



## **Damu Entrepreneurship Development Fund JSC**

**International Financial Reporting Standards  
Financial Statements and  
Independent Auditor's Report**

**31 December 2018**

## Contents

### INDEPENDENT AUDITOR'S REPORT

### FINANCIAL STATEMENTS

Statement of Financial Position .....	1
Statement of Profit or Loss and Other Comprehensive Income.....	2
Statement of Changes in Equity .....	3
Statement of Cash Flows.....	4

### Notes to the Financial Statements

1	Introduction .....	5
2	Operating Environment of the Fund.....	5
3	Summary of Significant Accounting Policies.....	6
4	Critical Accounting Estimates, and Judgements in Applying Accounting Policies.....	15
5	Adoption of New or Revised Standards and Interpretations .....	19
6	New Accounting Pronouncements.....	22
7	Cash and Cash Equivalents .....	22
8	Due from Financial Institutions.....	24
9	Loans and Advances to Customers .....	30
10	Securities at Fair Value through Profit or Loss.....	35
11	Investment Securities Available for Sale.....	36
12	Investments in Debt Securities .....	36
13	Premises and Equipment.....	39
14	Other Assets .....	40
15	Borrowed Funds .....	41
16	Debt Securities in Issue .....	42
17	Liabilities on Subsidy Programs.....	42
18	Deferred Income and Provision for Credit Related Commitments .....	43
19	Other Liabilities.....	43
20	Share Capital.....	44
21	Interest Income and Expense .....	44
22	Fee and Commission Income .....	45
23	Losses less Gains from Financial Derivatives.....	45
24	Foreign Exchange Translation Gains less Losses.....	45
25	Net Loss on Initial Recognition of Financial Instruments at Rates below Market.....	45
26	Net Other Operating Income.....	46
27	General and Administrative Expenses.....	46
28	Income Taxes .....	46
29	Reconciliation of Liabilities Arising from Financing Activities .....	48
30	Segment Analysis .....	49
31	Financial Risk Management.....	53
32	Contingencies and Commitments.....	66
33	Derivative Financial Instruments.....	68
34	Fair Value Disclosures.....	68
35	Presentation of Financial Instruments by Measurement Category.....	71
36	Related Party Transactions .....	73
37	Events after the End of the Reporting Period .....	76
38	Accounting Policies Applicable before 1 January 2018 .....	76



## *Independent Auditor's Report*

To the Shareholder and Board of Directors of Damu Entrepreneurship Development Fund JSC

---

### *Our opinion*

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

### **What we have audited**

The Fund's financial statements comprise:

- the statement of financial position as at 31 December 2018;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

---

### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Independence**

We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.



## Independent Auditor's Report (Continued)

Page 1

### *Our audit approach*

#### **Overview**

<b>Materiality</b>	<ul style="list-style-type: none"><li>• Overall Fund materiality: Kazakhstani Tenge 1,520,000 thousands, which represents 0.5% of total assets as of 31 December 2018.</li></ul>
<b>Key audit matters</b>	<ul style="list-style-type: none"><li>• Assessment of expected credit losses provision for due from financial institutions made by management in accordance with the International Financial Reporting Standard 9, Financial Instruments (IFRS 9).</li><li>• Assessment of accounting for complex transactions on acquisition of bonds and restructuring of loans in accordance with requirements of IFRS 9.</li></ul>

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Fund, the accounting processes and controls, and the industry in which the Fund operates.

#### **Materiality**

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Fund materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the financial statements as a whole.

## Independent Auditor's Report (Continued)

Page 2

<i>Overall materiality</i>	Kazakhstani Tenge 1,520,000 thousands
<i>How we determined it</i>	0.5% of total assets as of 31 December 2018.
<i>Rationale for the materiality benchmark applied</i>	The Fund is a state-owned development institution. The strategic directions of the Fund are support and development of start-up and active entrepreneurs, and sustainable institutional development of the Fund. The profitability is not a primary objective of the Fund and its management. Thus, we concluded that, the most appropriate benchmark for determination of materiality is total assets. We chose 0.5% which is consistent with quantitative materiality thresholds used for the selected benchmark.

### Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
<p><i>Assessment of expected credit losses (ECL) provision for due from financial institutions by management in accordance with the International Financial Reporting Standard 9, Financial Instruments (IFRS 9).</i></p> <p>We focused on this area due to the size of due from financial institutions balances and because IFRS 9 is a new and complex financial reporting standard, which requires significant judgment to determine the ECL provision.</p> <p>The Fund performed ECL assessment on an individual basis and on a portfolio basis. The credit risk parameters (e.g. probability of default, loss given default) applied during the process of ECL calculations were based on external ratings.</p> <p>Key areas of judgment included:</p> <ul style="list-style-type: none"> <li>• Allocation of loans to stages in accordance with IFRS 9;</li> <li>• Accounting interpretations and modelling assumptions used to estimate key risk parameters – probability of default, loss given default and exposure at default;</li> <li>• Completeness and accuracy of data used to calculate the ECL;</li> <li>• Accuracy and adequacy of the financial statement disclosures.</li> </ul>	<p>In assessing ECL provision we have performed, among others, the following audit procedures:</p> <ul style="list-style-type: none"> <li>• We assessed the new methodologies and models for ECL provision assessment developed by the Fund in order to evaluate its compliance with IFRS 9 requirements. We focused our procedures on: default definition, factors for determining a “significant increase in credit risk”, allocation of due from financial institutions to stages, and estimation of key risk parameters.</li> <li>• On a sample basis we performed an individual assessment of the ECL provision levels to determine if they were reasonable considering the risk profile, credit risk and the macroeconomic environment.</li> <li>• On a sample basis we assessed reasonability of application of parent rating for those borrowers where no external ratings are present.</li> <li>• To verify data quality, on a sample basis, we tested the data used in the ECL calculation by reconciling to source data.</li> <li>• We checked that estimation of ECL reserve for due from financial institutions is made in accordance with the methodologies and models and is in line with IFRS 9 requirements.</li> <li>• We assessed the adequacy and appropriateness of disclosures for compliance with the accounting standards including disclosure of transition from IAS 39.</li> </ul>

## Independent Auditor's Report (Continued)

Page 3

Key audit matter	How our audit addressed the key audit matter
<p>Refer to the Notes 4, 8, and 31 of the accompanying financial statements that provide information on significant accounting policies, critical accounting estimates and judgements and risk assessment related to ECL provision and disclosures on due from financial institutions.</p>	
<p><i>Assessment of accounting for complex transactions on acquisition of bonds and restructuring of loans in accordance with requirements of IFRS 9.</i></p> <p>During the reporting period the Fund made a restructuring of loans given to a commercial bank following a decision of Parent Holding Company. Within the restructuring, the Fund acquired bonds with longer terms of maturity and lower interest rate. Also the Fund made a restructuring of the remaining portfolio of loans from that commercial bank into loans with longer terms and lower interest rates, as well. As a result, the Fund recognised losses on impairment, losses on restructuring in the statement of profit or loss and also allocated a certain amount of losses from the transactions in equity. Details are disclosed in Notes 4, 8, and 12.</p> <p>The transactions are considered as a key audit matter due to the size and complexity of the transactions and significant level of judgement applied by the management, when determining the accounting treatment and assessing the financial results from the transaction.</p> <p>Key areas of judgment included:</p> <ul style="list-style-type: none"> <li>• The Fund has restructured some of the loans given to one of the borrowers – a commercial bank, into long-term low rate bonds, and also modified term for the remaining portfolio of loans given to that borrower.</li> <li>• Assessment of impairment of loans given in accordance with IFRS 9 before their restructuring into bonds;</li> <li>• Assessment of impairment of remaining portfolio of loans given to that borrower and impact of modification in accordance with IFRS 9;</li> <li>• Completeness and accuracy of data used to calculate the ECL for loans given and</li> </ul>	<p>In assessing accounting for the complex transaction we have performed, among others, the following audit procedures:</p> <ul style="list-style-type: none"> <li>• We checked correctness of IFRS 9 modification and de-recognition rules applied to restructuring of loans given.</li> <li>• We assessed ECL provision assessment for loans given to the bank immediately before the restructuring and at year end and its compliance with IFRS 9 requirements.</li> <li>• We checked completeness and accuracy of input data used for ECL and fair value calculation.</li> <li>• We assessed reasonability of applied market rate for calculation of fair value of acquired bonds.</li> <li>• We checked correctness of discounted cash flow model applied in deriving to fair value of bonds.</li> <li>• We checked the appropriateness of accounting treatment of losses and proper allocation of the transaction results between statement of changes in equity and statement of profit or loss and other comprehensive income.</li> <li>• We assessed the adequacy and appropriateness of disclosures for compliance with the accounting standards</li> </ul>



## Independent Auditor's Report (Continued)

Page 4

Key audit matter	How our audit addressed the key audit matter
<p>fair value of the bonds acquired;</p> <ul style="list-style-type: none"><li>• Determination of the extent to which the transaction represents the transaction with the shareholder to be recognised in the statement of changes in equity as opposed to the statement of profit or loss and other comprehensive income;</li><li>• Accuracy and adequacy of the financial statement disclosures.</li></ul> <p>Refer to the Notes 4, 8 and 31 of the accompanying financial statements that provide information on significant accounting policies, critical accounting estimates and judgements and risk assessment related to losses and disclosures on investment securities at amortized cost.</p>	

### *Other information*

Management is responsible for the other information. The other information comprises the annual report (but does not include the financial statements and our auditor's report thereon), which is expected to be made available to us after the date of this auditor's report.

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

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

If, based on the work we have performed on the other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

### *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 International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Fund's financial reporting process.



## **Independent Auditor's Report (Continued)**

Page 5

---

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

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

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

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

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

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





## Independent Auditor's Report (Continued)

Page 6


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

The engagement leader on the audit resulting in this independent auditor's report is Aigul Akhmetova.

*PricewaterhouseCoopers LLP.*

28 February 2019  
Almaty, Kazakhstan

Approved by:

  
Dana Inkarbekova  
Managing Director of  
PricewaterhouseCoopers LLP  
(General State License of the Ministry of  
Finance  
of the Republic of Kazakhstan №00000005  
dated 21 October 1999)

Signed by:

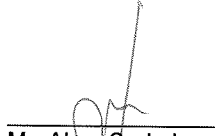
  
Aigul Akhmetova  
Engagement Leader, Director  
Auditor in charge  
(Qualified Auditor's Certificate №000000083  
dated 27 August 2012)

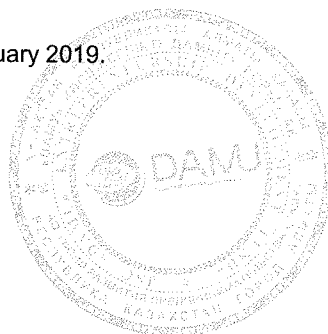


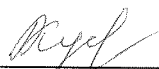
**Damu Entrepreneurship Development Fund JSC**  
**Statement of Financial Position**

<i>In thousands of Kazakhstani Tenge</i>	<b>Note</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>ASSETS</b>			
Cash and cash equivalents	7	37,953,674	44,074,930
Due from financial institutions	8	229,558,581	225,578,278
Due from subsidy programs		29,337	34,550
Loans and advances to customers	9	606,308	3,324,539
Securities at fair value through profit or loss	10	-	2,659,323
Investment securities available for sale	11	-	567,017
Investments in debt securities	12	7,100,689	-
Premises and equipment	13	2,279,485	2,497,187
Intangible assets		228,155	292,674
Current income tax prepayment		11,290,109	13,721,713
Non-current assets held for sale		396,747	1,360,967
Other assets	14	14,678,723	25,801,698
<b>TOTAL ASSETS</b>		<b>304,121,808</b>	<b>319,912,876</b>
<b>LIABILITIES</b>			
Borrowed funds	15	201,309,973	203,002,903
Debt securities in issue	16	16,057,484	-
Liabilities on subsidy programs	17	4,974,063	3,177,338
Deferred income tax liability	28	1,279,281	6,065,416
Deferred income and provision for credit related commitments	18	6,914,341	5,263,531
Other liabilities	19	1,066,188	1,255,534
<b>TOTAL LIABILITIES</b>		<b>231,601,330</b>	<b>218,764,722</b>
<b>EQUITY</b>			
Share capital	20	72,920,273	72,920,273
Additional paid-in-capital		834,527	834,527
Revaluation reserve for investment securities available for sale		-	70,337
Revaluation reserve for investment securities at fair value through other comprehensive income		222,476	-
Other reserves		316,430	316,430
Retained earnings		(1,773,228)	27,006,587
<b>TOTAL EQUITY</b>		<b>72,520,478</b>	<b>101,148,154</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>304,121,808</b>	<b>319,912,876</b>

Approved for issue and signed on 28 February 2019.

  
 Mr. Abay Sarkulov  
 Chairman of the Managing Board



  
 Ms. Aigul Kusaiynova  
 Chief Accountant

**Damu Entrepreneurship Development Fund JSC**  
**Statement of Profit or Loss and Other Comprehensive Income**

<i>In thousands of Kazakhstani Tenge</i>	<b>Note</b>	<b>2018</b>	<b>2017</b>
Interest income calculated using the effective interest method	21	24,613,727	34,796,892
Other interest income	21	140,937	-
Interest expense	21	(8,363,634)	(7,629,888)
<b>Interest income, net</b>		<b>16,391,030</b>	<b>27,167,004</b>
Credit loss allowance for loans and advances to customers and amounts due from financial institutions	8,9	(18,936,130)	(6,882,412)
<b>Net interest (expense)/income after credit loss allowance for loans and advances to customers and amounts due from financial institutions</b>		<b>(2,545,100)</b>	<b>20,284,592</b>
Fee and commission income	22	3,934,347	4,158,138
Gains less losses from financial derivatives	23	5,941,231	(12,492,609)
Gains less losses from securities at fair value through profit or loss		65,958	292,507
Gains less losses from trading in foreign currencies		-	17,032
Foreign exchange translation losses less gains	24	(7,671,877)	2,140,311
Net loss on initial recognition of financial instruments at rates below market	25	(4,443,157)	(4,278,421)
Impairment of debt securities at fair value through other comprehensive income		(86,806)	-
Recovery of/(provision for) impairment of other assets	14	6,042	(34,850)
(Provision for)/recovery of credit related commitments	32	(243,942)	207,212
Recovery of impairment of investment securities held to maturity		-	183,337
Other operating income	26	(289,272)	40,818
Expenses for realisation of Fund's programs	27	(872,451)	(904,953)
General and administrative expenses	27	(4,339,827)	(4,406,877)
<b>Profit before tax</b>		<b>(10,544,854)</b>	<b>5,206,237</b>
Income tax expense	28	(1,385,618)	(1,093,393)
<b>PROFIT FOR THE YEAR</b>		<b>(11,930,472)</b>	<b>4,112,844</b>
<b>Other comprehensive income/(loss):</b>			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Available for sale investments:			
- Gains less losses arising during the year		-	8,749
Investment securities at fair value through other comprehensive income			
- Gains less losses arising during the year		152,139	-
<b>Other comprehensive gain for the year</b>		<b>152,139</b>	<b>8,749</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>(11,778,333)</b>	<b>4,121,593</b>

Profit and total comprehensive income for both periods are fully attributable to the Fund's shareholder.

**Damu Entrepreneurship Development Fund JSC**  
**Statement of Changes in Equity**

<i>In thousands of Kazakhstani Tenge</i>	Share capital	Additional paid-in- capital	Revaluation reserve for investment securities available for sale	Revaluation reserve for investment securities at fair value through other comprehen- sive income	Other reserves	Retained earnings	Total
<b>Balance at 1 January 2017</b>	<b>72,920,273</b>	<b>834,527</b>	<b>61,588</b>	<b>-</b>	<b>316,430</b>	<b>24,571,961</b>	<b>98,704,779</b>
Profit for the year	-	-	-	-	-	4,112,844	4,112,844
Other comprehensive loss	-	-	8,749	-	-	-	8,749
Total comprehensive (loss)/income for the year	-	-	8,749	-	-	4,112,844	4,121,593
Dividends paid	-	-	-	-	-	(1,678,218)	(1,678,218)
<b>Balance at 31 December 2017</b>	<b>72,920,273</b>	<b>834,527</b>	<b>70,337</b>	<b>-</b>	<b>316,430</b>	<b>27,006,587</b>	<b>101,148,154</b>
Transition of opening balance	-	-	(70,337)	70,337	-	-	-
Remeasurement for expected credit losses, net of tax	-	-	-	-	-	(3,760,633)	(3,760,633)
<b>Restated balance at 1 January 2018</b>	<b>72,920,273</b>	<b>834,527</b>	<b>-</b>	<b>70,337</b>	<b>316,430</b>	<b>23,245,954</b>	<b>97,387,521</b>
Losses for the year	-	-	-	-	-	(11,930,472)	(11,930,472)
Other comprehensive income	-	-	-	152,139	-	-	152,139
Total comprehensive income for the year	-	-	-	152,139	-	(11,930,472)	(11,778,333)
Dividends paid	-	-	-	-	-	(1,234,153)	(1,234,153)
Discount for investment securities (Note 8)	-	-	-	-	-	(5,904,111)	(5,904,111)
Credit loss allowance for loans (Note 8)	-	-	-	-	-	(5,950,446)	(5,950,446)
<b>Balance at 31 December 2018</b>	<b>72,920,273</b>	<b>834,527</b>	<b>-</b>	<b>222,476</b>	<b>316,430</b>	<b>(1,773,228)</b>	<b>72,520,478</b>

**Damu Entrepreneurship Development Fund JSC**  
**Statement of Cash Flows**

<i>In thousands of Kazakhstani Tenge</i>	<b>2018</b>	<b>2017</b>
<b>Cash flows from operating activities</b>		
Interest received	16,428,247	18,557,813
Interest paid	(4,481,586)	(3,383,249)
Fees and commissions received	5,203,483	3,941,384
Other operating income received	133,547	894,000
Staff costs paid	(2,008,740)	(1,876,279)
Administrative and other operating expenses paid	(5,261,281)	(4,012,811)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>	<b>10,013,670</b>	<b>14,120,858</b>
<i>Net (increase)/decrease in:</i>		
- securities at fair value through profit or loss	-	3,808,000
- due from financial institutions	(12,252,595)	6,854,215
- loans and advances to customers	6,345,360	8,618,886
- other assets	(367,602)	(2,820,108)
<i>Net increase/(decrease) in:</i>		
- other financial liabilities	2,257,434	(10,531,427)
- other liabilities	60,255	(154,785)
<b>Net cash from operating activities</b>	<b>6,056,522</b>	<b>19,895,639</b>
<b>Cash flows from investing activities</b>		
Acquisition of investment securities	(33,011,630)	-
Proceeds from disposal and redemption of investment securities	737,444	-
Acquisition premises and equipment	(46,091)	(64,372)
Proceeds from disposal of premises and equipment	(45,511)	(97,363)
Acquisition of intangible assets	229,539	1,499
<b>Net cash from investing activities</b>	<b>(32,136,249)</b>	<b>(160,236)</b>
<b>Cash flows used in financing activities</b>		
Proceeds from borrowed funds	40,855,659	28,969,693
Repayment of borrowed funds	(55,374,984)	(51,909,898)
Proceeds from operation with financial derivatives	19,582,304	4,702,293
Proceeds from debt securities in issue	15,995,520	-
Dividends paid	(1,234,153)	(1,678,218)
<b>Net cash used in financing activities</b>	<b>19,824,346</b>	<b>(19,916,130)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>134,125</b>	<b>228,643</b>
<b>Net increase in cash and cash equivalents</b>	<b>(6,121,256)</b>	<b>47,916</b>
Cash and cash equivalents at the beginning of the year	<b>44,074,930</b>	<b>44,027,014</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>37,953,674</b>	<b>44,074,930</b>

## **1 Introduction**

Damu Entrepreneurship Development Fund JSC (the “Fund”) was established in pursuance of Decree of the Government of the Republic of Kazakhstan No. 665 dated 26 April 1997. The Fund is incorporated and domiciled in the Republic of Kazakhstan as a joint stock company and provides financial services as a development institution to support development of small and medium size enterprises.

As at 31 December 2018 and 2017, the Fund is under 100% ownership of the “Baiterek” National Managing Holding JSC (the “Parent” or “Sole Shareholder”). The Fund is ultimately controlled by the Government of the Republic of Kazakhstan. Information on transactions with related parties is disclosed in Note 36.

**Principal activity.** The main activity of the Fund is lending to small and medium size enterprises and microfinance organisations through funding of commercial banks. Credit risk on loans to end-borrowers is transferred to commercial banks. The Fund uses its own and borrowed funds to finance small and medium sized entities throughout Kazakhstan.

The Fund has 16 regional branches. The head office is located in Almaty, Kazakhstan.

**Registered address and place of business.** The Fund’s registered address is: 111 Gogol Street, Almaty, Kazakhstan.

**Presentation currency.** These financial statements are presented in Kazakhstani Tenge, unless otherwise stated.

## **2 Operating Environment of the Fund**

**Republic of Kazakhstan.** In general, the economy of the Republic of Kazakhstan continues to display characteristics of an emerging market. Its economy is particularly sensitive to prices on oil and gas prices and other commodities, which constitute major part of the country’s export. These characteristics include, but are not limited to, the existence of national currency that is not freely convertible outside of the country and a low level of liquidity of debt and equity securities in the markets. Ongoing political tension in the region, volatility of exchange rate have caused and may continue to cause negative impact on the economy of the Republic of Kazakhstan, including decrease in liquidity and creation of difficulties in attracting of international financing.

On 20 August 2015 the National Bank and the Government of the Republic of Kazakhstan made a resolution about discontinuation of supporting the exchange rate of Tenge and implement of new monetary policy, which is based on inflation targeting regime, cancellation of exchange rate trading band and start a free floating exchange rate. However, the National Bank’s exchange rate policy allows it to intervene to prevent dramatic fluctuations of the tenge exchange rate and to ensure financial stability.

As at the date of this report the official exchange rate of the National Bank of the Republic Kazakhstan was Tenge 377.26 per USD 1, compared to Tenge 384.20 per USD 1 as at 31 December 2018 (31 December 2017: Tenge 332.33 per USD 1). Therefore, uncertainty remains in relation to exchange rate of Tenge and future action of National Bank and the Government of the Republic of Kazakhstan and the impact of these factors on the economy of the Republic of Kazakhstan.

In September 2018 Standard & Poor’s, international rating agency affirmed the long-term foreign and local currency sovereign credit ratings of Kazakhstan - “BBB-” and short-term foreign and local currency sovereign credit ratings - “A-3”, and the Kazakhstan national scale - “kzAAA”. The outlook is stable (long-term ratings). The stable outlook is supported by the government’s strong balance sheet, built on past budgetary surpluses accumulated in the National Fund of the Republic of Kazakhstan and also by liquid external assets exceeding relatively low government debt over the next two years.

Increase in oil production and firm oil prices, low unemployment and rising wages supported a modest growth of the economy in 2018. This operating environment has a significant impact on the Company’s operations and financial position. Management is taking necessary measures to ensure sustainability of the Company’s operations. However, the future effects of the current economic situation are difficult to predict and management’s current expectations and estimates could differ from actual results.

Additionally, financial industry in the Republic of Kazakhstan is still impacted by political, legislative, fiscal and regulatory developments. The prospects for future economic stability in the Republic of Kazakhstan are largely dependent upon the effectiveness of economic measures undertaken by the Government, together with legal, controlling and political developments, which are beyond the Company’s control.

Management is unable to predict the extent and duration of changes in the Kazakhstani economy, nor quantify their impact, if any, on the Fund’s financial position in future. Management believes it is taking all the necessary measures to support the sustainability and growth of the Company’s business in the current circumstances.

### **3 Summary of Significant Accounting Policies**

**Basis of preparation.** These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of premises and equipment financial instruments categorised at fair value through profit or loss ("FVTPL") and at fair value through other comprehensive income ("FVOCI"). The principal accounting policies applied in the preparation of these financial statements are set out below. Apart from the accounting policy changes resulting from the adoption of IFRS 9 and IFRS 15 effective from 1 January 2018, these policies have been consistently applied to all the periods presented, unless otherwise stated. Refer to Notes 5.

**Financial instruments – key measurement terms.** Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

*Fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price. The price within the bid-ask spread that is most representative of fair value in the circumstances was used to measure fair value, which management considers is the last trading price on the reporting date. The quoted market price used to value financial assets is the current bid price; the quoted market price for financial liabilities is the current asking price.

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (ie an asset) for a particular risk exposure or paid to transfer a net short position (ie a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Fund: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 34.

*Transaction costs* are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

*Amortised cost ("AC")* is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

*The effective interest method* is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the gross carrying amount of the financial instrument.

### **3 Summary of Significant Accounting Policies (Continued)**

The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount, which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate. For assets that are purchased or originated credit impaired ("POCI") at initial recognition, the effective interest rate is adjusted for credit risk, i.e. it is calculated based on the expected cash flows on initial recognition instead of contractual payments.

**Financial instruments – initial recognition.** Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an ECL allowance is recognised for financial assets measured at AC and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Fund commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

The Fund uses discounted cash flow valuation techniques to determine the fair value of currency swaps that are not traded in an active market. Differences may arise between the fair value at initial recognition, which is considered to be the transaction price, and the amount determined at initial recognition using a valuation technique with level 3 inputs. If any differences remain after calibration of model inputs, such differences are initially recognised within other assets or other liabilities and are subsequently amortised on a straight line basis over the term of the currency swaps. The differences are immediately recognised in profit or loss if the valuation uses only level 1 or level 2 inputs.

**Financial assets – classification and subsequent measurement – measurement categories.** The Fund classifies financial assets in the following measurement categories: FVTPL, FVOCI and AC. The classification and subsequent measurement of debt financial assets depends on: (i) the Fund's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

**Financial assets – classification and subsequent measurement – business model.** The business model reflects how the Fund manages the assets in order to generate cash flows – whether the Fund's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows"), or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Fund undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Fund in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed, how the assets' performance is assessed and how managers are compensated. Refer to Note 4 for critical judgements applied by the Fund in determining the business models for its financial assets.

**Financial assets – classification and subsequent measurement – cash flow characteristics.** Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Fund assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature. In making this assessment, the Fund considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed. Refer to Note 4 for critical judgements applied by the Fund in performing the SPPI test for its financial assets.

**Financial assets – reclassification.** Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model. The entity did not change its business model during the current and comparative period and did not make any reclassifications.



### **3 Summary of Significant Accounting Policies (Continued)**

**Financial assets impairment – credit loss allowance for ECL.** The Fund assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts. The Fund measures ECL and recognises credit loss allowance at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at AC are presented in the consolidated statement of financial position net of the allowance for ECL. For loan commitments and financial guarantees, a separate provision for ECL is recognised as a liability in the consolidated statement of financial position. For debt instruments at FVOCI, changes in amortised cost, net of allowance for ECL, are recognised in profit or loss and other changes in carrying value are recognised in OCI as gains less losses on debt instruments at FVOCI.

The Fund applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Fund identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). Refer to Note 31 for a description of how the Fund determines when a SICR has occurred. If the Fund determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. The Fund's definition of credit impaired assets and definition of default is explained in Note 31. For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured as a Lifetime ECL. Note 31 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Fund incorporates forward-looking information in the ECL models.

**Financial assets – write-off.** Financial assets are written-off, in whole or in part, when the Fund exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Fund may write-off financial assets that are still subject to enforcement activity when the Fund seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

**Financial assets – derecognition.** The Fund derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Fund has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

**Financial assets – modification.** The Fund sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Fund assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: any new contractual terms that substantially affect the risk profile of the asset (eg profit share or equity-based return), significant change in interest rate, change in the currency denomination, new collateral or credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a loan when the borrower is not in financial difficulties.

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Fund derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a SICR has occurred. The Fund also assesses whether the new loan or debt instrument meets the SPPI criterion. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss, unless the substance of the difference is attributed to a capital transaction with owners.

In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the Fund compares the original and revised expected cash flows to assets whether the risks and rewards of the asset are substantially different as a result of the contractual modification. If the risks and rewards do not change, the modified asset is not substantially different from the original asset and the modification does not result in derecognition. The Fund recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets), and recognises a modification gain or loss in profit or loss.

### **3 Summary of Significant Accounting Policies (Continued)**

**Financial liabilities – measurement categories.** Financial liabilities are classified as subsequently measured at AC, except for (i) financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

**Financial liabilities – derecognition.** Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

An exchange between the Fund and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in loan covenants are also considered. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognised in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners.

**Cash and cash equivalents.** Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include all interbank placements and reverse sale and repurchase agreements with other banks with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents, both in the statement of financial position and for the purposes of the statement of cash flows. Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL. Features mandated solely by legislation, such as the bail-in legislation in certain countries, do not have an impact on the SPPI test, unless they are included in contractual terms such that the feature would apply even if the legislation is subsequently changed.

The payments or receipts presented in the statement of cash flows represent transfers of cash and cash equivalents by the Fund, including amounts charged or credited to current accounts of the Fund's counterparties held with the Fund, such as loan interest income or principal collected by charging the customer's current account or interest payments or disbursement of loans credited to the customer's current account, which represents cash or cash equivalent from the customer's perspective.

**Due from other banks.** Amounts due from other banks are recorded when the Fund advances money to counterparty banks. Amounts due from other banks are carried at AC when: (i) they are held for the purposes of collecting contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

**Investments in debt securities.** Based on the business model and the cash flow characteristics, the Fund classifies investments in debt securities as carried at AC, FVOCI or FVTPL. Debt securities are carried at AC if they are held for collection of contractual cash flows and where those cash flows represent SPPI, and if they are not voluntarily designated at FVTPL in order to significantly reduce an accounting mismatch.

Debt securities are carried at FVOCI if they are held for collection of contractual cash flows and for selling, where those cash flows represent SPPI, and if they are not designated at FVTPL. Interest income from these assets is calculated using the effective interest method and recognised in profit or loss. An impairment allowance estimated using the expected credit loss model is recognised in profit or loss for the year. All other changes in the carrying value are recognised in OCI. When the debt security is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to profit or loss.

Investments in debt securities are carried at FVTPL if they do not meet the criteria for AC or FVOCI. The Fund may also irrevocably designate investments in debt securities at FVTPL on initial recognition if applying this option significantly reduces an accounting mismatch between financial assets and liabilities being recognised or measured on different accounting bases.

### **3 Summary of Significant Accounting Policies (Continued)**

**Loans and advances to customers.** Loans and advances to customers are recorded when the Fund advances money to purchase or originate a loan due from a customer. Based on the business model and the cash flow characteristics, the Fund classifies loans and advances to customers into one of the following measurement categories: (i) AC: loans that are held for collection of contractual cash flows and those cash flows represent SPPI and loans that are not voluntarily designated at FVTPL, and (ii) FVTPL: loans that do not meet the SPPI test or other criteria for AC or FVOCI are measured at FVTPL.

Impairment allowances are determined based on the forward-looking ECL models. Note 31 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Fund incorporates forward-looking information in the ECL models.

**Loan commitments.** The Fund issues commitments to provide loans. These commitments are irrevocable or revocable only in response to a material adverse change. Such commitments are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Fund will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at (i) the remaining unamortised balance of the amount at initial recognition, plus (ii) the amount of the loss allowance determined based on the expected credit loss model, unless the commitment is to provide a loan at a below market interest rate, in which case the measurement is at the higher of these two amounts. The carrying amount of the loan commitments represents a liability. For contracts that include both a loan and an undrawn commitment and where the Fund cannot separately distinguish the ECL on the undrawn loan component from the loan component, the ECL on the undrawn commitment is recognised together with the loss allowance for the loan. To the extent that the combined ECLs exceed the gross carrying amount of the loan, they are recognised as a liability.

**Financial guarantees.** Financial guarantees require the Fund to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the amount of the loss allowance for the guaranteed exposure determined based on the expected loss model and (ii) the remaining unamortised balance of the amount at initial recognition. In addition, an ECL loss allowance is recognised for fees receivable that are recognised in the statement of financial position as an asset.

**Performance guarantees.** Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts transfer non-financial performance risk in addition to credit risk. Performance guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the contract. At the end of each reporting period, the performance guarantee contracts are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the contract at the end of each reporting period, discounted to present value. Where the Fund has the contractual right to revert to its customer for recovering amounts paid to settle the performance guarantee contracts, such amounts will be recognised as an asset upon transfer of the loss compensation to the guarantee's beneficiary. These fees are recognised within fee and commission income in profit or loss.

**Sale and repurchase agreements and lending of securities.** Sale and repurchase agreements ("repo agreements"), which effectively provide a lender's return to the counterparty, are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The securities are reclassified as repurchase receivables in the statement of financial position if the transferee has the right by contract or custom to sell or repledge the securities. The corresponding liability is presented within amounts due to other banks or other borrowed funds.

Securities purchased under agreements to resell ("reverse repo agreements"), which effectively provide a lender's return to the Fund, are recorded as due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price, adjusted by interest and dividend income collected by the counterparty, is treated as interest income and accrued over the life of repo agreements using the effective interest method.

Securities lent to counterparties for a fixed fee are retained in the financial statements in their original category in the statement of financial position unless the counterparty has the right by contract or custom to sell or repledge the securities, in which case they are reclassified and presented separately. Securities borrowed for a fixed fee are not recorded in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded in profit or loss for the year within gains less losses arising from trading securities. The obligation to return the securities is recorded at fair value in other borrowed funds.

### **3 Summary of Significant Accounting Policies (Continued)**

Based on classification of securities sold under the sale and repurchase agreements, the Fund classifies repurchase receivables into one of the following measurement categories: AC, FVOCI, and FVTPL.

**Investment property.** Investment properties are stated at cost less accumulated depreciation and provision for impairment, where required. If any indication exists that investment properties may be impaired, the Fund estimates the recoverable amount as the higher of value in use and fair value less costs to sell. The carrying amount of an investment property is written down to its recoverable amount through a charge to profit or loss for the year. An impairment loss recognised in prior years is reversed if there has been a subsequent change in the estimates used to determine the asset's recoverable amount.

Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with it will flow to the Fund, and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to premises and equipment.

**Premises and equipment.** Premises and equipment are stated at cost less accumulated depreciation and provision for impairment, where required.

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised, and the replaced part is retired.

At the end of each reporting period management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year (within other operating income or expenses).

**Depreciation.** Land is not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	<b>Useful lives in years</b>
Buildings	up to 100 years
Computers, equipment and fixtures and fittings	up to 10 years
Vehicles	up to 7 years
Other	up to 10 years

The residual value of an asset is the estimated amount that the Fund would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

**Intangible assets.** The Fund's intangible assets have definite useful life and primarily comprise capitalised computer software or off-the-shelf software. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Fund are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives up to 5 years.

**Operating leases.** Where the Fund is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Fund, the total lease payments are charged to profit or loss for the year (rental expense) on a straight-line basis over the period of the lease.

Leases embedded in other agreements are separated if (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets and (b) the arrangement conveys a right to use the asset.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

### **3 Summary of Significant Accounting Policies (Continued)**

**Finance lease receivables.** Where the Fund is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within [other operating income] in profit or loss for the year.

Credit loss allowance is recognised in accordance with the general ECL model. The ECL is determined in the same way as for loans and advances measured at AC and recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

**Non-current assets classified as held for sale (or disposal groups).** Non-current assets and disposal groups, which may include both non-current and current assets, are classified in the statement of financial position as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction, including loss of control of a subsidiary holding the assets, within twelve months after the end of the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Fund's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets or disposal groups classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

A disposal group is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit to which goodwill has been allocated on acquisition. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the end of the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale premises and equipment are not depreciated or amortised.

**Borrowed funds.** Borrowings are recorded when money or other assets are advanced to the Fund by counterparties. The non-derivative liability is carried at amortised cost. If the Fund purchases its own debt, the liability is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from retirement of debt.

**Debt securities in issue.** Debt securities in issue include promissory notes, bonds, certificates of deposit and debentures issued by the Fund. Debt securities are stated at AC. If the Fund purchases its own debt securities in issue, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from early retirement of debt.

**Subsidy programs.** Subsidies represent the financing by Government of Kazakhstan or representative body for the purposes of various government programs. Fund acts as an agent in connection with subsidy programs. Financing received from the Government are recognized as liabilities on subsidy programs upon receiving of funding. These funds are lent or placed with local commercial banks as a payment for governmentally subsidized projects. When Fund transfers its own financing to with local commercial banks before receiving of government financing, the payment is recorded as due from subsidy programs.

**Derivative financial instruments.** Derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, and currency and interest rate options are carried at their fair value.

All derivative instruments are carried as assets when fair value is positive, and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year (gains less losses on derivatives). The Fund does not apply hedge accounting.

### **3 Summary of Significant Accounting Policies (Continued)**

Certain derivative instruments embedded in financial liabilities and other non-financial contracts are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

**Income taxes.** Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge credit comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if the financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Fund.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

**Uncertain tax positions.** The Fund's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

**Provisions for liabilities and charges.** Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Fund has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Levies and charges, such as taxes other than income tax or regulatory fees based on information related to a period before the obligation to pay arises, are recognised as liabilities when the obligating event that gives rise to pay a levy occurs, as identified by the legislation that triggers the obligation to pay the levy. If a levy is paid before the obligating event, it is recognised as a prepayment.

**Trade and other payables.** Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at AC.

**Share capital.** Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

**Dividends.** Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the [consolidated] financial statements are authorised for issue, are disclosed in the subsequent events note. The statutory accounting reports of the Fund are the basis for profit distribution and other appropriations. Kazakhstani legislation identifies the basis of distribution as the current year net profit.

**Interest income and expense recognition.** Interest income and expense are recorded for all debt instruments, other than those at FVTPL, on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Interest income on debt instruments at FVTPL calculated at nominal interest rate is presented within 'other similar income' line in profit or loss.

### **3 Summary of Significant Accounting Policies (Continued)**

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Fund to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Fund will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Fund does not designate loan commitments as financial liabilities at FVTPL.

For financial assets that are originated or purchased credit-impaired, the effective interest rate is the rate that discounts the expected cash flows (including the initial expected credit losses) to the fair value on initial recognition (normally represented by the purchase price). As a result, the effective interest is credit-adjusted.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for (i) financial assets that have become credit impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their AC, net of the ECL provision, and (ii) financial assets that are purchased or originated credit impaired, for which the original credit-adjusted effective interest rate is applied to the AC.

**Fee and commission income.** Fee and commission income is recognised over time on a straight line basis as the services are rendered, when the customer simultaneously receives and consumes the benefits provided by the Fund's performance. Variable fees are recognised only to the extent that management determines that it is highly probable that a significant reversal will not occur.

Other fee and commission income is recognised at a point in time when the Fund satisfies its performance obligation, usually upon execution of the underlying transaction. The amount of fee or commission received or receivable represents the transaction price for the services identified as distinct performance obligations.

**Foreign currency translation.** The functional currency of the Fund is the currency of the primary economic environment in which the entity operates. The Fund's functional and presentation currency is the national currency of the Republic of Kazakhstan, Tenge.

Transactions denominated in foreign currency are recorded at the exchange rate prevailing at the transaction date. Exchange differences resulting from the settlement of transactions denominated in foreign currency are included in the statement of profit and loss and other comprehensive income using the exchange rate ruling on that date.

Monetary assets and liabilities denominated in foreign currencies are translated into Tenge using official exchange rate of the NBRK at the balance sheet date. Non-monetary assets and liabilities and transactions in foreign currencies are recorded at the official exchange rate of the NBRK at the transaction date. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Resulting foreign exchange gains and losses are reported on a net basis in the statement of profit and loss and other comprehensive income.

At 31 December 2018, the official rate of exchange used for translating foreign currency balances was the US dollar (USD) 1= Tenge 384.2 (31 December 2017: USD 1 = Tenge 332.33). On 20 August 2015, the Government of the Kazakhstan jointly with the National Bank of Republic of Kazakhstan cancelled the currency corridor and switched to a free-floating exchange rate of Tenge.

**Staff costs and related contributions.** Wages, salaries, contributions to the state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Fund. The Fund has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

**Segment reporting.** Segments are reported in a manner consistent with the internal reporting provided to the Fund's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately



### 3 Summary of Significant Accounting Policies (Continued)

**Presentation of statement of financial position in order of liquidity.** The Fund does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, assets and liabilities are presented in order of their liquidity. Refer to Note 31 for analysis of financial instruments by expected maturity. The following table provides information on amounts expected to be recovered or settled before and after twelve months after the reporting period for items that are not analysed in Note 31.

	31 December 2018			31 December 2017		
	Amounts expected to be recovered or settled			Amounts expected to be recovered or settled		
	Within 12 months after the reporting period	After 12 months after the reporting period	Total	Within 12 months after the reporting period	After 12 months after the reporting period	Total
<i>In thousands of Kazakhstani Tenge</i>						
<b>ASSETS</b>						
Premises and equipment	698,007	1,581,478	2,279,485	262,699	2,234,488	2,497,187
Intangible assets	115,871	112,283	228,155	110,031	182,643	292,674
Income tax prepayment	4,537,665	6,752,444	11,290,109	5,277,875	8,490,118	13,767,993
Other assets	1,268,949	-	1,268,949	545,997	-	545,997
Non-current assets held for sale	396,747	-	396,747	1,360,967	-	1,360,967
<b>LIABILITIES</b>						
Deferred income tax liability	1,279,281	-	1,279,281	6,065,416	-	6,065,416
Other liabilities	546,123	-	546,123	422,920	-	422,920

### 4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Fund makes estimates and assumptions that affect the amounts recognised in the financial statements, and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

**Going concern.** Management prepared these financial statements on a going concern basis. In making this judgement management considered the Fund's financial position, current intentions, profitability of operations and access to financial resources.

**ECL measurement.** Measurement of ECLs is a significant estimate that involves determination of methodology, models and data inputs. Details of ECL measurement methodology are disclosed in Note 41. The following components have a major impact on credit loss allowance: definition of default, SICR, probability of default ("PD"), exposure at default ("EAD"), and loss given default ("LGD"), as well as models of macro-economic scenarios. The Fund regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience.

The G Fund used supportable forward looking information for measurement of ECL, primarily an outcome of its own macro-economic forecasting model.

In 2018, the Fund did not conduct an analysis of macroeconomic variables on loans issued by financial institutions. This is due to the fact that macroeconomic variables have not an impact on the probability of default of financial institutions; therefore, macroeconomic factors were considered at the level of 100% (which indicates the absence of influence). For loans and advances, the Fund did not analyse the impact of macroeconomic variables due to the insignificance of the portfolio relative to the assets of the Fund.

In 2018 the Fund recognised excepted credit losses in amount Tenge 18,936,130 thousand (2017: recognised loan impairment provisions of Tenge 6,882,412 thousand) on loan portfolio. Refer to Notes 9 and 10.

**Sensitivity analysis for due from financial institutions.** A 10% increase or decrease in PD estimates at 31 December 2018 would result in an increase or decrease in total expected credit loss allowances of Tenge 1,260,300 thousand.



#### **4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)**

A 10% increase or decrease in credit loss experience based on which the incurred loss allowances were estimated 31 December 2017 would result in an increase or decrease in credit loss allowances of Tenge 412,585 thousand as of that date

**Significant increase in credit risk (“SICR”).** In order to determine whether there has been a significant increase in credit risk, the Fund compares the risk of a default occurring over the life of a financial instrument at the end of the reporting date with the risk of default at the date of initial recognition. The assessment considers relative increase in credit risk rather than achieving a specific level of credit risk at the end of the reporting period. The Fund considers all reasonable and supportable forward looking information available without undue cost and effort, which includes a range of factors, including behavioural aspects of particular customer portfolios. The Fund identifies behavioural indicators of increases in credit risk prior to delinquency and incorporated appropriate forward looking information into the credit risk assessment, either at an individual instrument, or on a portfolio level. Refer to Note 31.

Should ECL on all loans and advances to customers be measured at lifetime ECL (that is, including those that are currently in Stage 1 measured at 12-months ECL), the expected credit loss allowance would be higher by Tenge 7,283,243 thousand as of 31 December 2018 (1 January 2018: higher by Tenge 9,430,139 thousand).

**Business model assessment.** The business model drives classification of financial assets. Management applied judgement in determining the level of aggregation and portfolios of financial instruments when performing the business model assessment. When assessing sales transactions, the Fund considers their historical frequency, timing and value, reasons for the sales and expectations about future sales activity. Sales transactions aimed at minimising potential losses due to credit deterioration are considered consistent with the “hold to collect” business model. Other sales before maturity, not related to credit risk management activities, are also consistent with the “hold to collect” business model, provided that they are infrequent or insignificant in value, both individually and in aggregate. The Fund assesses significance of sales transactions by comparing the value of the sales to the value of the portfolio subject to the business model assessment over the average life of the portfolio. In addition, sales of financial asset expected only in stress case scenario, or in response to an isolated event that is beyond the Funds control, is not recurring and could not have been anticipated by the Fund, are regarded as incidental to the business model objective and do not impact the classification of the respective financial assets.

The “hold to collect and sell” business model means that assets are held to collect the cash flows, but selling is also integral to achieving the business model’s objective, such as, managing liquidity needs, achieving a particular yield, or matching the duration of the financial assets to the duration of the liabilities that fund those assets.

The residual category includes those portfolios of financial assets, which are managed with the objective of realising cash flows primarily through sale, such as where a pattern of trading exists. Collecting contractual cash flow is often incidental for this business model.

**Assessment whether cash flows are solely payments of principal and interest (“SPPI”).** Determining whether a financial asset’s cash flows are solely payments of principal and interest required judgement.

The Fund identified and considered contractual terms that change the timing or amount of contractual cash flows. The SPPI criterion is met if a loan allows early settlement and the prepayment amount substantially represents principal and accrued interest, plus a reasonable additional compensation for the early termination of the contract. The asset’s principal is the fair value at initial recognition less subsequent principal repayments, ie instalments net of interest determined using the effective interest method. As an exception to this principle, the standard also allows instruments with prepayment features that meet the following condition to meet SPPI: (i) the asset is originated at a premium or discount, (ii) the prepayment amount represents contractual par amount and accrued interest and a reasonable additional compensation for the early termination of the contract, and (ii) the fair value of the prepayment feature is immaterial at initial recognition.

The instruments that failed the SPPI test are measured at FVTPL are described in Note 5.

**Modification of financial assets.** When financial assets are contractually modified (e.g. renegotiated), the Fund assesses whether the modification is substantial and should result in derecognition of the original asset and recognition of a new asset at fair value. This assessment is based primarily on qualitative factors, described in the relevant accounting policy and it requires significant judgment. In particular, the Fund applies judgment in deciding whether credit impaired renegotiated loans should be derecognised and whether the new recognised loans should be considered as credit impaired on initial recognition. The derecognition assessment depends on whether the risks and rewards, that is, the variability of expected (rather than contractual) cash flows, change as a result of such modifications. Management determined that risks and rewards did not change as a result of modifying such loans and therefore in substantially all such modifications, the loans were neither derecognised nor reclassified out of the credit-impaired stage.

#### **4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)**

The Fund had claims on loans provided by "TsesnaBank" JSC in the amount of Tenge 52,996,774 thousand, which were issued from government funds and from funds received from ADB. In December 2018, claims for loans issued from ADB funds in the amount of Tenge 32,591,479 thousand were restructured in accordance with the terms of the Framework Agreement date 19 September 2018 concluded between the Government of the Republic of Kazakhstan, "Samruk-Kazyna" NWF, JSC "NMH Baiterek", JSC "Holding "Kazagro", and JSC "Tsesna Corporation". As part of this restructuring, the requirements for loans issued by "TsesnaBank" JSC were replaced with investment securities issued by TsesnaBank JSC with maturity 15 years and the coupon rate of 4%. The Fund acquired these bonds in December 2018.

The second framework agreement was signed on 18 January 2019 and these investment securities were restructured with lower interest rate 0.1%. The contractual terms of remaining loans issued from the government funds in amount Tenge 20,499,974 thousand was modified and interest rate reduced to 0.1% with maturity 15 years from the date of modification. After the second modification, the Fund lost claims for all loans, which led to increase of loss given default (LGD) from 55% to 70%. The Fund's management considered this restructuring as an adjusting event.

The Fund evaluated the modification of loans in bonds as significant, which required derecognition of the old financial instrument and the recognition of the new instrument. First of all, the Fund identified the amount of expected credit losses of previous financial instrument by applying LGD and PD equal to 70% and 100% respectively. Then, the Fund identified fair value of investment securities which equal to Tenge 3,935,983 thousand. In determining fair value, the Fund used the discounted cash flow model and defined market rate equal to 15.45% based on market data by taking into account credit risk. Based on modification of loans issued from source of ADB, the Fund recognised expected credit losses in amount Tenge 18,040,172 thousand in the statement of profit or losses and other comprehensive income, expected credit losses in amount Tenge 4,920,047 thousand and losses from recognition of investment securities in amount 5,904,111 thousand in the statement of changes in equity. Refer to 8 and 12.

On 28 April 2017, within the framework of cession agreement, the Fund received a portfolio of loans to small and medium size enterprises as settlement of loans to "Delta Bank" JSC for Tenge 15,443,912 thousand of principal and Tenge 253,529 thousand of accrued interest. The management of the Fund estimated fair value of the new portfolio of loans for Tenge 11,418,676 thousand as at settlement date, which led to recognition of loss on initial recognition of these loans of Tenge 4,278,421 thousand. During fair value assessment, cash flows from the loans were discounted using market interest rate of 14% with adjustments based on specific credit risk of borrowers. Refer to Notes 9 and 25.

The remaining amount of loans issued to "Delta Bank" JSC was Tenge 4,152,389 thousand (2017: Tenge 4,152,389 thousand) and discount on loans given at rates below the market was nil (2017: Tenge 4,151,448 thousand).

**Write-off policy.** Financial assets are written-off, in whole or in part, when the Fund exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. Determining the cash flows for which there is no reasonable expectation of recovery requires judgement.

**Fair value of derivatives and certain other instruments.** Information about fair values of instruments that were valued using assumptions that are not based on observable market data is disclosed in Note 34.

In December 2014 and October 2015, the Fund entered into five-year fixed rate swap agreements with certain commercial banks with a purpose to minimise currency risk related to US dollar borrowings from the ADB. Refer to Note 15. The Fund calculated the fair value of the swap at reporting date, resulting in fair value of derivatives of Tenge 12,545,813 as of 31 December 2018 (2017: 25,193,064 thousand) and a gain in the amount of Tenge 5,941,231 thousand (2017: a gain in the amount of Tenge 12,492,609 thousand). The Fund incurred foreign exchange losses of Tenge 8,244,649 thousand (2017: foreign exchange gains of Tenge 2,168,832 thousand) on the ADB loans during the year ended 31 December 2018.

During the year ended 31 December 2018, the early closure of 5-year fixed swap contracts for a total of US \$ 146,828 thousand (2017: US \$ 116,132 thousand) took place, resulting in a gain on income from operations with financial derivatives in the amount of 19,582,304 thousand tenge (2017: 4,702,293 thousand tenge). Under swap agreements with commercial banks, the Fund pays three percent per annum, which resulted in expenses in the amount of Tenge 1,323,944 for the year ended 31 December 2018 (31 December 2017: KZT 1,754,541). When calculating fair value, the Fund utilised discounted cash flow model with risk-free rates for US dollars and Kazakhstani Tenge adjusted to Kazakhstan country risk premium. Refer to Notes 14, 23 and 33.

#### **4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)**

**Initial recognition of financial instruments issued at rates below market and related party transactions.** In the normal course of business, the Fund enters into transactions with its related parties. IFRS 9 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 36.

In 2014-2015, the Fund received borrowed funds from “NMH Baiterek” JSC in amount Tenge 200 billion at a rate 0.15% for a twenty year term. Management applied its judgment in determining market rate, using yield to maturity of government bonds further extrapolated for twenty years using linear regression.

In 2014-2015, the borrowings received in the amount of Tenge 200 billion were fully placed in commercial banks at 2% per annum with a maturity of 20 years. In assessing the fair value of loans issued to banks, the management of the Fund used the specific credit risks of each bank, based on the Credit Default Spread for each credit rating. The Credit Default Spread was adjusted for the annual base rate derived from the yield curve for 10-year government bonds extrapolated for 20 years.

The use of effective interest rates led to the recognition of income and expenses from initial recognition of financial instruments at below-market rates.

During 2018, the Fund received a loan from ADB in the amount of Tenge 23,836,774 thousand with a floating interest rate of 7.5% -7.58% (2017: 8,085,997 thousand tenge). Management of the Fund concluded that both loans received and advanced above are sufficiently unique as both the Fund and the ADB are development institutions and there are no similar transactions in the market. Following from this, they also concluded that these transactions in themselves constitute a principal or most advantageous market and, hence, transaction price is fair value and no adjustments are required for the borrowed funds and loans advanced at their initial recognition. Therefore, these transactions constitute fair value of borrowed funds at initial recognition and do not require any adjustments. Refer to 15.

In 2014-2015, the Fund received a loan from the ADB for the amount of USD 350 million with an interest rate of 0.9207% and with maturity 5 years. The funds received were fully distributed to Kazakh commercial banks approved by ADB. During 2018, the Fund settled a loan from ADB in the amount of US \$ 133 million (2017: US \$ 156 million). Management of the Fund concluded that both loans received and advanced above are sufficiently unique as both the Fund and the ADB are development institutions and there are no similar transactions in the market. Following from this, they also concluded that these transactions in themselves constitute a principal or most advantageous market and, hence, transaction price is fair value and no adjustments are required for the borrowed funds and loans advanced at their initial recognition. Therefore, these transactions constitute fair value of borrowed funds at initial recognition and do not require any adjustments. Refer to 15.

**Fair value of guarantees issued.** During 2015, the Fund issued guarantees to “Bank CenterCredit” JSC in respect of credit lines opened by “Bank CenterCredit” JSC in European Bank for Reconstruction and Development (the “EBRD”) for the total amount of Tenge 27,220 million. As of 31 December 2018, “Bank CenterCredit” JSC had drawn down the EBRD loans for the amount of Tenge 36,157 million (2017: Tenge 20,470 million). The management of the Fund assessed fair value of these guarantees based on commission fees received. As of 31 December 2018, the amount of accrued commission income was 123,099 thousand (31 December 2017: Tenge 179,161 thousand). Refer to Notes 18 and 32.

During 2016, the Fund issued guarantees to “ForteBank” JSC and “Microfinance Organisation KMF” LLP (“MFO KMF”) in respect of credit lines opened by “ForteBank” JSC and MFO KMF in the EBRD. As at 31 December 2018 for Tenge 9,907 million and Tenge 3,776 million, respectively. As of 31 December 2017, “ForteBank” JSC and MFO KMF had drawn down the EBRD loans for the amount of Tenge 19,243 million and Tenge 3,776 million, respectively. (2017: 19,243 million and 3,776 million, respectively). The management of the Fund assessed fair value of these guarantees based on commission fees received from “ForteBank” JSC and MFO KMF and estimated the fair value to be equal to Tenge 32,778 thousand and Tenge 12,772 thousand, respectively (31 December 2017: 57,030 thousand and Tenge 25,669, respectively). Refer to Notes 18 and 32.

During 2017, the Fund issued guarantees to “Bank Kassa Nova” JSC in respect of credit lines opened by “Bank Kassa Nova” JSC in EBRD for the amount of received borrowings. As of 31 December 2018, “Bank Kassa Nova” JSC had drawn down the EBRD loans for the amount of Tenge 3,742 million (31 December 2018: Tenge 1,793 million). The management of the Fund assessed fair value of these guarantees based on commission fees received and estimated the fair value to be equal to Tenge 7,052 thousand (31 December 2017: Tenge 1,250 thousand). Refer to Notes 18 and 32.

## 5 Adoption of New or Revised Standards and Interpretations

Adoption of IFRS 9 “Financial Instruments”. The Fund adopted IFRS 9, Financial Instruments, from 1 January 2018. The Fund elected not to restate comparative figures and recognised any adjustments to the carrying amounts of financial assets and liabilities in the opening retained earnings as of the date of initial application of the standard, 1 January 2018. Consequently, the revised requirements of the IFRS 7, Financial Instruments: Disclosures, have only been applied to the current period. The comparative period disclosures repeat those disclosures made in the prior year.

The following table reconciles the carrying amounts of each class of financial assets as previously measured in accordance with IAS 39 and the new amounts determined upon adoption of IFRS 9 on 1 January 2018.

In thousands of Kazakhstani Tenge	Measurement category		Carrying value under IAS 39 – 31 December 2017	Effect of adopting IFRS 9				Carrying value under IFRS 9 – 1 January 2018
	IAS 39	IFRS 9		Reclassification		Remeasurement		
				Mandatory	Voluntary	ECL	Other	
<b>Cash and cash equivalents:</b>	L&R	AC						
- Cash balances with the NBRK			18,692,460	-	-	-	-	18,692,460
- Current accounts with banks			25,382,470	-	-	(2,119)	-	25,380,351
<b>Due from financial institutions:</b>	L&R	AC						
- Loans given to financial institutions			216,059,786	-	-	(4,206,763)	-	211,853,023
- Placements with other banks with original maturities of more than three months			9,518,492	-	-	(66,793)	-	9,451,699
<b>Loans and advances to customers</b>	L&R	AC	3,324,539	-	-	(93,692)	-	3,230,847
<b>Investments in debt securities</b>	Available for sale	FVOCI	567,017	-	-	(7,326)	-	567,017
<b>Investments in debt securities</b>	At fair value through profit or loss	FVTPL	2,659,323	-	-	-	-	2,659,323
Other financial assets:								
Financial derivatives	FVTPL	FVTPL	25,193,064	-	-	-	-	25,193,064
Accounts receivable	L&R	AC	62,637	-	-	-	-	62,637
<b>TOTAL FINANCIAL ASSETS</b>			<b>301,459,788</b>	<b>-</b>	<b>-</b>	<b>(4,376,693)</b>	<b>-</b>	<b>297,090,421</b>

### (a) Cash and cash equivalents

All classes of cash and cash equivalents as disclosed in Note 7 were reclassified from loans and receivables (“L&R”) measurement category under IAS 39 to AC measurement category under IFRS 9 at the adoption date of the standard. The ECLs for cash and cash equivalents balances were insignificant.

### (b) Due from financial institutions

All classes of due from financial institutions balances were reclassified from L&R measurement category under IAS 39 to AC measurement category under IFRS 9.

## **5 Adoption of New or Revised Standards and Interpretations (Continued)**

### **(c) Investments in debt securities**

*Reclassification from retired categories with no change in measurement.* In addition to the above, the following debt instruments have been reclassified to new categories under IFRS 9, as their previous categories under IAS 39 were retired, with no changes to their measurement basis:

- those previously classified as AFS and now classified as measured at FVOCI; and
- those previously classified as HTM and now classified as measured at AC.

### **Allowance for impairment of credit losses.**

The following table reconciles the prior period's closing provision for impairment measured in accordance with incurred loss model under IAS 39 to the new credit loss allowance measured in accordance with expected loss model under IFRS 9 at 1 January 2018:

<i>In thousands of Kazakhstani Tenge</i>	<b>Provision under IAS 39 or IAS 37 at 31 December 2017</b>	<b>Reclassifica- tion to FVTPL</b>	<b>Reclassifica- tion to FVOCI</b>	<b>Credit loss allowance under IFRS 9 at 1 January 2018</b>
Cash and cash equivalents	-	-	(2,119)	<b>(2,119)</b>
Due from financial institutions	(19,211,736)	-	(4,273,556)	(23,485,292)
Loans and advances to customers	(4,515,998)	-	(93,692)	(4,609,690)
Investment securities	(2,948,895)	-	(7,326)	(2,948,895)
Other financial assets	(410,615)	-	-	(410,615)
<b>Total</b>	<b>(27,087,244)</b>	<b>-</b>	<b>(4,376,693)</b>	<b>(31,456,611)</b>
<i>Credit related commitments</i>	<i>(1,104,245)</i>	<i>-</i>	<i>(324,097)</i>	<i>(1,428,342)</i>
<b>Total</b>	<b>(1,104,245)</b>	<b>-</b>	<b>(324,097)</b>	<b>(1,428,342)</b>
<b>Total impact as at 1 January 2018 including deferred tax assets</b>	<b>-</b>	<b>-</b>	<b>(3,760,633)</b>	<b>-</b>

At 31 December 2017, all of the Fund's financial liabilities except for derivatives were carried at AC. The derivatives belonged to the FVTPL measurement category under IAS 39. There were no changes to the classification and measurement of financial liabilities.

The following table analyses the impact, net of tax, of transition to IFRS 9 on reserves and retained earnings as of 1 January 2018.

## 5 Adoption of New or Revised Standards and Interpretations (Continued)

<i>In thousands of Kazakhstani Tenge</i>	Share capital	Additional paid-in- capital	Revaluation reserve for investment securities available for sale	Revaluation reserve for investment securities at fair value through other comprehen- sive income	Other reserves	Retained earnings	Total
<b>Amounts at 31 December 2017 prior to adoption of IFRS 9</b>	<b>72,920,273</b>	<b>834,527</b>	<b>70,337</b>	<b>-</b>	<b>316,430</b>	<b>27,006,587</b>	<b>101,148,154</b>
Recognition of ECL under IFRS 9 for debt financial assets at amortized cost	-	-	-	-	-	(3,495,494)	(3,495,494)
Recognition of ECL under IFRS 9 for debt financial assets at FVOCI	-	-	-	-	-	(5,861)	(5,861)
Recognition of ECL under IFRS 9 for credit related commitments	-	-	-	-	-	(259,278)	(259,278)
<b>At 1 January 2018 (under IFRS 9)</b>	<b>72,920,273</b>	<b>843,527</b>	<b>70,337</b>	<b>-</b>	<b>316,430</b>	<b>23,245,954</b>	<b>97,387,521</b>

**Amendments to IFRS 9 - “Prepayment Features with Negative Compensation” (issued on 12 October 2017 and effective at the latest for annual periods beginning on or after 1 January 2019).** The amendments were early adopted by the Fund with the date of initial application of 1 January 2018. The amendments enable measurement at amortised cost of certain loans and debt securities that can be prepaid at an amount below amortised cost, for example at fair value or at an amount that includes a reasonable compensation payable to the borrower equal to present value of an effect of increase in market interest rate over the remaining life of the instrument. In addition, the text added to the standard's basis for conclusion reconfirms existing guidance in IFRS 9 that modifications or exchanges of certain financial liabilities measured at amortised cost that do not result in the derecognition will result in a gain or loss in profit or loss. The Fund is therefore not able to revise effective interest rate for the remaining life of the loan in order to avoid an impact on profit or loss upon a loan modification. The impact of this clarification on carrying value of the Fund's financial liabilities carried at amortised cost was not material.

**Adoption of IFRS 15 “Revenue from Contracts with Customers” (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018) and Amendments to IFRS 15 “Revenue from Contracts with Customers” (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018).** The Fund has adopted IFRS 15, *Revenue from Contracts with Customers*, with the date of initial application of 1 January 2018. The new standard was applied using the modified retrospective method, with the cumulative effect recognised in retained earnings on 1 January 2018. The standard introduced the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The standard did not have a material impact on the Fund.

The following amended standards became effective for the Fund from 1 January 2018, but did not have any material impact on the Fund:

- Amendments to IFRS 2 “Share-based Payment” (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 4 - “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts” (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).
- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 and IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

## **5 Adoption of New or Revised Standards and Interpretations (Continued)**

- IFRIC 22 “Foreign Currency Transactions and Advance Consideration” (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

Amendments to IAS 40 – “Transfers of Investment Property” (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

## **6 New Accounting Pronouncements**

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2019 or later, and which the Fund has not early adopted.

**IFRS 16 “Leases” (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019).** The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. For 2018, rental costs amounted to Tenge 157,262 thousand. All lease agreements were concluded for a period not exceeding 12 months. In accordance with paragraph 6 of IFRS 16, the Fund decided not to apply the requirements of paragraphs 22-49 of IFRS 16 to short-term leases. Based on the analysis of the Fund, the effect of the transition to a new standard is insignificant.

## **7 Cash and Cash Equivalents**

<i>In thousands of Kazakhstani Tenge</i>	<b>31 December 2018</b>	<b>31 December 2017</b>
Cash balances with the NBRK (other than mandatory reserve deposits)	16,733,828	18,692,460
Current accounts with banks	15,183,991	25,382,470
Placements with other banks with original maturities of less than three months	6,042,500	-
Less: Expected credit losses	(6,645)	
<b>Total cash and cash equivalents</b>	<b>37,953,674</b>	<b>44,074,930</b>

The Fund holds funds received to support development of Small and Medium Entrepreneurship through subsidization on current accounts with banks. Refer to Note 15.

## 7 Cash and Cash Equivalents (Continued)

The credit quality of cash and cash equivalents balances may be summarised based on Standard and Poor's ratings as follows at 31 December 2017 and 2016:

<i>In thousands of Kazakhstani Tenge</i>	31 December 2018			31 December 2017		
	Cash balances with the NBRK	Current accounts with banks and placements	Total	Cash balances with the NBRK, including mandatory reserves	Current accounts with banks	Total
<i>Neither past due nor impaired</i>						
- National Bank of Kazakhstan	16,733,828	-	16,733,828	18,692,460	-	18,692,460
- A- to A+ rated	-	23,760	23,760	-	-	-
- BBB- to BBB+ rated	-	3,053,543	3,053,543	-	-	-
- BB- to BB+ rated	-	17,132,386	17,132,386	-	17,467,271	17,467,271
- B- to B+ rated	-	994,368	994,368	-	7,901,143	7,901,143
- CCC- to CCC+ rated	-	12,056	12,056	-	13,454	13,454
- Unrated	-	10,378	10,378	-	602	602
<b>Total cash and cash equivalents, excluding cash on hand</b>	<b>16,733,828</b>	<b>21,226,491</b>	<b>37,960,787</b>	<b>18,692,460</b>	<b>25,382,470</b>	<b>44,074,930</b>

At 31 December 2018, CCC ratings represent current accounts with "AsiaCreditBank" JSC (2017: "Bank RBK" JSC - Tenge 13,454 thousand).

The credit ratings are based on Standard & Poor's ratings, where available, or Moody's rating converted to the nearest equivalent on the Standard & Poor's rating scale.

<i>In thousands of Kazakhstani Tenge</i>	Current accounts with banks	Cash balances with the NBRK	Placements with other banks with original maturities of less than three months	Total
<b>Credit loss allowance as at 1 January 2018</b>	-	-	-	-
<b>Adoption of IFRS 9</b>	(2,119)	-	-	(2,119)
(Recovery of)/provision for impairment during the year	1,731	-	(6,257)	(4,526)
<b>Excepted credit losses for cash and cash equivalents as at 31 December 2018</b>	<b>(388)</b>	<b>-</b>	<b>(6,257)</b>	<b>(6,645)</b>

Refer to Note 34 for disclosure of the fair value of cash and cash equivalents. Interest rate analysis of cash and cash equivalents is disclosed in Note 31. Information on related party balances is disclosed in Note 36.



## **7 Cash and Cash Equivalents (Continued)**

Investing and financing transactions that did not require the use of cash and cash equivalents, and were excluded from the statement of cash flows are as follows:

<i>In thousands of Russian Roubles</i>	<b>2018</b>	<b>2017</b>
<b>Non-cash investing activities</b>		
Acquisition of debt securities at FVOCI in exchange for loans issued	140,881	-
Acquisition of debt securities at FVTPL in exchange for loans issued	175,311	-
<b>Non-cash investing activities</b>	<b>316,192</b>	<b>-</b>

## **8 Due from Financial Institutions**

<i>In thousands of Kazakhstani Tenge</i>	<b>31 December 2018</b>	<b>31 December 2017</b>
Loans given to financial institutions	230,394,115	235,271,522
Placements with other banks with original maturities of more than three months	11,767,466	9,518,492
Less: Credit loss allowance	(12,603,000)	(19,211,736)
<b>Total due from financial institutions</b>	<b>229,558,581</b>	<b>225,578,278</b>

The Fund had claims on loans provided by "TsesnaBank" JSC in the amount of Tenge 52,996,774 thousand, which were issued from government funds and from funds received from ADB. In December 2018, claims for loans issued from ADB funds in the amount of Tenge 32,591,479 thousand were restructured in accordance with the terms of the Framework Agreement date 19 September 2018 concluded between the Government of the Republic of Kazakhstan, "Samruk-Kazyna" NWF, JSC "NMH Baiterek", JSC "Holding "Kazagro", and JSC "Tsesna Corporation". As part of this restructuring, the requirements for loans issued by "TsesnaBank" JSC were replaced with investment securities issued by TsesnaBank JSC with maturity of 15 years and the coupon rate of 4%. The Fund acquired these bonds in December 2018.

The second framework agreement was signed on 18 January 2019 and these investment securities were restructured with lower interest rate 0.1%. The contractual terms of remaining loans issued from the government funds in amount Tenge 20,499,974 thousand was modified and interest rate reduced to 0.1% with maturity of 15 years from the date of modification. After the second modification, the Fund lost claims for all loans, which led to increase of loss given default (LGD) from 55% to 70%. The Fund's management considered this restructuring as an adjusting event.

The Fund evaluated the modification of loans in bonds as significant, which required derecognition of the old financial instrument and the recognition of the new instrument. First of all, the Fund identified the amount of expected credit losses of previous financial instrument by applying LGD and PD equal to 70% and 100% respectively. Then, the Fund identified fair value of investment securities which equal to Tenge 3,935,983 thousand. In determining fair value, the Fund used the discounted cash flow model and defined market rate equal to 15.45% based on market data by taking credit risk into account. Based on modification of loans issued from source of ADB, the Fund recognised expected credit losses in amount Tenge 18,040,172 thousand in the statement of profit or losses and other comprehensive income, expected credit losses in amount Tenge 4,920,047 thousand and losses from recognition of investment securities in amount 5,904,111 thousand in the statement of changes in equity. Refer to 4 and 12.

For loans issued from the government funds, the Fund defined the recoverable amount of loans and recognised an expected credit losses in amount Tenge 4,057,456 thousand in the statement of profit or loss and Tenge 1,030,398 thousand in the statement of changes in equity. Part of the losses were recognised in the statement of changes in equity as this was dictated by the shareholders of the Fund.

On 28 April 2017, within the framework of cession agreement, the Fund received a portfolio of loans to small and medium size enterprises as settlement of loans to "Delta Bank" JSC for Tenge 15,443,912 thousand of principal and Tenge 253,529 thousand of accrued interest. The management of the Fund estimated fair value of the new portfolio of loans for Tenge 11,418,676 thousand as at settlement date, which led to recognition of loss on initial recognition of these loans of Tenge 4,278,421 thousand. During fair value assessment, cash flows from the loans were discounted using market interest rate of 14% with adjustments based on specific credit risk of borrowers. Refer to Notes 4, 9 and 25.

## **8 Due from Financial Institutions (Continued)**

The remaining amount of loans issued to “Delta Bank” JSC was Tenge 4,152,389 thousand (2017: Tenge 4,152,389 thousand) and discount on loans given at rates below the market was nil (2017: Tenge 4,151,448 thousand). During 2018, the Fund continued to work on the repayment of amounts owed by “Delta Bank” JSC. In December 2018, the Fund wrote off these loans to the off-balance sheet accounting.

Changes in loans given to financial institutions is due to disbursement of funds to commercial banks, scheduled and early repayments on loans and amortisation of discount on loans at rate below market.

Analysis by credit quality of amounts due from financial institutions outstanding at 31 December 2018 is as follows:

<i>In thousands of Kazakhstani Tenge</i>	<b>Loans given to financial institutions</b>	<b>Placements with other banks with original maturities of more than three months</b>	<b>Total</b>
<i>Neither past due nor impaired</i>			
- BBB- to BBB+ rated	-	6,000,000	6,000,000
- BB- to BB+ rated	87,578,255	2,000,000	89,578,255
- B- to B+ rated	119,166,727	3,767,466	122,934,193
- CCC- to CCC+ rated	5,153,241	-	5,153,241
- Unrated	11,186,300	-	11,186,300
<b>Total neither past due nor impaired</b>	<b>223,084,523</b>	<b>11,767,466</b>	<b>234,851,989</b>
<i>Balances individually determined to be impaired</i>			
<i>Not overdue but impaired</i>			
- B- to B+ rated	7,268,363	-	7,268,363
<i>Overdue</i>			
- 30 to 360 days overdue	41,229	-	41,229
<b>Total individually impaired (gross)</b>	<b>7,309,592</b>	<b>-</b>	<b>7,309,592</b>
<b>Less: Credit loss allowance</b>	<b>(12,580,438)</b>	<b>(22,562)</b>	<b>(12,603,000)</b>
<b>Total due from financial institutions</b>	<b>217,813,677</b>	<b>11,744,904</b>	<b>229,558,581</b>

## **8 Due from Financial Institutions (Continued)**

Analysis by credit quality of amounts due from financial institutions outstanding at 31 December 2017 is as follows:

<i>In thousands of Kazakhstani Tenge</i>	<b>Loans given to financial institutions</b>	<b>Placements with other banks with original maturities of more than three months</b>	<b>Total</b>
<i>Neither past due nor impaired</i>			
- BB- to BB+ rated	70,640,597	-	70,640,597
- B- to B+ rated	137,775,721	9,518,492	147,294,213
- Unrated	3,485,495	-	3,485,495
<b>Total neither past due nor impaired</b>	<b>211,901,813</b>	<b>9,518,492</b>	<b>221,420,305</b>
<i>Balances individually determined to be impaired</i>			
- not past due	8,283,809	-	8,283,809
- 30 to 360 days overdue	14,155,507	-	14,155,507
- over 360 days overdue	930,393	-	930,393
<b>Total individually impaired (gross)</b>	<b>23,369,709</b>	<b>-</b>	<b>23,369,709</b>
<b>Less: provision for impairment</b>	<b>(19,211,736)</b>	<b>-</b>	<b>(19,211,736)</b>
<b>Total due from financial institutions</b>	<b>216,059,786</b>	<b>9,518,492</b>	<b>225,578,278</b>

The credit ratings are based on Standard and Poor's ratings where available or Moody's rating converted to the nearest equivalent on the Standard and Poor's rating scale.

During 2018 and 2017, financial institutions without a credit rating were loans issued to two commercial banks and microfinance organisations. The management of the Fund has created expected credit losses for these loans in the amount of Tenge 147,239 thousand in accordance with IFRS 9 (2017: in the amount of Tenge 930,393 thousand).

## **8 Due from Financial Institutions (Continued)**

The following table explains the changes in the credit loss allowance and gross carrying amount of placements with other banks between the beginning and the end of the annual period due to these factors:

<i>In thousands of Kazakhstani Tenge</i>	<b>Credit loss allowance</b>		<b>Gross carrying amount</b>	
	<b>Stage 1 (12-months ECL)</b>	<b>Total</b>	<b>Stage 1 (12 months ECL)</b>	<b>Total</b>
<b>Placements with other banks</b>				
<b>As at 1 January 2018</b>	(66,793)	(66,793)	9,518,492	9,518,492
<i>Movements with impact on credit loss allowance charge for the period:</i>				
Other movements	49,610	49,610	2,248,974	2,248,974
<b>Total movements with impact on credit loss allowance charge for the period</b>	<b>(17,183)</b>	<b>(17,183)</b>	<b>11,767,466</b>	<b>11,767,466</b>
<i>Movements without impact on credit loss allowance charge for the period:</i>				
Foreign exchange translation and other movements	(5,379)	(5,379)	-	-
<b>As at 31 December 2018</b>	<b>(22,562)</b>	<b>(22,562)</b>	<b>11,767,466</b>	<b>11,767,466</b>

## 8 Due from Financial Institutions (Continued)

The following table explains the changes in the credit loss allowance and gross carrying amount of loans given to financial institutions between the beginning and the end of the annual period due to these factors:

<i>In thousands of Kazakhstani Tenge</i>	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
<b>Loans given to financial institutions</b>								
<b>As at 1 January 2018</b>	(4,488,213)	(3,844,387)	(15,085,899)	(23,418,499)	211,901,813	8,283,810	15,085,899	235,271,522
<i>Movements with impact on credit loss allowance charge for the period:</i>								
Transfers:	-	-	-	-	-	-	-	-
- to lifetime (from Stage 1 to Stage 2)	200,167	(3,350,952)	-	(3,150,785)	(7,106,770)	3,337,598	-	(3,769,172)
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	230,948	31,740	(4,100,313)	(3,837,625)	(7,190,133)	(243,323)	6,197,814	(1,235,642)
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(500,213)	3,524,644	-	3,024,431	5,272,457	(5,906,155)	-	(633,698)
New originated or purchased	(720,966)	-	-	(720,966)	63,999,208	-	-	63,999,208
Derecognised during the period	609,758	223,193	(18,040,172)	(17,207,221)	(51,843,267)	(1,360,508)	29,908,216	(23,295,559)
Changes to ECL measurement model assumptions	70,983	-	328,927	399,911	(37,556)	-	(328,928)	(366,484)
Unwinding of discounting	41,808	520,135	1,628	563,571	2,090,376	1,886,973	81,380	4,058,729
<b>Total movements with impact on credit loss allowance charge for the period</b>	<b>(4,555,728)</b>	<b>(2,895,627)</b>	<b>(36,895,828)</b>	<b>(44,347,183)</b>	<b>217,086,128</b>	<b>5,998,395</b>	<b>50,944,381</b>	<b>274,082,904</b>
<i>Movements without impact on credit loss allowance charge for the period:</i>								
Write-offs	-	-	14,756,972	14,756,972	-	-	(14,756,972)	(14,756,972)
Modification of contractual cash flows	-	-	22,960,219	22,960,219	-	-	(34,828,263)	(34,828,263)
Transfer to credit-impaired in capital	-	-	(5,950,446)	(5,950,446)	-	-	5,950,446	5,950,446
<b>As at 31 December 2018</b>	<b>(4,555,728)</b>	<b>(2,895,627)</b>	<b>(5,129,083)</b>	<b>(12,580,438)</b>	<b>217,086,128</b>	<b>5,998,395</b>	<b>7,309,592</b>	<b>230,394,115</b>

## 8 Due from Financial Institutions (Continued)

Movements in provision for impairment of due from financial institutions are as follows:

	2018		2017	
	Loans given to financial institutions	Placements with other banks	Loans given to financial institutions	Placements with other banks
<i>In thousands of Kazakhstani Tenge</i>				
<b>Credit loss allowance at 31 December</b>	<b>19,211,736</b>	<b>-</b>	<b>14,211,579</b>	<b>-</b>
Adjustment in accordance with adoption of IFRS 9	4,206,763	66,793	-	-
<b>Credit loss allowance at 1 January</b>	<b>23,418,499</b>	<b>66,793</b>	<b>14,211,579</b>	<b>-</b>
(Recovery of)/provision for impairment during the year	20,928,684	(49,610)	5,000,157	-
Impairment for loans through capital: subsequently accounted as discount for securities, the terms of which are determined by Fund shareholders	5,950,446	-	-	-
Amounts written off during the year as uncollectible	(14,756,972)	-	-	-
Transfer to securities, terms of which are determined by Fund shareholders	(22,960,219)	-	-	-
Foreign exchange translation	-	5,379	-	-
<b>Credit loss allowance at 31 December</b>	<b>12,580,438</b>	<b>22,562</b>	<b>19,211,736</b>	<b>-</b>

Refer to Note 34 for the estimated fair value of each class of amounts due from financial institutions. Interest rate analysis of due from financial institutions is disclosed in Note 31. Information on related party balances is disclosed in Note 36.

The following table contains an analysis of due from financial institutions balances by credit quality for which impairment loss was recognised. The carrying amount of due from financial institutions balances at 31 December 2018 below also represents the Fund's maximum exposure to credit risk on these assets:

	Due from other financial institutions				
	31 December 2018				
	ECL grouping				31 December 2017
	Stage 1	Stage 2	Stage 3		
	12 months				
<i>In thousands of Kazakhstani Tenge</i>	ECL	Lifetime ECL	Lifetime ECL	Total	Total
- BBB- to BBB+ rated	6,000,000	-	-	6,000,000	-
- BB- to BB+ rated	89,578,255	-	-	89,578,255	70,640,597
- B- to B+ rated	122,934,193	-	7,268,363	130,202,556	149,815,458
- CCC- to CCC+ rated	-	5,153,241	-	5,153,241	5,848,278
- Unrated	10,341,146	845,154	41,229	11,227,529	18,485,681
<b>Gross carrying amount</b>	<b>228,853,594</b>	<b>5,998,395</b>	<b>7,309,592</b>	<b>242,161,581</b>	<b>244,790,014</b>
Credit loss allowance	(4,578,290)	(2,895,627)	(5,129,083)	(12,603,000)	(19,221,736)
<b>Carrying value</b>	<b>224,275,304</b>	<b>3,102,768</b>	<b>2,180,509</b>	<b>229,558,581</b>	<b>225,578,278</b>

## 9 Loans and Advances to Customers

<i>In thousands of Kazakhstani Tenge</i>	<b>31 December 2018</b>	<b>31 December 2017</b>
Loans to small and medium size entities	1,851,699	6,859,504
Loans to microfinance organisations	123,709	969,955
Net investments in finance lease	11,725	78,016
Loans to others	8,047	9,371
Less: Credit loss allowance	(1,388,872)	(4,592,307)
<b>Total loans and advances to customers</b>	<b>606,308</b>	<b>3,324,539</b>

On 28 April 2017, within the framework of cession agreement, the Fund received a portfolio of loans to small and medium size enterprises as settlement of loans to "Delta Bank" JSC for Tenge 15,443,912 thousand of principal and Tenge 253,529 thousand of accrued interest. The management of the Fund estimated fair value of the new portfolio of loans for Tenge 11,418,676 thousand as at settlement date. See Note 4 and 25.

Movements in the provision for loan impairment during 2018 are as follows:

<i>In thousands of Kazakhstani Tenge</i>	<b>Loans to small and medium size entities</b>	<b>Loans to microfinance organisations</b>	<b>Net investments in finance lease</b>	<b>Total</b>
<b>Provision for loan impairment at 1 January 2018</b>	<b>(3,564,409)</b>	<b>(951,589)</b>	<b>(76,308)</b>	<b>(4,592,306)</b>
<b>Adoption of IFRS 9</b>	(93,692)	-	-	(93,692)
(Provision for)/recovery of impairment during the year	1,702,990	40,883	21,232	1,765,105
Amounts written off during the year as uncollectible	700,258	788,412	43,351	1,532,021
<b>Credit loss allowance at 31 December 2018</b>	<b>(1,254,853)</b>	<b>(122,294)</b>	<b>(11,725)</b>	<b>(1,388,872)</b>

Recovery of reserves is associated with procedures over the return of the loan portfolio. During 2018, the Fund continued to work on the restructuring of loans in other commercial banks, as well as to improve the financial performance of borrowers, which led to the recovery of credit loss allowances.

During 2018, there was recovery of impairment for loans to customers for Tenge 165,473 thousand (2017: Tenge 305,682 thousand). This recovery was recognised as income and had no impact on balance sheet items, as these loans were previously written-off by the Fund.

Movements in the provision for loan impairment during 2017 are as follows:

<i>In thousands of Kazakhstani Tenge</i>	<b>Loans to small and medium size entities</b>	<b>Loans to microfinance organisations</b>	<b>Net investments in finance lease</b>	<b>Total</b>
<b>Provision for loan impairment at 1 January 2017</b>	<b>1,439,752</b>	<b>928,500</b>	<b>124,913</b>	<b>2,493,165</b>
(Provision for)/recovery of impairment during the year	2,166,987	35,228	(31,783)	2,170,432
Amounts written off during the year as uncollectible	(42,330)	(12,139)	(16,822)	(71,291)
<b>Provision for loan impairment at 31 December 2017</b>	<b>3,564,409</b>	<b>951,589</b>	<b>76,308</b>	<b>4,592,306</b>

## 9 Loans and Advances to Customers (Continued)

Reconciliation of recovery of and provision for impairment of loans and advances to customers and due from financial institutions is as follows:

<i>In thousands of Kazakhstani Tenge</i>	31 December 2018	31 December 2017
(Provision for)/recovery of credit loss allowance for loans and advances to customers during the year	1,765,106	(2,170,432)
Recovery of credit loss allowance for loans and advances to customers written off as uncollectible	184,095	288,176
(Provision for)/recovery of credit loss allowance for due from financial institutions	(20,885,331)	(5,000,156)
<b>(Provision for)/recovery of credit loss allowance for loans and advances given to customers and due from financial institutions</b>	<b>(18,936,130)</b>	<b>(6,882,412)</b>

Refer to Note 34 for the disclosure of the fair value of each class of loans and advances given to customers. Information on related party balances is disclosed in Note 36.

Information about collateral at 31 December 2018 is as follows:

<i>In thousands of Kazakhstani Tenge</i>	Loans to small and medium size entities	Loans to microfinance organisations	Net investments in finance lease	Other loans	Total
Unsecured loans	122,901	-	-	-	122,901
Loans collateralised by:					
- residential real estate	44,720	-	-	8,047	52,767
- other real estate	389,772	-	-	-	389,772
- other assets	39,454	1,414	-	-	40,868
<b>Total loans and advances to customers</b>	<b>596,847</b>	<b>1,414</b>	<b>-</b>	<b>8,047</b>	<b>606,308</b>

Information about collateral at 31 December 2017 is as follows:

<i>In thousands of Kazakhstani Tenge</i>	Loans to small and medium size entities	Loans to microfinance organisations	Net investments in finance lease	Other loans	Total
Unsecured loans	1,902,249	-	-	-	1,902,249
Loans guaranteed by other parties, including credit insurance	116,651	2,785	-	-	119,436
Loans collateralised by:					
- residential real estate	496,632	-	1,708	9,370	507,710
- other real estate	397,563	13,495	-	-	411,058
- cash deposits					
- other assets	382,000	2,086	-	-	384,086
<b>Total loans and advances to customers</b>	<b>3,295,095</b>	<b>18,366</b>	<b>1,708</b>	<b>9,370</b>	<b>3,324,539</b>



**9 Loans and Advances to Customers (Continued)**

Analysis by credit quality of loans outstanding at 31 December 2018 is as follows:

<i>In thousands of Kazakhstani Tenge</i>	<b>Loans to small and medium size entities</b>	<b>Loans to microfinance organisations</b>	<b>Net investments in finance lease</b>	<b>Other loans</b>	<b>Total</b>
<i>Neither past due nor impaired</i>	535,295	-	-	8,047	<b>543,342</b>
<b>Total neither past due nor impaired</b>	<b>535,295</b>	<b>-</b>	<b>-</b>	<b>8,047</b>	<b>543,342</b>
<i>Past due but not impaired</i>					
- over 360 days overdue	-	1,414	-	-	<b>1,414</b>
<b>Total past due but not impaired</b>	<b>-</b>	<b>1,414</b>	<b>-</b>	<b>-</b>	<b>1,414</b>
<i>Loans individually determined to be impaired (gross)</i>					
- 30 to 90 days overdue	4	-	-	-	<b>4</b>
- 91 to 180 days overdue	390	-	-	-	<b>390</b>
- 181 to 360 days overdue	202,374	-	-	-	<b>202,374</b>
- over 360 days overdue	1,113,637	122,294	11,725	-	<b>1,247,656</b>
<b>Total individually impaired loans (gross)</b>	<b>1,316,405</b>	<b>122,294</b>	<b>11,725</b>	<b>-</b>	<b>1,450,424</b>
<b>Less: Credit loss allowance</b>	<b>(1,254,853)</b>	<b>(122,294)</b>	<b>(11,725)</b>	<b>-</b>	<b>(1,388,872)</b>
<b>Total loans and advances to customers</b>	<b>596,847</b>	<b>1,414</b>	<b>-</b>	<b>8,047</b>	<b>606,308</b>

## **9 Loans and Advances to Customers (Continued)**

Analysis by credit quality of loans outstanding at 31 December 2017 is as follows:

<i>In thousands of Kazakhstani Tenge</i>	<b>Loans to small and medium size entities</b>	<b>Loans to microfinance organisations</b>	<b>Net investments in finance lease</b>	<b>Other loans</b>	<b>Total</b>
<i>Neither past due nor impaired</i>	793,707	18,366	1,708	9,370	823,151
<b>Total neither past due nor impaired</b>	<b>793,707</b>	<b>18,366</b>	<b>1,708</b>	<b>9,370</b>	<b>823,151</b>
<b><i>Past due but not impaired</i></b>					
- less than 30 days overdue	1,390	-	-	-	1,390
- 30 to 90 days overdue	225,744	-	-	-	225,744
<b>Total past due but not impaired</b>	<b>227,134</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>227,134</b>
<i>Loans individually determined to be impaired (gross)</i>					
- less than 30 days overdue	1,817,697	-	-	-	1,817,697
- 30 to 90 days overdue	414,998	-	-	-	414,998
- 91 to 180 days overdue	422,660	-	-	-	422,660
- 181 to 360 days overdue	1,103,368	-	-	-	1,103,368
- over 360 days overdue	2,079,940	951,589	76,308	-	3,107,837
<b>Total individually impaired loans (gross)</b>	<b>5,838,663</b>	<b>951,589</b>	<b>76,308</b>	<b>-</b>	<b>6,866,560</b>
<b>Less: impairment provisions</b>	<b>(3,564,409)</b>	<b>(951,589)</b>	<b>(76,308)</b>	<b>-</b>	<b>(4,592,306)</b>
<b>Total loans and advances to customers</b>	<b>3,295,095</b>	<b>18,366</b>	<b>1,708</b>	<b>9,370</b>	<b>3,324,539</b>

## 9 Loans and Advances to Customers (Continued)

The following table contains an analysis of financial instruments by credit quality for which impairment loss was recognised. The carrying amount of financial assets at 31 December 2018 below also represents the Fund's maximum exposure to credit risk on these assets:

In thousands of Kazakhstani Tenge	Loans and advances to customers					31 December 2017
	31 December 2018					
	ECL grouping					
	Stage 1	Stage 2	Stage 3	POCI		
	12 months ECL	Lifetime ECL	Lifetime ECL	Lifetime ECL	Total	
Neither past due nor impaired	28,325	-	-	516,431	544,756	823,151
Past due but not impaired	-	-	-	-	-	227,134
Default over 90 days	-	-	-	202,768	202,768	3,758,723
Default over 360 days	-	-	1,220,996	26,660	1,247,656	3,107,837
<b>Gross carrying value</b>	<b>28,325</b>	<b>-</b>	<b>1,220,996</b>	<b>745,859</b>	<b>1,995,180</b>	<b>7,916,845</b>
Credit loss allowance	-	-	(1,219,214)	(169,658)	(1,388,872)	<b>(4,592,306)</b>
<b>Carrying value</b>	<b>28,325</b>	<b>-</b>	<b>1,782</b>	<b>576,201</b>	<b>606,308</b>	<b>3,324,539</b>

The Fund applied the portfolio provisioning methodology prescribed by IFRS 9, and created portfolio provisions for impairment losses that were expected but have not been specifically identified with any individual loan by the end of the reporting period.

The primary factors that the Fund considers in determining whether a loan is impaired are its overdue status and realisability of related collateral, if any. As a result, the Fund presents above an ageing analysis of loans that are individually determined to be impaired.

Past due, but not impaired loans primarily include collateralised loans where the fair value of collateral covers the overdue interest and principal repayments. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets"). The effect of collateral at 31 December 2018:

<i>In thousands of Kazakhstani Tenge</i>	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Loans to small and medium size entities	1,045,335	1,695,203	271,070	-
Loans to microfinance organisations	-	-	123,708	30,940
Net investments in finance lease	-	-	11,725	-
<b>Total</b>	<b>1,045,335</b>	<b>1,695,203</b>	<b>406,503</b>	<b>30,940</b>

## 9 Loans and Advances to Customers (Continued)

The effect of collateral at 31 December 2017:

<i>In thousands of Kazakhstani Tenge</i>	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Loans to small and medium size entities	1,436,840	1,923,149	5,422,663	876,291
Loans to microfinance organisations	-	-	969,955	-
Net investments in finance lease	78,016	14,809	-	-
Other loans	9,371	21,005	-	-
<b>Total</b>	<b>1,524,227</b>	<b>1,958,963</b>	<b>6,392,618</b>	<b>876,291</b>

Refer to Note 34 for the estimated fair value of each class of amounts loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 31. Information on related party balances is disclosed in Note 36.

## 10 Securities at Fair Value through Profit or Loss

<i>In thousands of Kazakhstani Tenge</i>	<b>31 December 2017</b>
<i>Securities at FVTPL</i>	
Corporate bonds	1,479,517
Kazakhstan government bonds	1,179,806
<b>Total securities at FVTPL</b>	<b>2,659,323</b>

The Fund irrevocably classified securities above, which are not part of the Fund's trading portfolio, as securities initially recognised at fair value through profit or loss. Such securities are managed and measured at fair value in accordance with a strategy documented in an investment policy.

Securities classified as at fair value through profit or loss are recorded at fair value, which also reflects write-offs due to credit risk.

An analysis of securities measured at fair value through profit or loss for credit quality as at 31 December 2017 were as follows:

<i>In thousands of Kazakhstani Tenge</i>	Kazakhstan government bonds	Corporate bonds	Total
<i>Neither past due nor impaired</i>			
- BBB- to BBB+ rated	1,479,517	-	1,479,517
- B- to B+ rated	-	1,179,806	1,179,806
<b>Total securities at FVTPL, neither past due nor impaired</b>	<b>1,479,517</b>	<b>1,179,806</b>	<b>2,659,323</b>

The credit ratings are based on Standard and Poor's ratings where available or Moody's rating converted to the nearest equivalent on the Standard and Poor's rating scale. No financial assets at fair value through profit or loss are not past due. Debt securities are not collateralized.

Refer to Note 30 for disclosure of the fair value of securities at FVTPL. Interest rate analysis of securities at FVTPL is disclosed in Note 27. Information on related party balances is disclosed in Note 32.

## **11 Investment Securities Available for Sale**

<i>In thousands of Kazakhstani Tenge</i>	<b>31 December 2017</b>
Corporate bonds	3,515,912
Less: Provision for impairment	(2,948,895)
<b>Total investment securities available for sale</b>	<b>567,017</b>

Analysis by credit quality of debt securities is as follows:

<i>In thousands of Kazakhstani Tenge</i>	<b>31 December 2017</b> <b>Corporate bonds</b>
<i>Neither past due nor impaired</i> - B- to B+ rated	567,017
<b>Total neither past due nor impaired</b>	<b>567,017</b>
<i>Debt securities individually determined to be impaired (gross)</i> - over 360 days overdue	2,948,895
<b>Total individually impaired debt securities (gross)</b>	<b>2,948,895</b>
<b>Less: impairment provision</b>	<b>(2,948,895)</b>
<b>Total debt securities available for sale</b>	<b>567,017</b>

The credit ratings are based on Standard and Poor's ratings where available or Moody's rating converted to the nearest equivalent on the Standard and Poor's rating scale.

The primary factor that the Fund considers in determining whether a debt security is impaired is its overdue status. As a result, the Fund presents above an ageing analysis of debt securities that are individually determined to be impaired. During the year, no reversal of impairment was recognised in statement of profit and loss and other comprehensive income.

Refer to Note 34 for disclosure of the fair value of investment securities available for sale. Interest rate analysis of investment securities available for sale is disclosed in Note 31. Information on related party balances is disclosed in Note 36.

## **12 Investments in Debt Securities**

<i>In thousands of Kazakhstani Tenge</i>	<b>2018</b>
Debt securities designated as at fair value through profit or loss (FVTPL) at initial recognition	2,123,182
Debt securities at fair value through other comprehensive income (FVOCI)	771,681
Debt securities at amortised cost (AC)	4,205,826
<b>Total investments in debt securities</b>	<b>7,100,689</b>

## 12 Investment in Debt Securities (Continued)

The table below discloses investments in debt securities at 31 December 2018 by measurement categories and classes:

<i>In thousands of Kazakhstani Tenge</i>	<b>Debt securities designated as at FVTPL at initial recognition</b>	<b>Debt securities at FVOCI</b>	<b>Debt securities at AC</b>	<b>Total</b>
Kazakhstan government bonds	948,880	-	-	948,880
Corporate bonds	1,174,302	771,681	4,205,826	6,151,809
Total investments in debt securities at 31 December 2018 (fair value or gross carrying value)	2,123,182	771,681	4,205,826	7,100,689
Credit loss allowance	-	-	-	-
<b>Total investments in debt securities at 31 December 2018 (carrying value)</b>	<b>2,123,182</b>	<b>771,681</b>	<b>4,205,826</b>	<b>7,100,689</b>

### (a) Investments in debt securities at FVTPL

Debt securities at FVTPL are carried at fair value, which also reflects any credit risk related write-downs and best represents Fund's maximum exposure to credit risk. The table below contains an analysis of the credit risk exposure of debt securities measured at FVTPL at 31 December 2018:

<i>In thousands of Kazakhstani Tenge</i>	<b>Kazakhstan government bonds</b>	<b>Corporate bonds</b>	<b>Total</b>
<b>Neither past due nor impaired</b>			
- BBB- to BBB+ rated	948,880	-	948,880
- B- to B+ rated	-	1,174,302	1,174,302
<b>Total gross carrying value of assets at FVTPL</b>	<b>948,880</b>	<b>1,174,302</b>	<b>2,123,182</b>

The debt securities at FVTPL are not collateralised.

### (b) Investments in debt securities at FVOCI

<i>In thousands of Kazakhstani Tenge</i>	<b>Stage 1 (12 months ECL)</b>	<b>Total</b>
<b>Corporate bonds</b>		
- B- to B+ rated	792,466	792,466
<b>Total AC gross carrying amount</b>	<b>792,466</b>	<b>792,466</b>
Less: credit loss allowance	(86,806)	(86,806)
Less: fair value adjustment from AC to FV	66,021	66,021
<b>Carrying value (fair value)</b>	<b>771,681</b>	<b>771,681</b>

The debt securities at FVOCI are not collateralised.

During 2018, there were no factors for SICR and default indicators and reserves were calculated equal to 12-month ECL.

## **12 Investment in Debt Securities (Continued)**

### **(c) Investments in debt securities at AC**

The table below contains an analysis of the credit risk exposure of debt securities measured at AC at 31 December 2018 based on credit risk grades. Refer to Note 43 for the description of credit risk grading system used by the Fund and the approach to ECL measurement, including the definition of default and SICR as applicable to debt securities at AC. The carrying amount of debt securities at AC at 31 December 2018 below also represents the Fund's maximum exposure to credit risk on these assets.

<i>In thousands of Kazakhstani Tenge</i>	<b>POCI</b>	<b>Total</b>
<b>Corporate bonds</b>		
- B- to B+ rated	4,205,826	<b>4,205,826</b>
<b>Gross carrying amount</b>	4,205,826	<b>4,205,826</b>
Nominal value with accrued interest	33,073,648	33,073,648
Discount	(5,907,603)	(5,907,603)
Transfer to securities, terms of which are determined by Fund shareholders	(22,960,219)	(22,960,219)
<b>Carrying amount</b>	<b>4,205,826</b>	<b>4,205,826</b>

On 13 and 14 December 2018, the Fund purchased the bonds of "TsesnaBank" JSC in exchange for loans that the Fund issued earlier to "Tsesnabank" JSC. The nominal value of these bonds is Tenge 32,800,312 thousand, excluding accrued interest. The Fund estimated the fair value of the bonds by the method of discounted payments at a rate of 15.45% which amounted to Tenge 3,935,983 thousand. The absence of credit loss allowances is due to the fact that these bonds were purchased at the end of the year and the recoverable amount is equal to the carrying amount.

### 13 Premises and Equipment

<i>In thousands of Kazakhstani Tenge</i>	<b>Note</b>	<b>Land and buildings</b>	<b>Office and computer equipment</b>	<b>Vehicles</b>	<b>Total</b>
Cost at 1 January 2017		2,161,906	1,570,717	305,334	4,037,957
Accumulated depreciation		(273,211)	(880,004)	(145,635)	(1,298,850)
<b>Carrying amount at 1 January 2017</b>		<b>1,888,695</b>	<b>690,713</b>	<b>159,699</b>	<b>2,739,107</b>
Additions		-	64,372	-	64,372
Disposals		-	(35,975)	-	(35,975)
Depreciation charge	27	(20,649)	(236,924)	(39,629)	(297,202)
Accumulated depreciation disposal		-	26,885	-	26,885
<b>Carrying amount at 31 December 2017</b>		<b>1,868,046</b>	<b>509,071</b>	<b>120,070</b>	<b>2,497,187</b>
Cost at 31 December 2017		2,161,906	1,599,114	305,334	4,066,354
Accumulated depreciation		(293,860)	(1,090,043)	(185,264)	(1,569,166)
<b>Carrying amount at 31 December 2017</b>		<b>1,868,046</b>	<b>509,071</b>	<b>120,070</b>	<b>2,497,187</b>
Additions		-	46,091	-	46,091
Disposals		-	(4,821)	(1,701)	(6,522)
Depreciation charge	27	(20,649)	(202,988)	(39,061)	(262,698)
Accumulated depreciation disposal		-	4,294	1,133	5,427
<b>Carrying amount at 31 December 2018</b>		<b>1,847,397</b>	<b>351,647</b>	<b>80,441</b>	<b>2,279,485</b>
Cost at 31 December 2018		2,161,906	1,640,384	303,633	4,105,923
Accumulated depreciation		(314,509)	(1,288,737)	(223,192)	(1,826,438)
<b>Carrying amount at 31 December 2018</b>		<b>1,847,397</b>	<b>351,647</b>	<b>80,441</b>	<b>2,279,485</b>



#### 14 Other Assets

<i>In thousands of Kazakhstani Tenge</i>	<b>Note</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
Financial derivatives at FVTPL	33	12,535,447	25,193,064
Accounts receivable at AC		998,251	473,252
Less: Credit loss allowance		(123,923)	(410,615)
<b>Total other financial assets within other assets</b>		<b>13,409,775</b>	<b>25,255,701</b>
Services prepaid		883,305	312,742
Reposessed collateral		285,702	288,865
Raw materials and supplies		70,327	58,100
Taxes other than on income		21,621	46,280
Other		15,153	26,757
Less: Provision for impairment		(7,160)	(186,747)
<b>Total other assets</b>		<b>14,678,723</b>	<b>25,801,698</b>

Financial derivatives represent net balance on currency swap transactions with other financial institutions. Refer to Notes 23 and 33.

Reposessed collateral represents real estate assets acquired by the Fund in settlement of overdue loans. The Fund expects to dispose of the assets in the foreseeable future. The assets do not meet the definition of non-current assets held for sale, and are classified as inventories in accordance with IAS 2 "Inventories". The assets were initially recognised at fair value when acquired.

Analysis by credit quality of other financial assets at 31 December 2018 is as follows:

<i>In thousands of Kazakhstani Tenge</i>	<b>Financial derivatives</b>	<b>Accounts receivable</b>	<b>Total</b>
<i>Neither past due nor impaired</i>			
- B- to B+ rated	12,535,447	-	12,535,447
- unrated	-	874,328	874,328
<b>Total neither past due nor impaired</b>	<b>12,535,447</b>	<b>874,328</b>	<b>13,409,775</b>
<i>Individually determined to be impaired (gross)</i>			
- over 360 days overdue	-	123,923	123,923
<b>Total individually impaired (gross)</b>	<b>-</b>	<b>123,923</b>	<b>123,923</b>
<b>Less: Credit loss allowance</b>	<b>-</b>	<b>(123,923)</b>	<b>(123,923)</b>
<b>Total other financial assets</b>	<b>12,535,447</b>	<b>874,328</b>	<b>13,409,775</b>

**Damu Entrepreneurship Development Fund JSC**  
**Notes to the financial statements – 31 December 2018**

**14 Other assets (Continued)**

Analysis by credit quality of other financial assets at 31 December 2017 is as follows:

<i>In thousands of Kazakhstani Tenge</i>	<b>Loans</b>	<b>Accounts receivable</b>	<b>Total</b>
<i>Neither past due nor impaired</i>			
- B- to B+ rated	25,193,064	-	25,193,064
- unrated	-	62,637	62,637
<b>Total neither past due nor impaired</b>	<b>25,193,064</b>	<b>62,637</b>	<b>25,255,701</b>
<i>Individually determined to be impaired (gross)</i>			
- over 360 days overdue	-	410,615	410,615
<b>Total individually impaired (gross)</b>	<b>-</b>	<b>410,615</b>	<b>410,615</b>
<b>Less: Provision for impairment</b>	<b>-</b>	<b>(410,615)</b>	<b>(410,615)</b>
<b>Total other financial assets</b>	<b>25,193,064</b>	<b>410,615</b>	<b>25,255,701</b>

Movements in the provision for impairment during 2018 and 2017 are as follows:

<i>In thousands of Kazakhstani Tenge</i>	<b>2018</b>			<b>2017</b>		
	<b>Other financial assets</b>	<b>Other assets</b>	<b>Total</b>	<b>Other financial assets</b>	<b>Other assets</b>	<b>Total</b>
<b>Provision balance at 1 January</b>	410,615	186,747	597,362	296,846	187,218	484,064
	-	-	-	-	-	-
Provision for/(recovery of) impairment during the year	(1,716)	(1,543)	(3,259)	(2,697)	1,181	(1,516)
Amounts written off during the year as uncollectible	(300,537)	(178,044)	(478,581)	(188)	(1,652)	(1,840)
Transfer of provision due to reclassification of fully provisioned receivables	15,561	-	15,561	116,654	-	116,654
<b>Provision balance at 31 December</b>	<b>123,923</b>	<b>7,160</b>	<b>131,083</b>	<b>410,615</b>	<b>186,747</b>	<b>597,362</b>

As of 31 December 2018, included in other assets receivables of Tenge 131,083 thousand (31 December 2017: Tenge 410,615 thousand), all of which are overdue for more than one year. Refer to Note 34 for disclosure of the fair value of other financial assets. Information on related party balances is disclosed in Note 36.

**15 Borrowed Funds**

<i>In thousands of Kazakhstani Tenge</i>	<b>31 December 2018</b>	<b>31 December 2017</b>
Baiterek NMH JSC (6.57% - 6.71%)	76,392,378	71,948,648
Asian Development Bank (2.08% - 7.58%)	55,532,019	72,472,682
Municipal authorities (0.01% - 1%)	49,532,869	32,754,338
Samruk-Kazyna NWF JSC (2% - 6.5%)	19,416,325	25,449,768
Ministry of Finance of Republic of Kazakhstan (0%)	436,382	377,467
<b>Total borrowed funds</b>	<b>201,309,973</b>	<b>203,002,903</b>

## **15 Borrowed Funds (Continued)**

In October 2014, the Fund received a loan from ADB in the amount of US Dollar 122 million with an interest rate of 0.57% per annum and maturity in October 2019. In October 2015, the Fund received a loan from ADB in the amount of US Dollar 228 million with an interest rate of 0.9207% per annum and maturity in September 2020. All funds received were placed in Kazakh commercial banks approved by ADB. Refer to Note 4. During 2018, the Fund redeemed a loan from ADB in the amount of US Dollar 133 million (2017: 156 million). The Fund incurred foreign exchange loss of Tenge 8,244,649 thousand (2017: foreign exchange gains of Tenge 1,759,341 thousand) on the ADB loans during the year ended 31 December 2018. During 2018, the Fund received a loan from ADB in the amount of Tenge 23,836,774 thousand with a floating interest rate of 7.5% -7.58% (2017: Tenge 8,085,997 thousand). Refer to Note 23.

In April and December 2014, the Fund received loans from the Parent company, Baiterek NMH JSC, in the amount of Tenge 100 billion and Tenge 50 billion, respectively, with an annual interest rate of 0.15% per annum and maturity in 2034. In March 2015, the Fund received a loan from the Parent company in the amount of Tenge 50 billion, at a rate below market rate, 0.15% per annum, and maturity until 2035. The funds were received for further placement in Kazakhstani commercial banks, approved by the government to participate in the state program to support the development of small and medium-sized businesses engaged in the manufacturing industry. All funds received were placed in commercial banks. Refer to Note 4.

All other borrowed funds have been received for the purpose of providing funds to local banks in order to support financing of development of small and medium sized entities in accordance with approved governmental programs. During 2018, the Fund received loans in the amount of Tenge 17,018,885 thousand (2017: Tenge 20,883,696 thousand) from municipal authorities.

Refer to Note 34 for disclosure of the fair value of each class of borrowed funds. Interest rate analysis of borrowed funds is disclosed in Note 31. Information on related party balances is disclosed in Note 36.

## **16 Debt Securities in Issue**

On 14 December 2018, the Fund placed bonds in the amount of Tenge 16 billion on marketplace of Kazakhstan Stock Exchange. These bonds have a maturity of 13 months, a coupon yield of 8.7%. As at 31 December 2018, the issued debt securities of the Fund included bonds in the amount of Tenge 16,057,484 thousand (2017: Tenge 0) denominated in tenge.

Refer to Note 34 for disclosure of the fair value of each class of debt securities in issue. Interest rate analysis of debt securities in issue is disclosed in Note 31. Information on related party balances is disclosed in Note 36.

## **17 Liabilities on Subsidy Programs**

<i>In thousands of Kazakhstani Tenge</i>	<b>31 December 2018</b>	<b>31 December 2017</b>
Banks	2,841,525	1,418,643
Municipal authorities	2,132,538	1,758,695
<b>Total liabilities on subsidy programs</b>	<b>4,974,063</b>	<b>3,177,338</b>

Liabilities on subsidy programs are placed by the RSI "Ministry of Industry and Infrastructural Development of the Republic of Kazakhstan Committee on Construction, Housing and Utilities Services", National Fund of the RK, the "United Nations Development Program" in the RK and municipal authorities. Such funds are further transferred to local banks as payment for governmentally subsidised projects under the State Housing Development Program "Nurly Zher", the State Business Support and Business Development Program "Business Road Map 2020".

Refer to Note 34 for disclosure of the fair value of liabilities on subsidy programs. Information on related party balances is disclosed in Note 36.

## 18 Deferred Income and Provision for Credit Related Commitments

<i>In thousands of Kazakhstani Tenge</i>	<b>Note</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
Deferred income on financial guarantees		5,319,861	4,159,286
Financial guarantees (provision for credit related commitments)	32	1,594,480	1,104,245
<b>Total deferred income and provision for credit related commitments</b>		<b>6,914,341</b>	<b>5,263,531</b>

During 2015, the Fund issued guarantees to Bank CenterCredit JSC in respect of credit lines opened by Bank CenterCredit JSC in European Bank for Reconstruction and Development (the "EBRD") for the total amount of loans received. As of 31 December 2018, Bank CenterCredit JSC had drawn down the EBRD loans for the amount of Tenge 36,157 million (2017: Tenge 20,470 million). The management of the Fund assessed fair value of these guarantees based on commission fees received from Bank CenterCredit JSC. As of 31 December 2018, the amount of accrued commission income was 123,099 thousand (2017: Tenge 179,161 thousand). Refer to Notes 4 and 32.

During 2016, the Fund issued guarantees to ForteBank JSC and Microfinance Organisation KMF LLP ("MFO KMF") in respect of credit lines opened by ForteBank JSC and MFO KMF in the EBRD for amount of loans received. As of 31 December 2018, ForteBank JSC and MFO KMF had drawn down the EBRD loans for the amount of Tenge 19,243 million and Tenge 3,776 million, respectively. (2017: 19,243 million and 3,776 million, respectively). The management of the Fund assessed fair value of these guarantees based on commission fees received from ForteBank JSC and MFO KMF and estimated the fair value to be equal to Tenge 32,778 thousand and Tenge 12,772 thousand, respectively (2017: 57,030 thousand and 25,669 thousand, respectively). Refer to Notes 4 and 32.

During 2017, the Fund issued guarantees to Bank Kassa Nova JSC in respect of credit lines opened by Bank Kassa Nova JSC in EBRD for the amount of loans received. As of 31 December 2018, Bank Kassa Nova JSC had drawn down the EBRD loans for the amount of Tenge 3,742 million (2017: Tenge 1,793 million). The management of the Fund assessed fair value of these guarantees based on commission fees received and estimated the fair value to be equal to Tenge 7,052 thousand (2017: Tenge 1,250 thousand). Refer to Notes 4 and 32.

The Fund issues financial guarantees under "Business Road Map – 2020" program, initiated by the Government, to the small and medium sized entities. This program is subsidised by the Government (the "Principal"), in accordance with government regulation No.301 issued as at 13 April 2010 "On approving the Program "Business Road Map – 2020". At the moment, the program has been renamed to "Government Business Support and Development Program "Business Road Map - 2020" in accordance with Government Decree of the Republic of Kazakhstan as at 25 August 2018 No. 522 "On Approving the State Business Support and Business Development Program "Business Road Map 2020".

In the framework of the Program the Fund acts as an agent between the Principal and the final recipient and receives 20% commission of the insured amount. The consideration received is deferred and amortised on a straight-line basis over the life of the guarantee issued.

Refer to Note 34 for disclosure of the fair value of liabilities on deferred income and provision for credit related commitments. Information on related party balances is disclosed in Note 36.

## 19 Other Liabilities

<i>In thousands of Kazakhstani Tenge</i>	<b>31 December 2018</b>	<b>31 December 2017</b>
Accounts payable	272,611	189,160
Accrued liabilities and other creditors	247,454	643,454
<b>Total financial liabilities within other liabilities</b>	<b>520,065</b>	<b>832,614</b>
Unused vacation reserve	300,925	228,818
Advances received	140,183	35,290
Taxes payable other than on income	100,165	95,349
Accrued employee benefit costs	4,342	62,963
Other	508	500
<b>Total other liabilities</b>	<b>1,066,188</b>	<b>1,255,534</b>

## 19 Other Liabilities (Continued)

All of the above liabilities are expected to be settled within twelve months after the end of the period. Refer to Note 34 for disclosure of the fair value of other financial liabilities.

## 20 Share Capital

<i>In thousands of Kazakhstani Tenge except for number of shares</i>	<b>Number of outstanding shares (in thousands)</b>	<b>Ordinary shares</b>	<b>Total</b>
<b>At 31 December 2017</b>	<b>27,462</b>	<b>72,920,273</b>	<b>72,920,273</b>
New share issue	-	-	-
<b>At 31 December 2018</b>	<b>27,462</b>	<b>72,920,273</b>	<b>72,920,273</b>

At the Sole Shareholder's meeting on 24 May 2018, the Fund declared dividends in respect of the year ended 31 December 2017, totalling Tenge 1,234,153 thousand (for the year ended 31 December 2016: 1,678,218 thousand). The amount was paid to the Shareholder on 16 July 2018.

## 21 Interest Income and Expense

<i>In thousands of Kazakhstani Tenge</i>	<b>2018</b>	<b>2017</b>
<b>Interest income</b>		
Due from financial institutions	20,366,243	26,913,517
Cash and cash equivalents	2,216,851	3,365,522
Loans and advances to customers	1,915,343	4,083,239
Securities at amortised cost	58,526	-
Securities at fair value through other comprehensive income	56,764	-
Securities at fair value through profit or loss	-	350,035
Investment securities available for sale	-	52,464
Investment securities held to maturity	-	32,115
<b>Total interest income calculated using the effective interest method</b>	<b>24,613,727</b>	<b>34,796,892</b>
<b>Other similar income</b>		
Debt securities at fair value through profit or loss	140,937	-
<b>Total other similar income</b>	<b>140,937</b>	<b>-</b>
<b>Total interest income</b>	<b>24,754,664</b>	<b>34,796,892</b>
<b>Interest expense</b>		
Borrowed funds	(8,301,670)	(7,629,888)
Debt securities in issue	(61,964)	-
<b>Total interest expense</b>	<b>(8,363,634)</b>	<b>(7,629,888)</b>
<b>Net interest income</b>	<b>16,391,030</b>	<b>27,167,004</b>

Interest income on due from financial institutions includes Tenge 6,189,940 thousand (2017: Tenge 10,731,512 thousand) interest income from unwinding of discount on loans given at rates below the market. Unamortised amount of discount on loans given to Delta Bank at rates below the market for Tenge 4,278,421 thousand was recycled to profit or loss (2016: 74,604 thousand). Refer to Note 4.

## 21 Interest Income and Expense (Continued)

Interest expense on borrowed funds includes Tenge 4,443,731 thousand (2017: Tenge 4,168,357 thousand) interest expense from unwinding of discount on borrowed funds received at rates below the market.

## 22 Fee and Commission Income

<i>In thousands of Kazakhstani Tenge</i>	2018	2017
Guarantees issued	2,972,669	1,173,459
Financial agent services	961,678	2,984,679
<b>Total fee and commission income</b>	<b>3,934,347</b>	<b>4,158,138</b>

Fee and commission income is comprised of commission income received from issued guarantees (Note 18), financial agency fees received in connection with subsidy program (see Note 17), initiated by Ministry of National Economy of the Republic of Kazakhstan, RSI "Ministry of Industry and Infrastructural Development of the Republic of Kazakhstan Committee on Construction, Housing and Utilities Services", the "United Nations Development Program" in the RK, RSI "National Bank of the Republic of Kazakhstan", and support services rendered to start-up entrepreneurs within the Government program of business development and support "Business Road Map 2020".

## 23 Losses less Gains from Financial Derivatives

<i>In thousands of Kazakhstani Tenge</i>	2018	2017
Interest expense on swap agreements	19,582,304	4,702,294
Unrealised loss from indexation	338,869	262,045
Realised gain from swap transactions	(1,323,944)	(1,754,541)
Unrealised loss from swap transactions	(12,655,998)	(15,702,407)
<b>Losses less gains from financial derivatives</b>	<b>5,941,231</b>	<b>(12,492,609)</b>

Realised gain from indexation originated as a result of closing a position on derivative financial instruments. Interest expense arises from the payment of 3% on financial derivatives. Detailed description of the transactions and the assessment of the financial results are given in Critical Accounting Estimates, and Judgements in Applying Accounting Policies – Fair value of derivatives and certain other instruments. Refer to Notes 4 and 14.

## 24 Foreign Exchange Translation Gains less Losses

<i>In thousands of Kazakhstani Tenge</i>	Note	2018	2017
Loans from Asian Development Bank	15	(8,301,861)	2,168,832
Placements with other banks with original maturities of more than three months		519,830	(102,908)
Cash and cash equivalents		134,125	228,643
Other expenses		(23,971)	(154,256)
<b>Total foreign exchange translation gains less losses</b>		<b>(7,671,877)</b>	<b>2,140,311</b>

## 25 Net Loss on Initial Recognition of Financial Instruments at Rates below Market

On 28 April 2017, within the framework of cession agreement, the Fund received a portfolio of loans to small and medium size enterprises as settlement of loans to "Delta Bank" JSC for Tenge 15,443,912 thousand of principal and Tenge 253,529 thousand of accrued interest. The management of the Fund estimated fair value of the new portfolio of loans for Tenge 11,418,676 thousand as at settlement date, which led to recognition of loss on initial recognition of these loans of Tenge 4,278,421 thousand (Note 4).

During 2018, the Fund issued loans at rates lower than market rates to commercial banks and recognized a loss upon initial recognition in the amount of Tenge 4,443,157 thousand (Note 4).

## 26 Net Other Operating Income

<i>In thousands of Kazakhstani Tenge</i>	<b>2018</b>	<b>2017</b>
Income on operating lease	73,032	103,128
Fines and penalties	1,871	4,342
Net loss of fixed assets disposal	(99,405)	(71,473)
Other	(264,770)	4,823
<b>Net other operating income</b>	<b>(289,272)</b>	<b>40,818</b>

## 27 General and Administrative Expenses

<i>In thousands of Kazakhstani Tenge</i>	<b>2018</b>	<b>2017</b>
Staff costs	2,694,600	2,615,539
Depreciation of premises and equipment	262,699	297,202
Repair and technical maintenance	208,431	192,586
Rent expense	157,262	131,070
Amortisation of intangible assets	110,031	113,425
Business trip and representative expenses	108,799	111,750
Communication services	61,192	63,889
Materials	59,331	43,114
Insurance expenses	57,574	56,043
Taxes other than on income	54,741	83,473
Training	50,504	48,841
Legal and consulting services	48,677	88,905
Utilities	38,935	42,811
Security services	38,849	43,999
Broker fees	26,538	5,048
Transportation expense	26,010	19,019
Bank charges	12,969	164,722
Stationery	7,871	15,935
Advertising and marketing services	504	6,039
Other	314,310	263,467
<b>Total General and Administrative Expenses</b>	<b>4,339,827</b>	<b>4,406,877</b>
Realisation of Fund's programs*	872,451	904,953
<b>Total expenses on realisation of Fund's programs</b>	<b>872,451</b>	<b>904,953</b>

\*The Fund executes a range of programs on support and training for individuals engaged in small and medium entrepreneurship.

## 28 Income Taxes

### (a) Components of income tax expense

The income tax expense recognized in profit and loss for the year comprises the following:

<i>In thousands of Kazakhstani Tenge</i>	<b>2018</b>	<b>2017</b>
Current tax expense	5,231,595	440,109
Deferred tax expense	(3,845,977)	653,284
<b>Income tax expense for the year</b>	<b>1,385,618</b>	<b>1,093,393</b>

## 28 Income Tax (Continued)

### (b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

The income tax rate applied to most of the Fund's 2018 income is 20% (2017: 20%). A reconciliation between the expected and the actual taxation charge is provided below:

<i>In thousands of Kazakhstani Tenge</i>	2018	2017
<b>Profit before tax</b>	<b>(10,544,855)</b>	<b>5,206,237</b>
Theoretical tax charge at statutory rate (2018: 20%; 2017: 20%)	(2,108,971)	1,041,247
Tax effects of items which are not deductible or assessable for taxation purposes:		
- Expense on securities, exempt from tax	3,608,034	-
- Income from securities, exempt from tax	(51,226)	(86,923)
- Other non-deductible income	(39,047)	(156,801)
- Other non-deductible expenses	-	47,068
- Adjustment of prior year tax expense estimate	(23,172)	248,802
<b>Income tax expense for the year</b>	<b>1,385,618</b>	<b>1,093,393</b>

### (c) Deferred taxes analysed by type of temporary difference

Differences between IFRS and statutory taxation regulations in Republic of Kazakhstan give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below.

Movements in temporary differences during the year ended 31 December 2018 are detailed below:

<i>In thousands of Kazakhstani Tenge</i>	1 January 2018	(Charged)/ credited to profit or loss	Credited/ (charged) directly to equity	31 December 2018
<b>Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards</b>				
Borrowed funds and due from financial instruments	(2,104,279)	906,659	-	(1,197,620)
Loans and advances to customers	375,201	(367,099)	-	8,102
Due from financial institutions	825,167	725,316	916,487	2,466,970
Premises and equipment and intangible assets	(168,656)	33,250	-	(135,406)
Financial derivatives	(5,038,613)	2,531,524	-	(2,507,089)
Other liabilities	45,764	16,327	23,671	85,762
<b>Net deferred tax liability</b>	<b>(6,065,416)</b>	<b>3,845,977</b>	<b>940,158</b>	<b>(1,279,281)</b>
Recognized deferred tax asset	1,246,132	4,213,076	940,158	6,399,366
Recognized deferred tax liability	(7,311,548)	(367,099)	-	(7,678,647)
<b>Net deferred tax liability</b>	<b>(6,065,416)</b>	<b>3,845,977</b>	<b>940,158</b>	<b>(1,279,281)</b>



## 28 Income Tax (Continued)

Movements in temporary differences during the year ended 31 December 2017 are detailed below:

<i>In thousands of Kazakhstani Tenge</i>	1 January 2017	(Charged)/ credited to profit or loss	31 December 2017
<b>Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards</b>			
Borrowed funds and due from financial instruments	(442,501)	(1,661,778)	(2,104,279)
Loans and advances to customers	-	375,201	375,201
Due from financial institutions	-	825,167	825,167
Premises and equipment and intangible assets	(168,450)	(206)	(168,656)
Financial derivatives	(8,178,752)	3,140,139	(5,038,613)
Tax loss carry forwards	3,333,543	(3,333,543)	-
Other liabilities	44,028	1,736	45,764
<b>Net deferred tax liability</b>	<b>(5,412,132)</b>	<b>(653,284)</b>	<b>(6,065,416)</b>
Recognized deferred tax asset	3,377,571	(2,131,439)	1,246,132
Recognized deferred tax liability	(8,789,703)	1,478,155	(7,311,548)
<b>Net deferred tax liability</b>	<b>(5,412,132)</b>	<b>(653,284)</b>	<b>(6,065,416)</b>

## 29 Reconciliation of Liabilities Arising from Financing Activities

The table below sets out movements in the Fund's liabilities from financing activities for each of the periods presented. The items of these liabilities are those that are reported as financing activities in the statement of cash flows.

<i>In thousands of Kazakhstani Tenge</i>	Liabilities from financing activities			Total
	Baiterek NMH JSC	Municipal authorities, Samruk- Kazyna NWF JSC, Ministry of Finance RK	Asian Development Bank	
<b>Liabilities from financing activities at 1 January 2017</b>	<b>67,780,290</b>	<b>38,917,299</b>	<b>117,172,162</b>	<b>223,869,751</b>
Cash flows	(300,000)	18,529,811	(44,553,265)	(26,323,454)
Foreign exchange adjustments		(39,801)	(2,168,832)	(2,208,633)
Other non-cash movements	4,468,358	1,174,264	2,022,617	7,665,239
<b>Liabilities from financing activities at 31 December 2017</b>	<b>71,948,648</b>	<b>58,581,573</b>	<b>72,472,682</b>	<b>203,002,903</b>
Cash flows	(300,000)	9,428,693	(28,129,604)	(19,000,911)
Foreign exchange adjustments	-	58,915	8,301,861	8,360,776
Other non-cash movements	4,743,730	1,316,395	2,887,080	8,947,205
<b>Liabilities from financing activities at 31 December 2018</b>	<b>76,392,378</b>	<b>69,385,576</b>	<b>55,532,019</b>	<b>201,309,973</b>

### 30 Segment Analysis

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available. The functions of the CODM are performed by Management Board of the Fund.

**(a) Description of products and services from which each reportable segment derives its revenue**

The Fund is organised on the basis of two main business segments:

- Other banking operation – this segment includes cash at the RSI “National Bank of Kazakhstan” using for issuing conditional loans, loans issued to financial institutions, small and medium businesses, and issuing financial guarantees;
- Investment operation – representing cash and cash equivalents, securities and due from financial institutions (deposits).

**(b) Information about reportable segment profit or loss, assets and liabilities**

Segment information for the reportable segments for the year ended 31 December 2018 is set out below:

<i>In thousands of Kazakhstani Tenge</i>	<b>Note</b>	<b>Other banking operation</b>	<b>Investment operation</b>	<b>Total</b>
Cash and cash equivalents	7	16,733,828	21,219,846	<b>37,953,674</b>
Due from financial institutions	8	217,813,677	11,744,904	<b>229,558,581</b>
Loans and advances to customers	9	606,308	-	<b>606,308</b>
Due from subsidy programs		29,337	-	<b>29,337</b>
Investments in debt securities	12	-	7,100,689	<b>7,100,689</b>
Financial derivatives	14	12,535,447	-	<b>12,535,447</b>
<b>Total reportable segment assets</b>		<b>247,718,597</b>	<b>40,065,439</b>	<b>287,784,036</b>
Borrowed funds	15	201,309,973	-	<b>201,309,973</b>
Debt securities in issue	16	16,057,484	-	<b>16,057,484</b>
Liabilities on subsidy programs	17	4,974,063	-	<b>4,974,063</b>
Deferred income and provision for credit related commitments	18	6,914,341	-	<b>6,914,341</b>
<b>Total reportable segment liabilities</b>		<b>229,255,861</b>	<b>-</b>	<b>229,255,861</b>
<b>Capital expenditure</b>		<b>-</b>	<b>-</b>	<b>(46,091)</b>

Capital expenditure represents additions to premises and equipment.

**30 Segment Analysis (Continued)**

<i>In thousands of Kazakhstani Tenge</i>	<b>Other banking operation</b>	<b>Investment operation</b>	<b>Total</b>
Interest income due from financial institutions	20,366,243	-	<b>20,366,243</b>
Interest income from loans and advances to customers	1,915,343	-	<b>1,915,343</b>
Interest income from investments in debt securities	-	256,227	<b>256,227</b>
Interest income from cash and cash equivalents		2,216,851	<b>2,216,851</b>
Interest expense on borrowed funds	(8,301,671)	-	<b>(8,301,671)</b>
Interest expense on debt securities in issue	(61,964)	-	<b>(61,964)</b>
<b>Net interest income</b>	<b>13,917,951</b>	<b>2,473,078</b>	<b>16,391,029</b>
Provision for impairment	(18,936,130)	-	(18,936,130)
<b>Net interest income after provision for impairment</b>	<b>(5,018,179)</b>	<b>2,473,078</b>	<b>(2,545,101)</b>
Fee and commission income	3,934,347	-	<b>3,934,347</b>
Gains less losses from financial derivatives	5,941,231	-	<b>5,941,231</b>
Gains less losses from financial assets at fair value through profit or loss	-	65,958	<b>65,958</b>
Net loss on initial recognition of financial Instruments at rates below market	(4,443,157)	-	<b>(4,443,157)</b>
Impairment of debt securities at fair value through other comprehensive income	-	(86,806)	<b>(86,806)</b>
(Provision for)/Recovery of impairment for other assets	6,042	-	<b>6,042</b>
(Provision for)/Recovery of impairment for credit related commitments	(243,942)	-	<b>(243,942)</b>
Foreign exchange translation gains less losses	(8,244,649)	572,772	<b>(7,671,877)</b>
Expenses on realisation of Fund's programs	(872,451)	-	<b>(872,451)</b>
General and administrative expenses	(2,016,939)	(23,167)	<b>(2,040,106)</b>
<b>Segment result</b>	<b>(10,957,697)</b>	<b>3,001,835</b>	<b>(7,955,862)</b>

### 30 Segment Analysis (Continued)

Segment information for the reportable segments for the year ended 31 December 2017 is set out below:

<i>In thousands of Kazakhstani Tenge</i>	<b>Note</b>	<b>Other banking operation</b>	<b>Investment operation</b>	<b>Total</b>
Cash and cash equivalents	7	18,692,460	25,382,470	<b>44,074,930</b>
Due from financial institutions	8	216,059,786	9,518,492	<b>225,578,278</b>
Loans and advances to customers	9	3,324,539	-	<b>3,324,539</b>
Due from subsidy programs		34,550	-	<b>34,550</b>
Investments in debt securities	12	-	3,226,340	<b>3,226,340</b>
Financial derivatives	14	25,193,064	-	<b>25,193,064</b>
<b>Total reportable segment assets</b>		<b>263,304,399</b>	<b>38,127,302</b>	<b>301,431,701</b>
Borrowed funds	15	203,002,903	-	<b>203,002,903</b>
Liabilities on subsidy programs	17	3,177,338	-	<b>3,177,338</b>
Deferred income and provision for credit related commitments	18	5,263,531	-	<b>5,263,531</b>
<b>Total reportable segment liabilities</b>		<b>211,443,772</b>	<b>-</b>	<b>211,443,772</b>
<b>Capital expenditure</b>		<b>-</b>	<b>-</b>	<b>(64,372)</b>

Capital expenditure represents additions to premises and equipment.

### 30 Segment Analysis (Continued)

<i>In thousands of Kazakhstani Tenge</i>	<b>Other banking operation</b>	<b>Investment operation</b>	<b>Total</b>
Interest income due from financial institutions	26,913,517	-	<b>26,913,517</b>
Interest income from loans and advances to customers	4,083,239	-	<b>4,083,239</b>
Interest income from investments in debt securities	-	434,614	<b>434,614</b>
Interest income from cash and cash equivalents	-	3,365,522	<b>3,365,522</b>
Interest expense on borrowed funds	(7,629,888)	-	<b>(7,629,888)</b>
<b>Net interest income</b>	<b>23,366,868</b>	<b>3,800,136</b>	<b>27,167,004</b>
Provision for impairment	(6,822,412)	-	<b>(6,882,412)</b>
<b>Net interest income after provision for impairment</b>	<b>16,544,456</b>	<b>3,800,136</b>	<b>20,284,592</b>
Fee and commission income	4,158,138	-	<b>4,158,138</b>
Gains less losses from financial derivatives	(12,492,609)	-	<b>(12,492,609)</b>
Gains less losses from financial assets at fair value through profit or loss	-	292,507	<b>292,507</b>
Net loss on initial recognition of financial instruments at rates below market	(4,278,421)	-	<b>(4,278,421)</b>
(Provision for)/Recovery of impairment for other assets	(34,850)	-	<b>(34,850)</b>
(Provision for)/Recovery of impairment for credit related commitments	207,212	-	<b>207,212</b>
Recovery of impairment of investment securities held to maturity	-	183,337	<b>183,337</b>
Foreign exchange translation gains less losses	2,168,832	(28,521)	<b>2,140,311</b>
Expenses on realisation of Fund's programs	(904,953)	-	<b>(904,953)</b>
General and administrative expenses	(1,958,616)	(22,072)	<b>(1,980,688)</b>
<b>Segment result</b>	<b>3,409,189</b>	<b>4,225,387</b>	<b>7,574,576</b>

#### (c) Reconciliation of reportable segment revenues, profit or loss, assets and liabilities

<i>In thousands of Kazakhstani Tenge</i>	<b>2018</b>	<b>2017</b>
<b>Total reportable segment assets</b>	<b>287,784,036</b>	<b>301,431,701</b>
Premises and equipment	2,279,485	2,497,187
Intangible assets	228,155	292,674
Current income tax prepayment	11,290,109	13,721,713
Non-current assets held for sale	396,747	1,360,967
Other assets	2,143,276	608,634
<b>Total assets</b>	<b>304,121,808</b>	<b>319,912,876</b>

<i>In thousands of Kazakhstani Tenge</i>	<b>2018</b>	<b>2017</b>
<b>Total reporting segment liabilities</b>	<b>229,255,861</b>	<b>211,443,772</b>
Deferred income tax liability	1,279,281	6,065,416
Other liabilities	1,066,188	1,255,534
<b>Total liabilities</b>	<b>231,601,330</b>	<b>218,764,722</b>

### 30 Segment Analysis (Continued)

<i>In thousands of Kazakhstani Tenge</i>	<b>2018</b>	<b>2017</b>
<b>Segment result</b>	<b>(7,955,862)</b>	<b>7,574,576</b>
General and administrative expenses	(2,497,744)	(2,426,189)
Other (expense)/income	(91,249)	57,850
Profit before tax	(10,544,854)	5,206,237
Income tax expense	(1,385,618)	(1,093,393)
<b>(Loss)/Profit for the period</b>	<b>(11,930,472)</b>	<b>4,112,844</b>

The Fund receives all its income in Kazakhstan. The Fund has no significant external clients in foreign countries. The Fund has no significant income and expense between operating segments. The Fund has no customers who represent at least ten percent of the total income received in 2018.

### 31 Financial Risk Management

Management of risk is fundamental to the Fund's business and is an essential element of its operations. The Fund manages risks in the course of the ongoing process of risk identification, monitoring, assessment and control as well as by establishment of the risk limits and other internal control arrangements. The risk management process is critical to support the Fund's stable profitability and each employee of the Fund is responsible for the risks associated with his/her duties. Market risk (including price risk, interest rate risk and currency risk), as well as credit risk and liquidity risk are the major risks which the Fund has to manage in the course of its normal business.

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

The risk management strategy is set forth in the Fund's risk management policy, which has been worked out in accordance with the risk management strategy of the Fund's sole shareholder.

**The aims of the risk management policy are as follows:**

- To build up an effective integrated system and create an integrated process of risk management as an element of the Fund management and continuously improve the Fund's operations on the basis of the unified standardized approach to the risk management methods and procedures;
- To ensure that the Fund takes the acceptable risks for the scale of its operations;
- To determine the retention ability and ensure the effective management of the risk accepted;
- To identify risk in good time; and
- To minimize losses and reduce current expenses on potential losses.

**Risk management structure:**

The Fund's risk management structure is represented by risk management at a few levels with involvement of the following bodies and business units of the Fund: Board of Directors, Management Board, Risk Committee, Risk Management Function, Internal Audit Service, collegial bodies and other business units.

**Board of Directors.** The first level of risk management is represented by the Fund's Board of Directors. The Board of Directors has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and system of the corporate risk management. The Board of Directors sets the aims of the Fund operations and approves the documents related to risk management, retention ability and risk appetite.

### **31 Financial Risk Management (Continued)**

**Management Board.** The second level of risk management is represented by the Fund's Management Board. The Management Board is responsible for establishment of the effective risk management system and structure for risk control to ensure compliance with the corporate policy requirements. The Management Board is responsible for creation of the "risk awareness" culture, which reflects the Fund's risk management and philosophy. The Management Board is also responsible for implementation of the effective risk management system in which all employees have well-defined responsibilities for risk management and are held liable for proper fulfilment of their duties. The Management Board is authorized to carry out a part of its functions in the area of risk management through the establishment of appropriate committees.

**Risk Committee.** The Committee is a permanent collegial advisory body of the Fund, which coordinates the process of the risk management system functioning. The key aims of the Committee are as follows: to build up an effective integrated system and create an integrated risk management process within the Fund and continuously improve operations of the Fund on the basis of a unified standardized approach to the risk management methods and procedures.

**Credit Committee.** The Credit Committee is the Fund's permanent body responsible for implementation of the internal credit policy. The Credit Committee competence is limited within the framework of the thresholds set by the Fund's Management Board. The key objective of the Credit Committee is to form a high-quality loan portfolio.

**Asset and Liability Management Committee (ALCO).** ALCO is a permanent collegial body of the Fund, which is accountable to the Management Board and which carries out its activity within the powers assigned by the Management Board. ALCO key aims are as follows: to ensure making of timely and appropriate decisions in the sphere of the Fund's asset and liability management; attract partners to cooperate with the Fund; maintain the sufficient level of the financial stability; increase the Fund profitability and minimize risks when making the investment decisions.

**Risk Management Department.** The third level of the risk management process is represented by the Risk Management Department. The objectives of the Risk Management Department include general risk management and exercise of control over compliance with the current legislation, as well as control over implementation of common principles and methods for identifying, assessing, managing and reporting both financial and non-financial risks.

**Internal Audit Function.** The Fund's Internal Audit Function, in the course of the risk management, conducts audit of the risk management procedures and risk assessment methods and works out proposals aimed at improvement of the efficiency of risk management procedures. It provides reports on the risk management system for the Fund's Board of Directors and performs other functions in accordance with the approved regulatory documents.

**Business Units.** One of the important elements in the structure of risk management is the Fund's business units each represented by employee. The business units (risk owners) play a key role in the risk management process. The Fund's employees, on a daily basis, deal with risks, manage risks and monitor their potential impact within their sphere of action. The business units are responsible for implementation of the risk management action plan, timely identification and informing about major risks in their sphere of action and development of proposals related to risk management to be included into the action plan.

**Market risk** is the risk that changes in market prices, such as foreign exchange rates, interest rates, credit spreads and equity prices will affect the Fund's income or the value of its holdings of financial instruments. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in relation to interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

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

Overall responsibility for market risk management is vested in the Management Board, which is chaired by the Chairman of the Management Board. Market risk limits are approved by the Management Board based on recommendations of the Risk Management Department.

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

### 31 Financial Risk Management (Continued)

The Fund also uses different stress tests and back testing to simulate possible financial impact of certain exceptional market scenarios on certain trading portfolios and general position of the Fund. Stress tests make it possible to determine the potential amount of losses that may arise under extreme circumstances. Stress tests used by the Fund include the following: stress tests of the risk factors, as a part of these tests each risk category is subject to stress changes and special stress tests, which include application of possible stress events with regard to certain positions. Back test is the test of accuracy of evaluation of interest rate risk models on the basis of the actual data on the net interest income.

**Interest rate risk** is the risk that changes in the interest rates will affect the Fund's income or the value of its holdings of financial instruments.

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

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

Interest rate risk management is based on the principles of the full coverage of expenses – the interest income earned should cover the expenses related to attraction and placement of funds and ensure generation of the net income and competitiveness.

The interest rate risk report presents the distribution of assets, liabilities, off-balance assets and liabilities sensitive to changes in the interest rates grouped into the economically homogeneous and material items, by time periods depending on their maturity dates (in case of fixed rates), or time remaining until the next regular review (in case of floating rates). Time limits and items of the assets and liabilities, or off-balance assets and liabilities subject to accounting may be changed by the Fund's Management Board.

Interest rate risk is managed principally through monitoring interest rate gaps. The table below summarises the Fund's exposure to interest rate risks. The table presents the aggregated amounts of the Fund's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates as at 31 December 2017:

<i>In thousands of Kazakhstani Tenge</i>	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 6 months</b>	<b>From 6 to 12 months</b>	<b>More than 1 year</b>	<b>Total</b>
<b>31 December 2018</b>						
Total financial assets	43,914,000	1,111,741	8,807,417	35,826,627	198,998,580	288,658,365
Total financial liabilities	(13,537,367)	(21,740)	(26,092)	(23,527,418)	(192,663,309)	(229,775,926)
<b>Net interest sensitivity gap at 31 December 2018</b>	<b>30,376,633</b>	<b>1,090,001</b>	<b>8,781,325</b>	<b>12,299,209</b>	<b>6,335,271</b>	<b>58,882,439</b>
<b>31 December 2017</b>						
Total financial assets	51,679,929	3,946,462	13,303,063	8,191,600	224,373,284	301,494,338
Total financial liabilities	10,624,190	33,780	107,744	6,211,166	195,299,506	212,276,386
<b>Net interest sensitivity gap at 31 December 2017</b>	<b>41,055,739</b>	<b>3,912,682</b>	<b>13,195,319</b>	<b>1,980,434</b>	<b>29,073,778</b>	<b>89,217,952</b>



### 31 Financial Risk Management (Continued)

**Average interest rates.** The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2017 and 2016. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

<i>% per annum</i>	2018 Average effective interest rate	2017 Average effective interest rate
<b>Interest bearing assets</b>		
Cash and cash equivalents	5.70%	9.00%
Securities at fair value through profit or loss	-	5.02%
Investment debt securities at fair value through profit or loss	6.07%	-
Investment debt securities at amortised cost	4% / 0.1%	-
Due from financial institutions	4.11%	4.30%
Loans and advances to customers	13.27%	13.93%
Investment securities available for sale	-	8.00%
Investment debt securities at fair value through other comprehensive income	9.75%	-
Other financial assets	-	-
<b>Interest bearing liabilities</b>		
Borrowed funds	0.1% - 7.58%	0.1%-7.35%
Debt securities in issue	8.7%	-
Liabilities under subsidy programs	-	-
Deferred income and provision for credit related commitments	-	-
Other financial liabilities	-	-

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

<i>In thousands of Kazakhstani Tenge</i>	At 31 December 2018		At 31 December 2017	
	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
100 bp (2017: 100 bp) parallel increase	83,636	66,909	271,670	217,336
100 bp (2017: 100 bp) parallel decrease	(83,636)	(66,909)	(271,670)	(217,336)

**Currency risk** is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Currency risk arises when the actual or forecasted assets denominated in foreign currency are either greater or less than the actual or forecasted liabilities denominated in the same currency. The Fund's Management Board, with due consideration of the currency risk assessment, makes decisions concerning the structure of the Fund's assets and liabilities by the financial instruments in foreign currency, and sets a permissible amount of the currency risk and limit on the open currency position.

### 31 Financial Risk Management (Continued)

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

	KZT	USD	Other	Total
<b>FINANCIAL ASSETS</b>				
Cash and cash equivalents	37,940,992	199	12,483	37,953,674
Investments in debt securities	7,100,689	-	-	7,100,689
Due from financial institutions	225,810,857	3,747,724	-	229,558,581
Due from subsidy programs	29,337	-	-	29,337
Loans and advances to customers	606,308	-	-	606,308
Other financial assets	874,328	-	-	874,328
<b>Total financial assets</b>	<b>272,362,511</b>	<b>3,747,923</b>	<b>12,483</b>	<b>276,122,918</b>
<b>FINANCIAL LIABILITIES</b>				
Borrowed funds	177,343,971	23,966,002	-	201,309,973
Debt securities in issue	16,057,484	-	-	16,057,484
Liabilities under subsidy programs	4,974,063	-	-	4,974,063
Deferred income and provision for credit related commitments	6,914,341	-	-	6,914,341
Other financial liabilities	520,065	-	-	520,065
<b>Total financial liabilities</b>	<b>205,809,924</b>	<b>23,966,002</b>	<b>-</b>	<b>229,775,926</b>
<b>Net position before derivatives as at 31 December 2018</b>	<b>66,552,587</b>	<b>(20,218,079)</b>	<b>12,483</b>	<b>46,346,992</b>
<b>CURRENCY DERIVATIVES</b>				
Claims on financial derivatives	-	20,944,564	-	20,944,564
Obligations on financial derivatives	(8,409,117)	-	-	(8,409,117)
<b>Net position as at 31 December 2018</b>	<b>58,143,470</b>	<b>726,485</b>	<b>12,483</b>	<b>58,882,438</b>

### 31 Financial Risk Management (Continued)

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

	KZT	USD	Other	Total
<b>FINANCIAL ASSETS</b>				
Cash and cash equivalents	44,046,521	28,361	48	44,074,930
Securities at fair value through profit or loss	2,659,323	-	-	2,659,323
Due from financial institutions	221,719,359	3,858,919	-	225,578,278
Due from subsidy programs	34,550	-	-	34,550
Loans and advances to customers	3,324,539	-	-	3,324,539
Investment securities available for sale	567,017	-	-	567,017
Other financial assets	62,637	-	-	62,637
<b>Total financial assets</b>	<b>272,413,946</b>	<b>3,887,280</b>	<b>48</b>	<b>276,301,274</b>
<b>FINANCIAL LIABILITIES</b>				
Borrowed funds	138,102,569	64,900,334	-	203,002,903
Liabilities under subsidy programs	3,177,338	-	-	3,177,338
Deferred income and provision for credit related commitments	5,263,531	-	-	5,263,531
Other financial liabilities	832,614	-	-	832,614
<b>Total financial liabilities</b>	<b>147,376,052</b>	<b>64,900,334</b>	<b>-</b>	<b>212,276,386</b>
<b>Net position before derivatives as at 31 December 2017</b>	<b>125,037,894</b>	<b>(61,013,054)</b>	<b>48</b>	<b>64,024,888</b>
<b>CURRENCY DERIVATIVES</b>				
Claims on financial derivatives	-	59,545,282	-	59,545,282
Obligations on financial derivatives	(34,352,218)	-	-	(34,352,218)
<b>Net position as at 31 December 2017</b>	<b>90,685,676</b>	<b>(1,467,772)</b>	<b>48</b>	<b>89,217,952</b>

Derivatives presented above are monetary financial assets or monetary financial liabilities, but are presented separately in order to show the Fund's gross exposure.

Amounts disclosed in respect of derivatives represent the fair value, at the end of the reporting period, of the respective currency that the Fund agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The amounts by currency are presented gross as stated in Note 29. The net total represents the fair value of the currency derivatives. The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the functional currency of the Fund, with all other variables held constant:

<i>In thousands of Kazakhstani Tenge</i>	At 31 December 2018		At 31 December 2017	
	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
US Dollar strengthening by 13.3% (2017: strengthening by 10%)	(96,623)	(96,623)	(146,777)	(146,777)
US Dollar weakening by 5.5% (2017: weakening by 10%)	39,957	39,957	146,777	146,777

### **31 Financial Risk Management (Continued)**

**Credit risk** is the risk of financial loss to the Fund if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Fund has developed policies and procedures for the management of credit exposures (both for balance and off-balance positions) and determined the powers related to the decision making by the Board of Directors and Management Board with regard to large loans and established a Credit Committee, which is responsible for making decisions on loan issues within the set limits, loan restructuring and which actively monitors credit risk. The credit policy is reviewed and approved by the Board of Directors.

The Fund's credit policy sets the key parameters of lending in terms of credit risk management and is aimed at identification, analysis and management of the credit risks faced by the Fund.

The rules of credit risk management covers the following areas:

- procedures for review and approval of loan applications;
- methodology for the credit assessment of borrowers (small and medium-sized businesses);
- loan documentation requirements;
- methodology for the credit assessment of counterparty banks, issuers and insurance companies;
- methodology for evaluation of collateral;
- setting of limits on the total credit risks in the amount not exceeding 25% of the Fund's equity; and
- procedures for the ongoing monitoring of loans and other credit exposures.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant. The Fund reviews the ageing analysis of outstanding loans and follows up on past due balances. Management, therefore, considers it appropriate to provide ageing and other information about credit risk as disclosed in Notes 7, 8, 9, 10, 11, 12 and 14.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as the result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Fund uses the same credit policies in assuming conditional obligations as it does for on-balance sheet financial instruments, through established credit approvals, risk control limits and monitoring procedures.

The estimation of credit risk for risk management purposes is complex and involves the use of models, as the risk varies depending on market conditions, expected cash flows and the passage of time. The assessment of credit risk for a portfolio of assets entails further estimations of the likelihood of defaults occurring, the associated loss ratios and default correlations between counterparties.

**Limits.** The Fund structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Limits on the level of credit risk by product and industry sector are approved regularly by management. Such risks are monitored on a revolving basis and are subject to an annual, or more frequent, review.

External ratings are assigned to counterparties by independent international rating agencies, such as S&P, Moody's and Fitch. These ratings are publicly available. Such ratings and the corresponding range of probabilities of default ("PD") are applied for the following financial instruments: investments in debt securities (government, corporate, municipal bonds, eurobonds and promissory notes purchased) and loans given to financial institutions.

Scale with a specified range of probabilities of default of financial institutions is disclosed in the table below:

<b>Master scale credit risk grade</b>	<b>Corresponding ratings of external international rating agencies (S&amp;P)</b>	<b>Corresponding PD interval</b>
Excellent	AAA – BB+	0,00% - 0,65%;
Good	BB+ – B+	0,66% - 2,42%;
Satisfactory	B, B-	2,43% - 9,24%;
Special monitoring	CCC+ – CCC-	9,25% - 99,9%;
Default	C, D-I, D-II	100%

### **31 Financial Risk Management (Continued)**

Each master scale credit risk grade is assigned a specific degree of creditworthiness:

- *Excellent* – strong credit quality with low expected credit risk;
- *Good* – adequate credit quality with a moderate credit risk;
- *Satisfactory* – moderate credit quality with a satisfactory credit risk;
- *Special monitoring* – facilities that require closer monitoring and remedial management; and
- *Default* – facilities in which a default has occurred.

**Expected credit loss (ECL) measurement.** ECL is a probability-weighted estimate of the present value of future cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of default occurring in a given time period used as weights). An ECL measurement is unbiased and is determined by evaluating a range of possible outcomes. ECL measurement is based on four components used by the Fund: Probability of Default ("PD"), Exposure at Default ("EAD"), Loss Given Default ("LGD") and Discount Rate.

*EAD* is an estimate of exposure at a future default date, taking into account expected changes in the exposure after the reporting period, including repayments of principal and interest, and expected drawdowns on committed facilities. *PD* is an estimate of the likelihood of default to occur over a given time period. *LGD* 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, including from any collateral. It is usually expressed as a percentage of the EAD. The expected losses are discounted to present value at the end of the reporting period. The discount rate represents the effective interest rate ("EIR") for the financial instrument or an approximation thereof.

Expected credit losses are modelled over instrument's lifetime period. The lifetime period is equal to the remaining contractual period to maturity of debt instruments, adjusted for expected prepayments, if any. For loan commitments and financial guarantee contracts, it is the contractual period over which an entity has a present contractual obligation to extend credit.

Management models Lifetime ECL, that is, losses that result from all possible default events over the remaining lifetime period of the financial instrument. The 12-month ECL, represents a portion of lifetime ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting period, or remaining lifetime period of the financial instrument if it is less than a year.

The ECLs that are estimated by management for the purposes of these financial statements are point-in-time estimates, rather than through-the-cycle estimates that are commonly used for regulatory purposes. The estimates consider forward looking information, that is, ECLs reflect probability weighted development of key macroeconomic variables that have an impact on credit risk.

The ECL modelling does not differ for Purchased or Originated Credit Impaired ("POCI") financial assets, except that (a) gross carrying value and discount rate are based on cash flows that were recoverable at initial recognition of the asset, rather than based on contractual cash flows, and (b) the ECL is always a lifetime ECL. POCI assets are financial assets that are credit-impaired upon initial recognition, such as impaired loans acquired in a past business combination.

For purposes of measuring PD, the Fund defines default as a situation when the exposure meets one or more of the following criteria:

- the borrower is more than 90 days past due on its contractual payments;
- high probability of default of the borrower or the borrower is insolvent;
- revocation and / or suspension of the license of the counterparty by the relevant supervisory authority;
- loan is written off or significant provision was created;
- breach of covenants by the borrower;
- default event on other instruments of the borrower;
- disappearance of an active market for a financial asset due to financial difficulties
- conclusion of a concession agreement due to the financial difficulties of the borrower;
- acquisition or creation of financial assets with a significant discount, which may be evidence of a default event of the counterparty.

### **31 Financial Risk Management (Continued)**

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria.

The assessment whether or not there has been a significant increase in credit risk ("SICR") since initial recognition is performed on an individual basis and on a portfolio basis. For due from financial institutions, debt securities at AC or at FVOCI, SICR is assessed on an individual basis by monitoring the triggers stated below. The criteria used to identify an SICR are monitored and reviewed periodically for appropriateness by the Fund's Risk Management Department. The presumption, being that there have been significant increases in credit risk since initial recognition when financial assets are more than 30 days past due, has not been rebutted.

The Fund decided to use the low credit risk assessment exemption for investment grade financial assets. Hence, even assets of an investment grade are not assessed whether there has been a SICR.

The Fund considers a financial instrument to have experienced an SICR when one or more of the following quantitative, qualitative or backstop criteria have been met.

For SICR assessment the Fund applies following criteria:

- over 30 days past due;
- decrease of external credit rating of the counterparty;
- information from available sources on the deteriorating situation of the borrower or about problems in the industry in which the borrower operates;
- information on other financial instruments of the borrower or issuer.

The level of ECL that is recognised in these consolidated financial statements depends on whether the credit risk of the borrower has increased significantly since initial recognition. This is a three-stage model for ECL measurement. A financial instrument that is not credit-impaired on initial recognition and its credit risk has not increased significantly since initial recognition has a credit loss allowance based on 12-month ECLs (Stage 1). If a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired and the loss allowance is based on lifetime ECLs. If a financial instrument is credit-impaired, the financial instrument is moved to Stage 3 and loss allowance is based on lifetime ECLs. The consequence of an asset being in Stage 3 is that the entity ceases to recognise interest income based on gross carrying value and applies the asset's effective interest rate to the carrying amount, net of ECL, when calculating interest income.

If there is evidence that the SICR criteria are no longer met, the instrument is transferred back to Stage 1. If an exposure has been transferred to Stage 2 based on a qualitative indicator, the Fund monitors whether that indicator continues to exist or has changed.

ECL for POCI financial assets is always measured on a lifetime basis. The Fund therefore only recognises the cumulative changes in lifetime expected credit losses.

The Fund has three approaches for ECL measurement: (i) assessment on an individual basis; (ii) assessment on a portfolio basis: internal ratings are estimated on an individual basis but the same credit risk parameters (e.g. PD, LGD) will be applied during the process of ECL calculations for the same credit risk ratings and homogeneous segments of the loan portfolio; and (iii) assessment based on external ratings. The Fund performs an assessment on a portfolio basis for the following types of loans: loans and advances and financial guarantees issued to SMEs. This approach stratifies the loan pool into homogeneous segments based on borrower-specific information, such as delinquency status.

The Fund performs assessments based on external ratings for financial institutions, debt securities and certain blue chip corporate customers.

ECL assessment on an individual basis is performed by weighting the estimates of credit losses for different possible outcomes against the probabilities of each outcome. The Fund defines at least two possible outcomes for each assessed loan, one of which leads to a credit loss even if the probability of such a scenario may be very low. Individual assessment is primarily based on the expert judgement of experienced officers. Expert judgements are regularly tested in order to decrease the difference between estimates and actual losses.

### **31 Financial Risk Management (Continued)**

When assessment is performed on a portfolio basis, the Fund determines the staging of the exposures and measures the loss allowance on a collective basis. The Fund analyses its exposures by segments determined on the basis of shared credit risk characteristics, such that exposures within a group have homogeneous or similar risks. The key shared credit characteristics considered are: type of customer, date of initial recognition, term to maturity, the quality of collateral and loan to value (LTV) ratio. The different segments also reflect differences in credit risk parameters such as PD and LGD. The appropriateness of groupings is monitored and reviewed on a periodic basis by the Risk Management Department.

In general, ECL is the sum of the multiplications of the following credit risk parameters: EAD, PD and LGD, that are defined as explained above, and discounted to present value using the instrument's effective interest rate. The ECL is determined by predicting credit risk parameters (EAD, PD and LGD) for each future month / year during the lifetime period for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has been repaid or defaulted in an earlier month). This effectively calculates an ECL for each future period, that is then discounted back to the reporting date and summed up. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

**The key principles of calculating the credit risk parameters.** The EADs are determined based on the expected payment profile, that varies by product type. EAD is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis for amortising products and bullet repayment loans. This will also be adjusted for any expected overpayments made by a borrower. Early repayment or refinancing assumptions are also incorporated into the calculation. For revolving products, the EAD is predicted by taking the current drawn balance and adding a "credit conversion factor" that accounts for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type, current limit utilisation and other borrower-specific behavioural characteristics.

Two types of PDs are used for calculating ECLs: 12-month and lifetime PD. An assessment of a 12-month PD is based on the latest available historic default data and adjusted for supportable forward-looking information when appropriate. Lifetime PDs represent the estimated probability of a default occurring over the remaining life of the financial instrument and it is a sum of the 12 months PDs over the life of the instrument. The Fund uses different statistical approaches depending on the segment and product type to calculate lifetime PDs, such as the extrapolation of 12-month PDs based on migration matrixes, developing lifetime PD curves based on the historical default data, hazard rate approach or other.

LGD represents the Fund's expectation of the extent of loss on a defaulted exposure. LGD varies by the type of counterparty, type and seniority of the claim, and the availability of collateral or other credit support. The 12-month and lifetime LGDs are determined based on the factors that impact the expected recoveries after a default event. The approach to LGD measurement can be divided into three possible approaches:

- measurement of LGD based on the specific characteristics of the collateral;
- calculation of LGD on a portfolio basis based on data from international agencies; or
- individually defined LGD depending on different factors and scenarios.

The Fund calculates LGD based on specific characteristics of the collateral, such as projected collateral values, historical discounts on sales and other factors for loans secured by real estate, cash and liquid securities. LGD is calculated on a collective basis based on the latest available recovery statistics for the remainder of the corporate loan portfolio and for retail secured and unsecured products and based on data from international agencies.

**ECL measurement for financial guarantees and loan commitments.** The ECL measurement for these instruments includes the same steps as described above for on-balance sheet exposures and differs with respect to EAD calculation. The EAD is a product of credit conversion factor ("CCF") and amount of the commitment ("ExOff"). CCF for undrawn credit lines of corporate customers, credit cards issued to individuals and for financial guarantees is defined based on statistical analysis of past exposures at default.

**Principles of assessment based on external ratings.** Certain exposures have external credit risk ratings and these are used to estimate credit risk parameters PD and LGD from the default and recovery statistics published by the respective rating agencies. This approach is applied to loans given to financial institutions, securities and guarantees issued to financial institutions.

**Forward-looking information incorporated in the ECL models.** The assessment of SICR and the calculation of ECLs both incorporate supportable forward-looking information. The Fund regularly reviews its methodology and assumptions to reduce any difference between the estimates and the actual loss of credit.

### **31 Financial Risk Management (Continued)**

Credit risk for off-balance financial instruments is defined as the probability of incurring losses as a result of non-fulfilment of the terms of the contract by another counterparty. The Fund uses the same credit policy for contingent liabilities as for balance sheet financial instruments, based on procedures for approving transactions, using limits to limit risk, and monitoring.

**Liquidity risk** is the risk that the Fund will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity risk exists when the maturities of assets and liabilities do not match, which will affect the availability of the sufficient liquid funds in the Fund at the price acceptable for the Fund to settle its balance and off-balance liabilities as they become due. The matching and or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to management of the financial institutions, including the Fund. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Fund maintains liquidity management with the objective of ensuring that funds will be available at all times to settle all cash flow obligations as they become due. The Fund's policy on managing liquidity risks is approved by the Board of Directors.

The Fund manages liquidity risk as a part of the Fund's Rules for Liquidity Loss Risk Management approved by the Board of Directors. The Rules determine the key processes and procedure of the liquidity loss risk management as well as function and powers of the Fund's business units involved in this process with a view of effective liquidity loss risk management and ensuring that the Fund has sufficient funds to settle all its liabilities. The Rules are mandatory for use by all employees, business units and collegial bodies of the Fund.

As a party of said Rules the liquidity loss risk is measured and monitored by means of the following tools/analytical reports: statutory and contractual liquidity ratios; analysis of the current balances of liquid funds; planned inflows/outflows of liquid funds; internal liquidity ratios; and liquidity gap analysis. For avoidance of liquid funds surplus or shortage, the Asset and Liability Management Committee monitors the activities related to attraction and use of the liquid funds. Current and short-term liquidity of the Fund is managed by the business unit in charge of risk management on the basis of the analysis of the current balances of liquid funds and planned inflows/outflows of liquid funds. Based on the analysis made, said business unit makes the report *Time Structure of Assets and Liabilities* on the consolidated basis and submits it to the Fund's Management Board.

Asset and Liability Management Committee monitors liquidity risk by means of analysis of the liquidity risk levels to take measures for reduction of the liquidity loss risk of the Fund. Current liquidity is managed by the Treasury, which carries out operations in the financial markets in order to maintain current liquidity and optimize the cash flows.

The liquidity management policy of the Fund requires:

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

The Treasury Department monitors liquidity position in the financial market on a daily basis. Under the normal market conditions, liquidity reports covering the liquidity position are regularly presented to senior management. Decisions on liquidity management policy are made by the Management Board and Asset and Liability Management Committee.

The following tables show the undiscounted cash flows on the Fund's financial liabilities on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual undiscounted cash flow on the financial liabilities or off-balance liabilities. Future cash flows of the Fund may differ significantly from such analysis.



### 31 Financial Risk Management (Continued)

The maturity analysis for financial liabilities as at 31 December 2018 with regard to maturity terms on the basis of contractual undiscounted payment obligations is as follows:

<i>In thousands of Kazakhstani Tenge</i>	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 6 months</b>	<b>From 6 to 12 months</b>	<b>Over 1 year</b>	<b>Total</b>
<b>31 December 2018</b>						
<b>FINANCIAL LIABILITIES</b>						
Borrowed funds	955,960	662,984	1,263,132	25,693,067	311,847,499	<b>340,422,642</b>
Debt securities in issue	-	-	-	-	17,508,000	17,508,000
Liabilities on subsidy programs	4,974,063	-	-	-	-	4,974,063
Deferred income and provision for credit related commitments	484,459	276,903	9,092,060	6,433,471	100,648,616	<b>116,935,509</b>
Other financial liabilities	520,065	-	-	-	-	<b>520,065</b>
<b>Total potential future payments for financial obligations</b>	<b>6,934,547</b>	<b>939,887</b>	<b>10,355,192</b>	<b>32,126,538</b>	<b>430,004,115</b>	<b>480,360,279</b>

The maturity analysis for financial liabilities as at 31 December 2017 with regard to maturity terms on the basis of contractual undiscounted payment obligations is as follows:

<i>In thousands of Kazakhstani Tenge</i>	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 6 months</b>	<b>From 6 to 12 months</b>	<b>Over 1 year</b>	<b>Total</b>
<b>31 December 2017</b>						
<b>FINANCIAL LIABILITIES</b>						
Borrowed funds	1,230,022	637,190	994,632	8,053,795	357,838,425	368,754,064
Liabilities on subsidy programs	3,177,338	-	-	-	-	3,177,338
Deferred income and provision for credit related commitments	107,812	686,234	995,039	4,462,522	80,309,034	86,560,641
Other financial liabilities	832,614	-	-	-	-	832,614
<b>Total potential future payments for financial obligations</b>	<b>5,347,786</b>	<b>1,323,424</b>	<b>1,989,671</b>	<b>12,516,317</b>	<b>438,147,459</b>	<b>459,324,657</b>

### 31 Financial Risk Management (Continued)

The Fund does not use the aforementioned analysis of liabilities with regard to maturity terms without discounting for liquidity management. Instead, the Fund controls the expected maturities and the expected liquidity gap, which are presented as of 31 December 2018 in the table below:

<i>In thousands of Kazakhstani Tenge</i>	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 6 months</b>	<b>From 6 to 12 months</b>	<b>Over 1 year</b>	<b>Total</b>
<b>31 December 2018</b>						
<b>FINANCIAL ASSETS</b>						
Cash and cash equivalents	37,953,674	-	-	-	-	<b>37,953,674</b>
Securities at fair value through profit or loss	-	339	1,464	1,502	2,119,877	<b>2,123,182</b>
Due from financial institutions	4,685,288	1,076,537	8,754,097	23,194,128	191,848,532	<b>229,558,582</b>
Due from subsidy programs	29,337	-	-	-	-	<b>29,337</b>
Loans and advances to customers	228,127	34,865	51,856	95,550	195,910	<b>606,308</b>
Securities at fair value through other comprehensive income	143,246	-	-	-	628,435	<b>771,681</b>
Securities at amortised cost	-	-	-	-	4,205,826	<b>4,205,826</b>
<i>Gross settled swaps:</i>						
- inflows	-	-	-	20,944,564	-	<b>20,944,564</b>
- outflows	-	-	-	(8,409,117)	-	<b>(8,409,117)</b>
Other financial assets	874,328	-	-	-	-	<b>874,328</b>
<b>Total financial assets</b>	<b>43,914,000</b>	<b>1,111,741</b>	<b>8,807,417</b>	<b>35,826,627</b>	<b>198,998,580</b>	<b>288,658,365</b>
<b>FINANCIAL LIABILITIES</b>						
Borrowed funds	323,540	625,484	1,150,632	25,543,067	173,667,250	<b>201,309,973</b>
Liabilities on subsidy programs	-	-	-	-	16,057,484	<b>16,057,484</b>
Deferred income and provision for credit related commitments	4,974,063	-	-	-	-	<b>4,974,063</b>
Other financial liabilities	484,459	276,903	9,092,060	6,433,471	100,648,616	<b>116,935,509</b>
<b>FINANCIAL LIABILITIES</b>	<b>520,065</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>520,065</b>
<b>Total potential future payments for financial obligations</b>	<b>6,302,127</b>	<b>902,387</b>	<b>10,242,692</b>	<b>31,976,538</b>	<b>290,373,350</b>	<b>339,797,094</b>
<b>Liquidity gap arising from financial instruments</b>	<b>37,611,873</b>	<b>209,354</b>	<b>(1,435,275)</b>	<b>3,850,089</b>	<b>(91,374,770)</b>	<b>(51,138,729)</b>

### 31 Financial Risk Management (Continued)

The expected maturities and the expected liquidity gap as of 31 December 2017 can be represented as follows:

<i>In thousands of Kazakhstani Tenge</i>	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 6 months</b>	<b>From 6 to 12 months</b>	<b>Over 1 year</b>	<b>Total</b>
<b>31 December 2017</b>						
<b>FINANCIAL ASSETS</b>						
Cash and cash equivalents	44,074,930	-	-	-	-	44,074,930
Securities at fair value through profit or loss	-	-	-	727,421	1,931,902	2,659,323
Due from financial institutions	6,963,477	3,615,870	13,291,079	7,471,324	194,236,528	225,578,278
Due from subsidy programs	34,550	-	-	-	-	34,550
Loans and advances to customers	595,241	263,103	513,871	810,735	1,141,589	3,324,539
Investment securities available for sale	-	-	-	-	567,017	567,017
Gross settled swaps:						
- inflows	-	185,987	-	190,751	59,168,544	59,545,282
- outflows	(50,906)	(118,498)	(501,887)	(1,008,631)	(32,672,296)	(34,352,218)
Other financial assets	62,637	-	-	-	-	62,637
<b>Total financial assets</b>	<b>51,679,929</b>	<b>3,946,462</b>	<b>13,303,063</b>	<b>8,191,600</b>	<b>224,373,284</b>	<b>301,494,338</b>
<b>FINANCIAL LIABILITIES</b>						
Borrowed funds	1,350,707	33,780	107,744	6,211,166	195,299,506	203,002,903
Liabilities on subsidy programs	3,177,338	-	-	-	-	3,177,338
Deferred income and provision for credit related commitments	107,812	686,234	995,039	4,462,522	80,309,034	86,560,641
Other financial liabilities	832,614	-	-	-	-	832,614
<b>Total potential future payments for financial obligations</b>	<b>5,468,471</b>	<b>720,014</b>	<b>1,102,783</b>	<b>10,673,688</b>	<b>275,608,540</b>	<b>293,573,496</b>
<b>Liquidity gap arising from financial instruments</b>	<b>46,211,458</b>	<b>3,226,448</b>	<b>12,200,280</b>	<b>(2,482,088)</b>	<b>(51,235,256)</b>	<b>7,920,842</b>

### 32 Contingencies and Commitments

**Legal proceedings.** From time to time and in the normal course of business, claims against the Fund may be received. On the basis of its own estimates and internal professional advice, management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made in these financial statements.

**Tax legislation.** The tax environment in the Republic of Kazakhstan is subject to change and inconsistent application and interpretations. Non-compliance with Kazakhstani law and regulations as interpreted by the Kazakhstani authorities may lead to the assessment of additional taxes, penalties and interest.

Kazakhstani tax legislation and practice is in a state of continuous development, and therefore is subject to varying interpretations and frequent changes, which may be retroactive. In certain situations, to determine a tax base, the tax legislation refers to IFRS provisions. In such cases, interpretation of IFRS provisions by the Kazakhstani tax authorities may differ from accounting policies, judgments and estimates used by management for preparation of these financial statements, and this may result in additional tax liabilities for the Fund. Tax periods remain open to retroactive review by the Kazakhstan tax authorities for five years.

The Fund management believes that its interpretation of the relevant legislation is appropriate and the Fund's tax positions will be sustained.

**Operating lease commitments.** The Fund leases a number of premises and vehicles under operating leases. The leases typically run for an initial period of one year, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

## 32 Contingencies and Commitments (Continued)

**Compliance with covenants.** The Fund is subject to certain non-financial covenants related primarily to its borrowings from the ADB. Management believes that the Fund was in compliance with covenants at 31 December 2018 and 31 December 2017.

**Credit related commitments.** The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees, which represent irrevocable assurances that the Fund will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans. With respect to credit risk on commitments to extend credit, the Fund is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Fund monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant. The Fund reviews the ageing analysis of outstanding loans and follows up on past due balances. Management, therefore, considers it appropriate to provide ageing and other information about credit risk as disclosed in Note 31.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as the result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Fund uses the same credit policies in assuming conditional obligations as it does for on-balance sheet financial instruments, through established credit approvals, risk control limits and monitoring procedures.

Outstanding credit related commitments are as follows:

<i>In thousands of Kazakhstani Tenge</i>	<b>Note</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
Guarantees issued as collateral of loans		62,918,005	45,281,705
Guarantees issued		45,187,911	25,413,102
Undrawn credit lines		8,829,593	15,865,834
Less: Provision for credit related commitments	18	(1,594,480)	(1,104,245)
<b>Total credit related commitments, net of provision</b>		<b>115,341,029</b>	<b>85,456,396</b>

During 2015, the Fund issued guarantees to "Bank CenterCredit" JSC in respect of credit lines opened by "Bank CenterCredit" JSC in European Bank for Reconstruction and Development (the "EBRD") for the total amount of Tenge 27,220 million. As of 31 December 2018, "Bank CenterCredit" JSC had drawn down the EBRD loans for the amount of Tenge 36,157 million (2017: Tenge 20,470 million). The management of the Fund assessed fair value of these guarantees based on commission fees received. As of 31 December 2018, the amount of accrued commission income was 123,099 thousand (31 December 2017: Tenge 179,161 thousand). Refer to Notes 4 and 18.

During 2016, the Fund issued guarantees to ForteBank JSC and Microfinance Organisation KMF LLP ("MFO KMF") in respect of credit lines opened by ForteBank JSC and MFO KMF in the EBRD for amount of loans received. As of 31 December 2018, ForteBank JSC and MFO KMF had drawn down the EBRD loans for the amount of Tenge 19,243 million and Tenge 3,776 million, respectively. (2017: 19,243 million and 3,776 million, respectively). The management of the Fund assessed fair value of these guarantees based on commission fees received from ForteBank JSC and MFO KMF and estimated the fair value to be equal to Tenge 32,778 thousand and Tenge 12,772 thousand, respectively (2017: 57,030 thousand and 25,669 thousand, respectively). Refer to Notes 4 and 18.

During 2017, the Fund issued guarantees to Bank Kassa Nova JSC in respect of credit lines opened by Bank Kassa Nova JSC in EBRD for the amount of loans received. As of 31 December 2018, Bank Kassa Nova JSC had drawn down the EBRD loans for the amount of Tenge 3,742 million (2017: Tenge 1,793 million). The management of the Fund assessed fair value of these guarantees based on commission fees received and estimated the fair value to be equal to Tenge 7,052 thousand (2017: Tenge 1,250 thousand). Refer to Notes 4 and 18.

The management of the Fund created additional provision on these guarantees in accordance with IFRS 9 in the amount of Tenge 125,010 thousand (2017: no provision).

### 32 Contingencies and Commitments (Continued)

The remaining increase in guarantees given is associated with a general increase of the guarantees volume to small and medium-sized businesses.

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

Movements in provisions for credit related commitments are as follows:

<i>In thousands of Kazakhstani Tenge</i>	2018	2017
<b>Carrying amount at 1 January</b>	<b>(1,104,245)</b>	<b>(1,507,370)</b>
Adoption of IFRS 9	(324,097)	-
<b>Adjusted carrying amount at 1 January</b>	<b>(1,428,342)</b>	-
Initial recognition of issued financial guarantees	-	195,914
Losses charged to profit or loss	(461,548)	(1,828,783)
Unused amounts reversed	217,606	2,035,994
Other	77,804	-
<b>Carrying amount at 31 December</b>	<b>(1,594,480)</b>	<b>(1,104,245)</b>

### 33 Derivative Financial Instruments

The table below sets out fair values, at the end of the reporting period, of currencies receivable or payable under foreign exchange forward and swap contracts entered into by the Fund. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the end of the respective reporting period. The contracts are short term in nature:

<i>In thousands of Kazakhstani Tenge</i>	Note	2018		2017	
		Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
<b>Foreign exchange swaps: fair values, at the end of the reporting period, of</b>					
- USD receivable on settlement (+)	23	20,944,564	-	59,545,282	-
- Tenge payable on settlement (-)		(8,409,117)	-	(34,352,218)	-
<b>Net fair value of foreign exchange swaps</b>					
	14	12,535,447	-	25,193,064	-

Foreign exchange derivative financial instruments entered into by the Fund are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

### 34 Fair Value Disclosures

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

### 34 Fair Value Disclosures (Continued)

#### (a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. The levels in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

<i>In thousands of Kazakhstani Tenge</i>	2018		2017	
	Level 1	Level 2	Level 1	Level 2
<b>FINANCIAL ASSETS</b>				
<b><i>Securities at fair value through profit or loss</i></b>				
- Corporate bonds	-	948,880	-	1,179,806
- Kazakhstani government bonds	-	1,174,302	-	1,479,517
<b><i>Investment securities available for sale</i></b>				
- Corporate bonds	-	771,681	-	567,017
<b><i>Other financial assets</i></b>				
Financial derivatives	-	12,535,447	-	25,193,064
<b>TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS</b>	-	<b>15,430,310</b>	-	<b>28,419,404</b>

The fair value of investment securities was estimated using the rates of Kazakhstan Stock Exchange JSC. Due to insignificant trading volumes with similar instruments, these investment securities are set at level 2.

The Fund uses a discounted cash flow valuation technique to measure the fair value of currency swaps that are not traded in an active market. However, in accordance with IFRS, the fair value of an instrument at inception is generally the transaction price. If the transaction price differs from the amount determined at inception using the valuation technique, that difference is amortised on a straight line basis over the term of the currency swaps. The differences yet to be recognised in profit or loss for the year as gains less losses on financial derivatives are disclosed in Note 33.

### 34 Fair Value Disclosures (Continued)

#### *(b) Assets and liabilities not measured at fair value but for which fair value is disclosed*

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value as of 31 December 2018 are as follows:

<i>In thousands of Kazakhstani Tenge</i>	31 December 2018			Carrying value
	Level 1	Level 2	Level 3	
<b>FINANCIAL ASSETS</b>				
<b>Cash and cash equivalents</b>	16,733,828	21,219,846	-	37,953,674
<b>Due from financial institutions</b>				
- Loans given to financial institutions	-	-	191,512,905	217,813,677
- Placements with banks with initial maturity more than 3 months	-	11,744,904	-	11,744,904
<b>Due from subsidy programs</b>				
- Due from subsidy programs	-	-	29,337	29,337
<b>Loans and advances to customers</b>				
- Loans to small and medium size entities	-	-	596,847	596,847
- Loans to microfinance organisations	-	-	1,414	1,414
- Loans to others	-	-	8,047	8,047
<b>Investment securities at amortised cost</b>	-	-	4,205,826	4,205,826
<b>Other financial assets</b>				
- Other	-	-	874,328	874,328
<b>TOTAL ASSETS CARRIED AT AMORTISED COST</b>	<b>16,733,828</b>	<b>32,964,750</b>	<b>197,228,704</b>	<b>273,228,054</b>
<b>FINANCIAL LIABILITIES</b>				
<b>Borrowed funds</b>				
- Asian Development Bank	-	-	54,749,045	55,532,019
- Baïterek NMH JSC	-	-	57,574,537	76,392,378
- Samruk-Kazyna NWF JSC	-	-	16,832,020	19,416,325
- Municipal authorities	-	-	47,107,054	49,532,869
- Ministry of Finance of the Republic of Kazakhstan	-	-	436,382	436,382
Debt securities in issue	-	-	16,057,484	16,057,484
<b>Liabilities on subsidy programs</b>				
- Municipal authorities	-	-	2,132,538	2,132,538
- Banks	-	-	2,841,525	2,841,525
<b>Deferred income and provision for credit related commitments</b>				
- Deferred income	-	-	5,319,861	5,319,861
- Financial guarantees	-	-	1,594,480	1,594,480
<b>Other financial liabilities</b>				
- Other	-	-	520,065	520,065
<b>TOTAL LIABILITIES CARRIED AT AMORTISED COST</b>	<b>-</b>	<b>-</b>	<b>205,164,991</b>	<b>229,775,926</b>

**Cash and cash equivalents.** Cash in the National Bank of the Republic of Kazakhstan with a maturity of less than three months is set at Level 1, all other funds at Level 2. The fair value of these funds is equal to the book value.

**Loans and advances to customers, financial institutions and borrowed funds.** The fair value measurement at Level 3 of the fair value hierarchy was performed using the discounted cash flow model. The fair value of fixed interest rate instruments that are not quoted in an active market was estimated based on estimated future cash flows discounted using current interest rates on the borrowing market for new instruments with similar credit risk and a similar maturity.

**Investment securities at amortised cost.** These securities were acquired by the Fund at the end of the year and are measured at fair value. The fair value of these funds is equal to the carrying amount.

**Liabilities on subsidy programs and deferred income and provision for credit related commitments** with a maturity of less than a year are set at Level 3. The fair value of these funds is equal to the book value.

### 34 Fair Value Disclosures (Continued)

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value as of 31 December 2017 are as follows:

<i>In thousands of Kazakhstani Tenge</i>	31 December 2017		
	Level 1	Level 2	Carrying value
<b>FINANCIAL ASSETS</b>			
<b>Cash and cash equivalents</b>			
- Current accounts with banks	25,382,470	-	25,382,470
- Cash balances with the NBRK (other than mandatory reserve deposits)	18,692,460	-	18,692,460
- Cash on hand	-	-	-
<b>Due from financial institutions</b>			
- Loans given to financial institutions	-	196,949,941	216,059,786
- Placements with other banks with original maturities of more than three months	9,518,492	-	9,518,492-
<b>Due from subsidy programs</b>			
- Due from subsidy programs	-	34,550	34,550
<b>Loans and advances to customers</b>			
- Loans to small and medium size entities	-	3,295,094	3,295,094
- Loans to microfinance organisations	-	18,366	18,366
- Net investments in finance lease	-	1,708	1,708
- Loans to others	-	9,370	9,370
<b>Other financial assets</b>			
- Other	-	62,637	62,637
<b>TOTAL ASSETS CARRIED AT AMORTISED COST</b>			
	<b>53,593,428</b>	<b>200,371,666</b>	<b>273,074,933</b>
<b>FINANCIAL LIABILITIES</b>			
<b>Borrowed funds</b>			
- Asian Development Bank	-	72,472,682	72,472,682
- Baiterek NMH JSC	-	49,130,003	71,948,648
- Samruk-Kazyna NWF JSC	-	25,449,768	32,754,338
- Municipal authorities	-	32,604,300	25,449,768
- Ministry of Finance of the Republic of Kazakhstan	-	377,466	377,467
- Baiterek Development JSC	-	150,038	150,038
<b>Liabilities on subsidy programs</b>			
- Municipal authorities	-	1,758,695	1,758,695
- Banks	-	1,418,643	1,418,643
<b>Deferred income and provision for credit related commitments</b>			
- Deferred income	-	4,159,286	4,159,286
- Financial guarantees	-	1,104,245	1,104,245
<b>Other financial liabilities</b>			
- Other	-	832,615	832,615
<b>TOTAL LIABILITIES CARRIED AT AMORTISED COST</b>			
	<b>-</b>	<b>189,457,741</b>	<b>212,426,425</b>

### 35 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IFRS 9 "Financial Instruments" classifies financial assets into the following categories: (a) financial assets at FVTPL; (b) debt instruments at FVOCI, (c) equity instruments at FVOCI and (c) financial assets at AC. Financial assets at FVTPL have two sub-categories: (i) assets mandatorily measured at FVTPL, and (ii) assets designated as such upon initial recognition or subsequently. In addition, finance lease receivables form a separate category.



### 35 Presentation of Financial Instruments by Measurement Category (Continued)

As of 31 December 2017, IAS 39 “Financial Instruments: Recognition and Measurement” classified financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss (“FVTPL”). Financial assets at fair value through profit or loss had two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. In addition, finance lease receivables form a separate category.

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2018:

<i>In thousands of Kazakhstani Tenge</i>	Measured at fair value through profit or loss (mandatory)	Measured at fair value through profit or loss (designated)	Measured at fair value through other comprehensive income	Measured at amortised cost	Total
<b>FINANCIAL ASSETS</b>					
<b>Cash and cash equivalents</b>					
- Current accounts with banks	-	-	-	15,183,602	<b>15,183,602</b>
- Cash balances with the NBRK (other than mandatory reserve deposits)	-	-	-	16,733,828	<b>16,733,828</b>
- Placements with banks with initial maturity more than 3 months	-	-	-	6,036,243	<b>6,036,243</b>
<b>Securities at fair value through profit or loss</b>					
- Corporate bonds	-	948,880	-	-	<b>948,880</b>
- Kazakhstani government bonds	-	1,174,302	-	-	<b>1,174,302</b>
<b>Due from financial institutions</b>					
- Loans given to financial institutions	-	-	-	217,813,677	<b>217,813,677</b>
- Placements with other banks with original maturities of more than three months	-	-	-	11,744,904	<b>11,744,904</b>
<b>Due from subsidy programs</b>					
- Due from subsidy programs	-	-	-	29,337	<b>29,337</b>
<b>Loans and advances to customers</b>					
- Loans to small and medium size entities	-	-	-	596,845	<b>596,845</b>
- Loans to microfinance organisations	-	-	-	1,415	<b>1,415</b>
- Net investments in finance lease	-	-	-	-	<b>-</b>
- Loans to others	-	-	-	8,047	<b>8,047</b>
<b>Investment securities at fair value through other comprehensive income</b>					
- Corporate bonds	-	-	771,681	-	<b>771,681</b>
<b>Investment securities at amortised cost</b>					
- Corporate bonds	-	-	-	4,205,826	<b>4,205,826</b>
<b>Other financial assets</b>					
- Financial derivatives	12,535,447	-	-	-	<b>12,535,447</b>
- Other	-	-	-	874,328	<b>874,328</b>
<b>TOTAL FINANCIAL ASSETS</b>	<b>12,535,447</b>	<b>2,123,182</b>	<b>771,681</b>	<b>273,228,052</b>	<b>288,658,362</b>

### 35 Presentation of Financial Instruments by Measurement Category (Continued)

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2017:

<i>In thousands of Kazakhstani Tenge</i>	<b>Loans and receivables</b>	<b>Available-for-sale assets</b>	<b>Measured at fair value through profit or loss</b>	<b>Trading assets</b>	<b>Total</b>
<b>FINANCIAL ASSETS</b>					
<b>Cash and cash equivalents</b>					
- Current accounts with banks	25,382,470	-	-	-	<b>25,382,470</b>
- Cash balances with the NBRK (other than mandatory reserve deposits)	18,692,460	-	-	-	<b>18,692,460</b>
<b>Securities at fair value through profit or loss</b>					
- Corporate bonds	-	-	1,479,517	-	<b>1,479,517</b>
- Kazakhstani government bonds	-	-	1,179,806	-	<b>1,179,806</b>
<b>Due from financial institutions</b>					
- Loans given to financial institutions	216,059,786	-	-	-	<b>216,059,786</b>
- Placements with other banks with original maturities of more than three months	9,518,492	-	-	-	<b>9,518,492</b>
<b>Due from subsidy programs</b>					
- Due from subsidy programs	34,550	-	-	-	<b>34,550</b>
<b>Loans and advances to customers</b>					
- Loans to small and medium size entities	3,295,094	-	-	-	<b>3,295,094</b>
- Loans to microfinance organisations	18,366	-	-	-	<b>18,366</b>
- Net investments in finance lease	1,708	-	-	-	<b>1,708</b>
- Loans to others	9,370	-	-	-	<b>9,370</b>
<b>Investment securities available for sale</b>					
- Corporate bonds	-	567,017	-	-	<b>567,017</b>
<b>Other financial assets</b>					
- Financial derivatives	-	-	-	25,193,064	<b>25,193,064</b>
- Other	62,637	-	-	-	<b>62,637</b>
<b>TOTAL FINANCIAL ASSETS</b>	<b>273,074,933</b>	<b>567,017</b>	<b>2,659,323</b>	<b>25,193,064</b>	<b>301,494,337</b>

As at 31 December 2018 and 31 December 2017, all liabilities of the Fund are measured at amortised cost.

### 36 Related Party Transactions

Parties are generally considered to be related if the parties are under common control, or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

### 36 Related Party Transactions (Continued)

At 31 December 2018, the outstanding balances with related parties were as follows:

<i>In thousands of Kazakhstani Tenge</i>	<b>Sole Shareholder</b>	<b>Entities under common control</b>	<b>Associates</b>	<b>Other related parties</b>
Cash and cash equivalents (contractual interest rate: 0%)	-	56,250	-	16,907,264
Investment securities at fair value through profit or loss (contractual interest rate: 4.87% - 9.1%)	-	-	-	948,880
Due from financial institutions (contractual interest rate: 2% - 8.5%)	-	-	-	14,934,368
Current income tax prepayment (interest rate: 15%)	-	-	-	11,290,109
Other financial assets	-	-	-	5,187
Other assets	-	-	-	23,403
Borrowed funds (contractual interest rate: 0.1% – 5.5%)	76,392,378	-	-	69,385,576
Debt securities in issue (contractual interest rate: 8.7%)	-	16,057,484	-	-
Liabilities on subsidy programs (contractual interest rate: 0%)	-	-	-	2,131,878
Deferred income tax liability (contractual interest rate: 20%)	-	-	-	1,279,281
Other liabilities	-	4,384	-	696,903
Guarantees issued by the Fund as of the end of the year (contractual interest rate: 0%)	-	-	-	732,974

The income and expense items with related parties for 2018 were as follows:

<i>In thousands of Kazakhstani Tenge</i>	<b>Sole Shareholder</b>	<b>Entities under common control</b>	<b>Other related parties</b>
Interest income	-	-	1,428,884
Interest expense	(4,743,730)	(61,964)	(1,316,573)
Gains less losses from securities at fair value through profit or loss	-	-	45,037
Fee and commission income	-	-	961,608
Provision for due from financial institutions	-	-	(272,200)
Net loss on initial recognition of liabilities at rates below market	-	-	(930,346)
Provision for credit related commitments	-	-	(7,380)
General and administrative expenses	-	34,649	(2,180,412)
Other operating (expense) / income	-	-	(8,000)
Income tax expense	-	-	(1,385,618)

### 36 Related Party Transactions (Continued)

At 31 December 2017, the outstanding balances with related parties were as follows:

<i>In thousands of Kazakhstani Tenge</i>	<b>Sole Shareholder</b>	<b>Entities under common control</b>	<b>Associates</b>	<b>Other related parties</b>
Cash and cash equivalents (contractual interest rate: 0%)	-	-	-	18,692,460
Securities at fair value through profit or loss (contractual interest rate: 4.87%-9.1%)	-	-	-	1,479,517
Current income tax prepayment (interest rate: 15%)	-	-	-	13,721,713
Other assets	-	-	8,000	62,847
Borrowed funds (contractual interest rate: 0.1%- 5.5%)	71,948,648	-	-	58,581,573
Liabilities on subsidy programs (contractual interest rate: 0%)	-	273	-	1,758,695
Deferred income tax liability (interest rate: 20%)	-	-	-	6,065,416
Other liabilities	-	-	-	560,427

The income and expense items with related parties for 2017 were as follows:

<i>In thousands of Kazakhstani Tenge</i>	<b>Sole Shareholder</b>	<b>Entities under common control</b>	<b>Other related parties</b>
Interest income	-	202,222	212,286
Interest expense	(4,468,358)	(146)	(1,186,239)
Gains less losses from securities at fair value through profit or loss	-	-	330,496
Fee and commission income	-	107,910	-
General and administrative expenses	-	(6,987)	(33)
Income tax expense	-	-	(1,093,393)

During 2017 no amounts were lent to or repaid by related parties.

<i>In thousands of Kazakhstani Tenge</i>	<b>2018</b>	<b>2017</b>
Amounts lent to related parties during the year	7,085,997	-
Amounts repaid by related parties during the year	4,520,963	10,178,889

Related party transactions are not collateralised. Balances with related parties are not credit-impaired.

**Key management compensation.** Key management includes following parties: members of Board of Directors, member of Management Board and Managing Directors.

Key management compensation is presented below:

<i>In thousands of Kazakhstani Tenge</i>	<b>2018</b>	<b>2017</b>
<b>Short-term benefits:</b>		
- Salaries	188,593	157,925
- Short-term bonuses	55,642	6,829
- Benefits in-kind	15,878	9,384
<b>Total</b>	<b>260,113</b>	<b>174,138</b>

### **37 Events after the End of the Reporting Period**

No significant events occurred after the end of the reporting period.

### **38 Accounting Policies Applicable before 1 January 2018**

Accounting policies applicable to the comparative period ended 31 December 2017 that were amended by IFRS 9, are as follows.

**Financial instruments - key measurement terms.** Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

*Fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price. The price within the bid-ask spread that is most representative of fair value in the circumstances was used to measure fair value, which management considers is the last trading price on the reporting date. The quoted market price used to value financial assets is the current bid price; the quoted market price for financial liabilities is the current asking price.

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Fund: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 30.

*Transaction costs* are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

*Amortised cost* is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

*The effective interest method* is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount.

### **38 Accounting Policies Applicable before 1 January 2018 (Continued)**

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

**Initial recognition of financial instruments.** Trading securities, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique, whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Fund commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

**Derecognition of financial assets.** The Fund derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Fund has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

**Cash and cash equivalents.** Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include all interbank placements and reverse sale and repurchase agreements with other banks with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

**Securities at fair value through profit or loss.** Securities at fair value through profit or loss are financial assets which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Fund classifies securities into trading securities if it has an intention to sell them within a short period after purchase.

The Fund may choose to reclassify a non-derivative trading financial asset out of the fair value through the profit or loss category if the asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of fair value through the profit or loss category only in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Financial assets that would meet the definition of loans and receivables may be reclassified if the Fund has the intention and ability to hold these financial assets for the foreseeable future, or until maturity.

Securities at fair value through profit or loss are carried at fair value. Interest earned on securities at fair value through profit or loss calculated using the effective interest method is presented in profit or loss for the year as interest income. Dividends are included in dividend income within other operating income when the Fund's right to receive the dividend payment is established, and it is probable that the dividends will be collected. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss for the year as gains less losses from trading securities in the period in which they arise.

**Due from financial institutions.** Amounts due from financial institutions are recorded when the Fund advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

**Loans and advances to customers.** Loans and advances to customers are recorded when the Fund advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates, and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

### **38 Accounting Policies Applicable before 1 January 2018 (Continued)**

**Impairment of financial assets carried at amortised cost.** Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Fund determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment. The primary factors that the Fund considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that the Fund obtains (e.g. downgrading of credit rating by international rating agencies as a result of default on other financial obligations: bonds, deposits, etc.);
- the borrower considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower; or
- the value of collateral significantly decreases as a result of deteriorating market conditions.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment, are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods, and to remove the effects of past conditions that do not exist currently.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognized and a new asset is recognized at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss for the year.

**Repossessed collateral.** Repossessed collateral represents financial and non-financial assets acquired by the Fund in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, other financial assets or inventories within other assets depending on their nature and the Fund's intention in respect of recovery of these assets, and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Where repossessed collateral results in acquiring control over a business, the business combination is accounted for using the acquisition method of accounting with fair value of the settled loan representing the cost of acquisition (refer to the accounting policy for consolidation). Accounting policy for associates is applied to repossessed shares where the Fund obtains significant influence, but not control. The cost of the associate is the fair value of the loan settled by repossessing the pledged shares.

### **38 Accounting Policies Applicable before 1 January 2018 (Continued)**

In cases where the fees are charged periodically in respect of an outstanding commitment, they are recognised as revenue on a time proportion basis over the respective commitment period.

**Investment securities available for sale.** This classification includes investment securities which the Fund intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Investment securities available for sale are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method, and recognised in profit or loss for the year.

Dividends on available-for-sale equity instruments are recognised in profit or loss for the year when the Fund's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the year. Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to profit or loss for the year. Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss for the year.

**Finance lease receivables.** Where the Fund is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within [other operating income] in profit or loss for the year.

Credit loss allowance is recognised in accordance with the general ECL model. The ECL is determined in the same way as for loans and advances measured at AC and recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

**Borrowed funds.** Borrowings are recorded when money or other assets are advanced to the Fund by counterparties. The non-derivative liability is carried at amortised cost. If the Fund purchases its own debt, the liability is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from retirement of debt.

**Subsidy programs.** Subsidies represent the financing by Government of Kazakhstan or representative body for the purposes of various government programs. Fund acts as an agent in connection with subsidy programs. Financing received from the Government are recognized as liabilities on subsidy programs upon receiving of funding. These funds are lent or placed with local commercial banks as a payment for governmentally subsidized projects. When Fund transfers its own financing to with local commercial banks before receiving of government financing, the payment is recorded as due from subsidy programs.

**Derivative financial instruments.** Derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, and currency and interest rate options are carried at their fair value.

All derivative instruments are carried as assets when fair value is positive, and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year (gains less losses on derivatives). The Fund does not apply hedge accounting.

Certain derivative instruments embedded in financial liabilities and other non-financial contracts are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.



### **38 Accounting Policies Applicable before 1 January 2018 (Continued)**

**Provisions for liabilities and charges.** Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Fund has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Levies and charges, such as taxes other than income tax or regulatory fees based on information related to a period before the obligation to pay arises, are recognised as liabilities when the obligating event that gives rise to pay a levy occurs, as identified by the legislation that triggers the obligation to pay the levy. If a levy is paid before the obligating event, it is recognised as a prepayment.

**Trade and other payables.** Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at AC.

**Interest income and expense recognition.** Interest income and expense are recorded for all debt instruments, other than those at FVTPL, on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Interest income on debt instruments at FVTPL calculated at nominal interest rate is presented within 'other similar income' line in profit or loss.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Fund to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Fund will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Fund does not designate loan commitments as financial liabilities at FVTPL.

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Loan syndication fees are recognised as income when the syndication has been completed and the Fund retains no part of the loan package for itself, or retains a part at the same effective interest rate as for the other participants.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned on execution of the underlying transaction, are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees relating to investment funds are recorded rateably over the period that the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continually provided over an extended period of time.