



## **Damu Entrepreneurship Development Fund JSC**

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

**31 December 2019**

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## 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 2019, 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 2019;
- 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)

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### Our audit approach

#### Overview

<b>Materiality</b>	Overall Fund materiality: Kazakhstani Tenge 1,680,000 thousands, which represents 0.5% of total assets as of 31 December 2019.
<b>Key audit matters</b>	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).

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)

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<i>Overall materiality</i>	Kazakhstani Tenge 1,680,000 thousands
<i>How we determined it</i>	0.5% of total assets as of 31 December 2019.
<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>Refer to the Notes 4, 8, and 25 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>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> </ul>



## Independent Auditor's Report (Continued)

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### 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.

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### Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the 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)

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### 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)

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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 partner on the audit resulting in this independent auditor's report is Aigul Akhmetova.

*PricewaterhouseCoopers LLP,*

28 February 2020  
Almaty, Kazakhstan

Approved by:

Dana Inkarebekova  
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 Partner  
Audit Assurance Partner  
Auditor in Charge  
(Qualified Auditor's Certificate №00000083  
dated 27 August 2012; Special Power of  
Attorney #28/1-19 dated 1 July 2019)

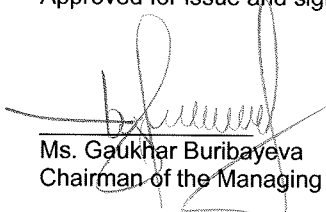


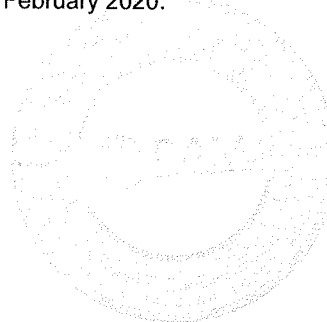



**Damu Entrepreneurship Development Fund JSC**  
**Statement of Financial Position**

<i>In thousands of Kazakhstani Tenge</i>	<b>Note</b>	<b>31 December 2019</b>	<b>31 December 2018</b>
<b>ASSETS</b>			
Cash and cash equivalents	7	40,771,790	37,953,674
Due from financial institutions	8	274,617,302	229,558,581
Due from subsidy programs		16,779	29,337
Loans and advances to customers		97,495	606,308
Investments in debt securities	9	7,930,294	7,100,689
Premises and equipment	10	2,448,957	2,279,485
Intangible assets		218,076	228,155
Current income tax prepayment		9,231,239	11,290,109
Deferred tax asset	23	199,965	-
Non-current assets held for sale		330,533	396,747
Other assets	11	1,641,158	14,678,723
<b>TOTAL ASSETS</b>		<b>337,503,588</b>	<b>304,121,808</b>
<b>LIABILITIES</b>			
Borrowed funds	12	234,302,199	201,309,973
Debt securities in issue	13	-	16,057,484
Liabilities on subsidy programs	14	5,865,771	4,974,063
Deferred income tax liability	23	-	1,279,281
Deferred income and provision for credit related commitments	15	9,837,192	6,914,341
Other liabilities	16	1,362,458	1,066,188
<b>TOTAL LIABILITIES</b>		<b>251,367,620</b>	<b>231,601,330</b>
<b>EQUITY</b>			
Share capital	17	72,920,273	72,920,273
Additional paid-in-capital		10,735,627	834,527
Revaluation reserve for investment securities at fair value through other comprehensive income		132,723	222,476
Other reserves		316,430	316,430
Retained earnings		2,030,915	(1,773,228)
<b>TOTAL EQUITY</b>		<b>86,135,968</b>	<b>72,520,478</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>337,503,588</b>	<b>304,121,808</b>

Approved for issue and signed on 28 February 2020.

  
 Ms. Gaukhar Buribayeva  
 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>2019</b>	<b>2018</b>
Interest income calculated using the effective interest method	18	22,597,000	24,613,727
Other interest income	18	130,927	140,937
Interest expense	18	(10,247,867)	(8,363,634)
<b>Interest income, net</b>		<b>12,480,060</b>	<b>16,391,030</b>
Credit loss allowance for loans and advances to customers and amounts due from financial institutions	8	1,135,899	(18,936,130)
<b>Net interest income/(expense) after credit loss allowance for loans and advances to customers and amounts due from financial institutions</b>		<b>13,615,959</b>	<b>(2,545,100)</b>
Net fee and commission income	19	3,812,698	3,934,347
(Losses) less gains from financial derivatives	20	(13,355)	5,941,231
Gains less losses from securities at fair value through profit or loss		54,425	65,958
Gains less losses from trading in foreign currencies		(186)	-
Foreign exchange translation losses less gains		(272,597)	(7,671,877)
Net loss on initial recognition of financial instruments at rates below market	21	(8,118,537)	(4,443,157)
Recovery of/(provision for) Impairment of debt securities at fair value through other comprehensive income		87,544	(86,806)
(Provision for)/recovery of impairment of other assets	7, 11	(6,618)	6,042
Recovery of/(provision for) credit related commitments	26	607,810	(243,942)
Net other operating income/(expense)		63,199	(289,272)
Expenses for realisation of Fund's programs	22	(806,576)	(872,451)
General and administrative expenses	22	(4,842,342)	(4,339,827)
<b>Profit before tax</b>		<b>4,181,424</b>	<b>(10,544,854)</b>
Income tax expense	23	(377,281)	(1,385,618)
<b>PROFIT/(LOSS) FOR THE YEAR</b>		<b>3,804,143</b>	<b>(11,930,472)</b>
<b>Other comprehensive income/(loss):</b> <i>Items that may be reclassified subsequently to profit or loss:</i>			
Investment securities at fair value through other comprehensive income			
- Losses less gains arising during the year		(89,753)	152,139
<b>Other comprehensive loss for the year</b>		<b>(89,753)</b>	<b>152,139</b>
<b>TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR</b>		<b>3,714,390</b>	<b>(11,778,333)</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 2018</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>
Loss 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>
Profit for the year	-	-	-	-	-	3,804,143	3,804,143
Other comprehensive income	-	-	-	(89,753)	-	-	(89,753)
Recognition of discount for borrowed funds from parent company less deferred tax (Notes 4 and 12)	-	9,901,100	-	-	-	-	9,901,100
Total comprehensive income for the year	-	-	-	(89,753)	-	3,804,143	3,714,390
<b>Balance at 31 December 2019</b>	<b>72,920,273</b>	<b>10,735,627</b>	<b>-</b>	<b>132,723</b>	<b>316,430</b>	<b>2,030,915</b>	<b>86,135,968</b>

The notes set out on pages 5 to 66 form an integral part of these financial statements

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

<i>In thousands of Kazakhstani Tenge</i>	<b>Note</b>	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities</b>			
Interest received		15,310,499	16,428,247
Interest paid		(4,310,788)	(4,481,586)
Fees and commissions received		6,284,803	5,203,483
Fees and commissions paid		(403,694)	(1,947,784)
Other operating income received		75,088	133,547
Staff costs paid		(2,288,064)	(2,008,740)
Administrative and other operating expenses paid		(3,336,537)	(3,313,497)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>11,331,307</b>	<b>10,013,670</b>
<i>Net decrease/(increase) in:</i>			
- due from financial institutions		(47,481,920)	(12,252,595)
- loans and advances to customers		296,260	6,345,360
- other assets		(521,146)	(367,602)
<i>Net increase/(decrease) in:</i>			
- other financial liabilities		2,175,823	2,257,434
- other liabilities		377,564	60,255
<b>Net cash (used in)/from operating activities</b>		<b>(33,822,112)</b>	<b>6,056,522</b>
<b>Cash flows from investing activities</b>			
Acquisition of investment securities		(480,788)	(33,011,630)
Proceeds from disposal and redemption of investment securities		359,978	737,444
Acquisition premises and equipment		(100,048)	(46,091)
Proceeds from disposal of premises and equipment		(93,650)	(45,511)
Acquisition of intangible assets		236,038	229,539
<b>Net cash used in investing activities</b>		<b>(78,470)</b>	<b>(32,136,249)</b>
<b>Cash flows used in financing activities</b>			
Proceeds from borrowed funds		67,554,359	40,855,659
Repayment of borrowed funds		(27,296,933)	(55,374,984)
Proceeds from operation with financial derivatives		12,567,830	19,582,304
Proceeds from debt securities in issue		-	15,995,520
Repayment of debt securities in issue		(16,000,000)	-
Dividends paid		-	(1,234,153)
<b>Net cash from financing activities</b>		<b>36,825,256</b>	<b>19,824,346</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>(106,558)</b>	<b>134,125</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>2,818,116</b>	<b>(6,121,256)</b>
Cash and cash equivalents at the beginning of the year	7	37,953,674	44,074,930
<b>Cash and cash equivalents at the end of the year</b>	<b>7</b>	<b>40,771,790</b>	<b>37,953,674</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 2019 and 2018, 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 30.

**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 17 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 379.75 per USD 1, compared to Tenge 381.18 per USD 1 as at 31 December 2019 (31 December 2018: Tenge 384.20 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 2019 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.

## **2 Operating Environment of the Fund (Continued)**

For the purpose of measurement of expected credit losses (“ECL”) the Fund uses supportable forward-looking information, including forecasts of macroeconomic variables. As with any economic forecast, however, the projections and likelihoods of their occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different from those projected.

## **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 16 effective from 1 January 2019, these policies have been consistently applied to all the periods presented, unless otherwise stated. Refer to Note 5.

**Financial instruments – key measurement terms.** *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 28.

**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.

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

*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.

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.

**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 25 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 25. For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured as a Lifetime ECL. Note 25 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 (e.g. 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 25 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.

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

**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.

**Accounting for leases by the Fund as a lessee from 1 January 2019.** The Fund leases land, office premises, equipment and cars. Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Fund. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is recognised at cost and depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Payments under long-term leases of land based on cadastral value of land are treated as variable lease payments that are not based on an index or a rate.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs, and
- restoration costs.

As an exception to the above, the Fund accounts for short-term leases and leases of low value assets by recognising the lease payments as an operating expense on a straight line basis.

In determining the lease term, management of the Fund considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

**Accounting for operating leases by the Fund as a lessee prior to 1 January 2019.** 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. Operating leases included long-term leases of land with rental payments based on cadastral values regularly reviewed and published by the government.

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.

**Accounting for operating leases by the Fund as a lessor.** 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)**

**Accounting for finance leases by the Fund as a lessee prior to 1 January 2019.** Where the Fund is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Fund, the assets leased are capitalised in premises and equipment at the commencement of the lease at the lower of the fair value of the leased asset, and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in other borrowed funds. The interest cost is charged to profit or loss for the year over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life, or the shorter lease term if the Fund is not reasonably certain that it will obtain ownership by the end of the lease term.

**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.

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

**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.

**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.

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

**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.

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 2019, the official rate of exchange used for translating foreign currency balances was the US dollar (USD) 1 = Tenge 381,18 (31 December 2018: USD 1 = Tenge 384.2). 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.

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

**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

**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 25 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 25.

	31 December 2019			31 December 2018		
	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>						
Income tax prepayment	3,798,609	5,432,630	9,231,239	4,537,665	6,752,444	11,290,109
Deferred income tax asset	-	199,965	199,965	-	-	-
Intangible assets	128,944	89,132	218,076	115,871	112,284	228,155
Premises and equipment	278,385	2,170,572	2,448,957	698,007	1,581,478	2,279,485
Other assets	361,272	-	361,272	1,268,949	-	1,268,949
Non-current assets held for sale	330,533	-	330,533	396,747	-	396,747
<b>LIABILITIES</b>						
Deferred income tax liability	-	-	-	1,279,281	-	1,279,281
Other liabilities	699,233	-	699,233	546,123	-	546,123

### 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 25. 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.

In 2019 and 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.



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

In 2019 the Fund recognised decrease of excepted credit losses in amount Tenge 1,155,0554 thousand (2018: increase of Tenge 18,936,130 thousand) on loan portfolio. Refer to Notes 8 and 9.

**Sensitivity analysis for due from financial institutions.** A 10% increase or decrease in PD estimates would result in an increase or decrease in total expected credit loss allowances of KZT 1,160,305 thousand at 31 December 2019 (31 December 2018: increase or decrease of KZT 1,260,300 thousand). A 10% increase or decrease in LGD estimates would result in an increase or decrease in total expected credit loss allowances of KZT 1,160,305 thousand at 31 December 2019 (31 December 2018: increase or decrease of KZT 1,260,300 thousand).

**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 25.

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 9,157,610 thousand as of 31 December 2019 (31 December 2018: higher by Tenge 7,283,243 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, i.e. 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 Fund considered examples in the standard and concluded that features that arise solely from legislation and that are not part of the contract, that is, if legislation changed, the features would no longer apply (such as bail in legislation in certain countries), are not relevant for assessing whether cash flows are SPPI.

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

**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.

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 of 2018.

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 Notes 8 and 9.

**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 27.

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 12. The Fund calculated the fair value of the swap at reporting date, resulting in fair value of derivatives of Tenge 0 as of 31 December 2019 (2018: 12,545,813 thousand) and a gain in the amount of Tenge 5,941,231 thousand (2018: a gain in the amount of Tenge 5,941,231 thousand). The Fund incurred foreign exchange losses of Tenge 8,244,649 thousand (2018: foreign exchange losses of Tenge 8,244,649 thousand) on the ADB loans during the year ended 31 December 2019.

During the year ended 31 December 2019, the early closure of 5-year fixed swap contracts for a total of USD 61,000 thousand (2018: USD 146,828 thousand) took place, resulting in a realised gain from operations with financial derivatives in the amount of Tenge 12,567,830 thousand (2018: Tenge 19,582,304 thousand). Under swap agreements with commercial banks, the Fund pays three percent per annum commission, which resulted in expenses in the amount of Tenge 225,927 thousand for the year ended 31 December 2019 (31 December 2018: Tenge 1,323,944 thousand). 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 11, 20 and 29.

#### **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 30.

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.

In 2019 the Fund made placement of funds received from “NMH Baiterek” JSC in 2014-2016 in amount Tenge 14,675,147 thousand in commercial banks at 2% interest rate with term 14 years. When assessing fair value of the loans given to the banks, the management of the Fund used specific credit risks of each bank based on the US treasury bills rate and credit ratings of these banks. Risk-free rates of treasury bills were adjusted for sovereign risk premium, currency risk and credit risk and/or credit spread. Depending on credit risk of commercial banks the rates varied between 8.01% and 9.18%. See Note 8.

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

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 2019, the Fund settled a loan from ADB in the amount of US \$ 61 million (2018: US \$ 133 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 14.

In 2019, the Fund received borrowed funds from “NMH Baiterek” JSC in amount Tenge 16 billion at a rate 0.1% for a fifteen years term. The Fund received this loan with the target to paid off earlier issued securities. Management calculated the market rate on the level of 10.65%, including the exchange risk, maturity of the loan and credit risk for the Fund. For the date of initial recognition, the Fund decided that the fair value is equal to Tenge 3,623,627 thousand. Management of the Fund analysed all requirements of IAS 20 and SIC 10, and concluded absence of connection with operational activities. Consequently, the difference between the fair value of the loan and received cash represents the contribution of equity from only one shareholder, but not from government subsidy. Respectively, the Fund recognized the discount with deferred tax in the equity Tenge 9,901,100 thousand, like an operation with shareholders. Application of this judgement management decided that in terms of financing, there is absence of compensation condition, which earlier was incurred loss, or conditions for continuous activity of manufacturing region.

**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 received funds. As of 31 December 2019, “Bank CenterCredit” JSC had drawn down the EBRD loans for the amount of Tenge 29,407 million (2018: Tenge 36,157 million). The management of the Fund assessed fair value of these guarantees based on commission fees received. As of 31 December 2019, the amount of accrued commission income was 57,751 thousand (31 December 2018: Tenge 123,099 thousand). Refer to Notes 15 and 26.

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 2019 for Tenge 19,243 million and Tenge 0, respectively. 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. 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 5,684 thousand and Tenge 0, respectively (31 December 2018: 32,778 thousand and Tenge 12,772 thousand, respectively). Refer to Notes 15 and 26.

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

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 2019, “Bank Kassa Nova” JSC had drawn down the EBRD loans for the amount of Tenge 3,742 million (31 December 2018: Tenge 3,742 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 4,899 thousand (31 December 2018: Tenge 7,052 thousand). Refer to Notes 15 and 26.

#### **5 Adoption of New or Revised Standards and Interpretations**

**Adoption of IFRS 16, Leases.** The Fund has adopted IFRS 16 retrospectively from 1 January 2019 with certain simplifications and exemptions, and has not restated comparatives for the 2018 reporting period, as permitted under the transitional provisions of IFRS 16. The reclassifications and the adjustments arising from the new leasing requirements are therefore recognised as an adjustment to the opening balance of retained earnings as of 1 January 2019. Based on the analysis performed by the Fund, effect from adoption of new standard is not material since all rent agreements are short-term.

On adoption of IFRS 16, the Fund recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17, Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 January 2019. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 9%.

In applying IFRS 16 for the first time, the Fund has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019;
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Fund has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Fund relied on its assessment made applying IAS 17, Leases, and IFRIC 4, Determining whether an Arrangement contains a Lease.

For leases previously classified as finance leases the Fund recognised the carrying amount of the leased asset and lease liability as the carrying amount of the right-of-use asset and the lease liability at the date of initial application, respectively. The measurement principles of IFRS 16 are only applied after 1 January 2019. Due to absence of long-term contractual rent obligations as of the transition date, the change in accounting policy did not materially affect the statement of financial position.

The recognised right-of-use assets relate to the following types of assets:

<i>In thousands of Kazakhstani Tenge</i>	<b>31 December 2019</b>	<b>1 January 2019</b>
Properties for own use	294,969	425,906
<b>Total right-of-use assets</b>	<b>294,969</b>	<b>425,906</b>

**Amendment to IAS 12, Income Taxes, included in the Annual Improvements to IFRSs 2015-2017 cycle.** The Fund adopted the changes to IAS 12, *Income Taxes*, with effect from 1 January 2019. As a result of these amendments, the tax benefits of distributions on perpetual instruments that are classified as equity under IFRS but are considered as liabilities for tax purposes are no longer recognised directly in equity but in profit or loss because these tax benefits are linked more directly to past transactions or events that generated distributable profits than to the distributions to owners. The amendment was not applied due to absence of these derivatives.

The following amended standards became effective from 1 January 2019, but did not have any material impact on the Fund:

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

- IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures" (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2015-2017 cycle – amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).

## **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.

**Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).** The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance – in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

**Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).** The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

**Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).** These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary.

**Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).** The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance – in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Fund's financial statements.

## **7 Cash and Cash Equivalents**

<i>In thousands of Kazakhstani Tenge</i>	<b>31 December 2019</b>	<b>31 December 2018</b>
Reverse sale and repurchase agreements with other banks with original maturities of less than three months	28,371,222	-
Cash balances with the NBRK (other than mandatory reserve deposits)	7,568,431	16,733,828
Current accounts with banks	4,842,118	15,183,991
Placements with other banks with original maturities of less than three months	-	6,042,500
Less: Expected credit losses	(9,981)	(6,645)
<b>Total cash and cash equivalents</b>	<b>40,771,790</b>	<b>37,953,674</b>

## 7 Cash and Cash Equivalents (Continued)

The Fund holds funds received to support development of Small and Medium Entrepreneurship through subsidization on current accounts with banks. Refer to Note 14.

The credit quality of cash and cash equivalents balances may be summarised based on Standard and Poor's ratings as follows at 31 December 2019 and 2018:

	31 December 2019				31 December 2018		
	Cash balances with the NBRK	Current Accounts with banks and placements	Reverse sale and repurchase agreements with other banks	Total	Cash balances with the NBRK, including mandatory reserves	Current accounts with banks	Total
<i>In thousands of Kazakhstani Tenge</i>							
<i>Neither past due nor impaired</i>							
- National Bank of Kazakhstan	7,568,431		16,193,372	23,761,803	16,733,828	-	16,733,828
- A- to A+ rated	-	-	-	-	-	23,760	23,760
- BBB- to BBB+ rated	-	179,497	12,177,850	12,357,347	-	3,053,543	3,053,543
- BB- to BB+ rated	-	3,248,661	-	3,248,661	-	17,132,386	17,132,386
- B- to B+ rated	-	1,400,711	-	1,400,711	-	994,368	994,368
- CCC- to CCC+ rated	-	-	-	-	-	12,056	12,056
- Unrated	-	13,249	-	13,249	-	10,378	10,378
<b>Total cash and cash equivalents, excluding cash on hand</b>	<b>7,568,431</b>	<b>4,842,118</b>	<b>28,371,222</b>	<b>40,781,771</b>	<b>16,733,828</b>	<b>21,226,491</b>	<b>37,960,319</b>

At 31 December 2019, balances on demand deposits that are not rated represent balances on bank accounts of "Capital Bank Kazakhstan" JSC, "AsiaCredit Bank" JSC and "Shinhan Bank Kazakhstan" JSC.

At 31 December 2019, no balances on current accounts have CCC rating (2018: "AsiaCreditBank" JSC - Tenge 12,056 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>Excepted credit loss allowance as at 1 January 2019</b>	(388)	-	(6,257)	(6,645)
(Recovery of)/provision for impairment during the year	(9,640)	-	6,257	(3,383)
Transfer of provision due to reclassification of assets with 100%	47	-	-	47
<b>Excepted credit losses for cash and cash equivalents as at 31 December 2019</b>	<b>(9,981)</b>	<b>-</b>	<b>-</b>	<b>(9,981)</b>

## 7 Cash and Cash Equivalents (Continued)

The following is an analysis of the change in the allowance for impairment of cash and cash equivalents during 2018:

<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>Excepted 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>	(388)	-	(6,257)	(6,645)

Refer to Note 28 for disclosure of the fair value of cash and cash equivalents. Interest rate analysis of cash and cash equivalents is disclosed in Note 25. Information on related party balances is disclosed in Note 30.

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>	2019	2018
<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>	-	316,192

## 8 Due from Financial Institutions

<i>In thousands of Kazakhstani Tenge</i>	31 December 2019	31 December 2018
Loans given to financial institutions	274,342,367	230,394,115
Placements with other banks with original maturities of more than three months	11,877,984	11,767,466
Less: Credit loss allowance	(11,603,049)	(12,603,000)
<b>Total due from financial institutions</b>	<b>274,617,302</b>	<b>229,558,581</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 15 years and the coupon rate of 4%. The Fund acquired these bonds in December 2018.

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

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 of 2018.

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 Notes 4 and 9.

For loans issued from 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 for 2018 and Tenge 1,030,398 thousand in the statement of changes in equity for 2018. Part of the losses were recognised in the statement of changes in equity as this was dictated by the shareholders of the Fund.

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 2019 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	-	3,811,800	3,811,800
- BB- to BB+ rated	108,778,984	8,066,184	116,845,168
- B- to B+ rated	147,510,488	-	147,510,488
- Unrated	14,154,482	-	14,154,482
<b>Total neither past due nor impaired</b>	<b>270,443,954</b>	<b>11,877,984</b>	<b>282,321,938</b>
<i>Balances individually determined to be impaired</i>			
<i>Not overdue but impaired</i>			
- Unrated	3,857,184	-	3,857,184
<i>Overdue</i>			
- 30 to 360 days overdue	41,229	-	41,229
<b>Total individually impaired (gross)</b>	<b>3,898,413</b>	<b>-</b>	<b>3,898,413</b>
<b>Less: Credit loss allowance</b>	<b>(11,561,430)</b>	<b>(41,619)</b>	<b>(11,603,049)</b>
<b>Total due from financial institutions</b>	<b>262,780,937</b>	<b>11,836,365</b>	<b>274,617,302</b>



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

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>

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 2019, financial institutions without a credit rating were loans issued to Capital Bank JSC, AsiaCredit Bank JSC and microfinance organisations (2018: Capital Bank JSC, AsiaCredit Bank JSC and microfinance organisations). The management of the Fund has created expected credit losses for these loans in the amount of Tenge 3,898,413 thousand in accordance with IFRS 9 (2018: in the amount of Tenge 147,239 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 2019 due to these factors:

<i>In thousands of Kazakhstani Tenge</i>	Credit loss allowance		Gross carrying amount	
	Stage 1 (12-months ECL)	Total	Stage 1 (12 months ECL)	Total
<b>Placements with other banks</b>				
<b>As at 1 January 2019</b>	<b>(22,562)</b>	<b>(22,562)</b>	<b>11,767,466</b>	<b>11,767,466</b>
<i>Movements with impact on credit loss allowance charge for the period:</i>				
New originated or purchased	(41,718)	(41,718)	11,877,984	11,877,984
Derecognised during the period	22,562	22,562	(11,767,466)	(11,767,466)
<b>Total movements with impact on credit loss allowance charge for the period</b>	<b>(41,718)</b>	<b>(41,718)</b>	<b>11,877,984</b>	<b>11,877,984</b>
<i>Movements without impact on credit loss allowance charge for the period:</i>				
Foreign exchange translation and other movements	99	99	-	-
<b>As at 31 December 2019</b>	<b>(41,619)</b>	<b>(41,619)</b>	<b>11,877,984</b>	<b>11,877,984</b>

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 2018 due to these factors:

<i>In thousands of Kazakhstani Tenge</i>	Credit loss allowance		Gross carrying amount	
	Stage 1 (12-months ECL)	Total	Stage 1 (12 months ECL)	Total
<b>Placements with other banks</b>				
<b>As at 1 January 2018</b>	<b>(66,793)</b>	<b>(66,793)</b>	<b>9,518,492</b>	<b>9,518,492</b>
<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 2019 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>Placements with other banks</b>								
<b>At 1 January 2019</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>
<i>Movements with impact on credit loss allowance charge for the period:</i>								
Transfers:	-	-	-	-	-	-	-	-
- to lifetime (from Stage 1 to Stage 2)	770,137	(1,981,165)	-	(1,211,028)	(12,307,126)	12,482,084	-	174,958
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	2,555,482	(2,197,253)	358,229	-	(8,008,886)	5,996,016	(2,012,870)
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	(3,837,625)	5,087,854	1,250,229	-	7,268,363	(7,268,363)	-
New originated and purchased	(776,304)	-	-	(776,304)	73,115,765	-	-	73,115,765
Derecognized during the period	508,768	-	761,126	1,269,894	(30,101,963)	-	(1,808,238)	(31,910,201)
Changes to ECL measurement model assumptions	(324,662)	-	-	(324,662)	1,097,583	-	-	1,097,583
Unwinding of discounting	41,643	17,130	393,877	452,650	2,082,161	1,731,450	(330,594)	3,483,017
<b>Total movements with impact on credit loss allowance charge for the period</b>	<b>(4,336,146)</b>	<b>(6,141,805)</b>	<b>(1,083,479)</b>	<b>(11,561,430)</b>	<b>250,972,548</b>	<b>19,471,406</b>	<b>3,898,413</b>	<b>274,342,367</b>
<b>At 31 December 2019</b>	<b>(4,336,146)</b>	<b>(6,141,805)</b>	<b>(1,083,479)</b>	<b>(11,561,430)</b>	<b>250,972,548</b>	<b>19,471,406</b>	<b>3,898,413</b>	<b>274,342,367</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 2018 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>Placements with other banks</b>								
<b>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 and purchased	(720,966)	-	-	(720,966)	63,999,208	-	-	63,999,208
Derecognized 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>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:

<i>In thousands of Kazakhstani Tenge</i>	2019		2018	
	Loans given to financial institutions	Placements with other banks	Loans given to financial institutions	Placements with other banks
<b>Credit loss allowance at 31 December</b>	<b>12,580,438</b>	<b>22,562</b>	<b>19,211,736</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>12,580,438</b>	<b>22,562</b>	<b>23,418,499</b>	<b>66,793</b>
(Recovery of)/provision for impairment during the year	(1,019,008)	19,156	20,928,684	(49,610)
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	-	(99)	-	5,379
<b>Credit loss allowance at 31 December</b>	<b>11,561,430</b>	<b>41,619</b>	<b>12,580,438</b>	<b>22,562</b>

Refer to Note 28 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 25. Information on related party balances is disclosed in Note 30.

The extent to which collateral and other credit enhancements mitigate credit risk for financial assets carried at amortised cost that are credit impaired, 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 on credit impaired assets at 31 December 2019 is as follows.

<i>In thousands of Kazakhstani Tenge</i>	Over-collateralised Assets		Under-collateralised assets	
	Carrying value of the assets	Value of collateral	Carrying value of the assets	Value of collateral
<b>Credit impaired assets:</b>				
<i>Due from financial institutions</i>				
Loans given to financial institutions	3,857,184	12,393,002	41,229	-

## 8 Due from Financial Institutions (Continued)

The effect of collateral on credit impaired assets at 31 December 2018 is as follows.

<i>In thousands of Kazakhstani Tenge</i>	<b>Over-collateralised Assets</b>		<b>Under-collateralised assets</b>	
	Carrying value of the assets	Value of collateral	Carrying value of the assets	Value of collateral
<b>Credit impaired assets:</b>				
<i>Due from financial institutions</i>				
Loans given to financial institutions	-	-	7,309,592	584,363

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 2019 below also represents the Fund's maximum exposure to credit risk on these assets:

<i>In thousands of Kazakhstani Tenge</i>	<b>Due from other financial institutions</b>			
	<b>31 December 2019</b>			
	<b>ECL grouping</b>			
	<b>Stage 1 12 months ECL</b>	<b>Stage 2 Lifetime ECL</b>	<b>Stage 3 Lifetime ECL</b>	<b>Total</b>
- BBB- to BBB+ rated	3,811,800	-	-	3,811,800
- BB- to BB+ rated	116,845,168	-	-	116,845,168
- B- to B+ rated	128,039,082	19,471,406	-	147,510,488
- Unrated	14,154,482	-	3,898,413	18,052,895
<b>Gross carrying amount</b>	<b>262,850,532</b>	<b>19,471,406</b>	<b>3,898,413</b>	<b>286,220,351</b>
Credit loss allowance	(4,377,765)	(6,141,804)	(1,083,480)	(11,603,049)
<b>Carrying value</b>	<b>258,472,767</b>	<b>13,661,193</b>	<b>2,483,342</b>	<b>274,617,302</b>

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:

<i>In thousands of Kazakhstani Tenge</i>	<b>Due from other financial institutions</b>			
	<b>31 December 2018</b>			
	<b>ECL grouping</b>			
	<b>Stage 1 12 months ECL</b>	<b>Stage 2 Lifetime ECL</b>	<b>Stage 3 Lifetime ECL</b>	<b>Total</b>
- BBB- to BBB+ rated	6,000,000	-	-	6,000,000
- BB- to BB+ rated	89,578,255	-	-	89,578,255
- B- to B+ rated	122,934,193	-	7,268,363	130,202,556
- CCC- to CCC+ rated	-	5,153,241	-	5,153,241
- Unrated	10,341,146	845,154	41,229	11,227,529
<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>
Credit loss allowance	(4,578,290)	(2,895,627)	(5,129,083)	(12,603,000)
<b>Carrying value</b>	<b>224,275,304</b>	<b>3,102,768</b>	<b>2,180,509</b>	<b>229,558,581</b>

## 9 Investments in Debt Securities

<i>In thousands of Kazakhstani Tenge</i>	<b>31 December 2019</b>	<b>31 December 2018</b>
Debt securities designated as at fair value through profit or loss (FVTPL) at initial recognition	2,646,072	2,123,182
Debt securities at fair value through other comprehensive income (FVOCI)	626,160	771,681
Debt securities at amortised cost (AC)	4,658,062	4,205,826
<b>Total investments in debt securities</b>	<b>7,930,294</b>	<b>7,100,689</b>

The table below discloses investments in debt securities at 31 December 2019 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	1,435,984	-	-	1,435,984
Corporate bonds	1,210,088	632,747	4,658,062	6,494,310
Total investments in debt securities at 31 December 2019 (fair value or gross carrying value)	2,646,072	632,747	4,658,062	7,930,294
Credit loss allowance	-	(6,587)	-	-
<b>Total investments in debt securities at 31 December 2018 (carrying value)</b>	<b>2,646,072</b>	<b>626,160</b>	<b>4,658,062</b>	<b>7,930,294</b>

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>

## 9 Investment in Debt Securities (Continued)

### (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 2019:

<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	1,435,984	-	<b>1,435,984</b>
- BB- to BB+ rated	-	1,210,088	<b>1,210,088</b>
<b>Total gross carrying value of assets at FVTPL</b>	<b>1,435,984</b>	<b>1,210,088</b>	<b>2,646,072</b>

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	-	<b>948,880</b>
- B- to B+ rated	-	1,174,302	<b>1,174,302</b>
<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	649,154	<b>649,154</b>
<b>Total AC gross carrying amount on 31 December 2019</b>	<b>649,154</b>	<b>649,154</b>
Less: credit loss allowance	(6,587)	<b>(6,587)</b>
Less: fair value adjustment from AC to FV	(16,407)	<b>(16,407)</b>
<b>Carrying value (fair value) on 31 December 2019</b>	<b>626,160</b>	<b>626,160</b>

<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	<b>792,466</b>
<b>Total AC gross carrying amount on 31 December 2018</b>	<b>792,466</b>	<b>792,466</b>
Less: credit loss allowance	(86,806)	<b>(86,806)</b>
Less: fair value adjustment from AC to FV	66,021	<b>66,021</b>
<b>Carrying value (fair value) on 31 December 2018</b>	<b>771,681</b>	<b>771,681</b>

The debt securities at FVOCI are not collateralised.



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

During 2019, there were no factors for SICR and default indicators and reserves were calculated equal to 12-month ECL.

### **(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 2019 based on credit risk grades. Refer to Note 25 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 2019 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	4,658,062	<b>4,658,062</b>
<b>Gross carrying amount</b>	4,658,062	<b>4,658,062</b>
Credit loss allowance	-	-
<b>Carrying amount</b>	4,658,062	<b>4,658,062</b>

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.

<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	<b>33,073,648</b>
Discount	(5,907,603)	<b>(5,907,603)</b>
Transfer to securities, terms of which are determined by Fund shareholders	(22,960,219)	<b>(22,960,219)</b>
<b>Carrying amount</b>	4,205,826	<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.

The debt securities at AC are not collateralised.

## 10 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>Right-of-use assets Buildings</b>	<b>Total</b>
Cost at 1 January 2018		2,161,906	1,599,114	305,334	-	4,066,354
Accumulated depreciation		(293,860)	(1,090,043)	(185,264)	-	(1,569,167)
<b>Carrying amount at 1 January 2018</b>		<b>1,868,046</b>	<b>509,071</b>	<b>120,070</b>	<b>-</b>	<b>2,497,187</b>
Additions		-	46,091	-	-	46,091
Disposals		-	(4,821)	(1,701)	-	(6,522)
Depreciation charge	22	(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>
Additions		-	100,047	-	438,720	538,767
Disposals		-	(129,594)	(99,449)	-	(229,043)
Depreciation charge	22	(20,649)	(158,254)	(36,811)	(143,751)	(359,465)
Accumulated depreciation disposal		-	125,590	93,623	-	219,213
<b>Carrying amount at 31 December 2019</b>		<b>1,826,748</b>	<b>289,436</b>	<b>37,804</b>	<b>294,969</b>	<b>2,448,957</b>
Cost at 31 December 2019		2,161,906	1,610,837	204,184	438,720	4,415,647
Accumulated depreciation		(335,158)	(1,321,401)	(166,380)	(143,751)	(1,966,690)
<b>Carrying amount at 31 December 2019</b>		<b>1,826,748</b>	<b>289,436</b>	<b>37,804</b>	<b>294,969</b>	<b>2,448,957</b>

## 11 Other Assets

<i>In thousands of Kazakhstani Tenge</i>	<b>Note</b>	<b>31 December 2019</b>	<b>31 December 2018</b>
Accounts receivable at AC		1,404,414	998,251
Financial derivatives at FVTPL	27	-	12,535,447
Less: Credit loss allowance		(124,528)	(123,923)
<b>Total other financial assets within other assets</b>		<b>1,279,886</b>	<b>13,409,775</b>
Reposessed collateral		116,748	285,702
Taxes other than on income		106,114	21,621
Raw materials and supplies		71,217	70,327
Services prepaid		64,841	883,305
Other		8,917	15,153
Less: Provision for impairment		(6,565)	(7,160)
<b>Total other assets</b>		<b>1,641,158</b>	<b>14,678,723</b>

Financial derivatives represent net balance on currency swap transactions with other financial institutions. Refer to Notes 4 and 27.

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 2019 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	-	-	-
- unrated	-	1,279,886	1,279,886
<b>Total neither past due nor impaired</b>	<b>-</b>	<b>1,279,886</b>	<b>1,279,886</b>
<i>Individually determined to be impaired (gross)</i>			
- over 360 days overdue	-	124,528	124,528
<b>Total individually impaired (gross)</b>	<b>-</b>	<b>124,528</b>	<b>124,528</b>
<b>Less: Credit loss allowance</b>	<b>-</b>	<b>(124,528)</b>	<b>(124,528)</b>
<b>Total other financial assets</b>	<b>-</b>	<b>1,279,886</b>	<b>1,279,886</b>

## 11 Other Assets (Continued)

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>

Movements in the provision for impairment during 2019 and 2018 are as follows:

<i>In thousands of Kazakhstani Tenge</i>	<b>2019</b>			<b>2018</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>	<b>123,923</b>	<b>7,160</b>	<b>131,083</b>	<b>410,615</b>	<b>186,747</b>	<b>597,362</b>
Provision for/(recovery of) impairment during the year	3,829	(595)	3,234	(1,716)	(1,543)	(3,259)
Amounts written off during the year as uncollectible	(2,365)	-	(2,365)	(300,537)	(178,044)	(478,581)
Exchange difference	(906)	-	(906)	-	-	-
Transfer of provision due to reclassification of fully provisioned receivables	47	-	47	15,561	-	15,561
<b>Provision balance at 31 December</b>	<b>124,528</b>	<b>6,565</b>	<b>131,093</b>	<b>123,923</b>	<b>7,160</b>	<b>131,083</b>

As of 31 December 2019, included in other assets receivables of Tenge 129,270 thousand (31 December 2018: Tenge 131,083 thousand), all of which are overdue for more than one year. Refer to Note 28 for disclosure of the fair value of other financial assets. Information on related party balances is disclosed in Note 30.

## 12 Borrowed Funds

<i>In thousands of Kazakhstani Tenge</i>	<b>31 December 2019</b>	<b>31 December 2018</b>
Baiterek NMH JSC (6.57% - 6.71%)	85,459,707	76,392,378
Asian Development Bank (2.08% - 7.58%)	66,328,552	55,532,019
Municipal authorities (0.01% - 1%)	62,664,664	49,532,869
Samruk-Kazyna NWF JSC (2% - 6.5%)	19,416,325	19,416,325
Ministry of Finance of Republic of Kazakhstan (0%)	432,951	436,382
<b>Total borrowed funds</b>	<b>234,302,199</b>	<b>201,309,973</b>

## **12 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 2019, the Fund redeemed a loan from ADB in the amount of US Dollar 62 million, which includes USD 61 million principal and USD 1 million interest (2018: 133 million). The Fund incurred foreign exchange loss of Tenge 117,323 thousand (2018: foreign exchange gains of Tenge 8,244,649 thousand) on the ADB loans during the year ended 31 December 2019. During 2019, the Fund received a loan from ADB in the amount of Tenge 35,320,000 thousand with a floating interest rate of 7.5% - 7.58% (2018: Tenge 23,836,774 thousand). Refer to Note 20.

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.

In 2019, the Fund received borrowed funds from "NMH Baiterek" JSC in amount Tenge 16 billion at a rate 0.1% for a fifteen years term. The Fund received this loan with the target to paid off earlier issued securities. Management calculated the market rate on the level of 10.65%, including the exchange risk, maturity of the loan and credit risk for the Fund. For the date of initial recognition, the Fund decided that the fair value is equal to Tenge 3,623,627 thousand. Management of the Fund analysed all requirements of IAS 20 and SIC 10, and concluded absence of connection with operational activities. Consequently, the difference between the fair value of the loan and received cash represents the contribution of equity from only one shareholder, but not from government subsidy. Respectively, the Fund recognized the discount with deferred tax in the equity Tenge 9,901,100 thousand, like an operation with shareholders. Application of this judgement management decided that in terms of financing, there is absence of compensation condition, which earlier was incurred loss, or conditions for continuous activity of manufacturing region.

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 2019, the Fund received loans in the amount of Tenge 15,434,359 thousand (2018: Tenge 17,018,885 thousand) from municipal authorities.

Refer to Note 28 for disclosure of the fair value of each class of borrowed funds. Interest rate analysis of borrowed funds is disclosed in Note 25. Information on related party balances is disclosed in Note 30.

## **13 Debt Securities in Issue**

During 2019 the Fund redeemed all previously issued bonds and as of 31 December 2019 debt securities in issue balance was 0 Tenge (2018: Tenge 16,057,484 thousand), denominated in Kazakhstani Tenge. These bonds had maturity term of 13 months and a coupon yield of 8.7%. Refer to Note 28 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 25. Information on related party balances is disclosed in Note 30.

## **14 Liabilities on Subsidy Programs**

<i>In thousands of Kazakhstani Tenge</i>	<b>31 December 2019</b>	<b>31 December 2018</b>
Banks	2,664,110	2,841,525
Municipal authorities	3,201,661	2,132,538
<b>Total liabilities on subsidy programs</b>	<b>5,865,771</b>	<b>4,974,063</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 28 for disclosure of the fair value of liabilities on subsidy programs. Information on related party balances is disclosed in Note 30.

## 15 Deferred Income and Provision for Credit Related Commitments

<i>In thousands of Kazakhstani Tenge</i>	<b>Note</b>	<b>31 December 2019</b>	<b>31 December 2018</b>
Deferred income on financial guarantees		8,590,808	5,319,861
Financial guarantees (provision for credit related commitments)	26	1,246,384	1,594,480
<b>Total deferred income and provision for credit related commitments</b>		<b>9,837,192</b>	<b>6,914,341</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 2019, Bank CenterCredit JSC had drawn down the EBRD loans for the amount of Tenge 29,407 million (2018: Tenge 36,157 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 2019, the amount of accrued commission income was 57,751 thousand (2018: Tenge 123,099 thousand). Refer to Notes 4 and 26.

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 2019, ForteBank JSC and MFO KMF had drawn down the EBRD loans for the amount of Tenge 19,243 million and 0 Tenge, respectively. (2018: 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 5,684 thousand and 0 Tenge, respectively (2018: 32,778 thousand and 12,772 thousand, respectively). Refer to Notes 4 and 26.

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 2019, “Bank Kassa Nova” JSC had drawn down the EBRD loans for the amount of Tenge 3,742 million (31 December 2018: Tenge 3,742 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 4,899 thousand (31 December 2018: Tenge 7,052 thousand). Refer to Notes 4 and 26.

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 28 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 30.

## 16 Other Liabilities

<i>In thousands of Kazakhstani Tenge</i>	<b>31 December 2019</b>	<b>31 December 2018</b>
Lease obligation	307,785	-
Accounts payable	228,120	272,611
Accrued liabilities and other creditors	127,320	247,454
<b>Total financial liabilities within other liabilities</b>	<b>663,225</b>	<b>520,065</b>
Taxes payable other than on income	229,681	100,165
Unused vacation reserve	224,161	300,925
Accrued employee benefit costs	124,507	4,342
Advances received	120,383	140,183
Other	501	508
<b>Total other liabilities</b>	<b>1,362,458</b>	<b>1,066,188</b>

## 16 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 28 for disclosure of the fair value of other financial liabilities. Information on related party balances is disclosed in Note 30.

## 17 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 2018</b>	<b>27,462</b>	<b>72,920,273</b>	<b>72,920,273</b>
New share issue	-	-	-
<b>At 31 December 2019</b>	<b>27,462</b>	<b>72,920,273</b>	<b>72,920,273</b>

The Fund declared dividends was not paid in respect of the year ended 31 December 2019.

## 18 Interest Income and Expense

<i>In thousands of Kazakhstani Tenge</i>	<b>2019</b>	<b>2018</b>
<b>Interest income calculated using the effective interest method</b>		
Due from financial institutions	20,163,713	20,366,243
Cash and cash equivalents	1,607,032	2,216,851
Securities at amortised cost	840,373	58,526
Securities at fair value through other comprehensive income	53,350	56,764
Loans and advances to customers	(67,468)	1,915,343
<b>Total interest income calculated using the effective interest method</b>	<b>22,597,000</b>	<b>24,613,727</b>
<b>Other similar income</b>		
Debt securities at fair value through profit or loss	130,927	140,937
<b>Total other similar income</b>	<b>130,927</b>	<b>140,937</b>
<b>Total interest income</b>	<b>22,727,927</b>	<b>24,754,664</b>
<b>Interest expense</b>		
Borrowed funds	(9,574,988)	(8,301,670)
Debt securities in issue	(638,516)	(61,964)
Interest expense on finance lease	(34,363)	-
<b>Total interest expense</b>	<b>(10,247,867)</b>	<b>(8,363,634)</b>
<b>Net interest income</b>	<b>12,480,060</b>	<b>16,391,030</b>

Interest income on due from financial institutions includes Tenge 4,954,741 thousand (2018: Tenge 6,189,940 thousand) interest income from unwinding of discount on loans given at rates below the market. Refer to Note 4.

Interest expense on borrowed funds includes Tenge 4,745,476 thousand (2018: Tenge 4,443,731 thousand) interest expense from unwinding of discount on borrowed funds received at rates below the market.

## 19 Net Fee and Commission Income

<i>In thousands of Kazakhstani Tenge</i>	<b>2019</b>	<b>2018</b>
Guarantees issued	2,996,696	2,972,669
Financial agent services	884,083	961,678
Commission expense of early repayment loan	(65,080)	-
Commission fee for issuing a guarantee / counter-guarantee	(3,001)	-
<b>Total fee and commission income</b>	<b>3,812,698</b>	<b>3,934,347</b>

Fee and commission income is comprised of commission income received from issued guarantees (Note 15), financial agency fees received in connection with subsidy program (see Note 14), 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".

## 20 Losses less Gains from Financial Derivatives

<i>In thousands of Kazakhstani Tenge</i>	<b>2019</b>	<b>2018</b>
Interest expense on swap agreements	12,567,830	19,582,304
Unrealised loss from indexation	190,554	338,869
Realised gain from swap agreements	(225,927)	(1,323,944)
Unrealised loss from swap transactions	(12,545,812)	(12,655,998)
<b>Losses less gains from financial derivatives</b>	<b>(13,355)</b>	<b>5,941,231</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 11.

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

<i>In thousands of Kazakhstani Tenge</i>	<b>2019</b>	<b>2018</b>
Loss on initial recognition of due from financial institutions at rates below market	(8,420,348)	(4,443,157)
Gains on initial recognition of borrowed funds at rates below market	301,811	-
<b>Чистый убыток, возникающий при первоначальном признании финансовых инструментов по ставкам ниже рыночных</b>	<b>(8,118,537)</b>	<b>(4,443,157)</b>

Detailed description and assessment of financial results are presented in Critical Accounting Estimates and Judgements in Applying Accounting Policies – Initial recognition of financial instruments issued at rates below market. Refer to Note 4.



## **22 General and Administrative Expenses**

<i>In thousands of Kazakhstani Tenge</i>	<b>2019</b>	<b>2018</b>
Staff costs	3,148,471	2,694,600
Repair and technical maintenance	283,910	208,431
Depreciation of premises and equipment	215,714	262,699
Depreciation of right-of-use assets	143,751	-
Amortisation of intangible assets	103,729	110,031
Business trip and representative expenses	88,206	108,799
Training	62,801	50,504
Communication services	59,842	61,192
Taxes other than on income	58,853	54,741
Insurance expenses	51,718	57,574
Legal and consulting services	47,701	48,677
Security services	45,768	38,849
Materials	40,318	59,331
Utilities	33,332	38,935
Transportation expense	26,951	26,010
Broker fees	28,541	26,538
Rent expense	18,269	157,262
Stationery	14,998	7,871
Bank charges	9,038	12,969
Advertising and marketing services	1,431	504
Other	359,000	314,310
<b>Total General and Administrative Expenses</b>	<b>4,842,342</b>	<b>4,339,827</b>
Recruiting costs (outsourcing)	505,289	463,269
Advertising and Marketing	156,748	206,900
Legal and consulting services	33,534	79,639
Office supplies and printing services	24,465	33,293
Repair and maintenance	23,945	5,943
Communication services	13,717	25,236
Security services	6,759	14,394
Materials	5,935	15,481
Transportation expense	564	3,331
Insurance costs	58	159
Other	35,562	24,806
<b>Total expenses on realisation of Fund's programs*</b>	<b>806,576</b>	<b>872,451</b>

\*This group includes expenses on non-financial support of entrepreneurs, advertising and image campaign for raising awareness of the Fund's activities and for promotion of financial and non-financial programs of the Fund, hiring of consultants for support of financial and non-financial programs of the Fund.

## **23 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>2019</b>	<b>2018</b>
Current tax expense	4,331,802	5,231,595
Deferred tax expense	(3,954,521)	(3,845,977)
<b>Income tax expense for the year</b>	<b>377,281</b>	<b>1,385,618</b>

## 23 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 2019 income is 20% (2018: 20%). A reconciliation between the expected and the actual taxation charge is provided below:

<i>In thousands of Kazakhstani Tenge</i>	2019	2018
<b>Profit before tax</b>	<b>4,181,424</b>	<b>(10,544,855)</b>
Theoretical tax charge at statutory rate (2018: 20%; 2017: 20%)	836,285	(2,108,971)
Tax effects of items which are not deductible or assessable for taxation purposes:		
- Expense on securities, exempt from tax	(204,054)	3,556,808
- Other non-deductible income	(279,389)	(39,047)
- Adjustment of prior year tax expense estimate	24,439	(23,172)
<b>Income tax expense for the year</b>	<b>377,281</b>	<b>1,385,618</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 2019 are detailed below:

<i>In thousands of Kazakhstani Tenge</i>	1 January 2019	(Charged)/ credited to profit or loss	Credited/ (charged) directly to equity	31 December 2019
<b>Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards</b>				
Loans and advances to customers	8,102	(7,500)	-	602
Provisions: due from financial institutions	2,466,970	(105,026)	-	2,361,944
Premises and equipment and intangible assets	(135,406)	(9,520)	-	(144,926)
Financial derivatives	(2,507,089)	2,507,089	-	-
Discount on borrowed funds and due from financial instruments	(1,197,621)	1,608,308	(2,475,274)	(2,064,587)
Other liabilities	85,763	(38,831)	-	46,932
<b>Net deferred tax asset / (liability)</b>	<b>(1,279,281)</b>	<b>3,954,520</b>	<b>(2,475,274)</b>	<b>199,965</b>
Recognized deferred tax asset	2,560,835	(160,877)	-	2,409,478
Recognized deferred tax liability	(3,840,116)	4,115,397	(2,475,274)	(2,209,513)
<b>Net deferred tax asset / (liability)</b>	<b>(1,279,281)</b>	<b>3,954,520</b>	<b>(2,475,274)</b>	<b>199,965</b>

## 23 Income Tax (Continued)

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>				
Loans and advances to customers	375,201	(367,099)	-	8,102
Provisions: 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)
Discount on borrowed funds and due from financial instruments	(2,104,279)	906,659	-	(1,197,620)
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>

## 24 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	Debt securities in issue	
<b>Liabilities from financing activities at 1 January 2018</b>	<b>71,948,648</b>	<b>58,581,573</b>	<b>72,472,682</b>	<b>-</b>	<b>203,002,903</b>
Cash flows	(300,000)	9,428,693	(28,129,604)	15,995,520	(3,005,391)
Foreign exchange adjustments	-	58,915	8,301,861	-	8,360,776
Other non-cash movements	4,743,730	1,316,395	2,887,080	61,964	9,009,169
<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>16,057,484</b>	<b>217,367,457</b>
Cash flows	16,492,311	12,062,852	8,087,475	(16,696,000)	19,946,638
Foreign exchange adjustments	-	(3,430)	117,323	-	113,893
Other non-cash movements	(7,424,982)	1,068,943	2,591,735	638,516	(3,125,788)
<b>Liabilities from financing activities at 31 December 2019</b>	<b>85,459,707</b>	<b>82,513,941</b>	<b>66,328,552</b>	<b>-</b>	<b>234,302,200</b>

## **25 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.

**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.

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

**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.

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.

## 25 Financial Risk Management (Continued)

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.

<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 2019</b>						
Total financial assets	49,423,436	7,909,555	7,612,552	52,444,501	207,323,502	324,713,546
Total financial liabilities	(14,282,695)	(2,594,661)	(923,341)	(65,982,765)	(166,884,925)	(250,668,387)
<b>Net interest sensitivity gap at 31 December 2019</b>	<b>35,140,741</b>	<b>5,314,894</b>	<b>6,689,211</b>	<b>(13,538,264)</b>	<b>40,438,577</b>	<b>74,045,159</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>

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

<i>% per annum</i>	<b>2019 Average effective interest rate</b>	<b>2018 Average effective interest rate</b>
<b>Interest bearing assets</b>		
Cash and cash equivalents	4.70%	5.70%
Securities at fair value through profit or loss	-	-
Investment debt securities at fair value through profit or loss	6.38%	6.07%
Investment debt securities at amortised cost	15.45%	15.45%
Due from financial institutions	8.41%	8.96%
Loans and advances to customers	12.85%	13.27%
Investment securities available for sale	-	-
Investment debt securities at fair value through other comprehensive income	8.00%	9.75%
Other financial assets	-	-
<b>Interest bearing liabilities</b>		
Borrowed funds	3.9%	3.79%
Debt securities in issue	-	8.7%
Liabilities under subsidy programs	-	-
Deferred income and provision for credit related commitments	-	-
Other financial liabilities	9%	-

**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 2019 and 2018 is as follows:

<i>In thousands of Kazakhstani Tenge</i>	<b>At 31 December 2019</b>		<b>At 31 December 2018</b>	
	<b>Impact on profit or loss</b>	<b>Impact on equity</b>	<b>Impact on profit or loss</b>	<b>Impact on equity</b>
100 bp (2017: 100 bp) parallel increase	124,801	99,840	83,636	66,909
100 bp (2017: 100 bp) parallel decrease	(124,801)	(99,840)	(83,636)	(66,909)

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

**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.

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

	<b>KZT</b>	<b>USD</b>	<b>Other</b>	<b>Total</b>
<b>FINANCIAL ASSETS</b>				
Cash and cash equivalents	40,648,536	122,847	407	40,771,790
Investments in debt securities	7,930,294	-	-	7,930,294
Due from financial institutions	270,810,229	3,807,073	-	274,617,302
Due from subsidy programs	16,779	-	-	16,779
Loans and advances to customers	97,495	-	-	97,495
Other financial assets	1,279,886	-	-	1,279,886
<b>Total financial assets</b>	<b>320,783,219</b>	<b>3,929,920</b>	<b>407</b>	<b>324,713,546</b>
<b>FINANCIAL LIABILITIES</b>				
Borrowed funds	233,869,248	432,951	-	234,302,199
Debt securities in issue	-	-	-	-
Liabilities under subsidy programs	5,865,771	-	-	5,865,771
Deferred income and provision for credit related commitments	9,837,192	-	-	9,837,192
Other financial liabilities	663,225	-	-	663,225
<b>Total financial liabilities</b>	<b>250,235,436</b>	<b>432,951</b>	<b>-</b>	<b>250,668,387</b>
<b>Net position before derivatives as at 31 December 2018</b>	<b>70,547,783</b>	<b>3,496,969</b>	<b>407</b>	<b>74,045,159</b>

## 25 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	3,747,725	-	229,558,582
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>3,747,924</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>(20,218,078)</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>726,486</b>	<b>12,483</b>	<b>58,882,439</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 27. 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%)	130,087	130,087	(96,623)	(96,623)
US Dollar weakening by 5.5% (2017: weakening by 10%)	(130,087)	(130,087)	39,957	39,957



## **25 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.

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.

**Credit risk management.** Credit risk is the single largest risk for the Fund's business; management therefore carefully manages its exposure to credit risk.

**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.

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.

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%

## **25 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.

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.

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

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.

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.

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

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.

In accordance with the Order of the president of the Republic of Kazakhstan dated 30 January 2019, National Bank of the Republic of Kazakhstan (the "NBRK") performs asset quality review of second tier banks ("AQR"). 14 banks were included in scope: Halyk Bank of Kazakhstan JSC, Subsidiary of Sberbank of Russia JSC, Kaspi Bank JSC, ForteBank JSC, Bank CenterCredit JSC, ATFBank JSC, Eurasian Bank JSC, First Heartland Jysan Bank JSC, Bank RBK JSC, Subsidiary of Alfa-Bank JSC, Altyn Bank JSC, Nurbank JSC, Subsidiary of Home Credit and Finance Bank JSC and Subsidiary of Bank VTB (Kazakhstan) JSC. The main objectives of AQR are:

- to form complete and objective picture of banking system state;
- to ensure stability and transparency of financial sector;
- to strengthen trust of investors and depositors;
- to improve quality of processes in banks in line with best practice of accounting and prudential norms.

In December 2019, NBRK issued preliminary result of second tier banks AQR. According to this analysis, as of 01 April 2019, on consolidated level (aggregated level of all banks participants) no deficit of capital was identified. Moreover, NBRK noted that results of AQR would not necessarily affect capital or would be disclosed in financial reporting of the banks. Management of the Fund believes that they have created adequate level of ECL provisions for the year ended 31 December 2019 based on the information available as of the date of issue of financial statements. The Fund performs detailed analysis of all banks and subsequent information from NBRK will be analysed in case if AQR results are officially published.

**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.

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

**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.

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.

## 25 Financial Risk Management (Continued)

The maturity analysis for financial liabilities as at 31 December 2019 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 2019</b>						
<b>FINANCIAL LIABILITIES</b>						
Borrowed funds	1,374,720	1,192,048	1,846,266	69,439,684	305,985,236	379,837,954
Liabilities on subsidy programs	2,664,104	2,555,940	600,000	45,727	-	5,865,771
Deferred income and provision for credit related commitments	3,930,111	19,612,881	1,498,858	7,399,858	97,614,354	130,056,062
Other financial liabilities	365,184	23,719	36,250	74,985	163,087	663,225
<b>Total potential future payments for financial obligations</b>	<b>8,334,119</b>	<b>23,384,588</b>	<b>3,981,374</b>	<b>76,960,254</b>	<b>403,762,677</b>	<b>516,423,012</b>

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	340,422,642
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	116,935,509
Other financial liabilities	520,065	-	-	-	-	520,065
<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>

## 25 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 2019 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 2019</b>						
<b>FINANCIAL ASSETS</b>						
Cash and cash equivalents	40,771,790	-	-	-	-	40,771,790
Securities at fair value through profit or loss	-	-	-	219	2,645,853	2,646,072
Due from financial institutions	8,079,919	7,157,523	7,607,423	52,441,547	199,330,890	274,617,302
Due from subsidy programs	16,779	-	-	-	-	16,779
Loans and advances to customers	82,280	1,606	2,407	2,735	8,467	97,495
Securities at fair value through other comprehensive income	-	-	-	-	626,160	626,160
Securities at amortised cost	-	-	-	-	4,658,062	4,658,062
<i>Gross settled swaps:</i>						
- inflows	-	-	-	-	-	-
- outflows	-	-	-	-	-	-
Other financial assets	472,668	750,426	2,722	-	54,070	1,279,886
<b>Total financial assets</b>	<b>49,423,436</b>	<b>7,909,555</b>	<b>7,612,552</b>	<b>52,444,501</b>	<b>207,323,502</b>	<b>324,713,546</b>
<b>FINANCIAL LIABILITIES</b>						
Borrowed funds	1,416,215	15,002	287,090	65,862,053	166,721,839	234,302,199
Liabilities on subsidy programs	2,664,104	2,555,940	600,000	45,727	-	5,865,771
Deferred income and provision for credit related commitments	3,930,111	19,612,881	1,498,858	7,399,858	97,614,354	130,056,062
Other financial liabilities	365,184	23,719	36,250	74,985	163,087	663,225
<b>FINANCIAL LIABILITIES</b>						
<b>Total potential future payments for financial obligations</b>	<b>8,375,614</b>	<b>22,207,542</b>	<b>2,422,198</b>	<b>73,382,623</b>	<b>264,499,280</b>	<b>370,887,257</b>
<b>Liquidity gap arising from financial instruments</b>	<b>41,047,822</b>	<b>(14,297,987)</b>	<b>5,190,354</b>	<b>(20,938,122)</b>	<b>(57,175,778)</b>	<b>(46,173,711)</b>

## 25 Financial Risk Management (Continued)

The expected maturities and the expected liquidity gap as of 31 December 2018 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 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>

## 26 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.



## 26 Contingencies and Commitments (Continued)

**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.

**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 2019 and 31 December 2018.

**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 25.

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 2019</b>	<b>31 December 2018</b>
Guarantees issued		66,692,557	45,187,911
Guarantees issued as collateral of loans		62,918,005	62,918,005
Undrawn credit lines		445,500	8,829,593
Less: Provision for credit related commitments	15	(1,246,384)	(1,594,480)
<b>Total credit related commitments, net of provision</b>		<b>128,809,678</b>	<b>115,341,029</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 29,407 million. As of 31 December 2019, “Bank CenterCredit” JSC had drawn down the EBRD loans for the amount of Tenge 29,407 million (2018: Tenge 36,157 million). The management of the Fund assessed fair value of these guarantees based on commission fees received. As of 31 December 2019, the amount of accrued commission income was 57,751 thousand (31 December 2018: Tenge 123,099 thousand). Refer to Notes 4 and 15.

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 0, respectively. (2018: 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 5,684 thousand and Tenge 0, respectively (2018: 32,778 thousand and 12,772 thousand, respectively). Refer to Notes 4 and 15.

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 2019, Bank Kassa Nova JSC had drawn down the EBRD loans for the amount of Tenge 3,742 million (2018: Tenge 3,742 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 4,899 thousand (2018: Tenge 7,052 thousand). Refer to Notes 4 and 15.

## 26 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>	2019	2018
<b>Carrying amount at 1 January</b>	<b>(1,594,480)</b>	<b>(1,428,342)</b>
Losses charged to profit or loss	298,791	(461,548)
Unused amounts reversed	309,019	217,606
Other	(259,714)	77,804
<b>Carrying amount at 31 December</b>	<b>(1,246,384)</b>	<b>(1,594,480)</b>

## 27 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	2019		2018	
		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 (+)		-	-	20,944,564	-
- Tenge payable on settlement (-)		-	-	(8,409,117)	-
<b>Net fair value of foreign exchange swaps</b>	<b>11</b>	<b>-</b>	<b>-</b>	<b>12,535,447</b>	<b>-</b>

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.

## 28 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.

## 28 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>	2019		2018	
	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	-	1,210,088	-	948,880
- Kazakhstani government bonds	-	1,435,984	-	1,174,302
<b><i>Investment securities available for sale</i></b>				
- Corporate bonds	-	626,160	-	771,681
<b><i>Other financial assets</i></b>				
Financial derivatives	-	-	-	12,535,447
<b>TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS</b>	-	<b>3,272,232</b>	-	<b>15,430,310</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 27.

## 28 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 2019 are as follows:

<i>In thousands of Kazakhstani Tenge</i>	31 December 2019			
	Level 1	Level 2	Level 3	Carrying value
<b>FINANCIAL ASSETS</b>				
<b>Cash and cash equivalents</b>	7,568,431	33,203,359	-	40,771,790
<b>Due from financial institutions</b>				
- Loans given to financial institutions	-	206,374,881	-	262,780,937
- Placements with banks with initial maturity more than 3 months	-	11,836,365	-	11,836,365
<b>Due from subsidy programs</b>				
- Due from subsidy programs	-	-	16,779	16,779
<b>Loans and advances to customers</b>				
- Loans to small and medium size entities	-	-	97,495	97,495
- Loans to microfinance organisations	-	-	-	-
- Loans to others	-	-	-	-
<b>Investment securities at amortised cost</b>	-	-	5,004,224	4,658,062
<b>Other financial assets</b>	-	-	-	-
- Other	-	-	1,279,886	1,279,886
<b>TOTAL ASSETS CARRIED AT AMORTISED COST</b>	7,568,431	251,414,605	6,398,384	321,441,314
<b>FINANCIAL LIABILITIES</b>				
<b>Borrowed funds</b>				
- Asian Development Bank	-	66,328,552	-	66,328,552
- Baiterek NMH JSC	-	51,890,687	-	85,459,707
- Samruk-Kazyna NWF JSC	-	16,080,932	-	19,416,324
- Municipal authorities	-	60,203,584	-	63,097,616
<b>Liabilities on subsidy programs</b>				
- Municipal authorities	-	-	2,664,110	2,664,110
- Banks	-	-	3,201,661	3,201,661
<b>Deferred income and provision for credit related commitments</b>				
- Deferred income	-	-	8,590,808	8,590,808
- Financial guarantees	-	-	1,246,384	1,246,384
<b>Other financial liabilities</b>				
- Other	-	-	663,225	663,225
<b>TOTAL LIABILITIES CARRIED AT AMORTISED COST</b>	-	194,503,755	16,366,188	250,668,387

**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 2 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.** 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.

**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.

## 28 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 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
- Baiterek 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>

## 29 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.

## 29 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 2019:

<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 comprehen- sive income	Measured at amortised cost	Total
<b>FINANCIAL ASSETS</b>					
<b><i>Cash and cash equivalents</i></b>					
- Current accounts with banks	-	-	-	4,832,137	<b>4,832,137</b>
- Cash balances with the NBRK (other than mandatory reserve deposits)	-	-	-	7,568,431	<b>7,568,431</b>
- Placements with banks with initial maturity more than 3 months	-	-	-	28,371,222	<b>28,371,222</b>
<b><i>Securities at fair value through profit or loss</i></b>					
- Corporate bonds	-	1,210,088	-	-	<b>1,210,088</b>
- Kazakhstani government bonds	-	1,435,984	-	-	<b>1,435,984</b>
<b><i>Due from financial institutions</i></b>					
- Loans given to financial institutions	-	-	-	262,780,937	<b>262,780,937</b>
- Placements with other banks with original maturities of more than three months	-	-	-	11,836,365	<b>11,836,365</b>
<b><i>Due from subsidy programs</i></b>					
- Due from subsidy programs	-	-	-	16,779	<b>16,779</b>
<b><i>Loans and advances to customers</i></b>					
- Loans to small and medium size entities	-	-	-	97,495	<b>97,495</b>
<b><i>Investment securities at fair value through other comprehensive income</i></b>					
- Corporate bonds	-	-	626,160	-	<b>626,160</b>
<b><i>Investment securities at amortised cost</i></b>					
- Corporate bonds	-	-	-	4,658,062	<b>4,658,062</b>
<b><i>Other financial assets</i></b>					
- Other	-	-	-	1,279,886	<b>1,279,886</b>
<b>TOTAL FINANCIAL ASSETS</b>	<b>-</b>	<b>2,646,072</b>	<b>626,160</b>	<b>321,441,314</b>	<b>324,713,546</b>

## 29 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 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><i>Cash and cash equivalents</i></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><i>Securities at fair value through profit or loss</i></b>					
- Corporate bonds	-	948,880	-	-	<b>948,880</b>
- Kazakhstani government bonds	-	1,174,302	-	-	<b>1,174,302</b>
<b><i>Due from financial institutions</i></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><i>Due from subsidy programs</i></b>					
- Due from subsidy programs	-	-	-	29,337	<b>29,337</b>
<b><i>Loans and advances to customers</i></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><i>Investment securities at fair value through other comprehensive income</i></b>					
- Corporate bonds	-	-	771,681	-	<b>771,681</b>
<b><i>Investment securities at amortised cost</i></b>					
- Corporate bonds	-	-	-	4,205,826	<b>4,205,826</b>
<b><i>Other financial assets</i></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>

As at 31 December 2019 and 31 December 2018, all liabilities of the Fund are measured at amortised cost.

### 30 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.

At 31 December 2019, 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>Other related parties</b>
Cash and cash equivalents (contractual interest rate: 0%)	-	56,250	7,610,054
Investment securities at fair value through profit or loss (contractual interest rate: 4.87% - 9.1%)	-	-	1,435,984
Investment securities at fair value through profit or loss (contractual interest rate: 6.38%)	-	-	-
Due from financial institutions (contractual interest rate: 2% - 8.5%)	-	-	13,425,348
Current income tax prepayment (interest rate: 15%)	-	-	9,231,239
Deferred tax asset (interest rate: 20%)	-	-	199,965
Other financial assets (interest rate: 0%)	-	-	-
Other assets	-	-	106,741
Borrowed funds (contractual interest rate: 0.1% – 5.5%)	85,459,707	-	82,513,940
Liabilities on subsidy programs (contractual interest rate: 0%)	-	-	3,237,756
Other financial liabilities	-	97,502	5,590
Other liabilities	-	-	774,408
Guarantees issued by the Fund as of the end of the year (contractual interest rate: 0%)	-	-	371,834

The income and expense items with related parties for 2019 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	-	-	1,207,646
Interest expense	(5,253,202)	(10,762)	(1,068,943)
Gains less losses from securities at fair value through profit or loss	-	-	(3,756)
Interest expense on issued securities	-	(638,516)	-
Fee and commission income	-	-	884,097
Recovery of provision for due from financial institutions	-	-	23,026
Net loss on initial recognition of financial instruments at rates below market	301,811	-	-
Provision for credit related commitments	-	-	1,788
General and administrative expenses	-	(45,173)	(89,011)
Other operating (expense) / income	-	-	1,791
Income tax expense	-	-	(377,281)



### 30 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>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 assets	-	5,187	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%)	-	-	2,138,878
Deferred income tax liability (contractual interest rate: 20%)	-	-	1,279,281
Other liabilities	-	-	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)	(61,963)	(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	-	-	(2,180,412)
Other operating (expense) / income	-	-	(8,000)
Income tax expense	-	-	(1,385,618)

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

<i>In thousands of Kazakhstani Tenge</i>	<b>2019</b>	<b>2018</b>
Amounts lent to related parties during the year	-	7,085,997
Amounts repaid by related parties during the year	2,527,150	4,520,963

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

### **30 Related Party Transactions (Continued)**

*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>2019</b>	<b>2018</b>
<i>Short-term benefits:</i>		
- Salaries	216,196	188,593
- Short-term bonuses	18,921	55,642
- Benefits in-kind	14,938	15,878
<b>Total</b>	<b>250,055</b>	<b>260,113</b>

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

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