# Joint Stock Company
# "Islamic bank "Zaman-Bank"

## Financial statements

*Year ended 31 December 2018*
*together with independent auditor's report*

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«Эрнст энд Янг» ЖШС
Әл-Фараби д-лы, 77/7
«Есентай Тауэр» ғимараты
Алматы қ., 050060
Қазақстан Республикасы
Тел.: +7 727 258 5960
Факс: +7 727 258 5961
www.ey.com

ТОО «Эрнст энд Янг»
пр. Аль-Фараби, 77/7
здание «Есентай Тауэр»
г. Алматы, 050060
Республика Казахстан
Тел.: +7 727 258 5960
Факс: +7 727 258 5961

Ernst & Young LLP
Al-Farabi ave., 77/7
Esentai Tower
Almaty, 050060
Republic of Kazakhstan
Tel.: +7 727 258 5960
Fax: +7 727 258 5961

# Independent auditor's report

To the Shareholders and Board of Directors of
"Islamic bank "Zaman Bank" JSC

## *Opinion*

We have audited the financial statements of "Islamic bank "Zaman Bank" JSC (hereinafter - the "Bank"), which comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

## *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 are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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

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### *Responsibilities of management and Board of Directors for the financial statements*

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

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

The Board of Directors are responsible for overseeing the Bank's financial reporting process.

### *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 skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors 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.

Ernst & Young LLP

Paul Cohn
Audit Partner

Olga Khegay
Auditor

Gulmira Turmagambetova
General Director
Ernst & Young LLP

Auditor qualification certificate
No. МФ - 0000286 dated 25 September 2015

State audit license for audit activities on the territory of the Republic of Kazakhstan: series МФЮ-2, No. 0000003, issued by the Ministry of Finance of the Republic of Kazakhstan on 15 July 2005

050060, Republic of Kazakhstan, Almaty
Al-Farabi ave., 77/7, Esentai Tower

30 April 2019

## STATEMENT OF FINANCIAL POSITION

### As at 31 December 2018

*(In thousands of tenge)*

| | *Notes* | *2018* | *2017* |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 6 | **1,836,786** | 1,190,826 |
| Receivables from Islamic finance activities | 7 | **11,886,847** | 9,974,418 |
| Loans to customers | 8 | **44,807** | 877,647 |
| Finance lease receivables | 9 | **–** | 40,901 |
| Bank participation in Wakala and Mudaraba pool | 10 | **756,247** | 1,062,300 |
| Property and equipment | 11 | **22,669** | 24,660 |
| Intangible assets | 12 | **5,564** | 10,103 |
| Inventory | 13 | **216,766** | 216,766 |
| Current corporate income tax assets | 14 | **53,621** | 4,981 |
| Deferred corporate income tax assets | 14 | **7,577** | 24,288 |
| Other assets | 15 | **244,527** | 112,278 |
| **Total assets** | | **15,075,411** | 13,539,168 |
| | | | |
| **Liabilities** | | | |
| Amounts due to credit institutions | 16 | **577,165** | 595,766 |
| Amounts due to customers | 17 | **1,752,597** | 547,662 |
| Amounts due to Wakala and Mudaraba pool | 19 | **6,716** | – |
| Provisions | 19 | **58,711** | 49,564 |
| Other liabilities | 15 | **42,083** | 34,492 |
| **Total liabilities** | | **2,437,272** | 1,227,484 |
| | | | |
| **Equity** | 18 | | |
| Share capital | | **10,050,000** | 10,050,000 |
| Additional paid-in capital | | **122,037** | 122,037 |
| Retained earnings | | **2,466,102** | 2,139,647 |
| **Total equity** | | **12,638,139** | 12,311,684 |
| **Total liabilities and equity** | | **15,075,411** | 13,539,168 |

**Signed and authorised for issue on behalf of the Management Board of the Bank**

Asayeva Gulfairuz Yerlanovna — Chairwoman of the Management Board

Seitova Rimma — Chief Accountant

30 April 2019

*The accompanying notes on page 5 to 46 are an integral part of these financial statements.*

## STATEMENT OF COMPREHENSIVE INCOME

### For the year ended 31 December 2018

*(In thousands of tenge)*

| | *Notes* | *2018* | *2017* |
|---|---|---|---|
| **Revenue from Islamic finance activities** | | | |
| Revenue from Commodity Murabaha agreements | | **837,009** | 330,688 |
| **Other finance income** | | | |
| Loans to customers | | **52,426** | 907,165 |
| Finance lease receivables | | – | 64 |
| Amounts due from credit institutions | | – | 70 |
| | | **889,435** | 1,237,987 |
| **Finance expense** | | | |
| Amounts due to customers | | – | (1) |
| | | – | (1) |
| **Net finance income** | | 889,435 | 1,237,986 |
| Credit loss income/(expense) | 20 | **80,475** | (106,000) |
| **Net finance income after credit loss income/(expense)** | | **969,910** | 1,131,986 |
| Net fee and commission income | 21 | **243,922** | 51,297 |
| Net gains/(losses) from transactions in foreign currencies | 22 | **95,127** | (15,345) |
| Other income | | **7,262** | 148,565 |
| **Non-finance income** | | **346,311** | 184,517 |
| Personnel expenses | 23 | **(226,188)** | (202,952) |
| Other operating expenses | 23 | **(397,069)** | (243,755) |
| **Non-finance expense** | | **(623,257)** | (446,707) |
| **Profit before corporate income tax expense** | | 692,964 | 869,796 |
| Corporate income tax expense | 14 | **(171,297)** | (175,323) |
| **Profit for the year** | | **521,667** | 694,473 |
| Other comprehensive income | | – | – |
| **Total comprehensive income for the year** | | **521,667** | 694,473 |

*The accompanying notes on page 5 to 46 are an integral part of these financial statements.*

# STATEMENT OF CHANGES IN EQUITY

## For the year ended 31 December 2018

*(In thousands of tenge)*

| | *Share capital* | *Additional paid-in capital* | *Retained earnings* | *Total equity* |
|---|---|---|---|---|
| **As at 1 January 2017** | 10,050,000 | 122,037 | 1,445,174 | 11,617,211 |
| Total comprehensive income for the year | – | – | 694,473 | 694,473 |
| **As at 31 December 2017** | 10,050,000 | 122,037 | 2,139,647 | 12,311,684 |
| Impact of adopting (IFRS) 9 *(Note 4)* | – | – | **(195,212)** | **(195,212)** |
| **Restated balance as at 1 January 2018 under IFRS 9** | **10,050,000** | **122,037** | **1,944,435** | **12,116,472** |
| Total comprehensive income for the year | – | – | **521,667** | **521,667** |
| **As at 31 December 2018** | **10,050,000** | **122,037** | **2,466,102** | **12,638,139** |

*The accompanying notes on page 5 to 46 are an integral part of these financial statements.*

## STATEMENT OF CASH FLOWS

### For the year ended 31 December 2018

*(In thousands of tenge)*

| | Notes | 2018 | 2017 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Revenue received from Islamic finance activities | | **872,452** | 112,427 |
| Interest received | | **65,934** | 976,010 |
| Interest paid | | – | (495) |
| Fees and commissions received | | **262,522** | 56,360 |
| Fees and commissions paid | | **(13,626)** | (26,886) |
| Realised gains less losses from dealing in foreign currencies | | **66,951** | 20,672 |
| Other income received | | **7,262** | 148,565 |
| Personnel expenses paid | | **(236,801)** | (210,663) |
| Other operating expenses paid | | **(377,601)** | (221,181) |
| **Cash flows from operating activities before changes in operating assets and liabilities** | | **647,093** | 854,809 |
| *Net (increase)/decrease in operating assets* | | | |
| Amounts due from credit institutions | | – | (17) |
| Receivables from Islamic finance activities | | **(1,466,416)** | (11,134,615) |
| Loans to customers | | **333,633** | 12,451,943 |
| Finance lease receivables | | – | 476 |
| Bank participation in Wakala and Mudaraba pool | | **201,917** | (1,062,300) |
| Other assets | | **(137,157)** | (68,744) |
| *Net (decrease)/increase in operating liabilities* | | | |
| Amounts due to credit institutions | | **(18,601)** | 542,797 |
| Amounts due to customers | | **1,233,111** | (1,900,639) |
| Amounts due to Wakala and Mudaraba pool | | **6,716** | – |
| Other liabilities | | **14,986** | (8,659) |
| **Net cash flows from/(used in) operating activities before corporate income tax** | | **815,282** | (324,949) |
| Corporate income tax paid | | **(159,536)** | (168,191) |
| **Net cash flows from/(used in) operating activities** | | **655,746** | (493,140) |
| **Cash flows from investing activities** | | | |
| Purchase of property and equipment | 11 | **(9,786)** | (18,223) |
| Purchase of intangible assets | 12 | – | (3,301) |
| **Net cash flows used in investing activities** | | **(9,786)** | (21,524) |
| **Net increase/(decrease) in cash and cash equivalents** | | **645,960** | (514,664) |
| Cash and cash equivalents, as at 1 January | | **1,190,826** | 1,705,490 |
| **Cash and cash equivalents, as at 31 December** | 6 | **1,836,786** | 1,190,826 |

*The accompanying notes on page 5 to 46 are an integral part of these financial statements.*

## 1. Principal activities

Joint Stock Company "Islamic bank "Zaman-Bank" (hereinafter –the "Bank") operates in the Republic of Kazakhstan since 1991 in accordance with the legislation of the Republic of Kazakhstan. In 2017, the Bank was converted into Islamic bank, renamed and officially registered as Joint Stock Company "Islamic bank "Zaman-Bank".

The Bank operates under a general banking license No. 1.3.51 issued by the National Bank of the Republic of Kazakhstan (hereinafter – the "NBRK") on 17 August 2017, which replaces previous licenses.

The Bank is involved in Islamic banking activities and carries out its operations through its head office in Ekibastuz and branch in Almaty. The Bank accepts deposits from the public and conducts finance transactions based on Sharia principles and rules, transfers payments within the Kazakhstan and abroad, exchanges currencies and provides other banking services to legal entities and individuals. The Bank's activity is regulated by the NBRK.

Registered address of the Bank's head office: is 111A Mashhur Zhusup Str., 141206, Ekibastuz, Republic of Kazakhstan.

As at 31 December 2018 and 2017 the following individuals and legal entities were shareholders of the Bank:

| *Shareholder* | *2018 (%)* | *2017 (%)* |
|---|---|---|
| Abguzhinov A.T. | **61.9** | 61.9 |
| Yermembetov A.Sh. | **8.4** | 8.4 |
| Beisembayeva S.E. | **8.3** | 8.3 |
| Svarov Sh.D. | **8.3** | 8.3 |
| Islamic Corporation for the Development of the Private Sector | **5.0** | 5.0 |
| Abguzhinov T.S. | **4.0** | 4.0 |
| Other shareholders, individually holding less than 3% | **4.1** | 4.1 |
| **Total** | **100.0** | 100.0 |

As at 31 December 2018, members of the Board of Directors and the Management Board controlled 991,021 shares or 9.9% of the Bank (in 2017: 6,684,708 shares or 66.5%).

## 2. Basis of preparation

### General

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

The financial statements have been prepared under the historical cost convention except as disclosed in "Summary of significant accounting policies" below. These financial statements are presented in thousands of tenge ("tenge" or "KZT"), except per share amounts and unless otherwise indicated.

### Reclassifications

Following adoption of IFRS 9 *(Note 4)*, the Bank updated presentation of the statement of comprehensive income to present impairment losses determined in accordance with IFRS 9 as a single line item. Accordingly, the following reclassification of impairment charges on credit related commitments have been made to 2017 statement of comprehensive income to conform to the 2018 presentation.

| | *As previously reported* | *Reclassification* | *As adjusted* |
|---|---|---|---|
| Reversal of provision for contingent liabilities | 123,498 | (123,498) | – |
| Credit loss expense | (229,498) | 123,498 | (106,000) |

## 3. Definition of significant terms

### Sharia

Sharia – is the Body of Islamic law and is derived from the Holy Quran and the Sunna'h of Holy Prophet (peace be upon him). The Bank being an Islamic financial institution incorporates the principles and rules of Sharia in its activities, as interpreted by its Islamic Financial Principles Board.

## 3. Definition of significant terms (continued)

### Commodity Murabaha

A method where the Bank purchases a commodity from a Broker and takes ownership and constructive possession of that commodity and then sells it to a customer on a deferred payment basis. The customer then sells the same asset to a third party for immediate delivery and payment, the end result being that the customer receives a cash amount and has a deferred payment obligation for the marked-up price to the Bank. The asset is typically a freely tradable commodity such as platinum or palladium. Gold and silver are treated by Sharia as currency and cannot be used.

### Ijara

Leasing of an identified asset ending with ownership transfer (also known as Ijara Muntahia Bitamleek) – is an agreement whereby the Bank buys an asset according to the customer's intention, presented in an intent notice and then leases it, in its capacity as a lessor, to the customer as lessee for the specified rental over a specific period. The duration of the lease term, as well as the basis for rental, are set and agreed in the lease agreement. The Bank possesses ownership of the asset throughout the lease term. The arrangement could end by transferring the ownership of the asset to the lessee upon completion by the lessee of it obligation during or at the end of the lease term.

### Mudaraba

Mudaraba is a contractual arrangement whereby two or more parties undertake an economic activity. Mudaraba is sharing profits between the party that provided capital and the party that provided its entrepreneurial skills. It may be conducted between an investment account holder as the provider of funds and the Bank as a Mudarib. The Bank announces its willingness to accept the funds of the investment account holder, the sharing of the profits being as agreed between the two parties and the losses being borne by the provider of the funds except if they were due to misconduct, negligence or violation of the conditions agreed upon by the Bank, in which case, such losses would be borne by the Bank.

### Wakala

An agreement whereby the Investor provides a certain sum of money to an agent, who invests it according to specific conditions in return for a certain fee (a lump sum of money or percentage of the amount invested). The agent may be granted any excess over and above a certain pre-agreed expected rate of return as a performance incentive. The agent is obliged to return the invested amount in the case of the agent's negligence or violation of the terms and conditions of the Wakala.

### Qard Hassan

Qard Hassan short-term receivables are non-profit bearing financing receivables whereby the customer borrows funds for a specific time with an understanding that the same amount will be repaid at the end of the agreed period.

### Zakah

Zakah is a right which becomes due in certain types of wealth and disbursable to specific categories of recipients. It is an in rem duty when its conditions are satisfied.

## 4. Summary of significant accounting policies

### Changes in accounting policies

The Bank applied IFRS 15 and IFRS 9 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

The Bank applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2018. The Bank has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective. The nature and the impact of each amendment is described below:

*IFRS 9 Financial Instruments*

*IFRS 9* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods on or after 1 January 2018. The Bank has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as at 1 January 2018 and are disclosed below.

*(In thousands of tenge, unless otherwise indicated)*

## 4. Summary of significant accounting policies (continued)

### Changes in accounting policies (continued)

*IFRS 9 Financial Instruments (continued)*

*(a) Classification and measurement*

Under IFRS 9, all debt financial assets that do not meet a "solely payment of principal and interest" (SPPI) criterion, are classified at initial recognition as fair value through profit or loss (FVPL). Under this criterion, debt instruments that do not correspond to a "basic lending arrangement", such as instruments containing embedded conversion options or "non-recourse" finance instruments, are measured at FVPL. For debt financial assets that meet the SPPI criterion, classification at initial recognition is determined based on the business model, under which these instruments are managed:

- Instruments that are managed on a "hold to collect" basis are measured at amortised cost;
- Instruments that are managed on a "hold to collect and for sale" basis are measured at fair value through other comprehensive income (FVOCI);
- Instruments that are managed on other basis, including trading financial assets, will be measured at FVPL.

Equity financial assets are required to be classified at initial recognition as FVPL unless an irrevocable designation is made to classify the instruments as FVOCI. For equity investments classified as FVOCI, all realised and unrealised gains and losses, except for dividend income, are recognised in other comprehensive income with no subsequent reclassification to profit and loss.

The classification and measurement of financial liabilities remains largely unchanged from the current IAS 39 requirements.

*(b) Impairment*

The adoption of IFRS 9 has fundamentally changed the Bank's accounting for loan impairment by replacing IAS 39 incurred loss approach with a forward-looking expected credit loss (ECL) approach. From 1 January 2018, the Bank has been recording the allowance for expected credit losses for finance instruments and other debt financial assets not held at FVPL, together with finance commitments and financial guarantee contracts. Equity instruments are not subject to impairment under IFRS 9.

The allowance is based on the ECLs associated with the probability of default in the next 12 months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset. Details of the Bank's impairment method are disclosed in *Note 24*.

The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in section (c) below.

*(c) Effect of transition to IFRS 9*

The following tables set out the impact of adopting IFRS 9 on the statement of financial position and retained earnings as at 1 January 2018 including the effect of replacing IAS 39 incurred credit loss calculations with IFRS 9 ECL.

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as at 1 January 2018 is as follows:

| | *IAS 39 Amount* | *Re-measurement ECL* | *IFRS 9 Amount* |
|---|---|---|---|
| **Financial assets** | | | |
| Cash and cash equivalents | 1,190,826 | – | 1,190,826 |
| Receivables from Islamic finance activities | 9,974,418 | (381,563) | 9,592,855 |
| Loans to customers | 877,647 | 163,111 | 1,040,758 |
| Finance lease receivables | 40,901 | (20,450) | 20,451 |
| Bank participation in Wakala and Mudaraba pool | 1,062,300 | – | 1,062,300 |
| | **13,146,092** | **(238,902)** | **12,907,190** |
| **Non-financial assets** | | | |
| Deferred corporate income tax assets | 24,288 | 43,690 | 67,978 |
| **Total assets** | **13,170,380** | **(195,212)** | **12,975,168** |

*(In thousands of tenge, unless otherwise indicated)*

## 4. Summary of significant accounting policies (continued)

**Changes in accounting policies (continued)**

*IFRS 9 Financial Instruments (continued)*

*(c) Effect of transition to IFRS 9 (continued)*

The impact of transition to IFRS 9 on retained earnings is as follows:

| | *Retained earnings* |
|---|---|
| **Retained earnings** | |
| **Closing balance under IAS 39 (31 December 2017)** | 2,139,647 |
| Recognition of IFRS 9 ECLs | **(238,902)** |
| Deferred tax in relation to the above | **43,690** |
| **Restated opening balance under IFRS 9 (1 January 2018)** | **1,944,435** |
| **Total change in equity due to adopting IFRS 9** | **(195,212)** |

The following table reconciles the aggregate opening impairment loss allowances under IAS 39 to the ECL allowances under IFRS 9:

| | *Impairment allowance under IAS 39 at 31 December 2017* | *Re-measurement* | *ECL under IFRS 9 at 1 January 2018* |
|---|---|---|---|
| **Impairment allowance for** | | | |
| Receivables from Islamic finance activities | 1,381,829 | **381,563** | **1,763,392** |
| Loans to customers | 344,303 | **(163,111)** | **181,192** |
| Finance lease receivables | – | **20,450** | **20,450** |
| | 1,726,132 | **238,902** | **1,965,034** |

*IFRS 15 Revenue from Contracts with Customers*

IFRS 15, issued in May 2014, and amended in April 2016, establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. However, the standard does not apply to revenue associated with financial instruments and leases, and therefore, does not impact the majority of the Bank's revenue including profit revenue, gains/(losses) on operations with securities, finance lease receivables which are covered by IFRS 9 *Financial Instruments* and IAS 17 *Leases*. As a result, the majority of the Bank's profit are not impacted by the adoption of this standard.

*IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations*

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or profit (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Bank's financial statements.

**Fair value measurement**

The Bank measures financial instruments such as trading and available-for-sale securities, derivative financial instruments at fair value at the reporting date. Information on fair values of financial instruments measured at amortised cost are disclosed in *Note 25*.

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 fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability;
- In the absence of a principal market, in the most advantageous market for the asset or liability.

## 4. Summary of significant accounting policies (continued)

**Fair value measurement (continued)**

The principal or the most advantageous market must be accessible by the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

**Financial assets and liabilities**

***Initial recognition***

*Date of recognition*

All normal course purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Bank commits to purchase the asset or liability. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

***Initial measurement***

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value and, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount.

*Measurement categories of financial assets and liabilities*

From 1 January 2018, the Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost;
- FVOCI;
- FVPL.

The Bank classifies and measures its derivative and trading portfolio at FVPL. The Bank may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

Financial liabilities, other than finance commitments and financial guarantees, are measured at amortised cost or at FVPL when they are held for trading and are Islamic derivative instruments or the fair value designation is applied.

## 4. Summary of significant accounting policies (continued)

### Financial assets and liabilities (continued)

***Initial measurement (continued)***

*Amounts due from credit institutions, receivables from Islamic finance activities, loans to customers and investments securities at amortised cost*

Before 1 January 2018, amounts due from credit institutions, receivables from Islamic finance activities and loans to customers included non-derivative financial assets with fixed or determinable payments that were not quoted in an active market, other than those:

- That the Bank intended to sell immediately or in the near term;
- That the Bank, upon initial recognition, designated as at FVPL or as available-for-sale;
- For which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration, which were designated as available-for-sale.

From 1 January 2018, the Bank only measures amounts due from credit institutions, receivables from Islamic finance activities, loans to customers and other financial investments at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

The details of these conditions are outlined below.

*Business model assessment*

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment.

The business model assessment is based on reasonably expected scenarios without taking "worst case" or "stress case" scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

*The SPPI test*

As a second step of its classification process the Bank assesses the contractual terms of financial asset to identify whether they meet the SPPI test.

"Principal" for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset.

The most significant elements of profit within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the profit rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and profit on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

## 4. Summary of significant accounting policies (continued)

**Financial assets and liabilities (continued)**

***Initial measurement (continued)***

*Debt instruments at FVOCI*

From 1 January 2018, the Bank applies the new category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets;
- The contractual terms of the financial asset meet the SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in other comprehensive income. Profit revenue and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. On derecognition, cumulative gains or losses previously recognised in other comprehensive income are reclassified from other comprehensive income to profit or loss.

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in other comprehensive income as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in other comprehensive income is recycled to the profit and loss upon derecognition of the asset.

*Equity instruments at FVOCI*

From 1 January 2018, upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit or loss. Dividends are recognised in profit or loss as other income when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in other comprehensive income. Equity instruments at FVOCI are not subject to an impairment assessment. Upon disposal of these instruments, the accumulated revaluation reserve is transferred to retained earnings.

*Financial guarantees and undrawn commitments on receivables from Islamic finance activities*

The Bank issues financial guarantees.

Financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the statement of profit or loss, and – under IAS 37 (before 1 January 2018) – the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee, or – under IFRS 9 (from 1 January 2018) – an ECL provision.

Undrawn commitments on receivables from Islamic finance activities are commitments under which, over the duration of the commitment, the Bank is required to provide financing with pre-specified terms to the customer. Similar to financial guarantee contracts, under IAS 39, a provision was made if they were an onerous contract but, from 1 January 2018, these contracts are in the scope of the ECL requirements.

*Performance guarantees*

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Performance guarantees do not transfer credit risk. The risk under performance guarantee contracts is the possibility that the failure to perform the contractual obligation by another party occurs. Therefore, performance guarantees are not considered financial instruments and thus do not fall in scope of IFRS 9.

## 4. Summary of significant accounting policies (continued)

### Financial assets and liabilities (continued)

***Initial measurement (continued)***

*Receivables from Islamic finance activities and loans to customers*

Loans to customers and receivables from Islamic finance activities, which include receivables under Murabaha agreements, are non-derivative financial assets with fixed payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale but to receive contractual cash flows. Assets are carried at amortised cost using the effective profit rate method. Gains and losses are recognised in the profit or loss when the receivables are derecognised or impaired, as well as through the amortisation process. The Bank's receivables from Islamic finance activities consist of Murabaha receivables. Murabaha receivables are stated at amortised cost less any allowance for impairment.

Islamic finance activities are funded from two sources: 1) the Bank's own funds which are accounted on balance sheet; and 2) funds received under Wakala and Mudaraba agreements. Under the terms of Wakala and Mudaraba agreements the Bank bears no risk and such funds are accounted off balance sheet. In case of early termination or maturity of the Wakala and Mudaraba agreements, which may give potential maturity mismatches in assets, funding shortages arising in the respective pool could be financed by the Bank from its own funds and accounted on statement of financial position as asset.

### Reclassification of financial assets and liabilities

From 1 January 2018, the Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank changes the business model for managing financial assets. Financial liabilities are never reclassified.

### Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the NBRK and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

### Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to other banks and amounts due to customers. After initial recognition, borrowings are subsequently measured at amortised cost using the effective profit rate. Gains and losses are recognised in profit or loss when borrowings are derecognised, as well as through the amortisation process.

### Leases

*Finance – Bank as lessor*

The Bank recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

*Operating – Bank as lessee*

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into other operating expenses.

*(In thousands of tenge, unless otherwise indicated)*

## 4. Summary of significant accounting policies (continued)

### Offsetting of financial assets

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- The normal course of business;
- The event of default; and
- The event of insolvency or bankruptcy of the entity and all of the counterparties.

These conditions are not generally met in master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

### Renegotiated finance instruments

Where possible, the Bank seeks to restructure finance instruments rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new finance conditions.

From 1 January 2018, the Bank derecognises a financial asset, such as finance instruments to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes new finance instruments, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised finance instruments are classified as Stage 1 for ECL measurement purposes, unless the new finance instruments are deemed to be POCI. When assessing whether or not to derecognise finance instruments to a customer, amongst others, the Bank considers the following factors:

- Change in currency of the finance instruments;
- Change in counterparty;
- If the modification is such that the instrument would no longer meet the SPPI criterion.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original effective profit rate, the Bank records a modification gain or loss, presented within the statement of profit or loss, to the extent that an impairment loss has not already been recorded.

For modifications not resulting in derecognition, the Bank also reassesses whether here has been a significant increase in credit risk or whether the assets should be classified as credit-impaired. Once an asset has been classified as credit-impaired as the result of modification, it will remain in Stage 3 for a minimum 12-month probation period. In order for the restructured finance instruments to be reclassified out of Stage 3, regular payments of more than an insignificant amount of principal or profit have been made during the whole probation period in accordance with the modified payment schedule.

### Impairment of financial assets under IAS 39

Before 1 January 2018, the Bank assessed at each reporting date whether there was any objective evidence that a financial asset or a group of financial assets was impaired. A financial asset or a group of financial assets was deemed to be impaired if, and only if, there was objective evidence of impairment as a result of one or more events that had occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or the group of financial assets that could be reliably estimated. Evidence of impairment may have included indications that the borrower or a group of borrowers was experiencing significant financial difficulty, default or delinquency in profit or principal payments, the probability that they would enter bankruptcy or other financial reorganisation and where observable data indicated that there was a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlated with defaults. For available-for-sale financial instruments, evidence of impairment also included significant or prolonged decline in fair value of investment below its cost.

The Bank assessed whether objective evidence of impairment existed individually for financial assets that were individually significant, or collectively for financial assets that were not individually significant.

## 4. Summary of significant accounting policies (continued)

### Impairment of financial assets under IAS 39 (continued)

If there was an objective evidence that an impairment loss had been incurred, the amount of the loss was measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred), discounted using original effective profit rate, or, for financial assets available-for-sale, as the difference between cost of investment and its fair value. The carrying amount of the asset was reduced and the amount of the loss was recognised in profit or loss. Profit revenue continued to be accrued on the reduced carrying amount based on the original effective profit rate of the asset, or, for financial assets available-for-sale, using the rate of profit used to discount the future cash flows for the purpose of measuring the impairment loss.

Assets together with the associated allowance were written off when there is no realistic prospect of future recovery and all collateral had been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss decreased because of an event occurring after the impairment had been recognised, the previously recognised impairment loss was reversed in statement of profit or loss, except for equity investments available-for-sale, for which increase in their fair value after impairment were recognised in other comprehensive income.

For the purpose of a collective evaluation of impairment, financial assets were grouped on the basis of the Bank's internal credit grading system that considered credit risk characteristics such as asset type, past-due status and other relevant factors.

Information on impairment assessment under IFRS 9 is presented in *Note 24*.

### Derecognition of financial assets and liabilities

#### *Financial assets*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired;
- The Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and
- The Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar allowance) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar allowance) on an asset measured at fair value. The extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

*Write-off*

From 1 January 2018, financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense. A write-off constitutes a derecognition event.

#### *Financial liabilities*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same creditor on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

*(In thousands of tenge, unless otherwise indicated)*

## 4. Summary of significant accounting policies (continued)

### Taxation

Current corporate income tax expense is calculated in accordance with the regulations of the Republic of Kazakhstan.

Deferred corporate income tax assets and liabilities are calculated in respect of all temporary differences using the liability method. Deferred corporate income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, except where the deferred corporate income tax arises from the initial recognition of an asset or liability in a transaction that at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred corporate income tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred corporate income tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

The Republic of Kazakhstan also has various operating taxes that are assessed on the Bank's activities. These taxes are included as a component of other operating expenses in the statement of comprehensive income.

### Property and equipment

Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes cost of replacing part of the equipment when that cost is incurred if the recognition criteria are met.

Carrying amount of property and equipment is reviewed for impairment when events or changes in circumstances indicate that carrying amount may not be recoverable.

Depreciation of an asset begins when it is substantially available for use. Depreciation is calculated on a straight-line basis over the following estimated rates:

| | *Depreciation rates* |
|---|---|
| Computers and office equipment | 20-50% |
| Vehicles | 15-20% |
| Furniture | 15-20% |

Asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalisation.

### Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 1 to 7 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

### Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, and 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 obligation can be made.

### Retirement and other employee benefit obligations

The Bank does not have any pension arrangements separate from the State pension system of the Republic of Kazakhstan, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Bank has no significant post-retirement benefits.

## 4. Summary of significant accounting policies (continued)

### Share capital

*Share capital*

Common shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

*Dividends*

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue.

### Contingent assets and liabilities

Contingent liability is not recognised in the statement of financial position but is disclosed unless the possibility of any outflow in settlement is remote. Contingent asset is not recognised in the statement of financial position but is disclosed when an inflow of economic benefits is almost certain.

### Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

*Profit and similar revenue and expense*

From 1 January 2018, the Bank calculates profit revenue on debt financial assets measured at amortised cost or at FVOCI by applying the effective profit rate to the gross carrying amount of financial assets other than credit-impaired assets (before 1 January 2018: by applying effective profit rate to the amortised cost of financial assets). Effective profit rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective profit rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original profit rate and the change in carrying amount is recorded as profit revenue or expense.

When a financial asset becomes credit-impaired, the Bank calculates profit revenue by applying the effective profit rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Bank reverts to calculating profit revenue on a gross basis.

For purchased or originated credit-impaired (POCI) financial assets, the Bank calculates profit revenue by calculating the credit-adjusted effective profit rate and applying that rate to the amortised cost of the asset. The credit-adjusted effective profit rate is the profit rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI assets.

*Fee and commission income*

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- *Fee and commission income earned from services that are provided over a certain period of time*

Fee and commission income obtained for rendering the services during a certain period of time are accrued during this period. These items include commission income and fees for the issuance of guarantees and letters of credit. Finance instruments commitment fees for finance instruments that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective profit rate on the finance instruments.

## 4. Summary of significant accounting policies (continued)

### Recognition of income and expenses (continued)

*Fee and commission income (continued)*

- *Fee and commission income from providing transaction services*

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as where the Bank's performance obligation is the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees that are linked to certain performance obligations are recognised after fulfilling the corresponding criteria. When the contract provides for a variable consideration, fee and commission income is only recognised to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognised will not occur until the uncertainty associated with the variable consideration is subsequently resolved.

### Foreign currency translation

The financial statements are presented in tenge, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency rate established by the Kazakhstan Stock Exchange (hereinafter – the "KASE") and communicated by the NBRK ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of comprehensive income as gains/(losses) from transactions in foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the market exchange rate quoted by KASE on the date of the transaction are included in gains/(losses) from transactions in foreign currencies. The market exchange rates quoted by KASE as at 31 December 2018 and 2017 were KZT 384.2 and KZT 332.33 to 1 USD, respectively.

### Standards and interpretations issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Bank's financial statements are listed below. The Bank intends, if necessary, to adopt these standards when they become effective.

*IFRS 16 Leases*

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of "low-value" assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the profit expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

The Bank plans to adopt IFRS 16 retrospectively with the cumulative effect of initially applying IFRS 16 recognised at the date of initial application. The Bank will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Bank will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

## 4. Summary of significant accounting policies (continued)

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

*IFRS 16 Leases (continued)*

The Bank will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

The Bank is in the process of quantifying effect of adoption of IFRS 16; however, no reasonable estimate of this effect is yet available.

*IFRS 17 Insurance Contracts*

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach);
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Bank.

*IFRIC Interpretation 23 Uncertainty over Income Tax Treatment*

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to profit and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- How an entity considers changes in facts and circumstances.

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Bank will apply the interpretation from its effective date. Since the Bank does not operate in a complex tax environment, the Bank does not expect any effect on its financial statements.

*Amendments to IFRS 9: Prepayment Features with Negative Compensation*

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are "solely payments of principal and profit on the principal amount outstanding" (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the financial statements of the Bank.

*(In thousands of tenge, unless otherwise indicated)*

## 4. Summary of significant accounting policies (continued)

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

*Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. These amendments have no impact on the financial statements of the Bank.

*Amendments to IAS 19: Plan Amendment, Curtailment or Settlement*

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event;
- Determine net profit for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net profit, is recognised in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments have no impact on the financial statements of the Bank.

*Amendments to IAS 28: Long-term interests in associates and joint ventures*

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 *Investments in Associates and Joint Ventures*.

The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. Since the Bank does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on the financial statements of the Bank.

### *Annual improvements 2015-2017 cycle (issued in December 2017)*

These improvements include:

*IFRS 3 Business Combinations*

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held profit in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments will apply on future business combinations of the Bank.

*(In thousands of tenge, unless otherwise indicated)*

## 4. Summary of significant accounting policies (continued)

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

***Annual improvements 2015-2017 cycle (issued in December 2017) (continued)***

*IFRS 11 Joint Arrangements*

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments are currently not applicable to the Bank but may apply to future transactions.

*IAS 12 Income Taxes*

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Bank's current practice is in line with these amendments, the Bank does not expect any effect on its financial statements.

*IAS 23 Financing Costs*

The amendments clarify that an entity treats as part of general financing any financing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to obligor costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Bank's current practice is in line with these amendments, the Bank does not expect any effect on its financial statements.

## 5. Significant accounting judgments and estimates

**Estimation uncertainty**

In the process of applying the Bank's accounting policies, management has used its judgments and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgments and estimates are as follows:

*Expected credit losses*

The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's internal financing grading model, which assigns PDs to the individual grades;
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulae and the choice of inputs;
- Determination of associations between macroeconomic scenarios and economic inputs such as GDP growth and financial condition of the borrower, and the effect on PDs, EADs and LGDs.

*(In thousands of tenge, unless otherwise indicated)*

## 5. Significant accounting judgments and estimates (continued)

**Estimation uncertainty (continued)**

*Taxation*

Republic of Kazakhstan currently has a single Tax Code that regulates main taxation matters. The existing taxes include value added tax, corporate income tax, social and other taxes. Implementation of regulations are often unclear or nonexistent and insignificant amount of precedents has been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organisations; thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and forfeits. These facts create tax risks in Kazakhstan substantially more significant than typically found in countries with more developed tax systems.

Management believes that the Bank is in compliance with the tax laws of the Republic of Kazakhstan regulating its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretive tax issues.

## 6. Cash and cash equivalents

As at 31 December cash and cash equivalents comprise the following:

| | *2018* | *2017* |
|---|---|---|
| Cash on hand | **193,922** | 54,516 |
| Current accounts with the NBRK | **87,884** | 264,311 |
| Current accounts with other banks | **1,554,980** | 871,999 |
| **Cash and cash equivalents** | **1,836,786** | 1,190,826 |

Under legislation of the Republic of Kazakhstan, the Bank is required to maintain certain obligatory reserves, which are computed as a percentage of certain liabilities of the Bank. Such reserves must be held on current accounts with the NBRK or cash on hand based on average monthly balances of the aggregate of cash balances on current accounts with the NBRK or cash on hand in national and foreign currencies during the period of reserve creation. However, the Bank is not restricted from using these funds in its day-to-day operations.

As at 31 December 2018, obligatory reserves were equal to KZT 75,609 thousand (as at 31 December 2017: KZT 38,997 thousand).

Cash and cash equivalents are neither past due nor impaired.

## 7. Receivables from Islamic finance activities

As at 31 December, receivables from Islamic finance activities comprise the following:

| | *2018* | *2017* |
|---|---|---|
| Receivables under Commodity Murabaha agreements – corporate | **13,687,007** | 11,330,653 |
| Qard Hassan | **6,110** | 22,615 |
| Receivables under Commodity Murabaha agreements – retail | **1,691** | 2,979 |
| **Gross receivables from Islamic finance activities at amortised cost** | **13,694,808** | 11,356,247 |
| | | |
| Less: allowance for impairment | **(1,807,961)** | (1,381,829) |
| **Receivables from Islamic finance activities** | **11,886,847** | 9,974,418 |

In 2017, the Bank fully completed the process of its conversion from commercial banking model to Islamic banking model. As a result of conversion to Islamic banking model, more than 90% of loans to customers were converted to Islamic banking products (such as, receivables under Commodity Murabaha agreements – corporate and retail, and Qard Hassan).

In 2018, loans to customers with a total gross carrying amount of KZT 802,971 thousand, for which an allowance for impairment was recognised in the amount of KZT 184,674 thousand, were transferred to receivables from Islamic finance activities *(Note 8)*.

As at 31 December 2018, receivables from Islamic finance activities bear profit rate of 8.0%-17.6% per annum (as at 31 December 2017: 5.5%-16.0% per annum) and mature in 2019-2028 (as at 31 December 2017: in 2018-2024).

*(In thousands of tenge, unless otherwise indicated)*

## 7. Receivables from Islamic finance activities (continued)

### Allowance for impairment

An analysis of changes in the gross carrying value and corresponding ECL in relation to receivables under Commodity Murabaha agreements – corporate during the year ended 31 December 2018 is as follows:

| *Receivables under Commodity Murabaha agreements – corporate* | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|---|
| **Gross carrying value as at 1 January 2018** | 1,879,980 | 5,969,090 | 3,481,583 | 11,330,653 |
| New assets originated | **5,650,011** | – | – | **5,650,011** |
| Assets repaid | **(653,530)** | **(2,676,729)** | **(752,817)** | **(4,083,076)** |
| Transfers to Stage 1 | **327,648** | **(327,648)** | – | – |
| Transfers to Stage 2 | **(6,745,909)** | **7,097,043** | **(351,134)** | – |
| Transfers to Stage 3 | – | **(4,070,938)** | **4,070,938** | – |
| Changes to contractual cash flows due to modifications not resulting in derecognition | – | – | **(13,552)** | **(13,552)** |
| Transfer from loans to customers *(Note 8)* | – | **802,971** | – | **802,971** |
| **As at 31 December 2018** | **458,200** | **6,793,789** | **6,435,018** | **13,687,007** |

| *Receivables under Commodity Murabaha agreements – corporate* | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|---|
| **ECL as at 1 January 2018** | (413) | (47,315) | (1,715,586) | (1,763,314) |
| New assets originated | **(11,608)** | – | – | **(11,608)** |
| Assets repaid | **1,244** | **57,706** | **751,984** | **810,934** |
| Transfers to Stage 1 | **(7,287)** | **7,287** | – | – |
| Transfers to Stage 2 | **22,499** | **(35,799)** | **13,300** | – |
| Transfers to Stage 3 | – | **180,314** | **(180,314)** | – |
| Net change in ECL during the year | **(5,419)** | **(308,175)** | **(543,409)** | **(857,003)** |
| Changes due to modifications not resulting in derecognition | – | – | **13,552** | **13,552** |
| Transfer from loans to customers *(Note 8)* | – | **(481)** | – | **(481)** |
| **As at 31 December 2018** | **(984)** | **(146,463)** | **(1,660,473)** | **(1,807,920)** |

An analysis of changes in the gross carrying value and corresponding ECL in relation to Qard Hassan during the year ended 31 December 2018 is as follows:

| *Qard Hassan* | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|---|
| **Gross carrying value as at 1 January 2018** | 22,615 | – | – | 22,615 |
| Assets repaid | **(16,505)** | – | – | **(16,505)** |
| Transfers to Stage 2 | **(4,296)** | **4,296** | – | – |
| Transfers to Stage 3 | – | **(3,965)** | **3,965** | – |
| **As at 31 December 2018** | **1,814** | **331** | **3,965** | **6,110** |

| *Qard Hassan* | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|---|
| **ECL as at 1 January 2018** | (64) | – | – | (64) |
| Assets repaid | **33** | – | – | **33** |
| Transfers to Stage 2 | **12** | **(12)** | – | – |
| Transfers to Stage 3 | – | **11** | **(11)** | – |
| **As at 31 December 2018** | **(19)** | **(1)** | **(11)** | **(31)** |

An analysis of changes in the gross carrying value and corresponding ECL in relation to receivables under Commodity Murabaha agreements – retail during the year ended 31 December 2018 is as follows:

| *Commodity Murabaha agreements – retail* | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|---|
| **Gross carrying value as at 1 January 2018** | 2,979 | – | – | 2,979 |
| Assets repaid | **(1,288)** | – | – | **(1,288)** |
| **As at 31 December 2018** | **1,691** | – | – | **1,691** |

| *Commodity Murabaha agreements – retail* | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|---|
| **ECL as at 1 January 2018** | (14) | – | – | (14) |
| Assets repaid | **4** | – | – | **4** |
| **As at 31 December 2018** | **(10)** | – | – | **(10)** |

*(In thousands of tenge, unless otherwise indicated)*

## 7. Receivables from Islamic finance activities (continued)

### Allowance for impairment (continued)

Movement in the allowance for impairment of receivables from Islamic finance activities during the year ended 31 December 2017 is as follows:

| | *Receivables from Islamic finance activities* |
|---|---|
| **As at 1 January 2017** | – |
| Charge for the year | (1,378,458) |
| Translation differences | (3,371) |
| **As at 31 December 2017** | (1,381,829) |

### Modified and restructured receivables from Islamic finance activities

The Bank derecognises a financial asset, such as a receivable from Islamic finance activities, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes new finance instruments, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised receivables from Islamic finance activities are classified as Stage 1 for ECL measurement purposes, unless the new receivable from Islamic finance activities is deemed to be POCI.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original effective profit rate, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

The table below includes Stage 2 and 3 assets that were modified during the period, with the related modification loss incurred by the Bank.

| | *2018* |
|---|---|
| **Receivables under Islamic finance activities modified during the year** | |
| Amortised cost before modification | **5,138,652** |
| Net modification loss | **(13,552)** |

### Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

As at 31 December 2018 and 2017, receivables from Islamic finance activities are secured by real estate, movable property, inventory, corporate guarantees and deposits. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for expected credit losses on receivables from Islamic finance activities.

In absence of collateral or other credit enhancements, ECL in respect of Stage 3 receivables from Islamic finance activities as at 31 December 2018 would have been higher by:

| | *2018* |
|---|---|
| Commodity Murabaha – corporate | **3,124,118** |
| Qard Hassan | **3,945** |
| | **3,128,063** |

*(In thousands of tenge, unless otherwise indicated)*

## 7. Receivables from Islamic finance activities (continued)

### Concentration of receivables from Islamic finance activities

As at 31 December 2018 and 2017, the Bank has three counterparties under receivables from Islamic finance activities, whose balances exceed 10% of equity. As at 31 December 2018 total gross value of these balances equals to KZT 4,736,020 thousand (as at 31 December 2017: KZT 5,087,930 thousand). An allowance of KZT 530,331 thousand (as at 31 December 2017: KZT 882,812 thousand) was recognised against these receivables.

Receivables arise from Islamic finance activities which are made within the Republic of Kazakhstan in the following industry sectors:

| | *2018* | *2017* |
|---|---|---|
| Construction and maintenance | **2,990,361** | 2,868,949 |
| Trade | **2,341,626** | 2,390,571 |
| Engineering | **1,692,639** | 1,464,340 |
| Industrial production | **1,669,241** | 208,215 |
| Services | **1,251,878** | 483,164 |
| Agriculture and food processing | **673,986** | 793,086 |
| Transport | **573,198** | 1,057,734 |
| Metal goods manufacturing | **437,537** | 411,453 |
| Individuals and entrepreneurs | **7,760** | 25,594 |
| Other | **248,621** | 271,312 |
| **Receivables from Islamic finance activities** | **11,886,847** | 9,974,418 |

## 8. Loans to customers

As at 31 December loans to customers comprise the following:

| | *2018* | *2017* |
|---|---|---|
| Corporate lending | **62,561** | 1,213,106 |
| Lending to individual entrepreneurs | **–** | 8,844 |
| **Gross loans to customers at amortised cost** | **62,561** | 1,221,950 |
| | | |
| Less: allowance for impairment | **(17,754)** | (344,303) |
| **Loans to customers** | **44,807** | 877,647 |

### Allowance for impairment

An analysis of changes in the gross carrying value and corresponding ECL in relation to corporate lending during the year ended 31 December 2018 is as follows:

| *Corporate lending* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|
| **Gross carrying value as at 1 January 2018** | 802,971 | 418,979 | 1,221,950 |
| Assets repaid | **–** | **(347,622)** | **(347,622)** |
| Transfer to receivables from Islamic finance activities *(Note 7)* | **(802,971)** | **–** | **(802,971)** |
| Amounts written off | **–** | **(8,796)** | **(8,796)** |
| **As at 31 December 2018** | **–** | **62,561** | **62,561** |

| *Corporate lending* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|
| **ECL as at 1 January 2018** | (481) | (180,711) | (181,192) |
| Assets repaid | **–** | **205,526** | **205,526** |
| Net change in ECL during the year | **–** | **(51,365)** | **(51,365)** |
| Transfer to receivables from Islamic finance activities *(Note 7)* | **481** | **–** | **481** |
| Amounts written off | **–** | **8,796** | **8,796** |
| **As at 31 December 2018** | **–** | **(17,754)** | **(17,754)** |

*(In thousands of tenge, unless otherwise indicated)*

## 8. Loans to customers (continued)

### Allowance for impairment (continued)

Movements in the allowance for impairment of loans to customers during the year ended 31 December 2017 is as follows:

| | *Corporate lending* | *Lending to individual entrepreneurs* | *Total* |
|---|---|---|---|
| **As at 1 January 2017** | (1,434,222) | (59,041) | (1,493,263) |
| Reversal for the year | 1,093,865 | 55,095 | 1,148,960 |
| **As at 31 December 2017** | (340,357) | (3,946) | (344,303) |

### Collateral and other credit enhancements

The amount and type of collateral required by the Bank depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties, inventory and other;
- For retail lending, mortgages over residential properties.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

In absence of collateral or other credit enhancements, ECL in respect of Stage 3 loans to customers as at 31 December 2018 would have been higher by:

| | *2018* |
|---|---|
| Loans to customers | **44,807** |
| | **44,807** |

### Concentration of loans to customers

As at 31 December 2018 and 2017, the Bank has no counterparties, whose loan balances exceed 10% of equity.

Loans to customers are made within the Republic of Kazakhstan in the following industry sectors:

| | *2018* | *2017* |
|---|---|---|
| Agriculture and food processing | **44,807** | 32,580 |
| Engineering | – | 406,714 |
| Services | – | 298,406 |
| Trade | – | 135,048 |
| Individuals and entrepreneurs | – | 4,899 |
| | **44,807** | 877,647 |

## 9. Finance lease receivables

The analysis of finance lease receivables as at 31 December 2017 is as follows:

| | *2017* | |
|---|---|---|
| | *Not later than 1 year* | *Total* |
| **Gross investment in finance lease** | 41,272 | 41,272 |
| Unearned future finance income on finance leases | (371) | (371) |
| **Net investment in finance lease** | 40,901 | 40,901 |
| **Finance lease receivables as at 31 December 2017** | 40,901 | 40,901 |

*(In thousands of tenge, unless otherwise indicated)*

## 9. Finance lease receivables (continued)

### Allowance for impairment

An analysis of changes in the gross carrying value and corresponding ECL in relation to finance lease receivables during the year ended 31 December 2018 is as follows:

| *Finance lease receivables* | *Stage 3* | *Total* |
|---|---|---|
| **Gross carrying value as at 1 January 2018** | 40,901 | 40,901 |
| Amounts written off | **(40,901)** | **(40,901)** |
| **As at 31 December 2018** | **–** | **–** |

| *Finance lease receivables* | *Stage 3* | *Total* |
|---|---|---|
| **ECL as at 1 January 2018** | (20,450) | (20,450) |
| Net change in ECL during the year | **(20,451)** | **(20,451)** |
| Amounts written off | **40,901** | **40,901** |
| **As at 31 December 2018** | **–** | **–** |

## 10. Bank participation in Wakala and Mudaraba pool

Investments in Wakala and Mudaraba pools are investments of the Bank in assets financed by the Wakala and Mudaraba pools and are governed by the pool allocation and financing rules. Given the potential mismatch between assets and depositors investments owing to early termination or maturity of respective deposits, shortages arising in a pool could be financed from the Bank's own funds. As at 31 December 2018, carrying amount of the Bank's participation in Wakala and Mudaraba pool was equal to KZT 756,247 thousand (as at 31 December 2017: KZT 1,062,300 thousand).

## 11. Property and equipment

Movements in property and equipment were as follows:

| | *Computers and office equipment* | *Vehicles* | *Furniture* | *Total* |
|---|---|---|---|---|
| **Cost** | | | | |
| **At 31 December 2016** | 38,684 | 6,584 | 15,819 | 61,087 |
| Additions | 12,301 | – | 5,922 | 18,223 |
| Disposals | (7,367) | – | (2,768) | (10,135) |
| **At 31 December 2017** | 43,618 | 6,584 | 18,973 | 69,175 |
| Additions | **2,340** | **–** | **7,446** | **9,786** |
| Disposals | **(24,616)** | **(6,584)** | **(10,980)** | **(42,180)** |
| **At 31 December 2018** | **21,342** | **–** | **15,439** | **36,781** |
| **Accumulated depreciation** | | | | |
| **At 31 December 2016** | (24,955) | (4,719) | (9,184) | (38,858) |
| Charge for the year | (9,899) | (1,317) | (4,348) | (15,564) |
| Disposals | 7,368 | – | 2,539 | 9,907 |
| **At 31 December 2017** | (27,486) | (6,036) | (10,993) | (44,515) |
| Charge for the year | **(7,679)** | **(548)** | **(3,432)** | **(11,659)** |
| Disposals | **24,616** | **6,584** | **10,862** | **42,062** |
| **At 31 December 2018** | **(10,549)** | **–** | **(3,563)** | **(14,112)** |
| **Net book value** | | | | |
| **At 31 December 2016** | 13,729 | 1,865 | 6,635 | 22,229 |
| **At 31 December 2017** | 16,132 | 548 | 7,980 | 24,660 |
| **At 31 December 2018** | **10,793** | **–** | **11,876** | **22,669** |

*(In thousands of tenge, unless otherwise indicated)*

## 12. Intangible assets

Movements in intangible assets were as follows:

| | *Computer software and licenses* |
|---|---|
| **Cost** | |
| **At 31 December 2016** | 47,486 |
| Additions | 3,301 |
| Disposals | (23,718) |
| **At 31 December 2017** | 27,069 |
| | |
| Additions | – |
| Disposals | **(4,000)** |
| **At 31 December 2018** | **23,069** |
| | |
| **Accumulated amortisation** | |
| **At 31 December 2016** | (32,700) |
| Charge for the year | (7,983) |
| Disposals | 23,717 |
| **At 31 December 2017** | (16,966) |
| | |
| Charge for the year | **(4,539)** |
| Disposals | **4,000** |
| **At 31 December 2018** | **(17,505)** |
| | |
| **Net book value** | |
| **At 31 December 2016** | 14,786 |
| **At 31 December 2017** | 10,103 |
| **At 31 December 2018** | **5,564** |

## 13. Inventory

As at 31 December 2018 and 2017, inventories comprise real estate property repossessed by the Bank from a borrower who failed to meet its obligations to repay a loan to the Bank.

## 14. Taxation

The corporate income tax expense comprises:

| | *2018* | *2017* |
|---|---|---|
| Current corporate income tax charge | **110,896** | 163,210 |
| Deferred corporate income tax charge – origination and reversal of temporary differences | **60,401** | 12,113 |
| **Corporate income tax expense** | **171,297** | 175,323 |

The Republic of Kazakhstan is the only tax jurisdiction in which the Bank's income is taxable. In accordance with tax legislation the applied corporate income tax rate is 20.0% in 2018 and 2017.

As at 31 December 2018, current corporate income tax assets comprised KZT 53,621 thousand (as at 31 December 2017: KZT 4,981 thousand).

*(In thousands of tenge, unless otherwise indicated)*

## 14. Taxation (continued)

The reconciliation between the corporate income tax expense in the accompanying financial statements and profit before corporate income tax multiplied by the statutory tax rate for the years ended 31 December is as follows:

| | *2018* | *2017* |
|---|---|---|
| **Profit before corporate income tax expense** | **692,964** | 869,796 |
| Statutory tax rate | **20%** | 20% |
| **Theoretical corporate income tax expense at the statutory rate** | **138,593** | 173,959 |
| | | |
| **Non-taxable income** | | |
| Non-deductible credit loss expenses | **13,250** | – |
| Non-deductible administrative expenses | **3,746** | 1,377 |
| Non-taxable finance income on finance lease | – | (13) |
| Other non-deductible expenses | **15,708** | – |
| **Corporate income tax expense** | **171,297** | 175,323 |

Deferred corporate income tax assets and liabilities as at 31 December and their movements for the respective years comprise:

| | *2016* | *Origination and reversal of temporary differences in profit or loss* | *2017* | *Effect of adoption of IFRS 9 (Note4)* | *Origination and reversal of temporary differences in profit or loss* | *2018* |
|---|---|---|---|---|---|---|
| **Tax effect of deductible temporary differences** | | | | | | |
| Receivables from Islamic finance activities | – | 15,708 | 15,708 | **76,312** | **(92,020)** | – |
| Property and equipment and intangible assets | 1,676 | 1,202 | 2,878 | – | **501** | **3,379** |
| Accrued bonuses | 3,809 | (1,109) | 2,700 | – | **(1,982)** | **718** |
| Accrued expenses on unused vacations | 2,027 | (433) | 1,594 | – | **(141)** | **1,453** |
| Accrued expenses on professional services | 1,086 | 109 | 1,195 | – | **620** | **1,815** |
| Other taxes | – | 213 | 213 | – | **(1)** | **212** |
| Receivables on re-assigned loans | 28,003 | (28,003) | – | – | – | – |
| Time deposits | 99 | (99) | – | – | – | – |
| **Deferred corporate income tax assets** | 36,700 | (12,412) | 24,288 | **76,312** | **(93,023)** | **7,577** |
| | | | | | | |
| **Tax effect of taxable temporary differences** | | | | | | |
| Loans to customers | (299) | 299 | – | **(32,622)** | **32,622** | – |
| **Deferred corporate income tax liabilities** | (299) | 299 | – | **(32,622)** | **32,622** | – |
| **Net deferred corporate income tax assets/(liabilities)** | 36,401 | (12,113) | 24,288 | **43,690** | **(60,401)** | **7,577** |

## 15. Other assets and liabilities

As at 31 December other assets comprise the following:

| | *2018* | *2017* |
|---|---|---|
| Prepaid expenses on software and information and consulting services | **207,492** | 85,338 |
| Prepayments for goods and services | **15,528** | 9,323 |
| Commissions receivables | **6,966** | 7,211 |
| Other | **14,541** | 10,406 |
| **Other assets** | **244,527** | 112,278 |

*(In thousands of tenge, unless otherwise indicated)*

## 15. Other assets and liabilities (continued)

As at 31 December other liabilities comprise the following:

| | *2018* | *2017* |
|---|---|---|
| Professional fees payable | **9,080** | 5,975 |
| Creditors on guarantees and letters of credit | **8,967** | – |
| Accrued expenses on unused vacations | **7,264** | 7,969 |
| Amounts due to employees | **3,592** | 13,500 |
| Other | **13,180** | 7,048 |
| **Other liabilities** | **42,083** | 34,492 |

## 16. Amounts due to credit institutions

As at 31 December 2018, amounts due to credit institutions comprise amounts held on current accounts of foreign banks and Islamic Corporation for the Development of the Private Sector totaling to KZT 545,869 thousand (as at 31 December 2017: KZT 564,471 thousand) and KZT 31,296 thousand (as at 31 December 2017: KZT 31,295 thousand), respectively.

## 17. Amounts due to customers

As at 31 December amounts due to customers comprise the following:

| | *2018* | *2017* |
|---|---|---|
| Current accounts | **1,685,015** | 516,080 |
| Time deposits | **67,582** | 31,582 |
| **Amounts due to customers** | **1,752,597** | 547,662 |
| | | |
| Held as collateral against guarantees *(Note 20)* | **66,000** | 30,000 |

As at 31 December 2018, amounts due to customers of KZT 1,428,417 thousand (81.5% of total amounts due to customers) were due to the ten largest customers (as at 31 December 2017: KZT 497,100 thousand (90.8% of total amounts due to customers)).

Amounts due to customers as at 31 December included the following:

| | *2018* | *2017* |
|---|---|---|
| **Current accounts** | | |
| Private enterprises | **1,674,400** | 494,782 |
| Individuals | **10,615** | 21,298 |
| | **1,685,015** | 516,080 |
| **Time deposits** | | |
| Private enterprises | **67,582** | 31,582 |
| | **67,582** | 31,582 |
| **Amounts due to customers** | **1,752,597** | 547,662 |

Below is the breakdown of amounts due to customers by industry sectors:

| | *2018* | *2017* |
|---|---|---|
| Trade | **1,447,699** | 220,542 |
| Real estate construction | **151,529** | 56,907 |
| Power generation | **68,166** | 94,768 |
| Individuals | **10,615** | 21,298 |
| Transport and communication | **9,777** | 27,195 |
| Industrial production | **8,344** | 7,129 |
| Agriculture | **6,831** | 2,652 |
| Finance leasing | **3,620** | 6,445 |
| Fuel industry | **2,076** | 106,309 |
| Other | **43,940** | 4,417 |
| **Amounts due to customers** | **1,752,597** | 547,662 |

*(In thousands of tenge, unless otherwise indicated)*

## 18. Equity

As at 31 December 2018, 2017 and 2016, authorised and outstanding 10,000,000 common shares are issued and fully paid by the shareholders of the Bank at placement value of KZT 1,005 per common share.

The share capital of the Bank was contributed by the shareholders in tenge and they are entitled to dividends and any capital distribution in tenge. Each common share entitles to one vote. No dividends were declared or paid during 2018 and 2017.

## 19. Commitments and contingencies

### Political and economic environment

The Republic of Kazakhstan continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Kazakhstan economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government.

In 2018, similar to 2017, the Kazakhstan economy continued to be negatively impacted by volatility in crude oil prices and tenge devaluation. These factors resulted in a reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding further economic growth, which could negatively affect the Bank's future financial position, results of operations and business prospects. The management of the Bank believes that it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances.

### Legal actions and claims

In the ordinary course of business, the Bank is subject to legal actions and complaints. The Bank believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial position or future performance of the Bank.

The Bank assesses the likelihood of material liabilities arising from individual circumstances and makes provision in its financial statements only where it is probable that events giving rise to the liability will occur and the amount of the liability can be reasonably estimated. No provision has been made in these financial statements for any of the above described contingent liabilities.

### Tax contingencies

Various types of legislation and regulations are not always clearly written and their interpretation is subject to the opinions of the local tax inspectors and the Ministry of Finance of the Republic of Kazakhstan. Instances of inconsistent opinions between local, regional and republican tax authorities are not unusual. The current regime of penalties and profit related to reported and discovered violations of Kazakhstan laws, decrees and related regulations are severe. Penalties include confiscation of the amounts at issue (for currency law violations), as well as fines of 50% of the taxes unpaid or more.

The Bank believes that it has paid or accrued all taxes which are applicable. Where legislation concerning the provision of taxes is unclear, the Bank has accrued tax liabilities based on management's best estimate. The Bank's policy is to recognise provisions in the accounting period in which a loss is deemed probable and the amount is reasonably determinable.

Because of the uncertainties associated with the Kazakhstan tax system, the ultimate amount of taxes, penalties and fines, if any, may be in excess of the amount expensed to date and accrued at 31 December 2018. Although such amounts are possible and may be material, it is the opinion of the Bank's management that these amounts are either not probable, not reasonably determinable, or both.

### Financial commitments and contingencies

As at 31 December the Bank's financial commitments and contingencies comprise the following:

| | *2018* | *2017* |
|---|---|---|
| **Credit related commitments** | | |
| Guarantees issued | **1,392,324** | 526,119 |
| Undrawn commitments on receivables from Islamic finance activities | **300,989** | – |
| | **1,693,313** | 526,119 |
| **Operating lease commitments** | | |
| Not later than 1 year | **132,892** | 59,089 |
| | **132,892** | 59,089 |
| **Commitments and contingencies** | **1,826,205** | 585,208 |
| Amounts due to customers held as collateral against guarantees issued | **(66,000)** | (30,000) |
| Provisions for ECL for credit related commitments | **(58,711)** | (49,564) |

*(In thousands of tenge, unless otherwise indicated)*

## 19. Commitments and contingencies (continued)

### Financial commitments and contingencies (continued)

The finance commitments agreements stipulate the right of the Bank to unilaterally withdraw from the agreement should any conditions unfavorable to the Bank arise, including breach of contracts by borrowers, worsening of financial performance and other conditions.

An analysis of changes in the ECLs during the year ended 31 December 2018 is as follows:

| *Guarantees issued* | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|---|
| **ECL as at 1 January 2018** | 430 | 91 | 49,043 | 49,564 |
| Net change in ECL during the year | **403** | **6,851** | **1,893** | **9,147** |
| **As at 31 December 2018** | **833** | **6,942** | **50,936** | **58,711** |

Movements in provisions for commitments and contingencies were as follows:

| | *Guarantees issued* |
|---|---|
| **As at 31 December 2016** | 173,062 |
| Reversal for the year | (123,498) |
| **As at 31 December 2017** | 49,564 |

### Trust activities

The Bank acts in agent capacity for investing amount received under Wakala and act as a Mudarib in Mudaraba agreements as follows:

| | *2018* | *2017* |
|---|---|---|
| ***Mudaraba*** | | |
| **Unutilised portion of Mudaraba deposits at 1 January** | – | – |
| Mudaraba deposits received | **3,209,688** | 1,098,000 |
| Amount utilised for issuance of receivables from Islamic finance activities | **(3,202,972)** | (1,098,000) |
| **Unutilised portion of Mudaraba deposits at 31 December** | **6,716** | – |
| | | |
| Profit accrued on receivables from Islamic finance activities | **131,496** | – |
| **Profit attributable to customers on Wakala and Mudaraba deposits** | **27,140** | – |

The Bank carries no risk for utilised portion of Wakala and Mudaraba deposits except when the deposits are lost due to misconduct, negligence or violation of the conditions agreed upon by the Bank, in which case, such losses would be borne by the Bank. Profit attributable to customers also includes depositors profit reserves and the Zakah due on these reserves. The Bank is discharging this Zakah on behalf of the depositors.

## 20. Credit loss income/(expense)

The table below shows the ECL charges on finance instruments recognised in the statement of comprehensive income for the year ended 31 December 2018:

| | *Notes* | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|---|---|
| Receivables from Islamic finance activities | 7 | **(15,746)** | **(250,469)** | **222,127** | **(44,088)** |
| Loans to customers | 8 | – | – | **154,161** | **154,161** |
| Finance lease receivables | 9 | – | – | **(20,451)** | **(20,451)** |
| Credit related commitments | 19 | **(9,147)** | – | – | **(9,147)** |
| | | **(24,893)** | **(250,469)** | **355,837** | **80,475** |

*(In thousands of tenge, unless otherwise indicated)*

## 21. Net fee and commission income

Net fee and commission income comprises the following:

| | *2018* | *2017* |
|---|---|---|
| Agency fee under Wakala and Mudarib share of profit under Mudaraba agreements | **104,356** | – |
| Guarantees issued | **88,962** | 35,393 |
| Transfer operations | **39,725** | 8,146 |
| Cash operations | **12,994** | 16,216 |
| Customer accounts maintenance | **2,154** | 1,512 |
| Currency conversion operations | **–** | 1,897 |
| Other | **14,824** | 2,494 |
| **Fee and commission income** | **263,015** | 65,658 |
| Transfer operations | **(16,415)** | (8,309) |
| Cash operations | **(2,678)** | (6,052) |
| **Fee and commission expenses** | **(19,093)** | (14,361) |
| **Net fee and commission income** | **243,922** | 51,297 |

## 22. Net gains/(losses) from transactions in foreign currencies

Net gains/(losses) from transactions in foreign currencies comprise the following:

| | *2018* | *2017* |
|---|---|---|
| Gains less losses from currency translation differences | **28,176** | (36,017) |
| Gains less losses from dealing in foreign currencies | **66,951** | 20,672 |
| **Net gains/(losses) from transaction in foreign currencies** | **95,127** | (15,345) |

## 23. Personnel and other operating expenses

Personnel and other operating expenses comprise the following:

| | *2018* | *2017* |
|---|---|---|
| Salaries and bonuses | **202,490** | 180,780 |
| Social security costs | **23,698** | 22,172 |
| **Personnel expenses** | **226,188** | 202,952 |
| Rent | **132,892** | 59,089 |
| Professional services | **63,119** | 41,708 |
| Repair and maintenance | **27,152** | 5,268 |
| Utilities | **24,192** | 4,844 |
| Advertising and marketing | **23,089** | 3,432 |
| Security | **23,026** | 11,703 |
| Depreciation and amortisation *(Notes 11, 12)* | **16,198** | 23,547 |
| Information technology services | **14,652** | 23,024 |
| Business trips | **14,046** | 9,269 |
| Communication | **6,570** | 6,789 |
| Transportation | **4,447** | 3,855 |
| Taxes other than income tax | **4,094** | 7,929 |
| Office supplies | **1,752** | 1,121 |
| Encashment | **1,427** | 220 |
| Representative expenses | **959** | 729 |
| Contributions to Kazakhstan Deposit Insurance Fund JSC | **–** | 3,248 |
| Other | **39,454** | 37,980 |
| **Other operating expenses** | **397,069** | 243,755 |

*(In thousands of tenge, unless otherwise indicated)*

## 24. Risk management

### Introduction

Risk is inherent in the Bank's activities. The Bank manages these risks through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

Risk management process comprises identification, measuring, control and limitation of risks that are carried out by the Bank on a regular basis.

*Risk management structure*

The Board of Directors is ultimately responsible for identifying and controlling risks, however, there are separate independent bodies responsible for managing and monitoring risks.

*Board of Directors*

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

*Management Board*

The Management Board has the responsibility to monitor the overall risk process within the Bank.

*Assets and Liabilities Management Committee*

The Assets and Liabilities Management Committee (hereinafter – "ALMC") has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental liquidity risk issues and manages and monitors relevant risk decisions.

*Risk Management*

The Risk Management Department is responsible for implementing and maintaining risk related procedures to ensure an independent control process.

The main purpose of the Department is generating and functioning of the Bank's effective risk management system providing application of methods of risk detection and control, ensuring effective determination, evaluation and limitation of the Bank's risks considering the type and scope of transactions conducted by the Bank. This unit also ensures the complete capture of the risks in risk measurement and reporting systems.

*Bank Treasury*

The Bank Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

*Internal audit*

Risk management processes throughout the Bank are audited annually by the internal audit function, that examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal audit discusses the results of all assessments with management, and reports its findings and recommendations to the Board of Directors of the Bank.

*Risk measurement and reporting systems*

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

## 24. Risk management (continued)

### Introduction (continued)

*Risk measurement and reporting systems (continued)*

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, the ALMC, and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. Credit committee assesses the appropriateness of the allowance for credit losses on a monthly basis. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

A regular briefing is given to the Management Board and all other relevant employees of the Bank on the utilisation of credit limits, liquidity, plus any other risk developments.

*Risk mitigation*

As part of its overall risk management, the Bank monitors its exposures resulting from changes in profit rates, foreign currencies, credit risks, and exposures arising from forecast transactions.

The Bank actively uses collateral to reduce its credit risks (see below for more detail).

*Excessive risk concentration*

Risk concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Risk concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

### Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

*Credit – related commitments risks*

The Bank makes available to its customers guarantees, which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the guarantees and letters of credit. They expose the Bank to similar risks to finance and these are mitigated by the same control processes and policies.

The carrying amount of components of the statement of financial position without the influence of risk mitigation through the use of master netting agreements and collateral agreements, most accurately reflects the maximum credit exposure on these components.

For more details on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is presented in *Note 7* "Receivables from Islamic finance activities", *Note 8* "Loans to customers" and *Note 19* "Commitments and contingencies".

## 24. Risk management (continued)

### Credit risk (continued)

*Impairment assessment*

From 1 January 2018, the Bank calculates ECL based on several probability-weighted scenarios to measure the expected cash shortfalls discounted at the effective profit rate. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. The mechanics of the ECL calculations are outlined below and the key elements are as follows:

| | |
|---|---|
| PD | The *Probability of Default* is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio. |
| EAD | The *Exposure at Default* is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and profit, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued fines from missed payments. |
| LGD | The *Loss Given Default* is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD. |

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months expected credit loss (12mECL). The 12mECL is the portion of LTECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECL and 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Bank groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

| | |
|---|---|
| Stage 1: | When finance instruments are first recognised, the Bank recognises an allowance based on 12mECL. Stage 1 finance instruments also include facilities where the credit risk has improved and the finance instruments have been reclassified from Stage 2. |
| Stage 2: | When finance instruments have shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL. Stage 2 finance instruments also include facilities, where the credit risk has improved and the finance instruments have been reclassified from Stage 3. |
| Stage 3: | Finance instruments considered credit-impaired. The Bank records an allowance for the LTECL. |
| POCI: | Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and profit revenue is subsequently recognised based on a credit-adjusted effective profit rate. ECL are only recognised or released to the extent that there is a subsequent change in the lifetime expected credit losses. |

*Definition of default and cure*

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 60 days past due on its contractual payments. The Bank considers amounts due from banks defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

*(In thousands of tenge, unless otherwise indicated)*

## 24. Risk management (continued)

### Credit risk (continued)

*Definition of default and cure (continued)*

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Internal rating of the borrower indicating default or near-default;
- Write-off of a portion and/or the entire outstanding amount of the borrower, which was caused by a significant increase in credit risk since financing has been provided;
- A material decrease in the underlying collateral value where the recovery of the finance instruments is expected from the sale of the collateral;
- Restructuring due to deterioration of the financial condition of the borrower;
- Availability of reasonable and reliable information about the significant financial difficulties of the debtor;
- The debtor filing for bankruptcy.

It is the Bank's policy to consider a financial instrument as "cured" and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least twelve consecutive months or when rating of the finance instruments has changed for the better. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

*Internal rating and PD estimation process*

Rating of the financial instrument's quality by borrowers is based on the creditworthiness category (assigned based on the results of analysis of the financial and economic condition of the borrower) to secure financing (collateral), according to the business plan provided (except for retail financing). In addition, the following factors are taken into account: the term of financing, the availability of the client's own funds in the financed project, area of activities, the life of the enterprise, the existence of accounts payable to other enterprises, the borrower's credit history and repayment discipline on current obligations.

Depending on the assigned internal credit ratings, a financial instrument is distributed by levels of impairment for further calculation of expected credit losses taking into account such factors as the presence of the current overdue days, the number of restructurings, the availability of a grace period, information on the intended use/misuse, information on significant financial difficulties, seizures, etc.

*Treasury and interbank relationships*

The Bank had no treasury relationship, which included relations with counterparties, such as broker-dealers, stock exchanges and clearing organisations in the reporting year. In the event of occurrence of these relations, the analysis is carried out by the Finance Department – Treasury.

Borrowers are assessed by the Bank depending on the type of a financial instrument (corporate/retail). Valuation model is used for corporate finance instruments, including that one based on the borrower's accounting data, a forecast of future cash flows, the presented business plan. The borrowers' credit scoring model is used for evaluation of a retail financial instrument.

*Corporate lending*

In corporate financing, borrowers are consistently assessed by the Legal Department, Lending Department and Risk Management Department. Risk assessment is based on various data, such as the financial condition of the borrower, financing collateral, period of financing, assessment of the presented business plan, availability of the client's own funds in the financed project, area of activity, period of existence of the enterprise, accounts payable to other enterprises, credit history of the borrower and repayment discipline on current obligations. The borrower's financial condition is evaluated based on the cash flow forecast, historical financial information, calculation of the probability of bankruptcy, calculation of current financial ratios, such as liquidity ratios, financial leverage (solvency), profitability and debt service.

*(In thousands of tenge, unless otherwise indicated)*

## 24. Risk management (continued)

### Credit risk (continued)

*Corporate lending (continued)*

The Bank's internal credit rating grades are as follows:

| *Internal rating grade* | *Internal rating description* | *Lifetime PD* |
|---|---|---|
| 91-150 | Reliable borrower | 1-5% |
| 71-90 | Borrower with minimum risk | 1-7% |
| 56-70 | Borrower with medium risk | 0-7% |
| 41-55 | Borrower with high risk | 10-27% |
| 40 and below | Borrower with unacceptable risk | 100% |

*Retail financing*

Retail financing includes secured receivables from Islamic financing to individuals. Evaluation of this product is also carried out by assigning the internal rating grade, which is based on the scoring results supported by various qualitative and quantitative characteristics of the borrower, as well as taking into account the analysis of the borrower's financial and economic condition, collateral, the customer's own funds in the financed project, repayment discipline on current obligations. The number of overdue days for each loan is a key factor in calculating the impairment.

*Exposure at default*

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too. To calculate the EAD for a Stage 1 finance instruments, the Bank assesses the possible default events within 12 months for the calculation of the 12mECL. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

The Bank determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of Bank's models.

*Loss given default*

In the event of commercial financing, the LGD indicator is evaluated monthly by the Department for Analysis and Administration of Credit and Deposit Operations and is reviewed by the Bank's Risk Management Department.

The credit risk assessment is based on a standardised LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

The Bank segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics. In the absence of loss data for the past periods, it is allowed to use data for similar groups of financial instruments from second-tier banks of Kazakhstan.

Where appropriate, further recent data and forward-looking economic scenarios are used in order to determine the IFRS 9 LGD rate for each group of financial instruments. When assessing forward-looking information, the expectation is based on multiple scenarios. Examples of key inputs involve changes in collateral values, commodity prices, payment status or other factors that are indicative of losses in the group.

LGD rates are estimated for the Stage 1, Stage 2, Stage 3 and POCI segment of each asset class. The inputs for these LGD rates are estimated and, where possible, calibrated through back testing against recent recoveries. These are repeated for each economic scenario as appropriate.

## 24. Risk management (continued)

### Credit risk (continued)

*Significant increase in credit risk*

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition. The Bank considers an exposure to have significantly increased in credit risk since initial recognition, if one or more indicators of significant financial difficulties of the borrower were identified:

For legal entities:

- The growing trend of losses for the previous period is at least twelve months;
- The adverse value of ratios calculated in accordance with the internal regulatory document, indicating a low level of solvency, a large dependence on borrowed funds;
- The presence of negative equity;
- Stable (over 3 or more reporting periods) decrease in cash flows from the main type of activities, which indicates a decrease in market share, lack of the Bank's confidence that measures taken by the borrower (debtor, co-borrower) are effective for stabilizing the financial condition;
- Provision of financing to the borrower (debtor, co-borrower) for the purpose of repayment of previously provided financing due to deterioration in financial condition of the borrower (debtor, co-borrower).

For legal entities with intended use of financial resources "investment objectives" (investment financing):

- Permanent and (or) significant deterioration in the financial condition of the borrower (co-borrower);
- The measures taken by the borrower (co-borrower) are not effective for stabilising the financial condition;
- Bailout for a period not exceeding 1 (one) year;
- The presence of force majeure, as well as other circumstances that caused the borrower (co-borrower) material damage (in the amount of 6 or more average monthly proceeds from the borrower's main activity), but did not entail the termination of its activities.

The Bank also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming restructured due to credit event. In certain cases, the Bank may also consider that events explained in "Definition of default" section above are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

When estimating ECLs on a collective basis for a group of similar assets, the Bank applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

*Grouping financial assets measured on a collective basis*

Dependent on the factors below, the Bank calculates ECLs either on a collective or on an individual basis.

An individual financial asset is an asset whose gross carrying value at the balance sheet date exceeds 0.2% of equity according to the financial statements, but not less than fifty million tenge, or a financial asset that represents receivables from a related party.

Asset classes where the Bank calculates ECL on an individual basis include:

- All Stage 3 assets, regardless of the class of financial assets;
- Exposures that have been classified as POCI when the original finance instruments were derecognised and new finance instruments were recognised as a result of a credit driven debt restructuring.

Asset classes where the Bank calculates ECL on a collective basis include:

- Stage 1 and 2 retail and corporate lending portfolio.

The Bank groups these exposures into smaller homogeneous portfolios, based on a combination of internal and external characteristics of the finance instruments, for example internal grade, overdue bucket, product type, loan-to-value ratios, or borrower's industry.

*(In thousands of tenge, unless otherwise indicated)*

## 24. Risk management (continued)

### Credit risk (continued)

*Forward-looking information and multiple economic scenarios*

In its ECL models, the Bank relies on a forward looking information of GDP growth for the next year as economic inputs.

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

The Bank obtains the forward-looking information from third party sources (external rating agencies, governmental bodies e.g. central banks, and international financial institutions). Experts of the Bank's Credit Risk Department determine the weights attributable to the multiple scenarios.

*Credit quality per class of financial assets*

The credit quality of financial assets is managed by the Bank internal credit ratings, as described above. The table below shows the credit quality by class of asset for finance related lines in the statement of financial position, based on the Bank's credit rating system.

| | *Notes* | | *Reliable borrower* | *Borrower with minimum risk* | *Borrower with medium risk* | *Borrower with high risk* | *Borrower with unacceptable risk* | *Total* |
|---|---|---|---|---|---|---|---|---|
| Receivables from Islamic finance activities: | 7 | | | | | | | |
| Commodity Murabaha agreements – corporate | | Stage 1 | **457,216** | – | – | – | – | **457,216** |
| | | Stage 2 | – | – | **3,448,012** | **3,199,314** | – | **6,647,326** |
| | | Stage 3 | – | – | **1,945,242** | **2,829,303** | – | **4,774,545** |
| Qard Hassan | | Stage 1 | **1,803** | – | – | – | – | **1,803** |
| | | Stage 2 | – | – | **331** | – | – | **331** |
| | | Stage 3 | – | – | – | **3,945** | – | **3,945** |
| Commodity Murabaha agreements – retail | | Stage 1 | **1,681** | – | – | – | – | **1,681** |
| Loans to customers: | 8 | | | | | | | |
| Corporate lending | | Stage 3 | – | – | – | – | **44,807** | **44,807** |
| Undrawn commitments on receivables from Islamic finance activities | 19 | Stage 1 | **300,000** | – | – | – | – | **300,000** |
| | | Stage 2 | – | – | – | **989** | – | **989** |
| Guarantees issued | 19 | Stage 1 | **784,945** | – | – | – | – | **784,945** |
| | | Stage 2 | – | – | **9,017** | **185,985** | – | **195,002** |
| | | Stage 3 | **69,037** | – | – | **343,340** | – | **412,377** |
| **Total** | | | **1,614,682** | **–** | **5,402,602** | **6,562,876** | **44,807** | **13,624,967** |

The table below shows gross balances under IAS 39 as at 31 December 2017 based on the Bank's internal credit rating system:

| | *Notes* | *Neither past due nor impaired* | | *Past due but not impaired* | *Individually impaired* | *Total* |
|---|---|---|---|---|---|---|
| | | *High grade* | *Standard grade* | | | |
| Cash and cash equivalents except for cash on hand | 6 | 1,136,310 | – | – | – | 1,136,310 |
| Receivables from Islamic finance activities: | 7 | | | | | |
| Commodity Murabaha agreements – corporate | | – | 4,531,898 | – | 6,798,755 | 11,330,653 |
| Qard Hassan | | – | 22,615 | – | – | 22,615 |
| Commodity Murabaha agreements – retail | | – | 2,979 | – | – | 2,979 |
| Loans to customers: | 8 | | | | | |
| Corporate lending | | – | – | – | 1,213,106 | 1,213,106 |
| Lending to individual entrepreneurs | | – | 8,844 | – | – | 8,844 |
| Finance lease receivables | 9 | – | – | 40,901 | – | 40,901 |
| Bank participation in Wakala and Mudaraba pool | 10 | – | 1,062,300 | – | – | 1,062,300 |
| **Total** | | 1,136,310 | 5,628,636 | 40,901 | 8,011,861 | 14,817,708 |

Past due finance instruments to customers include those that are only past due by a few days. An analysis of past due finance instruments, by age, is provided below. The majority of the past due finance instruments are not considered to be impaired.

*(In thousands of tenge, unless otherwise indicated)*

## 24. Risk management (continued)

### Credit risk (continued)

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly.

*Aging analysis of past due but not impaired financial instruments per class of financial assets*

| | *2017* | | |
|---|---|---|---|
| | *Less than 30 days* | *31-90 days* | *Total* |
| Finance lease receivables | – | 40,901 | 40,901 |
| **Total** | – | 40,901 | 40,901 |

See *Note 7* "Receivables from Islamic finance activities" and *Note 8* "Loans to customers" for more detailed information with respect to allowance for impairment of receivables from Islamic finance activities and loans for customers.

The geographical concentration of Bank's financial assets and liabilities as at 31 December is set out below:

| | *2018* | | | *2017* | | |
|---|---|---|---|---|---|---|
| | *Kazakhstan* | *Other countries* | *Total* | *Kazakhstan* | *Other countries* | *Total* |
| **Assets** | | | | | | |
| Cash and cash equivalents | **591,578** | **1,245,208** | **1,836,786** | 625,633 | 565,193 | 1,190,826 |
| Receivables from Islamic finance activities | **11,886,847** | **–** | **11,886,847** | 9,974,418 | – | 9,974,418 |
| Loans to customers | **44,807** | **–** | **44,807** | 877,647 | – | 877,647 |
| Finance lease receivables | **–** | **–** | **–** | 40,901 | – | 40,901 |
| Bank participation in Wakala and Mudaraba pool | **756,247** | **–** | **756,247** | 1,062,300 | – | 1,062,300 |
| Other financial assets | **6,966** | **–** | **6,966** | 7,211 | – | 7,211 |
| **Total financial assets** | **13,286,445** | **1,245,208** | **14,531,653** | 12,588,110 | 565,193 | 13,153,303 |
| **Liabilities** | | | | | | |
| Amounts due to credit institutions | **–** | **577,165** | **577,165** | – | 595,766 | 595,766 |
| Amounts due to customers | **544,678** | **1,207,919** | **1,752,597** | 547,662 | – | 547,662 |
| Amounts due to Wakala and Mudaraba pool | **6,716** | **–** | **6,716** | – | – | – |
| Other financial liabilities | **12,931** | **229** | **13,160** | 19,674 | 331 | 20,005 |
| **Total financial liabilities** | **564,325** | **1,785,313** | **2,349,638** | 567,336 | 596,097 | 1,163,433 |
| **Net position** | **12,722,120** | **(540,105)** | **12,182,015** | 12,020,774 | (30,904) | 11,989,870 |

Credit related assets and liabilities have been based on the country in which the counterparty is located. Cash on hand has been allocated based on the country in which they are physically held. Other countries comprise Russian Federation, European Union countries and Turkey.

### Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base. Management also manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains a cash deposit (obligatory reserve) with the NBRK, the amount of which depends on the level of customer funds attracted.

The Treasury Department is responsible for management of the current open position of the Bank. The Treasury performs the monitoring of the Bank's balance sheet liquidity and any changes thereof. The Bank's liquidity analysis is performed by the Treasury on a monthly basis, and all members of the ALMC are informed appropriately.

*(In thousands of tenge, unless otherwise indicated)*

## 24. Risk management (continued)

**Liquidity risk and funding management (continued)**

The Bank uses internal methodologies to analyse the Bank's liquidity.

The ALMC performs weekly monitoring of liquidity risk by future expected cash flows – gap liquidity analysis. When the liquidity indicators worsen, the ALMC identifies the reasons and determines the strategy to mitigate the risk. The Risk Management Department performs regularly monitoring of compliance with the liquidity requirements determined by the Liquidity Management Policy, such as immediate, current, short-term, common and expected liquidity ratios.

The Board of Directors and the Management Board of the Bank, receive the information on the Bank's current liquidity at least on monthly basis and, when the current or expected liquidity positions worsen, on immediate basis.

*Analysis of financial liabilities by remaining contractual maturities*

The tables below summarise the maturity profile of the Bank's financial liabilities at 31 December based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

| | | | *2018* | | |
|---|---|---|---|---|---|
| ***Financial liabilities*** | ***Less than 3 months*** | ***From 3 to 12 months*** | ***From 1 to 5 years*** | ***Over 5 years*** | ***Total*** |
| Amounts due to credit institutions | **31,296** | **545,869** | **–** | **–** | **577,165** |
| Amounts due to customers | **1,685,015** | **1,582** | **66,000** | **–** | **1,752,597** |
| Amounts due to Wakala and Mudaraba pool | **6,716** | **–** | **–** | **–** | **6,716** |
| Other financial liabilities | **–** | **13,160** | **–** | **–** | **13,160** |
| **Total undiscounted financial liabilities** | **1,723,027** | **560,611** | **66,000** | **–** | **2,349,638** |

| | | | *2017* | | |
|---|---|---|---|---|---|
| ***Financial liabilities*** | ***Less than 3 months*** | ***From 3 to 12 months*** | ***From 1 to 5 years*** | ***Over 5 years*** | ***Total*** |
| Amounts due to credit institutions | 31,295 | 564,471 | – | – | 595,766 |
| Amounts due to customers | 516,080 | 1,582 | 30,000 | – | 547,662 |
| Other financial liabilities | – | 20,005 | – | – | 20,005 |
| **Total undiscounted financial liabilities** | 547,375 | 586,058 | 30,000 | – | 1,163,433 |

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in "less than three months" in the tables above.

The table below shows the contractual expiry by maturity of the Bank's financial commitments and contingencies. Each undrawn commitment on receivables from Islamic finance activities is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

| | | | *2018* | | |
|---|---|---|---|---|---|
| | ***Less than 3 months*** | ***From 3 to 12 months*** | ***From 1 to 5 years*** | ***Over 5 years*** | ***Total*** |
| Guarantees issued | **31,337** | **548,199** | **812,788** | **–** | **1,392,324** |
| Undrawn commitments on receivables from Islamic finance activities | **–** | **250,000** | **50,000** | **989** | **300,989** |
| | **31,337** | **798,199** | **862,788** | **989** | **1,693,313** |

*(In thousands of tenge, unless otherwise indicated)*

## 24. Risk management (continued)

### Liquidity risk and funding management (continued)

*Analysis of financial liabilities by remaining contractual maturities (continued)*

| | 2017 | | | | |
|---|---|---|---|---|---|
| | *Less than 3 months* | *From 3 to 12 months* | *From 1 to 5 years* | *Over 5 years* | *Total* |
| Guarantees issued | 155,717 | 31,908 | 506 | 337,988 | 526,119 |
| | 155,717 | 31,908 | 506 | 337,988 | 526,119 |

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

### Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as profit rates, foreign exchanges, and equity prices. The Bank has exposures to market risk into non-trading portfolios. Non-trading positions are managed and monitored using other sensitivity analysis. Except for the concentrations within foreign currency, the Bank has no significant concentration of market risk.

*Profit rate risk*

Profit rate risk arises from the possibility that changes in profit rates will affect future cash flows or the fair values of financial instruments. The Bank's exposure to profit rate risk is not significant as the Bank borrows and places its funds with fixed rates.

*Currency risk*

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board has set limits on positions by currency based on the NBRK regulations.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December on its non-trading financial assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the tenge, with all other variables held constant on profit or loss (due to the fair value of currency sensitive non-trading financial assets and liabilities). All other parameters are held constant. The effect on equity does not differ from the effect on profit or loss. A negative amount in the table reflects a potential net reduction in statement of comprehensive income or equity, while a positive amount reflects a net potential increase.

| | 2018 | | 2017 | |
|---|---|---|---|---|
| *Currency* | *Increase in currency rate in %* | *Effect on profit before tax* | *Increase in currency rate in %* | *Effect on profit before tax* |
| US Dollar | **+14%** | **41,307** | +10% | 7,475 |
| Euro | **+14%** | **(75,310)** | +13.5% | 3,478 |
| Russian ruble | **+14%** | **587** | +16% | 4,536 |

| | 2018 | | 2017 | |
|---|---|---|---|---|
| *Currency* | *Decrease in currency rate in %* | *Effect on profit before tax* | *Decrease in currency rate in %* | *Effect on profit before tax* |
| US Dollar | **-10%** | **(28,428)** | -10% | (7,475) |
| Euro | **-10%** | **53,798** | -13.5% | (3,478) |
| Russian ruble | **-9%** | **(480)** | -16% | (4,536) |

### Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but a control framework and monitoring and responding to potential risks could be effective tools to manage the risks. Controls should include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

*(In thousands of tenge, unless otherwise indicated)*

## 25. Fair value measurement

### Fair value hierarchy

At each reporting date, management of the Bank analyses the movements in value of assets and liabilities which are required to be re-measured or re-assessed as per the Bank's accounting policies. For this analysis, management of the Bank verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. Management of the Bank, in conjunction with the Bank's external appraiser also compares each change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of disclosing the fair values, the Bank determined classes of assets and liabilities based on the nature, characteristics and risks of those assets and liabilities as well as the hierarchy of fair value sources.

| *2018* | *Date of valuation* | *Fair value measurement using* Quoted prices in active markets (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) | *Total* |
|---|---|---|---|---|---|
| **Assets for which fair values are disclosed** | | | | | |
| Cash and cash equivalents | 31 December 2018 | **87,883** | **1,748,903** | – | **1,836,786** |
| Receivables from Islamic finance activities | 31 December 2018 | – | – | **10,985,657** | **10,985,657** |
| Loans to customers | 31 December 2018 | – | – | **44,807** | **44,807** |
| Bank participation in Wakala and Mudaraba pool | 31 December 2018 | – | – | **756,247** | **756,247** |
| Other financial assets | 31 December 2018 | – | – | **6,966** | **6,966** |
| **Liabilities for which fair values are disclosed** | | | | | |
| Amounts due to credit institutions | 31 December 2018 | – | **577,165** | – | **577,165** |
| Amounts due to customers | 31 December 2018 | – | **1,752,597** | – | **1,752,597** |
| Amounts due to Wakala and Mudaraba pool | 31 December 2018 | – | **6,716** | – | **6,716** |
| Other financial liabilities | 31 December 2018 | – | – | **13,160** | **13,160** |

| *2017* | *Date of valuation* | *Fair value measurement using* Quoted prices in active markets (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) | *Total* |
|---|---|---|---|---|---|
| **Assets for which fair values are disclosed** | | | | | |
| Cash and cash equivalents | 31 December 2017 | 264,311 | 926,515 | – | 1,190,826 |
| Receivables from Islamic finance activities | 31 December 2017 | – | – | 9,479,037 | 9,479,037 |
| Loans to customers | 31 December 2017 | – | – | 869,203 | 869,203 |
| Finance lease receivables | 31 December 2017 | – | – | 40,901 | 40,901 |
| Bank participation in Wakala and Mudaraba pool | 31 December 2017 | – | – | 1,062,300 | 1,062,300 |
| Other financial assets | 31 December 2017 | – | – | 7,211 | 7,211 |
| **Liabilities for which fair values are disclosed** | | | | | |
| Amounts due to credit institutions | 31 December 2017 | – | 595,766 | – | 595,766 |
| Amounts due to customers | 31 December 2017 | – | 547,662 | – | 547,662 |
| Other financial liabilities | 31 December 2017 | – | – | 20,005 | 20,005 |

During 2018 and 2017, there were no transfers between levels of the fair value hierarchy.

*(In thousands of tenge, unless otherwise indicated)*

## 25. Fair value measurement (continued)

### Financial instruments not carried at fair value in the statement of financial position

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | *Carrying amount* | *Fair value* | *Unrecognised gain/(loss)* | *Carrying amount* | *Fair value* | *Unrecognised gain/(loss)* |
| **Financial assets** | | | | | | |
| Cash and cash equivalents | **1,836,786** | **1,836,786** | **–** | 1,190,826 | 1,190,826 | – |
| Receivables from Islamic finance activities | **11,886,847** | **10,985,657** | **(901,190)** | 9,974,418 | 9,479,037 | (495,381) |
| Loans to customers | **44,807** | **44,807** | **–** | 877,647 | 869,203 | (8,444) |
| Finance lease receivables | **–** | **–** | **–** | 40,901 | 40,901 | – |
| Bank participation in Wakala and Mudaraba pool | **756,247** | **756,247** | **–** | 1,062,300 | 1,062,300 | – |
| Other financial assets | **6,966** | **6,966** | **–** | 7,211 | 7,211 | – |
| **Financial liabilities** | | | | | | |
| Amounts due to credit institutions | **577,165** | **577,165** | **–** | 595,766 | 595,766 | – |
| Amounts due to customers | **1,752,597** | **1,752,597** | **–** | 547,662 | 547,662 | – |
| Amounts due to Wakala and Mudaraba pool | **6,716** | **6,716** | **–** | – | – | – |
| Other financial liabilities | **13,160** | **13,160** | **–** | 20,005 | 20,005 | – |
| **Total unrecognised change in unrealised fair value** | | | **(901,190)** | | | (503,825) |

### Valuation techniques and assumptions

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

### Assets for which fair value approximates carrying amount

For financial assets and financial liabilities that are liquid or having a short-term maturity (less than three months) it is assumed that their fair value approximates to the carrying amount. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

### Financial assets and financial liabilities carried at amortised cost

Fair value of the quoted notes and bonds is based on price quotations at the reporting date. The fair value of unquoted instruments, receivables from Islamic finance activities, loans to customers, customer deposits, amounts due from credit institutions and credit institutions and other financial assets and liabilities, obligations under finance leases is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

*(In thousands of tenge, unless otherwise indicated)*

## 26. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See *Note 25* "Risk Management" for the Bank's contractual undiscounted repayment obligations.

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | *Within one year* | *More than one year* | *Total* | *Within one year* | *More than one year* | *Total* |
| Cash and cash equivalents | **1,836,786** | **–** | **1,836,786** | 1,190,826 | – | 1,190,826 |
| Receivables from Islamic finance activities | **2,791,673** | **9,095,174** | **11,886,847** | 3,847,701 | 6,126,717 | 9,974,418 |
| Loans to customers | **44,807** | **–** | **44,807** | 877,647 | – | 877,647 |
| Finance lease receivables | **–** | **–** | **–** | 40,901 | – | 40,901 |
| Bank participation in Wakala and Mudaraba pool | **756,247** | **–** | **756,247** | 1,062,300 | – | 1,062,300 |
| Property and equipment | **–** | **22,669** | **22,669** | – | 24,660 | 24,660 |
| Intangible assets | **–** | **5,564** | **5,564** | – | 10,103 | 10,103 |
| Inventory | **216,766** | **–** | **216,766** | 216,766 | – | 216,766 |
| Current corporate income tax assets | **53,621** | **–** | **53,621** | 4,981 | – | 4,981 |
| Deferred corporate income tax assets | **–** | **7,577** | **7,577** | – | 24,288 | 24,288 |
| Other assets | **244,527** | **–** | **244,527** | 112,278 | – | 112,278 |
| **Total** | **5,944,427** | **9,130,984** | **15,075,411** | 7,353,400 | 6,185,768 | 13,539,168 |
| | | | | | | |
| Amounts due to credit institutions | **577,165** | **–** | **577,165** | 595,766 | – | 595,766 |
| Amounts due to customers | **1,686,597** | **66,000** | **1,752,597** | 517,662 | 30,000 | 547,662 |
| Amounts due to Wakala and Mudaraba pool | **6,716** | **–** | **6,716** | – | – | – |
| Provisions | **–** | **58,711** | **58,711** | – | 49,564 | 49,564 |
| Other liabilities | **42,083** | **–** | **42,083** | 34,492 | – | 34,492 |
| **Total** | **2,312,561** | **124,711** | **2,437,272** | 1,147,920 | 79,564 | 1,227,484 |
| **Net assets** | **3,631,866** | **9,006,273** | **12,638,139** | 6,205,480 | 6,106,204 | 12,311,684 |

## 27. Related party disclosures

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or 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.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The amount of related party transactions and balances as at 31 December 2018 and 2017, as well as the respective amounts of income and expenses for the years then ended are as follows:

| | 2018 | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | *Share-holders* | *Entities under common control* | *Key manage-ment personnel* | *Other related parties* | *Share-holders* | *Entities under common control* | *Key manage-ment personnel* | *Other related parties* |
| **Receivables from Islamic finance activities as at 1 January** | **–** | **–** | **3,007** | **513,897** | – | – | 5,023 | 15,528 |
| Issued during the year | **–** | **–** | **–** | **333,740** | – | – | – | 502,844 |
| Repaid during the year | **–** | **–** | **(3,007)** | **(190,704)** | – | – | (2,016) | (4,475) |
| **Receivables from Islamic finance activities as at 31 December** | **–** | **–** | **–** | **656,933** | – | – | 3,007 | 513,897 |
| | | | | | | | | |
| **Deposits outstanding as at 1 January** | **–** | **–** | **–** | **–** | 359,979 | – | – | – |
| Withdrawn during the year | **–** | **–** | **–** | **–** | (359,979) | – | – | – |
| **Deposits outstanding as at 31 December** | **–** | **–** | **–** | **–** | – | – | – | – |
| **Current accounts as at 31 December** | **212** | **4** | **–** | **7,054** | 3,150 | 6,445 | 1,828 | 108,293 |

*(In thousands of tenge, unless otherwise indicated)*

## 27. Related party disclosures (continued)

The income and expense arising from transactions with related parties for the years ended 31 December 2018 and 2017 were as follows:

| | 2018 | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | *Share-holders* | *Entities under common control* | *Key manage-ment personnel* | *Other related parties* | *Share-holders* | *Entities under common control* | *Key manage-ment personnel* | *Other related parties* |
| Revenue from Commodity Murabaha agreements | **–** | **–** | **–** | **47,246** | – | – | 172 | 717 |
| Fee and commission income | **1,966** | **6,407** | **214** | **1,472** | 416 | 700 | 3 | 2,980 |
| Other operating expenses | **–** | **–** | **11,059** | **1,266** | 5,049 | – | – | 28,991 |

Below is the information about compensation of 5 (in 2017: 5) members of key management personnel:

| | *2018* | *2017* |
|---|---|---|
| Salaries and other short-term benefits | **57,218** | 53,725 |
| Social security costs | **6,308** | 4,539 |
| **Total key management personnel compensation** | **63,526** | 58,264 |

## 28. Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the NBRK.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains adequate capital ratios in order to support its business and to maximise shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities.

The NBRK requires the Bank to maintain a capital adequacy ratio (Tier 1) of not less than 6% of the total assets and a capital adequacy ratio (Tier 2) of not less than 7.5% of risk weighted assets, computed based on the requirements of the NBRK.

As at 31 December 2018 and 2017, the Bank's capital adequacy ratios on this basis exceeded the required minimums.

The following table shows the composition of the Bank's capital position calculated in accordance with the NBRK requirements as at 31 December 2018 and 2017:

| | *2018* | *2017* |
|---|---|---|
| Tier 1 capital | **12,632,575** | 12,301,581 |
| Tier 2 capital | **–** | – |
| Deduction of positive difference from capital | **(3,663)** | (9,530) |
| **Total capital** | **12,632,575** | 12,292,051 |
| | | |
| Risk weighted assets and liabilities, possible claims and liabilities | **17,403,003** | 14,666,428 |
| Operational risk | **1,149,009** | 1,212,974 |
| Market risk | **807,000** | 517,588 |
| **Risk weighted statutory assets, contingent liabilities, operational and market risk** | **19,359,012** | 16,396,990 |
| | | |
| Capital adequacy ratio k1-1 (minimum 5.5%) | **65%** | 75% |
| Capital adequacy ratio k1-2 (minimum 6.5%) | **65%** | 75% |
| Capital adequacy ratio k2 (minimum 7.5%) | **65%** | 75% |

## 29. Zakah

The Articles of Association of the Bank do not require management of the Bank to pay Zakah on behalf of the Shareholder. Consequently, the Zakah obligation is to be discharged by the Shareholder.