# Developing banking ecosystem

2019

Annual Report

ForteBank

# Content

# Key indicators

**ForteBank JSC (hereinafter referred to as the "Bank", "ForteBank")** is a fast-expanding modern bank that provides each customer with the most extensive range of services and a high level of reliability following international standards and principles of corporate ethics.

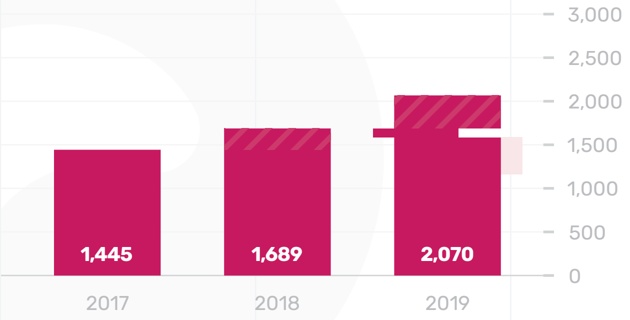
| Indicator, mln KZT | Changes for 2019, % | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| **Financial indicators, mln KZT** | | | | |
| Assets | 23% | 2 069 970 | 1 688 723 | 1 444 640 |
| Loan portfolio | 14% | 785 068 | 689 645 | 671 851 |
| Liabilities | 24% | 1 841 018 | 1 488 084 | 1 250 439 |
| Deposits and current accounts | 24% | 1 336 949 | 1 075 628 | 981 225 |
| Debt securities in issue | -10% | 229 263 | 253 584 | 125 121 |
| Equity capital | 14% | 228 952 | 200 639 | 194 201 |
| Net profit | 45% | 42 233 | 29 108 | 19 751 |
| Net interest income | 59% | 78 294 | 49 394 | 44 439 |
| Non-interest income | 41% | 44 072 | 31 307 | 18 683 |
| **Relative indicators, %** | | | | |
| ROE | 4.90% | 19.70% | 14.70% | 10.80% |
| ROA | 0.30% | 2.20% | 1.90% | 1.60% |
| NIM* | 0.70% | 5.30% | 4.60% | 4.70% |
| NPL** | -0.63% | 6.00% | 6.63% | 7.24% |
| **Operating indicators** | | | | |
| Number of branches and offices | - | 100 | 100 | 99 |
| Number of ATMs | 9% | 938 | 860 | 815 |
| Number of POS-terminals | 29% | 19 958 | 15 522 | 9 985 |
| Active customers*** | 9% | 1 169 812 | 1 072 614 | 965 063 |
| Mobile banking customers, individuals | 67% | 707 880 | 423 555 | 197 926 |
| Mobile banking customers, legal entities | 36% | 32 902 | 24 184 | 16 150 |
| Issued credit cards | 35% | 1 122 895 | 832 916 | 558 104 |
| **Social indicators** | | | | |
| Number of employees | 4% | 3 650 | 3 510 | 3 612 |

* On standalone basis.

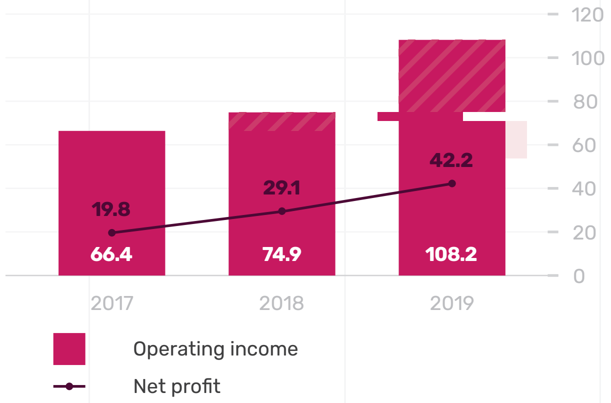
** On standalone basis in accordance with National Bank standards.

*** An active customer is a current customer of the Bank with an average balance greater than zero and transactions on credits, deposits and current accounts.

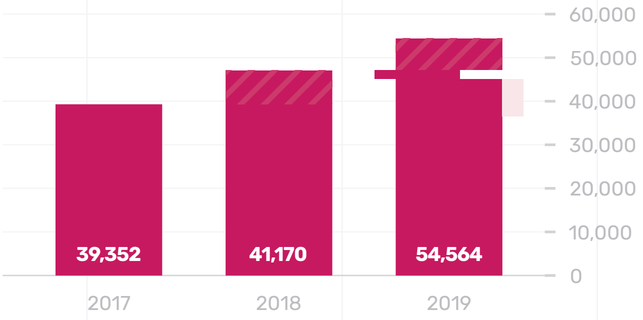
## Assets dynamics, bln KZT



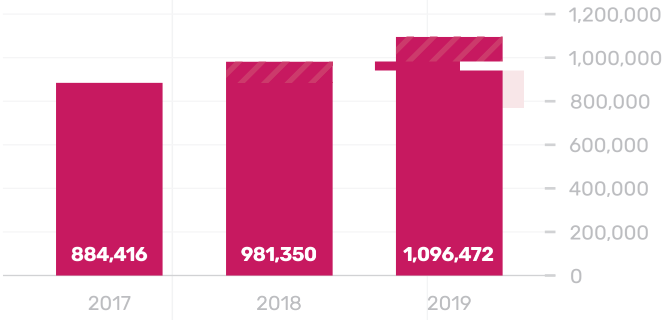

## Income dynamics, bln KZT



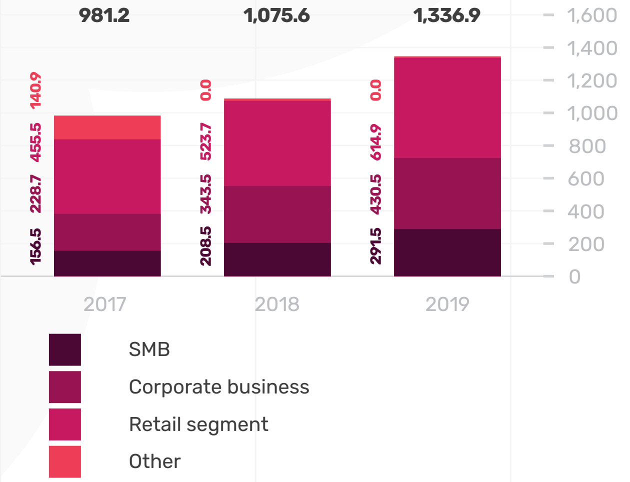

## Number of active customers - legal entities



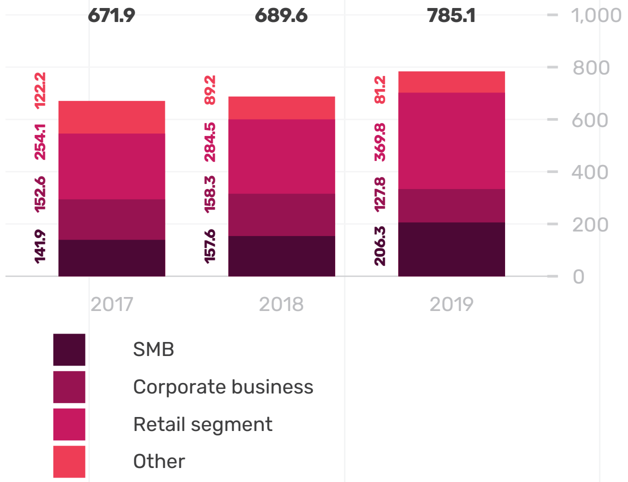

## Number of retail customers




## Dynamics of accounts and deposits, bln KZT




## Loan portfolio dynamics, bln KZT



# Key events of 2019

## Rating changes

**S&P**
upgraded ForteBank's rating from "B" to "B +", **with "Stable" outlook**
June 2019

**Moody's**
upgraded the Bank's rating from "B3" to "B1", **with "Stable" outlook**
July 2019

**Fitch**
**revised outlook on Forte to «Positive»,** the rating was affirmed at "B"
December 2019

- **April 2019,** the Bank obtained approval from the National Bank of Kazakhstan for the establishment of a bank holding and completed the acquisition of Bank Kassa Nova JSC and ONE Technologies company.
- **June 2019,** Marlen Mirzabekov was elected Chairman of the Board of Directors of the Bank (hereinafter – the "Board of Directors").
- **December 2019,** ForteBank carried out full early redemption of Eurobonds issued on December 15, 2014 in the amount of 236.6 mln USD with maturity in December 2024.
- In support of women entrepreneurs, ForteBank initiated the campaign "Business is also women's business" and released the fragrance, Forte Femme ("Strong woman"), created in cooperation with women entrepreneurs. The advertising campaign made it to the finals of the Cannes Lions.
- Forte signed an agreement with the Asian Development Bank (for the amount of 31.3 bln KZT) and the European Bank for Reconstruction and Development (60 mln USD) for small and medium-sized business lending programs.
- Face Pay, a pilot public transport fares payment system, based on biometrics (based on facial photo) was launched. Money is debited automatically from the card at the moment when a camera sees the passenger's face. This is a joint IPAy and ForteBank project developed in Kazakhstan.
- ForteBank became the official bank of "Barys" Hockey Club.
- **ForteBank was declared by Global Finance as the best bank in Kazakhstan for the second year in a row.**

## Awards

ASIAN BANKING & FINANCE RETAIL BANKING AWARDS 2019

BEST BANK AWARD 2019 GLOBAL FINANCE

BEST BANK AWARDS 2019 ASIAMONEY BEST DOMESTIC BANK IN KAZAKHSTAN

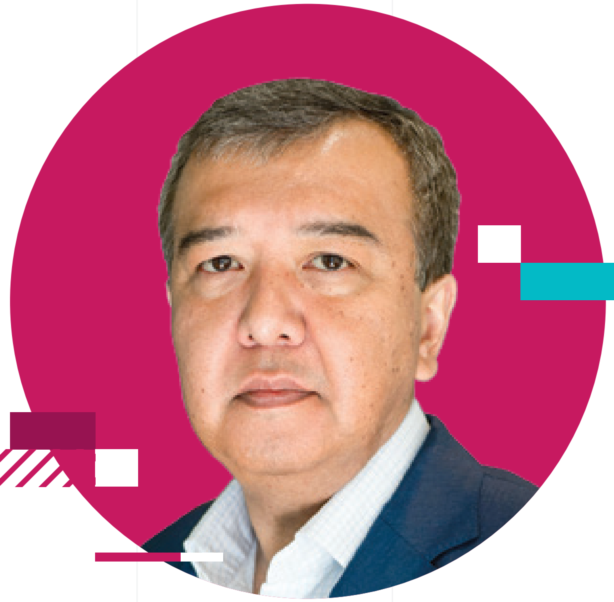
# Statement of the Chairman of the Board of Directors

## DEAR SHAREHOLDERS, CLIENTS AND PARTNERS

**ForteBank continues to show stable growth within the selected strategic directions of development. Assets of the Bank as of the end of 2019 reached KZT 2.07 tln – having almost doubled over the past five years. As a result, ForteBank became the third largest bank in the country.**

Net income of the Bank in 2019 reached KZT 42.2 bln, having increased almost fivefold since 2015. The return on equity (ROE) continues to grow from year to year, if five years ago (in 2015) it was at 4.6%, then at the end of 2019 it was already 19.7%. In 2019, dividends in the amount of KZT 21.1 bln were paid to shareholders, which is 85% more than in 2018. Thus, dividend amount had significant growth in recent years. The Bank successfully fulfills its obligations to creditors. In December 2019, for example, Eurobonds issued in the amount of USD 236.75 mln were early redeemed.

With that, balance and sustainability are important elements driving this dynamic growth.



**MARLEN MIRZABEKOV**
Chairman of the Board of Directors

*We make decisions from the perspective of the long-term, successful development of the Bank.*

In 2019, we carried out important work to update the development strategy of the Bank, taking into account the latest market trends, as well as changes in consumer preferences and behavior. New Development Strategy of ForteBank JSC for 2020-2024 was approved by the Board of Directors in December 2019.

The previous Development Strategy, approved in 2017, had been completed ahead of schedule. Some large-scale projects from the strategy, such as digital bank development, improvement of customer service quality, building an effective, involved team, were expanded and transferred to the new Strategy.

## Strategic Priorities

**The strategic priorities and development trends of the Bank for the next 5 years are expressed by success formula of Forte, which is follows:**

*Scale × (Digit + Quality) – – Heritage[1] = ROE[2]*

As for the large universal bank, our key priorities are expansion of our business scale, enhanced use of the latest digital technologies and continuous quality improvement of our services, our team, our loan portfolio and release from problem assets inherited by the Bank.

## Business Scale Expansion

**The Bank will continue to provide services to all market entities, occupying leading positions in all key areas of business.**

*Flexibility is the basis of our success.*

As for the development of new lines of business, a number of projects are being implemented to develop partner sales channels, enter new markets and win new customers without expanding our own network. In the small and medium-sized business sector, work is ongoing to develop the micro-business segment – as one of the fastest growing and insufficiently covered with banking services.

[1]Heritage – problem assets inherited by ForteBank in the process of merging three banks (Alliance Bank JSC, Temirbank JSC and ForteBank JSC) in 2015.
[2]ROE – Return on Equity Ratio

Projects are being implemented on an acquiring network development, which will allow us to use the growth of online commerce and non-cash money turnover to expand the scale of small and medium-sized businesses.

## Digitalization

**The development of digital technologies is a priority for any bank, including Forte. The key prerequisites for the rapid technology development in the banking sector are the emergence of a new generation of services consumers – millennials and generation Z; competition with fintech companies and tech giants that have begun to enter markets with traditional banking products; and tightening regulatory requirements.**

We intend to focus our efforts on updating IT-architecture of the Bank to ensure the stability and uninterrupted operation of banking systems; automation and optimization of business processes to improve performance; creating a data warehouse to provide the ability to collect, store, analyze, process and monetize large amounts of data. The implementation of these solutions will allow us to significantly increase the efficiency of our activities and offer a new quality of services to our clients.

## Quality Development

**Continuous improvement of the quality of provided services has always been one of top priorities of the Bank. In 2019, the Bank created a specialized customer experience management team, main goal of which is to improve the service culture.**

*We analyze the client path for the main products and services of the Bank in order to make the service as comfortable as possible.*

Among the many activities and tasks of this subdivision, we can emphasize a regular measurement of NPS indicator (index of readiness to recommend), collecting and analyzing customer feedback, developing proposals for optimizing customer processes and implementing projects to improve customer experience.

## Heritage

The plans set for 2019 to reduce the portfolio of delinquent loans were fully achieved, including through participation in the state refinancing program. As of January 1, 2020, NPL (Non-Performing Loans) indicator decreased to 6.0%, while at the beginning of 2014 the total NPL ratio of Alliance Bank JSC was 49.78%.

Of course, fluctuations in Kazakhstani Tenge to the US Dollar exchange rate, the difficult economic conditions in the country in the context of the global COVID-19 pandemic have an impact on the ability of the population and enterprises to service their loans. Therefore, the Heritage work has been incorporated into a new strategy with updated, more ambitious plans for its full redemption.

## Future trends

**Forte intends to create the most demanded services ecosystem in Kazakhstan, transforming itself into a technology company and creating a team with a new structure.**

*We strive to exceed customer's expectations by providing access to a wide range of first-class services.*

We value efficiency and strive for continuous improvement in our processes. We value the trust of our customers, colleagues, partners, regulators, investors and shareholders and make well-considered decision today to ensure redemption of our promises in the future. These are the values forming ForteBank Strategy.

The results of the Strategy implementation will increasingly be reflected in the improvement of our operating and financial results. In the medium term, in addition to business objectives such as growth of the loan portfolio, growth of profits and reduction of expenses, expansion of market coverage and attraction of new clients, we are faced with the tasks of introducing new and developing existing projects as part of creating an ecosystem, developing and promoting our new mobile application, completing the automation of internal and client business processes, tasks to improve the client experience, in particular the growth of NPS indicator, maintaining the high quality of the loan portfolio, developing new skills of our employees, including digital competencies, and a number of other tasks on which the management will focuse in the next 2-3 years.

# Statement of the Chairman of the Management Board

## DEAR SHAREHOLDERS, CLIENTS AND PARTNERS

**In 2019, a favorable situation prevailed in Kazakhstani economy and in the banking industry for business development and, using its competitive advantages, the Bank continued actively to strengthen its market positions. At year-end 2019, ForteBank became one of the three largest banks in Kazakhstan in terms of assets.**

*Forte is gradually turning into a technology company and creating a team of new formation. Our long-range goal is to build a demand-driven ecosystem of services in Kazakhstan, not limited to financial services only.*

Currently we are in the stage of active development, and the customer is at the center of all changes. All the innovations are aimed at ensuring that the customer receives the things he/she really needs, in a fast and convenient form. This position and effective management enable the Bank to ensure stable growth in business scale and recoveribility for its shareholders.

**GURAM ANDRONIKASHVILI**

Chairman of the Management Board

## Growth in business scale

**ForteBank is a universal bank which is represented in all business segments. Our priority is a balanced development in all spheres, which makes business growth sustainable.**

In 2019, the retail segment keeps showing active growth, which reflects the attractiveness of the Bank's wide product line for customers. The number of retail customers of the Bank increased by 12% and reached 1.1 mln people. In 2019, the net loan portfolio in the retail segment increased by 30% up to 370 bln KZT, which is mainly due to the active growth of the consumer loan portfolio. Due to its proven reputation, the Bank ranked 5th in the market at the end of 2019 in terms of the volume of current accounts and retail deposits in Kazakhstan. The deposit base rose by 14% and amounted to 579 bln KZT at the end of the year. The positive dynamics of lending and customers' interest in non-credit services, especially card products, resulted in the growth of profit in the retail segment by more than 4 times, up to 26.5 bln KZT, at the end of 2019.

The past year was also marked by an increase in the scale of transactions in the business segment. In 2019, the number of active customers - legal entities increased by 16% and amounted to 54.6 thousand. The most dramatic growth was seen in the segment of small and medium business. The volume of SMB loans in 2019 went up by 30%, reaching 206.3 bln KZT, which secured the growth of interest income throughout the business segment by 45.5% – up to 22.1 bln KZT. The development of the Bank's user-friendly services and service quality also contributed to the growth of non-interest income from the corporate and SMB segments – by 51% in 2019.
We observed a significant growth in deposits and accounts of legal entities – by 31%, amounting to 733 bln KZT at the end of 2019.

In 2019, the acquisition of Bank Kassa Nova was carried out as part of the strategy for consolidating the bank assets of the Bank's major shareholder.

## Strong financial position

**The business scale expansion is accompanied by the growth of financial indicators.**

*Forte keeps on maintaining a stable financial position that creates a strong basis for further development.*

The Bank's assets for 2019 increased by 23%, up to 2.07 tln KZT, which is almost four times higher than the average for the banking industry. Primarily, the growth is due to the increase in the Bank's loan portfolio by 14%, up to more than 785 bln KZT. The loan portfolio quality also continues to improve, reflecting the efficient work with the historical portfolio of problem loans and the conservative lending policy in the Bank. According to the National Bank, the share of overdue credits decreased from 6.6% at the beginning of the year to 6.0% as of December 31, 2019.

As of the end of 2019, the Bank's liabilities amounted to 1.8 tln KZT, having increased by 24% in 2019. The rise in liabilities was due to the increase of current accounts and deposits of customers by 24%, up to 1.3 tln KZT.

At that, the volume of the Bank's debt liabilities in 2019 decreased by 8%, to 255 bln KZT.

*In December 2019, the Bank made an early redemption of eurobonds issued in 2014 with mature date in 2024.*

The early redemption of Eurobonds was made at the expense of the Bank's own funds due to the high level of capital adequacy and liquidity of Forte.

The equity capital increased by 15% and amounted to 229 bln KZT at the end of 2019 having capital adequacy ratio K1 equal to 17%, with the minimum required value of 7.5%. The Bank's liquidity level remains one of the highest on the market with a current K4 liquidity ratio equal to 165% compared to the regulatory minimum level of 30%.

In 2019, the National Bank of the Republic of Kazakhstan performed an asset quality review (AQR) of 14 largest Kazakhstan banks. The AQR review served as an additional stress test for the reserve and collateral assessment models used by the Bank and confirmed their sufficient level of conservatism. Insignificant discrepancies in accrual of provisions as per IFRS, identified in the assessment as of April 1, 2019, amounted to less than 1.2% of the Bank's equity capital and were accounted for during the review.

*We consider the upgrade of the Bank's ratings last year from level "B" to "B+" by the international agency S&P and later by Moody's from "B3" to "B1" and the revision of the outlook from "stable" to "positive" by the third international authoritative agency Fitch as an important event and high appreciation of the work of the whole team.*

## Stable profitability

**ForteBank continues to show stable growth in profitability, which reflects the effectiveness of the adopted development strategy. At the same time, the impressive increase in figures is based on a balanced business-model and the expansion of business scale, which contributes to the sustainability of that increase. The income of the Bank becomes more business-oriented and less dependent on non-recurring income.**

At the end of 2019, the operating income grew up by 44% and reached 108 bln KZT. In 2018, the growth was also significant and amounted to 31%. Such growth is due to both the increase in the loan portfolio and the development of non-credit products and services.

The net profit of the Bank in the reporting period totaled 42.2 bln KZT, showing a 45% growth as compared to 2018. The profitability indices remain high. ROA for 2019 amounted to 2.2%, while at the end of 2018 this figure was 1.9%. The return on equity (ROE) increased from 14.7% at the end of 2018 up to 19.7% at the end of 2019.

## New Ecosystem Formation

**Today, digital development is one of our main areas of activity.**

*We want our customers to enjoy the maximum quantity of online services without visiting our Bank branches.*

To this end, on the one hand, we are developing and improving the products demanded by the customer, and on the other hand, the Bank's internal IT infrastructure is being significantly strengthened.

For instance, last year our customers could watch the updating of the Bank's website and mobile application for legal entities. In 2020, a new release of mobile banking is planned, which will bring users the convenience of using different functions on one customized platform through a single interface.

The range of options for both retail and business customers in the Forte ecosystem is quickly expanding. The Forte Market, a rapidly growing marketplace, received a series of technological upgrades in 2019. The Forte Kassa, a comprehensive trade outlet automation solution which helps to drive small and medium-sized businesses to a new level of commerce, was launched on line.

*The development of new products for customers is supported by innovative changes in the Bank.*

Thus, the automation of internal business processes began in 2019. Work is currently underway to create a micro-service architecture which will allow the Bank to accelerate the adaptation of the system to changes and making it as sustainable as possible. The Bank is actively investing in technologies to improve understanding of its customers and to anticipate their expectations. Significant attention is paid to security maintenance.

Last year we also completed the acquisition of ONE Technologies IT Company which creates innovative and advanced technological tools for business. The company's entry into the Holding will help us to develop digital products and business processes.

## Sustainable development

**In 2020, the situation in the Kazakhstani economy is getting much more complicated.**

For ForteBank, the prior internal challenges of the rapidly growing financial institution were supplemented by external challenges of a weakening economy. However, conservative approaches to running the business allowed us to take this difficult situation with strong financial positions. A high level of liquidity and a sound financial position, efficient risk management, IT investments and enhanced operational efficiency provide Forte with a solid foundation for continued development. Today's the most important thing we pay attention to is the potential worsening of our customers' financial position. We seek opportunities to support them and to overcome this situation of global uncertainty with them.

ForteBank is a conservative bank. When making key decisions, we consider the interests of a wide range of stakeholders including depositors, shareholders, customers, employees, investors, partners and communities. We aim for long-term sustainable development for the benefit of all stakeholders, and their trust is our highest priority and our main value.

# KEY FIGURES

**№ 3**

**by assets among Kazakhstani banks**

**165%**

**current liquidity ratio (K4)**
at the normative level of 30% or higher

**1.1**

**mln retail customers**
12% growth by 2018

**45%**

**growth of net profit in 2019,**
which amounted to 42.2 bln KZT at the year-end

**24%**

**growth of current accounts and deposits of customers**
up to 1 337 bln KZT

**30%**

**growth of SMB loans**
up to 206.3 bln KZT

**54.6**

**thousand active corporate customers**
16% growth by 2018

**370**

**bln KZT the loan portfolio in retail segment**
30% growth

**785**

**bln KZT the loan portfolio at the end of 2019**
growth by 14%

# Development of services ecosystem

**Strategic priority of ForteBank** is to create a digital platform unique for Kazakhstan, offering customers a wide range of both financial and non-financial services, covering their daily needs.

# About the Bank

**ForteBank JSC** is one of the largest banks in Kazakhstan, a financial institution of a modern-format which combines both international practices and skilled management in the area of banking sector development under highly competitive conditions.

## MISSION

**FORTE is a reliable partner in your everyday financial life.**

## VISION

**To become the most in-demand ecosystem of services in Kazakhstan, turning into a technology company and creating a new formation team.**

## OUR PRINCIPLES

**Trust:**
We appreciate the trust of our customers, colleagues, partners, regulators, investors and shareholders.

**Sustainable development:**
We take balanced decisions today to ensure that our promises are fulfilled in the future.

**Unity:**
We develop cooperation and teamwork guided by the principle of mutual victory.

**Quality:**
We aim to exceed customers' expectations by offering the most high-quality and convenient services.

**Efficiency:**
We value efficiency and strain after progressive improvement of our processes.

# STRATEGIC PRIORITIES

**ForteBank continues its course of providing services to various market entities, taking leading positions in all business areas. Our formula for development is the expansion of our business, enhanced by digital innovations and service quality.**

## Strategic business lines

### Scaling up

**The Bank continues developing its banking products for all categories of customers, including the retail segment, small and medium business, corporate segment, and will strengthen its market position.**

In doing so, Forte is committed to create a wide ecosystem of financial and non-financial services offering customers various opportunities to solve their everyday tasks. Even now we offer such products as the ForteMarket marketplace, the ForteTravel tourist service, the ForteX currency trading platform, the ForteKassa service for trade outlets, and the ForteClub loyalty program. And we are going to launch new interesting solutions.

Digital services and on-line servicing are the primary areas of development. Our goal is to provide the most comfortable platform for the customer, offering a wide range of personalized services.

### Digitalization

The offer of high-quality digital services is supplemented by deep innovative transformations in the Bank itself. Forte is working on the creation of a flexible and fail-safe IT infrastructure which will ensure stability and continuity, flexibility and the option of rapid development and introduction of changes, reducing the time of product delivery to the market, will save the time of customers and employees and, finally, will have a positive impact on the level of customer satisfaction.

*Forte is working on the development of data collection and processing so as to create a unified customer history and improve the quality of customer intelligence.*

This process is designed to ensure balanced decision making based on clear and consistent data.

### Quality

**We are working on a large-scale service evolution project. The special attention in the Strategy is drawn to the issues of improving the quality and speed of services rendered, comfort, safety and reliability of service for Forte customers.**

This also involves the development of staff management policy.

*We are building an organization of the future where we unlock human potential, inspire professionals and effectively interact in teams to create value for the customer.*

It is essential for us to know the customer's opinion about the products offered and services received in order to understand the things that should be changed. Depending on the feedback we get, changes will be made to processes and solutions. In implementing the services offered, Forte will be guided mainly by the interests of our customers and will keep working on customizing clients' offers

### Heritage

Work on reduction of the historical problem loan portfolio inherited from AllianceBank JSC and Temirbank JSC will be continued. Our objectives include the reduction of the Heritage portfolio, sale of non-core assets, and closure of liabilities associated with the restructuring.

We will implement measures to improve the quality of the loan portfolio through a systematic reduction in the level of non-performing loans.

# KEY BUSINESS AREAS

| | | |
|---|---|---|
| **ForteBank for retail segments** | **Mass market**<br>• Simple products and prompt service<br>• The network is located in large settlements<br>• High level of automation and standardization<br>• Automated risk management (scoring)<br><br>**Premium**<br>• Personal consultant<br>• Customized/flexible conditions<br>• Private banking partnership | **Retail products**<br>• Internet and mobile banking<br>• (Secured/non-secured) credits<br>• Card products<br>• Payroll card programs<br>• Deposits (term/type)<br>• Money transfers<br>• ATMs and POS-terminals |
| **ForteBusiness** | • Standardized simple products<br>• Government programs | **Corporate products**<br>• Loans for investment / revolving financing<br>• Overdrafts<br>• Deposits<br>• Documentary operations<br>• Government programs / Export financing<br>• Bills of exchange/Factoring<br>• Treasury operations |
| **ForteCorporate** | • First-class service<br>• Focus on less capital-intensive and non-cyclic industries<br>• Focus on Cash management<br>• Orientation towards customers with payroll projects for retail cross sales | |
| **ForteBank Heritage** | • Restoring the historically problem loan portfolio / Collection | |

# SUBSIDIARIES

**In April 2019, the Bank obtained approval from the National Bank of Kazakhstan for the establishment of a bank holding company, which enabled the completion of the subsidiaries' consolidation.**

**Bank Kassa Nova JSC | 100% | –**

a Kazakhstani bank ranked 21st by assets among banks in Kazakhstan. 100% of ordinary shares were acquired in April 2019.

**ForteLeasing JSC | 100% | –**

is a dynamically developing leasing company which operates in all regions of Kazakhstan. The Bank's share was increased up to 100% in June 2019.

**ONE Technologies LLP | 100% | –**

an IT company creating innovative and advanced technological tools for business. 100% of equity were acquired in April 2019.

**OUSA-Alliance LLP | 100%**
**and OUSA-F LLP | 100% | –**

are the companies managing doubtful and bad assets.

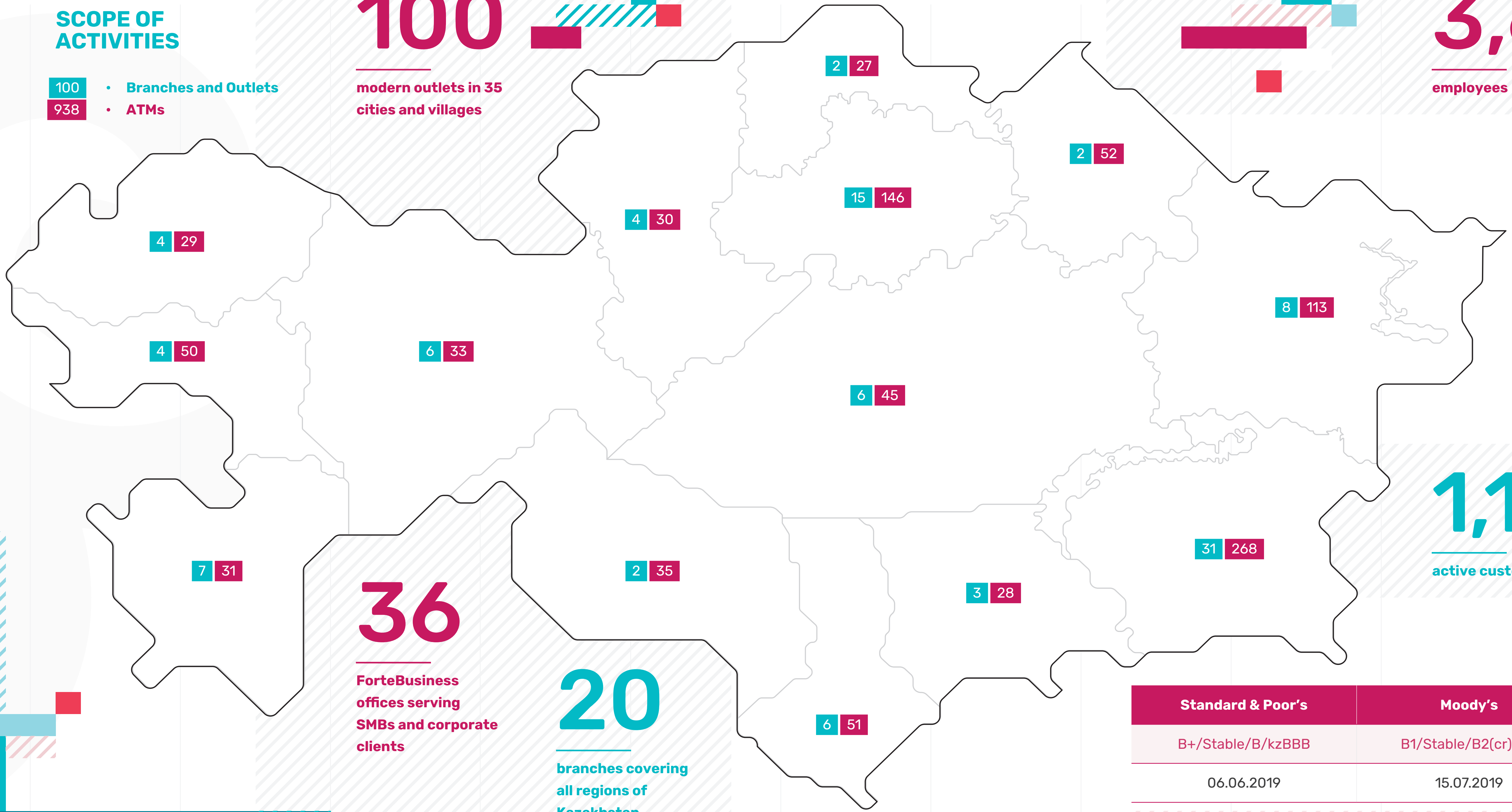
Apart from that, ForteBank owns 16.67% stake of the Association of Financiers of Kazakhstan, 18.4% stake of First Credit Bureau LLP, is a minority shareholder of Kazakhstan Stock Exchange JSC and Central Securities Depository JSC.

**Key indicators of subsidiaries as of December 31, 2019, bln KZT**

| | Assets | Capital | Net profit |
|---|---|---|---|
| Bank Kassa Nova JSC | 116.7 | 16.2 | 2 |
| ONE Technologies LLP | 3.9 | 3.6 | 0.025 |
| ForteLeasing JSC | 4.6 | 3.5 | 0.6 |

## SCOPE OF ACTIVITIES

- 100 • Branches and Outlets
- 938 • ATMs




**100**

modern outlets in 35 cities and villages

**3,650**

employees

**938**

ATMs, and ForteBank cards allow withdrawing cash from all ATMs of Kazakhstani banks with no commission

**1,169,812**

active customers

**36**

ForteBusiness offices serving SMBs and corporate clients

**20**

branches covering all regions of Kazakhstan

Ratings
as of January 1, 2020

| Standard & Poor's | Moody's | Fitch Ratings |
|---|---|---|
| B+/Stable/B/kzBBB | B1/Stable/B2(cr)/NP | B/Positive/B/BB+(kaz) |
| 06.06.2019 | 15.07.2019 | 03.12.2019 |

## HISTORY

### 2015

- **January 1, 2015,** as part of the reorganization of Alliance Bank JSC (currently – ForteBank JSC), ABC Bank JSC (previously – ForteBank JSC) and Temirbank JSC, acts of transfer and acceptance were signed, whereby all property and all rights and liabilities of ABC Bank JSC and Temirbank JSC were transferred to the Bank, which resulted in the establishment of a new modern bank combining the advantages of each of the three banks.
- **February 10, 2015,** Alliance Bank JSC was renamed as ForteBank JSC.
- **May 2015 –** the start of issuing a unique new-generation card product - ForteCard.

### 2016

- Launch of a new-generation Internet banking system developed with the participation of Monitise PLC, one of the world's leading companies in this sector.
- Opening of the first branch in a new format, which concept was developed by the Italian company DINN.
- **December 2016 –** the reorganization procedure was finalized through merger with ForteBank JSC, Temirbank JSC and ABC Bank JSC. ABC Bank JSC and Temirbank JSC were terminated as per Orders No. 507 and No. 508 of the Ministry of Justice of the Republic of Kazakhstan dated December 5, 2016.
- **September 2016 –** Moody's international rating agency upgraded the Bank's long-term deposit ratings in local and foreign currencies to "B3" with stable outlook.
- **October 2016 –** ForteBank in cooperation with the "Kulanshi" Modern Art Center opened a new gallery ForteBank Kulanshi Art Space in the building of the Bank's Head Office.
- **November 2016 –** ForteBank signed the agreement with the European Bank for Reconstruction and Development on providing the Bank with a loan for 60 mln USD in KZT equivalent for lending to micro, small and medium business projects and for funding women entrepreneurship under the EBRD program "Women in Business".

### 2017

- Issue of a new release of ForteBank mobile banking with extended functionality.
- Voluntary liquidation of the Bank's subsidiary in Moscow, Alliance Finance LLC.
- Presentation of new high-tech branches formats in the cities of Uralsk and Ust-Kamenogorsk.
- **May 2017 –** ForteBank paid dividends on its ordinary shares for the first time. The total amount of accrued dividends was 4.6 bln KZT.
- **September 2017 –** the ForteBank mobile application was named "Breakthrough of the Year".
- **September 2017 –** ForteBank was named "Transformer of the Year 2017" during the 5th "Kazakhstan Growth Forum K17" international conference.
- **October 2017 –** Moody's international rating agency revised the outlook for ForteBank from "Stable" to "Positive", having affirmed all of the bank's ratings, including the long-term deposit rating of the bank in local and foreign currencies at level "B3".
- **November 2017 –** ForteBank was named "Bank of the Year in Kazakhstan" according to The Banker.

### 2018

- **February 2018 –** Guram Andronikashvili, who previously held the position of First Deputy Chairman of the Management Board of the Bank, was appointed Chairman of the Management Board.
- **March 2018 -** the authoritative publishing house Global Finance recognized ForteBank as the best bank in Kazakhstan.
- **July 2018 -** The international rating agency Fitch assigned the Bank long-term and short-term ratings at level "B" with the "Stable" outlook.
- **September 2018 -** ForteBank issued coupon bonds in the amount of 220 bln KZT, with a rate of 4% and maturity until 2024.
- **November 2018 -** ForteBank won the nomination "Bank of the Year in Kazakhstan" for the second year in a row according to the authoritative publication The Banker.
- **December 2018 -** The Board of Directors resolved to acquire 100% of ordinary shares of Bank Kassa Nova JSC.

# 2019

2020

2021

## 2019

- **January 2019 -** Opening of a branch in Turkestan.
- **March 2019 -** ForteBank was named the best bank in Kazakhstan for the second year in a row according to Global Finance.
- **March 2019 –** ForteBank joined the program for Supporting the Sustainability of Micro, Small and Medium Business Financing Projects by the Asian Development Bank.
- **April 2019 –** The Bank was granted the status of a banking holding company and finalized the acquisition of Kassa Nova Bank and ONE Technologies company.
- **May 2019 –** A digital office was opened at MEGA Silk Way in Nur-Sultan.
- **June 2019 –** S&P Global Ratings international rating agency announced its decision to upgrade ForteBank's ratings from "B" to "B+", with "Stable" outlook.
- **September 2019 –** ForteBank and "Barys" Hockey Club entered into an agreement on partnership and cooperation for the game season 2019-2020.
- **December 2019 –** Fitch international rating agency revised the outlook from "Stable" to "Positive" and affirmed ForteBank's ratings at level "B".
- **December 2019 –** ForteBank signed the agreement with the European Bank for Reconstruction and Development on providing the Bank with a loan for 60 mln USD in KZT equivalent for lending to micro, small and medium business projects and for funding women entrepreneurship under the EBRD program "Women in Business".
- **December 2019 –** ForteBank was named the Best Domestic Bank in Kazakhstan according to AsiaMoney publication which is part of Euromoney Institutional Investor PLC Group.

# Development of banking services

**The Bank continues to develop banking products for all categories of clients,** including retail and corporate segments, small and medium-sized business, while our priorities are balanced sustainable growth and reliability.

# Management report

## EXTERNAL ENVIRONMENT OVERVIEW

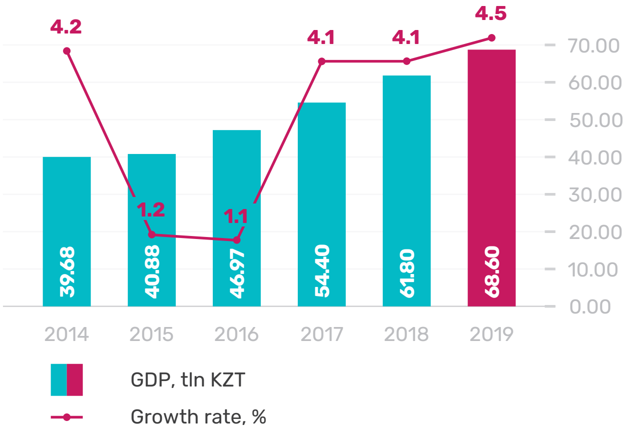
### Economy

**The growth of the economy of Kazakhstan in 2019 was 4.5% (4.1% in 2018). Economic growth was supported by intensive consumer demand driven, among other things, by a rise in incomes and increased consumer lending and by investments, primarily in the oil and gas sector and housing construction. Thus, the growth of retail turnover was 5.8% at the year-end, and investments in fixed assets increased by 8.5%.**

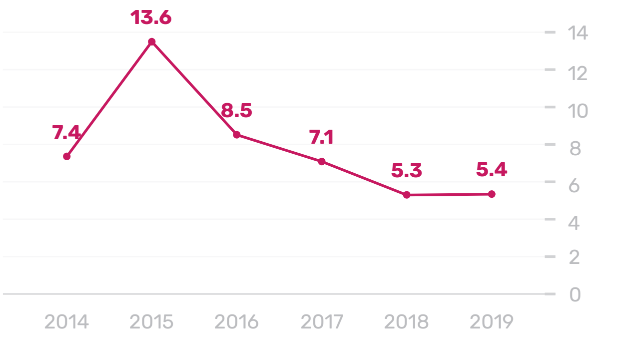
In 2019, inflation was 5.4% and remained at about the level of 2018 (5.3%). Herewith, the most contributing to the inflation was the increase in prices for food products. The average US dollar rate in 2019 was 382.75 KZT per dollar, which is by 11% higher than in 2018. The base rate of the NBK has not changed at the year-end, remaining at 9.25%.

Meanwhile, a general slowdown in economic growth is expected in 2020, due to both external and internal economic reasons. The global spread of the coronavirus infection COVID-19 and the resulting imposition of quarantines in different countries caused additional pressure on raw material markets. The state of emergency declared in Kazakhstan in March 2020 and the temporary suspension of many organizations' activities will adversely affect the domestic demand. According to the International Monetary Fund, Kazakhstan's GDP is expected to decline by 2.5% in 2020.

GDP dynamics




Inflation rate, %




Source: The Committee on Statistics, Ministry of Economics of the RoK.

## Banking sector

**As of the end of 2019, 27 second-tier banks have been operating in Kazakhstan, 14 of which are banks with foreign participation, including 12 subsidiary banks.**

In 2019, the National Bank of the Republic of Kazakhstan initiated the Asset Quality Review (AQR) of 14 largest second-tier banks, which account for 87% of the total amount of banking assets in Kazakhstan. As part of the review, the sufficiency and effectiveness of banks' internal processes for determining the value of assets on their balance sheets were assessed. At the end of the AQR, it was decided that 14 banks need to accrue additional reserves in the amount of 429 bln KZT, only 0.6% of which fell to ForteBank (or 2.6 bln KZT).

By the end of the year, banks' assets increased by 6.2% and reached 26.8 tln KZT (in 2018, the growth was 4.5%). The loan portfolio accounts for 50.9% of the assets, having increased by 7.1% up to 14.7 tln KZT in 2019. The growth has noticeably accelerated compared to 2018, when it was only 1.3%.

*Retail loans remain the key driver of the loan market.*

Loans to individuals in 2019 have grown by 26.8%, reaching 6.3 tln KZT at the year-end. Their share in the total loan portfolio increased from 36.3% at the end of 2018 to 42.9% at the end of 2019. At that, almost 70% of the retail loan portfolio is consumer loans.

Loans to legal entities in 2019 increased by 4.5% up to 4.1 tln KZT. Their share in the loan portfolio amounted to 27.8%, almost remaining at the level of 2018. At the same time, loans to small and medium business entities decreased by 13.2% over the year and totaled 3.9 tln KZT at the end of 2019, i. e. 26.9% in the portfolio (33.2% in 2018).

**70%**

**of the retail loan portfolio is consumer loans.**

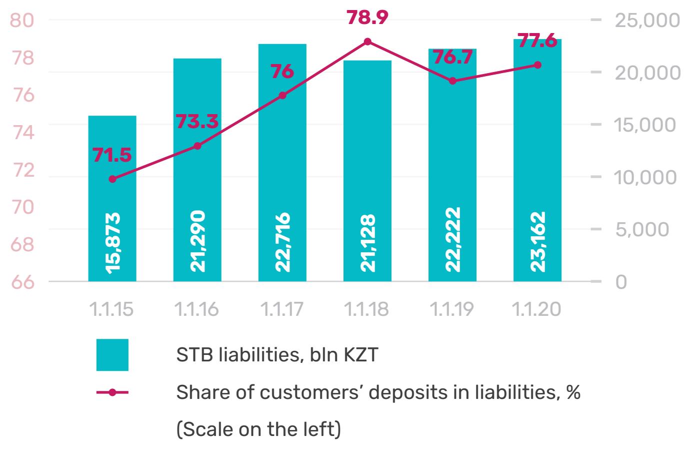
The indicator of non-performing loans increased slightly from 7.4% at the end of 2018 to 8.1% at the end of 2019.

At the end of 2019, liabilities of second-tier banks reached 23.2 tln KZT, the growth for the year was 4.2%.

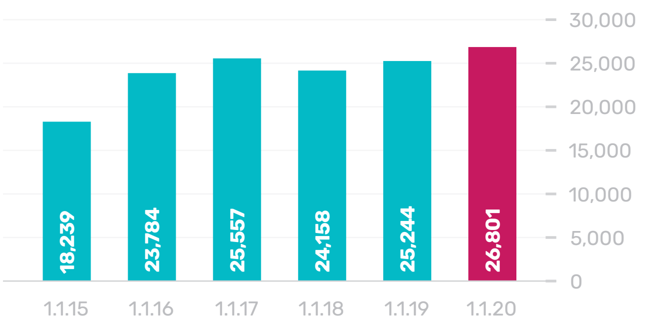
Customers' deposits amounted to 77.6% of the liabilities in this sector, or 17.98 tln KZT, the growth for 2019 was 5.5%. At the same time, deposits of legal entities went up by 4.7% in 2019 and amounted to 48.1%, while deposits of individuals increased by 6.2% and amounted to 51.5% of all deposits.

The banking sector's income in 2019 rose by 27% up to 802.9 bln KZT. The profitability ratio of assets in 2019 was 3.19% (2.61% in 2018), and return on equity amounted to 25.09% (21.24%).

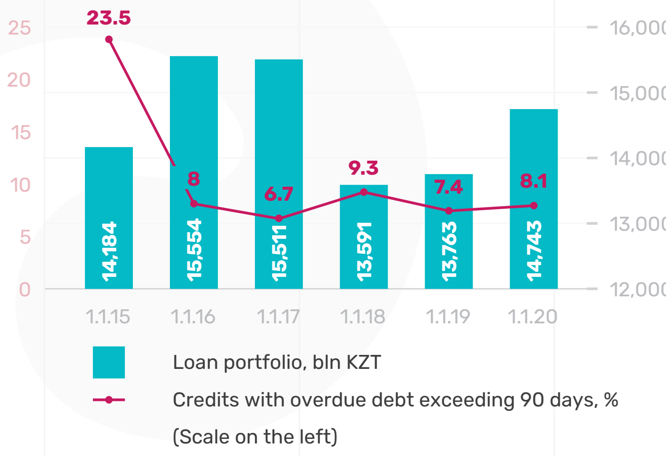
### Dynamics of STB liabilities



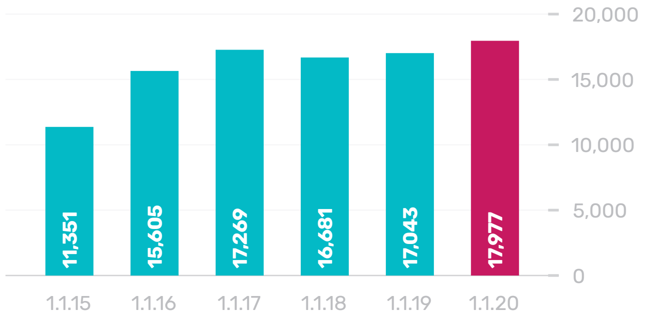

### STB assets, bln KZT



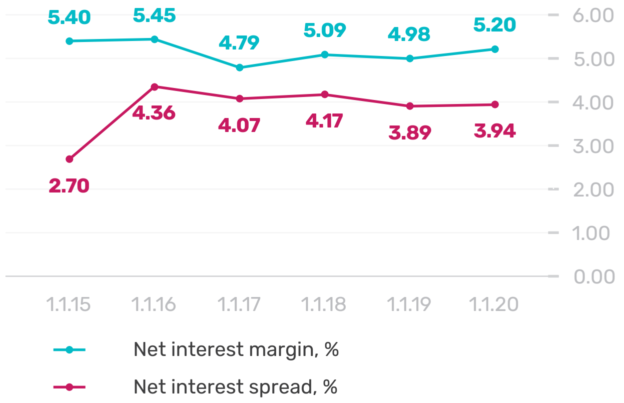
## STB loan portfolio dynamics




## Customers' deposits, bln KZT




## Profitability of the banking sector of the RoK




## Key market positions

**The situation in the banking sector is marked by a high competition level. However, the advantages of ForteBank, which are based on a constant focus on the customer while developing business, allow the Bank to strengthen its market positions. Following the results of 2019, ForteBank entered the top three largest banks by assets.**

### 10 largest banks by assets as of the end of 2019

| № | Bank | Amount, bln KZT | Bank's share | Chang. per year |
|---|---|---|---|---|
| 1. | Halyk Savings Bank of Kazakhstan JSC | 8,841 | 33% | -0.3% |
| 2. | SB Sberbank JSC | 2,207 | 8.2% | 17% |
| **3.** | **ForteBank JSC** | **2,196** | **8.2%** | **24%** |
| 4. | KASPI BANK JSC | 2,172 | 8.1% | 27% |
| 5. | Bank CenterCredit JSC | 1,460 | 5.5% | -4% |
| 6. | ATFBank JSC | 1,427 | 5.3% | 6% |
| 7. | House Construction Savings Bank JSC | 1,353 | 5% | 36% |
| 8. | Jysan Bank JSC | 1,330 | 5% | -22% |
| 9. | Eurasian Bank JSC | 1,064 | 4% | -5% |
| 10. | Citibank Kazakhstan JSC | 823 | 3.1% | 12% |
| | **Banking sector** | **26,801** | **100%** | **6,2%** |

**№ 3**

**by assets among Kazakhstani banks**

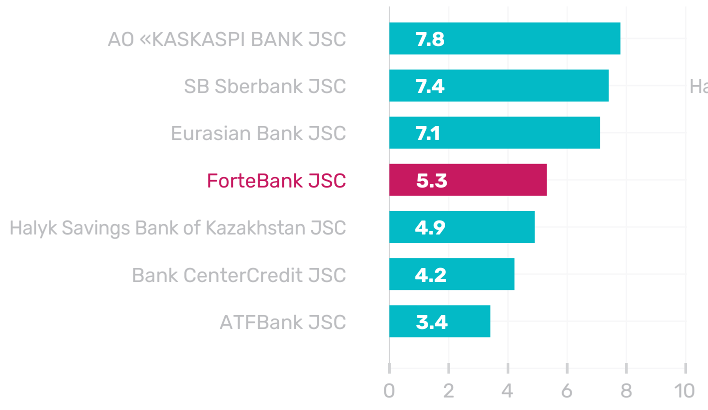
## 10 largest banks by deposits as of the end of 2019

| № | Bank | Amount, bln KZT | Bank's share | Chang. per year |
|---|---|---|---|---|
| 1. | Halyk Savings Bank of Kazakhstan JSC | 6,427 | 36% | -1.4% |
| 2. | KASPI BANK JSC | 1,627 | 9% | 33% |
| 3. | SB Sberbank JSC | 1,587 | 8.8% | 11.5% |
| **4.** | **ForteBank JSC** | **1,255** | **7%** | **18.5%** |
| 5. | Bank CenterCredit JSC | 938 | 5.2% | -11% |
| 6. | ATFBank JSC | 916 | 5.1% | -1% |
| 7. | House Construction Savings Bank JSC | 901 | 5% | 36% |
| 8. | Eurasian Bank JSC | 776 | 4.3% | 4% |
| 9. | Citibank Kazakhstan JSC | 668 | 3.7% | 23% |
| 10. | Jysan Bank JSC | 648 | 3.6% | -7% |
| | **Banking sector** | **17,977** | **100%** | **5.5%** |

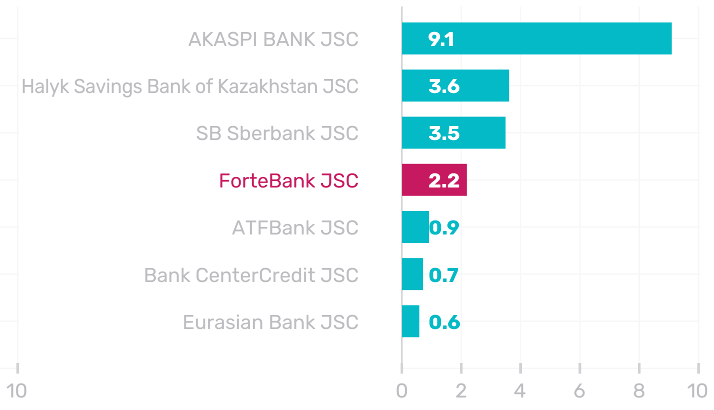
## 10 largest banks by loan portfolio as of the end of 2019

| № | Bank | Amount, bln KZT | Bank's share | Chang. per year |
|---|---|---|---|---|
| 1. | Halyk Savings Bank of Kazakhstan JSC | 4,246 | 29% | 7% |
| 2. | SB Sberbank JSC | 1,448 | 9.8% | 14% |
| 3. | KASPI BANK JSC | 1,417 | 9.6% | 23% |
| 4. | Bank CenterCredit JSC | 1,109 | 7.5% | 2% |
| 5. | House Construction Savings Bank JSC | 1,071 | 7.3% | 60% |
| 6. | ATFBank JSC | 937 | 6.4% | 2% |
| 7. | Jysan Bank JSC | 846 | 5.7% | -40% |
| **8.** | **ForteBank JSC** | **751** | **5.1%** | **3%** |
| 9. | Eurasian Bank JSC | 706 | 4.8% | 8% |
| 10. | Bank RBK JSC | 410 | 2.8% | 52% |
| | **Banking sector** | **14,743** | **100%** | **7.1%** |

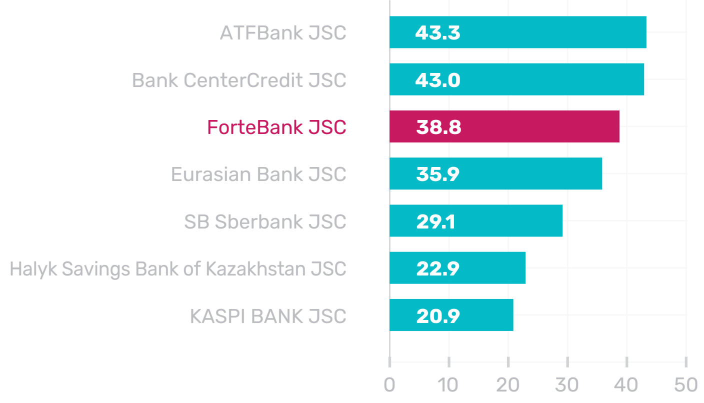
## Net interest margin of the largest banks in 2019




## ROA of the largest banks in 2019




## Cost to income, %



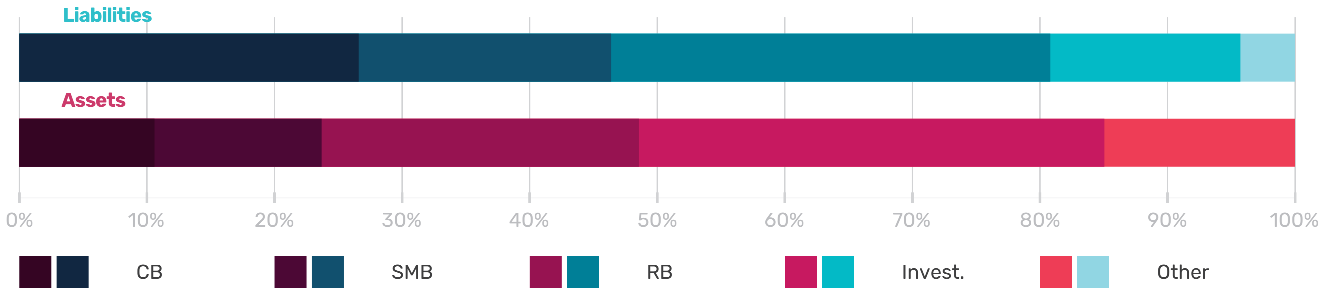
# BUSINESS SEGMENTS

**ForteBank is a universal bank which is represented in all sectors of the industry. At the same time, the Bank maintains a sustainable balanced development in all fields of work. The Bank has five segments, which include a variety of products and services in the banking and some other sectors, focused on different customers categories.**

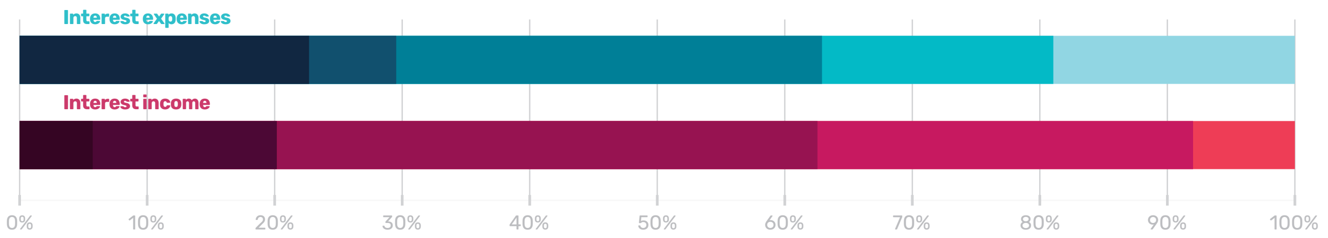
**Key business segments are as follows:**

- **Retail business (RB) –** lending, attraction of deposits, settlement and cash services, exchange operations and other transactions with retail customers (individuals);
- **Corporate business (CB) –** lending, attraction of deposits, settlement and cash services, guarantee operations and other transactions with corporate customers (legal entities, government enterprises);
- **Small and medium business (SMB) -** lending, attraction of deposits, settlement and cash services, guarantee operations and other transactions with legal entities – small and medium-sized business customers;
- **Investment activities –** operations with securities , derivative financial instruments and foreign currency. This segment includes, in particular, repo transactions, raising funds from banks and financial institutions, issuance of bonds, subordinated debt;
- **Other -** transactions with debtors/creditors in non-core activities, fixed assets, amounts in transit accounts and other transactions not included into segment/business activities.

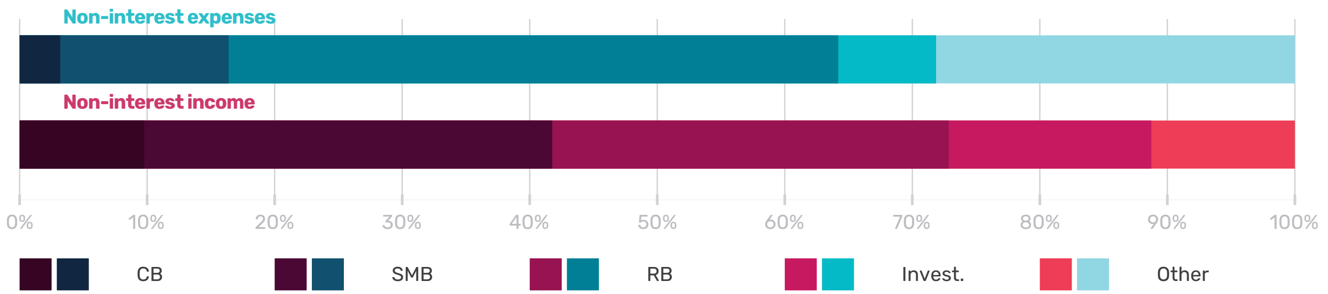
## Structure of the balance by segments




## Structure of interest income and expenses




## Structure of non-interest income and expenses




The retail business constitutes a major part of the Bank's business, forming a quarter of its assets at the end of 2019 (20% in 2018). Its share in liabilities as of the end of the year was 35%, remaining unchanged compared to 2018. The retail business is the largest source of the Bank's income, with 42% of interest income and 31% of non-interest income in 2019. Activities in this segment are also incurring higher costs. However, net profit for the retail segment in 2019 was 26.5 bln KZT, which is inferior only to the investment business.

The small and medium business segment is distinguished in work with legal entities, which accounted for 13% of assets in 2019, while 11% fell on the corporate business. This is associated with the intensive growth of lending in SMB.

At the end of 2019, net profit of SMB amounted to 19.5 bln KZT, while in the corporate segment this amount was 4.98 bln KZT. At the same time, the corporate business accounts for 27% of the total liabilities of the Bank against 20% in SMB.

Investment activity is the largest segment in assets and represents 36% at the end of 2019. It is also the largest generator of net profit amounting to 29.6 bln KZT at the year-end.

## Retail business

**ForteBank continues its active development on the extremely competitive retail market. The number of retail customers of the Bank in 2019 increased by 12% and reached 1.1 mln people. 46% of customers are located in 4 large cities: Almaty, Nur-Sultan, Shymkent and Ust-Kamenogorsk. At the same time, more than 67% of the Bank's customers are under 45 years of age. According to the analysis, this category of customers, in particular, is very interested in mobile banking and digital services, which are actively developing in ForteBank, making its offers up to date and in high demand.**

The loan portfolio in the retail segment grew by 30% in 2019 up to 370 bln KZT (4% in 2018) or by 85.2 bln KZT. This growth was primarily attributable to an increase in consumer loans by 44% or 58.8 bln KZT. At the year-end, the amount of consumer loans reached 191.1 bln KZT or 41% of the retail loan portfolio. The largest share in the portfolio, i.e. 43%, are other secured loans, we can observe a moderate dynamics of growth with an increase by 14% in 2019 or 24.2 bln KZT. At the year-end, the amount of other secured loans was 203 bln KZT. Mortgage loans continue showing a negative dynamics with a decline by 12% in 2019 to 68.2 bln KZT. Herewith, the Bank supports diversification of the loan portfolio, which helps to ensure sustainable growth and reduce risks.

The highly demanded retail products allowed the Bank to rank 5th in terms of retail deposits in Kazakhstan as of December 31, 2019. Due to its proven reputation and high-quality services, despite some of the lowest deposit rates in the market, the amount of retail customer deposits reached 526 bln KZT by the end of the year and increased by 16% compared to 2018. The amount of current accounts balance increased by 38% and reached 77.7 bln KZT.

The steady positive dynamics of lending resulted in the growth of the Bank's net interest income in the retail segment by 48% in 2019 and reached 41.1 bln KZT. Non-interest income increased by 78% in 2019 and reached 13.8 bln KZT also due to increased customer interest in non-credit services of the Bank. In particular, the card business is rapidly growing. The volume of issued cards in 2019 increased by 35% and exceeded 1.1 mln cards.

Such an impressive dynamics of Forte growth in all key indicators in the retail segment is caused by its constant focus on customers. We continue to expand and develop our product line, introducing new solutions and adapting conditions for those products that already exist, as well as to work on service quality improvement. ForteBank aims to be the most comfortable bank for its customers.

In 2019, a fairly active work was carried out in the field of service development both in the branches of the Bank and outside them. Our customers have already appreciated ForteBank branches, which have not only a nice interior, but also were designed to improve customer experience and with great attention to details, allowing to optimize visits to the Bank and make it convenient. The format of the branches was designed by professionals of one of the Italian design companies., The branches are also developing a self-service system, video bank and electronic queues are available. This enables the maximum acceleration of service.

Extensive work is also being carried outside the branches. For example, in 2019, 200 new ATMs and 120 new self-service terminals were installed. Self-service terminals allow to fulfil main operational demands of the customer, such as accounts depositing, monthly loan repayments , cash in operations, etc., outside the Bank's offices, which makes the services closer to the user.

*We continue investing in the development of digitalization of business processes and online services with a view to making the Bank's products more convenient for customers.*

For example, the Bank is upgrading its mobile application, where the number of users increased by 62% in 2019 and the number of transactions by 50%. Today, the mobile application provides an opportunity to receive a loan without visiting the Bank's branch, as well as to make early and partial repayment of loans in less than 5 minutes. Persons who are not customers of the Bank can also get a card online. A virtual card has been introduced in the mobile application.

**45**

**projects aimed at improving the quality and speed of service, as well as the optimization of processes and costs of the Bank were implemented in 2019**

The bank products delivery service with the use of biometric identification was introduced last year. This is a long-ranging project which will allow us to implement more accessible services in the future without requiring customers to visit branches of the Bank. ApplePay and GarminPay (allowing linking a bank card to a watch) were implemented. Our loyalty program is being actively expanded. The number of partners providing customers with increased Cash Back has more than doubled last year.

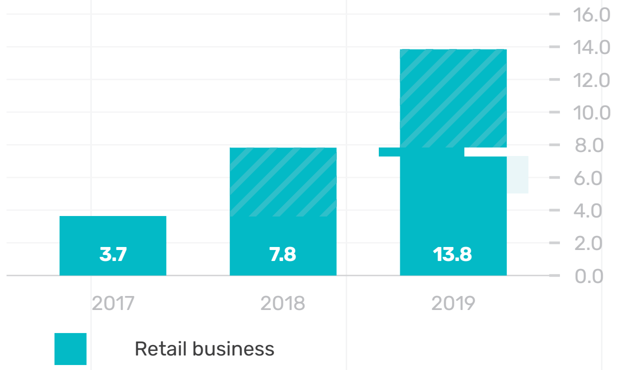
In general, about 45 projects aimed at improving the quality and speed of service, as well as the optimization of processes and costs of the Bank were implemented in 2019. This allows us to speed up the decision-making process. As a result, for instance, the share of customers with an expectation time of less than 10 minutes increased to 82%, while the loan granting time was reduced by 30%. Our customers become gradually accustomed to using the remote banking system. As for remotely accessible operations, the share of Internet and mobile banking increased to 85% in 2019.

*New products such as ForteMarket marketplace and ForteTravel travel voucher sales service are also being developed by the Bank.*

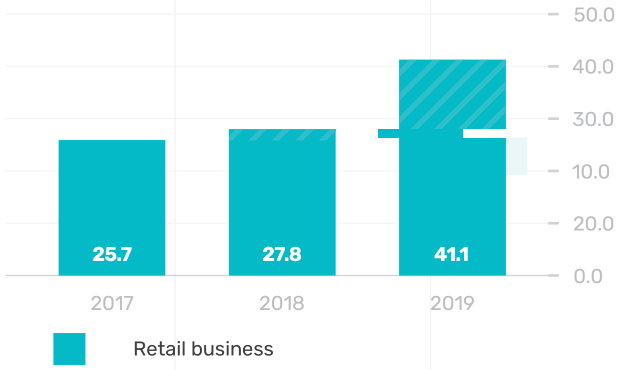
**Our strategy for development in the retail segment** is aimed at building a comprehensive ecosystem of services, including banking and non-banking products. Herewith, the Forte offer will be customized, focused on the preferences of a particular customer, anticipating his/her expectations. To this end, we are investing in the development of innovations such as DataLake.

**The second direction of development** is full self-service. We strive to ensure that all banking and non-banking services are available to the customer online, which will make them maximally convenient.

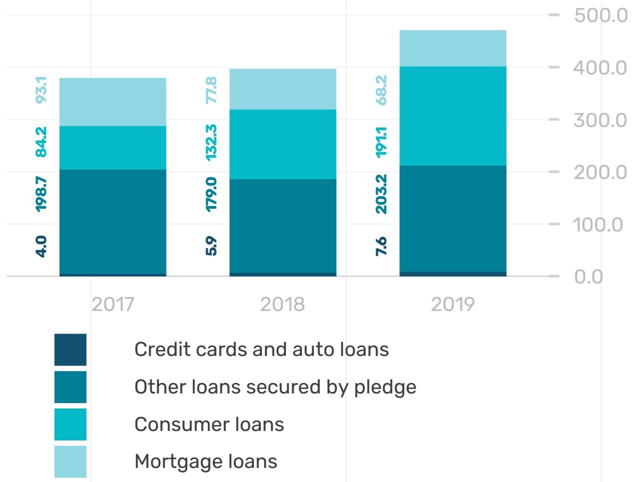
**Non-interest income, bln KZT**



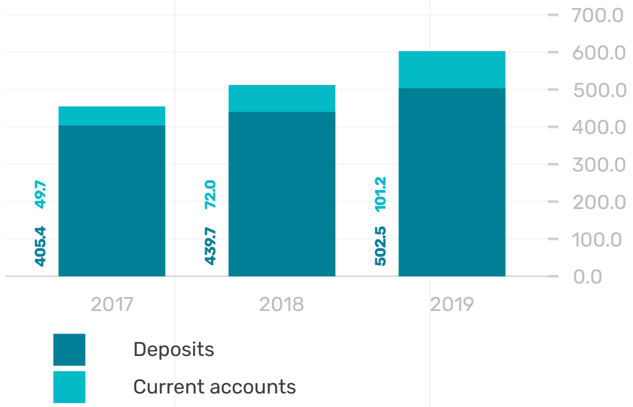

**Net interest income, bln KZT**



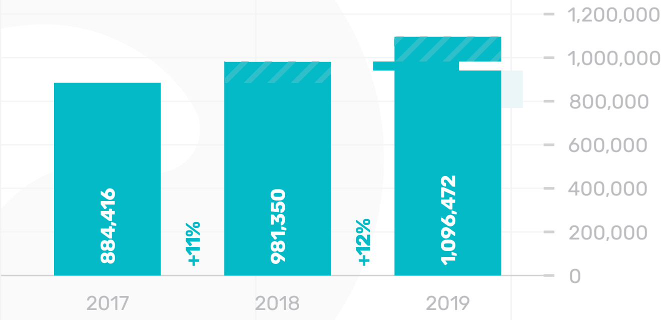

**Retail Loan portfolio, bln KZT**



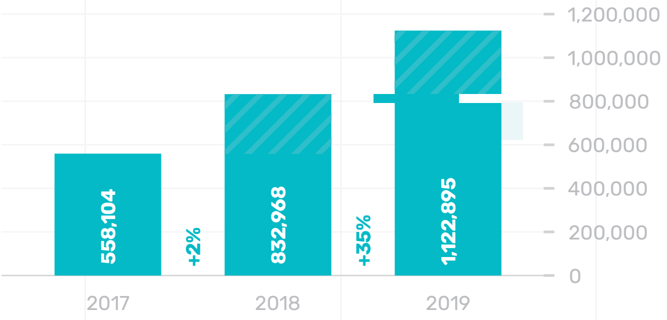

**Retail deposits and current accounts, bln KZT**



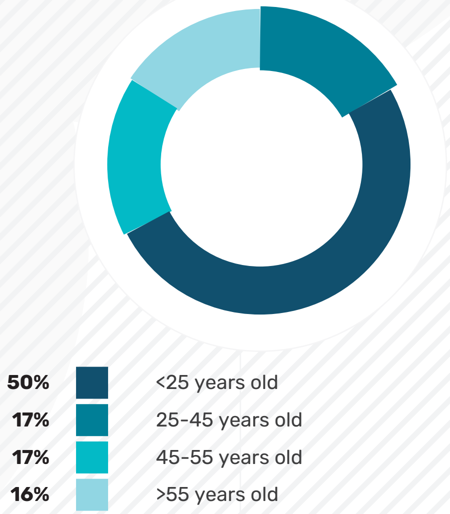
## Number of retail customers



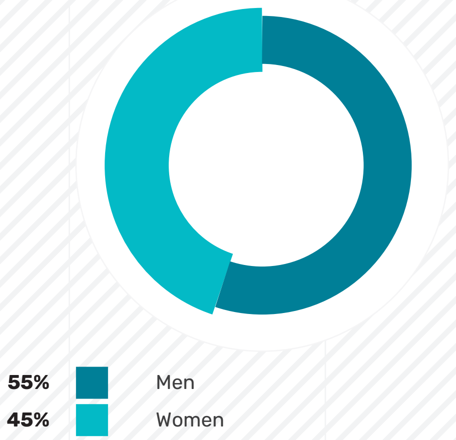

## Number of cards issued




## Structure of retail customers by age groups




## Gender structure of retail customers




## Business segment

**ForteBank shows a steady scale-up in its work with legal entities. The number of active customers – legal entities in 2019 increased by 16%, and reached 54.6 thousand. In 2018, the growth was 20%.**

Net interest income in this segment increased by 45% in 2019 and reached 22.1 bln KZT. The principal growth was driven by the small and medium business segment, where net interest income increased by 31% last year up to 17.3 bln KZT, which was due to an increase in lending. In the corporate business segment, net interest income totaled 4.8 bln KZT.

Non-interest income increased equally in both segments. In total, non-interest income from the corporate and SMB segments increased by 51% and reached 18.4 bln KZT. Such an impressive dynamics was driven by the development of the Bank's convenient services and improved service quality.

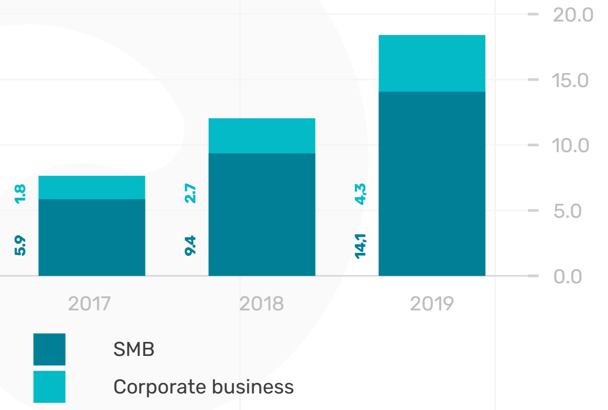
The loan portfolio of legal entities increased by 6% in 2019 and amounted to 334.1 bln KZT at the year-end. At the same time, at the end of the year, the share of SMB in the loan portfolio of legal entities has grown significantly up to 62%, while the loan portfolio at the end of 2018 was distributed almost equally between SMB and corporate business. The amount of loans to SMEs grew by 30% in 2019 and reached 206.3 bln KZT.

*ForteBank continues its cooperation with international financial institutions and participates in small and medium business funding programs.*

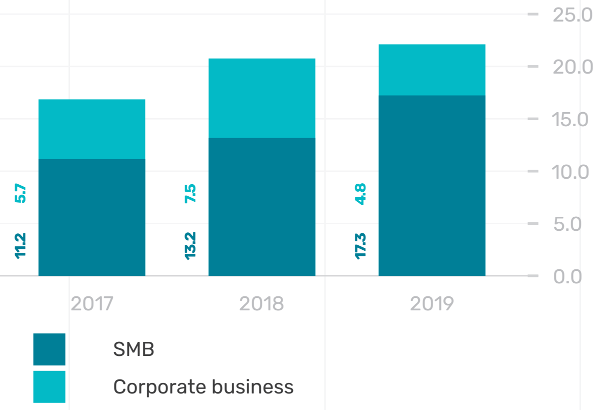
In 2019, 31.3 bln KZT was raised from the Asian Development Bank. 50 mln USD loan (in KZT equivalent) was raised from the European Bank for Reconstruction and Development to finance entrepreneurs and 10 mln USD (in KZT equivalent) to develop women entrepreneurship. These programs will help ForteBank to provide Kazakh enterprises with loans on more beneficial terms.

There was a noticeable growth in deposits and accounts of legal entities by 30% in 2019, up to 733 bln KZT. Corporate business still holds the largest share (60%) in this area. At the year-end, the amount of corporate business accounts and deposits totaled 430.5 bln KZT and increased by 25% over the year. The SMB growth was 40% and reached 291.5 bln KZT.

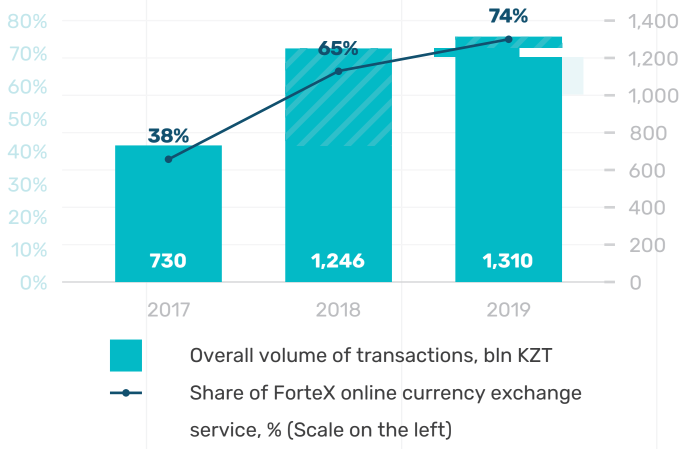
## Non-interest income, bln KZT



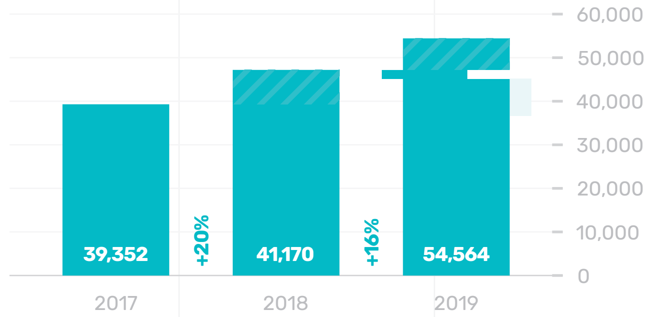

## Net interest income, bln KZT



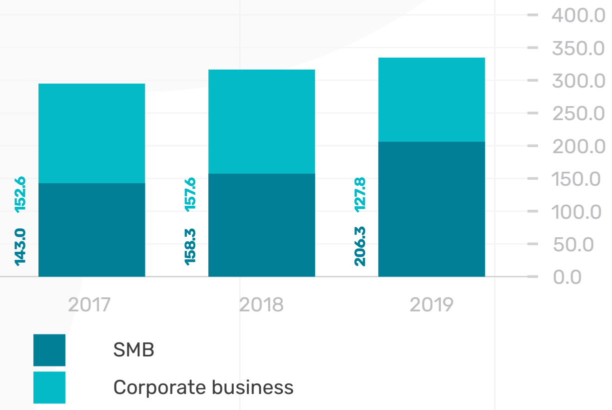

## Share of ForteX in non-cash exchange transactions, bln KZT



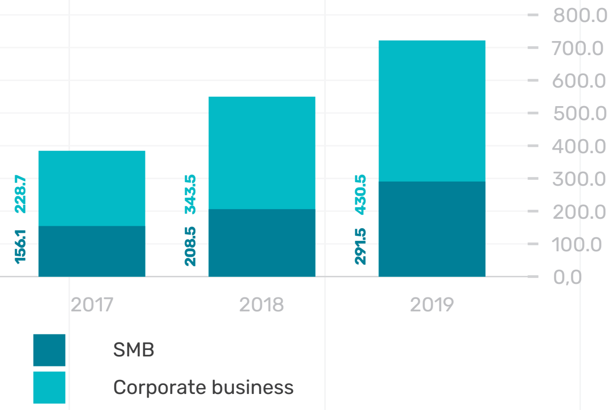

## Number of active customers, legal entities




## Loan portfolio, bln KZT




## Accounts and deposits, bln KZT



## Development of digital services

**The strategic priority of ForteBank is the creation of a unique digital platform for Kazakhstan, offering customers a wide range of financial and non-financial services covering their everyday needs.**

Over the past years, digitalization has become an important trend in the financial system evolution all over the world. However, the development in this area requires a substantial transformation of the classic business model of the Bank, which includes the modification of business processes, changes in IT infrastructure, creation of new relationships with the customer and the regulator and, in general, the emergence of a new business culture.

*ForteBank is already the Kazakhstani leader in the development of digital services, supporting the launch of new services with major changes in internal operational processes.*

Yet, work on further development of the digital ecosystem with broad options for retail and corporate customers is continuing. At the same time, the customer with his/her tasks, needs and convenience always remains at the center of the Bank's fundamental technological transformations in progress.

Last year, the Bank carried out work on unification of all digital services. Upon becoming a user of any ForteBank service, a customer now gains access to the entire ecosystem of the Bank, the functionality of which is constantly expanding and will be tailored to his/her personal needs.

*Customers and other visitors have already rated a new-format of the corporate website of the Bank, which was launched last year. The website forte.kz presents various services in a convenient, concise and unified form.*

The website has five main sections, such as "Bank" – with classic banking products available online; "Market" – where visitors can buy a wide range of products from partners; "Travels" – where visitors can get package tours, buy air and rail tickets, rent a car or book a hotel; "Business" – a wide range of services for corporate customers, which help them to run and develop successfully their business; and "Club" – where visitors can find a lot of interesting promotions and unique offers from our partners.

A new version of the mobile application with a wider range of services for legal entities was also released last year. And another major release is planned for 2020, which will please users with further extension of functionality and user-friendly use of different features on one customized platform via a single interface. One application will give access to all products of Forte digital ecosystem.

In 2019, a new version of the TalkIn chat-bot was launched, which contains elements of computer-aided learning and is even able to help better those who apply, accelerating the receipt of service support.

A unified identification service is being developed to help the customer feel free in the Forte digital ecosystem. Furthermore, the Bank is actively investing in Big Data technologies that will enable us to gain a better understanding of our customers in the future and to adapt services to their needs, developing customer intelligence.

*We keep developing new services for our corporate customers.*

For example, last year, Forte Market, a marketplace that brings together buyers, sellers and manufacturers on the same site, demonstrated a significant growth dynamics after a series of technological upgrades. In 2019, we launched the Forte Travel service, a platform for travel operators.

In the past year, Forte Kassa, a very user-friendly comprehensive trade outlet automation solution, was launched in working mode. Forte Kassa allows you to run cash functionality on any device, supporting the sale of goods and transactions. It is also a full-featured management and accounting system that allows to maintain warehouse records, catalogues, manage staff and compile management reports to understand the situation at a particular trade outlet. This solution takes the trade of small and medium-sized entrepreneurs to a new level.

The development of identification tools allows to get online access to a greater number of banking services for legal entities.

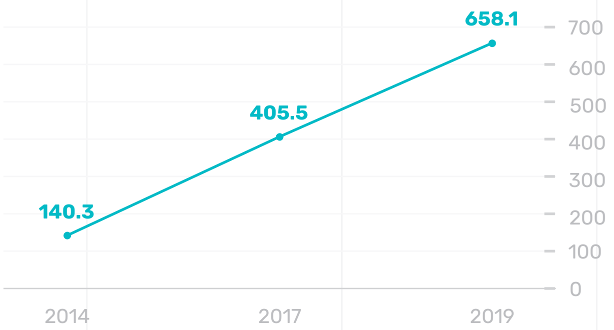
The offer for ForteBank customers will be changing and relations with the Bank will become increasingly comfortable, while opportunities will continue to expand. These innovations, however, require much work on creating a new IT infrastructure within the organization.

In 2019 we started work on business process automation, which will become even more active in 2020. The internal business process management system is also being developed in the pilot mode.

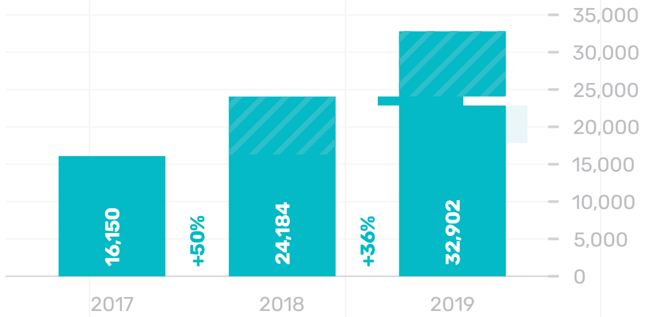
*The Bank is working to create a micro-service IT architecture that allows for precise changes and development of certain components, which will enable the Bank to handle innovations more quickly and create an adaptive infrastructure.*

The opening of a renewed branch in the largest shopping mall MEGA Silk Way in Nur-Sultan in 2019 was an important element in the development of ForteBank digital services. The special feature of the branch is that the office consists of digital service centers by 80%. It has a comfortable lounge area with tablets, self-service terminals and a video bank. The indoor zoning is designed so that visitors can easily orient themselves inside and feel comfortable. The space is enriched with soft radial shapes, cushions, flowers, warm original luminaries. The self-service area became even more comfortable and functional, and a significant step was made towards digitalization and work with the bank online. The number of such offices will increase, and customers will be able to learn about ForteBank's digital services with the support of consultants, becoming familiar with the digital bank concept and learning about the dynamic ecosystem of Forte.

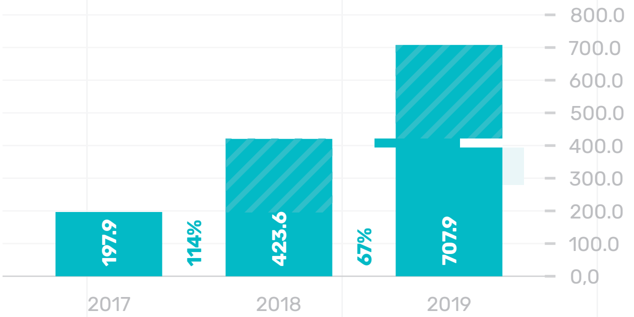
**Volume of mobile banking transactions, bln KZT**




**Mobile banking customers, legal entities**




**Number of users, thousands**



## Non-performing loans collection

**Given the low quality of loan portfolios in almost all Kazakhstani banks over recent years, the need to establish an adequate procedure for dealing with bad debts, which clearly governs the interaction between structural units and employees in this process, has become a priority.**

Collection of problem debts of legal entities and individuals of ForteBank is performed by responsible departments of the Bank engaged in taking measures on collection of problem debts, coordination and control over work of supervised departments of the Bank's branches, coordination and monitoring of activity of collecting companies and court officers, related to collection of problem debts.

In view of correct organization of work and control over operation of the lending departments, the problem loans portfolio of the Bank is divided into two segments:

- The Heritage portfolio which includes loans transferred to problem debt handling departments by October 1, 2014. The Heritage portfolio will only be changed downwards. The target area is to efficiently and maximally collect debts with minimal costs;
- The Stressful portfolio which includes loans transferred to problem debt handling departments after October 1, 2014. The target area is the prompt and timely implementation of repayment activities.

*Since the most complex problem credits of Heritage category have already passed the judicial examination stage, the Bank is concentrated on enforcement of court decisions, acceptance of loan debtors' property on the balance sheet and its sale.*

The main principles and goals of work with the problem portfolio of the Bank are as follows:

- Enhancement of the quality of the Bank's loan portfolio;
- Maximum collection with minimum expenses;
- Efficiency, promptness and timeliness of the measures taken;
- Provision of the level of non-performing loans with overdue periods exceeding 90 days less than 10%;
- Collection of debts in accordance with the laws of the Republic of Kazakhstan.

The key objectives of the problem debt handling departments include provision of non-performing loans with a 90-day or more delinquency of less than 10% in the loan portfolio and maximum repayment of problem debts with the use of various mechanisms such as autonomous problem debt management, transfer of problem debts to collection companies and sale of loans to third parties.

*Following all the measures taken by the Bank for the period 2014-2019, the repayment for a total amount of 258 bln KZT and sale to third parties of loans of legal entities and individuals for a total amount of 87.8 bln KZT on the principal debt was carried out.*

In 2019, ForteBank continued systematic reduction of the overall NPL level[1]. Thus, as at the beginning of 2014, the overall NPL level for Alliance Bank JSC was 49.78%. As a result of measures taken by the Bank, as of January 1, 2020, the overall NPL level of the Bank reduced to 6.0% which is the second result among 8 banks in Kazakhstan with assets over 1 tln KZT.

On June 23, 2015, ForteBank signed a 20-year deposit agreement with Fund of Problem Loans JSC for a total amount of 20.3 bln KZT as part of the Housing/Mortgage Loans Refinancing Government Program approved by the Resolution of the Management Board of the National Bank of the Republic of Kazakhstan (hereinafter - the "Progam-2015"). Over the period 2015-2019, 6,544 loans with a total value of 41.3 bln KZT were refinanced by the Bank under the Progam-2015. At that, ForteBank JSC, being the first among second-tier banks to fully master the contribution, has additionally raised funds in 2018 in the amount of 10 bln KZT from Kazakhstan Sustainability Fund JSC to refinance loans under the Progam-2015. The additional deposit was also early adopted by the Bank. The additional contribution was also mastered by the Bank ahead of schedule. In January 2020, the Bank was granted an additional limit of 5 bln KZT under the Program-2015. Pursuant to amendments and additions made on December 23, 2019 to Resolution of the Management Board of the National Bank of the RoK No. 69 dated April 24, 2015 "On Approval of the Housing Mortgage Loans (Mortgage Loans) Refinancing Program" (hereinafter – "Amendments to Resolution No. 69"), the terms of deposits for 20.3 bln KZT and additional limits for 10 bln KZT and 5 bln KZT were renewed from 20 to 30 years.

In 2018, the Bank signed a 20-year deposit agreement worth 55 bln KZT to implement the Foreign Currency Housing Mortgage Loans/ Mortgage Loans Refinancing Program until January 1, 2016 (hereinafter – the "Foreign Currency Program"), under which Kazakhstan Sustainability Fund JSC shall reimburse the Bank for the exchange difference. As of the end of 2019, the Bank refinanced 1,968 loans for the amount of 18.9 bln KZT. In line with the amendments to Resolution No. 69, the initial deposit amount of 55 bln KZT was reduced to 42.8 bln KZT and the deposit term was renewed from 20 to 30 years.

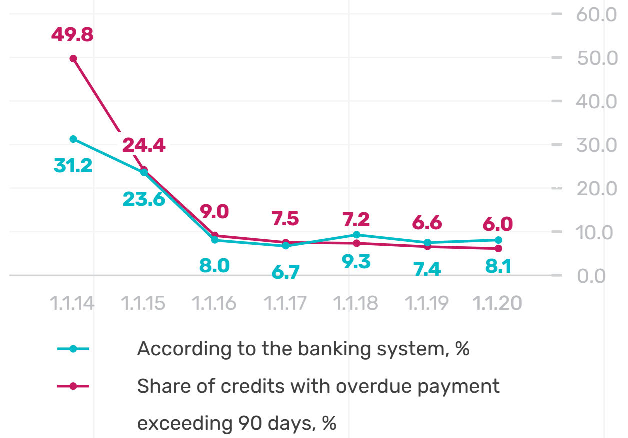
[1] NPL is calculated according to the NBK Methodology.

Due to a decreased amount under the Foreign Currency Program, a limit/contribution was allocated to the Bank in the amount of 11.4 bln KZT for 30 years for providing further assistance to mortgage borrowers as per Section 2-1 of the Housing Mortgage Loans Refinancing Program.

Over the period 2015-2019, as a result of the Program-2015 and the Foreign Currency Program, the Bank rehabilitated the loan portfolio of housing mortgage loans / mortgage loans for a total amount of 87 bln KZT.

Positive results of the Bank's work on problem loans were also appreciated by rating agencies. Standard & Poor's noted that "ForteBank has demonstrated success in settling problem credits issued in previous periods, which were transferred to the bank portfolio from Alliance Bank JSC and Temirbank JSC. The rating agency gives positive assessment to the quality of management activity of the Bank team and its experience in recovery of problem debts acquired in previous periods." According to Moody's rating agency, "The rating agency accepts the positive results of the new management team for handling outstanding debts. The revision of the outlook reflects improvement in the quality of the assets and reserves of the Bank, which is, in turn, confirmed by progress in recovery of problem credits." As stated by Fitch agency in its report: "The positive outlook of the Bank reflects the expectations that the level of problem assets in relation to capital should be further reduced during the next year due to additional provisioning, further capital strengthening and recovery of problem credits. Over half of the problem loans are retail mortgage credits that are being gradually repaid through the Bank's participation in refinancing programs. In Fitch's view, this enables the Bank to further improve the quality of its credits and lower the level of problem credits."

## NPL dynamics



# Service development

**We are working on a large-scale Service Evolution Project.** Development Strategy of ForteBank focuses on improving the quality and speed of services provided, comfort, safety and reliability of service for Forte clients.

# Financial performance

## INCOME ANALYSIS

**In 2019, the steady growth of ForteBank business continued. At the year-end, operating income increased by 44% to 108 bln KZT. In 2018, the growth was also significant and amounted to 31%. In absolute figures, the growth in 2019 was 33.3 bln KZT, resulting from both an increase in net interest income by 28.9 bln KZT, and an increase in net fee and commission income by 7.7 bln KZT. At the same time, other operating income declined by 3.5 bln KZT. Operating expenses increased by 6.9 bln KZT.**

Net interest income increased by 59% and amounted to 78.3 bln KZT in 2019 due to the loan portfolio strengthening. Interest margin reached 5.3% (4.6% in 2018). The increase in interest margin by 15% was caused by the growth of unsecured loans.

Meanwhile, an increase in fee and commission income is observed, which reflects the successful development of non-credit products and services. Net fee and commission income in 2019 was 22.1 bln KZT and increased by 54% in 2018. At that, the ratio of net fee and commission income to net interest income almost remained unchanged and totaled 33% at the end of 2019. The growth of fee and commission income in the corporate segment was primarily observed in the SMB sector and resulted from the arrival of new customers and revision of tariffs. The retail segment growth was mainly achieved through transactions with credit cards (including payments and services).

Operating expenses increased by 19% in 2019 and totaled 43 bln KZT. The growth was mostly due to the increase in the payroll fund. Meanwhile, the cost-to-income ratio declined from 48% in 2018 to 40% in 2019, which represents the outrunning growth in revenues.

Such an increase in operating income led to a 45% increase in the Bank's net profit for 2019 and amounted to 42.2 bln KZT. A good business profitability ratio is maintained. The return on assets at the year-end was 2.2%, while the return on equity was 19.7%.

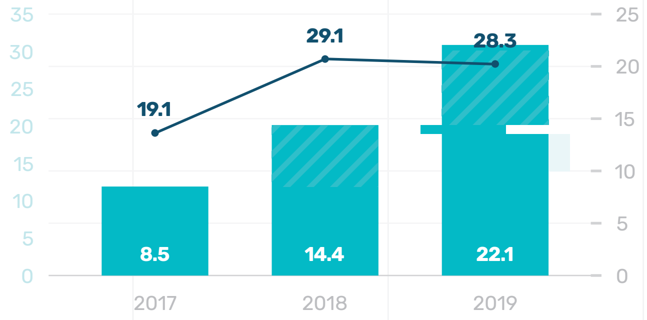
**Herewith, the income of the Bank becomes more business-oriented and less dependent on non-recurring income, which lays the foundation for further sustainable development.**

## Composition of income, mln KZT

| Indicator | 2017 | 2018 | 2019 |
|---|---|---|---|
| Nonrecurring income | 7,211 | 14,399 | 6,843 |
| Trading income* | 58,908 | 73,625 | 109,760 |
| Net income | 19,751 | 29,108 | 42,233 |

* Trading income = Net % income + Net income from F & C + Net FX-income (without loss from execution of court decision).

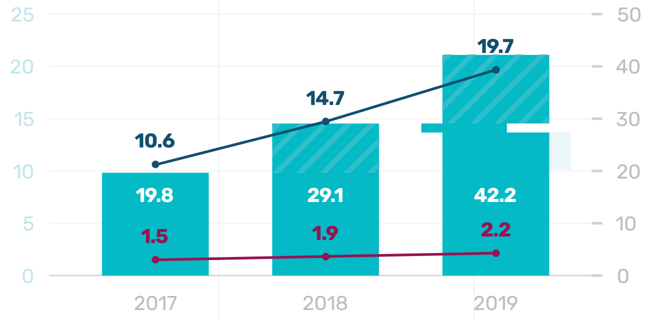
## Net fee and commission income




Net fee and commission income, bln KZT

Ratio of net fee and commission income to net interest income, % (Scale on the left)

## Profit margins

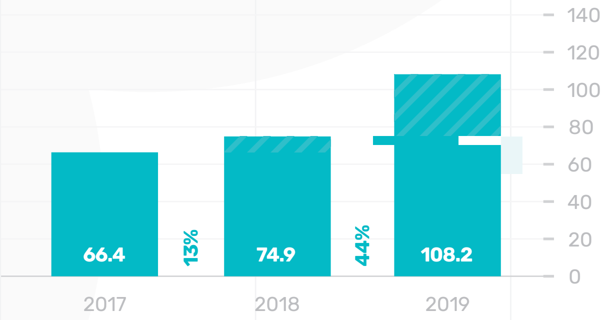



Net income, bln KZT

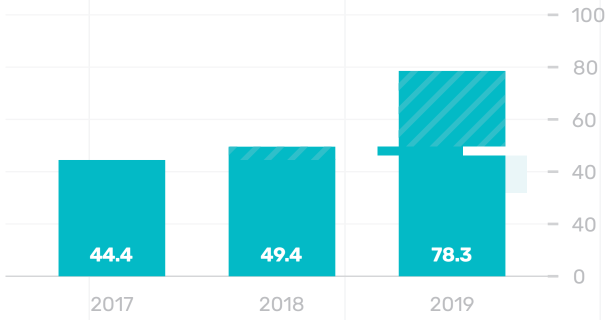
ROA, % (Scale on the left)

ROE % (Scale on the left)

## Operating income, bln KZT

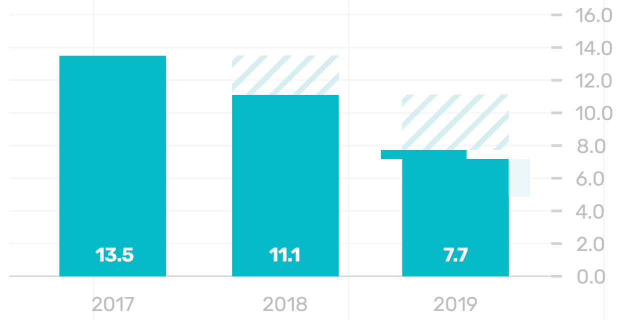



## Net interest income

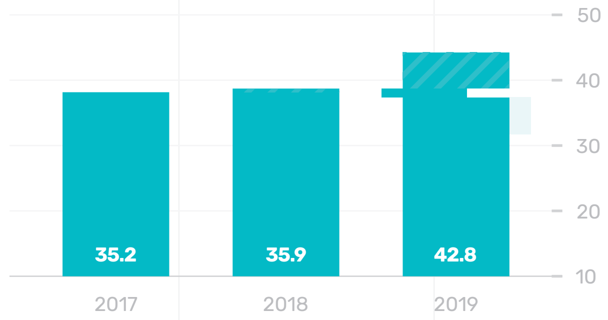



Net interest income, bln KZT

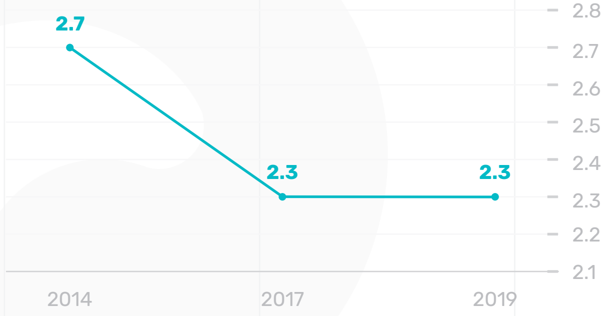
## Other operating income, bln KZT



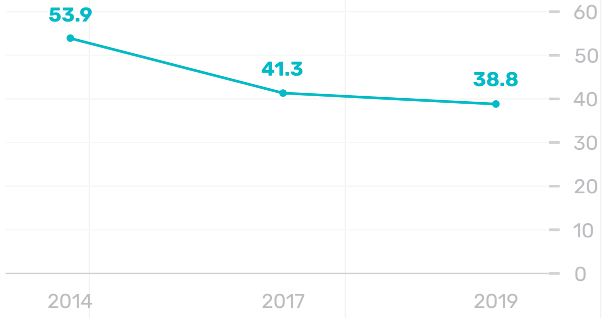

## Operating expenses, bln KZT



Cost to assets, %




Cost-to-income ratio, %




## BALANCE SHEET ANALYSIS

| Key balance sheet indicators, bln KZT | 2019 | 2018 | 2017 | Chang. 2019/ 2018, % |
|---|---|---|---|---|
| **Assets** | **2,070** | **1,689** | **1,445** | **23%** |
| Cash and cash equivalents | 347 | 225 | 232 | 54% |
| Cash due from financial institutions | 28 | 20 | 6 | 43% |
| Credits issued to customers | 785 | 690 | 672 | 14% |
| Trading securities | 6 | 10 | 291 | -32% |
| Investment securities | 719 | 570 | 82 | 26% |
| Fixed assets | 71 | 51 | 49 | 37% |
| Deferred tax assets | 0 | 2,3 | 6,7 | - |
| Other assets | 113 | 120 | 106 | -6% |
| **Liabilities** | **1,841** | **1,488** | **1,250** | **24%** |
| Current accounts and customer deposits | 1,337 | 1,076 | 981 | 24% |
| Payables to banks and other financial institutions | 118 | 72 | 76 | 63% |
| Accounts payable under repurchase agreements | 117 | 56 | 37 | 107% |
| Debt securities in issue | 229 | 254 | 125 | -10% |
| Subordinated debt | 26 | 23 | 23 | 15% |
| Deferred tax liabilities | 1,6 | 0,2 | 0,1 | - |
| Other liabilities | 13 | 8 | 9 | 69% |
| **Equity** | **229** | **200** | **194** | **14%** |

**At the end of 2019, the Bank's assets amounted to 2,070 bln KZT and increased by 23% in 2018, which is almost four times higher than compared to the banking industry (6.2%). In absolute figures, the growth was 381.2 bln KZT and was achieved through an increase in investment securities by 149 bln KZT, cash and cash equivalents by 122 bln KZT and an increase in the loan portfolio by 95 bln KZT.**

The loan portfolio of the Bank increased by 14% and, as of the end of 2019, exceeded 785 bln KZT. The Bank's loan portfolio quality has also improved. According to the National Bank, the share of overdue credits decreased from 6.6% at the start of the year to 6.0% as of December 31, 2019. The Bank is actively working with both corporate and retail customers, and adheres to a fairly conservative strategy for lending growth, which allows it to ensure sustainable business growth.

*Credits to customers form the largest part of assets with 38%, followed by the investment securities portfolio with 35%. Cash and cash equivalents amounted to 17% of assets at the end of 2019.*

As at the end of 2019, liabilities of the Bank totaled 1,841 bln KZT and increased by 24% or 353 bln KZT. The growth of liabilities was primarily driven by an increase in customers' current accounts and deposits by 261.3 bln KZT (or 24%) up to 1,337 bln KZT. The increase in deposits reflects the growing confidence of customers to the Bank.

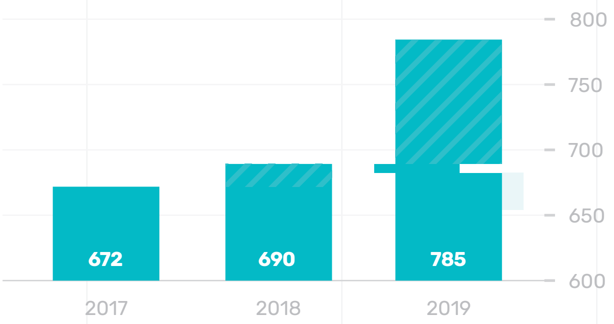
In 2019, the amount of the Bank's debt liabilities (issued debt securities and subordinated debt) reduced by 8% to 255 bln KZT. In December 2019, the Bank made early redemption of eurobonds issued in 2014 in the nominal amount of 236.75 mln USD, with a coupon rate of 11.75% per annum and maturity in 2024. These bonds were repaid in the amount equal to 108% of the principal amount due to the early redemption date. This resulted in reduction not only in the Bank's debt burden, but also in currency risks.

The equity capital of the Bank increased by 15% and totaled 229 bln KZT at the end of 2019. The Bank's liquidity level remains one of the highest on the market with a current liquidity ratio K4 (ratio of current assets to current liabilities) equal to 165%, against the normative minimum level of 30%. Prudential capital adequacy ratios k1, k1-2, k2 are close to twice the norm of the National Bank of the RoK.

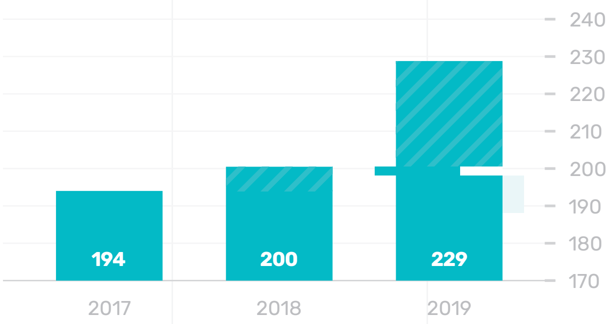
| Key indicators | 2019 | 2018 | 2017 | Statutory ratio |
|---|---|---|---|---|
| Capital adequacy k1 | 17.0% | 16.2% | 18.8% | not less than 7.5% |
| Capital adequacy k1-2 | 17.0% | 16.2% | 18.8% | not less than 8.5% |
| Capital adequacy k2 | 18.3% | 17.8% | 20.8% | not less than 10% |
| Capital adequacy k4 | 165.2% | 154.1% | 230.6% | not less than 30% |

In 2019, the National Bank of the RoK performed an asset quality review (AQR) of ForteBank along with 13 other largest Kazakhstani banks. The AQR review served as an additional stress test for the reserve and collateral assessment models used by the Bank and confirmed their sufficient level of conservatism. Insignificant discrepancies in accrual of provisions as per IFRS, identified in the assessment as of April 1, 2019, amounted to less than 1.2% of the Bank's equity capital and were accounted for during the review. As a large financial institution of Kazakhstan, the Bank has supported the efforts of the Agency for Regulation and Development of Financial Market to elaborate systemic measures of financial regulation and supervision and will develop internal systems and processes in line with the adopted recommendations.

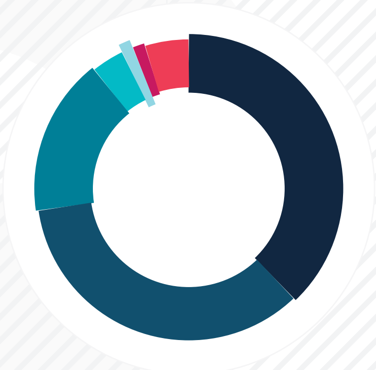
## Loans issued to customers




## Equity

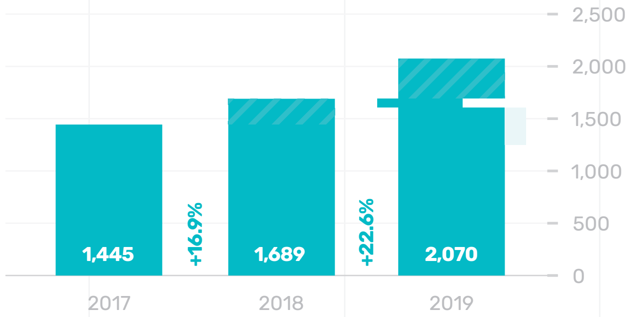


## Assets structure

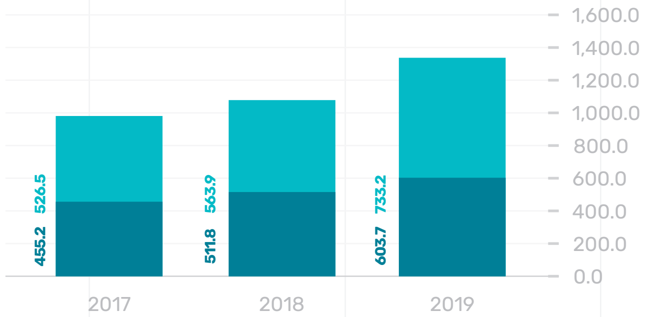


| | | |
|---|---|---|
| **38%** | | Credits to customers |
| **35%** | | Investment securities |
| **17%** | | Cash and cash equivalents |
| **3%** | | Fixed assets |
| **1%** | | Cash due from financial institutions |
| **1%** | | Intangible assets |
| **0%** | | Trading securities |
| **5%** | | Other |

## Assets, bln KZT



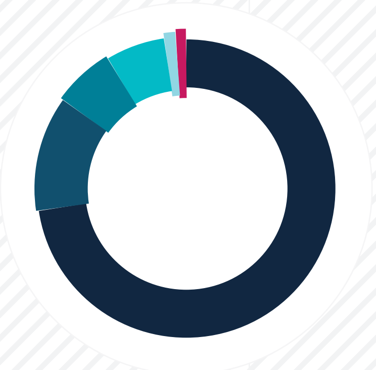

## Dynamics of customers' accounts and deposits, bln KZT




Retail segment

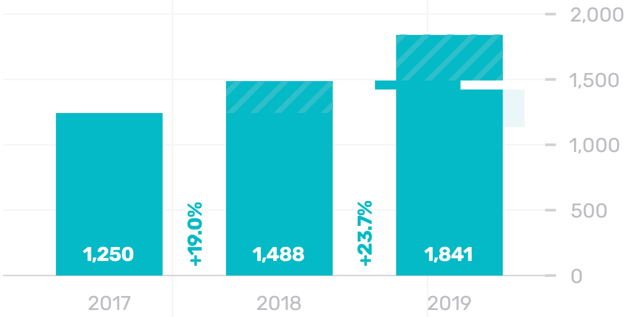
Corporate segment

## Liabilities structure as of the end of 2020

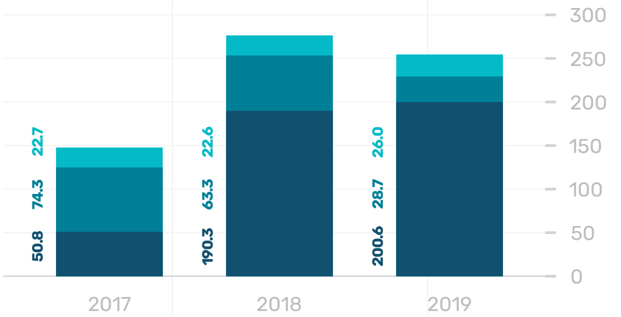


| | | |
|---|---|---|
| **73%** | | Current accounts and customer deposits |
| **13%** | | Debt securities in issue |
| **6%** | | Cash due from banks and other financial institutions |
| **6%** | | Debts under repurchase agreements |
| **1%** | | Subordinated debt |
| **0%** | | Deferred tax liabilities |
| **1%** | | Other liabilities |

## Liabilities dynamics, bln KZT




## Debt and subordinated securities issued, bln KZT




Bonds in KZT

Bonds in USD

Subordinated notes, KZT

# Effective communication

**We are working on building effective working relationships with a wide range of stakeholders** in order to ensure balanced development, taking into account their interests, both in the short and long term.

# Corporate governance

## CORPORATE GOVERNANCE SYSTEM

**The Corporate Governance of the Bank consists of an organizational model, external and internal monitoring and control mechanisms, as well as corporate values and guidelines. Improvement and development of corporate governance practices is a top priority for the Bank and is in the focus and control area of the Board of Directors.**

The Bank's corporate governance system is based on respect for the rights and legitimate interests of shareholders and key stakeholders such as customers, partners, officials and employees of the Bank, as well as the state, and is aimed at the reduction of different types of risks, enhancement of the Bank's attractiveness and increasing its value.

To ensure proper observance and compliance with the principles of corporate governance, the Bank is guided in its work by decisions of the General Meeting of Shareholders, Board of Directors, Management Board of the Bank, as well as by its Articles, Corporate Governance Code and other internal documents.

**The corporate governance in the Bank is based on the following basic principles:**

1. protection of rights and interests of the Bank's shareholders;
2. efficient governance;
3. accountability and responsibility;
4. transparency and fairness of information disclosure about the Bank and its activities;
5. legitimacy and ethics;
6. effective dividend policy;
7. effective staff policy;
8. environmental protection;
9. active assistance to development of the financial system of the Republic of Kazakhstan.

*The Bank grasps the importance of corporate governance improvement and strives to ensure openness and transparency in its activities.*

## OBSERVANCE OF THE CORPORATE GOVERNANCE CODE

The Corporate Governance Code of ForteBank JSC was developed in accordance with the legislation of Kazakhstan, the Articles of Association of the Bank, considering the existing international experience in the area of corporate governance, recommendations of the Basel Committee on Banking Supervision "Improvement of corporate governance in credit organizations", the best practice of corporate conduct in Kazakhstan, advanced customary business practices and business ethics rules. The Code is a body of norms governing the relations of the Bank with its shareholders, as well as between bodies and officials of the Bank.

## GOVERNANCE BODIES

**The governing bodies of the Bank are:**

- **the supreme body –** the General Meeting of Shareholders;
- **the governing body –** the Board of Directors;
- **the executive body –** the Management Board;
- other bodies in accordance with the legislation of the Republic of Kazakhstan.

## SHAREHOLDERS

As of December 31, 2019, Mr. B. Utemuratov was the beneficiary owner of 87.27% of the outstanding ordinary shares of the Bank. The remaining shares are owned by other shareholders numbering approximately 26,000, each holding less than 5% of the shares.

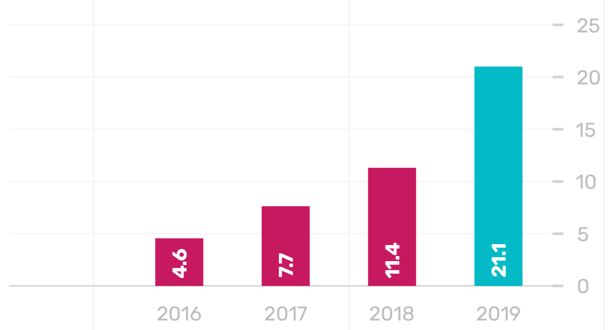
**2.45₸**

**As of January 1, 2020, the book value of one ordinary share was 2.45 KZT.**

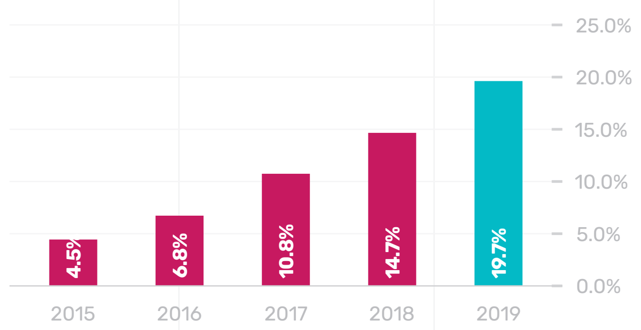
## ISSUED CAPITAL

**The Forte development strategy has long-term goals and aims at increasing the shareholder value of the Bank.**

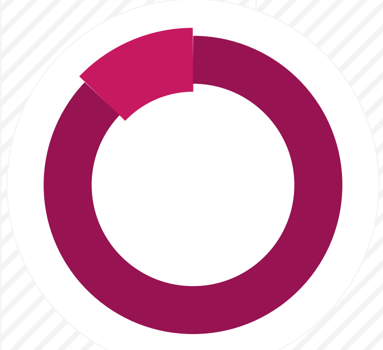
### Dividends paid, bln KZT




### ROE Dynamics




### Equity strucutre



87.27% Bulat UTEMURATOV

12.73% In free circulation (more than 25 thousand holders)

As of December 31, 2019, equity capital amounted to 332.8 bln KZT. The number of outstanding ordinary shares was 92,387,104,089 pieces. This includes 16,578,709,351 shares that are the basic asset of two GDR programs. No preferred shares are available.

Pursuant to the shareholders' decision dated April 29, 2019, the Bank declared dividends on ordinary shares for the year ended December 31, 2018 in the amount of 11,376 mln KZT. Payment of dividends was limited to 40% of annual net income as per the terms of Eurobonds prepaid on December 15, 2019.

**By the decision of shareholders dated May 4, 2020, dividends for 2019 were declared for the amount of 21.1 bln KZT.**

## RIGHTS OF SHAREHOLDERS

In its activities ForteBank is committed to the principle of protecting the rights and interests of shareholders. The Bank ensures the implementation of the following fundamental rights of its shareholders:

- rights of ownership, use and disposal of the Bank's shares belonging to them;
- rights of obtaining information about the Bank and its activities in the scope, within the time and in the manner prescribed by the legislation of the Republic of Kazakhstan and internal documents of the Bank;
- rights of participation in running the Bank through the participation in general meetings of shareholders of the Bank, delivery of speeches and voting on issues considered at such meetings;
- rights for offering candidates for election to the General Meeting of Shareholders of the Bank which agenda includes an item on election of a member / members of the Board of Directors;
- rights for receiving a share of the Bank's profits as dividends on the shares of the Bank owned by them;
- other rights defined by the legislation of the Republic of Kazakhstan and the Articles of Association of the Bank.

With a view to safeguarding the rights of its shareholders, the Bank ensures secure, reliable and trustworthy accounting of the ownership rights of the Bank's shareholders to the shares issued by them, and does not preclude its shareholders from disposing of their shares in the Bank (including alienation of such shares). The Bank uses convenient procedure for shareholders to exercise their right of preferential purchase of allocated shares of the Bank or of other securities of the Bank, convertible into its shares, or of preferential purchase of its own shares previously repurchased by the Bank or other securities of the Bank which are convertible into its shares. The Bank promptly notifies its shareholders in conformity with the Articles of Association of the Bank on the date, time and venue of the general meeting of the Bank's shareholders. It has a procedure convenient for the Bank's shareholders to exercise their rights to demand convocation of the general meeting of shareholders of the Bank or a meeting of the Board of Directors, to submit proposals to amend the agenda of the general meeting of shareholders of the Bank, to nominate candidates to the Board of Directors, to request an audit of the Bank by an auditing company on account of the Bank's shareholder. Shareholders are provided with reasonable answers to their written requests about the Bank's activities.

## MEETINGS OF SHAREHOLDERS

**In 2019, three general meetings of shareholders were held, one annual and two extraordinary, with 8 issues considered.**

The annual general meeting of shareholders of the Bank which took place on April 29, 2019, was dedicated to six issues. As a result, the AGMS took the following decisions:

1. Approval of the Bank's annual financial statement for 2018.
2. Approval of the procedure for distribution of the Bank's net income for 2018, the amount of dividend per one ordinary share of the Bank.
3. Acceptance of the Report on the Board of Directors' activities for the past financial year.
4. Acceptance of the information on appeals of shareholders to the actions of the Bank and its officials and the results of their consideration.
5. Acceptance of the information on the amount and structure of remuneration for members of the Board of Directors and the Board in 2018.
6. Approval of amendments to the Articles of Association of the Bank.

The EGMS of the Bank, held on March 4, 2019, considered the issue "On determination of the number of members, term of office of the Board of Directors of the Bank, election of its members, and setting the remuneration amount for members of the Board of Directors of the Bank".

The EGMS of the Bank, held on June 13, 2019, considered the issue "On the composition of the Board of Directors of the Bank and setting the remuneration size for members of the Board of Directors of the Bank".

## STRUCTURE OF THE BOARD OF DIRECTORS

**Corporate Secretary**

is responsible for the proper functioning of the corporate governance system in the Bank, including by ensuring timely and efficient corporate decision-making by the Board of Directors, as well as by improving the system of corporate communications and providing effective control over the observance by the Bank of legislative requirements in the corporate governance area to protect the rights and interests of the Bank's shareholders, as well as to minimize the risks of occurrence of corporate conflicts and other risks of the Bank.

**Compliance Control Service**

The Compliance Service unit is in charge of the development and implementation of the Bank's compliance risk management, including Anti-Money Laundering / Combating the Financing of Terrorism.

**Internal Audit Service**

Internal audit ensures independent, fair evaluation of the effectiveness of risk management, internal control and governance processes.

**Board of Directors**

**Committee for Risk Management, Lending, Management of Assets and Liabilities**

Evaluation of the Bank's risk management systems, issues of lending and management of assets and liabilities of the Bank

**Committee for Strategic Planning**

Determines the priority areas of the Bank's activities and its strategy

**Committee for Internal Audit**

Evaluation of the efficiency of the Bank's internal control system, accounting and audit of the financial statements

**Committee for Staff, Remuneration and Social Issues**

In charge of corporate governance issues, staff policy and remuneration, social issues

## BOARD OF DIRECTORS

As of December 31, 2019, the Board of Directors consists of 6 members, including the Chairman and five members of the Board of Directors, two of whom are independent directors.

| Full name of member of the Board of Directors | Position | Date of election | Membership in the Committees | | | |
|---|---|---|---|---|---|---|
| | | | Committee for Strategic Planning | Committee for Staff, Remuneration and Social Issues | Committee for Internal Audit | Committee for Risk Management, Lending, Management of Assets and Liabilities |
| **M. Mirzabekov** | Chairman of the Board of Directors – Representative of the shareholder's interests | 14.06.2019 | + | + | + | + |
| **A. Utemuratov** | Member of the Board of Directors – Representative of the shareholder's interests | 30.12.2014 | + | + | + | + |
| **E. Abdrazakov** | Member of the Board of Directors – Independent Director | 04.03.2019 | ⊕ | ⊕ | + | + |
| **R.Bekturov** | Member of the Board of Directors – Representative of the shareholder's interests | 14.06.2019 | + | + | + | + |
| **T. Isatayev** | Member of the Board of Directors – Representative of the shareholder's interests | 30.12.2014 | + | + | + | + |
| **H. Pandza** | Member of the Board of Directors – Independent Director | 03.11.2015 | + | + | ⊕ | ⊕ |

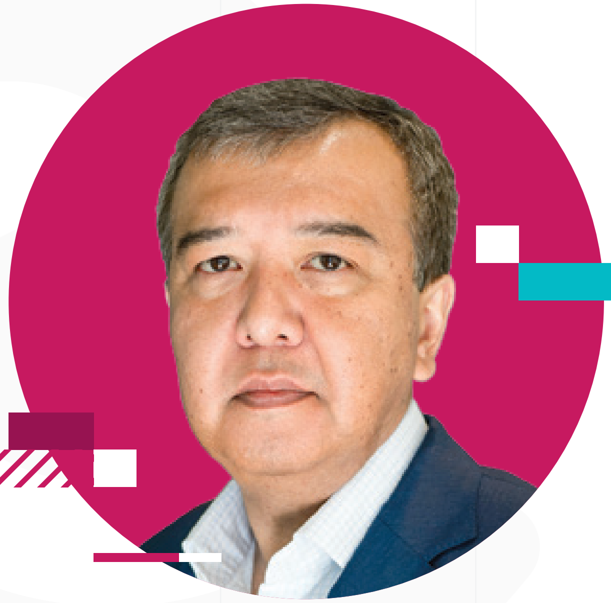
⊕ Committee Chairman

**Pursuant to the decisions of the general meetings of shareholders of the Bank, the following changes were made in the composition of the Board of Directors in 2019:**

- On March 4, 2019, E. Abdrazakov was elected as a member of the Board of Directors - Independent Director of the Bank;
- On June 13, 2019, M. Auezov as a member of the Board of Directors and R. Bekturov as a member of the Board of Directors - Independent Director of the Bank had their powers terminated prematurely;
- On June 14, 2019, M. Mirzabekov (elected as Chairman of the Board of Directors by the Decision of the Board of Directors (Minutes of the meeting dated June 14, 2019 No.28)), R. Bekturov (as a representative of the shareholder's interests) were elected as members of the Board of Directors.

The term of the Board of Directors expires on the date of the annual general meeting of shareholders of the Bank in 2022.

# COMPOSITION OF THE BOARD OF DIRECTORS



## MARLEN MIRZABEKOV

Chairman of the Board of Directors, Member of the Board of Directors – Representative of the Bank Shareholder's interests

Birth year: 1970

**Experience:**

- **June 14, 2019 to present –** ForteBank JSC, Chairman of the Board of Directors, Representative of the shareholder's interests.
- **June 2019 to present –** Nova Leasing JSC, a member of the Board of Directors.
- **May 2019 to present –** Verny Investments Holding, First Deputy General Manager.
- **June 2014 – May 2019 –** Kazzinc Holdings LLP, Managing Director, General Director.
- **July 2012 – May 2019 –** Altyntau Resources JSC, President, Managing Director.

**Education:**

- **1989 –** T. Ryskulov Kazakh Economic University.
- **1994 –** Technical University Ilmenau (Technische Universität Ilmenau), Germany.
- **2006 –** Kazakh Polytechnic Institute.

## TIMUR ISSATAYEV

Member of the Board of Directors – Representative of the Bank shareholder's interests

Birth year: 1969

**Experience:**

- **October 10, 2013 to present –** ForteBank JSC (formerly – Alliance Bank JSC), Member of the Board of Directors.
- **October 2013 – December 2015 –** ForteBank JSC (formerly – Alliance Bank JSC) – Chairman of the Management Board.
- **March 2012 – November 2013 –** ABC Bank JSC (formerly – ForteBank JSC, formerly – Metrocombank JSC), Member of the Board of Directors.
- **May 2010 – March 2012 –** Chairman of the Board of Directors, Metrocombank JSC.

**Education:**

- **1991 –** S.M. Kirov Kazakh State University.
- **1993 –** Yale University.

## ANUAR UTEMURATOV

Member of the Board of Directors – Representative of the Bank shareholder's interests

Birth year: 1983

**Experience:**

- **October 2015 to present –** Alassio Capital LLP, Director
- **December 30, 2014 to present –** ForteBank JSC (formerly – Alliance Bank JSC), Member of the Board of Directors.
- **December 2013 – December 2016 –** ABC Bank JSC (formerly – ForteBank JSC and before that – Metrocombank JSC), Member of the Board of Directors.
- **June 2012 – October 2013 –** ForteBank JSC (formerly – Metrocombank JSC), Member of the Board of Directors - Chief Risk Manager.

**Education:**

- **2004 –** Huron University USA in London.

## RUSTEM BEKTUROV

Member of the Board of Directors – Representative of the Bank shareholder's interests

Birth year: 1963

**Experience:**

- **June 2017 to present –** PetroKazakhstan Inc., Vice President on strategic communications.
- **December 30, 2014 to present –** ForteBank JSC (formerly – Alliance Bank JSC), Member of the Board of Directors.
- **December 2013 – December 2016 –** ABC Bank JSC (formerly – Forte Bank JSC and before that – Metrocombank JSC), Member of the Board of Directors.
- **September 2010 – June 2017 –** KMG – Refining and Marketing JSC, Deputy General Manager.

**Education:**

- **1985 –** M. V. Lomonosov Moscow State University. PhD in Economics
- **2019 –** I.M.Gubkin Russian State University of Oil and Gas (National Research University).

## HUBERT ALBERT PANDZA

Member of the Board of Directors – Independent Director

Birth year: 1948

**Experience:**

- **November 3, 2015 to present –** ForteBank JSC (formerly – Alliance Bank JSC), Member of the Board of Directors – Independent Director.
- **June 2017 –** Deutsche Bank Polska (Warszawa), Independent Member of the Board of Directors.
- **June 2015 – February 2017 –** RosEnergoBank JSC (Moscow), Independent Member of the Board of Directors.
- **February 2013 – June 2015 –** RosEnergoBank JSC (Moscow), Adviser to the Management Board.
- **June 2013 – June 2014 –** TransCapitalBank PJSC (Moscow), Independent Member of the Board of Directors.
- **February 2010 – December 2014 –** Alliance Bank JSC, Member of the Board of Directors – Independent Director.

**Education:**

- **1975 –** University of Saarland, Saarbrücken, Germany, Master of Science in International Economic Relations.
- INSEAD Advanced Management Programme, Fontainebleau, France.

## ELDAR ABDRAZAKOV

Member of the Board of Directors – Independent Director

Birth year: 1972

**Experience:**

- **March 2019 to present –** ForteBank JSC (formerly – Alliance Bank JSC), Member of the Board of Directors - Independent Director.
- **May 2012 to present –** Kazakhstan Stock Exchange JSC, Member of the Board of Directors.
- **April 2005 to present –** Owner of Centras Group, Chairman of the Board of Directors of “Kommesk Omir” Insurance Company JSC, Centras Invest LLP, Centras Securities JSC, “Centras Insurance” Insurance Company JSC, Centras Venture Fund, SOS Medical Assistance.

**Education:**

- **1995 –** Khoja Akhmed Yassawi International Kazakh-Turkish University, major “International Economic Relations”.
- **1996 –** Khoja Akhmed Yassawi International Kazakh-Turkish University, Master of International Economic Relations.
- **2010 –** Harvard Business School (USA).

# PERFORMANCE OF THE BOARD OF DIRECTORS

**The Board of Directors provides overall direction for the Bank operations, ensures efficient control over the Management Board activities and reports to the General Meeting of Shareholders of the Bank.**

The exclusive competence of the Board of Directors covers, inter alia, such issues as:

- determination of priority areas of the Bank's activities and development strategy,
- adoption of decisions on convocation of the general meeting of shareholders,
- prior approval of the annual financial statements,
- determination of conditions for issuing bonds and derivative securities, as well as deciding on their issue;
- determination of the number of members, term of office of the Management Board, election of its head and members (a person solely exercising functions of the executive body), as well as early termination of their powers;
- determination of the number of members and term of office of the Internal Audit Service, appointment of its head and employees, as well as early termination of their powers;
- approval of documents regulating internal activities of the Bank,
- adoption of decisions on opening and closing of branches and representative offices of the Bank and approval of their provisions;
- adoption of decisions on acquisition (alienation) by the Bank of ten or more percent of shares (ownership interest in the authorized capital) of other legal entities;
- increasing the Bank's liabilities by the amount equal to or more than ten percent of its equity capital;
- adoption of decisions on conclusion by the Bank of major deals and transactions in which the Bank has an interest, deals with persons related to the Bank by special relations;
- and other issues.

The Board of Directors held 29 meetings and 27 absentee voting of its members during 2019, where 316 issues were considered, including the following:

- **176 issues** (55.7% of the total number of issues) - during the meetings of the Board of Directors;
- **140 issues** (44.3% of the total number of issues) – through absentee voting by members of the Board of Directors.

In the course of 2019, the following issues were considered at the meetings of the Board of Directors, which were also preliminary considered by the Committees of the Board of Directors: issues of financial and management reporting provided by the Management Board in accordance with the requirements of the legislation of the Republic of Kazakhstan, reports of the Internal Audit Service, reports of the Compliance Control Service, reports of the Strategic Risk Management Department.
The Board of Directors reviewed, on a monthly basis, information on the progress of execution of instructions given by the Board of Directors. It considered quarterly reports on the Bank's financial status and budget execution.

Throughout 2019, the Board of Directors and its Committee for Staff and Remuneration considered personnel issues and remuneration of the management of the Bank and its subsidiaries.

During 2019, the Board of Directors devoted considerable attention to the Bank's development strategy for 2020-2024, its organizational structure and the new KPI concept, which were finally approved.

In 2019, the Board of Directors reviewed the priority areas of activities of the Bank, including the following:

- Information Technologies, Information Security Development Strategy (Cyber Security), Data Lake;
- management of loan, financial and operational risks and capital;
- implementation of projects on development of retail business and ecosystem, service and quality of services;
- monitoring of implementation and adjustment of the Bank's Strategy;
- issues of corporate governance;
- on making interested-party transactions and other issues.

It is important that the Board of Directors holds annual strategic sessions aimed at developing, together with the management of the Bank, proposals (principal planned steps for trimming expenses of the Bank and increasing its earnings) on adjusting the strategy of the Bank's development in light of the current economic conditions.

The efficient running of the work of the Board of Directors was ensured due to the regularity of its meetings, the number and type of issues being considered by the Board of Directors, the frequency with which it considered the Bank's management reports, reports of the Bank's risk management units, the Internal Audit Service and the Compliance Control Service, as well as the involvement of members of the Board of Directors in its meetings and absentee voting, compliance by the Bank with the deadlines for submission of documents on the issues under consideration by the Board of Directors.

### Information on the involvement of the members of the Board of Directors in its meetings and absentee voting

| Surnames and initials of members of the Board of Directors | Degree of involvement in meetings | | Degree of involvement in absentee voting | |
|---|---|---|---|---|
| | in absolute terms | in relative terms | in absolute terms | in relative terms |
| **M. Auezov (Chairman)*** | 12 of 12 | 100 % | 13 of 13 | 100 % |
| **E. Abdrazakov** | 25 of 25 | 100 % | 23 of 23 | 100 % |
| **R. Bekturov** | 28 of 29 | 96.5 % | 23 of 27 | 85.2 % |
| **T. Isatayev** | 29 of 29 | 100 % | 27 of 27 | 100 % |
| **H. Pandza** | 29 of 29 | 100 % | 27 of 27 | 100 % |
| **A. Utemuratov** | 26 of 29 | 89.7 % | 25 of 27 | 92.6 % |
| **M. Mirzabekov (Chairman)**** | 15 of 15 | 100 % | 14 of 14 | 100 % |

* Was Chairman of the Board of Directors until June 13, 2019.
** Elected Chairman of the Board of Directors on June 14, 2019.

## COMMITTEES UNDER THE BOARD OF DIRECTORS

At the end of 2019, there were four committees under the Board of Directors:

- for strategic planning,
- for Staff, Remuneration and Social Issues,
- for Internal Audit,
- for Risk Management, Lending, Management of Assets and Liabilities.

The Committees in their activities are accountable to the Board of Directors. The Committee Chairmen submits to the Board of Directors information on the activities carried out by the Committees, the content of the issues considered and decisions adopted.

*During 2019, 51 meetings of the Committees of the Board of Directors were held, where 163 issues were considered.*

### Activity of the Committees under the Board of Directors in 2019

| Committee name | Number of meetings | Number of issues |
|---|---|---|
| Committee for Internal Audit | 8 | 15 |
| Committee for Staff, Remuneration and Social Issues | 15 | 29 |
| Committee for Strategic Planning | 14 | 64 |
| Committee for Risk Management, Lending, Management of Assets and Liabilities | 14 | 55 |
| **Total** | **51** | **163** |

## ESTABLISHMENT OF THE BOARD OF DIRECTORS

**The Board of Directors is formed in accordance with the procedure established by the Law "On Joint Stock Companies" and the Articles of Association of the Bank. Elections to the Board of Directors are held by shareholders through cumulative voting.**

The terms of office of members of the Board of Directors are established by the general meeting of shareholders of the Bank and expire on the date of the general meeting of shareholders where a new Board of Directors is elected. Early termination of powers of the Board of Directors' members is carried out under the Law "On Joint Stock Companies".

The specifications for candidates to the Board of Directors and members of the Board of Directors are stipulated by the Law "On Banks and Banking Activities in the Republic of Kazakhstan", the Law "On Securities Market", as well as the Law "On Joint Stock Companies" and the Articles of Association of the Bank.

Additional specifications for candidates for election as independent directors and for independent directors of the Bank are stipulated by the Law "On Joint Stock Companies".

An independent director is recognized to be a member of the Board of Directors who:

- is not an affiliate of the joint stock company and has not been an affiliate for the three years prior to his/her election to the Board of Directors (except in case of his/her appointment as the independent director of this joint stock company);
- is not an affiliate to any affiliates of the joint stock company;
- is not connected by subordination with officials of this joint stock company or organizations - affiliates of this joint stock company and was not connected by subordination with these persons during the three years preceding his/her election to the Board of Directors;
- is not a civil servant;
- is not a representative of the shareholder at the meetings of the bodies of this joint stock company and has not been a representative of the shareholder during the three years prior to his/her election to the Board of Directors;
- does not participate in the audit of the joint stock company as the auditor working as part of the audit firm, and has not participated in such audit during the three years prior to his/her election to the Board of Directors.

**As of December 31, 2019, all independent directors of the Bank comply with the above criteria.**

## PERFORMANCE EVALUATION OF THE BOARD OF DIRECTORS

**Evaluation of the performance quality of the Board of Directors is intended to determine the level of efficiency of the Board of Directors, members of the Board of Directors, and Committees under the Board of Directors, compliance of their work with the needs of the Bank's development, activation of the Board of Directors and identification of areas where their performance can be improved.**

*The performance evaluation of the Board of Directors resulted in the adoption of the report of the Board of Directors for the past financial year, which was reviewed by the Annual General Meeting of Shareholders of the Bank on May 4, 2020 (pursuant to the Articles of Association of the Bank).*

## CONFLICTS OF INTEREST MANAGEMENT

**The Bank takes steps to promptly prevent and settle conflicts between the bodies of the Bank and its shareholders, as well as between shareholders, if such conflict affects the interests of the Bank.**

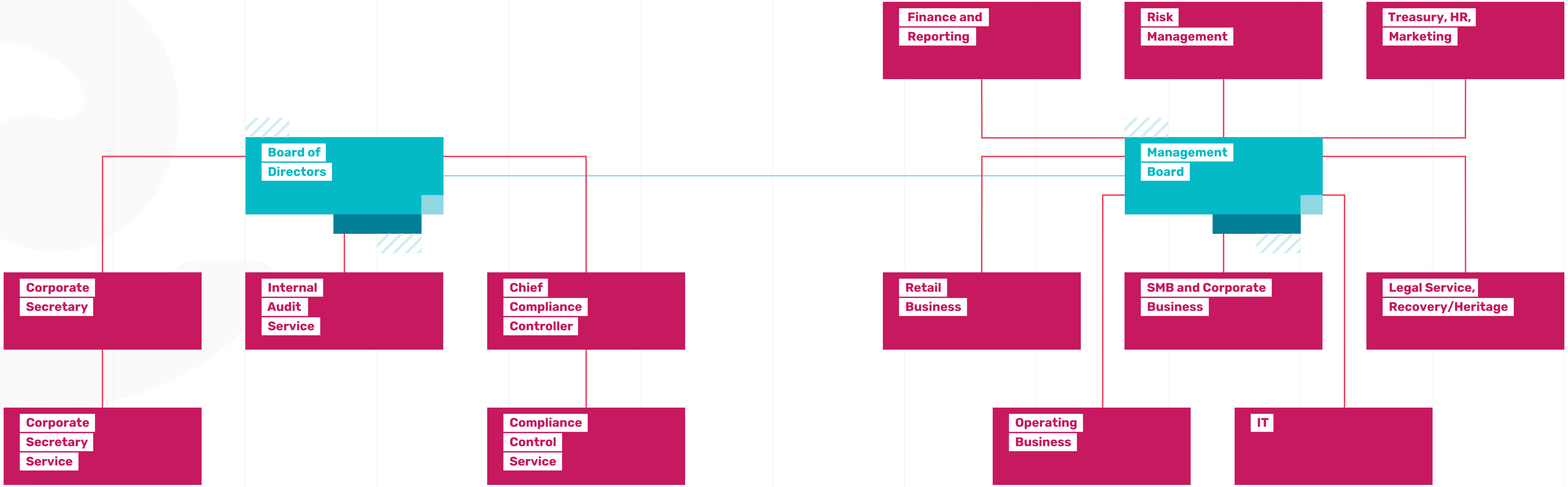
Conflicts of interest are prevented through absolute compliance with the legislation, as well as through bona fide and reasonable behavior in relations with the shareholders of the Bank.

All appeals from shareholders are subject to full and detailed answers, and if refusal to meet the request is sent to the shareholder, the reasoned grounds for such refusal are simultaneously communicated.

The primary objective of the Bank's bodies in resolving a corporate conflict of interest is the search for a solution that is legal and reasonable and meets the interests of the Bank.

**No corporate conflicts of interest were identified in the reporting year, and no complaints or appeals from shareholders were received.**

# ORGANIZATIONAL STRUCTURE



## MANAGEMENT BOARD

The management over the Bank's activities is carried out by the Management Board which consists of the Chairman of the Management Board, his deputies and other employees of the Bank by resolution of the Board of Directors. As of December 31, 2019, the Management Board consisted of the Chairman of the Management Board and five members.

### GURAM ANDRONIKASHVILI

Chairman of the Management Board

Birth year: 1979

**Experience:**

- **February 12, 2018 to present –** ForteBank JSC, Chairman of the Management Board.
- **December 2016 – November 2018 –** ForteBank JSC, First Deputy Chairman of the Management Board.
- **January 2015 – December 2016 –** ForteBank JSC, Deputy Chairman of the Management Board.
- **April 2012 – December 2016 –** ABC Bank JSC (formerly ForteBank JSC), Chairman of the Management Board.
- **2010–2012 –** METROKOMBANK JSC, Chairman of the Management Board.
- **2001–2010 –** JP Morgan Finance Company (London), Group of European Financial Institutions, various positions.

**Education:**

- **2001 –** The University of Durham, UK.

### ALIYA DYKANBAYEVA

First Deputy Chairman of the Management Board

Birth year: 1973

**Experience:**

- **January 5, 2020 to present –** ForteBank JSC, First Deputy Chairman of the Board (CFO), Member of the Management Board.
- **April 15, 2019 - January 5, 2020 –** ForteBank JSC, Deputy Chairman of the Management Board (CFO), Member of the Board.
- **September 2018 – February 2019 –** BI Group, Deputy Chairman of the Management Board (CFO).
- **0October 2013 – September 2018 –** Kazpost JSC, Deputy Chairman of the Management Board (CFO).
- **March 2008 – September 2013 –** PetroKazakhstan Oil Products LLP (Shymkent Oil Refinery), Director for Economics and Planning – Chief Financial Officer.
- **September 2006 – September 2007 –** Orient Energy Trade Ltd., Head of Mission.
- **July – December 2007 –** KIMEP University, Lecturer (Department of Evening Studies).
- **1995 – 2006 –** different positions at Kazakhstani and foreign companies.

**Education:**

- **1991–1995 –** Al-Farabi Kazakh State National University (KazGU), Bachelor's degree, major in International Economic Relations.
- **1999–2001 –** The American University, College of Arts and Sciences, Washington, USA, Master's program, major in Financial Economics.

## AIDYN AUEZKANOV

Deputy Chairman of the Management Board

Birth year: 1977

**Experience:**

- **September 15, 2014 to present –** ForteBank JSC, Deputy Chairman of the Management Board, Member of the Management Board.
- **2013–2014 –** Alliance Bank JSC, Managing Director.
- **2006–2008 –** ATF Bank JSC, Managing Director, Member of the Management Board.
- **2006–2009 –** ATF Leasing JSC, Chairman of the Board of Directors.
- **2004–2006 –** ATF Leasing JSC, President.
- **2002–2004 –** Almaty Regional Branch of Halyk Bank of Kazakhstan JSC, Deputy Branch Director for Corporate Business.
- **1998–2002 –** EBRD "Small and Medium Business Program", Senior Banking Consultant.

**Education:**

- **1994–1998 –** Kazakh State Academy of Management, Almaty, Faculty of Finance and Credit, Banking Management.
- **2005–2008 –** K. Satpayev Kazakh National Technical University, Almaty, Faculty of Oil and Gas, Oil and Gas Fields Development.
- **2007–2009 –** T. Ryskulov Kazakh Economic University, Almaty, PhD.

## GAUKHAR BISSEMBIYEVA

Deputy Chairman of the Management Board

Birth year: 1976

**Experience:**

- **December 12, 2017 to present –** ForteBank JSC, Deputy Chairman of the Management Board.
- **January 2015 – December 2017 –** ForteBank JSC, Managing Director, Deputy Chairman of the Management Board.
- **2009–2015 –** ForteBank JSC (formerly - METROCOMBANK JSC), Acting Chairman of the Management Board, Chairman of the Management Board, Deputy Chairman of the Management Board.
- **2008–2009 –** BTA Bank LLC, Executive Director.
- **2001–2008 –** TEXAKABANK JSC, Director of the Operations Department, Executive Director, Managing Director, First Deputy Chairman of the Management Board.
- **1998–2001 –** Demir Kazakhstan Bank OJSC, Senior Specialist / Head of the Customer Service Division.

**Education:**

- **1993–1997 –** Kazakh State Academy of Management, Faculty of International Economic Relations.
- **2002–2006 –** Kazakhstan Institute of Management, Economics and Forecasting, Master of Business Administration.

## ADIL BATYRBEKOV

Deputy Chairman of the Management Board

Birth year: 1977

**Experience:**

- **February 2017 to present –** ForteBank JSC, Deputy Chairman of the Management Board.
- **2004–2016 –** Kazkommertsbank JSC, Director of the Risk Management Department, Managing Director - Director of the Risk Management Department, Member of the Management Board, Managing Director - Member of the Management Board, Managing Director of the Management Board Administration of the Head Bank.
- **1996–2003 –** ABN AMRO Bank Kazakhstan, Specialist of the Project Finance Division, Credit Analyst of the Structured Finance Directorate, Credit Analyst of the Credit Analysis and Structuring Division, Manager of the Credit Analysis and Structuring Division, Head of the Credit Directorate.
- **1995–1996 –** JOSS LLP, Marketing Manager Assistant.

**Education:**

- **1993–1997 –** Kazakh State Academy of Management, Faculty of International Economic Relations, Almaty, Kazakhstan.
- **1998–1999 –** Business School, the University of Nottingham, the United Kingdom of Great Britain and Northern Ireland.

# COMMITTEES UNDER THE MANAGEMENT BOARD

**The Assets and Liabilities Committee**
is a permanent authorized collegiate body (ACB) under the Management Board, which carries out and implements the Assets and Liabilities Management Policy and the control over compliance with rules and procedures for managing assets and liabilities of the Bank.

**The Head Bank's Credit Committee (HBCC)**
is a permanent ACB under the Management Board, which implements the strategy of corporate business development in the field of lending and credit policy of the Bank and has the powers to the extent approved by the Board.

**The Head Bank's Credit Committee for Small and Medium Business**
is a permanent ACB under the Management Board, which implements the strategy of small and medium-sized business development in the field of lending and credit policy of the Bank and has the powers to the extent approved by the HBCC.

**The Head Bank's Small Credit Committee for Small and Medium Business (SCCSMB)**
is a permanent ACB under the Management Board, which implements the strategy of small and medium-sized business development in the field of lending up to 200.000.000 KZT and the credit policy of the Bank and has the powers to the extent approved by the Board.

**The Head Bank's Credit Committee for Retail Business**
is a permanent ACB under the Management Board, which implements the strategy of retail business development in the field of lending and credit policy of the Bank and has the powers to the extent approved by the HBCC.

**The Head Bank's Committee for Problem Debts**
is a permanent ACB under the Management Board, the principal objectives of which are to organize, secure and control the work on repayment of problem debts.

**The Head Bank's Small Committee for Problem Debts**
is a permanent ACB under the Management Board, the principal objectives of which are to organize, ensure and control the work on return of funds on problem debts.

**The Budget Committee**
is a permanent ACB under the Management Board, the principal objectives of which are to ensure the timely development of the Bank's budgetary estimates, control over the budget execution and review issues on reassignment of the Bank's funds within the approved budget.

**The Tariff Committee**
is a permanent ACB under the Management Board, which ensures a persistently high level of income from banking and other transactions and services, sufficient to maintain the stable financial position of the Bank through flexible and justified application of tariffs.

**The Committee for Information Security**
is a permanent ACB under the Management Board, which aims at implementing and developing the information security management system of the Bank, making managerial decisions to ensure information security and implementing information security projects.

**The Operations Committee**
is a permanent ACB under the Management Board, which coordinates the management of internal business processes and performs its functions under the laws of the Republic of Kazakhstan, the Articles of Association of the Bank, the Regulation on the Operations Committee and other internal documents of the Bank.

**The Quality Control Committee**
is a permanent ACB under the Management Board, which aims at enhancing the customer service quality. The Bank is guided by high-grade servicing of external and internal customers, partners of the Bank, by offering a package of bank products and services, as well as by ensuring better conditions of work and cooperation.

## INFORMATION ON THE PERFORMANCE OF THE MANAGEMENT BOARD AND ITS COMMITTEES

| Name of ACB | Number of meetings held in 2019 |
|---|---|
| The Management Board | 91 |
| The Assets and Liabilities Committee | 79 |
| The Tariff Committee | 62 |
| The Budget Committee | 67 |
| The Operations Committee | 53 |
| The Quality Control Committee | 14 |
| The Head Bank's Committee for Problem Debt | 31 |
| The Head Bank's Small Committee for Problem Debts | 38 |
| The Head Bank's Credit Committee | 66 |
| The Head Bank's Credit Committee for Small and Medium Business | 126 |
| The Head Bank's Small Credit Committee for Small and Medium Business | 165 |
| The Head Bank's Credit Committee for Retail Business | 148 |
| The Committee for Information Security | 0 |

## MANAGEMENT RENUMERATION

The Policy on ForteBank JSC Management Remuneration is carried out in line with the requirements of the legislation of the Republic of Kazakhstan, the National Bank of the Republic of Kazakhstan and the Articles of Association of ForteBank JSC.

The total amount of remuneration for 15 members of the Board of Directors and the Management Board in 2019 was 2.9 bln KZT. This amount includes monetary remuneration to members of the Management Board of Directors and the Management Board, as well as appropriate taxes.

## CORPORATE ETHICS

The standards of corporate behavior of ForteBank employees that are intended to maintain ethics standards, quality of service and convenience for customers, improvement of profitability, financial stability and efficiency of the Bank are regulated by the Code of Corporate Conduct of Employees, adopted in 2018.

This Code covers all obligatory rules and principles of corporate conduct that apply to all employees no matter what position they hold.

## ANTI-CORRUPTION MANAGEMENT

**In compliance with the Code of Corporate Conduct of Employees, employees are not entitled to give or accept gifts and render the Bank's services in order to provide material benefits or advantages in receiving the Bank's services by other persons, to demand from customers and partners money and information the provision of which is not stipulated by the legislation of the Republic of Kazakhstan, to commit and allow grounds for committing corruption violations.**

## INTERNAL AUDIT SERVICE

**The Bank has its internal audit system as presented by the Internal Audit Service (IAS).**

The Internal Audit Service provides independent guarantees and advisory services aimed at achieving the goals of the Bank and improving its activities through systematic, risk-oriented and consistent approach to the evaluation and strengthening of risk management, internal control and corporate governance processes.

The IAS is directly subordinated and accountable to the Board of Directors. The IAS covers such profiles as internal audit, monitoring and audit methodology, IT audit.

The Internal Audit Service staff has the knowledge, skills and other competencies necessary to perform their official duties, and have the qualification to apply internal audit procedures, practices and standards.

According to the 2019 audit plan approved by the Board of Directors, the Internal Audit Service conducted audits across many areas and business processes of the Bank, 50% of its branches, 1 subsidiary, as well as 7 information systems/applications of the Bank.

Over the reporting year, the Internal Audit Service performed continuous monitoring of fulfillment of the measures to eliminate breaches as a result of the internal audit; internal self-evaluation of the Internal Audit Service performance was done; methodological support was provided, and updating of internal documents and methodological recommendations on internal audit was implemented.

## COMPLIANCE CONTROL SERVICE

In accordance with the Rules for Formation of Risk Management and Internal Control System for Second-Tier Banks approved by the Decision of the Management Board of the National Bank of the Republic of Kazakhstan, the Bank has established a Compliance Risk Management System for efficient control by the Bank's bodies and compliance risk management through its early identification, measurement, control and monitoring. A Compliance Control Service ("CCS") has been formed and is functioning in the Bank.

In its activities, the CCS is governed by the legislation of the Republic of Kazakhstan and is accountable to the Chief Compliance Officer. The CCS employees have the necessary qualification, working experience and professional qualities sufficient for performing functions in the area of compliance risk management and anti-money laundering and combating the financing of terrorism (AML/CFT).

The CCS is a structural unit of the Bank (second defense line), which operates independently of any activities of the Bank's structural units constituting the first defense line, and is in charge of drafting the compliance risk management policy, ensuring compliance risk management and coordination of the Bank's compliance risk management activities, as well as the implementation of the AML/CFT policy in the Bank.

In 2019, the CCS implemented the necessary measures stipulated by the requirements of the Bank's internal documents and the legislation of the Republic of Kazakhstan, as well as comprehensive measures aimed at enhancing the following processes:

- compliance risk management;
- AML/CFT;
- interaction with the regulator;
- control of transactions with persons related to the Bank by special relations;
- coordination of the Bank's subsidiaries with regard to the above issues.

As part of its competence, the Compliance Control Service carries out spot checks on compliance and maintenance of compliance culture and ethics prescribed by the Code of Corporate Conduct. The results of the checks are used to develop a plan of corrective measures in case discrepancies are identified. After the check results are reviewed by the Management Board, the Board of Directors and responsible units, the relevant measures are carried out to improve compliance and maintenance of compliance culture and ethics, including amendments to internal documents of the Bank (including the Code of Corporate Conduct itself), to create a single channel for appeals, an ethics compliance control system, an algorithm for actions of the Bank's structural units that have received information on breaches, etc.

All employees of ForteBank must report any information they become aware of on violations, misuse and other illegal actions, including, without limitation, infringements of legislative acts of the Republic of Kazakhstan, cases of illegal remuneration, fraud, breach of business conduct and ethics, and so on. An employee of the Bank may inform about the facts of violation that became known to him/her through:

- applying to the Security Division;
- telephone call to the call center;
- sending a written message;
- appeals to the management;
- forwarding an e-mail message to the "trust box".

In this case, the notifying person must warn in writing (by making an appropriate note on paper or in an electronic message) or verbally that the information provided is confidential.

## CUSTOMER EXPERIENCE

**In 2019, a separate unit, the Customer Experience and Customer Service Quality Management Division, was established.**

Its main objectives are: studying and improving processes of providing services, products and services to customers jointly with business units of the Bank; work with customer requests (complaints, suggestions, gratitude), quality control and deadlines for their execution.

ForteBank has several channels whereby customers can send their requests, complaints, proposals and gratitude, namely:

- contact center;
- ForteBank mobile application;
- branches of the Bank;
- chancelleries of the Head Bank and its branches.

## INFORMATION POLICY

**The principle of transparency and fairness of disclosure of information on the Bank and its activities is aimed at providing external users with accessible, relevant, reliable and intelligible information to the required and sufficient extent.**

Among the key stakeholders, the Bank classifies shareholders, customers, counterparties, partners of the Bank, existing and potential investors, rating agencies, stock exchange markets where the Bank's securities are listed or have been listed, government authorities exercising regulatory and supervisory functions with respect to the Bank, and mass media.

Balanced information openness is meant to ensure transparency of the corporate governance of the Bank, except for issues that are commercial, official, banking and other legally protected secrets.

The principle of transparency and fairness of information disclosure about the Bank and its activities implies the following:

1. shareholders and investors of the Bank (including potential ones) are granted free and unobstructed access, as prescribed by the legislation of Kazakhstan and internal documents of the Bank, to the information about the Bank and its activities which is necessary for the Bank's shareholders and investors to make relevant decisions;
2. The Bank promptly discloses information on the major results, plans and prospects of its activities that may significantly affect the rights and legitimate interests of the Bank's shareholders and investors;
3. The Bank regularly discloses information on material corporate actions and/or events in its activities, while complying with measures on confidentiality protection, the list of which is determined by the Board of Directors.

Disclosure of information about the Bank is effected according to the Bank's internal documents that contain a list of information the Bank considers necessary to disclose (besides those stipulated by the legislation), rules of its disclosure, procedures of submitting disclosed information.

*The Bank discloses information as required by the legislation of Kazakhstan and recommendations of the authorized body.*

The main forms of disclosure of information about the Bank are:

- issue prospectus;
- reports on securities;
- annual report of the Bank;
- reports on facts that are material to the Bank's shareholders;
- financial statements.

# Infrastructure development

**The introduction of new client products** is accompanied by innovative transformations within the Bank. We are actively working on creating a flexible and resilient IT infrastructure that will ensure stable long-term development.

# Risk management

**Risk management** is one of the key management processes for every bank. ForteBank is constantly developing and improving its risk management system with a view to ensuring sustainable long-term development of the Bank under the Strategy.

## RISK MANAGEMENT SYSTEM

**The Bank's risk management system consists of "three defense lines" with the involvement of all structural units of the Bank**

- **Acceptance of risks (1st defense line):** structural units of the Bank that directly prepare and execute transactions are involved in the process of identification, assessment and monitoring of risks and follow the requirements of internal documents on risk management, and also consider the risk level in preparing transactions;
- **Risk management (2nd defense line):** structural units of the Bank and collegiate bodies responsible for risk management work out mechanisms of risk management, the methodology, perform assessment and monitoring of the risk level, prepare consolidated statements on risks, and calculate the amount of requirements on risks to aggregate capital;
- **Internal audit (3rd defense line):** performs an independent assessment of the quality of applicable risk management processes, reveals violations and proposes improvements to the risk management system.

Assessment of the Bank's sustainability in the face of potential adverse market conditions is held on a semi-annual basis using stress testing. The stress testing is carried out according to pre-designed scenarios and considers changes in market conditions, the scale of the Bank's operations, the existing actual experience of work in stressful situations, and recommendations of the regulator.

An analysis of potential risks is mandatory when a decision is made to conduct a transaction, and after its completion – correct accounting of related risks and their subsequent regular monitoring.

*To avoid a conflict of interest, the Bank applies the principle of independence of any decision on accepting a risk from the risk assessment and exercising the relevant control. .*

In cases when risks cannot be avoided, determination of acceptable (aggregated) levels of risk by the Board of Directors and their transfer to the system of limits and restrictions allows to ensure an acceptable level of risk on the aggregated positions, transparent distribution of the total risk limit by areas of the Bank's activity. The risk management system and internal control system provide control over observance of acceptable risk levels and limits in the Bank.

The Management and collegiate bodies of the Bank regularly receive information on the accepted level of risks and on the facts of breaches of established risk management procedures, limits, restrictions.

To manage risks, the Bank has its Strategic Risk Division and Credit Risk Division. The Strategic Risks Division includes four specializations, namely: financial risks, credit reporting, interaction with credit bureaus and operational risks. The Credit Risks Division includes such specializations as credit risks of retail business, SMB, corporate business, prime banking.

## RISK FACTORS

Market risk, credit risk, liquidity risk and operational risk, including information technology risk and information security risk are the principal risks that the Bank faces in the performance of its activities. The main task of the Financial Risk Department is identification, measurement, determination and taking steps to maintain acceptable levels of financial risks that do not threaten the financial stability of the Bank or the interests of its customers. The operational risk management is aimed at ensuring proper compliance with internal regulations and procedures.

## Financial risks

**The Financial Risk Management unit manages interest rate, currency, price, liquidity, country and counterparty risks, including on a consolidated basis.**

During 2019, internal documents on managing these types of risks were updated, internal limits by type of risks were revised, limits on financial risks of the Bank were approved, including those on a consolidated basis, and risk tolerance levels for the Bank were approved. Validation of stress testing parameters was conducted and, upon its results, changes were made, including a multifactor model. Furthermore, work on risk management reporting automation was carried out .

In 2019, work on automating the process of calculation and registration in accounting records of provisions (reserves) under IFRS 9, further improvement of risk management tools and internal regulatory framework on a consolidated basis (taking into account the subsidiaries) was continued., Work on further improvement and automation of management reporting, stress testing, monitoring of customers with alarm signs, automation of control of limits on counterparties and country limits, risk management procedures is also in process.

In 2019, within the context of the optimization of the net stable funding ratio (NSFR), the Methodology for determining the minimum cash balance to satisfy customer needs was developed and approved.

The regulator, in cooperation with international consultants and audit companies, conducted an AQR asset quality review in the Bank from July to December 2019. The Bank successfully passed this review. Moreover, the Plan for implementation, development, validation and adjustment (as per the results of validation) of relevant processes in the Bank was developed and approved, including the process of assessing the credit quality of assets and borrowers, calculation of provisions and risk metrics.

### Risk description

**Market risk** includes price, currency and interest-rate risks.

**Price risk.** The Bank is exposed to price risk due to adverse changes in market quotations of securities. The securities portfolio of the Bank is assessed on a regular basis using the Mark-to-Market principle. The Bank applies the Value At Risk (VAR) methodology for evaluating the maximum possible changes in the portfolio value. For price risk minimization purposes, there is a system of limits, which includes limits on the structure of the securities portfolio and limits on the amount of investments in securities of a certain Bank. In case of a securities portfolio for speculative purposes the maximum stop-loss limit is used.

**Currency risk.** The Bank is exposed to the impact of fluctuations in foreign currency exchange rates. For mitigating this risk, the Bank has restrictions on open foreign currency positions according to the requirements of the National Bank of the Republic of Kazakhstan and its internal documents. Since future changes in exchange rates and volatility of the US dollar and other currencies may adversely affect the Bank's position in foreign currency, the Bank has a limit on the maximum possible change in position value (VAR).

**Interest rate risk.** The Bank is exposed to interest rate risk through mismatch between fee rates on interest-bearing liabilities and interest-earning assets. While the Bank monitors the sensitivity to changes in interest rates through analysis of the composition of its assets and liabilities, fluctuations in interest rates may have an adverse effect on the results of operations and financial position of the Bank.

**Liquidity risk –** is the risk associated with a potential failure or late fulfillment by the Bank of its obligations. While managing liquidity risk, the Bank monitors performance of current and quick assets ratios, including foreign currency liquidity; liquidity coverage ratio and net stable funding ratio upon request of the NBK, as well as implementation of internal regulatory requirements in accordance with its internal documents. Besides, mismatches in maturities of claims and liabilities (liquidity gap) are monitored.

**Country risk.** The Bank operates primarily in the Republic of Kazakhstan and, therefore, results of operations depend largely on the economic and political environment in the Republic of Kazakhstan. Meantime, the Bank provides financing to non-resident customers, i.e. (cash and non-cash) lending to legal entities and individuals, and also carries out transactions in the inter-bank market with non-resident counterparties. The assessment of this credit risk is minimized through examination of the economic and political situation of the countries of investment and setting of country limits.

## Operational risks, information technology risks and information security risks

The Operational Risk Management unit is responsible for managing operational risks, information technology risks and information security risks.

During 2019, procedures for risk self-assessment and scenario analysis were conducted, risk maps were created with the development and approval of measures for mitigating the risks identified, and key risk indicators were revised.

With a view to identifying and mitigating risks at the stage of implementation/modification of the Bank's projects and information systems (hereinafter - the "IS"), an ongoing analysis of terms of reference and issuance of recommendations were made. In 2019, works on analysis and inventory of access rights in the Card System applications were completed, the risk of unauthorized powers in modifying worksites into the critical IS of the Bank was identified and minimized to ensure their adequate protection and minimize the risk of information resources downtime, works on optimizing the functionality of consideration / analysis of access rights in the Bank IS and techniques for building the access granting process were completed.

Currently, the Bank continues to improve the risk culture among its employees, to involve all employees in the risk management process ("every employee is a risk manager"), ongoing training sessions are held, and every new Bank employee is introduced to the operational risk management system.

Risk coordinators and risk managers are regularly trained to identify, classify and record events in the specified program.

### Risk description

**Operational risk –** is the potential for losses due to inadequate or insufficient internal processes, human resources and systems or the influence of external events, except for strategic and reputational risk:

- risk associated with the uncertain, inadequate organizational structure of the Bank, including allocation of responsibilities, structure of accountability and management;
- risk arising from inadequate strategies, policies and/or standards in the area of information technology, shortcomings in software use;
- risk associated with inadequate information or its inappropriate use;
- risk associated with improper management of staff and and/or unqualified staff of the Bank;
- risk associated with inadequate building of business processes or poor control over compliance with internal documents and rules;
- risk arising from unforeseen or uncontrollable external factors influencing the Bank's operations;
- risk associated with non-compliance of internal documents of the Bank with legal requirements;
- risk associated with actions of the Bank's staff, that may adversely affect the Bank's operations, or with fraud.

**Information technology risk (risks)** is a probable occurrence of losses due to failure (malfunction) of information and communication technologies operated by the Bank, including poor building of processes related to development and operation of information technologies by the Bank.

**Information security risk (risks)** is a probability of occurrence of losses due to violation of integrity, confidentiality and availability of information assets of the Bank resulting from premeditated destructive influence of the Bank's employees and/or third parties.

The Bank manages operational risks, information technology risks and information security risks through such tools as collection of statistical data on risk events, setting limits through development and approval of key risk indicators, establishment of an acceptable level of operational risk, scenario analysis, self-assessment of operational risk, creation of a risk map and drawing up action plans for identified risk events aimed at preventing similar cases in the future.

## Credit risks

The Credit Risk Management unit minimizes risks at the stage of decision-making on financing customers in the corporate sector, SMB, retail business and prime banking.

### Risk description

**Credit risk** is the risk of financial losses of the Bank which arise due to the non-fulfillment of obligations by a borrower or counterparty. The Bank has policies and procedures for credit risk management (both for recognized financial assets and unrecognized contractual liabilities), including requirements for setting and observing limits on credit risk concentration, and by establishing a Credit Committee with active credit risk monitoring functions. The credit policy is reviewed and approved by the Management Board.

The credit policy sets out the following:

- procedures for reviewing and approving loan applications;
- methodology for assessing creditworthiness of borrowers (corporate and retail customers);
- methodology for assessing the creditworthiness of counterparties, banks and insurance companies;
- methodology for assessing the collateral offered;
- requirements for credit documentation;
- procedures for the continuous monitoring of credits and other products bearing credit risk.

## Credit reporting and interaction with credit bureaus

The credit reporting functionality includes generation of management reports on credit risk management for collegiate bodies on a consolidated basis; preparation of credit reports upon request of rating agencies, the National Bank of RoK and other organizations; stress testing of credit risks; monitoring and revision of credit limits; monitoring and tracking of customers with WL (watch list) deterioration signs; interaction with credit bureaus.

In 2019, the work on further automation of reporting on credit limits control and on watch list reporting was carried out, reporting on control over discrepancies in accounting for loan balances (minus balances) and incorrect display of the number of days in arrears for early detection and correcting errors in the ILS was introduced, the Bank's credit limits were revised, including those ones on a consolidated basis.

As regards the Bank's interaction with credit bureaus, work on revealing and correction of incomplete/incorrect data in customer cards was performed. Implementation of new internal documents due to changes in the legislation of the RoK has also taken place., The processes of data transfer to credit bureaus were fully automated in order to unload information correctly.

# Platform development

**Offer of ForteBank will be personalized,** focused on the preferences of a particular client as well as his/her needs and expectations. In addition, we are working to ensure that all banking and non-banking services are accessible for any client in online mode.

# Marketing activity

**"Forte" means "strong".** Being a universal bank, we aspire to maintain and strengthen our market positions in all segments of activity, including retail market, segments of SMB and corporate business, prime banking.

**As part of our marketing performance, we have designs to present a unique ecosystem of Forte financial and non-financial products to our current and potential customers. We are constantly expanding our range of convenient services for both retail and corporate customers. The dynamic development of ForteBank focusing on innovations brings a constant flow of new opportunities for our customers and we strive to present them in the best possible way.**

An important hallmark of ForteBank and its advantage is its commitment to the customer and his/her comfort. One can see this both in the Bank's offices, which are established to provide the best customer experience, and in the products offered, which constantly evolve, adapting to the current needs and demands of users. ForteBank undergoes changes together with its customers to stay closer to them.

The Bank utilizes a wide range of communication channels in its marketing activities, including the Internet (contextual advertising, YouTube, GDN, YAN), SMM (posts in its own SNSs), republican radio, outdoor advertising, production of printed media materials. The communication channel, content and key messages are selected and customized to the primary audience to convey useful information in a user-friendly manner. Our primary and constant concern is the needs of our audience, the most comfortable form of communication in terms of channels and content styles, the things that are interesting and can be demanded by the audience.

*In 2019, we had a significant success with our advertising campaign on women entrepreneurship, which was intended to support women in starting and developing their businesses.*

As a matter of fact, women already represent a significant part of the business community in Kazakhstan, with more than half of individual entrepreneurs and over 40% of SMBs being led by women. At the same time, the difficulties in developing any entrepreneurial venture for women are compounded by the unequal social burden. They still have the additional functions of wives, housewives, mothers, caretakers, which are often withdrawn from men who have more opportunities to devote their time to career and business development. Women, though, when starting their own businesses, often forcibly deprived of other career prospects, tend to venture into the most complex and risky activities, such as trading. Even in such conditions, there are a lot of successful entrepreneurs among them who transform their undertakings into strong sustainable companies, which are important for the development of the national economy.

**In 2019, on the eve of International Women's Day, ForteBank launched the project "Business is also a woman's business" and released the fragrance Forte pour Femme – "Strong woman". At the end of February, the perfume was spread over all the money in the ATM network of the Bank, which were earned by women entrepreneurs, and the perfume was also available at the cash desks of businesses created by women. We sought to draw attention to the contribution made by women entrepreneurship to the Kazakhstan economy and to allow Kazakhstani people to feel how often they use the products and services of women entrepreneurship.**

The project also included a large-scale advertising campaign. Women entrepreneurs spoke about their position on the radio, through outdoor advertising and television. For example, video featuring motivational statements by women founders of well-known Kazakhstani companies in various sectors of the economy gained great popularity. More than 1.8 mln people watched it on YouTube alone.

The Forte Femme advertising campaign became a social media phenomenon and made it to the final of the most prestigious advertising festival in the world Cannes Lions in the Media Lions nomination. This is the first Kazakhstani project to receive such recognition.

ForteBank, in cooperation with the EBRD, has also developed a platform for women entrepreneurs - ForteBusiness Woman, which provides funding for women entrepreneurship projects and offers a wide range of consulting services for business development.

The video is available at:
www.youtube.com/watch?v=FbIfCXnP7Pg

The Forte Business Woman platform became fairly in-demand after a successful advertising campaign, and the product portfolio grew by 385%. More important, however, was the social significance of the Forte pour Femme project. We can see that the challenges experienced by women in business have become increasingly evident in society, more widely spoken about and paid more attention to. Although there is still a long and thorny way forward to tackle the problem of inequality, we believe that we have contributed to making an important step in the right direction.

**In 2019, ForteBank with its advertising FortePay won the bronze medal of the most prestigious advertising festival in the Asia-Pacific region Spikes Asia in the Social Platforms nomination. The bank was awarded for the longest advertising of the bank in the world. This is the first time in its history since 1986 that Spikes Asia festival has appreciated creative work from Kazakhstan.**

The promotional video, which is almost 9 hours long, advertises the FortePay service, a money transfer by phone number. The hero of the video goes from Almaty to Shymkent (the distance between the cities is 800 km) for 8 hours and 48 minutes to give money to his familiar. The narrator, starring the famous voice actor Peter Glanz, prepares the audience for a long road: "...during 9 hours we will show you the things you shouldn't do. For the sake of one truth – if you want to give someone money, do it using the phone number."

Also, to quicken people's interest, the bank hid one mln KZT in the video. During the entire video, figures appear in the frame for a moment in turn, which form a telephone number. To get the prize, one had to send an SMS message to it containing the words "Forte, give a million." All Kazakhstan citizens aged 18+ were allowed to participate, except ForteBank employees. The prize went to a female subscriber from Shymkent.

The 9-hour commercial video is available at:
www.youtube.com/watch?v=zQ-vl4xVdb4

This is already the 23rd award for an advertisement created in the Kazakhstani agency Kombinat. Before that, the longest ForteBank video received awards at 6 advertising festivals in Russia, Ukraine, Belarus, Uzbekistan and Georgia.

# Development of personnel policy

**People are the main asset of ForteBank,** on which the successful implementation of the Strategy depends. Our goal is to unleash human potential, inspire professionals and effectively interact in teams in order to create a value for the client.

# Sustainable development





## STAFF MANAGEMENT

**The staff policy of the Bank is aimed at forming and developing a tight-knit team of professionals able to solve the tasks in a qualitative and operative manner. The Bank has unified standards of work with staff, requirements to the processes of recruitment, training and evaluation, remuneration and social support of employees, the standards of ensuring employee satisfaction with the labor conditions, generation of an impartial and complete staff reporting of the Bank.**

*ForteBank is committed to maintaining its status as an attractive employer and is actively developing its staff management system applying advanced approaches that meet economic, social and political requirements.*

The corporate governance in the Bank is built taking into account the need to protect the rights of the Bank's employees stipulated by the legislation of Kazakhstan and is focused on developing partnership relations between the Bank and its employees in settling social issues and regulation of labor conditions. Improvement of labor conditions in the Bank, compliance with the standards of social protection of the Bank's employees and further increase of the social responsibility of the Bank to its employees are one of the main aspects of the Bank's staff policy.

**The Bank propagandizes and applies the following corporate values in its work with staff:**

- **Energy –** The Bank appreciates the energy and personal involvement of each employee in the goals and objectives of the Bank and its customers,
- **Innovations –** The Bank appreciates all innovative ideas that contribute to addressing our customers' problems and the development of the Bank,
- **Growth –** Development of every employee is the key to the growth of our Bank,
- **Human factor –** The Bank takes pride in our professional and close-knit staff,
- **Trust –** The Bank entrusts its staff with making important decisions for the Bank and its customers,
- **Honesty –** Honesty within the Bank, to its customers and partners,

- **Team spirit –** Cooperation for better results from joint activities,

- **High professionalism and commitment to improvement –** High professionalism of the Bank's staff contributes to enhancing the image of the Bank, forming a close-knit team of like-minded people committed to corporate values, aimed at implementing the Bank's strategy, and capable of finding solutions in the most difficult situations. Employees are committed to continuous improvement and development,

- **Responsibility –** The fulfillment by the Bank of its obligations to shareholders, customers, partners and employees depends on the personal responsibility of each employee.

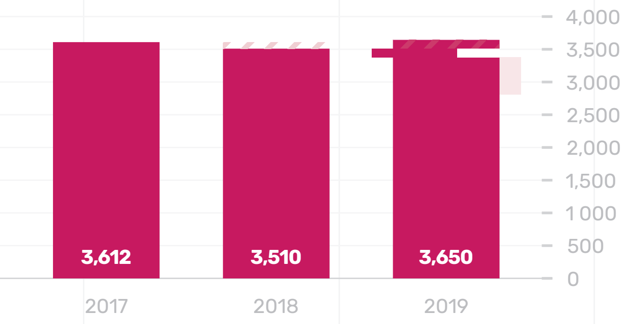
The Bank manages its staff based on the principles of lawfulness, fairness, equality, non-discrimination, transparency, promptness, impartiality, enhancement of human capacity, incentives for initiatives and innovations, and individual responsibility. In 2019, no cases of employee rights violations or signs of discrimination were registered. No complaints were received concerning the practice of employment relations at the Bank.

Should there be any material changes related to the activities of the Bank, according to the Labor Code of the Republic of Kazakhstan, a written notice of changes in labor conditions is sent to the employee no later than 15 calendar days in advance.

## Structure and number of staff

As at the end of 2019, the actual number of employees of the Bank was 3,650 persons. This includes 986 employees in the Head Office and 2,672 employees in the branches of the Bank nationwide. The share of women is 64% and that of men 36%. The average age of the Bank's staff was 33-34 years. In 2019, the average service record at the Bank was 4.1 years. 1,387 people were hired in 2019.

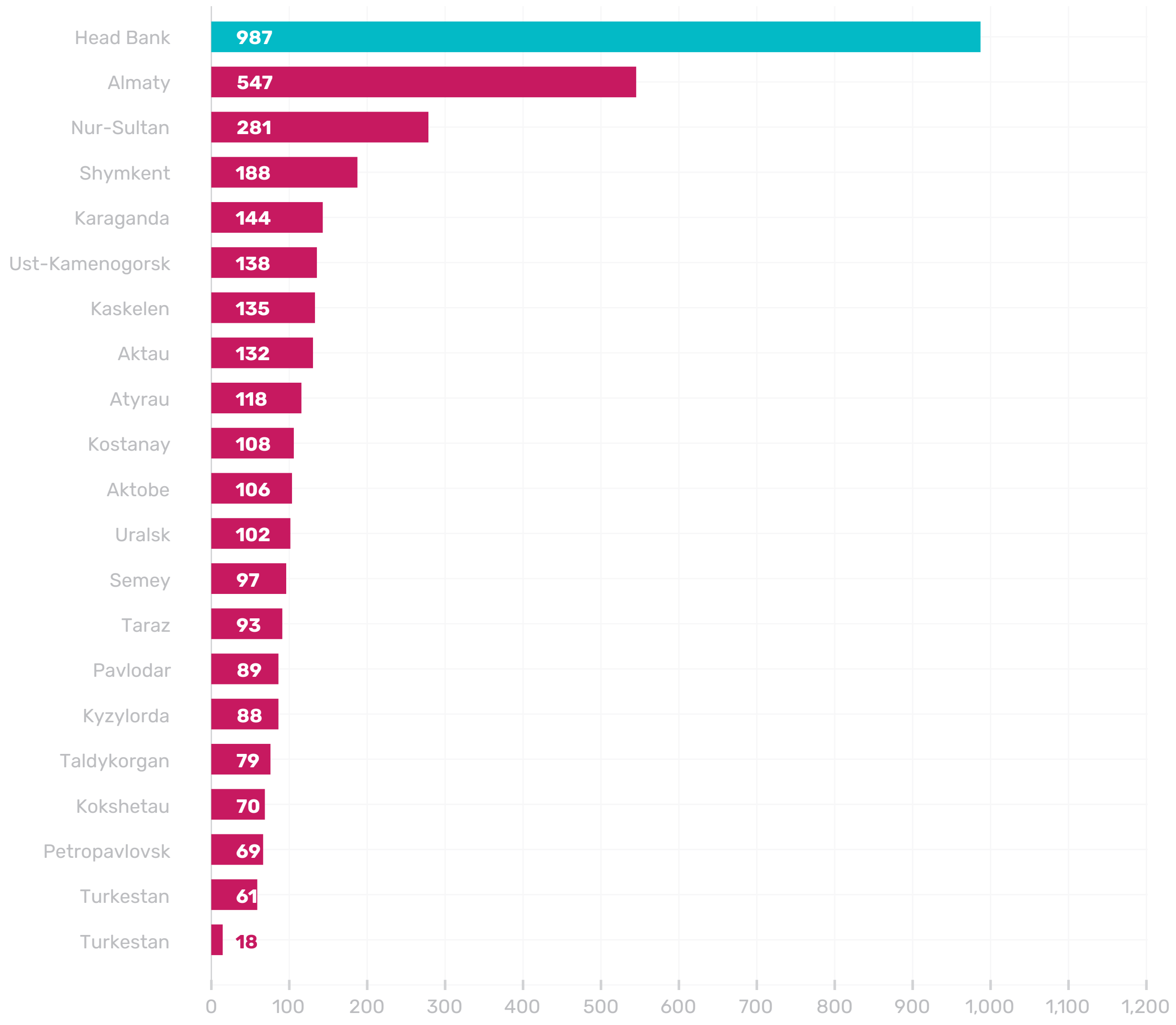
### Dynamics of staff number, persons



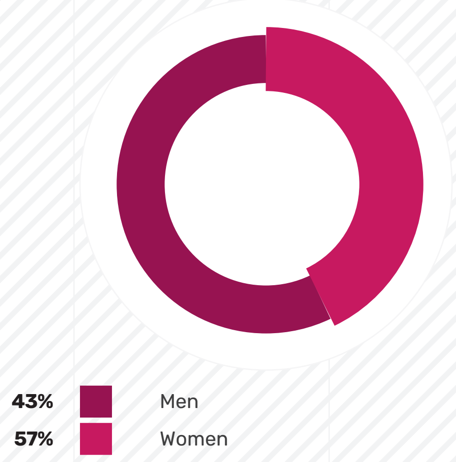

### Staff structure as at the end of 2019, persons

| Subdivision | Cruterion | | Managerial positions | % | Spe-cialists | % | Total | % |
|---|---|---|---|---|---|---|---|---|
| Head Bank | Total number of employees | | 59 | 100% | 927 | 100% | 986 | 100% |
| | Gender | Women | 27 | 46% | 519 | 56% | 546 | 55% |
| | | Men | 32 | 54% | 408 | 44% | 440 | 45% |
| | Age groups | Under 30 y.o. | 2 | 3% | 250 | 27% | 252 | 26% |
| | | From 30 to 50 y.o. | 46 | 78% | 598 | 65% | 644 | 65% |
| | | Above 50 y.o. | 11 | 19% | 79 | 9% | 90 | 9% |
| Branches | Total number of employees | | 129 | 100% | 2,543 | 100% | 2,672 | 100% |
| | Gender | Women | 60 | 47% | 1,726 | 68% | 1,786 | 67% |
| | | Men | 69 | 53% | 817 | 32% | 886 | 33% |
| | Age groups | Under 30 y.o. | 16 | 12% | 992 | 39% | 1,008 | 38% |
| | | From 30 to 50 y.o. | 100 | 78% | 1,418 | 56% | 1,518 | 57% |
| | | Above 50 y.o. | 13 | 10% | 133 | 5% | 146 | 5% |

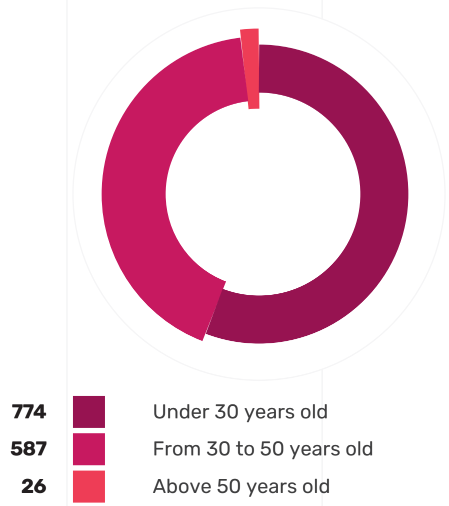
## Regional staff structure, actual number as of the end of 2019, persons



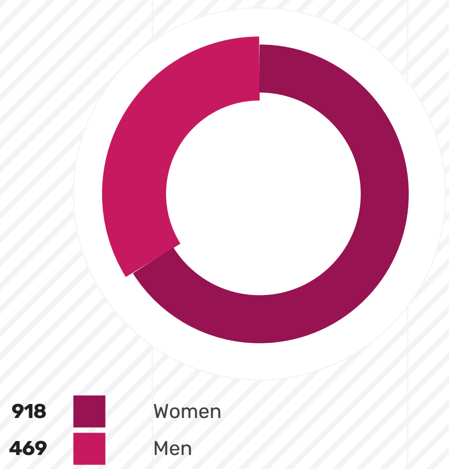

## Gender structure of managerial staff



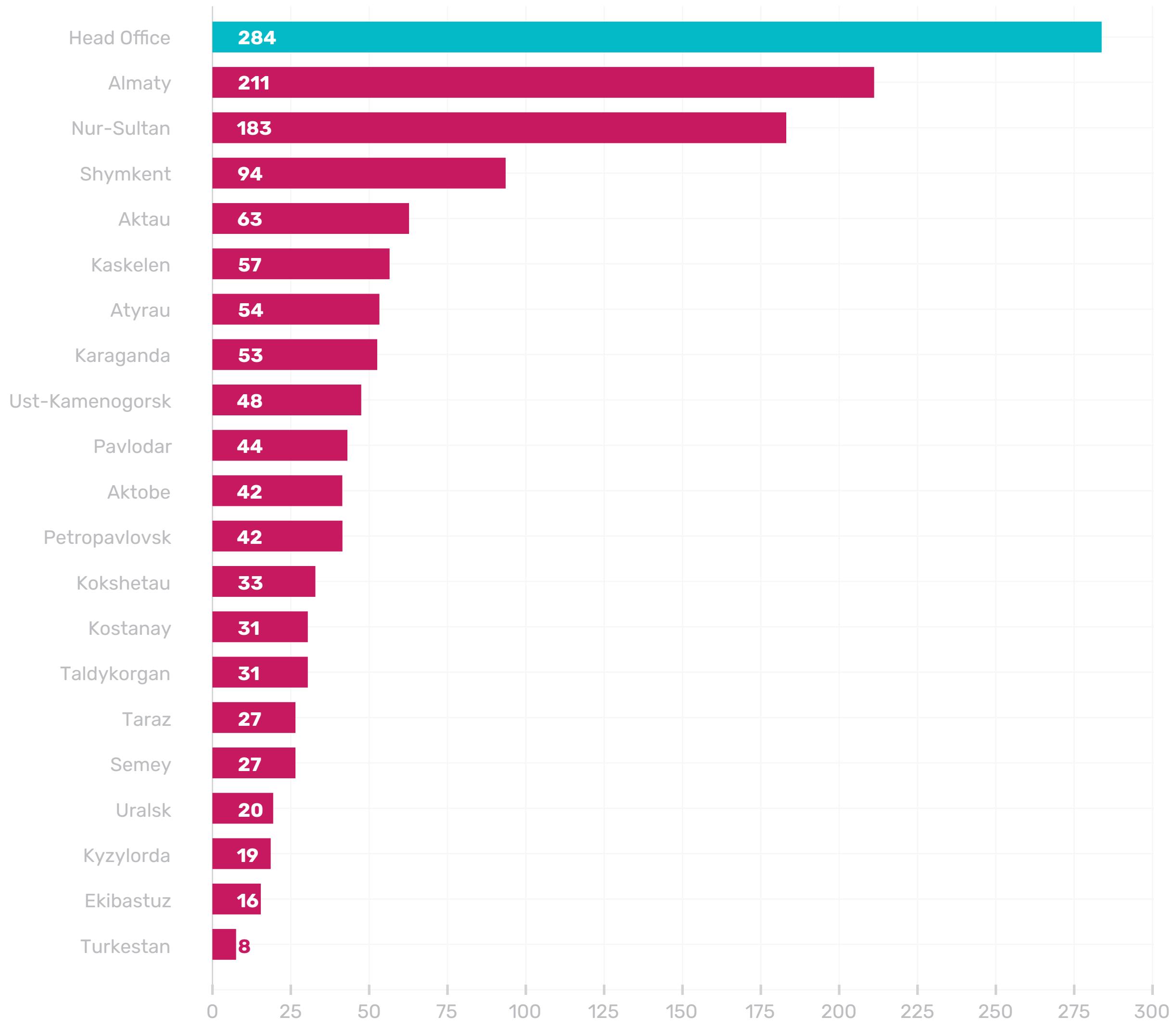

## Structure of hired employees in 2019 by age groups, persons




## Structure of hired employees in 2019 by gender groups, persons



### Regional structure of hired employees in 2019, persons




## Staff recruitment policy

**We aim to make the recruitment process both convenient for job seekers and effective for the Bank. A single process has been established for the search, selection and approval of candidates for rank and key positions, using mandatory reliability testing.**

The staff recruitment process at ForteBank is targeted at forming a qualitative and quantitative staff of the Bank, which fully meets the goals and objectives of the Bank, by ensuring an efficient inflow of qualified personnel to vacant positions.

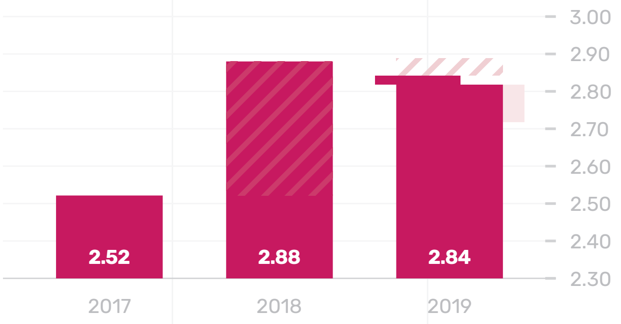
Candidates are evaluated for compliance of their qualification, personal qualities and abilities with the requirements of the position and corporate culture of the Bank, presence of necessary experience and faultless business reputation, ability to manage processes and risks related to the Bank's activity.

The Bank also creates conditions for the rapid adaptation of new hires to the new workplace, including smooth and quick inclusion of the employee in the new professional and socio-economic conditions of work. The adaptation process includes two directions, i.e. occupational adaptation of the new hire (active mastery of the profession, its specific features, necessary skills and techniques) and socio-psychological adaptation (to the team, to the traditions and unwritten norms of the Bank, to the management style and corporate culture).

In 2019, to refine the staff selection and adaptation processes, an automated newcomer's check-list for occupational tasks was introduced for the probationary period with the presentation of the results on mandatory courses.

The primary indicator of the Bank's operational risk management related to staff activities is the staff turnover rate (for the entire Bank). The Bank has set the following monthly staff turnover thresholds: low threshold - <=3%, average threshold - >3-4%, and high threshold - >=4%. The staff turnover rate in 2019 was at the average threshold.

### Staff turnover, persons



## Incentive scheme

**We aim to set up an efficient incentive system for employees to achieve the goals assigned to the Bank's staff and to retain skilled workers. The remuneration scheme of the Bank is intended to provide employees with a respectable remuneration for their qualified work.**

There are four approved bonus payment programs in the Bank:

- for the front-office staff of the Bank;
- for the back-office staff of the Bank;
- for employees collecting problem debts from legal entities/individuals;
- for employees involved in the sale of non-core assets of the Bank.

In 2019, the average monthly bonus per employee for the front-office staff of the Bank was around 54% of the average official salary, and for the back-office staff – around 20% of the average official salary.

*The Bank adheres to the principle of equal remuneration for men and women.*

## Staff evaluation

**Staff evaluation is a fundamental part of the staff management system, as the qualification of the Bank's employees is one of the main guarantees of its reliability.**

The staff evaluation procedure in the Bank is comprehensive and includes two methods of evaluation – by competence and by goals. In 2019, the Bank conducted evaluations of the goals achievement and basic competencies on a quarterly basis. A comprehensive competence evaluation covering all staff of the Bank is conducted once a year. Staff reshuffles and changes in remuneration levels can be made following the evaluation results.

## Staff development

**ForteBank strives to unlock the potential of its employees to the fullest extent. There are regular trainings held to provide the Bank with high-quality and on-time trained personnel. In 2019, training costs totaled 36 mln KZT. 427 employees received training.**

Responsibility for employees' development is primarily vested with heads of structural units of the Bank, who decide on the necessary areas for their development and training. However, the process also entails the active involvement and interest of the employees themselves.

*In 2019, the training topics covered financial analysis, OHS and fire safety, motivational goal-setting and leadership, office- based kaizen, risk management and internal control, etc.*

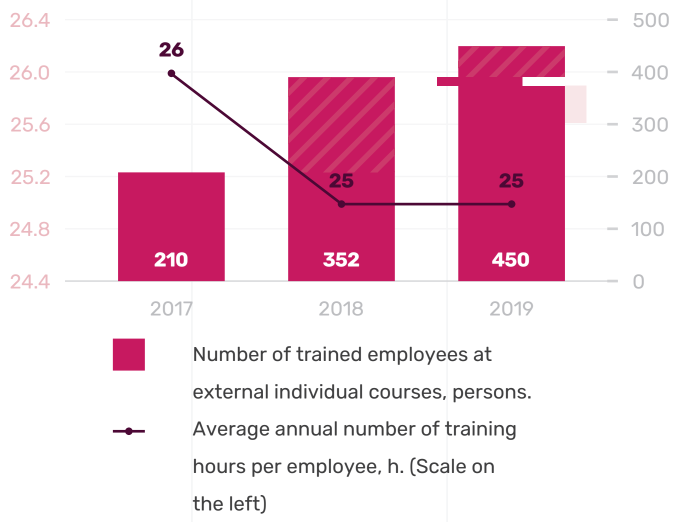
The Bank applies the advanced training methods, including distance and electronic training. The number of prescribed training and tests (sessions) through the Distance Learning System (DLS) amounted more than 55,000 in 2019. There is a tendency not only for increasing the number of employees trained through the distance course, but also for their own developments. The DLS allows for cost-cutting and expanded training coverage, as well as for flexible training schedules and thus for more efficient use of working time.

The Bank continues works on forming its talent pool. For example, last year, the Bank trained candidates for the positions of Deputy Retail Director for its branches. The reservists were evaluated for their competencies and received appropriate training and internships.

During the second half of 2019, professional internships were organized for university students, which were attended by 18 students. Moreover, ForteBank offers scholarships for studying at Narxoz University. As of today, 100 scholarships have already been granted.

In 2019, 38 % of employees, or 1,399 persons, received performance evaluation (including 975 women and 424 men).

### Dynamics of employee training



## Social welfare

To support employees and ensure comfortable working conditions, there is a welfare package, which, in 2019, includes the following:

- organization of voluntary medical insurance and assignment of the entire Bank's staff to the medical center (about 3,500 employees);
- welfare assistance to the Bank's staff in difficult life situations;
- organization of congratulations and gifts for the Bank's women for International Women's Day on March 8th;
- organization of New Year presents for the children of the Bank's employees;
- organization of service delivery for the staff of the Head Bank and the Bank's branch in Nur-Sultan city during autumn and winter period (about 500 employees);
- organization of a gym in the Head Bank's office (about 60 employees);
- cooperation with the fitness-centers Fitness Palace and Invictus (over 150 employees) on a special tariff for the Bank's staff.

The ForteCare program promotes the well-being of employees and, for example, allows them to visit the gym, provides healthy meals and other opportunities.

In 2019, 303 persons (including 300 women and 3 men) went on maternity/paternity leave.

*Forte aims to provide comfortable working conditions for disabled people. The Head Office of the Bank is fully equipped with the relevant infrastructure. Nearly 2% of our employees are with special needs.*

The Bank is focused on the quality of relations between employees and the management. To settle individual employment-related disputes between an employee and the employer, we have a Conciliation Commission which considers such issues as wage claims, amendments to the terms of the employment contract, imposition of disciplinary sanctions, reinstatement of employment, guarantees and compensations stipulated by the labor legislation, agreements and/or the employment contract, and other disputes under the legislation of the Republic of Kazakhstan.

## Corporate culture

The corporate culture formation is targeted at creating a strong external and internal brand of the Bank, developing a sense of engagement of each employee with the activities and results of the Bank as a whole. To strengthen corporate culture, the Bank has introduced team-building trainings, social campaigns, corporate holidays, creative/intellectual competitions, the establishment of a unified media space, etc.

Forte endeavors to build a transparency and open communication culture. To this end, in December 2019, the Bank launched the WORKPLACE corporate social network, where 483 Bank employees are currently registered and 15 active groups, including specialized groups (Forte Career, Forte Project, Forte Finance, Retail Business, Compliance, Forte Kurultay and Staff Society), have been created. There are no restrictions for all employees to leave messages, ask questions and hold dialogues.

In the second half of the last year, the quarterly platform for ForteBank senior officials was launched for a public talk and discussion on the implementation of the Forte's strategy FORTE KURULTAY (attended by 80 executives, including subsidiaries).

In 2019, a number of corporate events were organized for the Bank's staff, in which employees actively participated, with a view to maintaining corporate culture. For instance, a team of the Bank's employees was formed for participation in the annual winter futsal championship Astana Fytbol Ligasy, the futsal championship of Nur-Sultan and the Union Pay 2019 Cup futsal championship among second-tier banks.

## Occupational health and safety policy and activities

The Bank has the Regulation on Occupational Health and Safety in ForteBank JSC, which defines the regulatory and methodological activities for implementation of organizational technical, sanitary and hygienic activities aimed at ensuring safety, health maintenance and working efficiency of people at work, control over the observance by the Bank's employees of the occupational health and safety, the procedure for training and assessment of knowledge on occupational health and safety, the procedure for investigating accidents occurred during the performance by the Bank's employees of their functional duties, as well as the responsibility of the Bank's employees for breaches of occupational health and safety.

The overall supervision of compliance with the legislation on occupational health and safety in the Bank is ensured by the Chairman of the Management Board or another person authorized by him.

The Inspector for Occupational Health and Safety provides methodological guidance, arrangement of occupational health and safety activities, development and control of organizational and technical activities aimed at ensuring occupational health and safety, coordination of work of persons responsible for safety and labor health protection of employees of the Head Office and branches of the Bank in performing work related to the Bank's operations.

In the structural units of the Bank and its branches, the direct responsibility for arranging safe work of the staff is vested in heads of the respective structural units.

The organization of compliance with occupational health and safety requirements must be ensured through interaction between the concerned structural units of the Bank.

Education and checking of occupational health and safety knowledge of the responsible executives of the Head Office and branches of the Bank are carried out on-site or centrally in the Head Office of the Bank in Nur-Sultan.

*The responsible executives of the Bank shall regularly, but not less than once in three years, receive training on occupational health and safety issues at the relevant educational institutions.*

Monitoring of timely completing of training and assessment of knowledge of the responsible executives in the Head Office is carried out by the OHS Inspector, in the branches of the Bank - by the responsible executives of the Staff and Document Support Division as required by the legislation of the Republic of Kazakhstan.

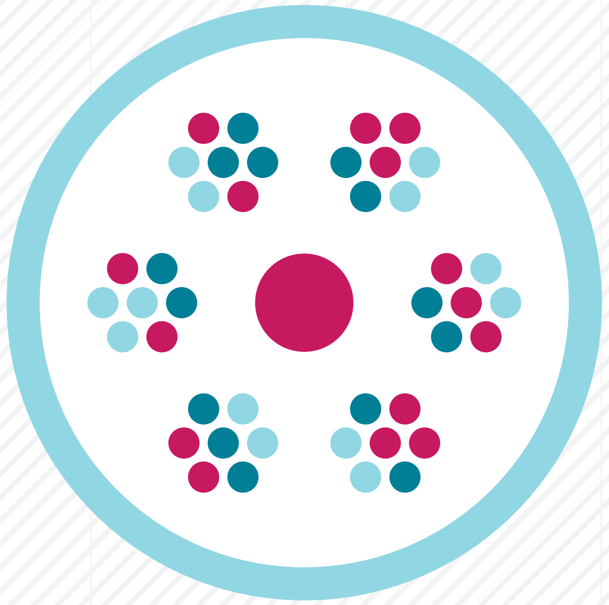
For ensuring compliance with occupational health and safety requirements, the Bank and its branches provide briefings in line with the regulatory legal acts of the Republic of Kazakhstan regulating occupational health and safety issues.

Work is being done to ensure that the Bank's staff observes occupational health and safety, and compulsory medical examinations are carried out at the national leading medical centers.

The Bank is monitoring fire safety. The set of measures includes technical equipment, organizational arrangements, inspections, theoretical instructions and practical lessons for employees. A favorable result of the emergency situation can be guaranteed only by taking the necessary actions in all areas. A special place in the set of measures is given to firefighting training at the company, which is held by the Bank 2 times a year.

## Development prospects

**As part of the new Strategy of the Bank, much attention is paid to the staff policy evolution. We aim to unlock human potential, inspire professionals and co-operate effectively in teams to create value for the customer.**



The focus on customer values' creation
Quick changes
Team-wide goals and performance-oriented work
Teams are built on the end-to-end principle.

**The leader gives direction**

**Automation and centralization of operational processes** will be one of the important trends in staff management. This involves both updating the IT architecture and reviewing all business processes. We work towards improving the user experience of our employees which will create comfortable working conditions for them and facilitate their work efficiency.

**The second important trend** is to build a grading system. Due to grading, the remuneration system will become more transparent, clear and will have a positive impact on the attractiveness of Forte as an employer.

**The third trend** is the development of the team., We work on adapting the corporate culture and values, taking a new look at the required competencies for employees in order to establish effective team interaction.

This work enables the Bank to adapt successfully to changes and create value for the customer, and also ensures high-quality human capital management for the benefit of employees.

## SOCIAL POLICY

**The Bank consistently supports different projects in the area of culture and sports.**

In 2019, ForteBank became the official bank of "Barys" Hockey Club. An agreement on partnership and cooperation for the game season 2019-2020 was concluded. The support of social projects, including those focused on the development of children's and youth sports, forms an important part of our activities. Hockey is a fast and technical discipline that requires strength and mastery in combination with team spirit. At that, "Barys" is the only national hockey top club that represents Kazakhstan in the KHL (Continental Hockey League). The Club's victories encourage young Kazakhstanis to play hockey and strive for sports achievements. We keep track of the capital team's development and are pleased to support it financially.

Since 2016, ForteBank has been organizing the annual charity tennis tournament ForteOpen, aimed at both amateur and professional tennis players. In particular, last year the tournament was attended by Polina Merenkova and Alexandra Grinchishina. We wish that tennis in Kazakhstan would continue its successful development, so that we could annually hold similar tournaments. All the proceeds are used to develop children's tennis. Moreover, we sponsored the construction of a tennis center in Petropavlovsk in 2018. Now, local kids have a possibility to train in good conditions.

*ForteBank is still one of the sponsors of the charity bike race Charity Tour de Burabay, and the Bank's employees take an active part in the bike race itself among outstanding cyclists from Kazakhstan and other countries.*

The proceeds from the event are used to acquire equipment for children's medical facilities, perinatal and rehabilitation centers, as well as for orphanages all over Kazakhstan.

Every two months, exhibitions of Kazakh artists are held in ForteBank Kulanshi Art Space in the capital. The recognized master Leyla Makhat is one of the main ideologists and founders of this public space. Her artworks were also exhibited at the end of the year. The artist presented an exposition with the symbolic name "Koz Timesin" meaning the "Amulet".

In June 2019, a three day international classical music festival Forte Music Fest was held in Almaty for the fourth time. People had a chance to enjoy classical music at the Kurmangazy Kazakh National Conservatory for free. Apart from offering the best examples of classical music, the festival also has an educational mission. Students of music institutions, and everyone interested, had an opportunity to attend free workshop sessions by unrivaled virtuosos, concerting soloists, professors and concert masters of orchestras during the festival.

A series of corporate sports events among the employees of the Group's companies in 2019 included a bicycle race as part of the Burabike Fest, a Verny Cup futsal tournament and a Verny Capital Tennis Cup tennis tournament, organized by the Verny Capital management company.

*The Bank provides support to its employees willing to take part in charity events.*

In spring and autumn 2019, the staff of the Head Office of the Bank participated actively in the charity event "Donate Blood, Save Lives", where more than 300 employees became donors to the Blood Center.

## ENVIRONMENTAL PROTECTION POLICY

**While carrying out its activities, the Bank ensures careful and sustainable treatment of the environment and resource utilization.**

The buildings of the Head Office of the Bank and its branches are equipped with automated water, power and heat supply systems. In compliance with the Environmental Code of the Republic of Kazakhstan, hazardous waste is collected for subsequent recycling and disposal (lead batteries, rechargeable batteries, oil-containing waste, pneumatic tyres, household solid wastes, mercuric lamps and exhaust oils).

In 2019, ForteBank became the first Kazakhstani bank which introduced segregated waste collection in offices as part of its Green Office project. This is about office standards that would help us develop conscious consumption skills and take care of the environment. Environmental care and conscious consumption are now one of the main trends for companies worldwide. Over the six months of the project implementation in 2019, the Bank sent 3,875 kg of waste for recycling, which included 2,875 kg of waste paper, 819 kg of glass, 95 kg of plastic, 85 kg of polyethylene and 1 kg of aluminum.

The internal documents of the Bank contain provisions that prohibit the Bank from financing any projects the implementation of which is harmful to the environment and human life and health. By doing so, the Bank contributes to environmental protection.

# INTERACTION WITH STAKEHOLDERS

**ForteBank aims to create value for all its stakeholders and to ensure a sustainable development based on their interests for both the short and long term. We cooperate with our stakeholders to maximally inform them about our activities and deliver the best results for them.**

Cooperation with our stakeholders is the key element in making responsible decisions by the Bank's management. We offer everyone the opportunity to provide feedback on the Bank's activities through a wide range of forums and channels so as to help them to shape our business development strategy according to the needs and expectations of the stakeholders.

By ensuring qualitative interaction with our stakeholders, we strive to strengthen mutual trust and confidence, facilitate involvement, maintain reliable risk management and, ultimately, adopt decisions that meet the interests of our stakeholders.

*Through our open dialogue with stakeholders, we have developed a more precise understanding of the wishes and key interests of stakeholders and the way in which we can best address these needs.*

| What is our approach to dealing with stakeholders? | How do we interact? | What issues are most frequently raised? | How do we respond? |
|---|---|---|---|
| **Shareholders**<br>The implementation of our Strategy is in line with the purpose of ensuring long-term sustainable returns for shareholders. | We interacted with our shareholders at our General Meeting of Shareholders in May 2020, where management reviewed the Group's performance and shareholders had the opportunity to provide feedback and vote on major decisions. | Shareholders are primarily interested in expanding the scale of the Group's operations and ensuring a sustainable financial position, along with a continued focus on digitalization and ecosystem development. | We have built a sound risk management system and maintain a well-balanced business development system that ensures good financial results and an expanded customer base and volume of business.<br>The Group provides high-quality financial and non-financial statements to present an in-depth view of its business to investors and shareholders. |
| **Customers**<br>The customer's interests underlie everything we do. Innovations, product development, service quality improvement and reliability are top priorities of our strategy. | Our front-office colleagues are a vital part of the way we interact with our customers, and we gain a precious understanding of how our customers perceive our service and the things we can do better. | Customers are increasingly interested in digital solutions. They expect to get the most user-friendly and customized solutions as soon as possible. Moreover, we know and understand that our customers are asking for more than just classic banking products. | When developing our offers, we pursue a customer-oriented approach and make it the center of the process.<br>In particular, in the previous year we worked at product development and improvement of service quality.<br>We are developing technological innovations with the aim of creating a comprehensive ecosystem of services to satisfy different customer needs. |
| **Employees**<br>Our people represent the major asset of the Group. We build a corporate environment providing equal opportunities for development to all employees and better working conditions. | In the course of the year, we held dialogues with our employees via a number of forums and various channels to obtain thoughts, opinions and feedback about the way we do business, giving them the opportunity to address questions directly to the top management of the Group.<br>We aim at building a culture of open communication. For instance, we launched the corporate social network WORKPLACE in December 2019. | Employees are motivated to receive a worthy remuneration for their work and welfare package, as well as fair and objective procedures of interaction with the Bank during all stages of cooperation. | We aim at creating a powerful corporate culture based on the values of the Group and a comfortable team environment.<br>One of the most essential aspects is the creation of high incentives for employees and high-quality social support.<br>The Group places high emphasis on training and further education of its employees to extend their career opportunities and unlock their potential.<br>We also focus on developing IT infrastructure to improve staff working comfort. |
| **Society**<br>We make decisions and carry on business with the goal of providing our customers, shareholders, colleagues and the communities where we operate with access to a prosperous and sustainable future. | We conduct an ongoing dialogue with the media, non-governmental organizations and other community members to raise our understanding of emerging and existing environmental and social issues and to identify areas that require our active participation. In addition, we regularly communicate openly with regulatory authorities, ensuring transparency of our business and exchanging opinions and expectations. | Another essential aspect of our activities is the strict compliance with legislation on socio-economic and environmental issues.<br>There are also issues concerning the impact of our activities on the socio-economic situation within the corporate footprint, quality employment and availability of products and services. | We ensure transparency and inclusiveness of conducting our business and consider the interests of different social groups when taking decisions.<br>The Group has been working on integrating the principles of sustainable development into its activities so as to develop the social and environmental aspects of its operations in the most efficient way. |

# Addresses and details

## FORTEBANK JSC

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**Nur-Sultan, Republic of Kazakhstan**
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e-mail: ir@fortebank.com

**BIN**
990 740 000 683

**License**
No. 1.2.29/197/36 dated August 24, 2016

**Certificate**
dated February 10, 2015

## Exchanges

- **Kazakhstan Stock Exchange JSC**
  north tower of Almaty Towers MFC
  280 Bayzakova Street, Almaty, Kazakhstan
  tel. +7 727 237 53 00
- **Astana International Exchange**
  55 Mangilik El ave., Nur-Sultan, Kazakhstan
  tel. +7 7172 23 53 66
- **Luxembourg Stock Exchange**
  35A Boulevard Joseph II, L-1840 Luxembourg
  tel. +352 47 79 361
- **London Stock Exchange**
  10 Paternoster Square, London,
  EC4M 7LS, United Kingdom
  tel. +44 0 20 7797 1000

## Registrar

**Central Securities Depository JSC**
28 Samal-1 microdistrict, 050051, Almaty, Kazakhstan
tel. +7 727 272 4760

## Auditor

**Ernst & Young Kazakhstan LLP**
Esentai Tower building, 4-5 floors
77/7, Al-Farabi ave., Almaty, Kazakhstan
tel. +7 727 258 5960

# Appendix 1.

## Issued securities

## EUROBONDS, ISIN: US34955XAA90, USY2497PAD51

| Type of issued bonds | Coupon international bonds Issued under the restructuring of the Temirbank JSC's liabilities in 2010 |
|---|---|
| Total number of bonds | 60,750,000 |
| Par value of 1 bond (at issue) | 1.00 USD |
| Current par value of 1 bond (at issue) | 1,23457 USD |
| Number of outstanding bonds | 59,593,493 |
| Number of redeemed bonds | 30,497,450 |
| Number of cancelled bonds | 1,156,507 |
| Principal debt | 73,572,338.65 USD |
| Circulation start date | 06/30/2010 |
| State registration of issue | The issue is registered by the Bank of New York Mellon S.A. (Luxembourg), ISIN: US34955XAA90, USY2497PAD51 |
| Redemption date | 06/30/2022 |
| Interest rate | 14.00% |
| Coupon payment frequency | Semi-annual |
| Purpose of issue | Restructuring |

## THIRD ISSUE OF BONDS, ISIN KZ2C00001485

| Type of issued bonds | Coupon, subordinated, unsecured |
|---|---|
| Total number of bonds | 220,000,000,000 |
| Par value of 1 bond (at issue) | 0.01 KZT |
| Number of outstanding bonds | 53,853,184,117 |
| Number of redeemed bonds | 1,185,992,487 |
| Principal debt | 538,531,841.17 KZT |
| Circulation start date | 10/20/2002 |
| State registration of issue | A64, ISIN KZ2C00001485 |
| Redemption date | 10/20/2022 |
| Interest rate | 8% |
| Coupon payment frequency | Semi-annual |
| Purpose of issue | Raising funds for general banking purposes |

## FIRST ISSUE UNDER THE FIRST BOND PROGRAM, ISIN KZ2C00000024

| Type of issued bonds | Subordinated, coupon, unsecured |
|---|---|
| Total number of bonds | 500,000,000,000 |
| Par value of 1 bond (at issue) | 0.01 KZT |
| Number of outstanding bonds | 63,735,000,520 |
| Number of redeemed bonds | 520 |
| Principal debt | 637,350,005.20 KZT |
| Circulation start date | 07/07/2005 |
| State registration of issue | B55-1. ISIN KZ2C00000024. |
| Redemption date | 07/07/2025 |
| Interest rate | 8% |
| Coupon payment frequency | Semi-annual |
| Purpose of issue | Raising funds for general banking purposes |

## THIRD ISSUE UNDER THE FIRST BOND PROGRAM, ISIN KZ2C00000032

| Type of issued bonds | Subordinated, coupon, unsecured |
|---|---|
| Total number of bonds | 400,000,000,000 |
| Par value of 1 bond (at issue) | 0.01 KZT |
| Number of outstanding bonds | 307,611,090,375 |
| Number of redeemed bonds | 76,267,969,125 |
| Principal debt | 3,076,110,903.75 KZT |
| Circulation start date | 12/30/2005 |
| State registration of issue | B55-3, ISIN KZ2C00000032 |
| Redemption date | 12/30/2022 |
| Interest rate | 8% |
| Coupon payment frequency | Semi-annual |
| Purpose of issue | Raising funds for general banking purposes |

## FOURTH ISSUE UNDER THE FIRST BOND PROGRAM, ISIN KZ2C00000040

| Type of issued bonds | Subordinated, coupon, unsecured |
|---|---|
| Total number of bonds | 300,000,000,000 |
| Par value of 1 bond (at issue) | 0.01 KZT |
| Number of outstanding bonds | 241,466,866,667 |
| Number of redeemed bonds | 23,136,000,000 |
| Principal debt | 2,414,668,666.67 KZT |
| Circulation start date | 06/01/06 |
| State registration of issue | B55-4, ISIN KZ2C00000040 |
| Redemption date | 06/01/2025 |
| Interest rate | 8% |
| Coupon payment frequency | Semi-annual |
| Purpose of issue | Raising funds for general banking purposes |

## FIFTH ISSUE UNDER THE FIRST BOND PROGRAM, ISIN KZ2C00000057

| Type of issued bonds | Subordinated, coupon, unsecured |
|---|---|
| Total number of bonds | 350,000,000,000 |
| Par value of 1 bond (at issue) | 0.01 KZT |
| Number of outstanding bonds | 281,164,200,000 |
| Number of redeemed bonds | 10,550,000,000 |
| Principal debt | 2,811,642,000.00 KZT |
| Circulation start date | 06/01/06 |
| State registration of issue | B55-5, ISIN KZ2C00000057 |
| Redemption date | 06/01/2022 |
| Interest rate | 8% |
| Coupon payment frequency | Semi-annual |
| Purpose of issue | Raising funds for general banking purposes |

## SEVEN ISSUE UNDER THE FIRST BOND PROGRAM, ISIN KZ2C00000065

| Type of issued bonds | Subordinated, coupon, unsecured |
|---|---|
| Total number of bonds | 450,000,000,000 |
| Par value of 1 bond (at issue) | 0.01 KZT |
| Number of outstanding bonds | 197,492,307,035 |
| Number of redeemed bonds | 36,303,000,000 |
| Principal debt | 1,974,923,070.35 KZT |
| Circulation start date | 11/29/2006 |
| State registration of issue | B55-7, ISIN KZ2C00000065 |
| Redemption date | 11/29/2026 |
| Interest rate | 8% |
| Coupon payment frequency | Semi-annual |
| Purpose of issue | Raising funds for general banking purposes |

## EIGHTH ISSUE UNDER THE FIRST BOND PROGRAM, ISIN KZ2C00000073

| Type of issued bonds | Subordinated, coupon, unsecured |
|---|---|
| Total number of bonds | 400,000,000,000 |
| Par value of 1 bond (at issue) | 0.01 KZT |
| Number of outstanding bonds | 316,313,200,133 |
| Number of redeemed bonds | 2,600 |
| Principal debt | 3,163,132,001.33 KZT |
| Circulation start date | 11/29/2006 |
| State registration of issue | B55-8, ISIN KZ2C00000073 |
| Redemption date | 11/29/2031 |
| Interest rate | 8% |
| Coupon payment frequency | Semi-annual |
| Purpose of issue | Raising funds for general banking purposes |

## FIRST ISSUE UNDER THE SECOND BOND PROGRAM, TEBNB12

| Type of issued bonds | Subordinated, coupon, unsecured |
|---|---|
| Total number of bonds | 800,000,000,000 |
| Par value of 1 bond (at issue) | 0.01 KZT |
| Number of outstanding bonds | 252,827,096,200 |
| Number of redeemed bonds | 32,765,289,200 |
| Principal debt | 2,528,270,962.00 KZT |
| Circulation start date | 04/14/2007 |
| State registration of issue | C33-1, ISIN KZ2C00000099 |
| Redemption date | 04/14/2020* |
| Interest rate | 8% |
| Coupon payment frequency | Semi-annual |
| Purpose of issue | Raising funds for general banking purposes |
| * Bonds were redeemed by the Bank under the terms of the bond issue prospectus. | |

## SECOND ISSUE UNDER THE SECOND BOND PROGRAM, ISIN KZ2C00000081

| Type of issued bonds | Subordinated, coupon, unsecured |
|---|---|
| Total number of bonds | 800,000,000,000 |
| Par value of 1 bond (at issue) | 0.01 KZT |
| Number of outstanding bonds | 44,213,741,579 |
| Number of redeemed bonds | 9,200 |
| Principal debt | 442,137,415.79 KZT |
| Circulation start date | 04/14/2007 |
| State registration of issue | C33-2, ISIN KZ2C00000081 |
| Redemption date | 04/14/2022 |
| Interest rate | 8% |
| Coupon payment frequency | Semi-annual |
| Purpose of issue | Raising funds for general banking purposes |

## THIRD ISSUE UNDER THE SECOND BOND PROGRAM, TEBNB14

| Type of issued bonds | Subordinated, coupon, unsecured |
|---|---|
| Total number of bonds | 600, 000,000,000 |
| Par value of 1 bond (at issue) | 0.01 KZT |
| Number of outstanding bonds | 96,380,320,616 |
| Number of redeemed bonds | 1,130 |
| Principal debt | 963,803,206.16 KZT |
| Circulation start date | 04/14/2007 |
| State registration of issue | C33-3, ISIN KZ2C00000107 |
| Redemption date | 04/14/2026 |
| Interest rate | 8% |
| Coupon payment frequency | Semi-annual |
| Purpose of issue | Raising funds for general banking purposes |

## FOURTH ISSUE UNDER THE SECOND BOND PROGRAM, ISIN KZ2C00000115

| Type of issued bonds | Subordinated, coupon, unsecured |
|---|---|
| Total number of bonds | 600,000,000,000 |
| Par value of 1 bond (at issue) | 0.01 KZT |
| Number of outstanding bonds | 87,902,947,079 |
| Number of redeemed bonds | 87,900,000,000 |
| Principal debt | 879,029,470.79 KZT |
| Circulation start date | 04/14/2007 |
| State registration of issue | C33-4, ISIN KZ2C00000115 |
| Redemption date | 04/14/2026 |
| Interest rate | 8% |
| Coupon payment frequency | Semi-annual |
| Purpose of issue | Raising funds for general banking purposes |

## FIFTH ISSUE UNDER THE SECOND BOND PROGRAM, ISIN KZ000A1AT8V6

| Type of issued bonds | Subordinated, coupon, unsecured |
|---|---|
| Total number of bonds | 600,000,000,000 |
| Par value of 1 bond | 0.01 KZT |
| Number of outstanding bonds | 553,950,525,639 |
| Number of redeemed bonds | 105,855,630,119 |
| Principal debt | 5,539,505,256.39 KZT |
| Circulation start date | 04/14/2007 |
| State registration of issue | C33-5. ISIN KZ000A1AT8V6 |
| Redemption date | 04/14/2027 |
| Interest rate | 8% |
| Coupon payment frequency | Semi-annual |
| Purpose of issue | Raising funds for general banking purposes |

## SIXTH ISSUE UNDER THE SECOND BOND PROGRAM, ISIN KZ2C00000123

| Type of issued bonds | Subordinated, coupon, unsecured |
|---|---|
| Total number of bonds | 600,000,000,000 |
| Par value of 1 bond (at issue) | 0.01 KZT |
| Number of outstanding bonds | 116,510,937,500 |
| Number of redeemed bonds | 0 |
| Principal debt | 1,165,109,375 KZT |
| Circulation start date | 04/14/2007 |
| State registration of issue | C33-6, ISIN KZ2C00000123 |
| Redemption date | 04/14/2027 |
| Interest rate | 8% |
| Coupon payment frequency | Semi-annual |
| Purpose of issue | Raising funds for general banking purposes |

## SEVENTH ISSUE UNDER THE SECOND BOND PROGRAM, ISIN KZ2C00000461

| Type of issued bonds | Secured coupon bonds |
|---|---|
| Total number of bonds | 1,000,000,000,000 |
| Par value of 1 bond (at issue) | 0.01 KZT |
| Number of outstanding bonds | 671,656,142,930 |
| Number of redeemed bonds | 281,534,998,097 |
| Principal debt | 6,716,561,429.30 KZT |
| Circulation start date | 03/15/2010 |
| State registration of issue | C33-7, ISIN KZ2C00000461 |
| Redemption date | 03/15/2020* |
| Interest rate | Floating rate depending on the rate of inflation, determined from the formula:<br>r = i + m, where<br>r – coupon rate;<br>i – rate of inflation calculated as an increase/reduction in consumer price index in annualized terms (index value in percent minus 100%) published by the Agency of the Republic of Kazakhstan on Statistics over the last 12 months preceding one month before the start date of the relevant coupon period;<br>m – a fixed margin equal to 1% over the entire bond circulation period.<br>If there are changes in the name of the consumer price index, the algorithm of its calculation, etc., the equivalent indicator established by the Agency of the Republic of Kazakhstan on Statistics will be applied in calculating the coupon interest.<br>The maximum coupon rate value is 12% per annum and the minimum value is 8%. |
| Coupon payment frequency | Semi-annual |
| Purpose of issue | Raising funds for general banking purposes |
| * Bonds were redeemed by the Bank under the terms of the bond issue prospectus. | |

## FIRST ISSUE UNDER BOND PROGRAM, ISIN KZ2C00003374

| Type of issued bonds | Subordinated, coupon, unsecured |
|---|---|
| Total number of bonds | 50,000,000 |
| Par value of 1 bond (at issue) | 1,000.00 KZT |
| Number of outstanding bonds | 49,958,859 |
| Number of redeemed bonds | 0 |
| Principal debt | 49,958,859,000.00 KZT |
| Circulation start date | 07/27/2015 |
| State registration of issue | F04-1, ISIN KZ2C00003374 |
| Redemption date | 07/26/2025 |
| Interest rate | 10.13% |
| Coupon payment frequency | Semi-annual |
| Purpose of issue | Raising funds for general banking purposes |

## SECOND ISSUE UNDER BOND PROGRAM, ISIN KZ2C00003473

| Type of issued bonds | Subordinated, coupon, unsecured |
|---|---|
| Total number of bonds | 65,000,000 |
| Par value of 1 bond (at issue) | 1,000.00 KZT |
| Number of outstanding bonds | 0 |
| Number of redeemed bonds | 0 |
| Principal debt | 0.00 KZT |
| Circulation start date | Not placed |
| State registration of issue | F04-2, ISIN KZ2C00003473 |
| Redemption date | - |
| Interest rate | -% |
| Coupon payment frequency | Semi-annual |
| Purpose of issue | Raising funds for general banking purposes |

## THIRD ISSUE UNDER BOND PROGRAM, ISIN KZ2C00003556

| Type of issued bonds | Indexed, unsecured |
|---|---|
| Total number of bonds | 18,000,000 |
| Par value of 1 bond (at issue) | 1,000.00 KZT indexed into USD |
| Number of outstanding bonds | 0 |
| Number of redeemed bonds | 0 |
| Principal debt | 0.00 KZT |
| Circulation start date | Not placed |
| State registration of issue | F04-3, ISIN KZ2C00003556 |
| Redemption date | - |
| Interest rate | -% |
| Coupon payment frequency | Annual |
| Purpose of issue | Raising funds for general banking purposes |

## COUPON BONDS, ISIN KZ2C00004364

| Type of issued bonds | Купонные облигации, без обеспечения |
|---|---|
| Total number of bonds | 220,000,000 |
| Par value of 1 bond (at issue) | 1,000.00 KZT |
| Number of outstanding bonds | 220,000,000 |
| Number of redeemed bonds | 0 |
| Principal debt | 220,000,000.00 KZT |
| Circulation start date | 09/13/2018 |
| State registration of issue | F91, ISIN KZ2C00004364 |
| Redemption date | 12/15/2024 |
| Interest rate | 4.00 % |
| Coupon payment frequency | Annual |
| Purpose of issue | Raising funds for general banking purposes |

# Appendix 2.

## Consolidated financial statements

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# Independent auditor's report

To the Shareholders and Board of Directors of ForteBank Joint Stock Company

***Opinion***

We have audited the consolidated financial statements of ForteBank Joint Stock Company and its subsidiaries (the "Group"), which comprise the consolidated statement of comprehensive income for the year ended 31 December 2019, the consolidated statement of financial position as at 31 December 2019, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated 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 consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards) (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.

***Key audit matters***

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

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements.

The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.



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| Key audit matter | How the matter was addressed in the audit |
|---|---|
| ***Allowance for expected credit losses of loans to customers*** | |
| Estimation of allowance for expected credit losses on loans to customers in accordance with IFRS 9 is a key area of the Group's management judgment. Identification of factors of a significant increase in credit risk since the initial recognition, including identification of changes in default risk during the remaining term of a financial instrument, as well as determining probability of default and loss given default rates, requires significant use of professional judgment, assumptions and analysis of various historical, current and forward-looking information.<br><br>The use of different models and assumptions may significantly affect the amount of allowance for expected credit losses on loans to customers. Due to the materiality of loans to customers of the Group as at 31 December 2019, as well as the significant use of professional judgment, the estimation of the allowance for expected credit losses was a key audit issue.<br><br>Information on expected credit losses on loans to customers is presented in Note 9 *Credit loss expense*, Note 16 *Loans to customers* and Note 26 *Risk management* to the consolidated financial statements. | Our audit procedures included analyzing the methodology for estimating the allowance for expected credit losses on the loan portfolio, as well as analyzing and testing controls over the process of identification of factors of significant increase in credit risk on loans to customers since initial recognition and events of default, including the term overdue debt and changes in internal credit ratings.<br><br>We performed, on a sample basis, testing of input data and analysis of the assumptions used by the Group in estimation of allowance for expected credit losses, including statistical information on debt servicing, borrower's financial and non-financial information, expected recoveries in the events of default from sale of collateral held as well as forecast macroeconomic factors.<br><br>We made recalculations on the allowance for expected credit losses.<br><br>We have analyzed information on the allowance for expected credit losses on loans to customers disclosed in the Notes to the consolidated financial statements. |

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| Key audit matter | How the matter was addressed in the audit |
| --- | --- |
| ***Valuation of fair value of investment securities of NAC Kazatomprom JSC*** | |
| We considered this matter as one of the key audit matters due to materiality of the investments in these securities, as well as complex and subjective judgments of the Group's management used in determination of the fair value of investment securities not quoted in an active market at initial recognition.<br><br>Information on investment securities is disclosed in Note 17 *Investment securities* to the consolidated financial statements. | Our audit procedures comprised an assessment of the methodology and the valuation model, as well as testing of input data used by the Group in determining the fair value. We involved valuation specialists to assess the key inputs used in the valuation, such as risk-free rate and credit spread, as well as performed benchmarking them with external data.<br><br>We have analyzed the information on investment securities disclosed in Notes to the consolidated financial statements. |

***Other information included in the Annual report of the Group for 2019***

Other information consists of the information included in the Annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

The Annual report is expected to be made available to us after the date of this audit report.

Our opinion on the consolidated financial statements does not cover other information and we do not express any conclusion providing assurance in any form with regard to this information.

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



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***Responsibility of management and the Board of Directors for the consolidated financial statements***

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for the supervision of the Group's consolidated financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. Besides, we perform the following:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures in response to these risks, obtain audit evidence, which is sufficient and appropriate to serve as a basis for our audit 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;

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- 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 Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we determine the existence of material uncertainty, we shall draw attention in our opinion to the related disclosure in the consolidated financial statements or, if such disclosure is 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 result in the Group's loss of ability to continue as a going concern;
- evaluate the overall presentation of the consolidated financial statements, their structure and content, including disclosure of information, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

We also provide the Board of Directors with the statement that we complied with all respective ethical requirements with regard to independence and communicated to them all relations and other matters that may be reasonably considered as affecting the auditor's independence, and where applicable, related safeguards.



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

The partner in charge of the audit resulting in this independent auditor's report is Paul Cohn.

Ernst & Young LLP

Paul Cohn
Audit partner

Olga Khegay
Auditor

Gulmira Turmagambetova
General director
Ernst & Young LLP

Auditor's 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

10 March 2020

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## FOR THE YEAR ENDED 31 DECEMBER 2019 (MILLIONS OF TENGE)

| | Notes | 2019 | 2018* |
|---|---|---|---|
| Interest revenue calculated using effective interest rate | 6 | **163,249** | 122,542 |
| Other interest revenue | 6 | **304** | 395 |
| Interest expense | 6 | **(85,259)** | (73,543) |
| **Net interest income** | | **78,294** | 49,394 |
| | | | |
| Fee and commission income | 7 | **33,203** | 20,206 |
| Fee and commission expense | 7 | **(11,058)** | (5,845) |
| Net (losses)/gains on derecognition of investment securities at fair value through other comprehensive income | | **(107)** | 875 |
| Net gains on initial recognition of financial assets measured at amortised cost | 17 | **7,053** | 802 |
| Net gains from foreign currencies | 8 | **10,603** | 1,255 |
| Gain on derecognition of financial liabilities | 22 | **–** | 9,160 |
| Other income | 11 | **4,378** | 4,854 |
| **Non-interest income** | | **44,072** | 31,307 |
| | | | |
| Credit loss expense | 9 | **(20,417)** | (5,000) |
| Net losses from financial instruments at fair value through profit or loss | | **(4,274)** | (426) |
| General and administrative expenses | 10 | **(42,751)** | (35,861) |
| Other expenses | 11 | **(9,933)** | (5,415) |
| **Non-interest expense** | | **(77,375)** | (46,702) |
| **Profit before corporate income tax expense** | | **44,991** | 33,999 |
| | | | |
| Corporate income tax expense | 12 | **(2,758)** | (4,891) |
| **Profit for the year** | | **42,233** | 29,108 |
| | | | |
| Attributable to: | | | |
| • shareholders of the Bank | | **42,233** | 29,038 |
| • non-controlling interests | | **–** | 70 |
| | | **42,233** | 29,108 |

| | Notes | 2019 | 2018* |
|---|---|---|---|
| **Other comprehensive income** | | | |
| *Other comprehensive income/(loss) to be reclassified in subsequent periods to profit or loss* | | | |
| Net change in fair value of debt instruments at fair value through other comprehensive income | | **4,276** | (2,342) |
| Change in allowance for expected credit losses of debt instruments at fair value through other comprehensive income | | **(217)** | 1,412 |
| Reclassification of cumulative loss/(gain) on derecognition of debt instruments at fair value through other comprehensive income to profit or loss | | **107** | (875) |
| Income tax relating to components of other comprehensive income | | **(667)** | 323 |
| **Other comprehensive income/(loss) for the year, net of tax** | | **3,499** | (1,482) |
| **Total comprehensive income for the year** | | **45,732** | 27,626 |
| | | | |
| Attributable to: | | | |
| • shareholders of the Bank | | **45,732** | 27,556 |
| • non-controlling interests | | **–** | 70 |
| | | **45,732** | 27,626 |
| | | | |
| **Basic and diluted earnings per share (in tenge)** | 25 | **0.47** | 0.32 |

* Certain amounts included in this column do not agree to the consolidated financial statements for 2018 as they reflect the reclassifications made and disclosed in Note 2.

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

Guram Andronikashvili
Chairman of the Management Board

Yetekbayeva Y. A.
Chief accountant-
Executive Director

10 March 2020

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### AS AT 31 DECEMBER 2019 (MILLIONS OF TENGE)

| | Notes | 31 December 2019 | 31 December 2018* | 31 December 2017 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | 13 | **347,242** | 225,147 | 231,820 |
| Amounts due from financial institutions | 14 | **28,205** | 19,711 | 6,393 |
| Trading securities | 15 | **6,452** | 9,511 | 290,919 |
| Loans to customers | 16 | **785,068** | 689,645 | 671,851 |
| Investment securities | 17 | **719,466** | 570,475 | 82,398 |
| Property and equipment | 18 | **70,655** | 51,496 | 49,009 |
| Intangible assets | | **9,839** | 5,441 | 3,741 |
| Deferred income tax assets | 12 | **–** | 2,279 | 6,740 |
| Other assets | 19 | **103,043** | 115,018 | 101,769 |
| **Total assets** | | **2,069,970** | 1,688,723 | 1,444,640 |
| | | | | |
| **Liabilities** | | | | |
| Current accounts and deposits of customers | 20 | **1,336,949** | 1,075,628 | 981,225 |
| Amounts due to banks and other financial institutions | 21 | **117,806** | 72,128 | 75,894 |
| Amounts payable under repurchase agreements | 28 | **116,741** | 56,392 | 36,639 |
| Debt securities issued | 22 | **229,263** | 253,584 | 125,121 |
| Deferred income tax liabilities | 12 | **1,621** | 183 | 122 |
| Subordinated debt | 23 | **25,951** | 22,648 | 22,740 |
| Other liabilities | | **12,687** | 7,521 | 8,698 |
| **Total liabilities** | | **1,841,018** | 1,488,084 | 1,250,439 |
| | | | | |
| **Equity** | | | | |
| Share capital | 24 | **332,815** | 332,815 | 332,815 |
| Additional paid-in capital | | **21,109** | 21,116 | 21,116 |
| Treasury shares | 24 | **(4,438)** | (1,311) | (1,293) |
| Fair value reserve | | **5,858** | 2,359 | 598 |
| Accumulated losses | | **(126,392)** | (155,051) | (159,676) |
| **Total equity attributable to shareholders of the Bank** | | **228,952** | 199,928 | 193,560 |
| | | | | |
| Non-controlling interests | | **–** | 711 | 641 |
| **Total equity** | | **228,952** | 200,639 | 194,201 |
| **Total equity and liabilities** | | **2,069,970** | 1,688,723 | 1,444,640 |

* Certain amounts included in this column do not agree to the consolidated financial statements as at 31 December 2018 as they reflect the reclassifications made and disclosed in Note 2.

## CONSOLIDATED STATEMENT OF CASH FLOWS

### FOR THE YEAR ENDED 31 DECEMBER 2019 (MILLIONS OF TENGE)

| | Notes | 2019 | 2018* |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest income received | | **145,874** | 108,373 |
| Interest expense paid | | **(74,175)** | (67,997) |
| Fee and commission income received | | **32,802** | 19,688 |
| Fee and commission expense paid | | **(11,058)** | (5,845) |
| Net realised losses from financial instruments at fair value through profit or loss | | **(4,360)** | (348) |
| Net realised gains on dealing in foreign currencies | | **10,904** | 886 |
| General and administrative expenses paid | | **(41,792)** | (33,379) |
| Other operating expenses paid | | **(623)** | (1,012) |
| | | | |
| **(Increase)/decrease in operating assets** | | | |
| Amounts due from financial institutions | | **(7,568)** | (12,674) |
| Trading securities | | **3,221** | (1,934) |
| Loans to customers | | **(50,058)** | (29,673) |
| Other assets | | **24,041** | 9,261 |
| | | | |
| **Increase/(decrease) in operating liabilities** | | | |
| Current accounts and deposits of customers | | **170,342** | (46,022) |
| Amounts due to banks and other financial institutions | | **39,464** | 4,405 |
| Amounts payable under repurchase agreements | | **60,281** | 19,741 |
| Other liabilities | | **1,709** | 1,423 |
| **Net cash flows from / (used in) operating activities before income tax** | | **299,004** | (35,107) |
| | | | |
| Corporate income tax paid | | **(240)** | (46) |
| **Net cash from / (used in) operating activities** | | **298,764** | (35,153) |

# CONSOLIDATED STATEMENT OF CASH FLOWS

## FOR THE YEAR ENDED 31 DECEMBER 2019 (MILLIONS OF TENGE) (CONTINUED)

| | Notes | 2019 | 2018* |
|---|---|---|---|
| **Cash flows from investing activities** | | | |
| Acquisition of subsidiaries, net of cash acquired | 5 | **30,163** | – |
| Acquisition of non-controlling interest | | **(480)** | – |
| Purchase of investment securities at fair value through other comprehensive income | | **(925,995)** | (982,173) |
| Proceeds from sale of investment securities at fair value through other comprehensive income | | **108,820** | 20,001 |
| Redemption of investment securities at fair value through other comprehensive income | | **757,162** | 935,445 |
| Purchase of investment securities measured at amortised cost | | **(73,610)** | (149,748) |
| Purchase of property and equipment and intangible assets | | **(18,263)** | (12,279) |
| Proceeds from sale of property and equipment and intangible assets | | **138** | 952 |
| **Net cash used in investing activities** | | **(122,065)** | (187,802) |
| | | | |
| **Cash flows from financing activities** | 29 | | |
| Proceeds from return of instruments unclaimed by creditors | | **–** | 1,647 |
| Repurchase of own shares | 24 | **(3,127)** | (18) |
| Dividends paid to shareholders of the Bank | 24 | **(11,376)** | (7,748) |
| Proceeds from placement of debt securities issued | 29 | **14,992** | 220,154 |
| Repurchase of debt securities issued | 29 | **(4)** | (10,870) |
| Redemption of debt securities issued | 29 | **(51,005)** | (7,903) |
| Repayment of lease liability | 3 | **(1,250)** | – |
| **Net cash (used in) / from financing activities** | | **(51,770)** | 195,262 |
| | | | |
| Effect of exchange rate changes on cash and cash equivalents | | **(2,832)** | 21,022 |
| Effect of expected credit losses on cash and cash equivalents | | **(2)** | (2) |
| **Net change in cash and cash equivalents** | | **122,095** | (6,673) |

| | Notes | 2019 | 2018* |
|---|---|---|---|
| Cash and cash equivalents, beginning | | **225,147** | 231,820 |
| **Cash and cash equivalents, ending** | **13** | **347,242** | 225,147 |
| | | | |
| **Non-monetary transactions** | | | |
| Repossession of collateral on loans to customers | 16 | **12,592** | 16,322 |

* Certain amounts included in this column do not agree to the consolidated financial statements for 2018 as they reflect the reclassifications made and disclosed in Note 2.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR ENDED 31 DECEMBER 2019 (MILLIONS OF TENGE)

| | Equity attributable to the shareholders of the Bank | | | | | | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|
| | Share capital | Additional paid-in capital | Treasury shares | Fair value reserve | Accumulated losses | Total | | |
| **At 1 January 2019** | 332,815 | 21,116 | (1,311) | 2,359 | (155,051) | 199,928 | 711 | 200,639 |
| Impact of adopting IFRS 16 (Note 3) | – | – | – | – | (428) | (428) | – | (428) |
| **Restated balance in accordance with IFRS 16 at the beginning of the year** | **332,815** | **21,116** | **(1,311)** | **2,359** | **(155,479)** | **199,500** | **711** | **200,211** |
| Profit for the year | – | – | – | – | **42,233** | **42,233** | – | **42,233** |
| Other comprehensive income for the year | – | – | – | **3,499** | – | **3,499** | – | **3,499** |
| **Total comprehensive income for the year** | – | – | – | **3,499** | **42,233** | **45,732** | – | **45,732** |
| **Transactions with owners recorded directly in equity** | | | | | | | | |
| Purchase of treasury shares (Note 24) | – | **(7)** | **(3,127)** | – | – | **(3,134)** | – | **(3,134)** |
| Acquisition of non-controlling interests | – | – | – | – | **228** | **228** | **(711)** | **(483)** |
| Acquisition of subsidiaries (Note 5) | – | – | – | – | **(1,998)** | **(1,998)** | – | **(1,998)** |
| Dividends declared (Note 24) | – | – | – | – | **(11,376)** | **(11,376)** | – | **(11,376)** |
| **At 31 December 2019** | **332,815** | **21,109** | **(4,438)** | **5,858** | **(126,392)** | **228,952** | – | **228,952** |
| At 1 January 2018 | 332,815 | 21,116 | (1,293) | 598 | (159,676) | 193,560 | 641 | 194,201 |
| Impact of adopting IFRS 9 (Note 3) | – | – | – | 3,243 | (16,665) | (13,422) | – | (13,422) |
| **Restated balance in accordance with IFRS 9 at the beginning of the year** | 332,815 | 21,116 | (1,293) | 3,841 | (176,341) | 180,138 | 641 | 180,779 |
| Profit for the year | – | – | – | – | 29,038 | 29,038 | 70 | 29,108 |
| Other comprehensive income for the year | – | – | – | (1,482) | – | (1,482) | – | (1,482) |
| **Total comprehensive income for the year** | – | – | – | (1,482) | 29,038 | 27,556 | 70 | 27,626 |
| **Transactions with owners recorded directly in equity** | | | | | | | | |
| Purchase of treasury shares (Note 24) | – | – | (18) | – | – | (18) | – | (18) |
| Dividends declared (Note 24) | – | – | – | – | (7,748) | (7,748) | – | (7,748) |
| **At 31 December 2018** | 332,815 | 21,116 | (1,311) | 2,359 | (155,051) | 199,928 | 711 | 200,639 |

# NOTES TO 2019 CONSOLIDATED FINANCIAL STATEMENTS

## 1. General information

### Corporate structure and activities

These consolidated financial statements include financial statements of ForteBank Joint Stock Company (hereinafter – the "Bank") and its subsidiaries (together, the "Group").

The Bank was established in 1999 under the laws of the Republic of Kazakhstan. On 10 February 2015, the Bank was reregistered to ForteBank JSC (formerly, Alliance Bank JSC).

Legal address of the Bank's head office: 8/1, Dostyk str., 010017, Nur-Sultan, Republic of Kazakhstan. The Bank's activities are regulated by the National Bank of the Republic of Kazakhstan (hereinafter – the "NBRK"). The Bank operates under license No. 1.2.29/197/36 for conducting banking and other activities and operations on securities market stipulated by the banking legislation, issued by the NBRK on 27 February 2015.

The Group's primary business is related to commercial banking activities, granting of loans and guarantees, accepting deposits, exchanging foreign currencies, dealing with securities, transferring cash payments, as well as providing other banking services. Certain debt securities issued by the Bank are listed on the London Stock Exchange, the Luxembourg Stock Exchange and the Kazakhstan Stock Exchange (hereinafter – the "KASE") and Astana International Exchange.

The Bank is a participant of the Kazakhstan Deposit Insurance Fund (hereinafter – the "KDIF"). The primary objective of the KDIF is to protect interests of depositors in the event of forced liquidation of the participant bank. As at 31 December 2019 and 2018, depositors can receive limited insurance coverage for deposits, depending on the currency of the deposit: in tenge – up to KZT 10 million, in foreign currencies – up to KZT 5 million.

As at 31 December 2019 and 2018, the Group includes the following subsidiaries:

millions of tenge

| Name | Country of incorporation | Principal activities | Ownership, % 31 December 2019 | Ownership, % 31 December 2018 |
|---|---|---|---|---|
| ForteLeasing JSC | Republic of Kazakhstan | Leasing operations | 100.0 | 80.6 |
| OUSA Alliance LLP | Republic of Kazakhstan | Management of doubtful and bad assets | 100.0 | 100.0 |
| OUSA-F LLP | Republic of Kazakhstan | Management of doubtful and bad assets | 100.0 | 100.0 |
| Bank Kassa Nova JSC | Republic of Kazakhstan | Banking operations | 100.0 | – |
| ONE Technologies LLP | Republic of Kazakhstan | Software development | 100.0 | – |

During May and July 2019, the Group increased its share in equity of ForteLeasing JSC by acquiring shares from non-controlling shareholders. As a result, the Bank's ownership in ForteLeasing JSC increased to 100%.

On 23 April 2019, the Bank acquired 100% ownership in ONE Technologies LLP. On 29 April 2019, the Bank acquired 100% ownership of Bank Kassa Nova JSC.

### Shareholders

As at 31 December 2019, B.Zh. Utemuratov owns 90.10% of the outstanding common shares of the Bank and is an ultimate controlling shareholder of the Group (as at 31 December 2018: 88.47%). The rest of the shares are held by other shareholders, none of which owns more than 5% of the shares.

On 18 March 2019, Mr. Utemuratov B.Zh. entered into the trust management agreement with Nova Leasing JSC in respect of 54% of the outstanding shares of the Bank. Mr. Utemuratov B.Zh. is a 100% shareholder of Nova Leasing JSC.

## 2. Basis of preparation

### General

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

### Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention except for trading securities and investment securities at fair value through other comprehensive income, which have been measured at fair value.

## 2. Basis of preparation (continued)

### Functional and presentation currency of the consolidated financial statements

The functional currency of the Bank and its subsidiaries is tenge, as being the national currency of the Republic of Kazakhstan, it reflects the economic substance of the majority of the Group's transactions and circumstances relevant to them affecting its activities.

The Kazakhstani tenge is also the presentation currency for the purposes of these consolidated financial statements.

Financial information of the consolidated financial statements is rounded to the nearest million.

### Reclassifications

The following reclassification has been made in the consolidated statement of comprehensive income for the year ended 31 December 2018 to conform to the 2019 presentation:

| millions of tenge | For the year ended 31 December 2018 | | |
|---|---|---|---|
| **Consolidated statement of comprehensive income** | **As previously reported** | **Reclassification** | **As reclassified** |
| Net gains on initial recognition of financial assets measured at amortised cost | – | 802 | 802 |
| Other income | 5,656 | (802) | 4,854 |
| | **5,656** | **–** | **5,656** |
| **Non-interest income** | **31,307** | **–** | **31,307** |

The following reclassifications have been made in the consolidated statement of financial position as at 31 December 2018 to conform to the 2019 presentation:

| millions of tenge | As at 31 December 2018 | | |
|---|---|---|---|
| **Consolidated statement of financial position** | **As previously reported** | **Reclassification** | **As reclassified** |
| Cash and cash equivalents | 224,121 | 1,026 | 225,147 |
| Amounts due from financial institutions | 18,215 | 1,496 | 19,711 |
| Other assets | 117,540 | (2,522) | 115,018 |
| | **359,876** | **–** | **359,876** |
| **Total assets** | **1,688,723** | **–** | **1,688,723** |
| | | | |
| Share capital | 331,504 | 1,311 | 332,815 |
| Treasury shares | – | (1,311) | (1,311) |
| | **331,504** | **–** | **331,504** |
| **Total equity** | **200,639** | **–** | **200,639** |

The following reclassifications have been made in the consolidated statement of cash flows for the year ended 31 December 2018 to conform to the 2019 presentation:

| millions of tenge | For the year ended 31 December 2018 | | |
|---|---|---|---|
| **Consolidated statement of cash flows** | **As previously reported** | **Reclassification** | **As reclassified** |
| **(Increase)/decrease in operating assets** | | | |
| Amounts due from financial institutions | (11,178) | (1,496) | (12,674) |
| Other assets | 6,739 | 2,522 | 9,261 |
| | **(4,439)** | **1,026** | **(3,413)** |
| **Net cash flows (used in) / from operating activities before income tax** | **(36,133)** | **1,026** | **(35,107)** |
| **Net cash (used in) / from operating activities** | **(36,179)** | **1,026** | **(35,153)** |
| **Net change in cash and cash equivalents** | **(7,699)** | **1,026** | **(6,673)** |
| **Cash and cash equivalents, ending** | **224,121** | **1,026** | **225,147** |

## 3. Summary of accounting policies

### Changes in accounting policies

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018, except for the adoption of new standards effective as at 1 January 2019. The nature and the effect of these changes are disclosed below. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. 3. Summary of accounting policies (continued)

### IFRS 16 Leases

IFRS 16 supersedes 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. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

## 3. Summary of accounting policies (continued)

### Changes in accounting policies (continued)

### IFRS 16 Leases (continued)

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The effect of adoption of IFRS 16 on the interim condensed consolidated statement of financial position is as follows:

| millions of tenge | 1 January 2019 |
|---|---|
| Assets | |
| Property and equipment | 5,453 |
| Deferred tax assets | 103 |
| **Total assets** | **5,556** |
| | |
| **Liabilities** | |
| Other liabilities | 5,984 |
| **Total liabilities** | **5,984** |
| **Net effect on equity** | **(428)** |

(a) Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of property and equipment. Before the adoption of IFRS 16, the Group classified each of its leases as lessee at the inception date as an operating lease. The leased property was not capitalised, and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under Other assets and Other liabilities, respectively.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Group.

Аренда, ранее классифицировавшаяся как операционная аренда

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Based on the foregoing, as at 1 January 2019:

- Right-of-use assets of KZT 5,453 million were recognised and included in property and equipment;
- Additional lease liabilities of KZT 5,984 million (included in other liabilities) were recognised;
- Deferred income tax assets increased by KZT 103 million because of the deferred income tax impact of the changes in assets and liabilities;
- The net effect of these adjustments had been adjusted to retained earnings (KZT 428 million).

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as at 31 December 2018 as follows:

| millions of tenge | |
|---|---|
| **Operating lease commitments as at 31 December 2018** | **5,794** |
| Weighted average incremental borrowing rate as at 1 January 2019 | 0.82-9.35% |
| **Discounted operating lease commitments at 1 January 2019** | **5,495** |
| | |
| **Less:** | |
| Commitments relating to short-term leases | (250) |
| Commitments relating to leases of low-value assets | – |
| | |
| **Add:** | |
| Payments in optional extension periods not recognised as at 31 December 2018 | 739 |
| **Lease liabilities as at 1 January 2019** | **5,984** |

## 3. Summary of accounting policies (continued)

**Changes in accounting policies (continued)**

**IFRS 16 Leases (continued)**

(b) Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of IFRS 16:

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional terms of three to five years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

Amounts recognised in the consolidated statement of financial position and consolidated statement of comprehensive income

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

| millions of tenge | Right-of-use assets: Buildings | Right-of-use assets: Total | Lease liabilities |
|---|---|---|---|
| **As at 1 January 2019** | **5,453** | **5,453** | **5,984** |
| Additions | **1,464** | **1,464** | **1,464** |
| Disposals | **(4,380)** | **(4,380)** | **(4,525)** |
| Depreciation expense | **(802)** | **(802)** | **–** |
| Interest expense | **–** | **–** | **164** |
| Payments | **–** | **–** | **(1,250)** |
| **As at 31 December 2019** | **1,735** | **1,735** | **1,837** |

## 3. Summary of accounting policies (continued)

### Changes in accounting policies (continued)

#### 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 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest 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.

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

The interpretation became effective for annual reporting periods beginning on 1 January 2019 or after this date. The interpretation did not have any impact on the consolidated financial statements of the Group.

#### 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 interest 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 an 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.

These amendments had no impact on the consolidated financial statements of the Group.

#### 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 the 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. An entity is also required to determine the net interest 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).

These amendments had no impact on the consolidated financial statements of the Group.

#### 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.

These amendments had no impact on the consolidated financial statements as the Group does not have long-term interests in its associate and joint venture.

#### *Annual improvements 2015-2017 cycle*
#### *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 interest 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 had no impact on the consolidated financial statements of the Group as there is no transaction where a joint control is obtained.

#### 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.

## 3. Summary of accounting policies (continued)

### Changes in accounting policies (continued)

#### IFRS 11 Joint Arrangements (continued)

These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where a joint control is obtained.

#### 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 it originally recognised those past transactions or events.

An entity applies the amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When the 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 Group's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

#### IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing 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.

The entity applies the amendments to borrowing 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 Group's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

### Basis of consolidation

Subsidiaries, which are those entities that are controlled by the Group, are consolidated. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

If the Group loses control over a subsidiary, it derecognises the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognises the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

### Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the acquirer measures the non-controlling interests in the acquiree that are present ownership interests either at fair value or at the proportionate share of the acquiree's identifiable net assets and other components of non-controlling interests at their acquisition date fair value. Acquisition costs incurred are expensed.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

## 3. Summary of accounting policies (continued)

### Business combinations (continued)

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IFRS 9 either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

### Acquisition of subsidiaries from parties under common control

Acquisitions of subsidiaries from parties under common control are accounted for using the pooling of interests method.

The assets and liabilities of the subsidiary transferred under common control are recorded in these consolidated financial statements at the carrying amounts of the transferring entity (the predecessor) at the date of the transfer. Related goodwill inherent in the predecessor's original acquisition is also recorded in these consolidated financial statements. Any difference between the total book value of net assets, including the predecessor's goodwill, and the consideration paid is accounted for in these consolidated financial statements as an adjustment to the shareholders' equity.

### Fair value measurement

The Group measures financial instruments carried at fair value through profit or loss (FVPL) and fair value through other comprehensive income (FVOCI) and non-financial assets such as investment property, at fair value at each balance sheet date.

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

The principal or the most advantageous market must be accessible by the Group. 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 Group 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 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.

In the event of assets and liabilities recognised in the financial statements on a recurring basis, the Group determines the fact of transfer between levels of hierarchy sources by re-assessing categorisation (based on the lowest level input that is significant for fair value measurement in whole) at the end of each reporting period.

### Financial instruments

#### *Initial recognition*

#### *Date of recognition*

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

## 3. Summary of accounting policies (continued)

**Financial instruments (continued)**

***Initial recognition (continued)***

### 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

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

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

### Amounts due from credit institutions, loans to customers, investments securities at amortised cost

The Group only measures amounts due from credit institutions, 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.

### Оценка бизнес-модели

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

The Group'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 Group'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 Group's original expectations, the Group 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 Group 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 (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest 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 interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

### Debt instruments at FVOCI

The Group measures debt instruments 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.

## 3. Summary of accounting policies (continued)

### Financial instruments (continued)

***Initial recognition (continued)***

#### Debt instruments at FVOCI (continued)

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest 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 OCI are reclassified from OCI 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 OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the asset.

#### Equity instruments at FVOCI

Upon initial recognition, the Group 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 Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. 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, letters of credit and undrawn loan commitments

The Group issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in profit or loss, and an ECL allowance.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

The Group occasionally issues loan commitments at below market interest rates drawdown. Such commitments are initially recognised at fair value and subsequently measured at the higher of the amount of the ECL allowance and the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

#### 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.

#### Reclassification of financial assets and liabilities

The Group does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Group changes the business model for managing financial assets. Financial liabilities are never reclassified. The Group did not reclassify any of its financial assets and liabilities in 2019.

#### Cash and cash equivalents

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

#### Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the consolidated statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from credit institutions or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest revenue and accrued over the life of repo agreements using the effective interest method.

Securities lent to counterparties are retained in the consolidated statement of financial position. Securities borrowed are not recorded in the consolidated statement of financial position, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in profit or loss. The obligation to return them is recorded at fair value as a trading liability.

## 3. Summary of accounting policies (continued)

**Financial instruments (continued)**

***Initial recognition (continued)***

### Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated statement of comprehensive income as net gains/(losses) from financial instruments at fair value through profit or loss or net gains/(losses) from foreign currencies, depending on the nature of the instrument.

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

Derivatives embedded in liabilities and non-financial host contacts are treated as separate derivatives and recorded at fair value if they met the definition of a derivative (as defined above), their economic characteristics and risks were not closely related to those of the host contract, and the host contract was not itself held for trading or designated at FVPL. The embedded derivatives separated from the host were carried at fair value in the trading portfolio with changes in fair value recognised in the consolidated statement of comprehensive income.

Financial assets are classified based on the business model and SPPI assessments.

### Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group 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 the NBRK, amounts due to credit institutions, current accounts and deposits of customers, debt securities issued, other borrowed funds and subordinated loans. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the borrowings are derecognised as well as through the amortisation process.

If the Group purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in profit or loss.

### *Offsetting of financial instruments*

Financial assets and liabilities are offset and the net amount is reported in the consolidated 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 consolidated statement of financial position.

### Renegotiated loans

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

The Group derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, 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 loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be purchased or originated credit-impaired (POCI). When assessing whether or not to derecognise a loan to a customer, amongst others, the Group considers the following factors:

- Change in currency of the loan;
- 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 EIR, the Group records a modification gain or loss, presented within other income in profit or loss, to the extent that an impairment loss has not already been recorded.

## 3. Summary of accounting policies (continued)

### Renegotiated loans (continued)

For modifications not resulting in derecognition, the Group 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 6-month probation period. In order for the restructured loan to be reclassified out of Stage 3, regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period in accordance with the modified payment schedule.

### 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 Group 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 Group 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 Group 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 Group's 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 Group 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 provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

#### Write-off

Financial assets are written off either partially or in their entirety only when the Group 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 lender 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.

### Government grants

Government grants are recognised if it is virtually certain that they will be received and all conditions associated with them will be met. If a grant is issued to finance a specific expenditure, it must be recognised as income on a systematic basis in the same periods in which the corresponding expenses incurred that it must compensate. Such subsidies are deducted from the related expenses when they are recorded in the consolidated financial statements.

When the Group receives subsidies in the form of non-monetary assets, the asset and the subsidy are accounted for at nominal amounts and are recorded in profit or loss in equal parts annually in accordance with the structure of consumption of the benefits from the underlying asset during the expected useful life.

The benefit received from a loan provided by the government at an interest rate below the market rate is recorded as a government grant. The loan is recognised and measured in accordance with IFRS 9 Financial Instruments. The benefit from using interest rates below market is estimated as the difference between the initial carrying amount of the loan, determined in accordance with IFRS 9, and the funds received.

### 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 the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation of an asset begins when it is available for use, that is, when its location and state allow it to operate in a mode consistent with the intentions of the Group's management. Land, construction in progress and assets for installation are not depreciated. The estimated useful lives are as follows:

## 3. Summary of accounting policies (continued)

### Property and equipment (continued)

| | Years |
|---|---|
| Buildings | 10-100 |
| Computer hardware | 5-7 |
| Vehicles | 5-7 |
| Other | 2-25 |

The asset's residual values, useful lives and depreciation 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

Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives of intangible assets are 1 to 8 years.

### Inventories

Inventories are valued at the lower of acquisition cost and net realisable value. Net realisable value is the estimated asset's selling price in the ordinary course of the Group's business, less the estimated costs to sell.

### Retirement and other employee benefit obligations

The Group does not have any pension arrangements separate from the state pension system of Kazakhstan, which requires withholdings by the employer calculated as a percentage from current gross salary payments. Such expense is charged in the period the related salaries are accrued, and is included to "General and administrative expenses" in the consolidated statement of comprehensive income. The Group contributes social tax to the budget of the Republic of Kazakhstan for its employees. The Group has no post-retirement benefits.

### Provisions

Provisions are recognised when the Group 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.

### Contingencies

Contingent liabilities are not recognised in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

### Equity

#### Share capital

Common shares and non-redeemable preferred shares with discretionary dividends are both 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.

#### Treasury shares

Where the Bank or its subsidiaries acquire the Bank's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from total equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at weighted average cost.

#### 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 consolidated financial statements are authorised for issue.

### Taxation

Corporate income tax comprises current and deferred tax. Corporate income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

Current income tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

## 3. Summary of accounting policies (continued)

### Taxation (continued)

Deferred tax assets and deferred tax liabilities are recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and deferred tax liabilities are not recognised in respect of the following temporary differences: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that taxable profit will be available against which the deductible temporary differences can be utilised.

### Income and expense recognition

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

### Interest and similar revenue and expense

The Group calculates interest revenue on debt financial assets measured at amortised cost or at FVOCI by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets. EIR 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 interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest revenue or expense.

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

For POCI financial assets, the Group calculates interest revenue by calculating the credit-adjusted EIR and applying that rate to the amortised cost of the asset. The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI assets.

Interest revenue on all financial assets at FVPL is recognised using the contractual interest rate in "Other interest revenue" in the consolidated statement of comprehensive income.

### Fee and commission income

The Group 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 income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period as respective performance obligations are satisfied. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans 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 interest rate on the loan.

Fee 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 Group'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.

## 3. Summary of accounting policies (continued)

### Taxation (continued)

#### Fee and commission income (continued)

Customer loyalty programs

The Group offers a number customer loyalty programs. Accounting for such programs varies depending on who is identified as the customer, and whether the Group acts as an agent or as a principal under the contract. For point-based programs, the Group generally recognised a liability for the accumulated points that are expected to be utilised by the customers, which is reversed to profit or loss as the points expire. Cashbacks on plastic card transactions reduce fee and commission income.

Dividend income

Revenue is recognised when the Group's right to receive the payment is established.

### Segment reporting

An operating segment is a component of the Group that is engaged in business activities from which it may earn revenues and incur expenses (including revenues and expenses related to transactions with other components of the same Group); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

### Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into KZT at the market exchange rate established by the KASE on the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated statement of comprehensive income as net gains/(losses) from 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 KASE exchange rate on the date of the transaction are included in Net gains/(losses) from foreign currencies.

As at 31 December 2019, the official exchange rate used for translation of monetary balances on foreign currency accounts was KZT 382.59 for 1 US Dollar (as at 31 December 2018: KZT 384.20 for USD 1).

### Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

#### 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 Insur-ance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insur-ance 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 grandfather-ing 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 applica-tion is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. IFRS 17 is not expected to have a significant impact on the Group's consolidated financial statements.

#### Amendments to IFRS 3 Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a busi-ness, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

## 3. Summary of accounting policies (continued)

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

#### Amendments to IAS 1 and IAS 8 Definition of Material

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the defini-tion. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial state-ments, which provide financial information about a specific reporting entity.'

The amendments to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements.

#### Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7

Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7 includes a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. As a result of interest rate benchmark reform, there may be uncertainties about the timing and or amount of bench-mark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR). This may lead to uncertainty whether a forecast transaction is highly probable and whether prospectively the hedging relationship is expected to be highly effective.

The amendments come into effect from 1 January 2020, but entities may choose to apply them earlier. The amendments are not expected to have a significant impact on the Group's consolidated financial statements.

## 4. Significant accounting judgements and estimates

### Estimation uncertainty

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, esti-mates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual outcomes could differ from these estimates.

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

#### Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position can-not be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathemati-cal models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values.

#### Collateral assessment

The Bank management performs monitoring of collateral on a regular basis. The management of the Bank uses experienced judgements or an independent assessment in order to adjust the cost of collateral considering the current market conditions.

#### Expected credit losses on financial assets

The measurement of impairment losses under IFRS 9 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 Group'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 consid-ered accounting judgements and estimates include:

- The Group's internal credit grading model, which assigns PDs to the individual grades;
- The Group'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 unemployment levels and col-lateral values, and the effect on PDs, EADs and LGDs;
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

The amount of allowance for loan impairment recognised in consolidated statement of financial position at 31 December 2019 was KZT 71,059 million (2018: KZT 73,153 million). More details are provided in Notes 16 and 26.

## 4. Significant accounting judgements and estimates (continued)

### Estimation uncertainty

### Taxation

The 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. Implementing regulations are often unclear or non-existent and insignif-icant 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 interest charges. These facts create tax risks in Kazakhstan substantially more significant than typically found in countries with more developed tax systems.

The management believes that the Bank's tax position as at 31 December 2019 and 2018 was in compliance with tax laws of the Republic of Kazakhstan regulating its activities. However, the risk remains that relevant authorities could take differing positions with regard to interpretive tax issues.

Assessment of recoverability of deferred income tax assets requires to use subjective judgements by the Group's management around the likely timing and the level of future taxable profit together with the tax planning strategy.

The management believes that deferred tax assets as at 31 December 2019 are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised, and deferred income tax assets are reduced to the extent that taxable profit will be available against which the deductible tempo-rary differences can be utilised.

## 5. Business combination

### Acquisition of Bank Kassa Nova JSC

On 29 April 2019, the Group acquired 100% of the voting shares of Bank Kassa Nova JSC, following the approvals given by the NBRK. Its main activity is banking operations. The Group has acquired Bank KassaNova JSC because of strategic initiatives aimed at increasing market share and gaining synergy effect.

Bank Kassa Nova JSC was purchased from NovaLeasing JSC, which is owned by Mr. Utemuratov B.Zh., therefore it is consid-ered to be an acquisition of entity under common control and pooling of interest method was applied without historical re-statement.

Assets and liabilities of Bank Kassa Nova JSC as at the date of acquisition were:

| millions of tenge | 29 April 2019 (unaudited) |
|---|---|
| **Assets** | |
| Cash and cash equivalents | 42,785 |
| Amounts due from credit institutions | 601 |
| Loans to customers | 74,870 |
| Investment securities | 2,073 |
| Property and equipment | 5,675 |
| Intangible assets | 1,108 |
| Other assets | 3,252 |
| **Total assets** | **130,364** |
| **Liabilities** | |
| Current accounts and deposits of customers | 94,093 |
| Amounts due to banks and other financial institutions | 16,268 |
| Deferred income tax liabilities | 917 |
| Subordinated debt | 3,277 |
| Other liabilities | 1,683 |
| **Total liabilities** | **116,238** |
| **Net assets acquired** | **14,126** |
| Purchase consideration transferred | (11,277) |
| **Gain on acquisition of subsidiary recognised in equity** | **2,849** |

From the date of acquisition, Bank Kassa Nova JSC has contributed KZT 4,656 million of net interest income, KZT 1,268 million of non-interest income and KZT 1,880 million to the net profit before tax of the Group. If the combination had taken place at the beginning of the year, the profit of the Group for the year ended 31 December 2019 would have been KZT 42,990 million, net interest income would have been KZT 81,814 million, and non-interest income would have been KZT 45,029 million.

### Acquisition of ONE Technologies LLP

On 23 April 2019, the Group acquired 100% of the equity of ONE Technologies LLP, following the approvals given by the NBRK. Its main activity is development of software. The Group has acquired ONE Technologies LLP because of strategic initiatives aimed at digitalisation of core banking processes and developing banking applications.

ONE Technologies LLP was acquired from individuals closely related to the ultimate shareholder and a legal entity, controlled by Mr. Utemuratov B.Zh., therefore it is considered to be an acquisition of entity under common control and pooling of interest method was applied without historical restatement.

Assets and liabilities of ONE Technologies LLP as at the date of acquisition were:

## 5. Business combination (continued)

### Acquisition of ONE Technologies LLP (continued)

| millions of tenge | 23 April 2019 (unaudited) |
|---|---|
| **Assets** | |
| Cash and cash equivalents | 130 |
| Loans to customers | 27 |
| Property and equipment | 172 |
| Intangible assets | 545 |
| Other assets | 352 |
| **Total assets** | **1,226** |
| | |
| Other liabilities | 173 |
| **Total liabilities** | **173** |
| **Net assets acquired** | **1,053** |
| | |
| Purchase consideration transferred | (5,900) |
| **Loss on acquisition of subsidiary recognised in equity** | **(4,847)** |

From the date of acquisition, ONE Technologies LLP has contributed income of KZT 121 million to net profit before tax of the Group. If the combination had taken place at the beginning of the year, profit for the year of the Group would have been KZT 41,751 million.

### Cash outflow on acquisition of the subsidiaries

| millions of tenge | Bank KassaNova JSC | ONE Technolo-gies LLP | Total |
|---|---|---|---|
| Net cash acquired with the subsidiary (included in cash flows from investing activities) | 42,785 | 130 | 42,915 |
| Cash paid (included in cash flows from investing activities) | (11,277) | (5,900) | (17,177) |
| **Net cash outflow** | **31,508** | **(5,770)** | **25,738** |

Total consideration paid for acquisition of ONE Technologies LLP includes the amount of KZT 4,425 million prepaid by the Bank in 2018.

## 6. Net interest income

Net interest income is presented as follows:

| millions of tenge | 2019 | 2018 |
|---|---|---|
| **Interest revenue calculated using effective interest rate** | | |
| Loans to customers | **115,572** | 92,779 |
| Debt investment securities at FVOCI | **25,341** | 22,963 |
| Investment securities at amortised cost | **15,486** | 4,763 |
| Amounts due from financial institutions | **5,383** | 1,157 |
| Amounts receivable under reverse repurchase agreements | **1,467** | 880 |
| | **163,249** | 122,542 |
| | | |
| **Other interest income** | | |
| Trading securities | **304** | 395 |
| | **163,553** | 122,937 |
| | | |
| **Interest expense** | | |
| Current accounts and deposits of customers | **(47,415)** | (50,030) |
| Debt securities issued | **(30,686)** | (18,077) |
| Amounts due to banks and other financial institutions | **(3,849)** | (3,021) |
| Subordinated debt | **(2,037)** | (1,792) |
| Amounts payable under repurchase agreements | **(1,272)** | (623) |
| | **(85,259)** | (73,543) |
| **Net interest income** | **78,294** | 49,394 |

Interest income for the year ended 31 December 2019 includes interest income of KZT 9,611 million accrued on impaired finan-cial assets (2018: KZT 7,852 million).

## 7. Fee and commission income/(expense)

Fee and commission income is presented as follows:

| millions of tenge | 2019 | 2018 |
|---|---|---|
| Card operations | **18,689** | 9,591 |
| Settlement transactions | **7,095** | 5,640 |
| Cash operations | **4,255** | 2,732 |
| Guarantees and letters of credit | **1,805** | 1,137 |
| Foreign currency transactions and transactions with securities | **338** | 256 |
| Trust management, custody and other fiduciary services | **–** | 54 |
| Other | **1,021** | 796 |
| | **33,203** | 20,206 |

Fee and commission expense comprises the following:

| millions of tenge | 2019 | 2018 |
|---|---|---|
| Maintenance of card accounts | **(9,299)** | (4,363) |
| Maintenance of nostro accounts | **(343)** | (262) |
| Settlement transactions | **(271)** | (186) |
| Customer accounts services by financial agents | **(254)** | (360) |
| Foreign currency transactions and transactions with securities | **(87)** | (72) |
| Other | **(804)** | (602) |
| | **(11,058)** | (5,845) |

## 8. Net gains from foreign currencies

Net gains from foreign currencies are presented as follows:

| millions of tenge | 2019 | 2018 |
|---|---|---|
| Dealing transactions, net | **10,903** | 886 |
| Translation differences, net | **(300)** | 369 |
| | **10,603** | 1,255 |

## 9. Credit loss expense

Credit loss expense for 2019 and 2018 is presented as follows:

| millions of tenge | 2019 | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| Amounts due from financial institutions | **94** | **–** | **–** | **–** | **94** |
| Loans to customers (Note 16) | **(1,584)** | **(4,814)** | **(16,212)** | **2,602** | **(20,008)** |
| Investment securities at amortised cost | **(99)** | **–** | **–** | **–** | **(99)** |
| Investment securities at FVOCI | **217** | **–** | **–** | **–** | **217** |
| Other financial assets | **–** | **–** | **(535)** | **–** | **(535)** |
| Financial guarantees, letters of credit and loan commitment | **(86)** | **–** | **–** | **–** | **(86)** |
| | **(1,458)** | **(4,814)** | **(16,747)** | **2,602** | **(20,417)** |

| millions of tenge | 2018 | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| Amounts due from financial institutions | (20) | – | – | – | (20) |
| Loans to customers (Note 16) | (1,699) | 3,831 | (5,266) | 574 | (2,560) |
| Investment securities at amortised cost | (15) | (489) | – | – | (504) |
| Investment securities at FVOCI | (521) | (891) | – | – | (1,412) |
| Other financial assets | – | – | (670) | – | (670) |
| Financial guarantees, letters of credit and loan commitment | 166 | – | – | – | 166 |
| | (2,089) | 2,451 | (5,936) | 574 | (5,000) |

## 10. General and administrative expenses

General and administrative expenses are presented as follows:

| millions of tenge | 2019 | 2018 |
|---|---|---|
| Personnel expenses and related taxes | **(23,701)** | (19,005) |
| Depreciation and amortisation | **(5,764)** | (4,164) |
| Taxes other than corporate income tax | **(2,815)** | (2,375) |
| Repair and maintenance | **(1,841)** | (1,716) |
| Advertising and marketing | **(1,630)** | (1,290) |
| Maintenance of buildings | **(1,473)** | (1,323) |
| Security | **(921)** | (873) |
| Telecommunication and information services | **(807)** | (1,071) |
| Other professional services | **(705)** | (217) |
| Rent | **(524)** | (1,579) |
| Encashment | **(429)** | (395) |
| Charity and sponsorship | **(427)** | (748) |
| Transportation | **(352)** | (358) |
| Business trips | **(321)** | (265) |
| Insurance | **(145)** | – |
| Office supplies | **(137)** | – |
| Legal services | **(22)** | (10) |
| Representative expenses | **(13)** | – |
| Other | **(724)** | (472) |
| | **(42,751)** | (35,861) |

General and administrative expenses are presented as follows:

| millions of tenge | 2019 | 2018 |
|---|---|---|
| Sales and marketing | **(25,756)** | (21,926) |
| Technology and new product development | **(2,120)** | (1,959) |
| Other | **(14,875)** | (11,976) |
| | **(42,751)** | (35,861) |

## 11. Other income and expenses

Other income and expenses are presented as follows:

| millions of tenge | 2019 | 2018 |
|---|---|---|
| **Other income** | | |
| Income from operating lease | **2,245** | 2,332 |
| Net gain on sale of repossessed collateral | **1,203** | – |
| Gain from purchase of investment securities | **–** | 1,407 |
| Other | **930** | 1,115 |
| | **4,378** | 4,854 |
| **Other expenses** | | |
| Net loss on derecognition of mortgage loans | **(4,133)** | (361) |
| Other expense on non-banking operations | **(1,361)** | (1,430) |
| Loss on redemption of debt securities | **(1,282)** | – |
| Net loss on sale of inventory | **–** | (861) |
| Loss on modification of loans to customers | **–** | (783) |
| Loss on repurchase of debt securities issued | **–** | (628) |
| Other | **(3,157)** | (1,352) |
| | **(9,933)** | (5,415) |

Net loss on derecognition of mortgage loans includes a loss recognised as a result of a significant modification of mortgage loans less gain from government subsidy under the state program for refinancing mortgage loans. In accordance with the terms of this program, the Group attracted long-term deposits from Kazakhstan Sustainability Fund JSC at below-market interest rates to compensate losses from refinancing mortgage loans in foreign currency on non market terms. The fair value of deposits at initial recognition was determined by the Group using market rates from 13.13% to 14.50% per annum. The fair value of mortgage loans as a result of significant modification upon initial recognition was determined by the Group using market rates from 17.13% to 18.50% per annum.

## 12. Corporate income tax expense

Corporate income tax expense comprises:

| millions of tenge | 2019 | 2018 |
|---|---|---|
| Current corporate income tax change | **(522)** | (46) |
| Deferred corporate income tax charge – origination and reversal of temporary differences | **(2,236)** | (4,845) |
| **Corporate income tax expense** | **(2,758)** | (4,891) |

## 12. Corporate income tax expense (continued)

The Bank and its subsidiaries are subject to taxation in the Republic of Kazakhstan. Kazakhstan legal entities are required to file independently income tax returns with the tax authorities, and the statutory corporate income tax rate in 2019 and 2018 was 20%.

Below is the reconciliation of corporate income tax expense based on statutory rate with corporate income tax expense recorded in the consolidated financial statements:

| millions of tenge | 2019 | 2018 |
|---|---|---|
| **Profit before corporate income tax expense** | **44,991** | 33,999 |
| Statutory corporate income tax rate | **20%** | 20% |
| **Theoretical corporate income tax expense at the statutory rate** | **(8,998)** | (6,800) |
| | | |
| Non-taxable income on government securities and securities officially listed at the KASE | **7,467** | 5,166 |
| Change in unrecognised deferred tax assets | **2,180** | (875) |
| Adjustment of corporate income tax expense/(benefit) of prior years | **1,109** | (575) |
| Non-deductible expected credit losses | **(224)** | (1,024) |
| Other | **(4,292)** | (783) |
| **Corporate income tax expense** | **(2,758)** | (4,891) |

## 12. Corporate income tax expense (continued)

Deferred tax assets and liabilities as at 31 December, as well as their movements for the respective years comprise the following:

| millions of tenge | 2017 | Origination and reversal of temporary differences in profit or loss | Origination and reversal of temporary differences in other comprehen-sive income | 2018 | Effect of adoption of IFRS 16 (Note 3) | Effect of business combination (Note 5) | Origination and reversal of temporary differences in profit or loss | Origination and reversal of temporary differences in other comprehen-sive income | 2019 |
|---|---|---|---|---|---|---|---|---|---|
| Tax losses carried forward | 40,982 | (9,722) | – | 31,260 | – | – | (6,847) | – | 24,413 |
| Loans to customers | (196) | 1,974 | – | 1,778 | – | 167 | 1,627 | – | 3,572 |
| Investment securities at FVOCI | 14 | (831) | 323 | (494) | – | – | 972 | (667) | (189) |
| Investment securities measured at amortised cost | – | (110) | – | (110) | – | – | (1,313) | – | (1,423) |
| Debt securities issued | (267) | (16,401) | – | (16,668) | – | – | 1,489 | – | (15,179) |
| Subordinated debt | – | – | – | – | – | (347) | 5 | – | (342) |
| Dynamic reserve | (7,809) | 7,809 | – | – | – | – | – | – | – |
| Current accounts and deposits of customers | (15,997) | 13,520 | – | (2,477) | – | (581) | (1,418) | – | (4,476) |
| Property and equipment and intangible assets | 1,763 | 647 | – | 2,410 | – | (240) | 824 | – | 2,994 |
| Other | 618 | (856) | – | (238) | 103 | 84 | 245 | – | 194 |
| **Deferred tax assets** | 19,108 | (3,970) | 323 | 15,461 | 103 | (917) | (4,416) | (667) | 9,564 |
| | | | | | | | | | |
| Unrecognised deferred corporate income tax assets | (12,490) | (875) | – | (13,365) | – | – | 2,180 | – | (11,185) |
| **Deferred tax assets/ (liabilities), net** | 6,618 | (4,845) | 323 | 2,096 | 103 | (917) | (2,236) | (667) | (1,621) |
| | | | | | | | | | |
| **Deferred tax assets** | 6,740 | (4,784) | 323 | 2,279 | 103 | – | (2,382) | – | – |
| **Deferred tax liabilities** | (122) | (61) | – | (183) | – | (917) | 146 | (667) | (1,621) |

## 13. Cash and cash equivalents

Cash and cash equivalents comprise:

| millions of tenge | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Cash on hand | **61,370** | 54,463 |
| Cash on current accounts with the NBRK rated BBB- | **35,762** | 54,365 |
| Cash on current accounts with other banks | | |
| - rated from A- to A+ | **32,573** | 33,839 |
| - rated from BBB- to BBB+ | **6,888** | 2,908 |
| - rated from BB- to BB+ | **1,831** | 664 |
| - rated below B+ | **203** | 443 |
| - not rated | **543** | 150 |
| Time deposits with the NBRK rated BBB- with contractual maturity of 90 days or less | **152,640** | – |
| Amounts receivable under reverse repurchase agreements (Note 28) | **55,440** | 78,317 |
| **Cash and cash equivalents before ECL allowance** | **347,250** | 225,149 |
| | | |
| ECL allowance | **(8)** | (2) |
| **Cash and cash equivalents** | **347,242** | 225,147 |

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

As at 31 December 2019 and 2018, all balances of cash equivalents are allocated to Stage 1 for ECL measurement purposes.

As at 31 December 2019, the Group entered into reverse repurchase agreements at the Kazakhstan Stock Exchange. The subject of these agreements are the government bonds with the fair value of KZT 56,857 million as at 31 December 2019 (as at 31 December 2018: KZT 79,739 million).

### Minimum reserve requirements

In accordance with regulations issued by the NBRK, minimum reserve requirements are calculated as a percentage of specified banks liabilities. Banks are required to comply with these requirements by maintaining average reserve assets (cash in local currency and on current accounts with the NBRK) equal or in excess of the average minimum requirements. As at 31 December 2019, minimum reserve requirements of the Bank amount to KZT 27,712 million (as at 31 December 2018: KZT 17,876 million).

### Concentration of cash and cash equivalents

As at 31 December 2019, the Group has accounts with one bank which balances exceed 10% of total cash and cash equivalents (as at 31 December 2018: two bank). The total balance on the accounts with the above counterparties as at 31 December 2019 amounts to KZT 188,402 million (as at 31 December 2018: KZT 82,657 million).

## 14. Amounts due from financial institutions

Amounts due from financial institutions comprise:

| millions of tenge | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Current accounts with the NBRK rated BBB-, restricted in use | **8,221** | 1,263 |
| Loans and deposits with other banks: | | |
| - rated below B+ | **3,209** | 3,250 |
| - not rated | **622** | 591 |
| Contingent deposits and deposits pledged as a collateral: | | |
| - rated from AA- to AA+ | **150** | 19 |
| - rated from A- to A+ | **5,185** | 3,879 |
| - rated from BBB- to BBB+ | **3,147** | – |
| - rated from BB- to BB+ | **–** | 8,343 |
| - not rated | **8,368** | 3,154 |
| **Amounts due from financial institutions before ECL allowance** | **28,902** | 20,499 |
| | | |
| ECL allowance | **(697)** | (788) |
| **Amounts due from financial institutions** | **28,205** | 19,711 |

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

Amounts on current accounts with the NBRK restricted in use represent funds received by the Bank as part of participation in the state program of lending to businesses.

As at 31 December 2019 and 2018, all balances of amounts due from financial institutions are allocated to Stage 1 for ECL measurement purposes.

As at 31 December 2019 contingent deposits and deposits pledged as collateral include contingent deposits, restricted in use on transactions with providers of payment operation services in the amount of KZT 6,987 million (as at 31 December 2018: KZT 5,512 million) and deposits pledged as collateral under counter-guarantees, issued to the clients of the Group, in the amount of KZT 3,147 million (as at 31 December 2018: 8,343 million).

### Concentration of amounts due from financial institutions

As at 31 December 2019, the Group has amounts due from five financial institutions which balances exceed 10% of total amounts due from financial institutions (as at 31 December 2018: three). The total value of these balances as at 31 December 2019 is KZT 25,693 million (as at 31 December 2018: KZT 15,377 million).

## 15. Trading securities

Trading securities comprise:

| millions of tenge | 31 December 2019 | 31 December 2018 |
|---|---|---|
| **Bonds of banks** | | |
| - rated from BB- to BB+ | **5,012** | 8,046 |
| **Total bonds of banks** | **5,012** | **8,046** |
| | | |
| Equity instruments | **1,440** | 1,465 |
| **Trading securities** | **6,452** | **9,511** |

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

## 16. Loans to customers

Loans to customers comprise:

| millions of tenge | 31 December 2019 | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| Individually significant loans | **188,466** | **7,563** | **38,337** | **–** | **234,366** |
| **Total individually significant loans** | **188,466** | **7,563** | **38,337** | **–** | **234,366** |
| | | | | | |
| **Individually insignificant loans** | | | | | |
| Corporate loans | **120,258** | **6,758** | **25,803** | **31** | **152,850** |
| Mortgage loans | **32,797** | **1,463** | **24,627** | **9,311** | **68,198** |
| Consumer loans | **182,768** | **3,326** | **4,973** | **–** | **191,067** |
| Car loans | **1,495** | **2** | **458** | **–** | **1,955** |
| Credit cards | **4,903** | **168** | **620** | **–** | **5,691** |
| Other loans secured by collateral | **124,553** | **6,801** | **58,674** | **13,199** | **203,227** |
| **Total individually insignificant loans** | **466,774** | **18,518** | **115,155** | **22,541** | **622,988** |
| **Loans to customers before ECL allowance** | **655,240** | **26,081** | **153,492** | **22,541** | **857,354** |
| | | | | | |
| ECL allowance | **(6,758)** | **(2,035)** | **(66,382)** | **2,889** | **(72,286)** |
| **Loans to customers** | **648,482** | **24,046** | **87,110** | **25,430** | **785,068** |

| millions of tenge | 31 December 2018 | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| Individually significant loans | 190,875 | 15,999 | 45,765 | – | 252,639 |
| **Total individually significant loans** | 190,875 | 15,999 | 45,765 | – | 252,639 |
| | | | | | |
| **Individually insignificant loans** | | | | | |
| Corporate loans | 86,701 | 5,884 | 22,475 | 69 | 115,129 |
| Mortgage loans | 37,512 | 1,826 | 32,796 | 5,644 | 77,778 |
| Consumer loans | 120,789 | 1,756 | 9,755 | – | 132,300 |
| Car loans | 1,401 | 5 | 2,120 | – | 3,526 |
| Credit cards | 2,114 | 56 | 217 | – | 2,387 |
| Other loans secured by collateral | 99,135 | 6,816 | 66,365 | 6,723 | 179,039 |
| **Total individually insignificant loans** | 347,652 | 16,343 | 133,728 | 12,436 | 510,159 |
| **Loans to customers before ECL allowance** | 538,527 | 32,342 | 179,493 | 12,436 | 762,798 |
| | | | | | |
| ECL allowance | (4,326) | (1,369) | (68,032) | 574 | (73,153) |
| **Loans to customers** | 534,201 | 30,973 | 111,461 | 13,010 | 689,645 |

### Quality of individually significant corporate loans

Information on the quality of individually significant loans at 31 December 2019 is presented in the table below:

| millions of tenge | Loans before ECL allowance | ECL allowance | Loans net of ECL allowance | ECL allowance to loans before ECL allowance, (%) |
|---|---|---|---|---|
| **Individually significant loans** | | | | |
| **Stage 1 loans** | **188,466** | **(1,250)** | **187,216** | **0.66** |
| | | | | |
| **Stage 2 and 3 loans** | | | | |
| - not overdue | 11,201 | (1,825) | 9,376 | 16.29 |
| - overdue for less than 90 days | 3,624 | (1,689) | 1,935 | 46.61 |
| - overdue for 90 days to 360 days | 3,220 | (1,392) | 1,828 | 43.23 |
| - overdue for more than 360 days | 27,855 | (21,270) | 6,585 | 76.36 |
| **Total Stage 2 and 3 loans** | **45,900** | **(26,176)** | **19,724** | **57.03** |
| **Total individually significant loans** | **234,366** | **(27,426)** | **206,940** | **11.70** |

## 16. Loans to customers (continued)

### Quality of individually significant corporate loans (continued)

Information on the quality of individually significant loans at 31 December 2018 is presented in the table below:

| millions of tenge | Loans before ECL allowance | ECL allowance | Loans net of ECL allowance | ECL allowance to loans before ECL allowance, (%) |
|---|---|---|---|---|
| **Individually significant loans** | | | | |
| **Stage 1 loans** | 190,875 | (1,635) | 189,240 | 0.86 |
| | | | | |
| **Stage 2 and 3 loans** | | | | |
| - not overdue | 19,661 | (2,618) | 17,043 | 13.32 |
| - overdue for less than 90 days | 3,939 | (68) | 3,871 | 1.73 |
| - overdue for 90 days to 360 days | 8,952 | (3,038) | 5,914 | 33.94 |
| - overdue for more than 360 days | 29,212 | (21,797) | 7,415 | 74.62 |
| **Total Stage 2 and 3 loans** | 61,764 | (27,521) | 34,243 | 44.56 |
| **Total individually significant loans** | **252,639** | **(29,156)** | **223,483** | **11.54** |

### Analysis of movements in gross carrying value and ECL

An analysis of changes in the gross carrying value and corresponding ECL in relation to individually significant loans during the year ended 31 December 2019 is as follows:

| millions of tenge | 2019 | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| **Gross carrying value as at 1 January 2019** | 190,875 | 15,999 | 45,765 | – | 252,639 |
| Acquisition of subsidiaries | **2,149** | **1,311** | **1,162** | **–** | **4,622** |
| New assets originated or purchased | **197,437** | **–** | **–** | **–** | **197,437** |
| Assets derecognised or repaid (excluding write-offs) | **(216,575)** | **(1,247)** | **(8,331)** | **–** | **(226,153)** |
| Transfers to Stage 1 | **11,303** | **(10,277)** | **(1,026)** | **–** | **–** |
| Transfers to Stage 2 | **(1,737)** | **2,231** | **(494)** | **–** | **–** |
| Transfers to Stage 3 | **(410)** | **(4,255)** | **4,665** | **–** | **–** |
| Transfer between categories | **538** | **–** | **(3,700)** | **–** | **(3,162)** |
| Net change in accrued interest | **5,564** | **3,797** | **4,073** | **–** | **13,434** |
| Unwinding of discount | **–** | **–** | **2,722** | **–** | **2,722** |
| Recoveries | **–** | **–** | **2,012** | **–** | **2,012** |
| Write-offs | **–** | **–** | **(8,383)** | **–** | **(8,383)** |
| Effect from changes in exchange rates | **(678)** | **4** | **(128)** | **–** | **(802)** |
| **At 31 December 2019** | **188,466** | **7,563** | **38,337** | **–** | **234,366** |

| millions of tenge | 2019 | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| **ECL as at 1 January 2019** | (1,635) | (558) | (26,963) | – | (29,156) |
| Acquisition of subsidiaries | **–** | **–** | **(4)** | **–** | **(4)** |
| New assets originated or purchased | **(1,700)** | **–** | **–** | **–** | **(1700)** |
| Assets derecognised or repaid (excluding write-offs) | **2,094** | **73** | **2,382** | **–** | **4,549** |
| Transfers to Stage 1 | **(30)** | **30** | **–** | **–** | **–** |
| Transfers to Stage 2 | **1** | **(1)** | **–** | **–** | **–** |
| Transfers to Stage 3 | **–** | **582** | **(582)** | **–** | **–** |
| Impact on period end ECL of exposures transferred between stages and changes to inputs used for ECL calculations during the period | **(70)** | **(162)** | **(5,510)** | **–** | **(5,742)** |
| Transfer between categories | **(8)** | **–** | **899** | **–** | **891** |
| Unwinding of discount | **–** | **–** | **(2,722)** | **–** | **(2,722)** |
| Recoveries | **–** | **–** | **(2,012)** | **–** | **(2,012)** |
| Write-offs | **–** | **–** | **8,383** | **–** | **8,383** |
| Effect from changes in exchange rates | **98** | **1** | **(12)** | **–** | **87** |
| **At 31 December 2019** | **(1,250)** | **(35)** | **(26,141)** | **–** | **(27,426)** |

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

| millions of tenge | 2018 | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| **Gross carrying value as at 1 January 2018** | 151,290 | 59,693 | 27,942 | – | 238,925 |
| New assets originated or purchased | 122,980 | – | – | – | 122,980 |
| Assets derecognised or repaid (excluding write-offs) | (89,888) | (28,027) | (9,485) | – | (127,400) |
| Transfers to Stage 1 | 6,279 | (6,279) | – | – | – |
| Transfers to Stage 2 | (12,796) | 15,383 | (2,587) | – | – |
| Transfers to Stage 3 | – | (21,473) | 21,473 | – | – |
| Net change in accrued interest | (102) | (3,483) | 7,017 | – | 3,432 |
| Changes to contractual cash flows due to modifications not resulting in derecognition | – | – | (783) | – | (783) |
| Recoveries | – | – | 4,191 | – | 4,191 |
| Write-offs | – | – | (3,886) | – | (3,886) |
| Effect from changes in exchange rates | 13,112 | 185 | 1,883 | – | 15,180 |
| **At 31 December 2018** | 190,875 | 15,999 | 45,765 | – | 252,639 |

# 16. Loans to customers (continued)

### Quality of individually significant corporate loans (continued)

### Analysis of movements in gross carrying value and ECL (continued)

Information on the quality of individually significant loans at 31 December 2018 is presented in the table below:

| millions of tenge | 2018 | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| **ECL as at 1 January 2018** | **(2,038)** | **(2,265)** | **(19,495)** | **–** | **(23,798)** |
| New assets originated or purchased | (259) | – | – | – | (259) |
| Assets derecognised or repaid (excluding write-offs) | 370 | 986 | 6,079 | – | 7,435 |
| Transfers to Stage 1 | (61) | 61 | – | – | – |
| Transfers to Stage 2 | 159 | (3,867) | 3,708 | – | – |
| Transfers to Stage 3 | – | 482 | (482) | – | – |
| Impact on period end ECL of exposures transferred between stages and changes to inputs used for ECL calculations during the period | 347 | 4,087 | (14,150) | – | (9,716) |
| Changes to contractual cash flows due to modifications not resulting in derecognition | – | – | 783 | – | 783 |
| Unwinding of discount | – | – | (1,922) | – | (1,922) |
| Recoveries | – | – | (4,191) | – | (4,191) |
| Write-offs | – | – | 3,886 | – | 3,886 |
| Effect from changes in exchange rates | (153) | (42) | (1,179) | – | (1,374) |
| **At 31 December 2018** | **(1,635)** | **(558)** | **(26,963)** | **–** | **(29,156)** |

### Quality of individually insignificant loans

The following table provides information on the credit quality of individually insignificant loans for which expected credit losses are assessed collectively as at 31 December 2019:

| millions of tenge | 31 December 2019 | | | |
|---|---|---|---|---|
| | Loans before ECL allowance | ECL allowance | Loans net of ECL allowance | ECL allowance to loans before ECL allowance, (%) |
| **Individually insignificant corporate loans** | | | | |
| Not overdue | 126,435 | (730) | 125,705 | 0.58 |
| Overdue for less than 30 days | 2,272 | (9) | 2,263 | 0.40 |
| Overdue for 30 to 89 days | 2,352 | (25) | 2,327 | 1.06 |
| Overdue for 90 to 179 days | 1,005 | (24) | 981 | 2.39 |
| Overdue for 180 to 360 days | 1,209 | (136) | 1,073 | 11.25 |
| Overdue for more than 360 days | 19,546 | (8,676) | 10,870 | 44.39 |
| POCI | 31 | 16 | 47 | – |
| **Total individually insignificant corporate loans** | **152,850** | **(9,584)** | **143,266** | **6.27** |
| | | | | |
| **Mortgage loans** | | | | |
| Not overdue | 33,170 | (266) | 32,904 | 0.80 |
| Overdue for less than 30 days | 1,557 | (14) | 1,543 | 0.90 |
| Overdue for 30 to 89 days | 668 | (21) | 647 | 3.14 |
| Overdue for 90 to 179 days | 306 | (23) | 283 | 7.52 |
| Overdue for 180 to 360 days | 554 | (61) | 493 | 11.01 |
| Overdue for more than 360 days | 22,632 | (9,362) | 13,270 | 41.37 |
| POCI | 9,311 | 1,112 | 10,423 | – |
| **Total mortgage loans** | **68,198** | **(8,635)** | **59,563** | **12.66** |
| | | | | |
| **Consumer loans** | | | | |
| Not overdue | 176,889 | (3,274) | 173,615 | 1.85 |
| Overdue for less than 30 days | 5,506 | (795) | 4,711 | 14.44 |
| Overdue for 30 to 89 days | 3,376 | (1,686) | 1,690 | 49.94 |
| Overdue for 90 to 179 days | 3,378 | (2,681) | 697 | 79.37 |
| Overdue for 180 to 360 days | 1,328 | (1,046) | 282 | 78.77 |
| Overdue for more than 360 days | 590 | (434) | 156 | 73.56 |
| **Total consumer loans** | **191,067** | **(9,916)** | **181,151** | **5.19** |

## 16. Loans to customers (continued)

### Quality of individually insignificant loans (continued)

| | 31 December 2019 | | | |
|---|---|---|---|---|
| millions of tenge | Кредиты до вычета резерва под ОКУ | Резерв под ОКУ | Кредиты за вычетом резерва под ОКУ | Резерв под ОКУ по отношению к сумме кредитов до вычета резерва под ОКУ, (%) |
| **Car loans** | | | | |
| Not overdue | 1,498 | (2) | 1,496 | 0.13 |
| Overdue for less than 30 days | 6 | – | 6 | 0.00 |
| Overdue for 30 to 89 days | 4 | – | 4 | 0.00 |
| Overdue for 90 to 179 days | 4 | (2) | 2 | 50.00 |
| Overdue for 180 to 360 days | 5 | (1) | 4 | 20.00 |
| Overdue for more than 360 days | 438 | (86) | 352 | 19.63 |
| **Total car loans** | 1,955 | (91) | 1,864 | 4.65 |
| | | | | |
| **Credit cards** | | | | |
| Not overdue | 4,801 | (988) | 3,813 | 20.58 |
| Overdue for less than 30 days | 206 | (101) | 105 | 49.03 |
| Overdue for 30 to 89 days | 149 | (131) | 18 | 87.92 |
| Overdue for 90 to 179 days | 139 | (116) | 23 | 83.45 |
| Overdue for 180 to 360 days | 152 | (125) | 27 | 82.24 |
| Overdue for more than 360 days | 244 | (211) | 33 | 86.48 |
| **Total credit cards** | 5,691 | (1,672) | 4,019 | 29.38 |
| | | | | |
| **Other loans secured by collateral** | | | | |
| Not overdue | 119,588 | (229) | 119,359 | 0.19 |
| Overdue for less than 30 days | 9,279 | (34) | 9,245 | 0.37 |
| Overdue for 30 to 89 days | 5,896 | (39) | 5,857 | 0.66 |
| Overdue for 90 to 179 days | 2,106 | (42) | 2,064 | 1.99 |
| Overdue for 180 to 360 days | 3,162 | (169) | 2,993 | 5.34 |
| Overdue for more than 360 days | 49,996 | (16,210) | 33,786 | 32.42 |
| POCI | 13,200 | 1,761 | 14,961 | – |
| **Total other loans secured by collateral** | 203,227 | (14,962) | 188,265 | 7.36 |
| **Total individually insignificant loans** | 622,988 | (44,860) | 578,128 | 7.20 |

The following table provides information on the credit quality of individually insignificant loans for which expected credit losses are assessed collectively as at 31 December 2018:

| | 31 December 2018 | | | |
|---|---|---|---|---|
| millions of tenge | Loans before ECL allowance | ECL allowance | Loans net of ECL allowance | ECL allowance to loans before ECL allowance, (%) |
| **Individually insignificant corporate loans** | | | | |
| Not overdue | 92,639 | (235) | 92,404 | 0.25 |
| Overdue for less than 30 days | 1,517 | (42) | 1,475 | 2.77 |
| Overdue for 30 to 89 days | 1,507 | (27) | 1,480 | 1.79 |
| Overdue for 90 to 179 days | 437 | (5) | 432 | 1.14 |
| Overdue for 180 to 360 days | 958 | (56) | 902 | 5.85 |
| Overdue for more than 360 days | 18,002 | (5,546) | 12,456 | 30.81 |
| POCI | 69 | 13 | 82 | – |
| **Total individually insignificant corporate loans** | 115,129 | (5,898) | 109,231 | 5.12 |
| | | | | |
| **Mortgage loans** | | | | |
| Not overdue | 37,901 | (382) | 37,519 | 1.01 |
| Overdue for less than 30 days | 1,807 | (44) | 1,763 | 2.43 |
| Overdue for 30 to 89 days | 1,017 | (27) | 990 | 2.65 |
| Overdue for 90 to 179 days | 284 | (53) | 231 | 18.66 |
| Overdue for 180 to 360 days | 461 | (48) | 413 | 10.41 |
| Overdue for more than 360 days | 30,664 | (9,647) | 21,017 | 31.46 |
| POCI | 5,644 | 108 | 5,752 | – |
| **Total mortgage loans** | 77,778 | (10,093) | 67,685 | 12.98 |
| | | | | |
| **Consumer loans** | | | | |
| Not overdue | 117,058 | (1,711) | 115,347 | 1.46 |
| Overdue for less than 30 days | 3,849 | (410) | 3,439 | 10.65 |
| Overdue for 30 to 89 days | 1,699 | (692) | 1,007 | 40.73 |
| Overdue for 90 to 179 days | 1,283 | (1,084) | 199 | 84.49 |
| Overdue for 180 to 360 days | 1,798 | (1,509) | 289 | 83.93 |
| Overdue for more than 360 days | 6,613 | (5,023) | 1,590 | 75.96 |
| **Total consumer loans** | 132,300 | (10,429) | 121,871 | 7.88 |

## 16. Loans to customers (continued)

### Quality of individually insignificant loans (continued)

| | 31 December 2018 | | | |
|---|---|---|---|---|
| millions of tenge | Loans before ECL allowance | ECL allowance | Loans net of ECL allowance | ECL allowance to loans before ECL allowance, (%) |
| **Car loans** | | | | |
| Not overdue | 1,406 | (2) | 1,404 | 0.14 |
| Overdue for less than 30 days | 3 | – | 3 | 0.00 |
| Overdue for 30 to 89 days | 5 | – | 5 | 0.00 |
| Overdue for 90 to 179 days | 4 | – | 4 | 0.00 |
| Overdue for 180 to 360 days | 2 | (1) | 1 | 50.00 |
| Overdue for more than 360 days | 2,106 | (480) | 1,626 | 22.79 |
| **Total car loans** | 3,526 | (483) | 3,043 | 13.70 |
| **Credit cards** | | | | |
| Not overdue | 1,953 | (380) | 1,573 | 19.46 |
| Overdue for less than 30 days | 164 | (76) | 88 | 46.34 |
| Overdue for 30 to 89 days | 56 | (47) | 9 | 83.93 |
| Overdue for 90 to 179 days | 49 | (42) | 7 | 85.71 |
| Overdue for 180 to 360 days | 32 | (27) | 5 | 84.38 |
| Overdue for more than 360 days | 133 | (113) | 20 | 84.96 |
| **Total credit cards** | 2,387 | (685) | 1,702 | 28.70 |
| **Other loans secured by collateral** | | | | |
| Not overdue | 97,242 | (531) | 96,711 | 0.55 |
| Overdue for less than 30 days | 6,518 | (27) | 6,491 | 0.41 |
| Overdue for 30 to 89 days | 4,547 | (25) | 4,522 | 0.55 |
| Overdue for 90 to 179 days | 2,227 | (215) | 2,012 | 9.65 |
| Overdue for 180 to 360 days | 2,667 | (138) | 2,529 | 5.17 |
| Overdue for more than 360 days | 59,115 | (15,926) | 43,189 | 26.94 |
| POCI | 6,723 | 453 | 7,176 | – |
| **Total other loans secured by collateral** | 179,039 | (16,409) | 162,630 | 9.17 |
| **Total individually insignificant loans** | 510,159 | (43,997) | 466,162 | 8.62 |

### Analysis of movements in gross carrying value and ECL

An analysis of changes in the gross carrying value and corresponding ECL in relation to individually insignificant corporate loans during the year ended 31 December 2019 is as follows:

| millions of tenge | 2019 | | | | |
|---|---|---|---|---|---|
| **Individually insignificant corporate loans** | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
| **Gross carrying value at 1 January 2019** | 86,701 | 5,884 | 22,475 | 69 | 115,129 |
| Acquisition of subsidiaries | 23,278 | 1,497 | 4,213 | – | 28,988 |
| New assets originated or purchased | 167,536 | – | – | 25 | 167,561 |
| Assets derecognised or repaid (excluding write-offs) | (149,683) | (6,660) | (11,766) | (64) | (168,173) |
| Transfers to Stage 1 | 1,444 | (663) | (781) | – | – |
| Transfers to Stage 2 | (9,182) | 9,492 | (310) | – | – |
| Transfers to Stage 3 | (2,094) | (2,981) | 5,075 | – | – |
| Transfer between categories | (539) | – | 3,700 | – | 3,161 |
| Net change in accrued interest | 2,800 | 192 | 1,101 | 1 | 4,094 |
| Unwinding of discount | – | – | 972 | – | 972 |
| Recoveries | – | – | 3,728 | – | 3,728 |
| Write-offs | – | – | (2,541) | – | (2,541) |
| Effect from changes in exchange rates | (3) | (3) | (63) | – | (69) |
| **At 31 December 2019** | **120,258** | **6,758** | **25,803** | **31** | **152,850** |

| millions of tenge | 2019 | | | | |
|---|---|---|---|---|---|
| **Individually insignificant corporate loans** | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
| **ECL at 1 January 2019** | – | (30) | (5,881) | 13 | (5,898) |
| Acquisition of subsidiaries | (6) | (4) | (1,123) | – | (1,133) |
| New assets originated or purchased | (245) | – | – | – | (245) |
| Assets derecognised or repaid (excluding write-offs) | 555 | 166 | 3,830 | 4 | 4,555 |
| Transfers to Stage 1 | (73) | 70 | 3 | – | – |
| Transfers to Stage 2 | 22 | (169) | 147 | – | – |
| Transfers to Stage 3 | 40 | 125 | (165) | – | – |
| Impact on period end ECL of exposures transferred between stages and changes to inputs used for ECL calculations during the period | (596) | (361) | (2,845) | (1) | (3,803) |
| Transfer between categories | 8 | – | (899) | – | (891) |
| Unwinding of discount | – | – | (972) | – | (972) |
| Recoveries | – | – | (3,728) | – | (3,728) |
| Write-offs | – | – | 2,541 | – | 2,541 |
| Effect from changes in exchange rates | 1 | – | (11) | – | (10) |
| **At 31 December 2019** | **(294)** | **(203)** | **(9,103)** | **16** | **(9,584)** |

## 16. Loans to customers (continued)

### Quality of individually insignificant loans (continued)

### Analysis of movements in gross carrying value and ECL (continued)

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

| millions of tenge | 2018 | | | | |
|---|---|---|---|---|---|
| **Iindividually insignificant corporate loans** | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
| **Gross carrying value at 1 January 2018** | 70,285 | 14,261 | 24,009 | – | 108,555 |
| New assets originated or purchased | 158,642 | – | – | 70 | 158,712 |
| Assets derecognised or repaid (excluding write-offs) | (140,362) | (6,365) | (8,481) | (2) | (155,210) |
| Transfers to Stage 1 | 5,531 | (5,531) | – | – | – |
| Transfers to Stage 2 | (7,346) | 8,158 | (812) | – | – |
| Transfers to Stage 3 | – | (3,722) | 3,722 | – | – |
| Net change in accrued interest | (260) | (917) | 1,254 | 1 | 78 |
| Recoveries | – | – | 2,545 | – | 2,545 |
| Write-offs | – | – | (3,184) | – | (3,184) |
| Effect from changes in exchange rates | 211 | – | 3,422 | – | 3,633 |
| **At 31 December 2018** | 86,701 | 5,884 | 22,475 | 69 | 115,129 |

| millions of tenge | 2018 | | | | |
|---|---|---|---|---|---|
| **Individually insignificant corporate loans** | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
| **ECL at 1 January 2018** | (45) | (62) | (7,215) | – | (7,322) |
| New assets originated or purchased | (261) | – | – | – | (261) |
| Assets derecognised or repaid (excluding write-offs) | 479 | 72 | 5,479 | 13 | 6,043 |
| Transfers to Stage 1 | (54) | 54 | – | – | – |
| Transfers to Stage 2 | 56 | (87) | 31 | – | – |
| Transfers to Stage 3 | – | 124 | (124) | – | – |
| Impact on period end ECL of exposures transferred between stages and changes to inputs used for ECL calculations during the period | (141) | (131) | (2,942) | – | (3,214) |
| Unwinding of discount | – | – | (538) | – | (538) |
| Recoveries | – | – | (2,545) | – | (2,545) |
| Write-offs | – | – | 3,184 | – | 3,184 |
| Effect from changes in exchange rates | (34) | – | (1,211) | – | (1,245) |
| **At 31 December 2018** | – | (30) | (5,881) | 13 | (5,898) |

An analysis of changes in the gross carrying value and corresponding ECL in relation to mortgage loans during the year ended 31 December 2019 is as follows:

| millions of tenge | 2019 | | | | |
|---|---|---|---|---|---|
| **Mortgage loans** | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
| **Gross carrying value at 1 January 2019** | **37,512** | **1,826** | **32,796** | **5,644** | **77,778** |
| Acquisition of subsidiaries | **1,943** | **130** | **390** | **809** | **3,272** |
| New assets originated or purchased | **7,801** | **–** | **–** | **6,163** | **13,964** |
| Assets derecognised or repaid (excluding write-offs) | **(14,590)** | **(384)** | **(11,650)** | **(3,831)** | **(30,455)** |
| Transfers to Stage 1 | **312** | **(216)** | **(96)** | **–** | **–** |
| Transfers to Stage 2 | **(657)** | **770** | **(113)** | **–** | **–** |
| Transfers to Stage 3 | **(485)** | **(702)** | **1,187** | **–** | **–** |
| Net change in accrued interest | **961** | **45** | **3,594** | **287** | **4,887** |
| Unwinding of discount | **–** | **–** | **1,378** | **–** | **1,378** |
| Recoveries | **–** | **–** | **5,086** | **270** | **5,356** |
| Write-offs | **–** | **–** | **(7,902)** | **(31)** | **(7,933)** |
| Effect from changes in exchange rates | **–** | **(6)** | **(43)** | **–** | **(49)** |
| **At 31 December 2019** | **32,797** | **1,463** | **24,627** | **9,311** | **68,198** |

| millions of tenge | 2019 | | | | |
|---|---|---|---|---|---|
| **Mortgage loans** | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
| **ECL at 1 January 2019** | **(92)** | **(22)** | **(10,087)** | **108** | **(10,093)** |
| Acquisition of subsidiaries | **–** | **–** | **(68)** | **–** | **(68)** |
| New assets originated or purchased | **(22)** | **–** | **–** | **–** | **(22)** |
| Assets derecognised or repaid (excluding write-offs) | **172** | **25** | **5,102** | **419** | **5,718** |
| Transfers to Stage 1 | **(54)** | **31** | **23** | **–** | **–** |
| Transfers to Stage 2 | **5** | **(18)** | **13** | **–** | **–** |
| Transfers to Stage 3 | **–** | **18** | **(18)** | **–** | **–** |
| Impact on period end ECL of exposures transferred between stages and changes to inputs used for ECL calculations during the period | **(90)** | **(44)** | **(6,059)** | **832** | **(5,361)** |
| Unwinding of discount | **–** | **–** | **(1,378)** | **–** | **(1,378)** |
| Recoveries | **–** | **–** | **(5,086)** | **(270)** | **(5,356)** |
| Write-offs | **–** | **–** | **7,902** | **23** | **7,925** |
| **At 31 December 2019** | **(81)** | **(10)** | **(9,656)** | **1,112** | **(8,635)** |

## 16. Loans to customers (continued)

### Quality of individually insignificant loans (continued)

### Analysis of movements in gross carrying value and ECL (continued)

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

| millions of tenge | 2018 | | | | |
|---|---|---|---|---|---|
| **Mortgage loans** | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
| **Gross carrying value at 1 January 2018** | 41,209 | 4,060 | 40,196 | 5,606 | 91,071 |
| New assets originated or purchased | 8,269 | – | – | 340 | 8,609 |
| Assets derecognised or repaid (excluding write-offs) | (6,351) | (210) | (22,253) | (436) | (29,250) |
| Transfers to Stage 1 | 1,717 | (1,717) | – | – | – |
| Transfers to Stage 2 | (6,245) | 6,654 | (409) | – | – |
| Transfers to Stage 3 | – | (6,351) | 6,351 | – | – |
| Net change in accrued interest | (1,178) | (615) | 6,857 | 134 | 5,198 |
| Recoveries | – | – | 8,018 | – | 8,018 |
| Write-offs | – | – | (8,396) | – | (8,396) |
| Effect from changes in exchange rates | 91 | 5 | 2,432 | – | 2,528 |
| **At 31 December 2018** | 37,512 | 1,826 | 32,796 | 5,644 | 77,778 |

| millions of tenge | 2018 | | | | |
|---|---|---|---|---|---|
| **Mortgage loans** | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
| **ECL at 1 January 2018** | (42) | (47) | (10,580) | – | (10,669) |
| New assets originated or purchased | (788) | – | – | – | (788) |
| Assets derecognised or repaid (excluding write-offs) | 769 | 32 | 13,256 | 108 | 14,165 |
| Transfers to Stage 1 | (33) | 33 | – | – | – |
| Transfers to Stage 2 | 16 | (23) | 7 | – | – |
| Transfers to Stage 3 | – | 34 | (34) | – | – |
| Impact on period end ECL of exposures transferred between stages and changes to inputs used for ECL calculations during the period | (14) | (51) | (11,065) | – | (11,130) |
| Unwinding of discount | – | – | (1,817) | – | (1,817) |
| Recoveries | – | – | (8,018) | – | (8,018) |
| Write-offs | – | – | 8,396 | – | 8,396 |
| Effect from changes in exchange rates | – | – | (232) | – | (232) |
| **At 31 December 2018** | (92) | (22) | (10,087) | 108 | (10,093) |

An analysis of changes in the gross carrying value and corresponding ECL in relation to consumer loans during the year ended 31 December 2019 is as follows:

| millions of tenge | 2019 | | | | |
|---|---|---|---|---|---|
| **Consumer loans** | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
| **Gross carrying value at 1 January 2019** | 120,789 | 1,756 | 9,755 | – | 132,300 |
| Acquisition of subsidiaries | 3,007 | 130 | 313 | – | 3,450 |
| New assets originated or purchased | 169,420 | – | – | – | 169,420 |
| Assets derecognised or repaid (excluding write-offs) | (104,535) | (1,398) | (4,256) | – | (110,189) |
| Transfers to Stage 1 | 668 | (446) | (222) | – | – |
| Transfers to Stage 2 | (9,499) | 9,555 | (56) | | – |
| Transfers to Stage 3 | (2,458) | (6,373) | 8,831 | – | – |
| Net change in accrued interest | 5,376 | 102 | 220 | – | 5,698 |
| Unwinding of discount | – | – | 2,174 | – | 2,174 |
| Recoveries | – | – | 704 | – | 704 |
| Write-offs | – | – | (12,490) | – | (12,490) |
| **At 31 December 2019** | 182,768 | 3,326 | 4,973 | – | 191,067 |

| millions of tenge | 2019 | | | | |
|---|---|---|---|---|---|
| **Consumer loans** | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
| **ECL at 1 January 2019** | (2,074) | (688) | (7,667) | – | (10,429) |
| Acquisition of subsidiaries | (266) | (60) | (227) | – | (553) |
| New assets originated or purchased | (2,875) | (2) | (3) | – | (2,880) |
| Assets derecognised or repaid (excluding write-offs) | 1,945 | 338 | 4,091 | – | 6,374 |
| Transfers to Stage 1 | (1,479) | 1,075 | 404 | – | – |
| Transfers to Stage 2 | 593 | (673) | 80 | – | – |
| Transfers to Stage 3 | 371 | 2,888 | (3,259) | – | – |
| Impact on period end ECL of exposures transferred between stages and changes to inputs used for ECL calculations during the period | (221) | (4,481) | (7,338) | – | (12,040) |
| Unwinding of discount | – | – | (2,174) | – | (2,174) |
| Recoveries | – | – | (704) | – | (704) |
| Write-offs | – | – | 12,490 | – | 12,490 |
| **At 31 December 2019** | (4,006) | (1,603) | (4,307) | – | (9,916) |

## 16. Loans to customers (continued)

### Quality of individually insignificant loans (continued)

### Analysis of movements in gross carrying value and ECL (continued)

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

| millions of tenge | 2018 | | | | |
|---|---|---|---|---|---|
| **Consumer loans** | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
| **Gross carrying value at 1 January 2018** | 74,920 | 2,064 | 7,176 | – | 84,160 |
| New assets originated or purchased | 124,706 | – | – | – | 124,706 |
| Assets derecognised or repaid (excluding write-offs) | (74,877) | (796) | (1,657) | – | (77,330) |
| Transfers to Stage 1 | 3,441 | (3,441) | – | – | – |
| Transfers to Stage 2 | (7,810) | 7,963 | (153) | – | – |
| Transfers to Stage 3 | – | (4,066) | 4,066 | – | – |
| Net change in accrued interest | 409 | 32 | 2,228 | – | 2,669 |
| Recoveries | – | – | 759 | – | 759 |
| Write-offs | – | – | (2,664) | – | (2,664) |
| Effect from changes in exchange rates | – | – | – | – | – |
| **At 31 December 2018** | 120,789 | 1,756 | 9,755 | – | 132,300 |

| millions of tenge | 2018 | | | | |
|---|---|---|---|---|---|
| **Consumer loans** | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
| **ECL at 1 January 2018** | (1,248) | (493) | (6,177) | – | (7,918) |
| New assets originated or purchased | (1,189) | – | – | – | (1,189) |
| Assets derecognised or repaid (excluding write-offs) | 309 | 202 | 1,508 | – | 2,019 |
| Transfers to Stage 1 | (571) | 571 | – | – | – |
| Transfers to Stage 2 | 917 | (1,056) | 139 | – | – |
| Transfers to Stage 3 | – | 1,328 | (1,328) | – | – |
| Impact on period end ECL of exposures transferred between stages and changes to inputs used for ECL calculations during the period | (292) | (1,240) | (1,936) | – | (3,468) |
| Unwinding of discount | – | – | (1,778) | – | (1,778) |
| Recoveries | – | – | (759) | – | (759) |
| Write-offs | – | – | 2,664 | – | 2,664 |
| Effect from changes in exchange rates | – | – | – | – | – |
| **At 31 December 2018** | (2,074) | (688) | (7,667) | – | (10,429) |

An analysis of changes in the gross carrying value and corresponding ECL in relation to car loans during the year ended 31 December 2019 is as follows:

| millions of tenge | 2019 | | | | |
|---|---|---|---|---|---|
| **Car loans** | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
| **Gross carrying value at 1 January 2019** | **1,401** | **5** | **2,120** | **–** | **3,526** |
| Acquisition of subsidiaries | **26** | **–** | **–** | **–** | **26** |
| New assets originated or purchased | **752** | **–** | **–** | **–** | **752** |
| Assets derecognised or repaid (excluding write-offs) | **(722)** | **(4)** | **(924)** | **–** | **(1,650)** |
| Transfers to Stage 1 | **–** | **–** | **–** | **–** | **–** |
| Transfers to Stage 2 | **(2)** | **5** | **(3)** | **–** | **–** |
| Transfers to Stage 3 | **(2)** | **(2)** | **4** | **–** | **–** |
| Net change in accrued interest | **42** | **(2)** | **875** | **–** | **915** |
| Unwinding of discount | **–** | **–** | **45** | **–** | **45** |
| Recoveries | **–** | **–** | **182** | **–** | **182** |
| Write-offs | **–** | **–** | **(1,841)** | **–** | **(1,841)** |
| **At 31 December 2019** | **1,495** | **2** | **458** | **–** | **1,955** |

| millions of tenge | 2019 | | | | |
|---|---|---|---|---|---|
| **Car loans** | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
| **ECL at 1 January 2019** | **–** | **–** | **(483)** | **–** | **(483)** |
| New assets originated or purchased | **(1)** | **–** | **–** | **–** | **(1)** |
| Assets derecognised or repaid (excluding write-offs) | **–** | **–** | **896** | **–** | **896** |
| Impact on period end ECL of exposures transferred between stages and changes to inputs used for ECL calculations during the period | **1** | **–** | **(2,118)** | **–** | **(2,117)** |
| Unwinding of discount | **–** | **–** | **(45)** | **–** | **(45)** |
| Recoveries | **–** | **–** | **(182)** | **–** | **(182)** |
| Write-offs | **–** | **–** | **1,841** | **–** | **1,841** |
| **At 31 December 2019** | **–** | **–** | **(91)** | **–** | **(91)** |

## 16. Loans to customers (continued)

### Quality of individually insignificant loans (continued)

### Analysis of movements in gross carrying value and ECL (continued)

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

| millions of tenge | 2019 | | | | |
|---|---|---|---|---|---|
| **Car loans** | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
| **Gross carrying value at 1 January 2018** | 1,436 | – | 2,009 | – | 3,445 |
| New assets originated or purchased | 571 | – | – | – | 571 |
| Assets derecognised or repaid (excluding write-offs) | (591) | (5) | (226) | – | (822) |
| Transfers to Stage 1 | 10 | (10) | – | – | – |
| Transfers to Stage 2 | (25) | 25 | – | – | – |
| Transfers to Stage 3 | – | (5) | 5 | – | – |
| Net change in accrued interest | – | – | 315 | – | 315 |
| Recoveries | – | – | 195 | – | 195 |
| Write-offs | – | – | (312) | – | (312) |
| Effect from changes in exchange rates | – | – | 134 | – | 134 |
| **At 31 December 2018** | 1,401 | 5 | 2,120 | – | 3,526 |

| millions of tenge | 2019 | | | | |
|---|---|---|---|---|---|
| **Car loans** | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
| **ECL at 1 January 2018** | (1) | (1) | (240) | – | (242) |
| New assets originated or purchased | (1) | – | – | – | (1) |
| Assets derecognised or repaid (excluding write-offs) | 2 | 1 | 287 | – | 290 |
| Impact on period end ECL of exposures transferred between stages and changes to inputs used for ECL calculations during the period | – | – | (581) | – | (581) |
| Unwinding of discount | – | – | (57) | – | (57) |
| Recoveries | – | – | (195) | – | (195) |
| Write-offs | – | – | 312 | – | 312 |
| Effect from changes in exchange rates | – | – | (9) | – | (9) |
| **At 31 December 2018** | – | – | (483) | – | (483) |

An analysis of changes in the gross carrying value and corresponding ECL in relation to credit cards during the year ended 31 December 2019 is as follows:

| millions of tenge | 2019 | | | | |
|---|---|---|---|---|---|
| **Credit cards** | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
| **Gross carrying value at 1 January 2019** | **2,114** | **56** | **217** | – | **2,387** |
| Acquisition of subsidiaries | **539** | **5** | **84** | – | **628** |
| New assets originated or purchased | **21,751** | – | – | – | **21,751** |
| Assets derecognised or repaid (excluding write-offs) | **(19,309)** | **(2)** | **(191)** | – | **(19,502)** |
| Transfers to Stage 1 | **97** | **(69)** | **(28)** | – | – |
| Transfers to Stage 2 | **(174)** | **194** | **(20)** | – | – |
| Transfers to Stage 3 | **(323)** | **(250)** | **573** | – | – |
| Net change in accrued interest | **208** | **234** | **26** | – | **468** |
| Unwinding of discount | – | – | **69** | – | **69** |
| Recoveries | – | – | **16** | – | **16** |
| Write-offs | – | – | **(126)** | – | **(126)** |
| Effect from changes in exchange rates | – | – | – | – | – |
| **At 31 December 2019** | **4,903** | **168** | **620** | – | **5,691** |

| millions of tenge | 2019 | | | | |
|---|---|---|---|---|---|
| **Credit cards** | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
| **ECL at 1 January 2019** | **(453)** | **(48)** | **(184)** | – | **(685)** |
| Acquisition of subsidiaries | **(16)** | **(1)** | **(77)** | | **(94)** |
| New assets originated or purchased | **(1,069)** | – | – | – | **(1,069)** |
| Assets derecognised or repaid (excluding write-offs) | **832** | **19** | **44** | – | **895** |
| Transfers to Stage 1 | **(88)** | **63** | **25** | – | – |
| Transfers to Stage 2 | **45** | **(28)** | **(17)** | – | – |
| Transfers to Stage 3 | **49** | **210** | **(259)** | – | – |
| Impact on period end ECL of exposures transferred between stages and changes to inputs used for ECL calculations during the period | **(295)** | **(373)** | **(94)** | – | **(762)** |
| Unwinding of discount | – | – | **(69)** | – | **(69)** |
| Recoveries | – | – | **(16)** | – | **(16)** |
| Write-offs | – | – | **126** | – | **126** |
| Effect from changes in exchange rates | – | **2** | – | – | **2** |
| **At 31 December 2019** | **(995)** | **(156)** | **(521)** | – | **(1,672)** |

## 16. Loans to customers (continued)

### Quality of individually insignificant loans (continued)

### Analysis of movements in gross carrying value and ECL (continued)

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

| millions of tenge | 2018 | | | | |
|---|---|---|---|---|---|
| **Credit cards** | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
| **Gross carrying value at 1 January 2018** | 338 | 16 | 119 | – | 473 |
| New assets originated or purchased | 4,137 | – | – | – | 4,137 |
| Assets derecognised or repaid (excluding write-offs) | (2,187) | (14) | (35) | – | (2,236) |
| Transfers to Stage 1 | 74 | (74) | – | – | – |
| Transfers to Stage 2 | (248) | 306 | (58) | – | – |
| Transfers to Stage 3 | – | (178) | 178 | – | – |
| Net change in accrued interest | – | – | 12 | – | 12 |
| Recoveries | – | – | 43 | – | 43 |
| Write-offs | – | – | (42) | – | (42) |
| Effect from changes in exchange rates | – | – | – | – | – |
| **At 31 December 2018** | 2,114 | 56 | 217 | – | 2,387 |

| millions of tenge | 2018 | | | | |
|---|---|---|---|---|---|
| **Credit cards** | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
| **ECL at 1 January 2018** | (63) | (13) | (55) | – | (131) |
| New assets originated or purchased | (239) | – | – | – | (239) |
| Assets derecognised or repaid (excluding write-offs) | 245 | 2 | 63 | – | 310 |
| Transfers to Stage 1 | (65) | 65 | – | – | – |
| Transfers to Stage 2 | 88 | (92) | 4 | – | – |
| Transfers to Stage 3 | – | 71 | (71) | – | – |
| Impact on period end ECL of exposures transferred between stages and changes to inputs used for ECL calculations during the period | (419) | (81) | (90) | – | (590) |
| Unwinding of discount | – | – | (34) | – | (34) |
| Recoveries | – | – | (43) | – | (43) |
| Write-offs | – | – | 42 | – | 42 |
| Effect from changes in exchange rates | – | – | – | – | – |
| **At 31 December 2018** | (453) | (48) | (184) | – | (685) |

Ниже представлен анализ изменения величины валовой балансовой стоимости и соответствующих ОКУ для прочих кредитов, обеспеченных залогом, за 2019:

| millions of tenge | 2019 | | | | |
|---|---|---|---|---|---|
| **Other loans secured by collateral** | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
| **Gross carrying value at 1 January 2019** | **99,135** | **6,816** | **66,365** | **6,723** | **179,039** |
| Acquisition of subsidiaries | **29,915** | **885** | **4,219** | **1,032** | **36,051** |
| New assets originated or purchased | **64,540** | | | **12,560** | **77,100** |
| Assets derecognised or repaid (excluding write-offs) | **(66,004)** | **(2,363)** | **(8,816)** | **(7,547)** | **(84,730)** |
| Transfers to Stage 1 | **2,894** | **(1,798)** | **(1,096)** | **–** | **–** |
| Transfers to Stage 2 | **(6,803)** | **7,608** | **(805)** | **–** | **–** |
| Transfers to Stage 3 | **(1,938)** | **(4,543)** | **6,481** | **–** | **–** |
| Net change in accrued interest | **2,820** | **196** | **1,285** | **391** | **4,692** |
| Unwinding of discount | **–** | **–** | **2,711** | **–** | **2,711** |
| Recoveries | **–** | **–** | **6,455** | **–** | **6,455** |
| Write-offs | **–** | **–** | **(18,071)** | **40** | **(18,031)** |
| Effect from changes in exchange rates | **(6)** | **–** | **(54)** | **–** | **(60)** |
| **At 31 December 2019** | **124,553** | **6,801** | **58,674** | **13,199** | **203,227** |

| millions of tenge | 2019 | | | | |
|---|---|---|---|---|---|
| **Other loans secured by collateral** | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
| **ECL at 1 January 2019** | **(72)** | **(23)** | **(16,767)** | **453** | **(16,409)** |
| Acquisition of subsidiaries | **(4)** | **(9)** | **(222)** | **–** | **(235)** |
| New assets originated or purchased | **(287)** | **–** | **–** | **–** | **(287)** |
| Assets derecognised or repaid (excluding write-offs) | **270** | **27** | **6,802** | **69** | **7,168** |
| Transfers to Stage 1 | **(98)** | **41** | **57** | **–** | **–** |
| Transfers to Stage 2 | **17** | **(80)** | **63** | **–** | **–** |
| Transfers to Stage 3 | **24** | **55** | **(79)** | **–** | **–** |
| Impact on period end ECL of exposures transferred between stages and changes to inputs used for ECL calculations during the period | **18** | **(39)** | **(15,392)** | **1,279** | **(14,134)** |
| Unwinding of discount | **–** | **–** | **(2,711)** | **–** | **(2,711)** |
| Recoveries | **–** | **–** | **(6,455)** | **–** | **(6,455)** |
| Write-offs | **–** | **–** | **18,071** | **(40)** | **18,031** |
| Effect from changes in exchange rates | **–** | **–** | **70** | **–** | **70** |
| **At 31 December 2019** | **(132)** | **(28)** | **(16,563)** | **1,761** | **(14,962)** |

## 16. Loans to customers (continued)

### Quality of individually insignificant loans (continued)

### Analysis of movements in gross carrying value and ECL (continued)

An analysis of changes in the gross carrying value and corresponding ECL in relation to other loans secured by collateral during the year ended 31 December 2018 is as follows:

| millions of tenge | 2018 | | | | |
|---|---|---|---|---|---|
| **Other loans secured by collateral** | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
| **Gross carrying value at 1 January 2018** | 106,124 | 10,230 | 74,464 | 5,919 | 196,737 |
| New assets originated or purchased | 34,109 | – | – | 1,120 | 35,229 |
| Assets derecognised or repaid (excluding write-offs) | (18,841) | (2,897) | (37,120) | (493) | (59,351) |
| Transfers to Stage 1 | 2,278 | (2,278) | – | – | – |
| Transfers to Stage 2 | (24,886) | 25,497 | (611) | – | – |
| Transfers to Stage 3 | – | (23,744) | 23,744 | – | – |
| Net change in accrued interest | – | (5) | 4,654 | 177 | 4,826 |
| Recoveries | – | – | 11,058 | – | 11,058 |
| Write-offs | – | – | (15,040) | – | (15,040) |
| Effect from changes in exchange rates | 351 | 13 | 5,216 | – | 5,580 |
| **At 31 December 2018** | 99,135 | 6,816 | 66,365 | 6,723 | 179,039 |

| millions of tenge | 2018 | | | | |
|---|---|---|---|---|---|
| **Other loans secured by collateral** | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
| **ECL at 1 January 2018** | (73) | (46) | (15,427) | – | (15,546) |
| New assets originated or purchased | (1,079) | – | – | – | (1,079) |
| Assets derecognised or repaid (excluding write-offs) | 676 | 93 | 16,297 | – | 17,066 |
| Transfers to Stage 1 | (21) | 21 | – | – | – |
| Transfers to Stage 2 | 639 | (672) | 33 | – | – |
| Transfers to Stage 3 | – | 722 | (722) | – | – |
| Impact on period end ECL of exposures transferred between stages and changes to inputs used for ECL calculations during the period | (214) | (141) | (18,254) | 453 | (18,156) |
| Unwinding of discount | – | – | (2,236) | – | (2,236) |
| Recoveries | – | – | (11,058) | – | (11,058) |
| Write-offs | – | – | 15,040 | – | 15,040 |
| Effect from changes in exchange rates | – | – | (440) | – | (440) |
| **At 31 December 2018** | (72) | (23) | (16,767) | 453 | (16,409) |

The table below includes an analysis of non-performing loans presented at stage 3 and POCI loans:

| millions of tenge | 31 December 2019 | 31 December 2018 |
|---|---|---|
| **Stage 3 and POCI** | | |
| Non-performing loans not overdue | **12,309** | 10,426 |
| Non-performing loans overdue and restructured loans | **60,933** | 68,859 |
| Other impaired loans | **102,791** | 112,644 |
| | **176,033** | 191,929 |
| | | |
| ECL allowance | **(63,493)** | (67,458) |
| | **112,540** | 124,471 |

Non-performing loans in the table above include loans that were non-performing as at 1 October 2014 and are in the work of the Bank's division of problem loans.

The amount of undiscounted ECL at initial recognition on purchased credit-impaired loans and advances to customers that were initially recognised during the year ended 31 December 2019 and 2018 was as follows:

| millions of tenge | 2019 | 2018 |
|---|---|---|
| Individually insignificant corporate loans | **–** | 16 |
| Mortgage loans | **626** | 1,511 |
| Other loans secured by collateral | **1,101** | 1,855 |
| **Total undiscounted ECL at initial recognition of POCI** | **1,727** | 3,382 |

### Modified and restructured loans

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

| millions of tenge | 2019 | 2018 |
|---|---|---|
| **Loans modified during the period** | | |
| Amortised cost before modification | **–** | 12,420 |
| Net modification loss not resulting in derecognition | **–** | (783) |

## 16. Loans to customers (continued)

### Analysis of collateral and other enhancements

Individually significant corporate loans are subject to assessment and impairment testing on an individual basis. The creditworthiness of a corporate customer is generally the main indicator of the issued loan quality. However, collateral represents additional securities, and the Group generally asks corporate borrowers for its provision.

Guarantees and suretyship from individuals including shareholders of borrowers represented by small and medium-sized businesses are not taken into account in impairment assessment. Recoverability of neither past due nor individually impaired loans mainly depends on creditworthiness of the borrower rather than on value of collateral.

For certain mortgage loans and other loans to individuals, the Group updates the estimated values of collateral obtained at inception of the loan to the current values considering the approximate changes in property values. The Group may also carry out a specific individual valuation of collateral at each reporting date where indications of impairments exist.

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.

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions – cash or securities;
- For commercial lending – real estate properties, inventory and trade receivables;
- For retail lending – residential properties.

As at 31 December 2019, loans net of ECL allowance with overdue over 90 days amount to KZT 80,961 million (as at 31 December 2018: KZT 102,267 million). As at 31 December 2019 total fair value of collateral held on such loans, limited to the gross value of the respective loans, was equal to KZT 121,345 million (as at 31 December 2018: KZT 139,834 million).

### Repossessed collateral

During 2019, the Group repossessed collateral on loans to customers, represented by real estate, with a carrying amount totalling to KZT 12,592 million (2018: KZT 16,322 million) (Note 19). The Group's policy assumes sale of these assets as soon as it is practicable.

### Concentration of loans to customers

As at 31 December 2019, the concentration of loans issued by the Group to the ten largest independent borrowers amounted to KZT 120,211 million or 14% of the total loan portfolio (as of 31 December 2018: KZT 140,662 million or 18.4% of the total loan portfolio). ECL allowance on these loans is KZT 1,201 million (as at 31 December 2018: KZT 2,199 million).

Loans were issued primarily to customers operating within the Republic of Kazakhstan in the following economic sectors:

| millions of tenge | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Loans to retail customers | **470,138** | 395,030 |
| Metallurgy | **61,447** | 65,710 |
| Wholesale trading | **60,512** | 53,986 |
| Real estate activities | **50,495** | 59,870 |
| Services provided by small and medium businesses | **40,185** | 31,743 |
| Construction | **34,082** | 39,405 |
| Retail services | **33,624** | 22,928 |
| Food industry | **18,696** | 18,293 |
| Financial services | **15,748** | 13,093 |
| Transportation | **12,063** | 10,639 |
| Production of crude oil and natural gas | **6,763** | 6,402 |
| Textile production | **5,943** | 5,956 |
| Production of metal goods | **3,233** | 3,069 |
| Agriculture | **2,907** | 3,657 |
| Manufacturing | **2,429** | 3,042 |
| Chemical industry | **1,373** | 1,286 |
| Post and communication | **1,111** | 1,068 |
| Machine-engineering | **462** | 441 |
| Other | **36,143** | 27,180 |
| | **857,354** | 762,798 |
| | | |
| ECL allowance | **(71,059)** | (73,153) |
| | **786,295** | 689,645 |

## 17. Investment securities

Investment securities, including those pledged under repurchase agreements, comprise:

| millions of tenge | 31 December 2019 | 31 December 2018 |
|---|---|---|
| **Debt investment securities measured at amortised cost** | | |
| **Government bonds** | | |
| Treasury bills of the Ministry of Finance of the Republic of Kazakhstan rated BBB- | **19,398** | 15,703 |
| Bonds of foreign countries rated from BB- to BB+ | **771** | 776 |
| **Total government bonds** | **20,169** | 16,479 |
| | | |
| **Corporate bonds** | | |
| Rated from BBB- to BBB+ | **76,655** | – |
| Rated from BB- to BB+ | **160,266** | 160,369 |
| **Total corporate bonds** | **236,921** | 160,369 |
| | | |
| **Bonds of banks** | | |
| Rated from B- to B+ | **4,760** | 4,807 |
| **Total bonds of banks** | **4,760** | 4,807 |
| **Investment securities measured at amortised cost before ECL allowance** | **261,850** | 181,655 |
| | | |
| ECL allowance | **(808)** | (715) |
| **Investment securities measured at amortised cost** | **261,042** | 180,940 |
| | | |
| **Debt securities at FVOCI** | | |
| **Government bonds** | | |
| Treasury bills of the United States of America rated AAA | – | 19,185 |
| Notes of the NBRK rated BBB- | **265,726** | 121,320 |
| Treasury bills of the Ministry of Finance of the Republic of Kazakhstan rated BBB- | **90,793** | 85,848 |
| Bonds of the Sultanate of Oman rated BB | **1,156** | 4,756 |
| **Total government bonds** | **357,675** | 231,109 |
| | | |
| **Corporate bonds** | | |
| Rated from AA- to AA+ | **794** | 732 |
| Rated from BBB- to BBB+ | **36,517** | 92,072 |
| **Total corporate bonds** | **37,311** | 92,804 |

| millions of tenge | 31 December 2019 | 31 December 2018 |
|---|---|---|
| **Bonds of banks** | | |
| Rated from A- to A+ | **8,259** | 8,222 |
| Rated from BBB- to BBB+ | **18,723** | 18,460 |
| Rated from BB- to BB+ | **30,521** | 28,866 |
| Rated below B+ | **5,935** | 10,074 |
| **Total bonds of banks** | **63,438** | 65,622 |
| **Investment securities at FVOCI** | **458,424** | 389,535 |

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

As at 31 December 2019, investment securities at FVOCI, represented by treasury bills of the Ministry of Finance of the Republic of Kazakhstan, notes of the NBRK and corporate bonds of "Mortgage organisation "Baspana" JSC with the fair value of KZT 44,238 million, KZT 59,667 million and KZT 15,185 million, respectively, were pledged under the repurchase agreements entered into at KASE (Note 28).

As at 31 December 2018, treasury bills of the Ministry of Finance of the Republic of Kazakhstan with the fair value of KZT 57,994 million were pledged under the repurchase agreements entered into at KASE (Note 28).

On 11 October 2018, the Group acquired bonds of NAC Kazatomprom JSC, indexed to the US Dollar and maturing on 11 November 2019 with a nominal value of KZT 70,000 million, which were sold in September 2019. In September 2019, the Group purchased new bonds of NAC Kazatomprom JSC indexed to the US Dollar and maturing on 27 October 2024 with a nominal value of KZT 70,000 million KZT and bearing a coupon of 4% per annum. The fair value of the bonds at initial recognition amounted to KZT 77,053 million measured using the effective interest rate of 1.89%. The net gain on initial recognition of bonds recognised in profit or loss amounted to KZT 7,053 million. The Group classified these bonds as investment securities measured at amortised cost.

On 25 September 2018 and 28 September 2018, the Group purchased corporate bonds of National Welfare Fund "Samruk Kazyna" JSC and "Kazakhstan Temir Zholy" JSC maturing on 15 November 2024 and classified as investment securities measured at amortised cost with fair value at initial recognition of KZT 75,274 million and KZT 75,275 million, respectively

Debt securities issued by the Group, which are held by NWF Samruk-Kazyna JSC (Note 22) with a total nominal value of KZT 220,000 million, act as a collateral for obligations to the Group on the above listed bonds.

## 18. Property and equipment

The movements in property and equipment were as follows:

| millions of tenge | Land | Buildings | Computers | Vehicles | Construction-in-progress and equipment for installation | Other | Right-of-use assets (Note 3) | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| **1 January 2018** | 1,754 | 32,681 | 3,177 | 397 | 4,160 | 21,709 | – | 63,878 |
| Additions | 11 | 2,717 | 804 | 51 | 7 | 3,317 | – | 6,907 |
| Transfers | – | 1,255 | – | – | (1,255) | – | – | – |
| Disposals | (151) | (902) | (590) | (41) | – | (4,582) | – | (6,266) |
| **31 December 2018** | 1,614 | 35,751 | 3,391 | 407 | 2,912 | 20,444 | – | 64,519 |
| | | | | | | | | |
| Impact of adopting IFRS 16 (Note 3) | **–** | **–** | **–** | **–** | **–** | **–** | **6,764** | **6,764** |
| Acquisition through business combinations (Note 5) | **322** | **4,502** | **808** | **26** | **–** | **1,194** | **276** | **7,128** |
| Additions | **1,213** | **5,359** | **1,362** | **56** | **4,519** | **6,018** | **1,219** | **19,746** |
| Transfers | **–** | **–** | **(115)** | **–** | **(195)** | **310** | **–** | **–** |
| Disposals | **(6)** | **(2,265)** | **(455)** | **(8)** | **–** | **(725)** | **(5,706)** | **(9,165)** |
| **31 December 2019** | **3,143** | **43,347** | **4,991** | **481** | **7,236** | **27,241** | **2,553** | **88,992** |
| | | | | | | | | |
| **Accumulated depreciation** | | | | | | | | |
| **1 January 2018** | – | (2,299) | (1,911) | (231) | – | (10,428) | – | (14,869) |
| Depreciation charge | – | (866) | (422) | (51) | – | (2,248) | – | (3,587) |
| Disposals | – | – | – | – | – | – | – | – |
| 31 December 2018 | – | 278 | 589 | 35 | – | 4,531 | – | 5,433 |
| | – | (2,887) | (1,744) | (247) | – | (8,145) | – | (13,023) |
| Impact of adopting IFRS 16 (Note 3) | | | | | | | | |
| Acquisition through business combinations (Note 5) | **–** | **–** | **–** | **–** | **–** | **–** | **(1,311)** | **(1,311)** |
| Depreciation charge | **–** | **(209)** | **(476)** | **(3)** | **–** | **(562)** | **(31)** | **(1,281)** |
| Disposals | **–** | **(978)** | **(518)** | **(53)** | **–** | **(3,061)** | **(802)** | **(5,412)** |
| 31 December 2019 | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| | **–** | **653** | **364** | **4** | **–** | **343** | **1,326** | **2,690** |
| **Net book value** | **–** | **(3,421)** | **(2,374)** | **(299)** | **–** | **(11,425)** | **(818)** | **(18,337)** |
| 1 January 2018 | | | | | | | | |
| **31 December 2018** | | | | | | | | |
| **31 December 2019** | **1,754** | **30,382** | **1,266** | **166** | **4,160** | **11,281** | **–** | **49,009** |
| **Ha 31 December 2018** | **1,614** | **32,864** | **1,647** | **160** | **2,912** | **12,299** | **–** | **51,496** |
| **As at 31 December 2019** | **3,143** | **39,926** | **2,617** | **182** | **7,236** | **15,816** | **1,735** | **70,655** |

## 19. Other assets

Other assets comprise:

| millions of tenge | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Other receivables from banking activities | **12,323** | 19,881 |
| Other receivables | **17,472** | 10,587 |
| | **29,795** | 30,468 |
| | | |
| ECL allowance | **(3,014)** | (3,363) |
| **Other financial assets** | **26,781** | 27,105 |
| | | |
| Repossessed collaterals | **59,684** | 65,774 |
| Prepayments and other receivables | **7,141** | 12,381 |
| Inventories held for sale | **5,648** | 4,566 |
| Prepaid taxes, other than corporate income tax | **2,630** | 3,303 |
| Investment property | **592** | 1,256 |
| Inventories | **624** | 687 |
| Other | **65** | 80 |
| | **76,384** | 88,047 |
| | | |
| Provisions | **(122)** | (134) |
| **Other non-financial assets** | **76,262** | 87,913 |
| **Total other assets** | **103,043** | 115,018 |

In 2019, the Group took possession of collaterals with a total value of KZT 12,592 million (2018: KZT 16,322 million). Even though the Bank is currently working actively to dispose these assets, most of them have not been sold within short period of time. Management still intends to sell the repossessed collateral.

## 20. Current accounts and deposits of customers

Current accounts and deposits of customers comprise:

| millions of tenge | 31 December 2019 | 31 December 2018 |
|---|---|---|
| **Current accounts and demand deposits** | | |
| • Retail customers | **77,686** | 56,364 |
| • Corporate customers | **366,126** | 276,719 |
| | | |
| **Time deposits** | | |
| • Retail customers | **502,476** | 439,744 |
| • Corporate customers | **326,046** | 237,853 |
| | | |
| **Guarantee deposits** | | |
| • Retail customers | **23,538** | 15,642 |
| • Corporate customers | **41,077** | 49,306 |
| | **1,336,949** | 1,075,628 |
| | | |
| **Held as collateral under letters of credit and guarantees (Note 31)** | **(1,689)** | (144) |

### Concentration of current accounts and deposits of customers

As at 31 December 2019 total amount of account balances of top 10 clients amounted to KZT 193,526 million or 14% of total current accounts and deposits of customers (as at 31 December 2018: KZT 226,872 million or 21%).

As at 31 December 2019 time deposits include deposits of individuals in the amount of KZT 245,716 million (as at 31 December 2018: KZT 213,259 million), which are guaranteed by KFGD on behalf of the government.

In accordance with the Kazakhstan Civil Code, the Bank is obliged to repay time deposits upon demand of a depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest is not paid or paid at considerably lower interest rate depending on the terms specified in the agreement.

## 21. Amounts due to banks and other financial institutions

Amounts due to banks and other financial institutions include the following:

| millions of tenge | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Loans from governmental organisations | **110,262** | 56,483 |
| Loans from other financial institutions | **7,543** | 14,946 |
| Current accounts and deposits of banks | **1** | 699 |
| | **117,806** | 72,128 |

As at 31 December 2019, loans from governmental organisations included loans from Entrepreneurship Development Fund "Damu" JSC and Kazakhstan Development Bank JSC in the amount of KZT 68,136 million and KZT 10,984 million, respectively (at 31 December 2018: KZT 22,840 million and KZT 9,683 million, respectively), as part of the state program to support small and medium-sized businesses by the banking sector. The loans are denominated in KZT, bear interest rates of 1.0-9.58% per annum and mature in 2020-2035.

As at 31 December 2019 loans from governmental organisations also include deposits in the amount of KZT 27,272 million (as at 31 December 2018: KZT 22,968 million) received from Kazakhstan Sustainability Fund JSC as part of the governmental program for refinancing of mortgage and housing loans to customers. The deposits are denominated in tenge, have an interest rate of 0.1-2.99% per annum (effective rate 13.2-14.5% per annum) and mature in 2038.

As at 31 December 2019 loans from other financial institutions include loans in the amount of KZT 3,267 million (as at 31 December 2018: KZT 10,653 million) received from European Bank for Reconstruction and Development as part of the program for supporting of investments in micro, small and medium businesses in the Republic of Kazakhstan and Women in Business program. The loans are denominated in tenge, bear interest rate of 7.95-9.50% per annum and mature in 2020.

## 22. Debt securities issued

Debt securities issued include the following:

| millions of tenge | Год погашения | Купонная ставка | 31 December 2019 | 31 December 2018 |
|---|---|---|---|---|
| **Bonds denominated in US Dollars** | | | | |
| Eurobonds issued in 2019 | 2022 | 3.00% | **14,946** | – |
| Eurobonds issued in 2010 | 2022 | 14% | **13,757** | 12,765 |
| Bonds issued in 2019 | 2024 | 11.75% | **–** | 50,539 |
| | | | **28,703** | 63,304 |
| Bonds denominated in tenge | | | | |
| **Bonds issued in 2018** | **2024** | **4.00%** | **148,755** | 138,982 |
| Bonds issued in 2015 | 2025 | 10.13% | **47,813** | 47,306 |
| Bonds issued in 2010 | 2020 | 8% (1% + inflation index) | **3,992** | 3,992 |
| | | | **200,560** | 190,280 |
| | | | **229,263** | 253,584 |
| | | | **229.263** | 253.584 |

In September 2018, the Bank issued debt securities with a total nominal value of KZT 220,000 million, coupon rate of 4% p.a. and maturity in 2024. The securities were acquired by National Welfare Fund Samruk-Kazyna in exchange for KZT 220,000 million deposit placed with the Bank on similar terms. The difference between carrying value of the abovementioned deposit and fair value of the bonds at initial recognition of KZT 9,160 million was recognised by the Group as net gain on derecognition of financial liabilities in the consolidated statement of comprehensive income.

In 2018 the Group redeemed bonds with the carrying value at the date of transaction amounted to KZT 10,242 million for KZT 10,870 million. Net loss on derecognition of the bonds amounted to KZT 628 million which was recognised in other expenses of the consolidated statement of comprehensive income.

On 15 December 2019, the Group redeemed Eurobonds issued in 2014 with a coupon rate of 11.75% per annum and maturity in 2024. The bonds were repaid in the amount of 108% of redeemed principal amount together with interest accrued but unpaid on the principal amount redeemed to, but excluding, the date fixed for redemption.

In August-December 2019, the Group issued debt securities with a total nominal value of KZT 14,768 million, a coupon rate of 3% per annum and maturity in 2022.

As at 31 December 2019, bonds denominated in tenge and issued in 2010 are secured by the Group's mortgage loans issued to customers with a total value of KZT 11,158 million (as at 31 December 2018: KZT 11,142 million).

## 23. Subordinated debt

Subordinated debt comprises the following:

| millions of tenge | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Subordinated debt securities issued | **22,648** | 22,648 |
| Long-term loans denominated in tenge | **1,919** | – |
| Long-term loans denominated in US Dollars | **364** | – |
| Debt component of preferred shares | **1,020** | – |
| | **25,951** | 22,648 |

As at 31 December 2019 and 31 December 2018, subordinated debt securities include subordinated bonds denominated in tenge, maturing in 2020-2031 with a fixed coupon rate of 8% per annum. The coupon is paid semi-annually.

In December 2010 the Group placed 1,000,000 preferred shares at the placement value of KZT 1,000 per share. These preferred shares do not have any voting rights unless payment of preferred dividends has been delayed for three months and carry a cumulative dividend of a minimum of 8% per annum, but not less than dividends on ordinary shares.

In accordance with IAS 32, if the non-redeemable preferred share establishes a contractual right to a dividend, it contains a financial liability in respect of the dividends, whereby the net present value of the obligation to distribute dividends is shown as a liability and the balance of the issue proceeds as equity. For the year ended 31 December 2019 and 2018, expenses on dividends accrued on preferred shares amounted to KZT 40 million and were classified as interest expenses in accordance with IAS 32.

## 24. Share capital

The number of authorised, issued and outstanding common shares and share capital as at 31 December 2019 and 2018 are as follows:

| millions of tenge | 31 December 2019 | 31 December 2018 |
|---|---|---|
| **Common shares** | | |
| Number of authorised shares | **150,003,000,000** | 150,003,000,000 |
| Number of issued shares | **92,387,104,089** | 92,387,104,089 |
| Number of re-acquired shares | **(2,893,522,817)** | (1,246,952,788) |
| Number of outstanding shares | **89,493,581,272** | 91,140,151,301 |
| **Total share capital, millions of tenge** | **328,377** | 331,504 |

Movements in outstanding, placed and fully paid shares were as follows:

| millions of tenge | Number of common shares | Placement value of common shares |
|---|---|---|
| **At 1 January 2019** | **91,140,151,301** | **331,504** |
| Repurchase of own shares | **(1,646,570,029)** | **(3,127)** |
| **At 31 December 2019** | **89,493,581,272** | **328,377** |
| | | |
| **At 1 January 2018** | 91,381,593,246 | 331,522 |
| Return of shares not claimed by creditors | (223,792,003) | – |
| Repurchase of own shares | (17,649,942) | (18) |
| **At 31 December 2018** | 91,140,151,301 | 331,504 |

In accordance with the decision of the shareholders dated 29 April 2019, the Bank declared dividends on common shares for the year ended 31 December 2018 in the amount of KZT 11,376 million.

The Bank declared dividends on common shares for the year ended 31 December 2017 in the amount of KZT 7,748 million.

## 25. Earnings per share

The following table reflects net profit and share information used in the basic and diluted earnings per share computations:

| millions of tenge | 2019 | 2018 |
|---|---|---|
| Net profit | **42,233** | 29,038 |
| The weighted average number of common shares for the year | **90,212,217,439** | 91,155,112,522 |
| Basic and diluted earnings per share, in tenge | **0.47** | 0.32 |

As at 31 December 2019 and 2018, the Bank did not have any financial instruments diluting earnings per share.

## 26. Risk management

### Introduction

Risk management is inherent in the bank activities and is an essential element of the Group's operations. The major risks faced by the Group are those related to market risk, credit risk, liquidity risk and operational risks.

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

### Risk management structure

### Board of Directors

The Board of Directors has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving large exposures.

### Management Board

The Management Board is responsible for monitoring and implementation of risk mitigation measures and ensuring that the Group operates within the established risk parameters. The Head of Risk Service (Credit Risk Department and Collateral Department) is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. The Head of Risk Service reports directly to the Chairman of the Management Board and indirectly to the Board of Directors.

### Risk Committees

Credit, market and liquidity risks, both at the portfolio and transactional levels are managed and controlled through a system of credit committees and the Asset and Liability Management Committee ("ALCO"). For improving the efficiency of decision making process, the Group has established a hierarchy of credit committees depending on the type and amount of risk exposure.

### Credit Risk Department

Both external and internal risk factors are identified and managed throughout the Group. Particular attention is given to identifying the full range of risk factors and determining the level of adequacy of the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Credit Risk Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their respective areas of expertise.

### Bank Treasury

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

### Internal Audit

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

### Risk measurement and reporting systems

The Group'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 Group 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 Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information collected 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 risk committees, 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 and customer risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly 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 Group.

For all levels throughout the Group, 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 daily briefing is given to the Management Board and all other relevant employees of the Group on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

## 26. Risk management (continued)

### Risk management structure (continued)

#### Risk mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies and exposures arising from forecast transactions.

The Group actively uses collateral to reduce its credit risks.

#### Excessive risk concentration

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. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio.

### Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Group 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.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. 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 Group 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 Group makes available to its customers guarantees that may require that the Group make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Bank to similar risks to loans and the same control processes and policies mitigate these.

The maximum exposure to credit risk for the components of the consolidated statement of financial position, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying amounts.

Where financial instruments are recorded at fair value, the carrying value represents the current credit risk exposure but not the maximum risk exposure that could arise in the future because of changes in values.

For more detail 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 shown in Note 16.

#### Impairment assessment

The Group calculates ECL based on several probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. 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 interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest 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.

## 26. Risk management (continued)

### Credit risk (continued)

### Impairment assessment (continued)

The Group 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 Group groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

| | |
|---|---|
| Stage 1: | When loans are first recognised, the Group recognises an allowance based on 12mECL |
| Stage 2: | When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECL. |
| Stage 3: | Loans considered credit-impaired. The Group 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 interest revenue is subsequently recognised based on a credit-adjusted EIR. 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 Group considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due and more on its contractual payments.

As a part of a qualitative assessment of whether a customer is in default, the Group also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Group 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;
- The borrower is deceased;
- A covenant breach not waived by the Group;
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy, declared bankrupt by court decision or by the borrower itself;
- Debtor's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties;
- Debt was restructured due to worsening financial condition of the borrower;
- Transfer of the borrower to bad debt recovery division.

It is the Group'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 observed as of reporting date, subject to reduction of debt amount for this financial instrument or, in case of restructuring, at least twelve consecutive months passed after restructuring. 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

The Group Credit Risk Department operates its internal rating models. For borrowers of corporate business and small and medium-sized businesses, a single rating model is used. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information that could affect the borrower's behaviour. Where practical, they also build on information from the national and international external rating agencies. PDs, incorporating forward looking information and the IFRS 9 stage classification of the exposure, are assigned for each grade. This is repeated for each economic scenario as appropriate.

### Treasury and interbank relationships

The Group's treasury and interbank relationships and counterparties comprise financial services institutions, banks, broker dealers, exchanges and clearing-houses. For these relationships, the Group's Strategic Risk Department analyses publicly available information such as external ratings international rating agencies that are used for ECL estimation.

### Corporate and small business lending

For corporate loans, the borrowers are assessed by Credit Risk Department of the Group. The credit risk assessment is based on a financial model that takes into account various historical, current and forward-looking information such as:

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention;
- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports, publicly traded bond prices or press releases and articles;
- Any macro-economic or geopolitical information, e.g., GDP growth relevant for the specific industry and geographical segments where the client operates;
- Any other objectively supportable information on the quality and abilities of the client's management relevant

for the company's performance.

## 26. Risk management (continued)

### Credit risk (continued)

#### Retail lending

Retail lending comprises secured and unsecured loans to individuals and credit cards. These products are rated by an automated scorecard tool primarily driven by days past due. Other key inputs into the models are personal indebtedness, monthly loan payment to salary coefficient, for residential mortgages, loan-to-value ratios and the collateral value in the case of other loans secured by collateral.

#### 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 to reduce debt through repayments. To calculate the EAD for a Stage 1 loan, the Group 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 Group 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 Group's models.

The Group's product offering includes a variety of corporate and retail overdraft and credit cards facilities, in which the Group has the right to cancel and/or reduce the facilities with one day's notice. The Group does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Group's expectations of the customer behaviour, its likelihood of default and the Group's future risk mitigation procedures, which could include reducing or cancelling the facilities. The interest rate used to discount the ECLs for credit cards is based on the average effective interest rate that is expected to be charged over the expected period of exposure to the facilities.

#### Loss given default

For corporate lending, LGD values are assessed at least monthly by account managers and reviewed and approved by the Group's Credit Risk 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 Group 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.

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 including property prices for mortgages, 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.

#### Significant increase in credit risk

The Group 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 Group assesses whether there has been a significant increase in credit risk since initial recognition. Except for retail loans, the Group considers an exposure to have significantly increased in credit risk when there was a decrease in the borrower's rating compared to the rating at the time of initial recognition based on an analysis of the Group's statistics confirming the materiality of such a reduction in relation to the increase in credit risk.

The Group also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as deterioration of the Bank's communication with the borrower, which, in the Bank's opinion, may lead to difficulties in repaying the loan or granting a grace period of more than 1 month when the client contacts. In certain cases, the Group 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.

#### Grouping financial assets measured on a collective basis

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

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

- All Stage 3 assets, regardless of the class of financial assets;
- Stage 2 and Stage 3 corporate lending portfolio;
- The large and unique exposures of the small business lending portfolio;
- The treasury and interbank relationships (such as amounts due from banks, cash equivalents and debt investment securities at amortised cost and FVOCI);
- Exposures that have been classified as POCI when the original loan was derecognised and a new loan was recognised as a result of a credit driven debt restructuring.

## 26. Risk management (continued)

### Credit risk (continued)

### Grouping financial assets measured on a collective basis (continued)

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

- The smaller and more generic balances of the Group's small business lending;
- Stage 1 and 2 retail mortgages and consumer lending and Stage 1 corporate lending portfolio;
- Purchased POCI exposures managed on a collective basis.

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

### Forward-looking information and multiple economic scenarios

In its ECL models, the Group relies on a broad range of forward looking information as economic inputs, such as:

- GDP growth;
- Volume of oil and gas condensate production;
- Unemployment rates;
- Level of trading in retail industry;
- NBRK base rates;
- Inflation rates;
- Real wage index;
- Foreign exchange rates.

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 may be used as temporary adjustments when such differences are significantly material.

The Group 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 Group's Credit Risk Department determine the weights attributable to the multiple scenarios. The tables show the values of the key forward looking economic variables/assumptions used in each of the economic scenarios for the ECL calculations.

| Key drivers | ECL scenario | Assigned probabilities, % | 2020 |
|---|---|---|---|
| **GDP growth, %** | | | |
| | Upside | 10% | 10.07% |
| | Base case | 80% | 7.35% |
| | Downside | 10% | 1.20% |
| **Index of physical volume of industrial production (in % to the previous year)** | | | |
| | Upside | 10% | 111.56% |
| | Base case | 80% | 105.00% |
| | Downside | 10% | 99.88% |
| **Volume of oil and gas condensate production (million tons)** | | | |
| | Upside | 10% | 73.58% |
| | Base case | 80% | 88.00% |
| | Downside | 10% | 45.12% |
| **Index of physical volume of gross output (services) of agriculture, as % of the previous year** | | | |
| | Upside | 10% | 115.32% |
| | Base case | 80% | 103.37% |
| | Downside | 10% | 91.66% |

### Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group by means of analysis of overdue days for loans, for other financial instruments – based on ratings assigned by international rating agencies according to the table below. Credit quality analysis is presented in notes of related financial assets (Note 16).

| Rating of external international rating agency (Moody's) | Rating of external international rating agency (Fitch) | Annual PD |
|---|---|---|
| Aa1 to Aaa | AA+ to AAA | 0.00-0.08% |
| Aa2 | AA | |
| A1 to Aa3 | A+ to AA- | |
| | | |
| A3 to A2 | A- to A | 0.06-0.48% |
| Baa1 | BBB+ | |
| Baa2 | BBB | |
| Baa3 | BBB- | |
| Ba1 | BB+ | |
| | | |
| Ba3 to Ba2 | BB- to BB | 1.51-5.08% |
| B3 to B1 | B- to B+ | |
| Caa2 to Caa1 | CCC to CCC+ | |
| | | |
| Ca to Caa3 | C to CCC- | 22.63-36.43% |
| Default | D | 100% |

## 26. Risk management (continued)

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

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

Overall authority for market risk is vested in the ALCO. Market risk limits are approved by the ALCO based on recommendations of the Market Risk Management Division of the Credit Risk Department and subsequently agreed by the Board of Directors.

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

In addition, the Group uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by the Group include risk factor stress testing, where stress movements are applied to each risk category, and ad hoc stress testing, which includes applying possible stress events to specific positions.

Interest rate risk is also managed by monitoring the interest rate gap and is supplemented by monitoring the sensitivity of net interest margin to various standard and non-standard interest rate movements scenarios.

### Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market interest rates. The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may also reduce or create losses in the event that unexpected movements occur.

### Interest rate revision analysis

Interest rate risk is managed principally through monitoring interest rate gaps. As the majority of the financial instruments bear fixed interest rates the interest gap analysis is similar to the maturity analysis.

### Interest rate sensitivity analysis

The management of interest rate risk, based on an interest rate gap analysis, is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of the sensitivity of net profit and equity to changes in interest rates (repricing risk), based on a simplified scenario of a 100 basis points symmetrical fall or 300 basis points rise in yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2019 and 2018 is as follows:

| millions of tenge | 2019 | 2018 |
|---|---|---|
| | **Effect on profit** | **Effect on profit** |
| Decrease by 100 basis points | **5,276** | 3,430 |
| Increase by 300 basis points | **(15,828)** | (10,291) |

An analysis of the sensitivity of net profit or loss and equity as a result of changes in fair value of financial instruments at fair value through profit or loss and debt securities at FVOCI due to changes in interest rates based on positions existing as at 31 December 2019 and 2018 and a simplified scenario of a 100 basis points symmetrical fall or 300 basis points rise in yield curves is as follows:

| millions of tenge | 2019 | | 2018 | |
|---|---|---|---|---|
| | **Effect on profit** | **Effect on other comprehensive income** | **Effect on profit** | **Effect on other comprehensive income** |
| Decrease by 100 basis points | **135** | **5,273** | 289 | 6,989 |
| Increase by 300 basis points | **(378)** | **(15,122)** | (798) | (17,725) |

### Currency risk

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

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. Despite the fact that the Group hedges its exposure to currency risk, such transactions do not qualify as hedging relationships in accordance with IFRS.

## 26. Risk management (continued)

### Market risk (continued)

### Currency risk (continued)

The following table shows financial assets and liabilities by foreign currencies:

millions of tenge

| At 31 December 2019 | Tenge | US Dollar | Euro | Other currencies | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | 258,930 | 66,766 | 17,416 | 4,130 | 347,242 |
| Amounts due from financial institutions | 18,134 | 10,071 | – | – | 28,205 |
| Trading securities | 1,440 | 5,012 | – | – | 6,452 |
| Loans to customers | 674,234 | 110,384 | 68 | 382 | 785,068 |
| Investment securities | 490,431 | 213,843 | 15,192 | – | 719,466 |
| Other financial assets | 21,091 | 5,626 | 60 | 4 | 26,781 |
| **Total financial assets** | **1,464,260** | **411,702** | **32,736** | **4,516** | **1,913,214** |
| | | | | | |
| **Liabilities** | | | | | |
| Current accounts and deposits of customers | 740,248 | 559,209 | 32,455 | 5,037 | 1,336,949 |
| Amounts due to banks and other financial institutions | 113,531 | 4,275 | – | – | 117,806 |
| Amounts payable under repurchase agreements | 116,741 | – | – | – | 116,741 |
| Debt securities issued | 200,560 | 28,703 | – | – | 229,263 |
| Subordinated debt | 25,587 | 364 | – | – | 25,951 |
| Other financial liabilities | 8,432 | 551 | 88 | 24 | 9,095 |
| **Total financial liabilities** | **1,205,099** | **593,102** | **32,543** | **5,061** | **1,835,805** |
| **Net position** | **259,161** | **(181,400)** | **193** | **(545)** | **77,409** |
| | | | | | |
| Impact of derivative instruments held for the purpose of risk management | (171,124) | 175,506 | – | (4,384) | (2) |
| **Net position adjusted for impact of derivative instruments held for the purpose of risk management** | **88,037** | **(5,894)** | **193** | **(4,929)** | **77,407** |

millions of tenge

| At 31 December 2018 | Tenge | US Dollar | Euro | Other currencies | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | 110,432 | 94,480 | 16,671 | 3,564 | 225,147 |
| Amounts due from financial institutions | 5,431 | 14,280 | – | – | 19,711 |
| Trading securities | 1,465 | 8,046 | – | – | 9,511 |
| Loans to customers | 533,186 | 155,976 | 72 | 411 | 689,645 |
| Investment securities | 326,553 | 240,376 | 3,546 | – | 570,475 |
| Other financial assets | 26,429 | 622 | 53 | 1 | 27,105 |
| **Total financial assets** | **1,003,496** | **513,780** | **20,342** | **3,976** | **1,541,594** |
| | | | | | |
| **Liabilities** | | | | | |
| Current accounts and deposits of customers | 553,398 | 498,058 | 20,305 | 3,867 | 1,075,628 |
| Amounts due to banks and other financial institutions | 67,136 | 4,978 | 14 | – | 72,128 |
| Amounts payable under repurchase agreements | 56,392 | – | – | – | 56,392 |
| Debt securities issued | 190,280 | 63,304 | – | – | 253,584 |
| Subordinated debt | 22,648 | – | – | – | 22,648 |
| Other financial liabilities | 5,474 | 430 | 135 | 20 | 6,059 |
| **Total financial liabilities** | **895,328** | **566,770** | **20,454** | **3,887** | **1,486,439** |
| **Net position** | **108,168** | **(52,990)** | **(112)** | **89** | **55,155** |
| | | | | | |
| Impact of derivative instruments held for the purpose of risk management | (48,353) | 48,870 | – | – | 517 |
| **Net position adjusted for impact of derivative instruments held for the purpose of risk management** | **59,815** | **(4,120)** | **(112)** | **89** | **55,672** |

The tables below indicate the currencies to which the Group had significant exposure at 31 December on its non-trading monetary assets and liabilities and its forecast cash flows. This analysis was made on a before tax basis and is based on foreign currency exchange rate movements that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. Negative amounts in the table reflect a potential net reduction in profit or equity, while a positive amount reflects a net potential increase.

## 26. Risk management (continued)

### Market risk (continued)

### Currency risk (continued)

| millions of tenge | 2019 | | 2018 | |
|---|---|---|---|---|
| | Increase in currency rate, % | Effect on profit before tax | Increase in currency rate, % | Effect on profit before tax |
| US Dollar | **12** | **(707)** | 14 | (577) |
| Euro | **12** | **23** | 14 | (16) |

| millions of tenge | 2019 | | 2018 | |
|---|---|---|---|---|
| | Decrease in currency rate, % | Effect on profit before tax | Decrease in currency rate, % | Effect on profit before tax |
| US Dollar | **(9)** | **531** | (10) | 412 |
| Euro | **(9)** | **(17)** | (10) | 11 |

### 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 can lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access rights, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

### Liquidity risk

Liquidity risk is the risk that the Group may encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity risk management. Due to diversity of transactions and a related uncertainty, exact matching of maturities of assets and liabilities is not a usual practice for financial institutions. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to meet all cash flow obligations as they become due. Liquidity risk management policy is reviewed and approved by the Board of Directors.

The Group seeks to actively support a diversified and stable funding base comprising issued debt securities, long-term and short-term loans from other banks, deposits of the main corporate customers and individuals as well as diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements. The liquidity risk management includes the following procedures:

- Projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- Maintaining a diverse range of funding sources;
- Managing the concentration and profile of debts;
- Maintaining debt financing plans;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against liquidity gaps;
- Maintaining liquidity and funding contingency plans;
- Monitoring compliance with liquidity ratios implied by regulatory requirements.

The Treasury of the Bank receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of projected cash flows arising from future business. The Treasury then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The daily liquidity position is monitored by the Treasury and regular liquidity stress testing under a variety of scenarios covering both normal and more unfavourable market conditions is performed by the Credit Risk Department. Under normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a monthly basis. Decisions on liquidity management are made by the ALCO and implemented by the Treasury.

The following tables show the undiscounted contractual cash flows on financial assets, liabilities and credit-related commitments on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial assets, liabilities or credit related commitments. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee can be called.

## 26. Risk management (continued)

### Liquidity risk (continued)

The maturity analysis for financial assets and liabilities and contingent and contractual liabilities based on undiscounted contractual cash flows as at 31 December 2019 is as follows:

millions of tenge

| 31 December 2019 | On demand and less than 1 month | From 1 to 3 months | From 3 to 12 months | | From 1 to 5 years | More than 5 years | Without maturity | Total | Carrying amount |
|---|---|---|---|---|---|---|---|---|---|
| **Non-derivative financial assets** | | | | | | | | | |
| Cash and cash equivalents | 347,547 | – | – | | – | – | – | 347,547 | 347,242 |
| Amounts due from financial institutions | 6,297 | – | 6,634 | | 4,815 | 10,632 | – | 28,378 | 28,205 |
| Trading securities | 6,452 | – | 133 | | 533 | – | – | 7,118 | 6,452 |
| Loans to customers | 107,026 | 58,912 | 236,478 | | 919,597 | 223,522 | – | 1,545,535 | 785,068 |
| Investment securities | 91,667 | 57,951 | 196,106 | | 429,977 | 67,143 | – | 842,844 | 719,466 |
| Other financial assets | 1,495 | 46 | 7,891 | | 17,508 | 10 | – | 26,950 | 26,781 |
| **Total non-derivative financial assets** | **560,484** | **116,909** | **447,242** | | **1,372,430** | **301,307** | **–** | **2,798,372** | **1,913,214** |
| | | | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | | | |
| Current accounts and deposits of customers | (647,296) | (86,134) | (464,115) | | (165,053) | (18,802) | – | (1,381,400) | (1,336,949) |
| Amounts due to banks and other financial institutions | (76) | (1,947) | (47,325) | | (13,230) | (82,430) | – | (145,008) | (117,806) |
| Amounts payable under repurchase agreements | (116,936) | – | – | | – | – | – | (116,936) | (116,741) |
| Debt securities issued | (2,530) | (4,197) | (4,582) | | (218,117) | (55,123) | – | (284,549) | (229,263) |
| Subordinated debt | (71) | (59) | (3,966) | | (12,385) | (23,718) | (1,000) | (41,199) | (25,951) |
| Other financial liabilities | (6,602) | (30) | (385) | | (2,061) | (145) | – | (9,223) | (9,095) |
| **Total non-derivative financial liabilities** | **(773,511)** | **(92,367)** | **(520,373)** | | **(410,846)** | **(180,218)** | **(1,000)** | **(1,978,315)** | **(1,835,805)** |
| **Net liquidity gap on financial assets and financial liabilities** | **(213,027)** | **24,542** | **(73,131)** | | **961,584** | **121,089** | **(1,000)** | **820,057** | **–** |
| **Contingent liabilities** | **7,115** | **4,919** | **17,599** | | **14,915** | **94** | **–** | **44,642** | |

In accordance with Kazakhstan legislation, depositors can withdraw their term deposits at any time, losing in most of the cases the right to receive the accrued interest income. The Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay. Accordingly, in the above table, deposits of individuals are presented in accordance with contractual terms with consideration of this assumption.

Management expects that the repayment of liabilities and disposal of assets may be different from their contractual terms either because management has the discretionary ability to manage the cash flows or because past experience indicates that cash flows on these financial assets and liabilities may differ from contractual terms.

## 26. Risk management (continued)

### Liquidity risk (continued)

The maturity analysis for financial assets and liabilities and contingent and contractual liabilities based on undiscounted contractual cash flows as at 31 December 2018 is as follows:

millions of tenge

| 31 December 2018 | On demand and less than 1 month | From 1 to 3 months | From 3 to 12 months | From 1 to 5 years | More than 5 years | Without maturity | Total | Carrying amount |
|---|---|---|---|---|---|---|---|---|
| **Non-derivative financial assets** | | | | | | | | |
| Cash and cash equivalents | 225,147 | – | – | – | – | – | 225,147 | 225,147 |
| Amounts due from financial institutions | 1,496 | – | 5,054 | 10,483 | 2,849 | – | 19,882 | 19,711 |
| Trading securities | 9,511 | – | 224 | 1,344 | – | – | 11,079 | 9,511 |
| Loans to customers | 111,536 | 50,517 | 203,826 | 749,830 | 204,452 | – | 1,320,161 | 689,645 |
| Investment securities | 86,423 | 13,063 | 151,674 | 137,609 | 247,769 | – | 636,538 | 570,475 |
| Other financial assets | 1,525 | 505 | 18,557 | 10,020 | 3,427 | – | 34,034 | 27,105 |
| **Total non-derivative financial assets** | 435,638 | 64,085 | 379,335 | 909,286 | 458,497 | – | 2,246,841 | 1,541,594 |
| | | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | | |
| Current accounts and deposits of customers | (477,674) | (48,165) | (360,225) | (176,480) | (59,408) | – | (1,121,952) | (1,075,628) |
| Amounts due to banks and other financial institutions | (946) | (2,620) | (9,068) | (15,059) | (62,571) | – | (90,264) | (72,128) |
| Amounts payable under repurchase agreements | (56,439) | – | – | – | – | – | (56,439) | (56,392) |
| Debt securities issued | (1,515) | (156) | (21,538) | (115,603) | (214,435) | – | (353,247) | (253,584) |
| Subordinated debt | (25) | – | (1,674) | (14,226) | (18,754) | – | (34,679) | (22,648) |
| Other financial liabilities | (5,997) | (30) | (16) | (14) | (2) | – | (6,059) | (6,059) |
| **Total non-derivative financial liabilities** | (542,596) | (50,971) | (392,521) | (321,382) | (355,170) | – | (1,662,640) | (1,486,439) |
| **Net liquidity gap on financial assets and financial liabilities** | (106,958) | 13,114 | (13,186) | 587,904 | 103,327 | – | 584,201 | 55,155 |
| **Contingent liabilities** | (4,900) | (3,960) | (6,400) | (18,215) | (110) | – | (33,585) | |

## 27. Maturity analysis of assets and liabilities

The following table shows the expected maturities of assets and liabilities as at 31 December 2019 and 2018:

millions of tenge

| 31 December 2019 | Less than 1 month | From 1 to 3 months | From 3 to 12 months | From 1 to 5 years | Over 5 years | Without maturity | Overdue | Total |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Cash and cash equivalents | 347,242 | – | – | – | – | – | – | 347,242 |
| Amounts due from financial institutions | 6,297 | – | 6,461 | 4,815 | 9,856 | 776 | – | 28,205 |
| Trading securities | 6,452 | – | – | – | – | – | – | 6,452 |
| Loans to customers | 37,577 | 41,018 | 151,651 | 403,488 | 84,602 | – | 66,732 | 785,068 |
| Investment securities | 91,056 | 56,569 | 171,289 | 347,439 | 53,113 | – | – | 719,466 |
| Property and equipment | – | – | – | – | – | 70,655 | – | 70,655 |
| Intangible assets | – | – | – | – | – | 9,839 | – | 9,839 |
| Deferred tax assets | – | – | – | – | – | – | – | – |
| Other assets | 4,711 | 405 | 78,899 | 16,286 | 685 | 1,729 | 328 | 103,043 |
| **Total assets** | **493,335** | **97,992** | **408,300** | **772,028** | **148,256** | **82,999** | **67,060** | **2,069,970** |
| | | | | | | | | |
| **Liabilities** | | | | | | | | |
| Current accounts and deposits of customers | (644,666) | (81,500) | (450,883) | (143,558) | (16,342) | – | – | (1,336,949) |
| Amounts due to banks and other financial institutions | (37) | (2,206) | (43,224) | (6,193) | (66,146) | – | – | (117,806) |
| Amounts payable under repurchase agreements | (116,741) | – | – | – | – | – | – | (116,741) |
| Debt securities issued | (2,152) | (3,992) | (545) | (176,912) | (45,662) | – | – | (229,263) |
| Deferred tax liabilities | – | – | – | (1,621) | – | – | – | (1,621) |
| Subordinated debt | (71) | (40) | (2,432) | (5,988) | (16,420) | (1,000) | – | (25,951) |
| Other liabilities | (9,885) | (84) | (1,072) | (1,582) | – | (27) | (37) | (12,687) |
| **Total liabilities** | **(773,552)** | **(87,822)** | **(498,156)** | **(335,854)** | **(144,570)** | **(1,027)** | **(37)** | **(1,841,018)** |
| **Net position** | **(280,217)** | **10,170** | **(89,856)** | **436,174** | **3,686** | **81,972** | **67,023** | **228,952** |
| **Net accumulated position** | **(280,216)** | **(270,046)** | **(359,902)** | **76,272** | **79,958** | **161,930** | **228,953** | |

## 27. Maturity analysis of assets and liabilities (continued)

millions of tenge

| 31 December 2018 | Less than 1 month | From 1 to 3 months | From 3 to 12 months | From 1 to 5 years | Over 5 years | Without maturity | Overdue | Total |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Cash and cash equivalents | 225,147 | – | – | – | – | – | – | 225,147 |
| Amounts due from financial institutions | 1,496 | – | 4,884 | 10,482 | 2,849 | – | – | 19,711 |
| Trading securities | 9,511 | – | – | – | – | – | – | 9,511 |
| Loans to customers | 23,491 | 36,931 | 139,025 | 335,295 | 70,394 | – | 84,509 | 689,645 |
| Investment securities | 86,152 | 12,770 | 131,920 | 110,316 | 229,317 | – | – | 570,475 |
| Property and equipment | – | – | – | – | – | 51,496 | – | 51,496 |
| Intangible assets | – | – | – | – | – | 5,441 | – | 5,441 |
| Deferred tax assets | – | – | – | 2,279 | – | – | – | 2,279 |
| Other assets | 15,262 | 807 | 89,770 | 5,696 | 3,427 | – | 56 | 115,018 |
| **Total assets** | 361,059 | 50,508 | 365,599 | 464,068 | 305,987 | 56,937 | 84,565 | 1,688,723 |
| | | | | | | | | |
| **Liabilities** | | | | | | | | |
| Current accounts and deposits of customers | (475,408) | (43,686) | (346,375) | (155,623) | (54,536) | – | – | (1,075,628) |
| Amounts due to banks and other financial institutions | (753) | (2,394) | (7,708) | (9,455) | (51,818) | – | – | (72,128) |
| Amounts payable under repurchase agreements | (56,392) | – | – | – | – | – | – | (56,392) |
| Debt securities issued | (1,135) | (91) | (8,510) | (45,370) | (198,478) | – | – | (253,584) |
| Deferred tax liabilities | – | – | – | (183) | – | – | – | (183) |
| Subordinated debt | (25) | – | (229) | (8,189) | (14,205) | – | – | (22,648) |
| Other liabilities | (6,816) | (30) | (52) | (581) | (3) | – | (39) | (7,521) |
| **Total liabilities** | (540,529) | (46,201) | (362,874) | (219,401) | (319,040) | – | (39) | (1,488,084) |
| **Net position** | (179,470) | 4,307 | 2,725 | 244,667 | (13,053) | 56,937 | 84,526 | 200,639 |
| **Net accumulated position** | (179,470) | (175,163) | (172,438) | 72.229 | 59.176 | 116.113 | 200.639 | |

## 28. Offsetting of financial instruments

Disclosures in the tables below include information on financial assets and financial liabilities, which:

- Are offset in the Group's consolidated statement of financial position; or
- Are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the consolidated statement of financial position.

Similar financial instruments include derivative financial assets, sales and repurchase agreements, reverse sale and repurchase agreements and securities borrowing and lending agreements. Financial instruments such as loans and deposits are not disclosed in the table below, unless they are offset in the consolidated statement of financial position.

The Group receives and accepts collateral in the form of cash and marketable securities in respect of the repurchase and reverse repurchase agreements. Such collateral is subject to the standard industry terms of the ISDA Credit Support Annex. This means that securities received/given as collateral can be pledged or sold during the term of the transaction but must be returned before maturity of the transaction. The terms also give each counterparty the right to terminate the related transactions upon the counterparty's failure to post collateral.

As at 31 December 2019 the Group has amounts payable under repurchase agreements for KZT 116,741 million, which were collateralised by investment securities with fair value of KZT 119,090 million (treasury bills of the Ministry of Finance, notes of NBRK and corporate bonds of "Mortgage organisation "Baspana" with fair value KZT 44,238 million, KZT 59,667 million and KZT 15,185 million, correspondingly) (Note 17).

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2019.

millions of tenge

| At 31 December 2019 | Gross amount of recognised financial liabilities | Gross amount of recognised financial assets offset in the consolidated statement of financial position | Net amount of financial liabilities presented in the consolidated statement of financial position | Related amounts not offset in the consolidated statement of financial position: Financial instruments | Net amount |
|---|---|---|---|---|---|
| Amounts receivable under repurchase agreements (Note 13) | **55,440** | **–** | **55,440** | **(56,857)** | **(1,417)** |
| Amounts payable under repurchase agreements (Note 17) | **(116,741)** | **–** | **(116,741)** | **119,090** | **2,349** |
| | **(61,301)** | **–** | **(61,301)** | **62,233** | **932** |

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2018:

millions of tenge

| At 31 December 2018 | Gross amount of recognised financial liabilities | Gross amount of recognised financial assets offset in the consolidated statement of financial position | Net amount of financial liabilities presented in the consolidated statement of financial position | Related amounts not offset in the consolidated statement of financial position: Financial instruments | Net amount |
|---|---|---|---|---|---|
| Amounts receivable under repurchase agreements (Note 13) | 78,317 | – | 78,317 | (79,739) | (1,422) |
| Amounts payable under repurchase agreements (Note 17) | (56,392) | – | (56,392) | 57,994 | 1,602 |
| | 21,925 | – | 21,925 | (21,745) | 180 |

## 29. Changes in liabilities arising from financing activities

| millions of tenge | Notes | Debt securities issued | Subordinated debt | Total liabilities from financing activities |
|---|---|---|---|---|
| **Carrying amount at 31 December 2017** | | 125,121 | 22,740 | 147,861 |
| Proceeds from issue | | 220,154 | – | 220,154 |
| Repurchase | | (10,870) | – | (10,870) |
| Loss on repurchase | 11 | 628 | – | 628 |
| Redemption | | (7,903) | – | (7,903) |
| Interest accrual | | 18,077 | 1,792 | 19,869 |
| Interest payment | | (16,968) | (1,884) | (18,852) |
| Foreign currency translation | | 10,542 | – | 10,542 |
| Discount | | (83,705) | – | (83,705) |
| Proceeds from return of instruments unclaimed by creditors | | (1,492) | – | (1,492) |
| **Carrying amount at 31 December 2018** | | 253,584 | 22,648 | 276,232 |
| | | | | |
| Acquisition of subsidiaries | 5 | **–** | **3,277** | **3,277** |
| Proceeds from issue | | **14,992** | **–** | **14,992** |
| Repurchase | | **(4)** | **–** | **(4)** |
| Loss on repurchase | 11 | **1,282** | **–** | **1,282** |
| Redemption | | **(51,005)** | **–** | **(51,005)** |
| Interest accrual | | **24,531** | **2,030** | **26,561** |
| Interest payment | | **(23,570)** | **(1,999)** | **(25,569)** |
| Foreign currency translation | | **135** | **(5)** | **130** |
| Discount | | **9,318** | **–** | **9,318** |
| Proceeds from return of instruments unclaimed by creditors | | **–** | **–** | **–** |
| **Carrying amount at 31 December 2019** | | **229,263** | **25,951** | **255,214** |

The Group classifies interest paid as cash flows from operating activities.

## 30. Capital management

The Bank maintains and actively manages 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 in supervising the Bank.

As at 31 December 2019 and 2018, the Bank had complied in full with all its externally imposed capital requirements.

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 strong credit ratings and healthy 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 sets and monitors capital requirements for the Bank.

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

- A ratio of core capital to the sum of credit risk weighted assets and contingent liabilities, market risk and a quantitative measure of operating risk weighted assets and contingent liabilities (k1) in the value not less than 5.5%;
- A ratio of tier 1 capital less investments to the sum of credit risk-weighted assets and contingent liabilities, market risk and a quantitative measure of operational risk weighted assets, contingent assets and liabilities (k1.2) in the value not less than 6.5%;
- A ratio of own capital to the sum of credit risk weighted assets and contingent liabilities, market risk and a quantitative measure of operating risk weighted assets and contingent liabilities (k2) in the value not less than 8%.

Investments for the purposes of calculation of the above ratios represent investments into share capital (interest in the charter capital) of a legal entity and subordinated debt of a legal entity if their total exceeds 10% of the total of tier 1 and tier 2 capital of the Bank.

## 30. Capital management (continued)

The following table shows the composition of the Bank's capital position calculated in accordance with the NBRK requirements as at 31 December 2019 and 2018:

| millions of tenge | 31 декабря 2019a | 31 декабря 2018a |
|---|---|---|
| Tier 1 capital | **212,322** | 185,528 |
| Tier 2 capital | **16,601** | 18,238 |
| Deduction of regulatory provisions from capital | **–** | (61) |
| **Total regulatory capital** | **228,923** | 203,705 |
| | | |
| Risk-weighted statutory assets, contingent liabilities, operational and market risk | **1,251,120** | 1,142,057 |
| | | |
| **Ratio k1** | **17.0%** | 16.2% |
| **Ratio k1.2** | **17.0%** | 16.2% |
| **Ratio k.2** | **18.3%** | 17.8% |

In February 2020 the Group's asset quality review as at 1 April 2019 initiated by the NBRK was completed. As at the date of this review, the Group had the capacity of its own capital taking into account the results of the review.

## 31. 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 Kazakhstani economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government.

Interest rates of attracting funds in KZT remain high in 2019 resulting in limited access to capital, a high cost of capital and increased uncertainty regarding further economic growth, which could negatively affect the Group's future financial position, results of operations and business prospects. The management of the Group believes that it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

### Credit related commitments

The Group has contingent liabilities to provide credit resources. These credit related contingencies take the form of approved loans and credit card limits and overdraft facilities.

The Group provides bank guarantees and issues letters of credit to ensure that their customers' obligations to third parties are met. These agreements have fixed limits and generally extend for a period of up to five years.

In providing financial guarantees, credit related contingencies and letters of credit, the Group applies the same risk management policies and procedures used when issuing loans to customers.

The contractual amounts of credit related contingencies are set out in the table by category. The amounts reflected in the table for credit related contingencies assume that the indicated contingencies will be fully settled. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed to fulfil their contractual obligations.

| millions of tenge | 31 декабря 2019a | 31 декабря 2018a |
|---|---|---|
| Loan and credit line commitments | **139,352** | 61,795 |
| Guarantees issued | **44,209** | 33,358 |
| Letters of credit | **223** | 179 |
| | **183,784** | 95,332 |
| | | |
| Less: current accounts and deposits of customers, held as collateral under letters of credit and guarantees (Note 20) | **(1,689)** | (144) |
| Less: provisions for ECL | **(299)** | (223) |
| | **181,796** | 94,965 |

The loan commitment agreements stipulate the right of the Group to unilaterally withdraw from the agreement should any conditions unfavourable to the Group arise, including change of the refinance rate, inflation, exchange rates and other conditions. The total outstanding contractual amount of commitments on issuance of loans, letters of credit and guarantees does not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

## 31. Commitments and contingencies (continued)

### Судебные разбирательства

Operating lease commitments that could not be unilaterally cancelled could be presented as follows:

| millions of tenge | 31 декабря 2019а | 31 декабря 2018а |
|---|---|---|
| Not later than 1 year | – | 1,209 |
| 1 to 5 years | – | 4,079 |
| Over 5 years | – | 506 |
| | – | 5,794 |

### Litigation

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

Management is unaware of any significant actual, pending or threatened claims against the Group.

### Taxation contingencies

The taxation system in the Republic of Kazakhstan is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. The adequacy of tax assessment in the reporting period may be reviewed during the next five calendar years. However, under certain circumstances a tax year may remain open for a longer period of time.

These circumstances may create tax risks in the Republic of Kazakhstan that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Kazakhstan tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

## 32. Related party transactions

### Remuneration of members of the Board of Directors and the Management Board

Total remuneration to 15 members of the Management Board and Board of Directors included in general and administrative expenses for 2019 and 2018 is as follows:

| millions of tenge | 2019 | 2018 |
|---|---|---|
| Members of the Board of Directors and the Management Board of the Group | **2,896** | 1,668 |
| | **2,896** | 1,668 |

These amounts include cash benefits in respect of the members of the Board of Directors and the Management Board and related taxes.

As at 31 December 2019, total Group’s liabilities on remuneration payments to the members of the Board of Directors and the Management Board were equal to KZT 1,834 million (as at 31 December 2018: KZT 1,639 million) and in accordance with the Decree of NBRK No. 74 from 24 February 2012, should be paid during the period of not less than three years, under the specified conditions.

### Transactions with related parties

Other related parties include the key management personnel and entities jointly controlled by the key management personnel. The outstanding balances and the related average effective interest rates as at 31 December 2019 and related income or expense amounts from transactions with related parties for 2019 are as follows:

## 32. Операции со связанными сторонами (continued)

### Операции с прочими связанными сторонами (continued)

| millions of tenge | 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Shareholders | | Entities under common control | | Other related parties | | Total |
| | In million tenge | Average effective interest rate (%) | In million tenge | Average effective interest rate (%) | In million tenge | Average effective interest rate (%) | Millions of tenge |
| **Assets** | | | | | | | |
| Loans to customers | – | – | – | – | 3,940 | 5.00-13.49 | 3,940 |
| Other assets | – | – | 87 | – | – | – | 87 |
| **Liabilities** | | | | | | | |
| Current accounts and deposits of customers | 9,859 | 1.20 | 9,520 | 1.13 | 12,915 | 0.38 | 32,294 |
| Amounts due to banks and other financial institutions | – | – | – | – | – | – | – |
| Subordinated debt | – | – | – | – | 1,040 | 8.00 | 1,040 |
| Other liabilities | – | – | 39 | – | – | – | 39 |
| Contingent liabilities | – | – | – | – | 107 | – | 107 |

| millions of tenge | 2019 | | | |
|---|---|---|---|---|
| | Share-holders | Entities under common control | Other related parties | Total |
| **Income/(expenses)** | | | | |
| Interest income | – | – | 208 | 208 |
| Interest expense | (126) | (77) | (342) | (545) |
| Fee and commission income | 1 | 37 | 25 | 63 |
| Net gains from foreign currencies | – | – | 115 | 115 |
| Other expenses | – | (567) | (79) | (646) |

The outstanding balances and the related average effective interest rates as at 31 December 2018 and related income or expense amounts from transactions with related parties for 2018 are as follows:

| millions of tenge | 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Shareholders | | Entities under common control | | Other related parties | | Total |
| | In million tenge | Average effective interest rate (%) | In million tenge | Average effective interest rate (%) | In million tenge | Average effective interest rate (%) | Millions of tenge |
| **Assets** | | | | | | | |
| Loans to customers | – | – | – | – | 170 | 5.83 | 170 |
| **Liabilities** | | | | | | | |
| Current accounts and deposits of customers | 2,790 | 1.17 | 10,569 | 0.20 | 9,791 | 0.94 | 23,150 |
| Amounts due to banks and other financial institutions | – | – | 685 | – | – | – | 685 |
| Other liabilities | – | – | 16 | – | – | – | 16 |
| Contingent liabilities | – | – | – | – | 4 | – | 4 |

| millions of tenge | 2018 | | | |
|---|---|---|---|---|
| | Share-holders | Entities under common control | Other related parties | Total |
| **Income/(expenses)** | | | | |
| Interest income | – | 147 | 14 | 161 |
| Interest expense | (53) | (27) | (185) | (265) |
| Fee and commission income | – | 17 | 11 | 28 |
| Other income | – | 5 | – | 5 |
| Other expenses | – | (231) | (2) | (233) |

## 33. Segment information

The Group has five reporting segments and business lines ("Other" segment is indicated separately with description of transactions, which are not related to activities of business lines). These segments / business lines offer a variety of products and services in the financial/banking area. The following is a brief description of transactions of each segment.

- Corporate business (CB) – includes issuance of loans, attracting deposits, settlement and cash services, transactions on guarantees and other transactions with corporate clients (large entities and individual entrepreneurs);
- Small and medium businesses (SMB) – includes issuance of loans, attracting deposits, settlement and cash services, transactions on guarantees and other transactions with small and medium business clients (legal entities and individual entrepreneurs;
- Retail banking (RB) – includes issuance of loans, attracting deposits, settlement and cash services, exchange transactions and other transactions with retail clients (individuals);
- Investing activities – responsible for financing the Group's operations (repo operations, raising funds from banks and financial institutions, issuance of bonds, subordinated debt), securities transactions, use of derivative financial instruments and foreign currency transactions;
- Other – other transactions with debtors/creditors, fixed assets, amounts on transit accounts and other transactions that are not related to segments / business lines (CB, SMB, RB, Heritage, Investing activities).

Performance of each reportable segment is presented below. Performance results of segment / business line are evaluated on the basis of derived profit, which includes the effective management of a portfolio of borrowed and placed funds. Profit from segment / business line is used to measure performance. Pricing is performed on the basis of borrowing / placement rates approved by the authorised body of the Bank.

millions of tenge

| 31 December 2019 | CB | SMB | RB | Investing activities | Other | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and cash equivalents | 90,069 | 63,702 | 144,178 | – | 49,293 | 347,242 |
| Amounts due from financial institutions | – | – | – | 28,205 | – | 28,205 |
| Trading securities | – | – | – | 6,452 | – | 6,452 |
| Loans to customers | 127,822 | 206,294 | 369,772 | – | 81,180 | 785,068 |
| Investment securities | – | – | – | 719,466 | – | 719,466 |
| Property and equipment | – | – | – | – | 70,655 | 70,655 |
| Intangible assets | – | – | – | – | 9,839 | 9,839 |
| Deferred income tax assets | – | – | – | – | – | – |
| Other assets | 44 | 1,233 | 2,804 | 20 | 98,942 | 103,043 |
| **Total assets** | **217,935** | **271,229** | **516,754** | **754,143** | **309,909** | **2,069,970** |
| | | | | | | |
| **Liabilities** | | | | | | |
| Current accounts and deposits of customers | 430,489 | 291,532 | 614,924 | – | 4 | 1,336,949 |
| Amounts due to banks and other financial institutions | 9,624 | 73,331 | 4,511 | 4,282 | 26,058 | 117,806 |
| Amounts payable under repurchase agreements | – | – | – | 116,741 | – | 116,741 |
| Debt securities issued | 47,813 | – | 14,927 | 148,755 | 17,768 | 229,263 |
| Subordinated debt | – | – | – | 3,303 | 22,648 | 25,951 |
| Deferred income tax liabilities | – | – | – | – | 1,621 | 1,621 |
| Other liabilities | 28 | 355 | 2,025 | 135 | 10,144 | 12,687 |
| **Total liabilities** | **487,954** | **365,218** | **636,387** | **273,216** | **78,243** | **1,841,018** |
| | | | | | | |
| **Equity** | | | | | | |
| Share capital | – | – | – | – | 332,815 | 332,815 |
| Additional paid-in capital | – | – | – | – | 21,109 | 21,109 |
| Treasury shares | – | – | – | – | (4,438) | (4,438) |
| Fair value reserve | – | – | – | – | 5,858 | 5,858 |
| Accumulated losses | – | – | – | – | (126,392) | (126,392) |
| **Total equity attributable to shareholders of the Bank** | **–** | **–** | **–** | **–** | **228,952** | **228,952** |

## 33. Segment information (continued)

Information on the main reporting segments for 2019 is presented as follows:

| millions of tenge | 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| **31 December 2019** | **CB** | **SMB** | **RB** | **Investing activities** | **Other** | **Elimi-nation** | **Total** |
| Interest income | 9,660 | 23,420 | 69,331 | 48,087 | 13,055 | – | 163,553 |
| Allocated (internal) income | 22,207 | 12,755 | 30,301 | 9,779 | 15,007 | (90,049) | – |
| Interest expense | (19,492) | (5,753) | (28,467) | (15,479) | (16,068) | – | (85,259) |
| Allocated (internal) expense | (7,598) | (13,073) | (30,038) | (45,675) | (6,014) | 102,398 | – |
| **Net interest income** | **4,777** | **17,349** | **41,127** | **(3,288)** | **5,980** | **12,349** | **78,294** |
| | | | | | | | |
| Fee and commission income | 1,062 | 14,411 | 16,875 | 164 | 691 | – | 33,203 |
| Fee and commission expense | (22) | (4,538) | (5,876) | (267) | (355) | – | (11,058) |
| Net losses from derecognition of investment securities at fair value through other comprehensive income | – | – | – | (107) | – | – | (107) |
| Net gain on initial recognition of financial assets measured at amortised cost | – | – | – | 7,053 | – | – | 7,053 |
| Net gains/(losses) from foreign currencies | 3,260 | 4,173 | 2,346 | 137 | 687 | – | 10,603 |
| Other income | – | 4 | 461 | 2 | 3,911 | – | 4,378 |
| **Non-interest income** | **4,300** | **14,050** | **13,806** | **6,982** | **4,934** | **–** | **44,072** |
| | | | | | | | |
| Credit loss expense | (681) | (938) | (13,911) | 154 | (5,041) | – | (20,417) |
| Net losses from financial instruments at fair value through profit or loss | – | – | – | (4,274) | – | – | (4,274) |
| General and administrative expenses | (1,847) | (9,010) | (23,077) | (1,692) | (7,125) | – | (42,751) |
| Other expense | (11) | (223) | – | (33) | (9,666) | – | (9,933) |
| **Non-interest expenses** | **(2,539)** | **(10,171)** | **(36,988)** | **(5,845)** | **(21,832)** | **–** | **(77,375)** |
| | (1.393) | (1.034) | 9.462 | 32.755 | (27.441) | (12.349) | – |
| Other allocated (internal) income and expense | (1,393) | (1,034) | 9,462 | 32,755 | (27,441) | (12,349) | – |
| Profit before corporate income tax expense | 5,145 | 20,194 | 27,407 | 30,604 | (38,359) | – | 44,991 |
| | (170) | (668) | (907) | (1.013) | – | – | (2.758) |
| **Corporate income tax expenses** | **(170)** | **(668)** | **(907)** | **(1,013)** | **–** | **–** | **(2,758)** |
| **Profit for the period** | **4,975** | **19,526** | **26,500** | **29,591** | **(38,359)** | **–** | **42,233** |

millions of tenge

| **31 December 2018** | **CB** | **SMB** | **RB** | **Investing activities** | **Other** | **Total** |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and cash equivalents | 62,116 | 44,685 | 105,316 | 1,026 | 12,004 | 225,147 |
| Amounts due from financial institutions | – | – | – | 19,711 | – | 19,711 |
| Trading securities | – | – | – | 9,511 | – | 9,511 |
| Loans to customers | 157,636 | 158,305 | 284,530 | – | 89,174 | 689,645 |
| Investment securities | – | – | – | 570,475 | – | 570,475 |
| Property and equipment | – | – | – | – | 51,496 | 51,496 |
| Intangible assets | – | – | – | – | 5,441 | 5,441 |
| Deferred income tax assets | – | – | – | – | 2,279 | 2,279 |
| Other assets | 37 | 1,757 | 2,727 | 78 | 110,419 | 115,018 |
| **Total assets** | **219,789** | **204,747** | **392,573** | **600,801** | **270,813** | **1,688,723** |
| | | | | | | |
| **Liabilities** | | | | | | |
| Current accounts and deposits of customers | 343,483 | 208,457 | 523,687 | – | 1 | 1,075,628 |
| Amounts due to banks and other financial institutions | 8,037 | 33,492 | 2,633 | 4,998 | 22,968 | 72,128 |
| Amounts payable under repurchase agreements | – | – | – | 56,392 | – | 56,392 |
| Debt securities issued | 47,306 | – | – | 138,981 | 67,297 | 253,584 |
| Subordinated debt | – | – | – | – | 22,648 | 22,648 |
| Deferred income tax liabilities | – | – | – | – | 183 | 183 |
| Other liabilities | 28 | 490 | 1,159 | 110 | 5,734 | 7,521 |
| **Total liabilities** | **398,854** | **242,439** | **527,479** | **200,481** | **118,831** | **1,488,084** |
| | | | | | | |
| **Equity** | | | | | | |
| Share capital | – | – | – | – | 332,815 | 332,815 |
| Additional paid-in capital | – | – | – | – | 21,116 | 21,116 |
| Treasury shares | – | – | – | – | (1,311) | (1,311) |
| Fair value reserve | – | – | – | – | 2,359 | 2,359 |
| Accumulated losses | – | – | – | – | (155,051) | (155,051) |
| **Total equity attributable to shareholders of the Bank** | **–** | **–** | **–** | **–** | **199,928** | **199,928** |

## 33. Анализ по сегментам (continued)

Information on the main reporting segments for 2018 is presented as follows:

| millions of tenge | 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| **31 December 2018** | **CB** | **SMB** | **RB** | **Heritage** | **Investing activities** | **Other** | **Total** |
| Interest income | 10,923 | 20,478 | 52,214 | 30,158 | 9,164 | – | 122,937 |
| Allocated (internal) income | 14,355 | 10,155 | 28,357 | 895 | 25,848 | (79,610) | – |
| Interest expense | (15,325) | (4,536) | (26,193) | (6,139) | (21,350) | – | (73,543) |
| Allocated (internal) expense | (7,979) | (12,869) | (26,615) | (26,412) | (8,069) | 81,944 | – |
| **Net interest income** | 1,974 | 13,228 | 27,763 | (1,498) | 5,593 | 2,334 | 49,394 |
| | | | | | | | |
| Fee and commission income | 933 | 9,573 | 9,635 | 65 | – | – | 20,206 |
| Fee and commission expense | (18) | (1,987) | (3,668) | (172) | – | – | (5,845) |
| Net gains from derecognition of investment securities at fair value through other comprehensive income | – | – | – | 875 | – | – | 875 |
| Net gains from financial at amortised cost | – | – | – | – | 802 | – | 802 |
| Net gains/(losses) from foreign currencies | 1,852 | 1,745 | 1,586 | 601 | (4,529) | – | 1,255 |
| Gain on derecognition of financial liabilities | – | – | – | – | 9,160 | – | 9,160 |
| Other income | – | 35 | 222 | 1 | 4,596 | – | 4,854 |
| **Non-interest income** | 2,767 | 9,366 | 7,775 | 1,370 | 10,029 | – | 31,307 |
| | | | | | | | |
| Credit loss expense | 959 | (288) | (7,341) | (1,957) | 3,627 | – | (5,000) |
| Net losses from financial instruments at fair value through profit or loss | – | – | – | (426) | – | – | (426) |
| General and administrative expenses | (1,941) | (8,201) | (18,213) | (1,817) | (5,689) | – | (35,861) |
| Other expense | (688) | (585) | (177) | (665) | (3,300) | – | (5,415) |
| **Non-interest expenses** | (1,670) | (9,074) | (25,731) | (4,865) | (5,362) | – | (46,702) |
| | | | | | | | |
| **Other allocated (internal) income and expense** | (1,360) | (961) | (2,313) | 21,069 | (14,101) | (2,334) | – |
| Profit before corporate income tax expense | 1,711 | 12,559 | 7,494 | 16,076 | (3,841) | – | 33,999 |
| | 1.711 | 12.559 | 7.494 | 16.076 | (3.841) | – | 33.999 |
| | | | | | | | |
| Corporate income tax expenses | (214) | (1,626) | (970) | (2,081) | – | – | (4,891) |
| Profit for the period | 1,497 | 10,933 | 6,524 | 13,995 | (3,841) | – | 29,108 |
| **Прибыль за год** | 1.497 | 10.933 | 6.524 | 13.995 | (3.841) | – | 29.108 |

## 34. Fair values of financial instruments

### Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2019:

| millions of tenge | 31 December 2019 | | | | |
|---|---|---|---|---|---|
| | **Assets and liabilities measured at fair value** | **Assets and liabilities whose fair value is disclosed** | **Total carrying amount** | **Fair values** | **Unrecog-nised gain/(loss)** |
| Cash and cash equivalents | – | 347,242 | 347,242 | 347,242 | – |
| Amounts due from financial institutions | – | 28,205 | 28,205 | 28,205 | – |
| Trading securities | 6,452 | – | 6,452 | 6,452 | – |
| Loans to customers | – | 785,068 | 785,068 | 792,513 | 7,445 |
| Investment securities at FVOCI | 458,424 | – | 458,424 | 458,424 | – |
| Investment securities at amortised cost | – | 261,042 | 261,042 | 291,313 | 30,271 |
| Other financial assets | – | 26,781 | 26,781 | 26,781 | – |
| | 464,876 | 1,448,338 | 1,913,214 | 1,950,930 | 37,716 |
| | | | | | |
| Current accounts and deposits of customers | – | 1,336,949 | 1,336,949 | 1,338,691 | (1,742) |
| Amounts due to banks and other financial institutions | – | 117,806 | 117,806 | 112,293 | 5,513 |
| Amounts payable under repurchase agreements | – | 116,741 | 116,741 | 116,741 | – |
| Debt securities issued | – | 229,263 | 229,263 | 260,546 | (31,283) |
| Subordinated debt | – | 25,951 | 25,951 | 26,562 | (611) |
| Other financial liabilities | – | 9,095 | 9,095 | 9,048 | 47 |
| | | 1,835,805 | 1,835,805 | 1,863,881 | (28,076) |
| | | | | | 9,640 |

## 34. Financial assets and liabilities: fair values and accounting classification (continued)

### Accounting classifications and fair values (continued)

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

| millions of tenge | 2018 | | | | |
|---|---|---|---|---|---|
| | Assets and liabilities measured at fair value | Assets and liabilities whose fair value is disclosed | Total carrying amount | Fair values | Unrecog-nised gain/ (loss) |
| Cash and cash equivalents | – | 225,147 | 225,147 | 225,147 | – |
| Amounts due from financial institutions | – | 19,711 | 19,711 | 19,711 | – |
| Trading securities | 9,511 | – | 9,511 | 9,511 | – |
| Loans to customers | – | 689,645 | 689,645 | 684,520 | (5,125) |
| Investment securities at FVOCI | 389,535 | – | 389,535 | 389,535 | – |
| Investment securities at amortised cost | – | 180,940 | 180,940 | 185,191 | 4,251 |
| Other financial assets | – | 27,105 | 27,105 | 27,105 | – |
| | 399,046 | 1,142,548 | 1,541,594 | 1,540,720 | (874) |
| | | | | | |
| Current accounts and deposits of customers | – | 1,075,628 | 1,075,628 | 1,075,873 | (245) |
| Amounts due to banks and other financial institutions | – | 72,128 | 72,128 | 73,198 | (1,070) |
| Amounts payable under repurchase agreements | – | 56,392 | 56,392 | 56,392 | – |
| Debt securities issued | – | 253,584 | 253,584 | 293,238 | (39,654) |
| Subordinated debt | – | 22,648 | 22,648 | 22,432 | 216 |
| Other financial liabilities | – | 6,059 | 6,059 | 6,059 | – |
| | – | 1,486,439 | 1,486,439 | 1,527,192 | (40,753) |
| | | | | | (41,627) |

The estimate of fair value is intended to approximate the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However, considering the uncertainties and the use of judgements, the fair value should not be interpreted as realisable within the framework of an immediate sale of assets or the transfer of liabilities.

The fair value of financial assets and financial liabilities that are traded in active markets is based on quoted market quotes or dealers' prices. The Group determines fair value of all other financial instruments using various valuation techniques.

The purpose of valuation techniques is to achieve a method of fair value measurement that reflects the price of a transaction on an organised market for the sale of an asset or transfer a liability between market participants at the measurement date.

Valuation techniques include net present value valuation models and discounting of cash flows, comparison with similar instruments with known market quotations, as well as other valuation models. Assumptions and inputs used in valuation techniques include risk-free and base interest rates, credit spreads and other adjustments used in estimating discount rates, shares and bonds quotations, and expected price movements and their comparison. Valuation techniques focused on determining the fair value, which reflects the value of a financial instrument as at the reporting date that would have been determined by independent market participants.

The Group uses widely recognised valuation techniques for determining the fair value of standard and more simple financial instruments, such as interest rate and currency swaps, and such techniques use only observable market data and do not require management judgements or estimates. Observable quotations and model inputs are usually available in the market for publicly traded debt and equity securities, derivatives traded on the stock exchange, as well as simple off-market financial derivatives, such as interest rate swaps.

The Group uses its own valuation models for more sophisticated instruments. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Certain loans and securities for which there is no active market can be an example of instruments the estimation of which is based on the use of unobservable inputs.

### Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short-term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. 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, loans to customers, customer deposits, amounts due from financial institutions, deposits of banks and other financial institutions, other financial assets and liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

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

- To discount the future cash flows from loans to corporate customers the discount rate in the range from 3.69% to 13.96% (as at 31 December 2018: 4.89% to 14.56%) was used;
- To calculate the future cash flows from loans to individuals the discount rate in the range from 3.76% to 22.85% (as at 31 December 2018: 3.81% to 23.05%) was used.

## 34. Financial assets and liabilities: fair values and accounting classification (continued)

### Fair value hierarchy

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: models for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table analyses financial instruments carried at fair value as at 31 December 2019, by fair value hierarchy, into which the fair value measurement is categorised. The amounts are based on amounts carried in the consolidated statement of financial position.

| millions of tenge | Notes | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Trading securities | **15** | **5,102** | **–** | **1,350** | **6,452** |
| Investment securities at FVOCI | **17** | **357,675** | **100,749** | **–** | **458,424** |
| | | **362,777** | **100,749** | **1,350** | **464,876** |

The following table analyses financial instruments carried at fair value as at 31 December 2018, by fair value hierarchy, into which the fair value measurement is categorised. The amounts are based on amounts carried in the consolidated statement of financial position.

| millions of tenge | Notes | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Trading securities | 15 | 8,161 | – | 1,350 | 9,511 |
| Investment securities at FVOCI | 17 | 231,109 | 83,216 | 75,210 | 389,535 |
| | | 239,270 | 83,216 | 76,560 | 399,046 |

The following table shows a reconciliation of Level 3 assets for 2019 which are recorded at fair value:

| millions of tenge | Trading securities | Investment securities at FVOCI |
|---|---|---|
| **Balance as at 1 January 2019** | **1,350** | **75,210** |
| Sale | – | (76,750) |
| Net gains/(losses) from financial instruments at fair value through profit or loss | – | 1,752 |
| Net gains from derecognition of investment securities at fair value through other comprehensive income | – | (212) |
| **Balance as at 31 December 2019** | **1,350** | **–** |

The following table shows a reconciliation of Level 3 assets for 2018 which are recorded at fair value:

| millions of tenge | Торговые ценные бумаги | Ценные бумаги, оцениваемые по ССПСД |
|---|---|---|
| **На 1 января 2018а** | 1.350 | – |
| Приобретение | – | 74.263 |
| Чистая прибыль/(убыток) от операций с финансовыми инструментами, оцениваемыми по справедливой стоимости, через прибыль или убыток | – | 735 |
| Чистая прибыль/(убыток) от операций с финансовыми инструментами, оцениваемыми по справедливой стоимости, через прочий совокупный доход | – | 212 |
| **На 31 December 2018** | 1.350 | 75.210 |

Gains and losses on financial instruments of Level 3 included in the consolidated statement of comprehensive income for the years ended 31 December 2019 and 2018 comprise:

| millions of tenge | 2019 | | 2018 | |
|---|---|---|---|---|
| | Realised gains | Unrealised losses | Realised gains | Unrealised gains |
| (Losses)/gains recognised in profit or loss | **(763)** | **(212)** | 735 | 212 |

The following table shows the quantitative information about significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy:

millions of tenge

| 31 December 2018 | Carrying amount | Valuation techniques | Unobservable input | Range (weighted average) |
|---|---|---|---|---|
| Investment securities at FVOCI | 75,210 | Discounted cash flow | Probability of default<br>Loss sensitivity | 1.20–1.32% (1.31%)<br>75% |

The following table shows the quantitative information about sensitivity of the fair value measurement categorised within Level 3 of the fair value hierarchy to changes in significant unobservable inputs:

| millions of tenge | 31 December 2018 | |
|---|---|---|
| | Carrying amount | Effect of reasonably possible alternative assumptions |
| **Financial assets** | | |
| Investment securities at FVOCI | 75,210 | 317 |

## 34. Financial assets and liabilities: fair values and accounting classification (continued)

### Fair value hierarchy (continued)

Gains/(losses) from operations with derivative financial instruments are recognised in profit or loss of the consolidated statement of comprehensive income as “Net losses from financial instruments at fair value through profit or loss”.

The following table analyses financial instruments not measured at fair value but for which fair value is disclosed as at 31 December 2019, by fair value hierarchy:

| millions of tenge | Level 1 | Level 2 | Level 3 | Total fair value | Total carrying value |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | – | 347,242 | – | 347,242 | 347,242 |
| Amounts due from financial institutions | – | 28,205 | – | 28,205 | 28,205 |
| Loans to customers | – | – | 792,513 | 792,513 | 785,068 |
| Investment securities at amortised cost | 23,105 | 268,208 | – | 291,313 | 261,042 |
| Other financial assets | – | 26,781 | – | 26,781 | 26,781 |
| **Liabilities** | | | | | |
| Current accounts and deposits of customers | – | 1,338,691 | – | 1,338,691 | 1,336,949 |
| Amounts due to banks and other financial institutions | – | 112,293 | – | 112,293 | 117,806 |
| Amounts payable under repurchase agreements | – | 116,741 | – | 116,741 | 116,741 |
| Debt securities issued | – | 260,546 | – | 260,546 | 229,263 |
| Subordinated debt | – | 26,562 | – | 26,562 | 25,951 |
| Other financial liabilities | – | 9,048 | – | 9,048 | 9,095 |

The following table analyses financial instruments not measured at fair value but for which fair value is disclosed as at 31 December 2018, by fair value hierarchy:

| millions of tenge | Level 1 | Level 2 | Level 3 | Total fair value | Total carrying value |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | – | 225,147 | – | 225,147 | 225,147 |
| Amounts due from financial institutions | – | 19,711 | – | 19,711 | 19,711 |
| Loans to customers | – | – | 684,520 | 684,520 | 689,645 |
| Investment securities at amortised cost | 16,179 | 169,012 | – | 185,191 | 180,940 |
| Other financial assets | – | 27,105 | – | 27,105 | 27,105 |
| **Liabilities** | | | | | |
| Current accounts and deposits of customers | – | 1,075,873 | – | 1,075,873 | 1,075,628 |
| Amounts due to banks and other financial institutions | – | 73,198 | – | 73,198 | 72,128 |
| Amounts payable under repurchase agreements | – | 56,392 | – | 56,392 | 56,392 |
| Debt securities issued | – | 293,238 | – | 293,238 | 253,584 |
| Subordinated debt | – | 22,432 | – | 22,432 | 22,648 |
| Other financial liabilities | – | 6,059 | – | 6,059 | 6,059 |

## 35. Events after the reporting period

On 27 December 2019, the Bank signed loan agreements with the European Bank for Reconstruction and Development under the programs for financing micro, small and medium business in the Republic of Kazakhstan and Women in Business program for the total amount of KZT 22,589 million, which was received by the Bank on 25 February 2020. The loans are denominated in tenge and mature in 2023.

On 14 February 2020 the Bank placed debt securities for the total amount of USD 3,400,000 (tenge equivalent – KZT 1,280 million), issued on 5 August 2019 as part of private bond issuance with the total nominal value of USD 100,000,000 listed at Astana International Exchange.

In February 2020, the Bank signed agreements with Kazakhstan Sustainability Fund JSC as part of the program for refinancing of mortgage loans approved by the NBRK according to which the tenure of the received deposits was extended to 30 years. Deposits will be repaid at maturity.