10,964,036	10,385,336
More than 5 years	133,125,436	134,837,019
<b>Minimum lease payments</b>	<b>187,764,655</b>	<b>186,691,133</b>
<b>Less unearned finance income</b>		
Less than 1 year	(4,240,135)	(4,218,732)
From one year to five years	(15,923,361)	(15,860,417)
More than 5 years	(22,895,859)	(24,733,651)
<b>Less unearned finance income, total</b>	<b>(43,059,355)</b>	<b>(44,812,800)</b>
Less impairment allowance	(914,264)	(725,237)
<b>Net investment in finance lease</b>	<b>143,791,036</b>	<b>141,153,096</b>

The Company leases out housing real estate under Nurly Zher Programme and Own Programme.

These lease agreements are classified as finance lease under IFRS 16 because ownership of the assets gets transferred to lessees by the end of the lease term, and at the inception the present value of the minimum lease payments amounts to substantially all of the fair value of the leased assets.

The finance lease agreements under Own Programme have a maturity term of up to 20 years and bear nominal interest rates of 11.50% and 13.00%. The finance lease agreements for Nurly Zher Programme have a maturity term of 20 years and monthly lease payments limited to KZT 1,120 per square meter for Almaty and Astana cities and KZT 924 per square meter in other regions. The interest rate implicit in the lease agreements under Nurly Zher Programme is 3.1%.

### Analysis of collateral

The following table provides information on collateral, leased assets and other credit enhancements securing finance lease receivables, net of impairment allowance, as at 31 December 2019 and 2018, by types of collateral.

	Carrying amount of loans to customers	Fair value of collateral: for collateral assessed as of reporting date	Fair value of collateral: for collateral assessed as of loan inception date	Fair value of collateral not determined
<b>31 December 2019</b>				
<b>'000 KZT</b>				
Not overdue loans	130,016,780	130,016,780	-	-
Overdue loans	13,774,256	13,774,256	-	-
	<b>143,791,036</b>	<b>143,791,036</b>	<b>-</b>	<b>-</b>
<b>31 December 2018</b>				
Not overdue loans	127,525,841	127,525,841	-	-
Overdue loans	13,627,255	13,627,255	-	-
	<b>141,153,096</b>	<b>141,153,096</b>	<b>-</b>	<b>-</b>

The tables above exclude overcollateralization.

The Company has no finance lease receivables, for which the fair value of collateral was assessed at the loan inception date and it was not updated for further changes, and finance lease receivables for which the fair value of collateral is not determined. Information on the valuation of collateral is based on when this estimate was made, if any.



The recoverability of finance lease receivables which are neither past due nor impaired primarily depends on the creditworthiness of lessees rather than the value of collateral, and the Company does not necessarily update the valuation of collateral as at each reporting date.

**(a) Credit quality of finance lease receivables**

The following table provides information on the credit quality of finance lease receivables as at 31 December 2019 and 31 December 2018:

<b>31 December 2019</b>				
<b>'000 KZT</b>	<b>12-month expected credit losses (ECL)</b>	<b>Lifetime ECL of assets not credit- impaired</b>	<b>Lifetime ECL for credit-impaired assets</b>	<b>Total</b>
- not overdue	130,517,860	369,758	111,576	130,999,194
- overdue less than 30 days	8,623,626	103,576	-	8,727,202
- overdue 30-89 days	-	3,151,461	8,182	3,159,643
- overdue 90-179 days	-	-	1,110,569	1,110,569
- overdue 180-360 days	-	-	555,673	555,673
- overdue more than 360 days	-	-	153,019	153,019
	<b>139,141,486</b>	<b>3,624,795</b>	<b>1,939,019</b>	<b>144,705,300</b>
<b>Loss allowance</b>	<b>(311,070)</b>	<b>(391,984)</b>	<b>(211,210)</b>	<b>(914,264)</b>
<b>Carrying amount</b>	<b>138,830,416</b>	<b>3,232,811</b>	<b>1,727,809</b>	<b>143,791,036</b>

<b>31 December 2018</b>				
<b>'000 KZT</b>	<b>12-month expected credit losses (ECL)</b>	<b>Lifetime ECL of assets not credit- impaired</b>	<b>Lifetime ECL for credit-impaired assets</b>	<b>Total</b>
- not overdue	128,113,629	188,517	17,027	128,319,173
- overdue less than 30 days	8,447,682	-	7,916	8,455,598
- overdue 30-89 days	-	3,950,513	-	3,950,513
- overdue 90-179 days	-	29,971	762,901	792,872
- overdue 180-360 days	-	-	328,000	328,000
- overdue more than 360 days	-	-	32,177	32,177
	<b>136,561,311</b>	<b>4,169,001</b>	<b>1,148,021</b>	<b>141,878,333</b>
<b>Loss allowance</b>	<b>(226,125)</b>	<b>(393,335)</b>	<b>(105,777)</b>	<b>(725,237)</b>
<b>Carrying amount</b>	<b>136,335,186</b>	<b>3,775,666</b>	<b>1,042,244</b>	<b>141,153,096</b>

**Analysis of movements in loss allowance**

Movement in the allowance for finance lease receivables in 3 stages, as at the beginning and end of the period is as follows:

<b>2019</b>				
	<b>12-month expected credit losses (ECL)</b>	<b>Lifetime ECL of assets not credit-impaired</b>	<b>Lifetime ECL for credit- impaired assets</b>	<b>Total '000 KZT</b>
Impairment allowance as at the beginning of the period	226,125	393,335	105,777	725,237
Transfer to Stage 1	6,750	(5,966)	(784)	-
Transfer to Stage 2	(280,753)	303,392	(22,639)	-
Transfer to Stage 3	(94,831)	(68,629)	163,460	-
Net remeasurement	433,178	(233,025)	(39,853)	160,300
New financial assets originated or purchased	19,715	2,854	920	23,489
Other changes	886	23	4,329	5,238
<b>Impairment allowance as at the end of the period, unaudited</b>	<b>311,070</b>	<b>391,984</b>	<b>211,210</b>	<b>914,264</b>

	2018			
	12-month expected credit losses (ECL)	Lifetime ECL of assets not credit-impaired	Lifetime ECL for credit- impaired assets	Total ‘000 KZT
Impairment allowance as at the beginning of the period	136,902	140,785	93,349	371,036
Transfer to Stage 1	1,676	(1,448)	(228)	-
Transfer to Stage 2	(4,699)	7,144	(2,445)	-
Transfer to Stage 3	(970)	(24,856)	25,826	-
Net remeasurement	48,507	243,024	(13,666)	277,865
New financial assets originated or purchased	44,709	28,686	2,941	76,336
<b>Impairment allowance as at the end of the period, unaudited</b>	<b>226,125</b>	<b>393,335</b>	<b>105,777</b>	<b>725,237</b>

Significant changes in gross carrying amount of finance lease receivables are as follows:

	2019			
‘000 KZT	Stage 1	Stage 2	Stage 3	Total
<b>Finance lease receivables</b>				
Balance at 1 January	136,561,311	4,169,001	1,148,021	141,878,333
Transfer to Stage 1	2,843,129	(2,510,362)	(332,767)	-
Transfer to Stage 2	(2,463,992)	2,706,108	(242,116)	-
Transfer to Stage 3	(877,853)	(559,348)	1,437,201	-
Net remeasurement	9,256,647	38,296	12,341	9,307,284
New financial assets originated or purchased	(6,178,643)	(218,922)	(87,990)	(6,485,555)
Other changes	886	23	4,329	5,238
<b>Balance at 31 December</b>	<b>139,141,486</b>	<b>3,624,795</b>	<b>1,939,019</b>	<b>144,705,300</b>

	2018			
‘000 KZT	Stage 1	Stage 2	Stage 3	Total
<b>Finance lease receivables</b>				
Balance at 1 January	116,411,212	1,434,595	286,099	118,131,906
Transfer to Stage 1	717,847	(675,940)	(41,907)	-
Transfer to Stage 2	(3,607,252)	3,640,243	(32,991)	-
Transfer to Stage 3	(715,328)	(333,231)	1,048,559	-
New financial assets originated or purchased	28,467,173	272,311	39,427	28,778,911
Financial assets that have been derecognised	(4,712,341)	(168,977)	(151,166)	(5,032,484)
<b>Balance at 31 December</b>	<b>136,561,311</b>	<b>4,169,001</b>	<b>1,148,021</b>	<b>141,878,333</b>

## 15 Advances paid for acquisition and construction of real estate

Advances paid for acquisition and construction of real estate comprise advances made by the Company for housing real estate to be acquired from third parties. The Company plans to lease it out under finance lease, once the legal title on the property passes to the Company.

	2019 ‘000 KZT	2018 ‘000 KZT
Tabys-2014 LLP	576,978	-
Alatau City LLP	5,000	-
Baiterek Development JSC	-	914,930
VK-Technogroup LLP	-	57,757
	<b>581,978</b>	<b>972,687</b>



## 16 Assets to be transferred under finance lease agreements

Assets to be transferred under finance lease contracts comprise the residential complexes purchased by the Company during the reporting period which the Company is planning to transfer to the lessees in 2019.

The major portion of the assets relates to assets to be transferred under Nurly Zher Programme.

During 2019, the largest micro districts constructed and acquired by the Company are located in the cities of Aktau, Kostanai, and Aktobe in the total amount of KZT 1,482,688 thousand (2018: micro districts in city of Aktobe in the total amount of KZT 2,173,940 thousand).

## 17 Construction-in-progress

Construction-in-progress represents capitalised costs incurred by the Company during construction of residential real estate in different regions of Kazakhstan as part of implementation of the state and government programs adopted before (the Housing Construction Programme Nurly Zher adopted in accordance with the Decree No. 372 of the Government of the RK dated 22 June 2018, the State Programme of Infrastructure Development Nurly Zhol for 2015-2019 adopted in accordance with the Edict of the President of the RK #1030 dated 6 April 2015, the Regions Development Program till 2020 approved by the Decree No. 728 of the Government of the Republic of Kazakhstan dated 28 June 2014) integrated into the Housing Construction Programme Nurly Zher, and the “State Programme of Housing and Communal Development” Nurly Zher” for 2020 - 2025”, approved by the Decree No. 1054 of the Government of the Republic of Kazakhstan dated 31 December 2019. The Company will lease out the constructed housing estate in accordance with the terms established by the Nurly Zher Programme through signing the finance lease contracts.

As at 31 December 2019 the largest construction project is the project located in the 14th micro district in Karaganda city in the total amount of kKZT 1,099,726 (2018: relates to projects of construction of unit 63 in the 19th residential area located in Ust-Kamenogorsk, a micro district located between highways Uralsk - Atyrau and Uralsk - Saratov and micro district 14 located in Karaganda in the amount of KZT 1,742,080 thousand, KZT 1,264,415 thousand and KZT 1,043,426 thousand, respectively).

## 18 Other assets

	2019 ‘000 KZT	2018 ‘000 KZT
Receivables from sale of assets held for sale	48,990	1,002,020
Receivables on loan refinancing	20,880	1,672
Other receivables	75,496	162,091
Impairment allowance	(99,275)	(681,070)
<b>Total other financial assets</b>	<b>46,091</b>	<b>484,713</b>
Foreclosed property	573,827	298,911
Intangible assets	211,532	211,387
Other prepayments	125,367	140,556
Receivables from government duties	31,102	83,524
Inventories	17,239	23,331
Other	178,778	55,312
<b>Total other non-financial assets</b>	<b>1,137,845</b>	<b>813,021</b>
<b>Total other assets</b>	<b>1,183,936</b>	<b>1,297,734</b>

Foreclosed property comprises real estate collateral accepted by the Company in exchange for its rights and obligations under impaired mortgage loans.

Impairment allowance in the amount of KZT 3,356 thousand relates to receivables from sale of assets held for sale not repaid within the contractual term.

### Analysis of movements in loss allowance

'000 KZT	2019			
	Stage 1	Stage 2	Stage 3	Total
<b>Other financial assets</b>				
Balance at 1 January	11,860	4,128	665,082	681,070
Transfer to Stage 3	(1,660)	-	1,660	-
Net remeasurement of loss allowance	(10,200)	(4,128)	(625,211)	(639,539)
New financial assets originated or purchased	1,696	-	56,048	57,744
<b>Balance at 31 December</b>	<b>1,696</b>	<b>-</b>	<b>97,579</b>	<b>99,275</b>

'000 KZT	2018			
	Stage 1	Stage 2	Stage 3	Total
<b>Other financial assets</b>				
Balance at 1 January	11,545	-	184,261	195,806
Net remeasurement of loss allowance	(6,595)	4,128	480,821	478,354
New financial assets originated or purchased	-	-	-	-
Foreign exchange and other movements	6,910	-	-	6,910
<b>Balance at 31 December</b>	<b>11,860</b>	<b>4,128</b>	<b>665,082</b>	<b>681,070</b>

## 19 Debt securities issued

Debt securities issued as at 31 December 2019 and 2018 comprised KZT- denominated bonds.

Issue	Maturity date	Nominal coupon rate	Effective rate	2019 '000 KZT	2018 '000 KZT
KZ2C0Y10F013/					
KZ2C00003333	15.12.2027	10.5%	9.97%	30,461,640	19,704,387
KZX000000054	28.12.2033	9.58%	9.58%	20,015,967	20,015,966
KZ2C0Y07E517/					
KZ2C00002160	26.07.2020	8.5%	8.5%	10,363,558	10,359,342
KZ2C0Y08E218/					
KZ2C00001741	02.04.2020	7.00%	10.87%	6,560,590	6,340,429
KZ2C00004356/					
KZ2C0Y20F889	21.06.2039	2.99%	2.99%	281,963	-
		1.00%+NBRK refinancing rate (limited to maximum 10%, minimum 6%) 10.00%			
KZ2C0Y08D913/ KZ2C00000180	24.12.2018		-	-	10,500,000
				<b>67,683,718</b>	<b>66,920,124</b>

Debt securities with ISIN KZ2C00001741 (НИИ KZ2C0Y08E218) are secured under the bank loan agreements issued by the Company and rights of claims under the contracts of bank loans acquired from the partner banks by means of purchase of the mortgage certificates or signing the contracts of assignment of the right of claim (cession contracts) (Note 13) for a total amount of KZT 7 588 178 thousand (2018: debt securities with ISIN KZ2C00001741 (НИИ KZ2C0Y08E218) and KZ2C00000180 (НИИ KZ2C0Y08D913) with a carrying amount of KZT 16,840,429 thousand secured by assets for the total amount KZT 18,218,416 thousand).

In accordance with the bond issue prospects, the Company repaid the principal amount of issued securities in the amount of KZT 10,000,000 thousand and placed the issued securities in the amount of KZT 11,425,002 thousand.



## 20 Other borrowed funds

	2019 ‘000 KZT	2018 ‘000 KZT
Loan from National Management Holding “Baiterek” JSC	28,466,442	26,753,934
Due to the Government of the Republic of Kazakhstan	4,923,018	4,566,711
	<b>33,389,460</b>	<b>31,320,645</b>

As at 31 December 2019 and 31 December 2018, other borrowed funds comprised loans from the NMC “Baiterek” JSC under the State Program of Infrastructure Development Nurly Zhol for 2015-2019 adopted in accordance with the Edict of the President of the RK dated 6 April 2015, No.1030; “Regions Development Program till 2020” program approved by the Decree #728 of the Government of the Republic of Kazakhstan dated 28 June 2014, which were integrated in the Program of Housing Construction Nurly Zher with regard to construction and acquisition of the leased and credit housing. As set out in the Nurly Zher Programme, the purpose of the loans is to finance construction and acquisition of housing real estate to be further leased out under finance lease. The loans bear a nominal interest rate of 0.15% per annum and mature in January 2045, January 2046 and June 2046. The principal is repayable at maturity. At initial recognition these 4 loans were recognised at fair value calculated by discounting the contractual future cash flows applying estimated relevant market interest rate, set out in the contract, ranging from 6.9% to 8.0%. The discount on these loans is recognised as deferred income (Note 21).

Amounts due to the Government of the Republic of Kazakhstan consist of a loan received in December 2007 from the Ministry of Finance of the Republic of Kazakhstan for the purchase of mortgage loans from second-tier banks. The loan carries a nominal interest rate of 0.1% per annum with principal repayable at maturity in December 2027. The fair value of the loan at initial recognition was estimated by discounting the contractual future cash flows of the loan using management’s estimate of a long-term market borrowing rate for the Company of 8% p.a.

### Reconciliation of movements of liabilities to cash flows arising from financing activities during the year ended 31 December 2019:

‘000 KZT	Liabilities		
	Debt securities issued	Other deposits	Total
<b>Balance at 1 January 2019</b>	<b>66,920,124</b>	<b>31,320,645</b>	<b>98,240,769</b>
<b>Changes from financing cash flows</b>			
Proceeds from debt securities issued	11,425,002	-	11,425,002
Repurchase /repayment of debt securities issued	(10,000,000)	-	(10,000,000)
<b>Total changes from financing cash flows</b>	<b>68,345,126</b>	<b>31,320,645</b>	<b>99,665,771</b>
Interest expense	5,662,460	2,276,541	7,939,001
Interest paid	(6,323,868)	(207,726)	(6,531,594)
<b>Balance at 31 December 2019</b>	<b>67,683,718</b>	<b>33,389,460</b>	<b>101,073,178</b>

### Reconciliation of movements of liabilities to cash flows arising from financing activities during the year ended 31 December 2018:

‘000 KZT	Liabilities		
	Debt securities issued	Other deposits	Total
<b>Balance at 1 January 2018</b>	<b>43,177,214</b>	<b>29,832,799</b>	<b>73,010,013</b>
<b>Changes from financing cash flows</b>			
Proceeds from debt securities issued	31,356,189	-	31,356,189
Repurchase /repayment of debt securities issued	(7,920,500)	-	(7,920,500)
Repayment of other borrowed funds	-	(1,621,372)	(1,621,372)
<b>Total changes from financing cash flows</b>	<b>66,612,903</b>	<b>28,211,427</b>	<b>94,824,330</b>
Interest expense	5,039,926	2,310,921	7,350,847
Recalculation of discount due to partial repayment	-	1,008,354	1,008,353
Interest paid	(4,732,705)	(210,057)	(4,942,762)
<b>Balance at 31 December 2018</b>	<b>66,920,124</b>	<b>31,320,645</b>	<b>98,240,769</b>

## 21 Deferred income

	2019 ‘000 KZT	2018 ‘000 KZT
Balance at the beginning of the year	102,126,287	106,893,420
Reversal of discount due to early repayment of other borrowed funds (Note 20)	-	(1,008,353)
Amortisation for the year	(4,074,156)	(3,758,780)
<b>Balance at the end of the year</b>	<b>98,052,131</b>	<b>102,126,287</b>

During the period ended 31 December 2018, the Company repaid other borrowed funds in the amount of KZT 1,621,372 thousand ahead of initial schedule. Therefore, a discount of KZT 1,008,354 thousand earlier recognised in deferred income was reversed.

## 22 Other liabilities

	2019 ‘000 KZT	2018 ‘000 KZT
Advances received from borrowers	1,400,374	1,255,499
Interest strip payable	266,974	682,204
Subsidy programme obligations	79,952	418,927
Loan portfolios servicing fee payable	33,959	44,226
Professional services	15,631	13,039
<b>Total other financial liabilities</b>	<b>1,796,890</b>	<b>2,413,895</b>
Guarantee fees payable	202,474	153,585
Payables to employees	196,499	186,869
Contract enforcement fees payable	189,920	422,057
Other taxes payable	8,800	9,557
Other non-financial liabilities	223,097	282,025
<b>Total other non-financial liabilities</b>	<b>820,790</b>	<b>1,054,093</b>
<b>Total other liabilities</b>	<b>2,617,680</b>	<b>3,467,988</b>

## 23 Share capital and reserves

### (a) Issued capital and share premium

As at 31 December 2019 and 2018 authorised share capital comprises 13,681,000 ordinary shares. As at 31 December 2019 issued and outstanding share capital comprises 6,331,380 shares (2018: 6,331,380), including treasury shares (Note (c) below).

### (b) Dividends

In accordance with Kazakhstan legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's financial statements prepared in accordance with International Financial Reporting Standards or profit for the year if there is an accumulated loss brought forward. A distribution cannot be made if this would result in negative equity or the Company's insolvency.

During the year ended 31 December 2019, dividends in the amount of KZT 1,385,764 thousand or KZT 227.87 per ordinary share were declared and paid relating to the previous year results of the Company (2018: dividends in the amount of KZT 1,108,575 thousand or KZT 182.29 per ordinary share were declared and paid relating to the previous year results).

### (c) Treasury shares

As at 31 December 2019 and 2018 the Company held 250,000 of its own shares.

### (d) Reserve capital

The Company has established a reserve capital in accordance with a decision of shareholders. As at 31 December 2019 and 2018 the reserve capital amounted to KZT 2,734,447 thousand. This reserve capital is available for distribution.

During the years ended 31 December 2019 and 2018 the shareholders did not make any transfer from accumulated losses to this reserve capital.



**(e) Basic and diluted earnings per share**

The calculation of basic and diluted earnings per share is based on the profit or loss for the year attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding during the year.

	2019	2018
Profit for the year, in thousands of KZT	8,591,766	4,619,146
Weighted average number of ordinary shares	6,081,380	6,081,380
<b>Basic and diluted earnings per share (in KZT)</b>	<b>1,413</b>	<b>760</b>

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

**(f) Book value per share**

Under the listing rules of the KSE the Company should present book value per share in its financial statements. The book value per share is calculated dividing net assets less intangible assets by number of outstanding ordinary shares. As at 31 December 2019 the book value per share was KZT 11,326.54 (2018: KZT 10,146.74).

## **24 Risk management**

Management of risk is fundamental to the lending business and is an essential element of the Company's operations. The major risks faced by the Company are those related to interest rate and currency risks, credit risk and liquidity risk.

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

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

The Management Board 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 Management Board of the Company is responsible for monitoring and implementation of risk mitigation measures and making sure that the Company operates within the established risk parameters. The Head of Risk Department of the Company is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks.

The Asset Liability and Risk Management Committee develops proposals on assets/liabilities and risk management based on strategies, policies and procedures approved by the Management Board and the Board of Directors.

Both external and internal risk factors are identified and managed throughout the Company's organisational structure. Particular attention is given to identifying the full range of risk factors and determination of the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Management Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise. The Board of Directors on a regular basis examines reports on risks.

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

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

Overall authority for market risk is vested in the Asset, Liability and Risk Management Committee.

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

***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 Company is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.



**Interest rate gap analysis**

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major financial instruments is as follows:

‘000 KZT	Less than 3 month	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
<b>31 December 2019</b>							
<b>ASSETS</b>							
Cash and cash equivalents	32,171,102	-	-	-	-	564,021	32,735,123
Placements with banks and other financial institutions	1,140,789	-	872,839	-	-	-	2,013,628
Investment securities measured:							
- at fair value through profit or loss	1,151,675	634,027	933,590	-	-	-	2,719,292
- at amortised cost	7,937,992		15,279	-	11,964,924	-	19,918,195
Loans to customers	1,737,403	1,887,267	2,665,002	22,678,617	33,694,958	-	62,663,247
Finance lease receivables	1,677,330	1,594,643	3,265,503	27,938,246	109,315,314	-	143,791,036
Other financial assets	-	-	-	45,586	-	505	46,091
<b>Total assets</b>	<b>45,816,291</b>	<b>4,115,937</b>	<b>7,752,213</b>	<b>50,662,449</b>	<b>154,975,196</b>	<b>564,526</b>	<b>263,886,612</b>
<b>LIABILITIES</b>							
Debt securities issued	366,465	6,716,557	9,997,586	-	50,603,110	-	67,683,718
Other borrowed funds	76,292	14,632	125	-	33,298,411	-	33,389,460
Other financial liabilities	266,974	-	-	-	-	1,529,916	1,796,890
<b>Total liabilities</b>	<b>709,731</b>	<b>6,731,189</b>	<b>9,997,711</b>	<b>-</b>	<b>83,901,521</b>	<b>1,529,916</b>	<b>102,870,068</b>
<b>Net position</b>	<b>45,106,560</b>	<b>(2,615,252)</b>	<b>(2,245,498)</b>	<b>50,662,449</b>	<b>71,073,675</b>	<b>(965,390)</b>	<b>161,016,544</b>

'000 KZT	Less than 3 month	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
<b>31 December 2018</b>							
<b>ASSETS</b>							
Cash and cash equivalents	44,780,210	-	-	-	-	1,123,180	45,903,390
Placements with banks and other financial institutions	26,499	2,376,322	-	-	-	-	2,402,821
Investment securities measured:							
- at fair value through profit or loss	113,098	11,300	2,080,815	2,559,013	-	-	4,764,226
- at amortised cost	483,334	-	15,279	-	11,620,558	-	12,119,171
Loans to customers	1,482,281	1,089,280	2,196,753	18,115,330	20,182,919	-	43,066,563
Finance lease receivables	1,637,118	1,477,056	2,989,450	25,691,013	109,358,459	-	141,153,096
Other financial assets	-	-	-	484,713	-	-	484,713
<b>Total assets</b>	<b>48,522,540</b>	<b>4,953,958</b>	<b>7,282,297</b>	<b>46,850,069</b>	<b>141,161,936</b>	<b>1,123,180</b>	<b>249,893,980</b>
<b>LIABILITIES</b>							
Debt securities issued	10,865,972	219,107	-	16,221,192	39,613,853	-	66,920,124
Other borrowed funds	76,292	14,632	125	-	31,229,596	-	31,320,645
Other financial liabilities	-	-	-	682,204	-	1,731,691	2,413,895
<b>Total liabilities</b>	<b>10,942,264</b>	<b>233,739</b>	<b>125</b>	<b>16,903,396</b>	<b>70,843,449</b>	<b>1,731,691</b>	<b>100,654,664</b>
<b>Net position</b>	<b>37,580,276</b>	<b>4,720,219</b>	<b>7,282,172</b>	<b>29,946,673</b>	<b>70,318,487</b>	<b>(608,511)</b>	<b>149,239,316</b>



The table below displays average effective interest rates for interest-bearing assets and liabilities as at 31 December 2019 and 2018. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2019		2018	
	Average effective interest rate, %		Average effective interest rate, %	
	KZT	USD	KZT	USD
<b>Interest bearing assets</b>				
Cash and cash equivalents	9.24	1.00	7.84	0.5
Placements with banks and other financial institutions	8.75	-	13.00	-
Investment securities measured:				
- at fair value through profit or loss	6.71	-	6.60	-
- at amortised cost	10.22	-	10.67	-
Loans to customers	13.39	15.09	12.43	13.70
	Nominal interest rate – 3.19 (imputed interest rate - 6.25)	-	Nominal interest rate – 3.21 (imputed interest rate - 7.07)	-
Finance lease receivables				
<b>Interest bearing liabilities</b>				
Debt securities issued	9.69	-	10.90	-
Other borrowed funds	7.12	-	7.20	-

The Company is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

Interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period.

#### **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 2018 is as follows:

	2019		2018	
	‘000 KZT		‘000 KZT	
	Profit or loss	Equity	Profit or loss	Equity
100 bp parallel rise	307,835	307,835	365,645	365,645
100 bp parallel fall	(307,835)	(307,835)	(365,645)	(365,645)

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of financial instruments at fair value through profit or loss and financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2019 and 2018 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	2019		2018	
	‘000 KZT		‘000 KZT	
	Profit or loss	Equity	Profit or loss	Equity
100 bp parallel rise	283,857	283,857	(333,192)	(333,192)
100 bp parallel fall	(319,421)	(319,421)	301,967	301,967

#### **(c) Currency risk**

The Company has assets and liabilities denominated in USD.

Currency risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. The Company does not hedge its exposure to currency risk.

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2019 and 2018:

	USD	
	2019 ‘000 KZT	2018 ‘000 KZT
<b>Assets</b>		
Cash and cash equivalents	749,350	761,567
Loans to customers	29,709	131,694
Other assets		5,082
<b>Total financial assets</b>	<b>779,059</b>	<b>898,343</b>
<b>Liabilities</b>		
Other liabilities	-	507
<b>Total financial liabilities</b>	<b>-</b>	<b>507</b>
<b>Net on and off-balance sheet position</b>	<b>779,059</b>	<b>897,836</b>

In accordance with Decree No.69 of the National Bank of the Republic of Kazakhstan “On approval of the mortgage loans refinancing program”, the Company has refinanced currency loans to vulnerable social groups with a total carrying amount of KZT 877,959 thousand. The amount of overdue foreign currency loans of these customers was converted into KZT using exchange rate during 2015, which was KZT 188.35 per USD 1. As a result of this, the Company incurred loss in the amount of KZT 42,594 thousand (2018: KZT 427,226 thousand) from derecognition of foreign currency loans stated at amortised cost.

A change in the value of the KZT, as indicated below, against the following currencies at 31 December 2019 and 2018 would have increased (decreased) 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 Company considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2019 ‘000 KZT		2018 ‘000 KZT	
	Profit or loss	Equity	Profit or loss	Equity
20% appreciation of USD against KZT	124,649	124,649	143,654	143,654
5% depreciation of USD against KZT	(31,162)	(31,162)	(35,913)	(35,913)

**(d) Credit risk**

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Company. The Company 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 Management Board and the Board of Directors.

The credit policy establishes:

- procedures for reviewing and approving loan credit applications;
- methodology for the credit assessment of borrowers;
- methodology for the credit assessment of counterparties, issuers and insurance companies;
- methodology for the evaluation of collateral;
- credit documentation requirements;
- procedures for the ongoing monitoring of loans and other credit exposures.

The main task of credit risk management is the application of a weighted credit policy, considering profitability with safety of asset allocation at purchase of mortgage loans and control over position of loan portfolio based on in-depth, objective, complete and qualified monitoring.



Susceptibility to credit risk is controlled by obtaining high quality collateral, the receipt of a guarantees and obtaining recourse to the seller of the loans.

The Company's 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:

	<b>2019</b>	<b>2018</b>
	<b>'000 KZT</b>	<b>'000 KZT</b>
<b>ASSETS</b>		
Cash and cash equivalents	32,735,123	45,903,390
Placements with banks and other financial institutions	2,013,628	2,402,821
Investment securities measured:		
- at fair value through profit or loss	2,719,292	4,764,226
- at amortised cost	19,918,195	12,119,171
Loans to customers	62,663,247	43,066,563
Finance lease receivables	143,791,036	141,153,096
Other financial assets	46,091	484,713
<b>Total maximum exposure</b>	<b>263,886,612</b>	<b>249,893,980</b>

For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers refer to Note 13.

As at 31 December 2019 and 2018 the Company has no debtors or groups of connected debtors, credit risk exposure to whom exceeds 10% of maximum credit risk exposure.

#### ***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 Company's 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 statement of financial position.

The agreements include global master repurchase agreements. Such financial instruments include sale and repurchase agreements and reverse sale and repurchase agreements. The Company receives and accepts collateral in the form of cash and marketable securities in respect of these sale and repurchase and reverse sale and repurchase agreements.

The Company's derivative transactions that are not transacted on the exchange are entered into under International Derivative Swaps and Dealers Association (ISDA) Master Netting Agreements. In general, under such agreements the amounts owed by each counterparty that are due on a single day in respect of transactions outstanding in the same currency under the agreement are aggregated into a single net amount payable by one party to the other. In certain circumstances, for example when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed, and only a single net amount is due or payable in settlement transactions.

The Company's sale and repurchase, reverse sale and repurchase transactions, and securities borrowings and lendings are covered by master agreements with netting terms similar to those of ISDA Master Netting Agreements.

The above ISDA and similar master netting arrangements do not meet the offsetting criteria in the statement of financial position. This is because they create a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Company or the counterparties. In addition, the Company and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

Financial instruments such as loans and deposits are not disclosed in the tables below, unless they are offset in the statement of financial position. The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements:

‘000 KZT	Gross amounts of recognised financial assets /liabilities	Gross amount of recognised financial liability/asset 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		
				Financial instruments	Cash collateral received	Net amount
<b>31 December 2019</b>						
Reverse repurchase agreements	28,593,434	-	28,593,434	(28,593,434)	-	-
<b>Total financial assets</b>	<b>28,593,434</b>	<b>-</b>	<b>28,593,434</b>	<b>(28,593,434)</b>	<b>-</b>	<b>-</b>
Debt securities issued	6,560,590	-	6,560,590	(6,560,590)	-	-
<b>Total financial liabilities</b>	<b>6,560,590</b>	<b>-</b>	<b>6,560,590</b>	<b>(6,560,590)</b>	<b>-</b>	<b>-</b>
<b>31 December 2018</b>						
Reverse repurchase agreements	21,698,963	-	21,698,963	(21,698,963)	-	-
<b>Total financial assets</b>	<b>21,698,963</b>	<b>-</b>	<b>21,698,963</b>	<b>(21,698,963)</b>	<b>-</b>	<b>-</b>
Debt securities issued	16,840,429	-	16,840,429	(16,840,429)	-	-
<b>Total financial liabilities</b>	<b>16,840,429</b>	<b>-</b>	<b>16,840,429</b>	<b>(16,840,429)</b>	<b>-</b>	<b>-</b>

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

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



**(e) Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Company 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 Company's liquidity policy is reviewed by the Management Board and approved by the Board of Directors.

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

The Company's liquidity management policy requires:

- projecting cash flows by major currencies and taking into account 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 following tables show the undiscounted cash flows on the Company's financial liabilities on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liability or commitment. The Company's expected cash flows on these financial liabilities may vary significantly from this analysis.

The liquidity position of the Company as at 31 December 2019 was as follows:

<b>‘000 KZT</b>	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 6 months</b>	<b>From 6 to 12 months</b>	<b>From 1 to 5 years</b>	<b>More than 5 years</b>	<b>Total gross amount outflow</b>	<b>Carrying amount</b>
<b>Non-derivative financial liabilities</b>								
Debt securities issued	425,000	962,439	8,314,184	12,966,878	20,335,025	77,545,329	120,548,855	67,683,718
Other borrowed funds	86,250	-	26,206	95,270	830,904	145,415,381	146,454,011	33,389,460
Other financial liabilities	1,442,995	100,164	37,503	47,734	270,476	126,623	2,025,495	1,796,890
<b>Total</b>	<b>1,954,245</b>	<b>1,062,603</b>	<b>8,377,893</b>	<b>13,109,882</b>	<b>21,436,405</b>	<b>223,087,333</b>	<b>269,028,361</b>	<b>102,870,068</b>

The liquidity position of the Company as at 31 December 2018 was as follows:

<b>‘000 KZT</b>	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 6 months</b>	<b>From 6 to 12 months</b>	<b>From 1 to 5 years</b>	<b>More than 5 years</b>	<b>Total gross amount outflow</b>	<b>Carrying amount</b>
<b>Non-derivative financial liabilities</b>								
Debt securities issued	10,500,000	425,000	2,204,245	2,629,245	33,396,745	66,708,000	115,863,235	66,920,124
Other borrowed funds	86,250	-	26,206	86,250	794,826	136,816,167	137,809,699	31,320,645
Other financial liabilities	63,582	1,295,080	44,883	505,602	538,037	452,255	2,899,439	2,413,895
<b>Total</b>	<b>10,649,832</b>	<b>1,720,080</b>	<b>2,275,334</b>	<b>3,221,097</b>	<b>34,729,608</b>	<b>203,976,422</b>	<b>256,572,373</b>	<b>100,654,664</b>



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

	Less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	No maturity	Total
	'000 KZT	'000 KZT	'000 KZT	'000 KZT	'000 KZT	'000 KZT	'000 KZT
<b>Assets</b>							
Cash and cash equivalents	32,735,123	-	-	-	-	-	32,735,123
Placements with banks and other financial institutions	576,662	564,127	872,839	-	-	-	2,013,628
Investment securities measured:							
- at fair value through profit or loss	-	28,844	96,890	2,593,558	-	-	2,719,292
- at amortised cost	7,444,547	493,445	15,279	-	11,964,924	-	19,918,195
Loans to customers	896,978	874,645	4,034,577	23,107,769	33,749,278	-	62,663,247
Finance lease receivables	612,112	1,065,218	4,860,146	27,938,246	109,315,314	-	143,791,036
Current tax asset	-	-	-	-	-	1,135,442	1,135,442
Advances paid for acquisition and construction of real estate	-	581,978	-	-	-	-	581,978
Assets to be transferred under finance lease agreements	-	-	-	-	-	2,274,682	2,274,682
Construction-in-progress	-	1,534,061	-	-	-	-	1,534,061
Property, plant and equipment	-	-	-	-	-	1,968,153	1,968,153
Investment property	-	-	-	-	-	187,421	187,421
Other assets	23,679	44,633	286,654	16,181	1,943	810,846	1,183,936
<b>Total assets</b>	<b>42,289,101</b>	<b>5,186,951</b>	<b>10,166,385</b>	<b>53,655,754</b>	<b>155,031,459</b>	<b>6,376,544</b>	<b>272,706,194</b>
<b>Liabilities</b>							
Debt securities issued	365,972	493	16,714,143	-	50,603,110	-	67,683,718
Other borrowed funds	76,292	-	14,757	-	33,298,411	-	33,389,460
Deferred income	-	-	-	-	98,052,131	-	98,052,131
Deferred tax liability	-	-	-	-	1,870,669	-	1,870,669
Other liabilities	1,816,156	159,829	303,509	276,097	62,089	-	2,617,680
<b>Total liabilities</b>	<b>2,258,420</b>	<b>160,322</b>	<b>17,032,409</b>	<b>276,097</b>	<b>183,886,410</b>	<b>-</b>	<b>203,613,658</b>
<b>Net position as at 31 December 2019</b>	<b>40,030,681</b>	<b>5,026,629</b>	<b>(6,866,024)</b>	<b>53,379,657</b>	<b>(28,854,951)</b>	<b>6,376,544</b>	<b>69,092,536</b>
Net position as at 31 December 2018	36,329,463	439,408	18,120,205	29,848,672	(33,601,499)	10,750,285	61,886,534

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

	Less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	No maturity	Total
	'000 KZT	'000 KZT	'000 KZT	'000 KZT	'000 KZT	'000 KZT	'000 KZT
<b>Assets</b>							
Cash and cash equivalents	45,903,390	-	-	-	-	-	45,903,390
Placements with banks and other financial institutions	26,499	-	2,376,322	-	-	-	2,402,821
Investment securities measured:							
- at fair value							
through profit							
or loss	82,000	31,098	2,092,115	2,559,013	-	-	4,764,226
- at amortised cost	-	483,334	15,279	-	11,620,558	-	12,119,171
Loans to customers	754,913	727,368	3,286,033	18,115,330	20,182,919	-	43,066,563
Finance lease receivables	658,891	978,227	4,466,506	25,691,013	109,358,459	-	141,153,096
Current tax asset	-	-	-	-	-	2,045,362	2,045,362
Advances paid for acquisition and construction of real estate	-	-	972,687	-	-	-	972,687
Assets to be transferred under finance lease agreements	-	-	-	-	-	5,180,554	5,180,554
Construction-in-progress	-	-	5,643,479	-	-	-	5,643,479
Property, plant and equipment	-	-	-	-	-	2,129,083	2,129,083
Investment property	-	-	-	-	-	647,704	647,704
Other assets	12,954	83,782	366,609	55,616	1,191	777,582	1,297,734
<b>Total assets</b>	<b>47,438,647</b>	<b>2,303,809</b>	<b>19,219,030</b>	<b>46,420,972</b>	<b>141,163,127</b>	<b>10,780,285</b>	<b>267,325,870</b>
<b>Liabilities</b>							
Debt securities issued	10,500,000	365,972	219,107	16,221,192	39,613,853	-	66,920,124
Other borrowed funds	76,292	-	14,757	-	31,229,596	-	31,320,645
Deferred income	-	-	-	-	102,126,287	-	102,126,287
Deferred tax liability	-	-	-	-	1,604,292	-	1,604,292
Other liabilities	532,892	1,498,429	864,961	351,108	190,598	30,000	3,467,988
<b>Total liabilities</b>	<b>11,109,184</b>	<b>1,864,401</b>	<b>1,098,825</b>	<b>16,572,300</b>	<b>174,764,626</b>	<b>30,000</b>	<b>205,439,336</b>
<b>Net position as at 31 December 2018</b>	<b>36,329,463</b>	<b>439,408</b>	<b>18,120,205</b>	<b>29,848,672</b>	<b>(33,601,499)</b>	<b>10,750,285</b>	<b>61,886,534</b>
Net position as at 31 December 2017	22,491,039	7,964,963	11,787,843	17,575,959	(15,508,407)	14,498,096	58,809,493

As at 31 December 2019 included in the category “More than 5 years” are overdue loans to customers and finance lease receivables with net book values of KZT 1,211,963 thousand and KZT 141,822 thousand, respectively (31 December 2018: KZT 2,445,261 thousand and KZT 1,148,020 thousand respectively).



## 25 Capital management

The Company defines as capital the following items defined by statutory regulation as capital for mortgage companies:

Tier 1 capital, which is comprised of ordinary share capital, share premium, prior periods' statutory retained earnings, accumulated losses and reserves created thereof and preference shares (within 15% of ordinary share capital) less intangible assets and current year statutory losses;

Tier 2 capital is required for the purposes of calculation of total capital and is comprised of current year's statutory income, revaluation reserves, preference shares (in excess of 15% of ordinary share capital), qualifying subordinated liabilities and collective impairment allowance in the amount not exceeding 1.25% of credit risk-weighted assets.

Total capital, which is the sum of tier 1 capital and tier 2 capital (in the amount not exceeding tier 1 capital) less investments into equity or subordinated debt.

Various further limits and qualifying criteria are applied to the above elements of the capital base.

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

- a ratio of tier 1 capital to total statutory assets (k1);
- a ratio of tier 1 capital to the sum of credit risk-weighted assets and contingent liabilities (k1-2);
- a ratio of total capital to the sum of credit risk-weighted assets and contingent liabilities and a quantitative measure of operational risk (k1-3).

	2019 '000 KZT	2018 '000 KZT
<b>Tier 1 capital</b>		
Share capital	60,728,939	60,728,939
General reserve	2,734,447	2,734,447
Additional paid-in capital	5,822,856	5,822,856
Intangible assets	(55,831)	(58,912)
Statutory accumulated losses for prior periods	(8,785,472)	(12,018,854)
<b>Total tier 1 capital</b>	<b>60,444,939</b>	<b>57,208,476</b>
<b>Tier 2 capital</b>		
Reserves on revaluation of available-for-sale financial assets	-	-
Net profit for the current year in accordance with NBRK	8,591,766	4,619,146
<b>Total tier 2 capital</b>	<b>8,591,766</b>	<b>4,619,146</b>
<b>Total capital</b>	<b>69,036,705</b>	<b>61,827,622</b>
<b>Total statutory assets</b>	<b>272,706,193</b>	<b>267,309,374</b>
Credit risk weighted assets and contingent liabilities	220,064,309	236,295,782
Operational risk	6,843,314	6,772,035
<b>Total credit risk weighted assets and contingent liabilities plus operational risk</b>	<b>226,907,623</b>	<b>243,067,817</b>
<b>k1</b>	<b>22%</b>	<b>21%</b>
<b>k1-2</b>	<b>27%</b>	<b>24%</b>
<b>k1-3</b>	<b>30%</b>	<b>25%</b>

As at 31 December 2019 and 2018 the minimum level of ratios as applicable to the Company are as follows:

- k1 – 6%;
- k1-2 – 6%;
- k1-3 – 12%.

## 26 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 Company 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 Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

### (b) Litigation

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

### (c) Taxation in Kazakhstan

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 Kazakhstan that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable 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.

## 27 Related party transactions

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

Total remuneration included in employee compensation is as follows (refer to Note 7):

	2019 ‘000 KZT	2018 ‘000 KZT
Members of the Board of Directors	16,210	20,967
Members of the Management Board	128,286	106,744
	<b>144,496</b>	<b>127,711</b>

The above amounts include cash and non-cash benefits in respect of the members of the Management Board and Board of Directors.

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

	2019 ‘000 KZT	Average interest rate, %	2018 ‘000 KZT	Average interest rate, %
<b>Statement of financial position</b>				
Other liabilities	39,870	-	35,861	-

### (b) Transactions with other related parties

Other related parties include “NMH Baiterek” JSC and its subsidiaries (together the “Baiterek Group”) and other State organisations.



The amounts below are included in the statement of financial position, income statement and statement of comprehensive income for transactions with related parties as at 31 December 2019 and 2018:

	2019 '000 KZT	2019 '000 KZT	2018 '000 KZT	2018 '000 KZT
	Baiterek Group	State organisations	Baiterek Group	State organisations
<b>Statement of profit or loss</b>				
Interest income	4,456,495	2,076,369	3,937,254	1,084,411
Interest expenses	(4,056,144)	(1,464,899)	(3,026,020)	(1,465,689)
Fee and commission expenses		(810)	-	(957)
Other income	-	60,874	-	68,946
Impairment gain/(losses)	17,623	(13,069)	-	-
General and administrative expenses	(9,284)	(454,710)	(55,111)	(538,604)
Income tax expense		(1,327,345)	-	(1,195,768)

The balances with related parties as at 31 December 2019 include:

	Baiterek Group		State organisations	
	Average interest rate, %		Average interest rate, %	
	'000 KZT		'000 KZT	
Cash and cash equivalents	2,819,938	7,75%	23,782,799	9,36%
- at amortised cost	-	-	8,936,603	8,76%
Current tax asset	-	-	1,135,442	-
Other assets	-	-	8,789	-
Debt securities issued	22,793,401	9,45%	17,255,716	9,78%
Other borrowed funds	28,466,442	0,15%	4,923,018	0,10%
Deferred income	98,052,131	-	-	-
Deferred tax liability	-	-	1,870,669	-
Other liabilities	93,178	-	129,846	-

The balances with related parties as at 31 December 2018 include:

	Baiterek Group		State organisations	
	Average interest rate, %		Average interest rate, %	
	'000 KZT		'000 KZT	
Cash and cash equivalents	11,915,286	7.75	21,878,794	8.23
- at amortised cost	-	-	1,498,928	5.57
Current tax asset	-	-	2,045,362	-
Advances paid under finance lease agreement	914,930	-	-	-
Other assets	-	-	25,397	-
Debt securities issued	28,320,637	10.90	10,412,650	12.15
Other borrowed funds	26,753,934	0.15	4,566,711	0.10
Deferred income	102,126,287	-	-	-
Deferred tax liability	-	-	1,604,292	-
Other liabilities	93,701	-	432,507	-

## 28 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.

‘000 KZT	Amortised cost	FVTPL	Total carrying amount	Fair value
Cash and cash equivalents	32,735,123	-	32,735,123	32,735,123
Placements with banks and other financial institutions	2,013,628	-	2,013,628	2,013,628
Investment securities measured:				
- at amortised cost	19,918,195	-	19,918,195	19,109,614
- at fair value through profit or loss	-	2,719,292	2,719,292	2,719,292
Loans to customers	62,663,247	-	62,663,247	53,030,247
Finance lease receivables	143,791,036	-	143,791,036	93,528,475
Other financial assets	46,091	-	46,091	46,091
	<b>261,167,320</b>	<b>2,719,292</b>	<b>263,886,612</b>	<b>203,182,470</b>
Debt securities issued	67,683,718	-	67,683,718	63,918,540
Other borrowed funds	33,389,460	-	33,389,460	32,758,290
Other financial liabilities	1,796,890	-	1,796,890	1,796,890
	<b>102,870,068</b>	<b>-</b>	<b>102,870,068</b>	<b>98,473,720</b>



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

‘000 KZT	Amortised cost	FVTPL	Total carrying amount	Fair value
Cash and cash equivalents	45,903,390	-	45,903,390	45,903,390
Placements with banks and other financial institutions	2,402,821	-	2,402,821	2,402,821
Investment securities measured:				
- at amortised cost	12,119,171	-	12,119,171	10,799,004
- at fair value through profit or loss	-	4,764,226	4,764,226	4,764,226
Loans to customers	43,066,563	-	43,066,563	38,562,914
Finance lease receivables	141,153,096	-	141,153,096	104,973,504
Other financial assets	484,713	-	484,713	484,713
	<b>245,129,754</b>	<b>4,764,226</b>	<b>249,893,980</b>	<b>207,890,572</b>
Debt securities issued	66,920,124	-	66,920,124	63,283,463
Other borrowed funds	31,320,645	-	31,320,645	30,594,086
Other financial liabilities	2,413,895	-	2,413,895	2,413,895
	<b>100,654,664</b>	<b>-</b>	<b>100,654,664</b>	<b>96,291,444</b>

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 the assets or settlement 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 Company determines fair values using other valuation techniques.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

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. The judgement 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.

The Company uses widely recognised valuation models to determine the fair value of common and more simple financial instruments, such as interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities.

For more complex instruments, the Company uses proprietary valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Example of instruments involving significant unobservable inputs include certain loans and securities for which there is no active market.

The estimates of fair value are intended to approximate the amount for which a financial instrument can be exchanged between knowledgeable, willing parties in an arm's length transaction. 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 the assets or settlement of liabilities.

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

- discount rates of 11.9% - 15.07% are used for discounting future cash flows from loans to customers (2018: 12.5% - 14%);
- discount rates of 9.1% are used for discounting future cash flows from finance lease receivables (2018: 6.9% - 7.1%).

**(b) Fair value hierarchy**

The Company 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 quotes 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 identical or 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 at 31 December 2019, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position:

<b>Financial assets</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Investment securities at fair value through profit or loss:	1,785,702	933,590	2,719,292
	<b>1,785,702</b>	<b>933,590</b>	<b>2,719,292</b>

The table below analyses financial instruments measured at fair value at 31 December 2018, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position:

	<b>2018 Level 2 '000 KZT</b>
<b>Financial assets</b>	
Investment securities at fair value through profit or loss	4,764,226
	<b>4,764,226</b>

The following table shows a reconciliation for the year ended 31 December 2019 for fair value measurements in Level 3 of the fair value hierarchy.

	<b>Financial instruments measured at fair value through profit or loss</b>
<b>Financial assets</b>	
Transfers into Level 3	933,590
<b>Balance at end of the year</b>	<b>933,590</b>

Total gains or losses included in profit or loss for 2019 in the table are presented in the statement of profit or loss and other comprehensive income as follows.

	<b>Financial instruments measured at fair value through profit or loss</b>
<b>Financial assets</b>	
Net gain (loss) on other financial instruments at fair value through profit or loss	(8,919)

During 2019, investment securities measured at fair value through profit or loss were transferred into Level 3. The table below sets out information about significant unobservable inputs used at year end in the measuring financial instruments categorised as Level 3 in the fair value hierarchy as at 31 December 2019:

<b>Type of instrument</b>	<b>Fair value</b>	<b>Valuation technique</b>	<b>Significant unobservable input</b>	<b>Fair value measurement sensitivity to unobservable inputs</b>
Securities at FVPL	933,590	Discounted cash flow	Discount rate of 17.47%	A significant increase in any of these inputs in isolation would result in lower fair values. A significant reduction would result in higher fair values.

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:

<b>‘000 KZT</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total fair values</b>	<b>Total carrying amount</b>
<b>Assets</b>				
Cash and cash equivalents	32,735,123	-	32,735,123	32,735,123
Placements with banks and other financial institutions	2,013,628	-	2,013,628	2,013,628
Loans to customers	52,048,339	981,908	53,030,247	62,663,247
Finance lease receivables	93,130,986	397,489	93,528,475	143,791,036
<b>Liabilities</b>				
Debt securities issued	63,918,540	-	63,918,540	67,683,718
Other borrowed funds	32,758,290	-	32,758,290	33,389,460

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:

<b>‘000 KZT</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total fair values</b>	<b>Total carrying amount</b>
<b>Assets</b>				
Cash and cash equivalents	45,903,390	-	45,903,390	45,903,390
Placements with banks and other financial institutions	2,402,821	-	2,402,821	2,402,821
Loans to customers	37,436,104	1,126,810	38,562,914	43,066,563
Finance lease receivables	104,752,477	221,027	104,973,504	141,153,096
<b>Liabilities</b>				
Debt securities issued	63,283,463	-	63,283,463	66,920,124
Other borrowed funds	30,594,086	-	30,594,086	31,320,645

## 29 Segment reporting

The Company's operations are highly integrated and constitute a single business segment for the purposes of IFRS 14 Segment Reporting. The Company's assets are concentrated in the Republic of Kazakhstan, and the Company's revenues are derived from operations in, and connected with, the Republic of Kazakhstan. The Chief Operating Decision Maker, in the case of the Company, the Chairman of the Management Board, only receives and reviews the information on the Company as a whole.

## 30 Subsequent events

On 24 February 2020, Baiterek National Managing Holding JSC, the sole shareholder of the Company, decided to increase the number of authorised ordinary shares from 13,681,600 to 22,000,000.

As part of the implementation of the task set in the Address of the President of the Republic of Kazakhstan Kassym-Zhomart Tokayev dated 2 September 2019, to reduce the number of housing programme operators, on 28 February 2020, the Board of Directors of Baiterek National Managing Holding JSC made a preliminary decision to merge its subsidiaries - Baiterek Development JSC and Mortgage Organisation Kazakhstan Mortgage Company JSC.