Shinhan Bank Kazakhstan JSC

Financial Statements according to IFRS for the Year Ended 31 December 2019

and Independent Auditor's Report

Shinhan Bank Kazakhstan JSC

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Shinhan Bank Kazakhstan JSC

Statement of the management's responsibility for the preparation and approval of the financial statements for the year ended 31 December 2019

The following statement which should be read together with the Auditor's Responsibilities section of the accompanying Independent Auditor's Report is made to distinguish the respective responsibilities of the Auditors concerning the financial statements of Shinhan Bank Kazakhstan JSC (the Bank).

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Bank as at 31 December 2019, the results of its operations, its cash flows and changes in equity for the year then ended under the International Financial Reporting Standards (IFRS).

In preparing the financial statements, management is responsible for:

- Selecting appropriate accounting principles and applying them consistently
- Applying reasonable judgements and estimates
- Ensuring compliance with the IFRS, or disclosing all significant deviations from the IFRS in notes to the financial statements; and
- Preparing the financial statements based on the assumption that the Bank will continue as a going concern in the foreseeable future unless such assumption is illegal.

Management is also responsible for:

- Design, implementation and ensuring reliable internal control in the Bank
- Record keeping that allows for the disclosure of the transactions and providing sufficiently accurate information on the Bank's financial position as of any date and ensuring financial statements comply with IFRS
- Record keeping under the legislation of the Republic of Kazakhstan
- Taking all reasonable efforts to ensure the safety of the Bank assets, and
- Financial mismanagement detection and prevention.

The financial statements for the year ended 31 December 2019, were approved by Shinhan Bank Kazakhstan JSC management on 29 April 2020.

On behalf of management:

Chairman of the Board
Kim Hyoungwhan

Chief Accountant
Zhaksybaeva G.Sh.

29 April 2020
Almaty, Republic of Kazakhstan

Тел.: +7 727 331 31 34
Факс: +7 727 331 31 35
info@bdokz.com
www.bdokz.com

ТОО “BDO Kazakhstan”
ул. Габдуллина, 6
Алматы, Казахстан
A15H4E3

Tel: +7 727 331 31 34
Fax: +7 727 331 31 35
info@bdokz.com
www.bdokz.com

BDO Kazakhstan LLP
6 Gabdullin Street
Almaty, Kazakhstan
A15H4E3

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Management Board of Shinhan Bank Kazakhstan JSC

Audit conclusion

Opinion

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

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and ethical requirements that are relevant to our audit of the financial statements in Kazakhstan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 IFRSs and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Bank's financial statements.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it does not 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 judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of financial statements due to fraud or errors; we develop and conduct audit procedures in response to these risks; we obtain audit evidence that is sufficient and appropriate to serve as a basis for expressing our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than the one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of the internal control system that is relevant for 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 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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the 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.

The engagement partner on the audit resulting in this independent auditor's report is Irina Litvinchik.

_______________ Irina Litvinchik

Auditor Qualifying Certificate No. 0000223
issued by the Qualifying Commission for Certification
of the RK Auditors dated 22 December 2014

BDO Kazakhstan LLP

State license No. 15003448 for audit issued on 19 February 2015 by the Committee for Financial Control of the Ministry of Finance of the Republic of Kazakhstan

_______________ Talgat Omarov
BDO Kazakhstan LLP Director

Almaty

29 April 2020

SHINHAN BANK KAZAKHSTAN JSC

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2019

Thousands of tenge	Note	For the year ended 31.12.2019	For the year ended 31.12.2018
Interest income	4	3,158,049	2,821,428
Interest expense	4	(1,410,125)	(1,229,413)
Net interest income	4	**1,747,924**	**1,592,015**
Fee and commission income	5	116,297	83,327
Commission expense	6	(79,484)	(69,523)
Net fee and commission income		**36,813**	**13,804**
Net foreign exchange gain	7	238,834	260,648
Other income/(expenses), net		(39,380)	27,629
Operating income		**1,984,191**	**1,894,096**
Reversal of impairment losses/ (impairment losses)	9	131,812	62,401
Staff costs	8	(758,309)	(659,360)
Other general and administrative expenses	10	(439,857)	(459,217)
Profit before income tax		**917,837**	**837,920**
Income tax expenses	11	(84,186)	(62,801)
Profit for the year		**833,651**	**775,119**
Other comprehensive income nets of income tax			
Items that have been reclassified or may subsequently be reclassified to profit or loss:			
Revaluation reserve for financial assets at fair value through other comprehensive income			
- Net change in fair value		(616)	48,567
Other comprehensive income for the year net of income tax		**(616)**	**48,567**
Total comprehensive income for the year		**833,035**	**823,686**
Earnings per share			
Basic and diluted earnings per share (in KZT)	24	**831.26**	**772.90**

On behalf of management:

Chairman of the Board
Kim Hyoungwhan

Chief Accountant
Zhaksybaeva G.Sh.

29 April 2020
Almaty, Republic of Kazakhstan

Notes on pages 10-66 are an integral part of these financial statements

SHINHAN BANK KAZAKHSTAN JSC

STATEMENT OF FINANCIAL POSITION as of 31 December 2019

Thousands of tenge	Note	31.12.2019	31.12.2018
ASSETS			
Cash and cash equivalents	12	31,422,707	24,882,525
Accounts and deposits in banks	13	72,653	72,957
Financial assets at fair value through OCI	14	1,173,343	1,178,855
Loans issued to corporate customers:			
- loans to large entities	15	2,978,919	467,810
- loans to small and medium size entities	15	6,629,416	6,151,496
- loans to retail customers	15	5,347,894	3,377,973
Financial assets at amortised cost	16	4,907,381	4,778,038
Corporate income tax assets		286	43,246
Non-current asset held for sale	17	645,014	494,529
Property, plant and equipment and intangible assets	18	443,832	208,192
Deferred tax assets	11	38,184	15,513
Other assets	19	164,977	339,485
Total assets		**53,824,606**	**42,010,619**
LIABILITIES			
Accounts and deposits in banks	20	198,342	1,498,027
Current accounts and deposits due to customers			
- Current accounts and deposits due to corporate customers	21	28,254,084	16,849,796
- Current accounts and deposits due to retail customers	21	4,632,581	3,185,278
Loans from international financial organisations	22	5,757,924	6,472,871
Other liabilities	23	674,069	484,625
Total liabilities		**39,517,000**	**28,490,597**
EQUITY			
Issued capital	24	10,028,720	10,028,720
Additional paid-in capital	24	144,196	144,196
Capital reserves		279,516	279,516
Revaluation reserve for financial assets at fair value through other comprehensive income		(166,813)	(166,197)
Retained earnings		4,021,987	3,233,787
Total equity		**14,307,606**	**13,520,022**
Total equity and liabilities		**53,824,606**	**42,010,619**

Notes on pages 10-66 are an integral part of these financial statements.

Thousands of tenge	For the year ended 31.12.2019	For the year ended 31.12.2018
Financing activities		
Interest income earned	3,247,298	3,075,381
Interest income paid	(1,355,125)	(1,181,885)
Fee and commission income earned	134,177	61,136
Fee and commission income paid	(80,017)	(69,158)
Net foreign exchange gains	231,029	242,333
Other operating income/(expenses)	(91,645)	66,302
Employee benefits	(747,738)	(684,505)
Other general and administrative expenses	(375,772)	(317,824)
(Increase)/ decrease in operating assets		
Accounts and deposits in banks	809	(93,129)
Loans to customers	(4,843,960)	1,378,760
Increase/ (decrease) in operating liabilities		
Accounts and deposits in banks	(1,264,383)	1,178,969
Current accounts and deposits due to customers	12,853,962	6,864,175
Net cash flows from operating activities before income tax	**7,708,635**	**10,520,555**
Income tax paid	(52,534)	(81,664)
Net cash flows from/ (used in) operating activities	**7,656,101**	**10,438,891**
Investing activities		
Disposal/(Purchase) of property, plant and equipment and intangible assets	-	(4,618)
Purchase of financial assets at fair value through other comprehensive income	(155,328)	(494,560)
Purchase of financial assets carried at amortised cost	(196,790)	(1,159,500)
Net cash flows used in investing activities	**(352,118)**	**(1,658,678)**
Financing activities		
Loans obtained	-	1,632,600
Repayment of loans	(719,931)	-
Repayment of lease liability	(19,664)	-
Net cash flows from/ (used in) financing activities	**(739,595)**	**1,632,600**
Net change in cash and cash equivalents	**6,564,388**	**10,412,813**
Effect of exchange rate changes on cash and cash equivalents	(22,987)	1,152,136
Provision for ECL	(1,219)	-
Cash and cash equivalents at the year-beginning	24,882,525	13,317,576
Cash and cash equivalents at the year-end	**31,422,707**	**24,882,525**

Notes on pages 10-66 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2019

Thousands of tenge	Issued capital	Additional paid-in capital	Capital reserves	Revaluation reserve for financial assets at fair value through other comprehensive income	Retained earnings	Total capital
As of 1 January 2018	10,028,720	144,196	279,516	(214,764)	2,458,668	12,696,336
Profit for the year	-	-	-	-	775,119	775,119
Net change in fair value of available-for-sale financial assets	-	-	-	48,567	-	48,567
Total other comprehensive income	-	-	-	48,567	-	48,567
Total comprehensive income for the year	-	-	-	**48,567**	**775,119**	**823,686**
As of 31 December 2018	**10,028,720**	**144,196**	**279,516**	**(166,197)**	**3,233,787**	**13,520,022**
Effect of adoption of IFRS 16	-	-	-	-	(45,451)	(45,451)
Restated opening balance under IFRS 16	**10,028,720**	**144,196**	**279,516**	**(166,197)**	**3,188,336**	**13,474,571**
Profit for the year	-	-	-	-	833,651	833,651
Net change in fair value of financial assets at fair value through OCI	-	-	-	(616)	-	(616)
Total other comprehensive income	-	-	-	(616)	-	(616)
Total comprehensive income for the year	-	-	-	(616)	833,651	833,035
As of 31 December 2019	**10,028,720**	**144,196**	**279,516**	**(166,813)**	**4,021,987**	**14,307,606**

Notes on pages 10-66 are an integral part of these financial statements.

1. CORPORATE INFORMATION AND BUSINESS ENVIRONMENT

(a) Corporate information

The Bank was established in Kazakhstan as a Joint Stock Company in 2008. The principal activities of the Bank include attracting deposits, maintaining customer accounts, providing loans and guarantees, cash and settlement operations, and transactions with securities and foreign currencies. Bank's operations are regulated by the National Bank of the Republic of Kazakhstan (NBRK).

The legal status of the Bank was established by the State Registration with the Ministry of Justice of the Republic of Kazakhstan (Legal Entity State Registration Certificate No. 5037-1900-АО (ИУ)). The Bank is authorised to carry out banking operations by the Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Market and Financial Organizations (banking license No. 1.1.258 dated 28 November 2008).

In January 2015 after enacting of the Law of the Republic of Kazakhstan On Introduction of Amendments and Addenda to Certain Legislative Acts of the Republic of Kazakhstan on the Issues of Permit System, the name of the banking operation 'organisation of foreign exchange transactions' was changed to 'organisation of foreign exchange transactions including organisation of exchange transactions with foreign currency cash'. The license held by the Bank was re-issued (License issued by the National Bank of the Republic of Kazakhstan No. 1.1.258 dated 20 January 2015). In January 2017, due to the changed registered office address, the license held by the Bank was re-issued (License issued by the National Bank of the Republic of Kazakhstan No. 1.1.258 dated 27 January 2017).

The registered office address of the Bank is 38 Dostyk Avenue, Almaty, 050010, Kazakhstan.

The Bank has no branches. The majority of the assets and liabilities are located in Kazakhstan.

The Bank is fully owned by Shinhan Bank JSC (Seoul, Republic of Korea) (the Parent Bank or the Shareholder). The ultimate parent company is Shinhan Financial Group Co. Ltd (Korea), which has the power to direct the activities of the Bank at its discretion and in its interests. Details of related party transactions are disclosed in Note 28.

(b) Business environment

The Bank operates mainly in Kazakhstan. Accordingly, the Bank is exposed to risks specific to the economic and financial markets of Kazakhstan, whose economy shows specific features of an emerging economy. Legal, tax and regulatory frameworks continue to develop but are subject to varying interpretations and frequent changes, which together with other legal and financial impediments contribute to the challenges faced by entities operating in Kazakhstan.

Kazakhstan economy is particularly sensitive to changes in world oil and gas prices as Kazakhstan is producing and exporting large volumes of oil and gas. The country's economy is also significantly influenced by government spending on major infrastructure projects and various socio-economic development state programs.

During 2019, the average price of Brent crude oil was about 62.35 US dollars per barrel (66.73 US dollars per barrel in 2018). GDP growth in 2019 amounted to 4.5% (4.1% in 2018). The economy is mainly driven by construction, transport, trade and communications. At the same time, the manufacturing sector outstripped the mining industry in growth, showing a growth of 4.4% versus 3.7%.

As of 31 December 2019, the base rate of the NBRK was 9.25% ± 1% (as of 31 December 2018 - 9.25% ± 1%). Given the relatively high cost of funding, in 2018 the demand for new loans remained relatively sluggish, meanwhile, the tenge liquidity in the banking system showed excessive levels of tenge in the banking system was excessive. The main instrument to sterilise the tenge liquidity is still short-term notes of NBRK.

The accompanying financial statements reflect Bank management's estimate of the possible impact of the existing business environment on the Bank's performance and financial position.

However, currently, it is difficult to determine the effect of changes in the economic situation on the future performance and financial position of the Bank.

1. CORPORATE INFORMATION AND BUSINESS ENVIRONMENT (continued)

(b) Business environment

In the Q3 and Q4 of 2019, the National Bank of the Republic of Kazakhstan arranged the Assets Quality Review (AQR) of the banking sector of the Republic of Kazakhstan. The AQR scope included 14 largest banks covering 87% of the total assets in the banking sector and 90% of the loan portfolio of the sector. To ensure the review transparency and objectivity the NBRK engaged an international consultant and independent audit companies for the AQR. The AQR was made in line with the European Central Bank methodology as well as Kazakhstan laws on accounting and prudential regulation.

According to the AQR results published by the NBRK, as of 1 April 2019 there is no capital deficit at the consolidated level of the banking sector (as per consolidation of all the AQR banks-participants results); prudential standards k1 and k2 have complied with a margin at the system level.

The Bank was not included in the AQR scope; the Bank operates under the requirements of the laws and regulations and IFRS requirements; therefore, the AQR results had an insignificant impact on the Bank's financial standing affect the financial condition and soundness.

2. BASIS OF PREPARATION

(a) Statement of compliance

These financial statements have been prepared under International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(b) Cost basis

The financial statements have been prepared on a historical cost basis except for financial assets at fair value through other comprehensive income.

(c) Functional and presentation currency

The Bank's functional currency is Kazakhstan tenge (tenge and KZT); being the national currency of the Republic of Kazakhstan, it best reflects the economic substance of the most of Bank's transactions and related circumstances that affect Bank's operations.

Tenge is also the presentation currency of these financial statements. All the values are presented in tenge are rounded to the nearest thousands, except when indicated otherwise.

(d) Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are regularly reviewed. Adjustments to accounting estimates are recognised in the reporting period in which the estimates are revised and in any future periods affected.

The following notes present information about significant areas of estimation uncertainty and critical judgements in applying accounting policies:

- Note 15 - Measurement of loan impairment
- Note 16 - Classification of financial assets carried at amortised cost
- Note 29 - Fair value of financial instruments.

(e) Going concern

The accompanying financial statements have been prepared on a going concern basis, which assumes the realisation of assets and the settlement of liabilities in the Bank's normal course of business. In making the related estimates, management of the Bank has considered a wide range of information

2. BASIS OF PREPARATION (continued)

(d) Significant accounting judgements, estimates and assumptions (continued)

regarding current and future economic conditions, including forecasts of cash flows, profit and capital resources.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies described below have been consistently applied by the Bank in all reporting periods presented in these financial statements, except for the new standards. The Bank has applied for the first time IFRS 15 and IFRS 9. The nature and impact of changes arising from the application of this financial reporting standard are described below.

(a) Foreign currency transactions

Foreign currency transactions are translated into the Bank's functional currency at the exchange rates prevailing at the transaction dates.

Monetary assets and liabilities denominated in foreign currencies as at the reporting date are translated into the functional currency at the exchange rate prevailing at the reporting date. Gains or losses from transactions with monetary assets and liabilities denominated in foreign currencies is the difference between the amortised cost in the functional currency as at the period-beginning adjusted for the amount of accrued interest and payments over the period at the effective interest rate, and the amortised cost in the foreign currency translated to the functional currency at the exchange rate prevailing at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies at fair value are translated into the functional currency at the exchange rates prevailing at the fair value measurement dates. Non-monetary assets and liabilities denominated in foreign currencies and recognised at actual costs are translated into the functional currency at the exchange rates prevailing at the transaction dates.

Exchange differences arising from foreign currency translation are recognised in profit or loss.

(b) Cash and cash equivalents

Cash and cash equivalents include cash banknotes and coins, unrestricted balances (Nostro accounts) with NBRK and other banks, and highly liquid financial assets with original maturities of less than three months that are not exposed to a substantial risk of change in their fair values and are used by the Bank to settle its current liabilities.

Compulsory reserves with NBRK are not treated as cash and cash equivalents due to restrictions on their use. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(c) Accounts and deposits in banks

In the course of its business, the Bank opens current accounts or places deposits for various time-periods with other banks. Cash with fixed maturities is subsequently measured at amortised cost using the effective interest method. Cash that does not have fixed maturities are carried at original cost. Those assets are accounted for less any provision for impairment.

(d) Financial instruments

(i) Recognition and measurement of financial instruments

Financial assets and financial liabilities are recognised in the Bank's statement of financial position, where the Bank becomes a party to a contract in respect of the relevant financial instrument. The Bank records regular purchases and sales of financial assets and liabilities using the settlement date accounting method. Financial instruments acquired so, which will subsequently be measured at fair value, are accounted for in the same way as purchased instruments from the transaction time and till the settlement date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Recognition and measurement of financial instruments (continued)

Financial assets and financial liabilities are initially recorded at fair value. Transaction costs directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss (FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are charged directly to profit or loss. Accounting principles used for the subsequent measurement of financial assets and liabilities are disclosed in the relevant accounting policies set out below.

Financial assets

All financial assets are recognised and derecognised on the transaction date when the purchase or sale of a financial asset is made under a contract which requires the delivery of the financial asset within the time frame set by the relevant market and is initially measured at fair value plus transaction costs, except for those financial assets that are classified as measured at fair value through profit or loss. Transaction costs that are directly attributable to the acquisition of financial assets at fair value through profit or loss are immediately recognised in profit or loss.

All recognised financial assets that are within the scope of IFRS 9 Financial Instruments should be subsequently measured either at amortised cost or at fair value based on the Bank’s business model for managing financial assets and the contractual characteristics of cash flows of the financial assets.

Herewith:

• *An asset held to collect contractual cash flows.*

The objective of this business model is to generate contractual cash flows of financial assets through collecting payments of principal and interest over the life of a financial instrument.

Within this business model holding a financial asset to maturity is preferred; however, its early realisation is not prohibited;

• *An asset held to collect contractual cash flows and to sell financial assets.*

Under the 'hold to collect and sell’ business model, the objective is to both collect the contractual cash flows and sell the financial assets. Under the 'hold to collect and sell’ business model, the objective is to both collect the contractual cash flows and sell the financial assets. In contrast to the ‘hold to collect’ business model, sales are integral rather than incidental, and consequently, this business model typically involves a greater frequency and volume of sales.

• *An asset held for other purposes*

Under this business model, the objectives of managing financial assets may include:

a. Managing for generating cash flows through the sale of financial assets

b. Managing liquidity to satisfy the daily needs for funding

c. A portfolio which is managed and performance evaluated on a fair value basis

d. A portfolio that is qualified as held for trading. Financial assets are deemed to be held for trading if they are acquired mainly to be sold in the near term (up to 180 days), to obtain short-term profits, or are derivative financial instruments (except for financial guarantees or derivative financial instruments that have been designated as a hedging instrument).

Under IFRS 9, the financial assets of the Bank are classified as follows:

- Loans issued to customers are classified as assets measured at amortised cost; they are held within a business model intended to collect contractual cash flows that represent solely payments of principal and interest (SPPI)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financial instruments (continued)

(i) Recognition and measurement of financial instruments (continued)

- Balances of correspondent accounts, interbank loans/ deposits, REPO transactions are typically classified as assets measured at an amortised cost since they are managed under a business model intended to obtain contractual cash flows that include SPPI
- Debt securities can be classified into any of the three classification categories, taking into consideration the business model chosen and subject to meeting SPPI qualifying criteria
- Equity securities are typically classified as instruments at fair value through profit or loss
- Trading securities and derivative financial instruments are classified as financial assets at fair value through profit or loss.

Financial liabilities

Financial liabilities are classified either as financial liabilities at fair value through profit or loss or as other financial liabilities.

A financial liability is classified as held for trading if:

- Primary accepted for repurchases shortly
- Upon initial recognition, it is part of a portfolio of identified financial instruments that are managed by the Bank as a single portfolio for which there is a recent history of short-term purchases and resales, or
- It is a derivative that is not classified and used as a hedging instrument.

A financial liability, other than held-for-trading financial liabilities or a contingent consideration that may be paid by a purchaser in the business combination, may qualify as a financial liability at fair value through profit or loss at the time of recognition, where:

- Such designation eliminates or considerably reduces inconsistency in the measurement or recognition of assets or liabilities that would otherwise appear
- The financial liability forms part of a group of financial assets or financial liabilities, or group of financial assets and financial liabilities, which is managed and measured based on the fair value under the Bank's formalised risk management strategy or investment strategy, and information about such group of financial liabilities is provided internally on that basis
- The financial liability forms part of an instrument containing one or more embedded derivatives, and IFRS 9 permits classifying the entire instrument (asset or liability) as the instrument at fair value with changes thereof recognised in the statement of profit or loss.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at their fair values. Changes in fair value are recorded in net (loss)/ gains on financial assets and liabilities at fair value through profit or loss. Interest earned or incurred is recorded in interest income or expense, respectively, under the terms of a contract, while dividend income is recorded in the "Other Income" line item once the right to receive dividends is established.

Debt instruments measured at amortised cost or fair value through other comprehensive income

The Bank classifies and measures a financial asset based on the characteristics of contractual cash flows and the Bank's business model used to manage the asset.

To classify and measure an asset at amortised cost or fair value through other comprehensive income, the terms of the relevant contract should give rise to cash flows that are solely payments of principal and interest on the outstanding principal amount.

When testing the contractual cash flows for meeting the above requirements, the principal amount is considered as the fair value of the financial asset at initial recognition. During the life of the financial asset, the principal amount may change (for example, in the case of repayments of the principal amount). Interest includes compensation for the time value of money and credit risk of the principal amount outstanding for a certain period and also includes compensation for other lending risks and

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financial instruments (continued)

(i) Recognition and measurement of financial instruments (continued)

costs and a profit margin. Payments of principal and interest are measured in the currency of the financial asset.

Contractual cash flows that are solely payments of principal and interest are consistent with a basic lending arrangement. Contractual terms resulting in risks or volatility of contractual cash flows that are not related to the basic lending arrangement, such as the risk of changes in the prices of shares or goods, do not give rise to the contractual cash flows that are solely payments of principal and interest. An originated or purchased financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

Assessment of business models used to manage financial assets was carried out at the date of the first-time adoption of the IFRS 9 for the financial asset classification. The business model was applied retrospectively to all financial assets recognised on the balance sheet of the Bank as at the date of the first-time adoption of IFRS 9. The business model used by the Bank is determined at a level that reflects the mechanism for managing the financial assets grouped to achieve a certain business objective. Since the Bank's business model does not depend on the management's intentions in respect of an individual instrument, the assessment is carried out not at the level of individual instruments, but at a higher aggregated level.

To manage its financial instruments, the Bank uses several business models that describe a mechanism for managing financial assets to generate cash flows. The business model determines whether cash flows result from the receipt of contractual cash flows, the sale of financial assets, or both.

In assessing the business model the Bank takes into consideration all available information. However, the assessment is not made based on scenarios that the Bank can reasonably expect, such as the "worst-case" scenario or the "stressful" scenario. The Bank takes into consideration all relevant data such as:

- The mechanism for evaluating the efficiency of the business model and financial assets held within that business model, and reporting to key management personnel
- Risks affecting the efficiency of the business model (and financial assets held within that business model) and the method of managing those risks; and
- The mechanism for paying compensation to management (for example, the grounds to pay compensations are analysed: the fair value of the relevant assets or the contractual cash flows received).

On initial recognition of a financial asset, the Bank determines whether the newly recognised financial assets are part of an existing business model or they give rise to a new business model. The Bank reviews its business models in each reporting period to identify any changes from the prior period. In the current reporting period, the Bank has identified no changes in its business models.

Upon derecognition of a debt instrument at fair value through other comprehensive income, the profit or loss accumulated that was previously recognised in other comprehensive income is reclassified from equity to profit or loss. Debt instruments which are subsequently measured at amortised cost or fair value through other comprehensive income are subject to impairment.

(ii) Derecognition

The Bank derecognises a financial asset when it loses the contractual rights to the cash flows from the financial asset, or it transfers the financial asset in a transaction under which all substantial risks and rewards of ownership of the asset are transferred to the other party, or under which the Bank neither transfers, nor retains substantially all the risks and rewards of ownership of the financial asset, nor retains control over the financial asset. Any interest in transferred financial assets (that qualify for derecognition), which is created or retained by the Bank is recognised as a separate asset or liability in the statement of financial position. The Bank derecognises a financial liability when the related contractual obligations are discharged, cancelled or expire.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financial instruments (continued)

The Bank enters into transactions whereunder it transfers assets recognised in its statement of financial position, while retains either all risks or rewards of ownership of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised by the Bank.

In transactions where the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

If the Bank retains control of the transferred asset, it continues to recognise the transferred asset to the extent of its continuing involvement. The extent of the Bank's continuing involvement in the transferred asset is the extent to which it is exposed to changes in the value of the transferred asset.

The Bank writes-off assets that are recognised as uncollectible.

(iii) Offsetting

Financial assets and liabilities are offset with the net amount presented in the statement of financial position only when, the Bank at that time has a legally enforceable right to offset the recognised amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously. The Bank currently has a legally enforceable right to set-off, provided that the right is not conditional on a future event and is enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the Bank or any of its counterparties.

(iv) Impairment

Impairment loss on financial assets is calculated considering the following factors:

- To calculate the expected credit losses ("ECLs"), the Bank assesses loans on an individual basis and a group basis grouping assets based on the common characteristics of credit risk
- ECLs represents the estimated present value of the credit losses considering their probability. Those losses estimated represent the present value (discounted at the effective interest rate of the relevant asset) of the difference between the cash flows due to the Bank under a contract and the cash flows that the Bank expects to receive based on an analysis of probable economic scenarios
- The calculation is made based on the reasonable and supportable information that can be obtained without undue cost or effort. Calculation of the present value of the expected future cash flow of a secured financial asset represents cash flows, which may result from the foreclosure minus the cost of obtaining and realising the collateral, regardless of whether the foreclosure is likely or not. The provisions made are based on the analysis of the Bank's experience of losses and management's assumptions regarding the level of losses that are most likely to be recognised on assets in each category of credit risk, based on the borrower's debt servicing abilities and his credit report.
- Impairment for treasury transactions (investments in debt securities, reverse REPO transactions, interbank loans and deposits, correspondent account transactions, receivables under treasury transactions) is calculated taking into account the counterparty's rating, probability of default, the term of the transaction and the loss given default.
- Expected credit losses on treasury operations are estimated on an individual basis (except for certain assets represented in the form of receivables).

Financial assets are segments into categories under the following approach:

- Stage 1: there is no significant increase in credit risk since the asset is recognised; impairment is recognised in the amount of 12-month expected credit losses

- Stage 2: there is a significant increase in credit risk since the asset is recognised, impairment is recognised in the amount of lifetime expected credit losses;
- Stage 3: a financial asset is in default or has indications of impairment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financial instruments (continued)

(iv) Impairment (continued)

Provisions for expected credit losses

Expected credit losses should be estimated using a loss provision, which is equal to:

- To credit losses expected within the next 12 months, i.e. that portion of the lifetime credit losses of the financial instrument that represents the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date ("Stage 1")
- The amount of lifetime expected credit losses on the financial instrument, which result from default events on the instrument that is possible within the instrument lifetime ("Stage 2" and "Stage 3")

It is required to make a provision for ECLs on an instrument in the amount of its lifetime ECLs, where credit risk on the instrument significantly increases since the initial recognition thereof. In all other cases, the provisions for ECLs are to be made in the amount of 12-month ECLs.

- Concerning undrawn credit facilities, ECLs represent the difference between the present value of the difference between the cash flows due to the Bank under the contract in the event of a drawdown of the credit facilities by the obligation holder and the cash flows that the Bank expects to receive in the event of a drawdown of the credit facilities.
- Concerning financial guarantees, ECLs represent the difference between the expected payments to pay interest to the holder of a secured debt instrument minus any amounts that the Bank expects to receive from the holder, borrower or any other party.

ECLs are estimated for individual loans and portfolios of loans with similar risk characteristics. Provision for ECLs (whether on an individual or group basis) is calculated based on the present value of cash flows expected for the asset using the original effective interest rate (EIR).

In determining the amount of ECLs it is extremely important to apply a default definition. The definition of default is used to estimate the ECLs amount and determine whether the provision is calculated for the next 12 months or the entire lending period since the concept of default is part of the concept of probability of default, which affects both the estimation of ECLs and identification of a significant increase in credit risk.

Definition of default

Defaulted financial assets have maximum credit risk and there is no likelihood of compensation in the initial terms requiring restructuring or, if necessary, such restructuring, recognition of the loss in full or in part.

Deterioration in the financial condition of the issuer/borrower below a critical level, including significant losses, decrease in value, and cost of capital decreased below zero.

Due to the specific nature of each of the financial assets in the Bank's portfolio, a decision on recognition of default is made after an individual review by the Bank's Credit Committee.

As a rule, this decision is made as a result of events that have occurred or highly probable and expected.

Qualitative factors for the impairment of financial assets may include remuneration accrual suspension due to deterioration of the financial standing of the counterparty, writing off of a part and/or the entire debt, which is caused by a significant increase in credit risk since the financial asset was provided, sale of financial assets at a significant discount (15% and more), loan restructuring, filing an action seeking a declaration of the counterparty's bankruptcy, as well as lack of an active market for a security, decrease in the cost of security or other observable inputs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financial instruments (continued)

(v) Credit-impaired financial assets

A financial asset is considered credit-impaired if one or more events occur that adversely affect the estimated future cash flows of the financial asset. Credit-impaired financial assets are called the "Stage 3 assets".

Indications of credit impairment include observable information on the following events:

- Significant financial difficulties of the borrower or lender
- Breach of contract, such as default or delinquency in payments
- Granting by the lender concessions to the borrower due to economic reasons or contractual terms in connection with the financial difficulties of the borrower, which the lender would not grant otherwise
- The disappearance of an active market for security as a result of financial difficulties; or
- Purchase of a financial asset with a large discount, which reflects credit losses incurred.

In some cases, it is impossible to identify an individual event, since credit impairment of a financial asset might be caused by the cumulative effect of several events. As at each reporting date, the Bank assesses whether its debt instruments that are financial assets measured at amortised cost or fair value through other comprehensive income are credit-impaired. The Bank considers factors such as bond yields, credit ratings and the borrower's ability to raise funding in assessing whether the government and corporate debt instruments are credit-impaired.

The loan is considered to be credit-impaired if a borrower is granted a concession due to the deteriorated financial situation, provided that there is no evidence that the concession granted has resulted in a significant reduction of the payment risk of contractual cash flows, and other indications of impairment do not exist.

Financial assets in respect of which the Bank has considered but did not provide a concession are considered credit-impaired where there are observable indications of impairment of loans, including those that correspond to the definition of default. The definition of default (see below) includes indications of a lack of likelihood of payment and the expiration of maturity (past due for 90 days and more). The decision to use cross-default is based on a case-by-case assessment of customer's facility conditions such as collateral and materiality of credit exposure.

(e) Property, plant and equipment

(i) Owned assets

Items of property, plant, and equipment (PPE) are recorded in the financial statements at actual cost less accumulated depreciation and accumulated impairment losses. Where an item of PPE consists of several components with different useful lives, such components are accounted for as separate items of PPE.

(ii) Depreciation

Depreciation of property, plant and equipment is accrued using the reducing balance method at the rates not exceeding 20% for all types of property, plant and equipment, except for cases when the useful life of an asset is determined by special conditions of the use of the asset and is recognised in profit or loss. Depreciation begins from the date of acquisition of an asset, and for items of property, plant and equipment constructed in-house - from the time of construction completion and readiness thereof for use. The land is not depreciated.

If the Bank invests in leaseholds, those costs are amortised on a straight-line basis over the shorter of the lease duration and the useful life of the leasehold improvements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Intangible assets

Acquired intangible assets are recognised in the financial statements at actual cost less accumulated amortisation and impairment losses. Costs of acquisition of licenses for specially designed software and its implementation are capitalised in the value of the relevant intangible asset.

Amortisation of intangible assets is accrued using the reducing balance method at the rates not exceeding 20% for all types of intangible assets, except for cases when the useful life of an asset is determined by special conditions of the use of the asset and is recognised in profit or loss.

(g) Asset held for sale

Long-term assets and the liabilities directly associated with long-term assets are classified as held-for-sale ("disposal group") if it is highly probable that the net asset's carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for immediate sale in its present condition. Management must have a firm intention to sell such assets within one year from the time of qualifying thereof as held-for-sale.

Assets held-for-sale are measured at the lower of their carrying amount and fair value less costs to sell. If the fair value less costs to sell of an asset held-for-sale is lower than its carrying amount, the entity should recognise an impairment loss in its statement of profit and loss as the loss on the assets held-for-sale.

Any subsequent increase in asset's fair value less costs to sell is recognised to the extent of the cumulative impairment loss that was previously recognised concerning that specific asset.

(h) Impairment of non-financial assets

Non-financial assets, other than deferred tax assets, are reviewed 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 determining the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate, which reflects the current market assessment 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 when the carrying amount of an asset or cash-generating unit exceeds its recoverable amount.

All impairment losses on non-financial assets are recognised in profit or loss and reverse only where the estimates used to determine the recoverable amount change. Any impairment loss can reverse to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined (net of amortisation); if no impairment loss had been recognised in the financial statements.

(i) Provisions

Provisions are recognised in the statement of financial position, when the Bank has a legal or constructive obligation arising from past events, and it is probable that outflow of resources will be required to settle the obligation. If the amount of such obligation is significant, provisions are determined by discounting the estimated future cash flows at the pre-tax discount rate that reflects the current market assessment of the time value of money and, where applicable, risks specific to the obligation.

(j) Credit-related contingent liabilities

In the normal course of business, the Bank undertakes credit-related commitments, comprising undrawn credit lines, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder of a financial guarantee for losses incurred for the reason that a specified debtor failed to make payment in time under the terms of a debt instrument.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Credit-related contingent liabilities (continued)

A financial guarantee liability is recognised initially at fair value less associated transaction costs and is measured subsequently at the greater of the amount initially recognised less accumulated amortisation and the provision for potential losses on the guarantee. Provisions for potential losses under financial guarantees and other credit-related commitments are recognised where losses are considered highly probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit-related commitments are included in other liabilities.

Commitments to extend credit are not recognised in the financial statements except for the following:

- Commitments to extend credit that the Bank designates as financial liabilities at fair value through profit or loss for the period
- If the Bank has experience of selling the assets resulting from its Commitments to extend credit shortly after origination, the Commitments to extend credit in the same class that are treated as derivative financial instruments
- Commitments to extend credit that can be settled net in cash or by delivering or issuing another financial instrument
- Commitments to extend credit at a below-market interest rate.

(k) Issued capital

(i) Ordinary shares

Ordinary shares are classified as equity. Costs directly attributable to the issue of ordinary shares and share options are recognised as a reduction of capital, net of any tax effects.

(ii) Dividends

The ability of the Bank to declare and distribute dividends is regulated by the current laws and regulations of the Republic of Kazakhstan.

Dividends on ordinary shares are reported in the financial statements as the use of retained earnings as they are declared.

(l) Taxation

Income tax includes the current tax and deferred tax. Income tax is recognised in profit or loss in full, except for amounts related to transactions recorded in other comprehensive income or to transactions with owners directly recorded in equity, which are accordingly recorded in other comprehensive income or directly in equity.

Current income tax expense is calculated based on the estimated taxable profit for the year at the income tax rates that were in effect at the reporting date, as well as the liabilities arising from the adjustment of income tax amounts for prior reporting years.

Deferred tax assets and deferred tax liabilities are recorded for temporary differences arising between carrying amounts of assets and liabilities determined for financial reporting purposes and their tax bases. Deferred tax assets and deferred tax liabilities are not recognised for the following temporary differences: differences related to assets and liabilities, the initial recognition of which affects neither the accounting nor taxable profit.

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply in the future, at the time of reversal of temporary differences, based on the enacted or substantively enacted laws as at the reporting date.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from how the Bank plans, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets are recorded to the extent that it is probable to earn in the future taxable profit sufficient to cover temporary differences, non-recorded tax expenses and unused tax benefits.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Taxation (continued)

Deferred tax assets are reduced to the extent of a likelihood that taxable profit will be available against which the deductible temporary differences can be utilised.

(m) Recognition of income and expense in the financial statements

Interest income and expense on all financial instruments, except for financial assets at fair value through profit or loss, are recognised using the effective interest method in Net Interest Income as Interest Income Calculated Using the Effective Interest Method and Interest Expense in the statement of profit and loss.

The effective interest rate is the rate of discounting the estimated future cash flows of a financial instrument to the net carrying amount over the expected lifetime of a financial asset or liability or (if applicable) over a shorter period.

Future cash flows are estimated considering all contractual terms of the instrument.

If a financial asset or a group of financial assets is written-off (or written down) as a result of impairment, interest income is determined at the rate of interest used to discount the future cash flows to the net amortised cost of the financial asset to measure the impairment loss. If a financial asset is no longer in default and is no longer credit-impaired, the Bank returns to the calculation of interest income based on the gross value.

Fee and commission income is recognised to reflect the transfer of services to customers at an amount that reflects the consideration that is expected to be received in exchange for such services.
The Bank identifies a performance obligation, i.e. the services agreed with a customer, and the consideration, and recognises income in line with the transfer of services, the performance obligation agreed with the customer.

For each performance obligation identified, the Bank determines at contract inception whether it satisfies the performance obligation over time or at a point in time and whether the consideration is fixed or variable, including whether consideration is constrained by, for instance, external factors outside the Bank's influence. The consideration is subsequently allocated to the identified performance obligation.

Other fees and commissions and other income and expenses are recognised in profit or loss on the date of delivery of the service.

Operating lease payments are recognised in profit or loss of the period on a straight-line basis over the lease duration. Lease incentives obtained to reduce the total lease expense over the whole lease duration.

(n) Financial guarantees

Financial guarantees and letters of credit issued by the Bank are credit insurance that provides for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make a payment when due under the original or modified terms of a debt instrument. Such financial guarantees and letters of credit are initially recognised at fair value. Subsequently, they are measured at the higher of (a) the amount recognised as a provision and (b) the amount initially recognised less, where appropriate, cumulative amortisation of deferred premium revenue received under the financial guarantee contracts or letters of credit issued.

(o) New and amended IFRS effective for the current year

The following new and revised standards and interpretations were adopted for the first time in the current period and had an impact on financial indicators presented in these financial statements.

- IFRS 16 Leases

- Amendments to IFRS 9 Prepayment Features with Negative Compensation
- Amendments to IAS 28 Long-Term Investments in Associates and Joint Ventures
- Annual Improvements to IFRS, 2015-2017 cycle
- IFRIC Interpretation 23 Uncertainty over Income Tax Treatments

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) New and amended IFRS effective for the current year (continued)

IFRS 16 Leases

In the current year, the Bank applied IFRS 16 Leases (issued by the IASB in January 2016), which is effective for the annual reporting periods beginning on or after 1 January 2019.

IFRS 16 introduces new or changed requirements for leases accounting. The standard introduces significant changes in lease accounting by eliminating differences between operating and finance leases, requiring recognition of a right-of-use asset and a lease liability from the date of recognition of all leases, except for short-term leases and leases in which the underlying asset has a low cost. Lessor accounting is substantially unchanged from today's accounting under IAS 17.

As a result, the Bank, as a lessee, recognized a right-of-use asset represented by the right to use the assets, and a liability to make lease payments.

The date of initial application of IFRS 16 for the Bank is 1 January 2019.

The Bank selected a modified retrospective approach of IFRS 16 application under IFRS 16, that is, IFRS 16 application form 1 January 2019 with no comparative period restatement, i.e. the comparative period is presented as before, under IAS 17 and related interpretations.

Details of changes in accounting policies, nature and impact relevant to the Bank's operations are described below.

Effect of the new definition of a lease

The Bank used the practical measure proposed in the framework of the transition to IFRS 16, which does not require re-determining whether the contract is a lease or has any indicators of a lease. Accordingly, the definition of leases under IAS 17 and IFRIC 4 is still applied to the leases concluded or changed before 1 January 2019.
A change in the definition of a lease relates primarily to the 'control' concept. This contrasts with the emphasis on 'risks and rewards' in IAS 17 and IFRS 4. IFRS 16 distinguishes between leases and service contracts based on whether the customer controls the use of the identified asset. The identified asset is controlled if the customer has:

- The right to receive almost all economic benefits from the use of the identified asset; and
- The right to directly use such an asset.

The Bank has applied the definition of leases and related guidance of IFRS 16 to all leases concluded or modified on or after 1 January 2019.

While preparing for the first application of IFRS 16, the Bank implemented a project. This project demonstrated that a new description of IFRS 16 requirements would not entail significant changes in estimating the Bank's existing agreements meeting the definition of a lease.

Operating lease

IFRS 16 amends the Bank's principle of lease accounting which was previously classified as operating leases under IAS 17 (off-balance-sheet accounting).

Upon the initial application of IAS 16 to all leases (except as noted below), the Bank:

- Recognizes in the statement of financial position the right-of-use assets and lease liabilities in Property, Plant and Equipment and Other Liabilities, respectively. Lease liabilities during the transition were initially measured at the present value of the lease payments discounted using the rate of raising additional borrowed funds at the date of initial application - 1 January 2019. right-of-use assets were initially recognized at cost as corresponding to the lease liability since the Bank used a simplified approach for contracts previously classified as operating leases

- Recognizes in the statement of profit and loss the amortisation of right-of-use assets as depreciation and amortization costs in Operating Expenses and interest on lease liabilities in Interest Expenses
- Separates in the statement of cash flows the total amount of cash allocated for the repayment of the principal (presented in financing activities) and interest (presented in operating activities).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) New and amended IFRS effective for the current year (continued)

According to IFRS 16, testing of the right-of-use assets for impairment is carried out under IAS 36 Impairment of Assets. This provision has replaced the previous requirement regarding the recognition of a provision for loss-making leases.

For short-term leases (up to 12 months) and leases of low-value assets, the Bank recognized lease expenses evenly, as permitted by IFRS 16.

Incentives (for example, a free (grace) period) are recognized as part of the right-of-use assets measurement and lease liabilities, while under IAS 17 they are recognized as lease income, amortized as a reduction in lease costs on a straight-line basis.

Finance lease

The main difference between IFRS 16 and IAS 17 for assets received under finance leases is the measurement of the residual value guarantee provided by the lessee to the lessor.

According to IFRS 16, the lease liability recognizes only the amount expected to be paid under the residual value guarantee, and not the maximum guarantee, as required by IAS 17. This amendment had no material effect on the Bank's financial statements.

Effect of IFRS 16 application

The evaluation as of 1 January 2019 shows that the Bank recognised the right-of-use asset for 286,029 thousand tenges, which is presented as part of Property, Plant and Equipment, retain earning in amount of 45,451 thousand tenge and deferred tax assets in amount 11,364 thousand tenge and the corresponding lease liability for the amount of 342,846 thousand tenge, which is presented as part of Other Liabilities for all of these leases. In the statement of profit or loss, the lease-related costs are presented as amortisation costs in Other General and Administrative Expenses and interest-payment costs - in the Interest Expenses.

Based on an analysis of the Bank's financial leases as of 1 January 2019 and the facts and circumstances existing at that date, the Bank's management determined that this change does not affect the Bank's financial statements.

Amendments to IFRS 9 Prepayment Features with Negative Compensation

Amendments to IFRS 9 clarify that to determine whether the prepayment features satisfy the criterion of payment of principal and interest, the contracting party may pay or receive a reasonable refund for the prepayment, regardless of its reason.

In other words, the prepayment features with negative compensation do not automatically violate the criterion of payments against the principal and interest.

Amendments to IAS 28 Long-Term Investments in Associates and Joint Ventures

IAS 28 has been amended to clarify that IFRS 9, including the requirements for impairment, applies to long-term investments. Besides, when applying IFRS 9 to long-term investments, an entity does not take into account adjustments to the carrying amount of long-term investments required by IAS 28 (for example, adjusting the carrying amount of long-term investments as a result of the allocation of losses of an investee or testing for impairment under IAS 28).

The Bank applied IFRS 9 to such long-term investments before IAS 28 application.

Annual Improvements to IFRS, 2015-2017 cycle. IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes, IAS 23 Borrowing Costs

In the current year the Bank the first time applied the amendments included in the Annual Improvements to IFRS for 2015-2017. Annual improvements include amendments to the following four standards:

IAS 12 Income Taxes

The amendments clarify that an entity should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions that generated the distributable profits. This is the case irrespective of

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) New and amended IFRS effective for the current year (continued)

whether different tax rates apply to distributed and undistributed profits.

IAS 23 Borrowing Costs

The amendments to IAS 23 clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

IFRS 3 Business Combinations

The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest in the joint operation at fair value.

The previously held interest to be re-measured includes any unrecognised assets, liabilities and goodwill relating to the joint operation.

IFRS 11 Joint Arrangements

The amendments to IFRS 11 clarify that when a party that participates in but does not have joint control of a joint operation that is a business obtains joint control of such a joint operation, the entity does not re-measure its previously held interest in the joint operation.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments

IFRIC 23 clarifies how to account for income tax when there is uncertainty over income tax treatments. The Interpretation requires an entity to:

- Determine whether uncertain tax positions are to be assessed separately or as a group; and
- Assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
- If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
- If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

These amendments have no significant impact on the Bank's financial statements.

(p) Standards and interpretations issued but not yet effective

There are several standards, amendments and interpretations that have been issued but not yet effective as of 31 December 2018 and were not used during the preparation of these financial statements. The Bank plans to apply the standards, amendments and interpretations since they become effective:

- IFRS 17 Insurance Contracts
- IFRS 10 Consolidated Financial Statements and IAS 28 (Amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to IFRS 3
- Amendments to IAS 1 and IAS 8
- Conceptual framework.

IFRS 17 Insurance Contracts

The new Standard establishes principles for the recognition, measurement, presentation and disclosure of information related to insurance contracts and supersedes IFRS 4 Insurance Contracts.

IFRS 17 outlines a General Model, which is modified for insurance contracts with direct participation features and described as the Variable Fee Approach. The General Model is simplified if certain criteria are met by measuring the liability for remaining coverage using the Premium Allocation Approach.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Standards and interpretations issued but not yet effective (continued)

The General Model will use current assumptions to estimate the amount, timing and uncertainty of future cash flows and it will explicitly measure the cost of that uncertainty. The model takes into account market interest rates and the impact of policyholders' options and guarantees.

The Standard becomes effective for annual reporting periods beginning on or after 1 January 2021; early adoption is permitted. In June 2019, the IASB published a preliminary draft amendment to IFRS 17, including the postponement of its effective date until 1 January 2022. It can be applied retrospectively excluding the cases where it is near-impossible; in these cases, the entity applies a modified retrospective approach or fair value approach.

To meet the transitional requirements, the date of initial application is the beginning of the annual reporting period in which the entity first applies the standard, and the transition date is the beginning of the period immediately preceding the date of initial application.

Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets in Transactions between the Investor and its Associate or Joint Venture

Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets in Transactions between the Investor and its Associate or Joint Venture. The amendments address the conflict between IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture.

The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves business as defined in IFRS 3. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture.

The effective date shall be determined by the IASB. Early application is permitted.

Amendments to IFRS 3 Definition of a Business

The amendments clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output.

They also clarify that a business can exist without including all of the inputs and processes needed to create outputs. That is, the inputs and processes applied to those inputs must have 'the ability to contribute to the creation of outputs' rather than 'the ability to create outputs'.

The amendments also remove the assessment of whether market participants are capable of replacing any missing elements or processes with their contributions and processes to the ongoing receiving an output.

The amendments introduced an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business in line with IFRS 3 Business Combination.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 01 January 2020. Earlier application is permitted.

Definition of Material - Amendments to IAS 1 and IAS 8

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The amendments are made to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The amendments explain that information is obscured if it is communicated in a way that would have a similar effect as omitting or misstating the information. This idea is introduced in the new definition. The amendments replaced the threshold 'could influence', which suggests that any potential influence of users must be considered, with 'could reasonably be expected to influence' in the definition of 'material'.

The definition of material in IAS 8 was replaced with the reference to IAS 1. The IASB amended the other standards and the Conceptual Framework that reference to the definition of a material or use this term to be applied consistently.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Standards and interpretations issued but not yet effective (continued)

The amendments are effective for annual periods beginning on or after 1 January 2020 and are applied prospectively. Earlier application is permitted.

Amendments to the reference of the Conceptual Frameworks in IFRS

Alongside the revised Conceptual Framework effective after publication on 29 March 2018, the IASB also issued Amendments to the references to the Conceptual Framework in IFRS. The document covers amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22 and SIC 32.

However, not all amendments update the provisions for references and citations so that they refer to a revised Conceptual Framework. Some provisions are amended only to indicate which version of the Concept they are referring to (the IASB principles adopted by the IASB in 2001, the IASB 2010 Concept or the new revised 2018 Concept) or indicate that the definitions in the Standard have not been updated with new definitions developed in a revised Conceptual Framework.

Amendments that are in fact updates become effective for annual periods beginning on or after 1 January 2020, with early adoption permitted.

Management does not expect that the application of the above standards will have a material impact on the Bank's financial statements.

4. NET INTEREST INCOME

	2019	2018
Interest income		
Cash and cash equivalents	1,336,276	1,205,472
Loans to customers	1,306,313	1,203,871
Financial assets at amortised cost	453,721	344,329
Financial assets at fair value through OCI	61,739	61,954
Accounts and deposits in banks	-	5,802
	3,158,049	**2,821,428**
Interest expense		
Current accounts and deposits due to customers	(869,157)	(735,197)
Interest on loans obtained from international financial institutions	(498,604)	(493,640)
Lease liability	(41,415)	-
Accounts and deposits in banks	(737)	(464)
Liability under repurchase agreements	(212)	(112)
	(1,410,125)	**(1,229,413)**
	1,747,924	**1,592,015**

5. FEE AND COMMISSION INCOME

	2019	2018

Transfer operations	67,144	53,553
Guarantees and letters of credit	21,934	12,330
Cash transactions	20,521	12,268
Other	6,698	5,176
	116,297	**83,327**

6. FEE AND COMMISSION EXPENSES

	2019	2018
Guarantee received	31,127	29,388
Transfer operations	28,187	21,522
Other	20,170	18,613
	79,484	**69,523**

7. NET FOREIGN EXCHANGE GAIN

	2019	2018
Dealing operations, net	231,028	242,333
Foreign currency translation differences, net	7,806	18,315
	238,834	**260,648**

8. STAFF COSTS

	2019	2018
Employee benefits	693,402	602,059
Payroll taxes and deductions	64,907	57,301
	758,309	**659,360**

9. PROVISIONS FOR EXPECTED CREDIT LOSSES

	Cash and cash equivalents	Accounts and deposits in banks	Loans to customers	Financial assets carried at amortised cost	Financial assets at fair value through OCI	Other assets	Total
As of 1 January 2018	6,464	1	406,966	1,349	656	21,768	437,204
Provisions made	28,193	55	264,982	2,497	1,101	4,196	301,024
Provisions recovery	(33,033)	(23)	(324,411)	(2,402)	(1,164)	(3,595)	(364,628)
Write-off	-	-	(94,773)	-	-	(9,244)	(104,017)
Foreign currency translation difference	50	8	2,278	-	-	-	2,336
As of 31 December 2018	**1,674**	**41**	**255,042**	**1,444**	**593**	**13,125**	**271,919**
Provisions made	9,126	-	130,807	2,003	296	-	142,232
Provisions recovery	(9,581)	(2)	(255,367)	(2,470)	(331)	(11,529)	(279,280)
Write-off	-	-	(21,940)	-	-	-	(21,940)
Foreign currency translation difference	-	-	98	-	-	-	98
As of 31 December 2019	**1,219**	**39**	**108,640**	**977**	**558**	**1,596**	**113,029**

During the year ended 31 December 2019, the Bank wrote off part of the loans of certain borrowers to the extent that is not recoverable as per the court ruling totalling KZT 21,940 thousand (2018: KZT 94,773 thousand). The balance of assets on such loans before provisions, as at 31 December 2019, amounted to KZT 19,624 thousand (as at 31 December 2018 - KZT 186,738).

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9. PROVISIONS FOR EXPECTED CREDIT LOSSES (continued)

Movement in accumulated provisions for the expected credit losses on loans to the customers:

	2019				2018			
Loans to customers	***Stage 1***	***Stage 2***	***Stage 3***	***Total***	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Balance as of 1 January	**7,394**	**8**	**247,640**	**255,042**	**2,199**	**(141)**	**404,908**	**406,966**
Transfer to Stage 1	1	(1)	-	-	5	(4)	(1)	-
Transfer to Stage 2	(457)	462	(5)	-	-	8	(8)	-
Transfer to Stage 3	(9)	-	9	-	(324)	-	324	-
Net change in provisions	(396)	(7)	(176,951)	(177,354)	(2,776)	141	(157,651)	(160,286)
Purchase of new financial assets	20,573	-	10,281	30,854	6,084	-	-	6,084
Foreign currency translation difference	-	-	98	98	2,206	4	68	2,278
Balance as of 31 December	**27,106**	**462**	**81,072**	**108,640**	**7,394**	**8**	**247,640**	**255,042**

Movement in accumulated provisions for the expected credit losses on financial assets for 2019:

	Financial assets at amortised cost	***Financial assets at fair value through OCI***	***Cash and cash equivalents***		***Other assets***	***Credit-related contingencies***
2019	***Stage 1***	***Stage 1***	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Balance as of 1 January	**1,444**	**593**	**1,674**	**-**	**13,125**	**1,567**
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
Net change in provisions	(1,217)	(35)	(1,071)	-	(11,529)	(168)
Purchase of new financial assets	750	-	616	-	-	185
Foreign currency translation difference	-	-	-	-	-	-
Balance as of 31 December	**977**	**558**	**1,219**	**-**	**1,596**	**1,584**

In thousands of Kazakhstan tenge

9. PROVISIONS FOR EXPECTED CREDIT LOSSES (continued)

Movement in accumulated provisions for the expected credit losses on financial assets for 2018:

	Financial assets at amortised cost	*Financial assets at fair value through OCI*	*Cash and cash equivalents*		*Other assets*	*Credit-related contingencies*
2018	***Stage 1***	***Stage 1***	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Balance as of 1 January	**1,349**	**656**	**4,992**	**1,472**	**21,768**	**364**
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	-	-	(3,178)	3,178	-	-
Transfer to Stage 3	-	-			-	-
Net change in provisions	(601)	(63)	(687)	(4,650)	(10,239)	(321)
Purchase of new financial assets	696	-	497	-	1,596	1,524
Foreign currency translation difference	-	-	50	-	-	-
Balance as of 31 December	**1,444**	**593**	**1,674**	**-**	**13,125**	**1,567**

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10. OTHER GENERAL ADMINISTRATIVE EXPENSES

	2019	2018
Depreciation and amortisation	102,203	48,547
Software maintenance	55,783	57,059
Communication and information services	47,187	42,993
Taxes, charges and other compulsory payments	42,806	38,620
Professional services	28,483	54,109
Operating expenses	19,830	18,915
Insurance costs	16,455	15,106
Security	16,281	13,982
Processing services	16,271	15,896
Writing-off of property, plant and equipment	12,737	1,863
Advertising and marketing	10,978	8,261
Membership fees	9,571	9,698
Entertainment expenses	9,133	9,351
Stationary	6,477	4,814
Transportation costs	5,906	6,095
Travel expenses	5,132	4,591
Repairs and maintenance	4,997	2,606
Operating lease costs	1,338	76,876
Other	28,289	29,835
	439,857	**459,217**

11. INCOME TAX EXPENSES

The Bank assesses income tax for the current period based on tax accounting records maintained in compliance with the tax laws of the Republic of Kazakhstan. For the years ended 31 December 2019 and 2018, income tax expenses are detailed below:

	2019	2018
Income tax expenses		
Reporting period	(104,438)	(87,226)
Adjustment of prior period	8,945	3,323
Change in deferred taxes resulting from the origination and reversal of temporary differences	11,307	21,102
Total income tax expenses	**(84,186)**	**(62,801)**

The statutory rate of the income tax rate in Kazakhstan was 20% during 2019 and 2018. Income on government securities and certain other securities are not subject to income tax.

Because certain types of expenses are not taken into account for tax purposes, as well as due to the presence of non-taxable income, certain permanent tax differences arise for the Bank.

Calculation of the effective rate of income tax for the year ended 31 December 2019 and 2018:

In thousands of Kazakhstan tenge

11. INCOME TAX EXPENSES (continued)

	2019	2018
Profit before income tax	**917,837**	**837,920**
Income tax calculated at the applicable income tax rate	183,567	167,584
Non-taxable income from transactions with securities	(103,092)	(81,256)
Other non-taxable expenses/(income)	3,711	(23,527)
	84,186	**62,801**
Effective income tax rate	**9.2%**	**7.5%**

Deferred tax assets and liabilities

Temporary differences between the values of assets and liabilities reported in the financial statements and the amounts used to calculate the tax bases gave rise to deferred tax assets at 31 December 2019 and liabilities at 31 December 2018.

Movements in temporary differences during the years ended 31 December 2019 and 2018 are detailed below:

2019	Balance as of 1 January 2019	Reported in profit or loss	Reported in equity	Totally as of 31 December 2019
PPE and intangible assets	3,636	4,410	(57,205)	(49,159)
Other liabilities	11,877	6,897	68,569	87,343
	15,513	**11,307**	**11,364**	**38,184**

2018	Balance as of 1 January 2018	Reported in profit or loss	Reported in equity	Totally as at 31 December 2018
Loans to customers	(53,640)	24,452	29,188	-
PPE and intangible assets	(768)	4,404	-	3,636
Other liabilities	19,631	(7,754)	-	11,877
	(34,777)	**21,102**	**29,188**	**15,513**

12. CASH AND CASH EQUIVALENTS

	31.12.2019	31.12.2018
Cash on hand	670,725	671,860
Nostro accounts with NBRK	8,103,799	6,384,219
Nostro accounts with other banks		
- with credit rating A- to A+	*2,329,948*	*1,598,012*
- with credit rating from BB- to BB+	*33,315*	*52,677*
- unrated	*69,131*	*60,633*
Total nostro accounts with other banks	2,432,394	1,711,322
Cash equivalents		
Term deposits in NBRK	20,217,008	16,116,798
Provision for expected credit losses	(1,219)	(1,674)
Total cash and cash equivalents	**31,422,707**	**24,882,525**

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12. CASH AND CASH EQUIVALENTS (continued)

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

Cash and cash equivalents are not past due.

Minimum reserve requirements

As at 31 December 2019 and 31 December 2018, under the resolution of NBRK, the minimum reserve requirements are calculated as the average of the sum of certain shares of various groups of bank's liabilities for twenty-eight calendar days. Banks are obliged to comply with those requirements by maintaining average reserve assets (in the form of cash on hand in the national currency and balances on correspondent accounts with the National Bank in the national currency) in an amount equal to or exceeding the average minimum requirements. As of 31 December 2019, the minimum reserve required amounted to KZT 656,803 thousand (31 December 2018: KZT 768,332 thousand).

The concentration of cash and cash equivalents

As of 31 December 2019 and 31 December 2018, the Bank has accounts with two banks, each of which accounts for more than 10% of the equity. The gross value of balances with those banks as at 31 December 2019 amounted to KZT 30,650,705 thousand (31 December 2018: KZT 24,099,029 thousand).

13. ACCOUNTS AND DEPOSITS IN BANKS

	31.12.2019	**31.12.2018**
Cash restricted in use	72,692	72,998
Provision for expected credit losses	(39)	(41)
Total accounts and deposits in banks	**72,653**	**72,957**

As of 31 December 2019 and 31 December 2018, respectively, the Bank had no deposits that would exceed 10% of the Bank's equity.

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH OCI

	31.12.2019	**31.12.2018**
Held by the Bank		
Debt financial instruments		
- Bonds issued by the Ministry of Finance of the Republic of Kazakhstan	*1,173,343*	*1,178,855*
Total financial assets	**1,173,343**	**1,178,855**

As of 31 December 2019 and 2018, those financial assets are not past due.

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15. LOANS TO CUSTOMERS

	31.12.2019	31.12.2018
Loans to corporate customers		
- Loans to large entities	*3,000,695*	*468,649*
- Loans to small and medium-sized entities	*6,715,767*	*6,404,937*
Total loans to corporate customers	**9,716,462**	**6,873,586**
Loans to retail customers		
- Consumer loans	*5,348,407*	*3,378,735*
Total loans to retail customers	**5,348,407**	**3,378,735**
Impairment provision	(108,640)	(255,042)
Total loans to the customers net of provision	**14,956,229**	**9,997,279**

(a) The credit quality of loans to customers

The following table presents information about the quality of the loans provided to customers as of 31 December 2019.

	Loans before impairment provision	Impalement provision	Loans after impairment provision	The ratio of impairment loss to loans before impairment provision
Loans to corporate customers				
- not past due	*9,375,131*	*(38,393)*	*9,336,738*	*0,00*
- pat due for less than 90 days	*264,162*	*-*	*264,162*	*0,00*
- past due for over than 90 days	*77,169*	*(69,734)*	*7,435*	*0,90*
Total loans to corporate customers	**9,716,462**	**(108,127)**	**9,608,335**	**0,01**
Loans to retail customers				
- not past due	*5,323,725*	*(483)*	*5,323,242*	*0,00*
- pat due for less than 90 days	*9,808*	*(30)*	*9,778*	*0,00*
- past due for over than 90 days	*14,874*	*-*	*14,874*	*0,00*
Total loans to retail customers	**5,348,407**	**(513)**	**5,347,894**	**0,00**

The following table presents information about the quality of the loans provided to customers as of 31 December 2018.

	Loans before impairment provision	Impalement provision	Loans after impairment provision	The ratio of impairment loss to loans before impairment provision
Loans to corporate customers				
- not past due	*6,559,803*	*(22,304)*	*6,537,499*	*0,00*
- pat due for less than 90 days	*11,309*	*-*	*11,309*	*0,00*
- past due for over than 90 days	*302,474*	*(231,976)*	*70,498*	*0,77*
Total loans to corporate customers	**6,873,586**	**(254,280)**	**6,619,306**	**0,04**
Loans to retail customers				
- not past due	*3,324,535*	*(557)*	*3,323,978*	*0,00*
- pat due for less than 90 days	*16,676*	*(64)*	*16,612*	*0,00*
- past due for over than 90 days	*37,524*	*(141)*	*37,383*	*0,00*
Total loans to retail customers	**3,378,735**	**(762)**	**3,377,973**	**0,00**

15. LOANS TO CUSTOMERS (continued)

(a) The credit quality of loans to customers (continued)

In 2019 the provision for impairment includes provisions for loans assessed on an individual basis in the amount of KZT 80,899 thousand (31 December 2018: KZT 247,197 thousand), the provision for collective impairment amounted to KZT 27,741 thousand (31 December 2018: KZT 7,845 thousand).

Changes in the estimates can affect the provision for impairment of loans. For example, if the net present value of the estimated cash flows changes by one per cent upwards or downwards, the provision for impairment of loans to customers as at 31 December 2019 would be by KZT 149,562thousand lower/higher (as at 31 December 2018: KZT 99,973 thousand lower/higher).

As at 31 December 2019, the credit portfolio included renegotiated loans to corporate and retail customers in the total amount of KZT 1,299,077 thousand (31 December 2018: KZT 1,500,112thousand) that would otherwise be past due or impaired.

(b) Measurement of expected credit losses

For loans issued, the expected credit losses are calculated considering the potential estimated effect of changes in macroeconomic parameters on forecast cash flows, migration of collective loans and collateral coverage.

When measuring the credit losses, the Bank uses reasonable and supportable forward-looking information, which is based on assumptions regarding future changes in various economic factors and how these factors will affect each other.

The key inputs used for measuring the expected credit losses include the following:

- Probability of default (PD) is a key input in measuring the credit losses. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

Probability of default for individually assessed loans of corporate, small and medium-sized businesses is estimated using an internal rating model based on the quantitative and qualitative characteristics of a borrower. Probability of default of collectively assessed loans is calculated based on historical data using the migration matrices.

- Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral.

LGD for collectively assessed loans is calculated based on an assessment of the recoverability of debts in case of realisation of collateral using a discounting period that corresponds to the collateral realisation timing.

- Exposure at default (EAD) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdown of committed facilities. The Bank's modelling approach for EAD reflects expected changes in the balance outstanding over the repayment period that are permitted by the current contractual terms, such as amortisation profiles, early repayment or overpayment, changes in utilisation of undrawn commitments and risk mitigation actions taken before default. The Bank uses models that reflect the characteristics of the relevant portfolios to assess credit exposure.

In the financial statements, the provisions for ECLs on loans were calculated based on the existing economic and political conditions. The Bank can predict neither the changes that will take place in a business environment in the Republic of Kazakhstan nor their effect on the adequacy of the provisions for ECLs on financial assets in future periods.

(c) Analysis of collateral and other credit enhancements

(i) Loans to corporate customers

Loans to corporate customers are subject to individual assessment and impairment testing. The general creditworthiness of a corporate customer tends to be the most relevant indicator of the credit quality of the loan provided to it. However, collateral provides additional security and the Bank generally requests corporate borrowers to provide it.

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15. LOANS TO CUSTOMERS (continued)

(c) Analysis of collateral and other credit enhancements (continued)

(i) Loans to corporate customers (continued)

The following tables provide information on types of collateral and other credit enhancements securing loans to corporate customers.

31.12.2019	**Carrying value of loans to customers**	**The fair value of the collateral - measured as at the reporting date**	**The fair value of the collateral - measured as at the loan issue date**	**The fair value of the collateral - not measured**
Loans without individual indications of impairment				
Corporate guarantees (from related parties with "A-" credit rating)	1,014,095	-	-	1,014,095
Other guarantees (from companies with A and higher credit rating)	2,001,109	-	-	2,001,109
Real estate	3,503,604	3,503,604	-	-
Other collateral	1,410,263	-	1,410,263	-
	7,929,071	**3,503,604**	**1,410,263**	**3,015,204**
Loans having individual indications of impairment				
Corporate guarantee (from the related party with A- to A+ credit rating)	343,359	-	-	343,359
Real estate	1,335,905	1,335,905	-	-
	1,679,264	**1,335,905**	**-**	**343,359**
Total loans to corporate customers	**9,608,335**	**4,839,509**	**1,410,263**	**3,358,563**

31.12.2018	**Carrying value of loans to customers**	**The fair value of the collateral - measured as at the reporting date**	**The fair value of the collateral - measured as at the loan issue date**	**The fair value of the collateral - not measured**
Loans without individual indications of impairment				
Corporate guarantee (from the related party with A- credit rating)	1,006,065			1,006,065
Real estate	1,685,031	1,685,031	-	-
Other collateral	2,619,110	-	2,619,110	-
	5,310,206	**1,685,031**	**2,619,110**	**1,006,065**
Loans having individual indications of impairment				
Corporate guarantees (from the parent bank with A+ credit rating)	230,689			230,689
Real estate	86,538	86,538	-	
Other collateral	991,873		991,873	
	1,309,100	**86,538**	**991,873**	**230,689**
Total loans to corporate customers	**6,619,306**	**1,771,569**	**3,610,983**	**1,236,754**

The above tables exclude the value of over security.

As the recoverability of loans which are neither past due nor impaired is primarily dependent on the creditworthiness of the borrowers rather than the collateral value, the Bank does not necessarily update the evaluation of collateral at each reporting date.

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15. LOANS TO CUSTOMERS (continued)

(c) Analysis of collateral and other credit enhancements (continued)

For most of the loans, the fair value of the collateral was measured as at the reporting date. Information on the collateral value is presented based on the measurement date if such measurement is carried out.

In respect of the loans secured by several types of collateral, information is disclosed for the type that is most material to the measurement of collateral.

(ii) Loans to retail customers

Loans to retail customers are secured mainly by residential real estate. According to the Bank's policy, a loan-to-value ratio as at the date of loan issue shall be maximum 60%.

The following tables provide the information on collaterals for the loans to retail customers:

	Carrying value of loans to customers	The fair value of the collateral - for the collateral measured as at the reporting date	The fair value of the collateral - for the collateral measured as at the loan issue date	The fair value of the collateral - not measured
31.12.2019				
Not past due	5,323,242	5,323,242	-	-
Past due	24,652	24,652	-	-
Total loans to retail customers	**5,347,894**	**5,347,894**	**-**	**-**
31.12.2018				
Not past due	3,323,978	3,323,978	-	-
Past due	53,995	53,995	-	-
Total loans to retail customers	**3,377,973**	**3,377,973**	**-**	**-**

The above tables exclude the value of over security.

d) Loan maturities

The maturity of the loan portfolio as at the reporting date is presented in Note 25 (d), which shows the remaining period from the reporting date to the contractual maturities of the loans. Given the short-term nature of loans issued by the Bank, many of them may be extended. Accordingly, actual maturities may differ significantly from the maturities stipulated in loan agreements.

In thousands of Kazakhstan tenge

15. LOANS TO CUSTOMERS (continued)

(e) Analysis of the loan portfolio by industries and geographic regions

Loans were issued mainly to customers operating in Kazakhstan in the following industries:

	31.12.2019	31.12.2018
Loans to retail customers	5,347,894	3,377,973
Finance	4,111,652	1,478,510
Trading	2,119,123	1,485,003
Real estate	1,289,643	1,655,181
Information and communication (manufacture of computers, electronic and optical products)	553,264	499,926
Warehousing facilities and supporting transportation activities	343,359	230,689
Construction	268,261	178,172
Rent, hire and lease	194,742	198,408
Vehicles	139,531	70,386
Individual services	129,610	164,483
Electrical equipment manufacturing	111,630	151,574
Other professional, scientific and technical activity	79,407	-
Advertising	54,659	162,814
Printing and reproducing of recordings	47,778	10,801
Single-purpose construction	36,319	-
Veterinary	-	28,353
Other	129,357	305,006
	14,956,229	**9,997,279**

(f) The concentration of loans to customers

As of 31 December 2019 and 2018, the Bank has one borrower, whose loan balances exceed 10% of the equity. The total aggregate value of the loan balances of the mentioned borrower as at 31 December 2019 and 31 December 2018 amounted to KZT 2,001,109 thousand and KZT 1,531,665 thousand, respectively.

16. FINANCIAL ASSETS CARRIED AT AMORTISED COST

	31.12.2019	31.12.2018
Held by the Bank		
- Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	*1,003,189*	*2,161,517*
- Notes of the National Bank of the Republic of Kazakhstan	*3,905,169*	*2,617,965*
Provision for expected credit losses	(977)	(1,444)
	4,907,381	**4,778,038**

The entire amount of held-to-maturity investments is represented by the treasury bills of the Ministry of Finance of the Republic of Kazakhstan and notes of the National Bank of the Republic of Kazakhstan denominated in KZT and having a credit rating of “BBB-”.

Under the Bank’s Investment Policy and business model, management has the intention and ability to hold these securities until their maturities. The published price quotations for the same debt securities with identical terms are available on the local stock exchange.

For treasury operations, the Bank calculates expected credit losses on a financial asset based not only on current assessments of the credit quality of a counterparty/ issuer as at the reporting date but also considering possible deterioration in the financial condition in future due to adverse macroeconomic factors of the business environment of the counterparty (issuer). In particular, the amount of provisions for treasury operations is influenced by the rating outlook (positive, stable, negative) assigned by international rating agencies, which affects the probability of default (PD).

In thousands of Kazakhstan tenge

16. FINANCIAL ASSETS CARRIED AT AMORTISED COST (continued)

Probability of default for treasury operations is determined according to the Default Study from international rating agencies (S&P, Fitch, Moody's), which publish tabular data with the values of the probabilities of default. The probabilities of default are maintained up to date and are updated periodically as the default statistics are updated.

Loss given default (LGD) for treasury operations is determined according to the Default Study from international rating agencies (S&P, Fitch, Moody's) and depends on the type of debt on the financial asset: senior secured/unsecured, subordinated, sovereign. Besides, LGD may be adjusted if the collateral is provided for the asset, as well as if there are indications of impairment of the financial asset (Stage 2 or Stage 3).

17. NON-CURRENT ASSETS HELD-FOR-SALE

As at 31 December 2018, the carrying amounts of non-current assets held-for-sale amounted to KZT 645,014 thousand (as at 31 December 2018: KZT 494,529 thousand). Non-current assets held-for-sale are represented by assets that were accepted by the Bank as repayment of indebtedness on loans to customers. The Bank has developed a realisation plan, according to which the assets are planned to be realised within the next 12 months. Non-current assets held-for-sale were recorded at the purchase price determined on the auction.

18. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

The Bank leases an office based on a lease without the right to early termination. The lease term is 60 months, with the possibility of extending the lease term. Besides, the Bank leases vehicles based on a lease agreement; the remaining validity period is more than 3 years. Leases do not include contingent rent provisions. The receipt of right-of-use assets of the Bank for the year ended 31 December 2019 amounted to 322,822 thousand tenges. Right-of-use assets amortisation for the year ended 31 December 2019 included in amortisation in the statement of profit or loss and other comprehensive income amounted to 41,412 tenges. In calculating the lease obligations used the assumption at a discount rate of 12.00%.

Future undiscounted lease payments payable under concluded long-term lease agreements by maturity are presented as follows:

	31.12.2019	**31.12.2018**
Up to 12 months	85,112	70,317
1 to 5 years	326,582	281,268
Total	**411,694**	**351,585**

In thousands of Kazakhstan tenge

18. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	Computers	Vehicles	Other	Intangible assets	Leasehold improvements	Assets in the form of ownership rights	Total
Actual costs							
Balance as of 1 January 2018	81,664	12,586	61,363	86,779	147,544	-	389,936
Additions	9,866	-	2,056	6,593	-	-	18,515
Disposals	-	(12,586)	(1,306)	-	-	-	(13,892)
Balance as of 31 December 2018	**91,530**	**-**	**62,113**	**93,372**	**147,544**	**-**	**394,559**
Depreciation and amortisation							
Balance as of 1 January 2018	(39,343)	(10,805)	(37,665)	(30,395)	(30,050)	-	(148,258)
Depreciation and amortisation accrued for the year	(8,512)	(187)	(4,355)	(7,575)	(29,508)	-	(50,137)
Disposals	-	10,992	1,036	-	-	-	12,028
Balance as of 31 December 2018	**(47,855)**	**-**	**(40,984)**	**(37,970)**	**(59,558)**	**-**	**(186,367)**
Book value as of 31 December 2018	**43,675**	**-**	**21,129**	**55,402**	**87,986**	**-**	**208,192**
Actual costs							
Balance as of 1 January 2019	91,530	-	62,113	93,372	147,544	-	394,559
Additions	4,041	-	4,471	6,906	-	322,882	338,300
Disposals	(8,094)	-	(5,810)	(29,152)	-	-	(43,056)
Balance as of 31 December 2019	**87,477**	**-**	**60,774**	**71,126**	**147,544**	**322,882**	**689,803**
Depreciation and amortisation							
Balance as of 1 January 2019	(47,855)	-	(40,984)	(37,970)	(59,558)	-	(186,367)
Depreciation and amortisation accrued for the year	(9,391)	-	(4,980)	(17,367)	(29,510)	(41,412)	(102,660)
Disposals	8,094	-	5,810	29,152	-	-	43,056
Balance as of 31 December 2019	**(49,152)**	**-**	**(40,154)**	**(26,185)**	**(89,068)**	**(41,412)**	**(245,971)**
Carrying value as of 31 December 2019	**38,325**	**-**	**20,620**	**44,941**	**58,476**	**281,470**	**443,832**

In thousands of Kazakhstan tenge

19. OTHER ASSETS

	31.12.2019	31.12.2018
Card account settlements	2,805	59,552
Fines and penalties charged	2,493	6,046
Assets under spot transactions	-	115,260
Other assets	11,294	40,804
Provision for expected credit losses	(1,596)	(13,125)
Total other financial assets	**14,996**	**208,537**
Other prepayments to the state budget	76,772	10,439
Guarantee deposit	23,863	23,863
Prepayment for rent	21,805	21,965
Deferred expenses	9,113	8,788
Other prepayments	2,675	4,593
Receivables from employees	2,038	650
Fee for participation in the auction	-	47,948
Other assets	13,715	12,702
Total other non-financial assets	**149,981**	**130,948**
Total other assets	**164,977**	**339,485**

20. ACCOUNTS AND DEPOSITS OF BANKS

	31.12.2019	31.12.2018
Vostro accounts	198,342	344,960
Fixed-term deposits	-	1,153,067
	198,342	**1,498,027**

As of 31 December 2019 and 31 December 2018, the Bank had no other banks' deposits that exceeded 10% of the Bank's equity.

21. CURRENT ACCOUNTS AND DEPOSITS OF CUSTOMERS

	31.12.2019	31.12.2018
Current accounts and on-call deposits		
- *Retail customers*	*1,514,772*	*1,245,260*
- *Corporate customers*	*7,875,477*	*5,127,516*
	9,390,249	6,372,776
Fixed-term deposits		
- *Retail customers*	*3,117,809*	*1,940,018*
- *Corporate customers*	*20,378,607*	*11,722,280*
	23,496,416	13,662,298
	32,886,665	**20,035,074**

Blocked amounts

As at 31 December 2019, deposits of Bank's customers amounting to KZT 17,826 thousand (31 December 2018: KZT 7,782 thousand) secure the loans provided to customers and off-balance-sheet credit instruments issued by the Bank.

In thousands of Kazakhstan tenge

21. CURRENT ACCOUNTS AND DEPOSITS OF CUSTOMERS (continued)

The concentration of customers' current accounts and deposits

As of 31 December 2019, the Bank has seven customers (31 December 2018: four), whose accounts and deposits account for more than 10% of the equity. The aggregate balance of those accounts and deposits as at 31 December 2019 amounted to KZT 24,138,634 thousand (31 December 2018: KZT 11,604,084 thousand).

22. LOANS FROM INTERNATIONAL FINANCIAL ORGANISATIONS

	31.12.2019	31.12.2018
EBRD loan	5,757,924	6,472,871
	5,757,924	**6,472,871**

In 2016, the Bank entered into 2 loan agreements with the European Bank for Reconstruction and Development:

- Loan agreement No. 47953 dated 28 June 2016 to support small and medium-sized business in KZT in the amount equivalent to US dollars 15,000,000 with maturity up to 25 January 2023
- Loan agreement No. 47954 dated 28 June 2016 to support the project called Women in Business in KZT in the amount equivalent to US dollars 5,000,000 with maturity up to 25 January 2023.

Each loan is to be issued in 2 tranches. Under the terms of the loan agreement, it is possible to receive each tranche in two portions. The first tranche and the first portion of the second tranche were received in 2017 in KZT; the remaining portions - in the reporting period.

Interest on the loan is accrued at a floating rate and paid quarterly, under the terms of the loan agreement. At the end of the reporting period, the interest rate stood at 7.35%.

The Bank shall comply with certain financial covenants of the above loan agreements. Those covenants include maintenance of the specified ratios of financial performance. The Bank has not breached those covenants as at 31 December 2019 and 2018.

Changes in liabilities arising from financing activities

The following table shows changes in liabilities arising from financing activities, including both changes arising from cash flows and those not related to cash flows. Liabilities arising from financing activities are those liabilities, whose cash flows were classified or future cash flows will be classified in the cash flow statement as cash flows from financing activities.

	31.12.2019	31.12.2018
Balance at the year-beginning	6,472,871	4,794,954
Cash flows	(719,931)	1,632,600
Other changes	4,984	45,317
	5,757,924	**6,472,871**

* Other changes include interest expense and payments of interest.

In thousands of Kazakhstan tenge

23. OTHER LIABILITIES

	31.12.2019	31.12.2018
Lease liability	356,915	-
Accounts payable to suppliers	74,745	72,653
Banking transactions payables	55,425	25,432
Liabilities under spot transactions	-	115,440
Other liabilities	9,783	27,780
Total other financial liabilities	**496,868**	**241,305**
Settlements on taxes and other obligatory payments to the budget	90,662	23,259
Accounts payable to employees	50,233	44,600
Provision for vacations	29,430	23,104
Other transit accounts	5,211	148,912
Other liabilities	1,665	3,445
Total other non-financial liabilities	**177,201**	**243,320**
Total other liabilities	**674,069**	**484,625**

24. ISSUED CAPITAL

(a) Issued and additional paid-in capital

Authorised, issued and outstanding issued capital of the Bank consists of 1,002,872 ordinary shares (in 2018: 1,002,872 ordinary shares). All of the shares have a nominal value of KZT 10,000.

Ordinary shareholders are entitled to receive dividends as declared and vote (one vote per share) at annual and general shareholders' meetings of the Bank.

(b) Earnings per share

	31.12.2019	31.12.2018
Net profit for the year	833,651	775,119
Number of issued ordinary shares	1,002,872	1,002,872
Earnings per share		
Basic and diluted earnings per share, KZT	**831.26**	**772.90**

Ordinary shares of the Bank are not traded on the open market, however, the Bank decided to disclose information on the net earnings per share calculated under IAS 33 Earnings per Share.

(c) The nature and purpose of reserves

Reserve for general banking risks

Until 2013, under the amendments to the Decree No. 196 dated 31 January 2011 (which became void in 2013) of the Committee for the Control and Supervision of Financial Market and Financial Organisations (FSC) On Establishment of Minimum Capital Reserves for Second-Tier Banks, the Bank had to create a capital reserve by transferring an amount from retained earnings to a non-distributable capital reserve. The amount to be transferred annually was calculated as the net profit for the preceding year before distribution of dividends, attributable to the common shareholders, multiplied by a factor of increase in classified assets and contingent liabilities (under the Decree No. 296 On Approval of the Rules of Classification of Assets, Contingent Liabilities and Creation of Provisions (Reserves) against Assets and

24. ISSUED CAPITAL (continued)

(c) The nature and purpose of reserves (continued)

Reserve for general banking risks

Contingent Liabilities issued by the FSC on 25 December 2006) (which became void in 2013) for the preceding year. Such an increase in the percentage had to be at least 10% but no more than 100%.

Under the amendments made on 25 December 2013 to the Decree No. 358 On Approval of the Instruction on Statutory Values and Prudential Standards Calculation Method for Second Tier Banks, the statutory capital reserve is not subject to distribution.

During the year ended 31 December 2019 and 2018, the Bank made no transfers to the reserve for general banking risks.

(d) Reserve for revaluation of financial assets at fair value through other comprehensive income/ available-for-sale

The revaluation reserve for available-for-sale financial assets comprises the cumulative net change in the fair value until the assets are derecognised.

(e) Dividends

The ability of the Bank to declare and distribute dividends is subject to the laws and regulations of the Republic of Kazakhstan.

Dividends on common shares are recognised as a distribution of retained earnings for the period in which they are declared. No dividends were declared for 2019 and 2018.

25. RISK MANAGEMENT

Risk management is fundamental to the activities of the Bank and is an essential element of the Bank’s operations. Market risk, credit risk and liquidity risk are the main risks that the Bank faces in the course of its business.

(a) Risk management policies and procedures

The Bank’s risk management policies are aimed at identifying, analysing and managing the risks faced by the Bank, and at establishing appropriate risk limits and controls, as well as continuous monitoring the risk levels and ensuring that they comply with the limits established. Risk management policies and procedures are reviewed regularly in response to changes in market conditions, offered banking products and services and new best practices.

The Bank’s Board of Directors is responsible for ensuring the proper functioning of the risk management control system, for managing key risks, and approving policies and procedures for risk management, as well as for approving major transactions.

Management Board of the Bank is responsible for monitoring and implementing risk mitigation measures and ensuring that the Bank operates within the established risk limits. Management Board of the Bank is responsible for the overall risk management and control over the compliance with requirements of the current laws and regulations, and supervision over the application of common principles and methods for identifying, assessing, managing and reporting both financial and non-financial risks.

Credit, market and liquidity risks are managed and controlled by the Credit Committee and Assets and Liabilities Management Committee both at the portfolio level and the level of individual transactions.

Both external and internal risk factors are identified and managed within the Bank. Special attention is paid to identifying the full list of risk factors and determining the level of adequacy of current risk mitigation procedures.

In addition to the standard credit and market risk analysis, Management Board of the Bank monitors financial and non-financial risks by holding regular meetings with operational departments to obtain expert judgements in their areas of expertise.

25. RISK MANAGEMENT (continued)

(b) Market risk

Market risk is the risk that changes in market prices will cause fluctuations of the fair value or future cash flows from financial instruments. Market risk includes currency risk, interest rate risk, and other price risks. Market risk arises from net foreign exchange positions concerning interest-bearing foreign 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 ensure that exposure to market risk is within the acceptable parameters while optimising the profitability to be reached at the accepted level of risk. Assets and Liabilities Management Committee headed by the Chairman is responsible for managing market risk and liquidity risk. Market risk and liquidity risk limits are approved by the Assets and Liabilities Management Committee based on recommendations of the Risk Management Department.

The Bank manages market risk by setting open position limits in respect of the amount of certain financial instruments portfolio, terms for change of interest rates, currency position, stop-loss limits and by regular monitoring of compliance therewith, the results of which are considered and approved by the Management Board.

(i) Interest rate risk

Interest rate risk is the risk that the fair value of or future cash flows from financial instruments will fluctuate due to changes in market interest rates. The Bank is exposed to the impact of fluctuations in prevailing market interest rates on its financial position and cash flows. Interest margins may increase as a result of such fluctuations but may also reduce or result in losses if unexpected movements arise.

Interest rate risk is managed primarily through monitoring interest rate changes. Summarised information on the terms of revision of interest rates on major interest-bearing financial instruments as at 31 December 2019 is presented below:

In thousands of Kazakhstan tenge

25. RISK MANAGEMENT (continued)

(b) Market risk (continued)

(i) Interest rate risk (continued)

Analysis of the terms for interest rates review

Interest rate risk is managed primarily through monitoring interest rate changes. Summarised information on the terms of revision of interest rates on major interest-bearing financial instruments as at 31 December 2019 is presented below:

	Less than 1 months	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Interest-free	Total
ASSETS							
Cash and cash equivalents	20,216,392	-	-	-	-	11,206,315	31,422,707
Accounts and deposits in banks	-		-	-	-	72,653	72,653
Financial assets at fair value through OCI	-	-	43,541	1,129,802	-	-	1,173,343
Loans to customers	244,658	615,694	5,356,655	5,633,832	3,105,390	-	14,956,229
Financial assets at amortised cost	-	-	3,834,808	1,072,573	-	-	4,907,381
	20,461,050	**615,694**	**9,235,004**	**7,836,207**	**3,105,390**	**11,278,968**	**52,532,313**
LIABILITIES							
Accounts and deposits in banks	-	-	-	-	-	198,342	198,342
Current accounts and deposits due to customers	18,953,288	1,618,790	3,607,497	-	-	8,707,090	32,886,665
Loans from international financial institutions	571,165	-	1,475,715	3,711,044	-	-	5,757,924
	19,524,453	**1,618,790**	**5,083,212**	**3,711,044**	**-**	**8,905,432**	**38,842,931**
	936,597	**(1,003,096)**	**4,151,792**	**4,125,163**	**3,105,390**	**2,373,536**	**13,689,382**

In thousands of Kazakhstan tenge

25. RISK MANAGEMENT (continued)

(b) Credit risk (continued)

(i) Interest rate risk (continued)

Summarised information on the terms of revision of interest rates on major interest-bearing financial instruments as at 31 December 2018 is presented below:

	Less than 1 months	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Interest-free	Total
ASSETS							
Cash and cash equivalents	16,116,281	-	-	-	-	8,766,244	24,882,525
Accounts and deposits in banks	-		-	-	-	72,957	72,957
Financial assets at fair value through OCI	-	-	43,541	1,135,314	-	-	1,178,855
Loans to customers	254,393	727,123	3,642,567	3,756,922	1,616,274	-	9,997,279
Financial assets at amortised cost	-	20,596	3,777,416	980,026	-	-	4,778,038
	16,370,674	**747,719**	**7,463,524**	**5,872,262**	**1,616,274**	**8,839,201**	**40,909,654**
LIABILITIES							
Accounts and deposits in banks	1,153,067	-	-	-	-	344,960	1,498,027
Current accounts and deposits of customers	9,634,688	1,393,975	2,951,250	-	-	6,055,161	20,035,074
Loans from international financial institutions	95,935	-	714,106	5,662,830	-	-	6,472,871
	10,883,690	**1,393,975**	**3,665,356**	**5,662,830**	**-**	**6,400,121**	**28,005,972**
	5,486,984	**(646,256)**	**3,798,168**	**209,432**	**1,616,274**	**2,439,080**	**12,903,682**

In thousands of Kazakhstan tenge

25. RISK MANAGEMENT (continued)

(b) Credit risk (continued)

(i) Interest rate risk (continued)

Average effective interest rate

The following table presents the average effective interest rates on interest-bearing assets and liabilities as at 31 December 2019 and 2018.

	2019 Average effective interest rate, %		2018 Average effective interest rate, %	
	KZT	US dollar	KZT	US dollar
Interest-bearing assets				
Cash and cash equivalents	9.01	-	8.61	-
Financial assets at fair value through other comprehensive income	5.46	-	5.73	-
Loans to customers	12.62	3.38	13.54	5.22
Financial assets carried at amortised cost	6.97	-	7.72	-
Interest-bearing liabilities				
Accounts and deposits in banks				
- Term deposits	-	-	-	2.31
Current accounts and deposits of customers				
- Term deposits	6.22	0.08	5.84	0.54
Loans from international financial organisations	7.90	-	8.31	-

Analysis of sensitivity to changes in interest rates

Interest rate risk is managed through the analysis of the terms of interest rates revision and monitoring the sensitivity of financial assets and liabilities. Analysis of sensitivity of net profit or loss and equity of the Bank (net of taxes) to the interest rate changes (interest rate risk) based on a simplified scenario of parallel 100 basis point shift in the yield curves towards increase or decrease in interest rates, and revised positions of interest-bearing assets and liabilities as at 31 December 2019 and 2018 are shown below.

	2019		2018	
	Profit or loss	Equity	Profit or loss	Equity
100 basis point parallel shift towards a decrease in interest rates	(12,949)	(12,949)	(49,153)	(49,153)
100 basis point parallel shift towards an increase in interest rates	12,949	12,949	49,153	49,153

Analysis of sensitivity of profit or loss and equity of the Bank to changes in the fair values of financial assets at fair value through other comprehensive income/ available-for-sale due to changes in interest rates (based on items that existed as at 31 December 2019 and 2018, and a simplified scenario of parallel 100 basis point shift in the yield curve towards an increase or decrease in interest rates) is presented below:

(i) Interest rate risk (continued)

	2019		2018	
	Profit or loss	Equity	Profit or loss	Equity
100 basis point parallel shift towards a decrease in interest rates	-	30,580	-	41,716
100 basis point parallel shift towards an increase in interest rate	-	(29,476)	-	(37,507)

In thousands of Kazakhstan tenge

25. RISK MANAGEMENT (continued)

(b) Credit risk (continued)

(ii) Currency risk

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

Currency risk is the risk that the fair value of or future cash flows from financial instruments will fluctuate due to changes in foreign exchange rates. Although the Bank hedges its exposure to currency risk, such transactions do not qualify as hedging relationships under the IFRS.

The structure of financial assets and liabilities in terms of foreign currencies as at 31 December 2019 is detailed below:

	KZT	US dollar	Euro	Russian rouble	Other	Total
ASSETS						
Cash and cash equivalents	20,761,536	10,584,761	47,476	28,794	140	31,422,707
Accounts and deposits in banks	-	72,653	-	-	-	72,653
Financial assets at FVTOCI	1,173,343	-	-	-	-	1,173,343
Loans to customers	13,643,103	1,313,126	-	-	-	14,956,229
Financial assets at amortised cost	4,907,381	-	-	-	-	4,907,381
Other financial assets	6,344	8,652	-	-	-	14,996
Total assets	**40,491,707**	**11,979,192**	**47,476**	**28,794**	**140**	**52,547,309**
LIABILITIES						
Accounts and deposits in banks	2,635	192,594	3,113	-	-	198,342
Current accounts and deposits of customers	21,103,411	11,705,882	69,362	8,010	-	32,886,665
Loans from international financial organisations	5,757,924	-	-	-	-	5,757,924
Other financial liabilities	423,610	73,187	71	-	-	496,868
Total liabilities	**27,287,580**	**11,971,663**	**72,546**	**8,010**	**-**	**39,339,799**
Net position	**13,204,127**	**7,529**	**(25,070)**	**20,784**	**140**	**13,207,510**

The structure of financial assets and liabilities in terms of foreign currencies as at 31 December 2018 is detailed below:

In thousands of Kazakhstan tenge

25. RISK MANAGEMENT (continued)

(b) Credit risk (continued)

(ii) Currency risk (continued)

	KZT	US dollar	Euro	Russian rouble	Other	Total
ASSETS						
Cash and cash equivalents	16,410,097	8,319,433	144,668	8,063	264	24,882,525
Accounts and deposits in banks	-	72,957	-	-	-	72,957
Financial assets at FVTOCI	1,178,855	-	-	-	-	1,178,855
Loans to customers	8,852,585	1,144,694	-	-	-	9,997,279
Financial assets at amortised cost	4,778,038	-	-	-	-	4,778,038
Other financial assets	62,366	146,171	-	-	-	208,537
Total assets	**31,281,941**	**9,683,255**	**144,668**	**8,063**	**264**	**41,118,191**
LIABILITIES						
Accounts and deposits in banks	2,635	1,480,394	14,998	-	-	1,498,027
Current accounts and deposits of customers	11,872,870	8,005,804	156,088	312	-	20,035,074
Loans from international financial organisations	6,472,871	-	-	-	-	6,472,871
Other financial liabilities	141,536	83,460	16,309	-	-	241,305
Total liabilities	**18,489,912**	**9,569,658**	**187,395**	**312**	**-**	**28,247,277**
Net position	**12,792,029**	**113,597**	**(42,727)**	**7,751**	**264**	**12,870,914**

The effect on profit before tax and equity-based on the value of financial assets is calculated using the volatility analysis of the exchange rate. Management of the Bank believes that as at 31 December 2019 and 31 December 2018 exchange rates can change by 15%.

Depreciation of KZT against the foreign currencies, as shown below, as at 31 December 2019 and 2018 would have increased (decreased) the equity and profit or loss by the amounts mentioned below. This analysis is presented net of taxes and based on fluctuations of exchange rates, which the Bank considered reasonably possible as at the end of the reporting period. This analysis was based on the assumption that all other variables, in particular interest rates, will remain unchanged:

	2019		**2018**	
	Profit or loss	**Equity**	**Profit or loss**	**Equity**
15% strengthening of the US dollar against KZT	903	903	13,632	13,632
15% strengthening of the Euro against KZT	(3,008)	(3,008)	(5,127)	(5,127)
15% strengthening of the Russian rouble against KZT	2,494	2,494	930	930

25. RISK MANAGEMENT (continued)

(c) Credit risk

Credit risk is the risk of financial loss arising from the failure of the Bank's borrower or counterparty to perform their obligations. The Bank manages credit risk (for recognised financial assets and unrecognised contractual commitments) through applying the approved policies and procedures, which include the requirements to establish and comply with limits of credit risk concentration, as well as through establishing a Credit Committee, which is responsible for active monitoring of credit risk. Credit policies are reviewed and approved by the Board of Directors.

The credit policies establish:

- Procedures for consideration and approval of credit applications
- Methodology for evaluation of the borrowers' (corporate customers and individuals) creditworthiness
- Methodology for evaluation of the counterparties' creditworthiness
- Methodology for evaluation of the offered collateral
- Requirements to credit documentation
- Procedures for permanent monitoring of loans and other products bearing the credit risk.

Applications from corporate customers for loans are made by the relevant customer relationship managers and then submitted to the Credit Office, which is responsible for a portfolio of loans issued to legal entities. Reports of analysts of the Credit Office are based on a structural analysis of the business and financial position of borrowers. Then applications and reports undergo an independent review made by the Risk Management Department, which issues a second opinion; the proper fulfilment of the credit policies requirements is also reviewed. Credit Committee approves applications for loans based on documents provided by the Credit Office, Integrated Security Department, Collateral Evaluation Department, Legal Department and Risk Management Department.

The Bank constantly monitors the performance of certain loans and regularly revaluates the creditworthiness of its borrowers. Revaluation procedures are based on an analysis of the borrower's financial statements as at the latest reporting date or other information provided by the borrower or obtained by the Bank from other sources. At the same time, a decision to provide each loan is made by the Credit Committee, upon completion of all necessary procedures, which allows controlling the entire credit process in case of a small number of incoming applications.

In addition to the analysis of individual borrowers, Risk Management Department evaluates loan portfolio as a whole in terms of credit concentration and market risks.

The maximum exposure to credit risk is usually represented by the carrying amounts of financial assets reported in the statement of financial position and unrecognised contractual commitments. The possibility of offsetting assets against liabilities is not significant in reducing potential exposure to credit risk.

The banking sector is generally exposed to credit risk arising from financial assets and contingent liabilities. Bank's credit risk is concentrated in Kazakhstan. The exposure to credit risk is constantly monitored to ensure that the credit limits and requirements to creditworthiness established by the Bank's risk management policies are complied with.

In thousands of Kazakhstan tenge

25. RISK MANAGEMENT (continued)

(c) Credit risk (continued)

Maximum exposure to credit risk arising from financial assets as at the reporting date is detailed below:

	31.12.2019	31.12.2018
ASSETS		
Cash and cash equivalents	31,422,707	24,882,525
Accounts and deposits in banks	72,653	72,957
Financial assets at fair value through OCI	1,173,343	1,178,855
Loans to customers	14,956,229	9,997,279
Financial assets at amortised cost	4,907,381	4,778,038
Other financial assets	14,996	208,357
Total maximum exposure to credit risk	**52,547,309**	**41,118,191**

31 December 2019	Stage 1 On a group basis	Stage 2 On a group basis	Stage 3 On a group basis	Stage 3 Individually	Total
Cash and cash equivalents	31,422,707	-	-	-	31,422,707
Accounts and deposits in banks	72,653	-	-	-	72,653
Financial assets at FVTOCI	1,173,343	-	-	-	1,173,343
Loans to customers	12,694,593	499,496	68,002	1,694,138	14,956,229
Financial assets at amortised cost	4,907,381	-	-	-	4,907,381
Other assets	14,996	-	-	-	14,996
Total assets	**50,285,673**	**499,496**	**68,002**	**1,694,138**	**52,547,309**

31 December 2018	Stage 1 On a group basis	Stage 2 On a group basis	Stage 3 On a group basis	Stage 3 Individually	Total
Cash and cash equivalents	24,882,525	-	-	-	24,882,525
Accounts and deposits in banks	72,957	-	-	-	72,957
Financial assets at FVTOCI	1,178,855	-	-	-	1,178,855
Loans to customers	8,400,869	11,212	112,548	1,472,650	9,997,279
Financial assets at amortised cost	4,778,038	-	-	-	4,778,038
Other assets	208,537	-	-	-	208,537
Total assets	**39,521,781**	**11,212**	**112,548**	**1,472,650**	**41,118,191**

Analysis of collateral for loans to customers and concentration of credit risk on loans to customers is presented in Note 15.

Maximum exposure to credit risk arising from unrecognised contractual commitments as at the reporting date is presented in Note 27.

As of 31 December 2019, the Bank had no debtors (31 December 2017: no debtors), who expose the Bank to credit risk exceeding 10% of the maximum credit risk exposure.

25. RISK MANAGEMENT (continued)

(c) Credit risk (continued)

Significant increase in credit risk

The Bank monitors all financial assets that are subject to impairment requirements to identify whether credit risk has increased significantly from the date of initial recognition of the assets. In the event of a significant increase in credit risk, the Bank calculates the provision amount based on the lifetime expected credit losses rather than the 12-month expected credit losses.

The Bank uses credit risk grades as a primary input into the determination of the term structure of the probability of default for exposures. The Bank collects performance and default information about its credit risk exposures analysed in terms of jurisdiction or region and type of product and borrower, as well as in terms of credit risk grading. The information used is both internal and external depending on the portfolio assessed.

The Bank uses various criteria to determine whether credit risk has increased significantly per portfolio of assets. The criteria used include both quantitative and qualitative changes in the probability of default.

For bank loans assessed on a collective basis, a significant increase in credit risk is determined based on the increase in lifetime probability of default since initial recognition using the defined thresholds for segmented homogeneous portfolios and loans with an overdue more than 30 days since initial recognition, for loans assessed on an individual basis - additionally in case of the decrease of external/ internal credit rating by 2 (two) grades (fact of restructuring because of deterioration of the financial position to classify as Stage 3), expert opinions of the Bank's specialists based on the changes in the qualitative and quantitative indicators of the borrower, a significant deterioration of collateral and other objective evidence of significant financial difficulties since initial recognition.

Stage 3 is determined for loans that are assessed on a collective basis with an overdue of over60-90 days, for loans assessed on an individual basis - over 60 days past due, restructuring related to the deterioration of financial position, deterioration of the internal credit rating and expert opinion of the Bank's specialists.

Management of the Bank believes that certain financial instruments with low credit risk at the reporting date have not experienced a significant increase in credit risk. The Bank applies this policy to financial instruments issued to sovereign and financial institutions only. It is believed that a financial instrument has low credit risk when its external credit rating is equivalent to the definition of "investment grade" given by international rating agencies.

The Bank has monitoring procedures in place to make sure that the criteria used to identify significant increases in credit are effective, meaning that significant increase in credit risk is identified before the exposure has defaulted or when the asset becomes 30 days past due.

Forward-looking information

The Bank uses forward-looking information that is available without undue cost or effort in its assessment of a significant increase in credit risk as well as in its measurement of expected credit losses.

Incorporation of forward-looking elements reflects the expectations of the Bank. The Bank considers scenarios, the number of which depends on an assessment of the probability and materiality of the scenario, changes in circumstances and macroeconomic factors.

The purpose of using multiple scenarios is to model the non-linear impact of macroeconomic factors on the expected credit losses.

The Bank has identified and documented key indicators affecting portfolios of financial instruments and, using statistical analysis of historical data, has assessed the relationship between macroeconomic variables and credit risk and credit losses.

25. RISK MANAGEMENT (continued)

(d) Liquidity risk

Liquidity risk is the risk that the Bank can encounter difficulties in raising cash to perform its obligations. Liquidity risk exists when the maturities of assets and liabilities do not match. Matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the liquidity risk management. It is unusual for financial institutions to have maturities of their assets and liabilities completely matching since business transacted is often of an uncertain term and different types. An unmatched position potentially enhances profitability but can also increase the risk of losses.

The Bank maintains an appropriate liquidity level to ensure the continued availability of cash necessary to settle all liabilities as they fall due. Liquidity management policies are reviewed and approved by the Board of Directors. The Bank seeks to actively support a diversified and stable structure of funding sources consisting of long-term loans from international financial institutions, short-term loans from other banks, deposits of key corporate customers and individuals, and a diversified portfolio of highly liquid assets for the Bank to be able to promptly and smoothly respond to unforeseen liquidity requirements.

Section of corporate risk management policies that relates to liquidity risk management consists of:

- Forecasting cash flows in terms of major currencies and estimating the required level of liquid assets related to those cash flows
- Maintaining a diversified structure of funding sources
- Managing the concentration and structure of borrowed funds
- Developing debt financing plans
- Maintaining a portfolio of highly liquid assets that can easily be realised as a defensive measure in the event of cash liquidity gap
- Developing contingency plans to maintain liquidity and an established level of financing
- Monitoring the compliance of liquidity ratios with statutory ratios.

The Treasury receives information from divisions on the liquidity structure of their financial assets and liabilities and on forecasting cash flows expected from planned future business.

Afterwards, the Treasury forms an appropriate portfolio of short-term liquid assets, mainly consisting of short-term liquid held-for-sale securities, deposits placed with banks and other inter-bank products to ensure the required level of liquidity for the Bank as a whole.

The Treasury monitors its liquidity position daily and regularly conducts stress tests, taking into account a variety of possible market scenarios under both normal and adverse environment. Under normal market environment, liquidity reports are provided to the senior management weekly. Decisions on liquidity management policy are taken by the Assets and Liabilities Management Committee and fulfilled by the Treasury.

The following tables show the undiscounted cash flows of financial assets, financial liabilities and credit-related contingent liabilities at the earliest contractual maturities. The total cash inflows and outflows shown in the tables are contractual undiscounted cash flows of financial assets, liabilities or credit-related contingent liabilities. For financial guarantee contracts issued, the maximum amount of the guarantees relates to the earliest period when the guarantee can be used.

In thousands of Kazakhstan tenge

25. RISK MANAGEMENT (continued)

(d) Liquidity risk (continued)

The analysis of financial liabilities in terms of their maturities as of 31 December 2019 is shown below.

	On call and less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Total cash outflows	Book value
Current financial liabilities							
Accounts and deposits in banks	198,342	-	-	-	-	198,342	198,342
Current accounts and deposits of customers	27,672,066	1,624,909	653,538	3,003,046	8,242	32,961,801	32,886,665
Loans from international financial organisations	617,640	-	603,436	1,176,002	4,076,353	6,473,431	5,757,924
Other financial liabilities	133,518	13,177	22,187	25,741	302,245	496,868	496,868
Total liabilities	**28,621,566**	**1,638,086**	**1,279,161**	**4,204,789**	**4,386,840**	**40,130,442**	**39,339,799**
Credit-related contingencies	**2,332,421**	**-**	**-**	**-**	**-**	**2,332,421**	**2,332,421**

In thousands of Kazakhstan tenge

25. RISK MANAGEMENT (continued)

(d) Liquidity risk (continued)

The analysis of financial liabilities in terms of their maturities as of 31 December 2018 is shown below.

	On call and less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Total cash outflows	Book value
Current financial liabilities							
Accounts and deposits in banks	1,498,869	-	-	-	-	1,498,869	1,498,027
Current accounts and deposits of customers	15,694,683	1,397,415	284,936	2,714,761	7,782	20,099,577	20,035,074
Loans from international financial organisations	135,328	-	370,536	730,588	6,427,241	7,663,693	6,472,871
Other financial liabilities	213,633	201	212	281	26,978	241,305	241,305
Total liabilities	**17,542,513**	**1,397,616**	**655,684**	**3,445,630**	**6,462,001**	**29,503,444**	**28,247,277**
Credit-related contingencies	**2,086,224**	**-**	**-**	**-**	**-**	**2,086,224**	**2,086,224**

Under the laws of the Republic of Kazakhstan, depositors have the right to withdraw their fixed-term deposits from a bank at any time, and in most cases, they lose the right to receive an interest income accrued. The deposits are presented based on their contractual maturities.

Nevertheless, management believes that regardless of the availability of early withdrawal option and the fact that a significant portion of the deposits is on-call accounts, diversification of those accounts and deposits across their number and types of depositors, as well as experience of the Bank allow considering those accounts a long-term and stable source of funding.

Management expects that cash flows of certain financial assets and liabilities can differ from contractual cash flows, either because management is authorised to manage cash flows or because the experience shows that timing of cash flows of those financial assets and liabilities can differ from contractual cash flows.

In thousands of Kazakhstan tenge

25. RISK MANAGEMENT (continued)

(d) Liquidity risk (continued)

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

	On-call and less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	No stated maturity	Past due	Total
Non-derivative assets								
Cash and cash equivalents	31,422,707	-	-	-	-	-	-	**31,422,707**
Accounts and deposits in banks	-	-	72,653	-	-	-	-	**72,653**
Financial assets at FVTPL	-	-	43,541	1,129,802	-	-	-	**1,173,343**
Loans to customers	219,171	615,694	5,356,655	5,633,832	3,105,390	-	25,487	**14,956,229**
Financial assets at amortised cost	-	-	3,834,808	1,072,573	-	-	-	**4,907,381**
Current income tax	-	286	-	-	-	-	-	**286**
Non-current assets held for sale	47,000	442,323	155,691	-	-	-	-	**645,014**
Property, plant and equipment and intangible assets	-	-	-	-	-	443,832	-	**443,832**
Deferred income tax	-	-	-	38,184	-	-	-	**38,184**
Other assets	16,359	94,277	28,881	-	23,864	-	1,596	**164,977**
Total assets	**31,705,237**	**1,152,580**	**9,492,229**	**7,874,391**	**3,129,254**	**443,832**	**27,083**	**53,824,606**
Current financial liabilities								
Accounts and deposits in banks	198,342	-	-	-	-	-	-	**198,342**
Current accounts and deposits of customers	27,642,552	1,618,789	3,617,082	8,242	-	-	-	**32,886,665**
Loans from international financial organisations	571,165	-	1,475,715	3,711,044	-	-	-	**5,757,924**
Other liabilities	231,056	13,177	127,591	215,729	86,516	-	-	**674,069**
Total liabilities	**28,643,115**	**1,631,966**	**5,220,388**	**3,935,015**	**86,516**	**-**	**-**	**39,517,000**
Net position	**3,062,122**	**(479,386)**	**4,271,841**	**3,939,376**	**3,042,738**	**443,832**	**27,083**	**14,307,606**

In thousands of Kazakhstan tenge

25. RISK MANAGEMENT (continued)

(d) Liquidity risk (continued)

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

	On-call and less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	No stated maturity	Past due	Total
Non-derivative assets								
Cash and cash equivalents	24,882,525	-	-	-	-	-	-	**24,882,525**
Accounts and deposits in banks	-	-	72,957	-	-	-	-	**72,957**
Financial assets at FVTPL	-	-	43,541	1,135,314	-	-	-	**1,178,855**
Loans to customers	175,020	727,123	3,642,567	3,756,922	1,616,274	-	79,373	**9,997,279**
Financial assets at amortised cost	-	20,596	3,777,416	980,026	-	-	-	**4,778,038**
Current income tax	-	43,246	-	-	-	-	-	**43,246**
Non-current assets held for sale	-	442,323	52,206	-	-	-	-	**494,529**
Property, plant and equipment and intangible assets	-	-	-	-	-	208,192	-	**208,192**
Deferred income tax	-	-	-	15,513	-	-	-	**15,513**
Other assets	188,846	75,810	24,094	26,872	23,863	-	-	**339,485**
Total assets	**25,246,391**	**1,309,098**	**7,612,781**	**5,914,647**	**1,640,137**	**208,192**	**79,373**	**42,010,619**
Current financial liabilities								
Accounts and deposits in banks	1,498,027	-	-	-	-	-	-	**1,498,027**
Current accounts and deposits of customers	15,682,067	1,393,975	2,951,250	7,782	-	-	-	**20,035,074**
Loans from international financial organisations	95,935	-	714,106	5,662,830	-	-	-	**6,472,871**
Other liabilities	389,249	201	68,197	26,978	-	-	-	**484,625**
Total liabilities	**17,665,278**	**1,394,176**	**3,733,553**	**5,697,590**	**-**	**-**	**-**	**28,490,597**
Net position	**7,581,113**	**(85,078)**	**3,879,228**	**217,057**	**1,640,137**	**208,192**	**79,373**	**13,520,022**

26. CAPITAL MANAGEMENT

The National Bank of the Republic of Kazakhstan establishes requirements to the capital adequacy of the Bank and monitors the compliance of the Bank with those requirements.

The Bank determines as capital those items that are determined by the laws as the items constituting the capital of credit organisations. As at 31 December 2019, the statutory minimum required ratio of tier 1 capital to risk-weighted asset value, contingent liabilities, operational and market risks is 0.055 (31 December 2018: 0.055), while the statutory minimum required ratio of the total capital to risk-weighted asset value, contingent liabilities, operational and market risk is 0.08 (31 December 2018: 0.08).

As at 31 December 2019 and 31 December 2018, the Bank met all of the statutory requirements to the capital, and its minimum ratio of tier 1 capital to risk-weighted asset value, contingent liabilities, operational and market risks as at 31 December 2019 was 0.763 (31 December 2018: 1.007), while the minimum ratio of the total capital to risk-weighted asset value, contingent liabilities, operational and the market risk was 0.763 (31 December 2018: 1.007).

27. CREDIT-RELATED CONTINGENT LIABILITIES

(a) Credit-related contingent liabilities

The Bank issues bank guarantees and letters of credit to secure the performance of its customers' obligations to third parties. Those agreements establish the limits of obligations and are usually valid for a term of up to five years.

When issuing financial guarantees, credit-related commitments, and letters of credit, the Bank applies the same risk management policies and procedures as those applied in issuing loans to customers.

As at 31 December 2019, the Bank had outstanding contractual contingent liabilities for credit lines amounting to KZT 1,656,022 thousand (31 December 2018: KZT 1,395,962 thousand), and for guarantees and letters of credit amounting to KZT 676,399 thousand (31 December 2018: KZT 690,262 thousand).

(b) Pending judicial proceedings

Management is not aware of any substantial actual or pending judicial proceedings, as well as the potential suits that might be filed against the Bank.

(c) Insurance

The insurance market in Kazakhstan is developing and insurances available in the other countries are non-available in Kazakhstan. The Bank does not have full coverage for its buildings and equipment, business interruption, or third party liability in respect of property or environmental damage arising from the use of the Bank's property.

The Bank entered into a package insurance agreement against banking risks related to electronic and cyber-crimes. The insurer is Oil Insurance Company JSC. The agreement duration is 12 months following the date of signing.

Until the Bank obtains adequate insurance coverage for its operations, there is a risk that losses incurred or loss of certain assets can have a material adverse effect on operations and financial position of the Bank.

(d) Tax liabilities

Kazakhstan's tax system, being relatively new, is characterised by frequent changes in legislative regulations, official pronouncements and court rulings, which are often unclear, contradictory, and can be differently interpreted by various tax authorities, including opinions on the accounting treatment of income, expenses and other items of financial statements under IFRS. Accuracy of tax assessment is subject to inspections and investigations by several regulatory bodies authorised to impose heavy fines and interests.

The tax year is open for inspection by tax authorities during the subsequent five calendar years; however, under certain circumstances, this period may be extended.

In thousands of Kazakhstan tenge

27. CREDIT-RELATED CONTINGENCIES

(d) Tax liabilities (continued)

These circumstances might result in the tax risks in Kazakhstan to be considerably higher than in other countries. Management believes that tax liabilities were reported in full in these financial statements based on its interpretation of the applicable tax laws and official comments to the regulations and court rulings. However, since interpretations of tax laws by various regulatory authorities can differ from the opinion of Bank's management, in cases of enforced actions by the regulatory authorities, their impact on the financial statements of the Bank can be material.

28. RELATED PARTY TRANSACTIONS

(a) Control relationships

The parent company of the Bank is Shinhan Bank JSC (Seoul, Republic of Korea). The Bank's parent company prepares financial statements available to external users.

The ultimate parent company of the Bank is Shinhan Financial Group Co. Ltd (Korea), which has the power to direct the activities of the Bank at its discretion and in its interests.

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

Total compensation included in Staff Costs item for the years ended 31 December 2019 and 2018 is detailed below:

	2019	2018
Board of Directors	10,500	7,000
Management Board	287,925	259,033
	298,425	**266,033**

As of 31 December 2019 and 2018, the balances of accounts and the average interest rates for the transactions with members of the Board of Directors and Management Board were as follows:

Statement of financial position	2019	Average interest rate, %	2018	Average interest rate, %
Other assets	1,338	-	650	-
Current accounts and deposits	(54,118)	0.17	(21,056)	0.88
Other liabilities	(42,632)	-	(32,415)	-

Amounts included in profit or loss on operations with members of the Board of Directors and the Management Board for the year ended 31 December may be presented as follows:

Statement of profit or loss and other comprehensive income	2019	2018
Foreign currency transactions income/(loss)	(868)	972
Fee and commission income/(expenses)	(267)	179
Interest expense	(139)	(192)

In thousands of Kazakhstan tenge

28. RELATED PARTY TRANSACTIONS

(c) Transactions with other related parties

As at 31 December 2019 and 2018, the balances of accounts and average interest rates, as well as the relevant gains or losses on the transactions with other related parties for the years then ended were as follows:

	Parent bank		Other related parties	
Statement of financial position	**2019**	**Average interest rate, %**	**2019**	**Average interest rate, %**
ASSETS				
Cash and cash equivalents				
- in Euro	-	-	41,295	-
- in other currency	-	-	140	-
Loans to customers				
- in KZT	-	-	1,000,655	10.75
Other assets				
- in KZT	-	-	1,749	-
LIABILITIES				
Accounts and deposits in banks				
- in KZT	2,635	-	-	-
- in US dollar	192,594	-	-	-
- in Euro	3,113	-	-	-
Current accounts and deposits of customers				
- in KZT	-	-	202,290	6.59
- in US dollar	-	-	25,702	0.10
Other liabilities				
- in KZT	103	-	33	-
- in US dollar	55,892	-	-	-
Items that were not recognised in the statement of financial position				
Guarantees received*	368,472	-	1,000,000	-

	Parent bank		Other related parties	
Statement of profit or loss and other comprehensive income	**2019**	**Average interest rate, %**	**2019**	**Average interest rate, %**
Income from transactions with foreign currencies	(40)	-	952	-
Interest income	-	-	64,203	-
Interest expense	(737)	-	(16,886)	-
Fee and commission income	-	-	5,933	-
Commission expense	(31,127)	-	(21,908)	-
Other general and administrative expenses	(49,812)	-	-	-
Other operating income (expenses), net	(37)	-	-	-

* As at 31 December 2019, the guarantees received include the USD-denominated guarantee provided by the parent bank include guarantees in the amount of 900 thousand US dollars and 24,140 thousand tenge for the loan issued to a corporate customer. The guarantee is interest-free; the expiry date are 10 April 2020 and 15 April 2020, respectively.

In thousands of Kazakhstan tenge

28. RELATED PARTY TRANSACTIONS

(c) Transactions with other related parties (continued)

* The guarantees received from other related parties include the guarantee in KZT provided by a company belonging to the Shinhan Financial Group Co. Ltd for the loan issued to its subsidiary in Kazakhstan. The guarantee is interest-free; the expiry date is 21 March 2021.

	Parent bank		Other related parties	
Statement of financial position	**2018**	**Average interest rate, %**	**2018**	**Average interest rate, %**
ASSETS				
Cash and cash equivalents				
- in Euro	-	-	55,684	-
- in other currency	-	-	263	-
Loans to customers				
- in KZT	-	-	1,005,678	11.00
Other assets				
- in KZT	-	-	1,749	-
LIABILITIES				
Accounts and deposits in banks				
- in KZT	2,635	-	-	-
- in US dollar	1,480,395	2.27	-	-
- in Euro	14,998	-	-	-
Current accounts and deposits of customers				
- in KZT	-	-	22,438	6.59
- in US dollar	-	-	18,976	-
Other liabilities				
- in KZT	-	-	18	-
- in US dollar	51,755	-	-	-
Items that were not recognised in the statement of financial position				
Guarantees received*	345,780	-	1,000,000	-

	Parent bank		Other related parties	
Statement of profit or loss and other comprehensive income	**2018**	**Average interest rate, %**	**2018**	**Average interest rate, %**
Income from transactions with foreign currencies	(14)		624	
Interest income			37,830	
Interest expense	(464)		(13,258)	
Fee and commission income			805	
Commission expense	(29,388)		-	
Other general and administrative expenses	(34,120)		-	
Other operating income (expenses), net	95		7	

* As at 31 December 2018, the guarantees received include the guarantees provided by the parent bank for the loans issued to the three corporate customers. The guarantee is interest-free; the expiry date is 10 April 2019.

The guarantees received from other related parties include the guarantee in KZT provided by a company belonging to the Shinhan Financial Group Co. Ltd for the loan issued to its subsidiary in Kazakhstan. The guarantee is interest-free; the expiry date is 21 March 2021.

In thousands of Kazakhstan tenge

29. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS

(a) Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and liabilities as at 31 December 2019.

	Carried at amortised cost	Creditors and receivables	Carried at fair value through other comprehensive income	Others carried at amortised cost	Total carrying value	Fair value
Financial assets						
Cash and cash equivalents	-	31,422,707	-	-	31,422,707	**31,422,707**
Accounts and deposits in banks	-	72,653	-	-	72,653	**72,653**
Financial assets at fair value through OCI	-	-	1,173,343	-	1,173,343	**1,173,343**
Loans to customers						
- to corporate customers	-	9,608,335	-	-	9,608,335	**7,463,271**
- to retail customers	-	5,347,894	-	-	5,347,894	**4,674,918**
Financial assets at amortised cost	4,907,381	-	-	-	4,907,381	**4,865,848**
Other financial assets	-	14,996	-	-	14,996	**14,996**
	4,907,381	**46,466,585**	**1,173,343**	**-**	**52,547,309**	**49,687,736**
Financial liabilities						
Accounts and deposits in banks	-	-	-	198,342	198,342	**198,342**
Current accounts and deposits of customers	-	-	-	32,886,665	32,886,665	**32,886,665**
Loans from international financial organisations	-	-	-	5,757,924	5,757,924	**5,757,924**
Other financial liabilities	-	496,787	-	81	496,868	**496,868**
	-	**496,787**	**-**	**38,843,012**	**39,339,799**	**39,339,799**

In thousands of Kazakhstan tenge

29. FINANCIAL ASSETS AND LIABILITIES: ACCOUNTING CLASSIFICATIONS AND FAIR VALUES

(a) Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and liabilities as at 31 December 2018.

	Carried at amortised cost	Creditors and receivables	Carried at fair value through other comprehensive income	Others carried at amortised cost	Total carrying value	Fair value
Financial assets						
Cash and cash equivalents	-	24,882,525	-	-	24,882,525	**24,882,525**
Accounts and deposits in banks	-	72,957	-	-	72,957	**72,957**
Financial assets at fair value through OCI	-	-	1,178,855	-	1,178,855	**1,178,855**
Loans to customers						
- to corporate customers	-	6,619,306	-	-	6,619,306	**6,650,405**
- to retail customers	-	3,377,973	-	-	3,377,973	**3,357,314**
Financial assets at amortised cost	4,778,038	-	-	-	4,778,038	**4,715,102**
Other financial assets	-	208,537	-	-	208,537	**208,537**
	4,778,038	**35,161,298**	**1,178,855**	**-**	**41,118,191**	**41,065,695**
Financial liabilities						
Accounts and deposits in banks	-	-	-	1,498,027	1,498,027	**1,498,027**
Current accounts and deposits of customers	-	-	-	20,035,074	20,035,074	**20,035,074**
Loans from international financial organisations	-	-	-	6,472,871	6,472,871	**6,472,871**
Other financial liabilities	-	239,427	-	1,878	241,305	**241,305**
	-	**239,427**	**-**	**28,007,850**	**28,247,277**	**28,247,277**

29. FINANCIAL ASSETS AND LIABILITIES: ACCOUNTING CLASSIFICATIONS AND FAIR VALUES

(a) Accounting classifications and fair values (continued)

Fair value measurement is aimed at determining the price that would be received when selling an asset or paid when transferring a liability in a transaction carried out on an organised market between market participants at the measurement date. However, given the uncertainties and the use of subjective judgments, the fair value should not be interpreted as being realisable in case of an immediate sale of assets or transfer of liabilities.

The fair value of financial assets and financial liabilities that are traded on an active market is based on market quotations or dealer prices. The Bank measures the fair values of its other financial instruments using other valuation techniques.

Valuation techniques include the net present value model and cash flow discounting model, comparison with similar instruments having known market quotations.

Judgements and inputs used in measurement include risk-free and base interest rates, credit spreads and other adjustments used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity indexes and expected price fluctuations and their comparison. The objective of valuation techniques is to arrive at a fair value that reflects the price of a financial instrument as at the reporting date that would have been determined by market participants acting at arm's length.

Management used an assumed discount rate of 11.08% and 12.97% (in 2018: 13.73% and 13.17%) to discount future cash flows to measure the KZT fair value of loans issued to corporate customers and loans issued to retail customers, respectively, and 5.16% (in 2018: 5.20%) to discount future cash flows to measure the USD fair value of loans issued to corporate customers.

(b) Fair value hierarchy

The Bank measures the fair value using the following fair value hierarchy that considers the significance of inputs used in making the measurements.

- Level 1: Quoted prices (unadjusted) of identical financial instruments in an active market.
- Level 2: Inputs other than those mentioned under Level 1 and either directly observable (i.e., as prices) or indirectly observable (i.e., derived from prices).

This category includes instruments measured using: quoted market prices of similar instruments in active markets; quoted market prices of similar instruments in markets that are not considered active; or other valuation techniques where all inputs are directly or indirectly observable.
- Level 3: Unobservable inputs. This category includes instruments measured using the unobservable inputs and those inputs are significant to the valuation of the instruments. This category includes instruments that are measured based on quoted prices for similar instruments where significant unobservable adjustments or judgements are required to reflect the differences between the instruments.

The Bank has a control system related to fair value measurement. This system includes the Risk Management Department, which is independent of the front office management and reports to the CFO and is responsible for an independent review of the results of trading and investment transactions, as well as all significant fair value measurements. Special control mechanisms include:

- Review of observed quotations
- Recalculation of valuation models
- Review and approval process for new models and changes to models involving Risk Management Department
- Quarterly review and back-testing of the model concerning observable market transactions
- Analysis and study of significant daily changes in estimates
- Management Board's review of significant unobservable inputs, adjustments to estimates and significant changes in the fair value of instruments, related to Level 3, as compared to the previous month.

In thousands of Kazakhstan tenge

29. FINANCIAL ASSETS AND LIABILITIES: ACCOUNTING CLASSIFICATIONS AND FAIR VALUES (continued)

(b) Fair value hierarchy (continued)

Where third party information is used to measure the fair value, including information about prices and market quotes, the Credit Products Control Department evaluates and documents the confirmation received from third parties to confirm that such measurements meet the requirements of IFRS, including:

- Confirmation that information on prices or market quotations of brokers was approved by the Bank to be used in the pricing of financial instruments
- Understanding of how the fair value was arrived at to the extent that it represents actual market transactions
- Where quotations of similar instruments are used to measure the fair value, understanding of how the quoted prices have been adjusted to reflect characteristics of the instrument to be measured
- In cases where several quotations are used for similar financial instruments, understanding of how the fair value was measured using the mentioned quotations.

Significant measurement issues are reported to the Management Board.

The following table presents an analysis of financial instruments at fair value, as at 31 December 2019 and 31 December 2019, in the context of the level in the fair value hierarchy. The amounts are based on those reported in the statement of financial position.

	Level 2	
	31.12.2019	**31.12.2018**
Financial assets at fair value through other comprehensive income		
- Debt securities	1,173,343	1,178,855

The following tables analyse the fair values of financial instruments that are not measured at fair value in the context of the level in the fair value hierarchy as of 31 December 2019 and 31 December 2018:

2019	**Level 2**	**Level 3**	**Fair value**	**Book value**
Financial assets				
Cash and cash equivalents	31,422,707	-	31,422,707	31,422,707
Accounts and deposits in banks	72,653	-	72,653	72,653
Loans to customers	12,136,896	1,293	12,138,189	14,956,229
Financial assets at amortised cost	4,865,848	-	4,865,848	4,907,381
Other financial assets	14,996	-	14,996	14,996
	48,513,100	**1,293**	**48,514,393**	**51,373,966**
Financial liabilities				
Accounts and deposits in banks	198,342	-	198,342	198,342
Current accounts and deposits of customers	32,886,665	-	32,886,665	32,886,665
Loans from international financial organisations	5,757,924	-	5,757,924	5,757,924
Other financial liabilities	496,868	-	496,868	496,868
	39,084,236	**-**	**39,084,236**	**28,247,277**

In thousands of Kazakhstan tenge

29. FINANCIAL ASSETS AND LIABILITIES: ACCOUNTING CLASSIFICATIONS AND FAIR VALUES (continued)

(b) Fair value hierarchy (continued)

2018	Level 2	Level 3	Fair value	Book value
Financial assets				
Cash and cash equivalents	24,882,525	-	24,882,525	24,882,525
Accounts and deposits in banks	72,957	-	72,957	72,957
Loans to customers	9,929,472	78,247	10,007,719	9,997,279
Financial assets at amortised cost	4,715,102	-	4,715,102	4,778,038
Other financial assets	208,537	-	208,537	208,537
	39,808,593	**78,247**	**39,886,840**	**39,939,336**
Financial liabilities				
Accounts and deposits in banks	1,498,027	-	1,498,027	1,498,027
Current accounts and deposits of customers	20,035,074	-	20,035,074	20,035,074
Loans from international financial organisations	6,472,871	-	6,472,871	6,472,871
Other financial liabilities	241,305	-	241,305	241,305
	28,247,277	**-**	**28,247,277**	**28,247,277**

30. EVENTS AFTER THE REPORTING DATE

After the reporting date, there were no significant events in the Bank’s financial and economic activities that would require adjustments to the financial statements or additional disclosures.

At the end of 2019, there appeared the information that the first cases of the 2019 Novel Coronavirus infection (“coronavirus”) or COVID-19 were detected in China. In the first few months of 2020, the negative impact of coronavirus intensified and being spread throughout the world it is posing a serious public health threat. In connection with the announcement by the World Health Organization of the new coronavirus COVID-19 as a pandemic to protect the life and health of citizens throughout the Republic of Kazakhstan, a state of emergency was introduced for the period from 16 March 2020 to 15 April 2020. The Bank Management considers the coronavirus outbreak a non-adjusting event. However, it is impossible to forecast the consequences.

Since March 2020, there has been a significant volatility in the stock, foreign exchange and commodity markets, oil prices decrease and tenge devaluation against the US dollar and the Euro. Currently, the Bank's management is analyzing the possible impact of micro and macroeconomic conditions change on the Bank's financial position and performance.The management intends to take all possible measures for consequences mitigation.

Bank management is monitoring the potential impact of the above events on the Bank operation on an ongoing basis and plans to take all the possible measures to mitigate the adverse coronavirus outbreak impact.