First Heartland Securities Joint Stock Company

Separate Financial Statements for the year ended 31 December 2019

CONTENT

«КПМГ Аудит» жауапкершілігі
шектеулі серіктестік
Қазақстан, A25D6T5, Алматы,
Достық д-лы, 180,
Тел.: +7 (727) 298-08-98

KPMG Audit LLC
180 Dostyk Avenue, Almaty,
A25D6T5, Kazakhstan,
E-mail: company@kpmg.kz

Independent Auditors' Report

To the Shareholder and the Board of Directors of First Heartland Securities JSC

Opinion

We have audited the separate financial statements of First Heartland Securities JSC (the "Company"), which comprise the separate statement of financial position as at 31 December 2019, the separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Separate Financial Statements* section of our report. We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) together with the ethical requirements that are relevant to our audit of the separate financial statements in the Republic of Kazakhstan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the International Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter

The separate financial statements of the Company as at and for the year ended 31 December 2018 were audited by other auditors who expressed an unmodified opinion on those statements on 24 April 2019.

Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements

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

«КПМГ Аудит» ЖШС, Қазақстанда тіркелген жауапкершілігі шектеулі серіктестік, Швейцария заңнамасы бойынша тіркелген KPMG International Cooperative ("KPMG International") қауымдастығына кіретін KPMG тәуелсіз фирмалар желісінің мүшесі.

KPMG Audit LLC, a company incorporated under the Laws of the Republic of Kazakhstan, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

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

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

Auditors' Responsibilities for the Audit of the Separate Financial Statements

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

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

— Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

The engagement partner on the audit resulting in this independent auditors' report is:

Ashley Clarke
Engagement Partner

Sergey Dementyev
Certified Auditor
of the Republic of Kazakhstan,
Auditor's Qualification Certificate
No. МФ-0000086 of 27 August 2012

KPMG Audit LLC

State License to conduct audit # 0000021 dated 6 December 2006 issued by the Ministry of Finance of the Republic of Kazakhstan

Sergey Dementyev
General Director of KPMG Audit LLC
acting on the basis of the Charter

24 April 2020

	Note	2019 KZT'000	2018 KZT'000
Interest income calculated using effective interest rate	5	246,767	138,497
Other interest income	5	297,481	31,913
Interest expense	5	(18,413)	(4,369)
Net interest income		**525,835**	**166,041**
Fee and commission income	6	1,633,912	512,949
Fee and commission expense	7	(108,188)	(55,421)
Net fee and commission income		**1,525,724**	**457,528**
Dividend income	8	5,688,050	706,150
Net gain from securitites at fair value through profit or loss		74,179	48
Net (loss)/gain on transactions with foreign currencies	9	(86,378)	207,018
Net gain on securities at fair value through other comprehensive income		979	-
Other income		93,134	5,344
Other operating income		**5,769,964**	**918,560**
Impairment losses on financial instruments	10	(72)	(4,252)
Personnel expenses	11	(1,700,457)	(870,852)
Other general administrative expenses	12	(322,283)	(155,077)
Other expenses		(846)	(61,782)
Other operating expenses		**(2,023,658)**	**(1,091,963)**
Profit before income tax		**5,797,865**	**450,166**
Income tax benefit/(expense)	13	129,180	(43,960)
Profit for the year		**5,927,045**	**406,206**
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Fair value reserve			
- Net change in fair value		8,067	-
- Net amount reclassified on translation		(979)	-
Total items that are or may be reclassified subsequently to profit or loss		*7,088*	-
Total other comprehensive income for the year		**7,088**	**-**
Total comprehensive income for the year		**5,934,133**	**406,206**

Signed and authorized for issuance on behalf of the Management Board of the Company:

Yevgeniy Pan

Chairman of the Management Board

Assel Kazbek

Chief accountant

24 April 2020

The separate statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the separate financial statements.

	Note	31 December 2019 KZT'000	31 December 2018 KZT'000
ASSETS			
Cash and cash equivalents	14	3,346,115	511,181
Securities at fair value through profit or loss	15	9,099,335	5,529,336
Securities at fair value through other comprehensive income	16	1,155,007	-
Amounts receivable under reverse repurchase agreements		40,000	130,096
Securities measured at amortized cost	17	1,519,222	2,924,057
Investment in subsidiaries	18	81,854,666	11,500,001
Property, equipment and intangible assets	19	120,598	21,402
Investment property	19	149,776	149,776
Deferred tax assets	13	145,126	-
Other assets	20	501,332	43,291
Total assets		**97,931,177**	**20,809,140**
LIABILITIES			
Amounts payable under repurchase agreements	21	1,305,324	-
Current corporate income tax liabilities	13	21,564	43,426
Deferred tax liabilities	13	-	8,996
Other liabilities	22	882,621	548,382
Total liabilities		**2,209,509**	**600,804**
EQUITY			
Share capital	23	89,937,021	19,934,846
Treasury shares	23	(149,486)	(149,486)
Fair value reserve – securities at fair value through other comprehensive income		7,088	-
Retained earnings		5,927,045	422,976
Total equity		**95,721,668**	**20,208,336**
Total liabilities and equity		**97,931,177**	**20,809,140**

The separate statement of financial position is to be read in conjunction with the notes to, and forming part of, the separate financial statements

	Note	2019 KZT'000	2018 KZT'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		636,193	120,951
Interest payments		(18,090)	(4,369)
Fee and commission receipts		1,380,601	546,663
Fee and commission payments		(100,564)	(55,421)
Net receipts from foreign exchange		18,935	6,211
Other receipts/(payments)		93,133	(196,108)
Personnel and other general administrative expenses		(1,693,712)	(309,608)
(Increase)/decrease in operating assets			
Securities measured at fair value through profit or loss		(3,504,572)	(4,311,933)
Amounts receivable under reverse repurchase agreements		90,000	(130,096)
Other assets		2,402	(4,224)
Increase/(decrease) in operating liabilities			
Amounts payable under repurchase agreements		1,305,000	(769,192)
Other liabilities		5,563	(3,742)
Net cash used in operating activities before income tax		**(1,785,111)**	**(5,110,868)**
Income tax paid		(46,637)	-
Net cash flows used in operating activities		**(1,831,748)**	**(5,110,868)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of shares of a subsidiary	18	(70,354,665)	(1,000,001)
Dividend income received		5,461,588	700,000
Purchases of securities measured at fair value through other comprehensive income		(2,531,983)	-
Sale and repayment of securities measured at fair value through other comprehensive income		1,373,909	-
Purchase of securities measured at amortized cost		(4,338,558)	(9,683,489)
Redemption of securities measured at amortized cost		5,721,387	6,807,251
Purchase of property, equipment and intangible assets		(102,950)	(17,584)
Net cash flows used in investing activities		**(64,771,272)**	**(3,193,823)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of shares		70,002,175	11,919,663
Repurchase of shares		-	(3,133,372)
Dividends paid to shareholders		(422,976)	(36,008)
Net cash flows from financing activities		**69,579,199**	**8,750,283**
Net increase in cash and cash equivalents		**2,976,179**	**445,592**
Effect of exchange rate changes on cash and cash equivalents		(141,232)	65,278
Effect of expected credit losses on cash and cash equivalents		(13)	(37)
Cash and cash equivalents, beginning	14	511,181	348
Cash and cash equivalents, ending	14	**3,346,115**	**511,181**

The separate statement of cash flows is to be read in conjunction with the notes to, and forming part of, the separate financial statements.

	Equity attributable to equity holders of the Company				
KZT'000	**Share capital**	**Treasury shares**	**Fair value reserve – Securities at fair value through other comprehensive income**	**Retained earnings**	**Total equity**
Balance as at 1 January 2019	19,934,846	(149,486)	-	422,976	20,208,336
Total comprehensive income					
Profit for the year	-	-	-	5,927,045	5,927,045
Other comprehensive income					
Items that are or may be reclassified subsequently to profit or loss:					
- Net change in fair value	-	-	8,067	-	8,067
- Net amount reclassified to profit or loss	-	-	(979)	-	(979)
Total items that are or may be reclassified subsequently to profit or loss	-	-	*7,088*	-	*7,088*
Total other comprehensive income	-	-	7,088	-	7,088
Total comprehensive income for the year	**-**	**-**	**7,088**	**5,927,045**	**5,934,133**
Transactions with owners recorded directly in equity					
Issue of share capital	70,002,175	-	-	-	70,002,175
Dividends to shareholders	-	-	-	(422,976)	(422,976)
Total transactions with owners	**70,002,175**	**-**	**-**	**(422,976)**	**69,579,199**
Balance as at 31 December 2019	**89,937,021**	**(149,486)**	**7,088**	**5,927,045**	**95,721,668**

The separate statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the separate financial statements.

	Equity attributable to equity holders of the Company				
KZT'000	**Share capital**	**Treasury shares**	**Additional paid-in capital**	**Retained earnings**	**Total equity**
Balance as at 1 January 2018	8,015,183	-	2,983,886	52,778	11,051,847
Total comprehensive income					
Profit for the year	-	-	-	406,206	406,206
Total comprehensive income for the year	**8,015,183**	**-**	**2,983,886**	**458,984**	**11,458,053**
Transactions with owners recorded directly in equity					
Issue of share capital	11,919,663	-	-	-	11,919,663
Repurchase of treasury shares	-	(149,486)	(2,983,886)	-	(3,133,372)
Dividends to shareholders	-	-	-	(36,008)	(36,008)
Total transactions with owners	**11,919,663**	**(149,486)**	**(2,983,886)**	**(36,008)**	**8,750,283**
Balance as at 31 December 2018	**19,934,846**	**(149,486)**	**-**	**422,976**	**20,208,336**

The separate statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the separate financial statements.

1. General information

Organisational structure and activities

First Heartland Securities Joint Stock Company (the "Company") is registered and domiciled in the Republic of Kazakhstan, certificate of state registration of a legal entity No. 44831910-06-AO, BIN 080340017099 issued on 3 April 2014 by the Department of Justice of the Medeu District of the Department of Justice of Almaty. On 3 March 2018, ZIM Capital JSC was renamed into First Heartland Securities JSC. The core activities of the Company include broker and dealer activities on the securities market. The Company has a license to carry out activities on the securities market No. 3.1.1.224 as of 27 March 2018 issued by the National Bank of the Republic of Kazakhstan (hereinafter, the "NBRK").

As at 31 December 2019 the Company has one subsidiary, First Heartland Jýsan Bank Joint Stock Company (formerly, Tsesnabank JSC) (the "Bank"). The Bank was registered in the Republic of Kazakhstan as Tsesnabank Open Joint Stock Company (OJSC) on 17 January 1992 under the laws of the Republic of Kazakhstan. Due to a change in legislation introduced in 2003, the Bank was re-registered as a joint stock company (JSC) on 26 December 2003.

The principal activities of the Bank are related to conducting commercial banking, lending, issuing guarantees, deposit taking, customer accounts opening and maintenance, cash and settlement operations and operations with securities and foreign exchange.

The Company is registered at the following address: Dostyk Str. 162/A, Almaty, Republic of Kazakhstan, 050051.

Shareholders

As at 31 December 2019, the sole shareholder of the Company is Pioneer Capital Invest, which owns 100% of outstanding ordinary shares (31 December 2018: 97.22%). The ultimate controlling party of the Company on 31 December 2019 is non-profit organization Private Fund Nazarbayev Fund, created exclusively to support financial activities of the group of autonomous education organisations Nazarbayev University and Nazarbayev Intellectual Schools, and their organizations (31 December 2018: Autonomous Educational Organization Nazarbayev University).

Name	Country	Ownership interest as at 31 December	
		2019	2018
Pioneer Capital Invest LLP	Republic of Kazakhstan	100.00%	97.22%
Other shareholders	Republic of Kazakhstan	0.00%	2.78%
		100.00%	**100.00%**

Kazakhstan business environment

The Company's operations are primarily located in Kazakhstan. Consequently, the Company is exposed to the economic and financial markets of Kazakhstan, which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Kazakhstan. In addition, the first months of 2020 have seen significant global market turmoil triggered by the outbreak of the COVID-19 virus (see *Note 29*). Together with other factors, this has resulted in a sharp decrease in the oil price and the stock market indices, as well as a continuing depreciation of the Kazakhstan Tenge. These developments are further increasing the level of uncertainty in the Kazakhstan business environment.

The separate financial statements reflect management's assessment of the impact of the Republic of Kazakhstan business environment on the operations and the financial position of the Company. The actual business environment may differ from management's assessment.

2. Basis of preparation

Statement of compliance

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

The Company also prepares consolidated financial statements for the year ended 31 December 2019 in accordance with IFRS that can be obtained from the Company's registered office.

Functional and presentation currency of the separate financial statements

The functional currency of the Company is the Kazakhstan tenge ("KZT") as, being the national currency of the Republic of Kazakhstan, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The KZT is also the presentation currency for the purposes of these separate financial statements.

Financial information presented in KZT is rounded to the nearest thousand, unless otherwise stated.

Reclassifications

Change in presentation order - reclassification of data from previous periods

Comparative information reclassified to reflect changes in presentation in the current year.

During the process of preparation of the separate financial statements of the Company for the year ended 31 December 2019 management of the Company made certain reclassifications in the comparative information of the previous period, to conform with the presentation in the separate financial statements for the year ended 31 December 2019.

In the separate statement of profit or loss and other comprehensive income for the year ended 31 December 2018, expenses for professional services and related taxes were reclassified from "Other general administrative expenses" to "Personnel expenses" in the amount of KZT 674,744 thousand.

In the separate statement of financial position as at 31 December 2018 amounts receivable under reverse repurchase agreements that mature within ninety days of the date of origination were reclassified from "Cash and cash equivalents" to "Amounts receivable under reverse repurchase agreements" in the amount of KZT 130,096 thousand.

In a separate statement of cash flows for the year ended 31 December 2018 cash receipts on dividends received from securities at fair value through profit or loss are reclassified from "Dividend income" received from investing activities to "Interest receipts" received from operating activities in the amount of KZT 6,150 thousand. In addition, "Amounts receivable under reverse repurchase agreements" in the amount of KZT 130,096 thousand was cash and cash equivalents to the separate line.

2. Basis of preparation, continued

Reclassifications, continued

Change in presentation order - reclassification of data from previous periods, continued

Management believes that such a presentation is most consistent with IFRS requirements and provides a clearer view of the Company's performance. The effect of reclassification on comparative data is presented in the following table.

KZT'000	As reclassified	Effect of reclassifications	As previously reported
Separate statement of profit or loss and other comprehensive income for the year ended 31 December 2018			
Personnel expenses	(870,852)	(674,744)	(196,108)
Other general administrative expenses	(155,077)	674,744	(829,821)
Separate Statement of Financial Position as at 31 December 2019			
Cash and cash equivalents	511,181	(130,096)	641,277
Amounts receivable under reverse repurchase agreements	130,096	130,096	-
Separate Statement of Cash Flows for the year ended 31 December 2019			
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts	120,951	6,150	114,801
Increase/decrease in operating assets			
Amounts receivable under reverse repurchase agreements	(130,096)	(130,096)	-
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividend income received	700,000	(6,150)	706,150

The above reclassifications do not affect the financial result of the Company or equity.

3. Summary of accounting policies

Changes in accounting policies and presentation

Accounting policies used in the preparation of the accompying separate financial statements correspond to those used in the preparation of the Company's separate financial statements for 2018, except for application of the new standards effective from 1 January 2019. The nature and impact of these changes are considered below.

The company has not early adopted any other standards, interpretation or amendments that have been issued but are not yet effective.

IFRS 16 *Leases*

Company initially applied IFRS 16 *Leases* from 1 January 2019.

The Company applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not been applied to comparative information.

3. Summary of accounting policies, continued

Changes in accounting policies and presentation, continued

IFRS 16 *Leases, continued*

Definition of a lease

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining whether an Arrangement contains a Lease*. The Company now assesses whether a contract is or contains a lease based on the definition of a lease, as explained further in this Note.

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

Leases classified as operating leases under IAS 17

Previously, the Company classified property leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured as immaterial as at 1 January 2019. According to accounting policies, right-of-use assets are measured at either:

- their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the Company's incremental borrowing rate at the date of initial application; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

However, for leases of property the Company has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

The Company used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Company:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets;
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- used hindsight when determining the lease term.

Impact on transition

The Company has analysed the requirements of IFRS 16 and concluded that the standard does not have a significant effect on the separate financial statements of the Company.

(i) Policy applicable from 1 January 2019

As a lessee, the Company leases properties (office premises). The Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company.

3. Summary of accounting policies, continued

Changes in accounting policies and presentation, continued

IFRS 16 *Leases, continued*

Impact on transition, continued

(i) Policy applicable from 1 January 2019, continued

At inception of a contract, the Company assesses whether a contract is, or contains, a lease.

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16.

(ii) Leases in which the Company is a lessee

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

3. Summary of accounting policies, continued

Changes in accounting policies and presentation, continued

IFRS 16 *Leases,* continued

Impact on transition, continued

(ii) Leases in which the Company is a lessee, continued

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(iii) Leases in which the Company is a lessor

At inception or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Company is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Company applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Company applies IFRS 15 to allocate the consideration in the contract.

The Company applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Company further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Company recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other revenue'.

Generally, the accounting policies applicable to the Company as a lessor in the comparative period were not different from IFRS 16.

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Company determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset.

An arrangement conveyed the right to use the asset if one of the following was met:

- the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output; the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
- facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

3. Summary of accounting policies, continued

Changes in accounting policies and presentation, continued

IFRS 16 *Leases*, continued

Impact on transition, continued

(iii) Leases in which the Company is a lessor, continued

Policy applicable before 1 January 2019, continued

In the comparative period, as a lessee the – the purchaser had the ability or right to control classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognised in the Company's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

When the Company acted as a lessor, it determined at lease inception whether each lease was a finance lease or an operating lease.

To classify each lease, the Company made an overall assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset. If this was the case, then the lease was a finance lease; if not, then it was an operating lease. As part of this assessment, the Company considered certain indicators such as whether the lease was for the major part of the economic life of the asset.

IFRIC 23 Uncertainty over Tax Treatments

The Interpretation addresses the accounting for corporate 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 Company 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.

Upon adoption of the Interpretation, the Company considered whether it has any uncertain tax positions, particularly those relating to transfer pricing.

As at 31 December 2019 the adoption of the Interpretation has no significant impact on the separate financial statements of the Company.

3. Summary of accounting policies, continued

Changes in accounting policies and presentation, continued

Annual Improvements 2015–2017 Cycle

IFRS (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 those amendments for annual reporting periods beginning on or after 1 January 2019, with early adoption 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 Company's current practice is in line with these amendments, they had no impact on the financial statements of the Company.

Investments in subsidiaries

In these separate financial statements, investments of the Company in a subsidiary are accounted for at historical cost.

The carrying amount of investments in a subsidiary that is accounted for at historical cost is not subject to subsequent adjustment for changes in fair value in the separate financial statements, but in subsequent periods is tested for impairment.

Fair value measurement

The Company measures financial instruments at FVTPL and FVOCI, and non-financial assets such as investment property at fair value at each reporting 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 Company. 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 Company 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 separate financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

3. Summary of accounting policies, continued

Fair value measurement, continued

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

Financial assets and liabilities

Initial recognition

Date of recognition

All regular way purchases and sales of financial assets and liabilities are recognised on the trade date i.e. the date that the Company commits to purchase the asset or liability. Regular way 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.

Initial measurement

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

Measurement categories of financial assets and liabilities

The Company 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;
- FVTPL.

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

Financial liabilities are measured at amortised cost or at FVTPL when they are held for trading, are derivative instruments or the fair value designation is applied.

Investment securities measured at amortized cost

The Company only measures other financial investments at amortised cost if both of the following conditions are met:

- a financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
- its 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").

Business model assessment

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

The Company'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;

3. Summary of accounting policies, continued

Financial assets and liabilities, continued

Investment securities measured at amortized cost, continued

Business model assessment, continued

- 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 Company'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 Company's original expectations, the Company 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 Company assesses the contractual terms of a 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 Company 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 FVTPL.

Debt instruments at FVOCI

The Company measures debt securities at FVOCI, if both of the following conditions are met:

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

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in other comprehensive income ("OCI"). Interest income 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.

Expected credit losses ("ECL") for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the separate 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.

3. Summary of accounting policies, continued

Financial assets and liabilities, continued

Equity instruments at FVOCI

Upon initial recognition, the Company 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. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other income when the right of the payment has been established, except when the Company 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 such instruments, accumulated revaluation reserve is transferred to retained earnings.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and amounts due from other financial institutions and are free from contractual encumbrances.

Receivables under repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements ("repo") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the separate 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. 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 separate statement of financial position. Securities borrowed are not recorded in the separate statement of financial position, unless these are sold to third parties, in which case the purchase and sale transaction is recorded within gains less losses from trading securities in the separate statement of profit and loss and other comprehensive income. The obligation to return them is recorded at fair value as a trading liability.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Company 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 customers. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the profit or loss when liabilities are derecognised, as well as through the amortisation process.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the separate 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 master netting agreements, and the related assets and liabilities are presented gross in the separate statement of financial position.

3. Summary of accounting policies, continued

Impairment

The Company recognises ECL allowance for the following financial instruments that are not measured at FVTPL:

- Financial assets that are debt instruments.

No impairment loss is recognised on equity investments.

The Company measures ECL allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1' financial instruments.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument. Financial instruments, other than purchased or originated credit-impaired assets, for which a lifetime ECL is recognised are referred to as 'Stage 2' financial instruments (if the credit risk has increased significantly since initial recognition, but the financial instruments are not credit-impaired) and 'Stage 3' financial instruments (if the financial instruments are credit-impaired).

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

3. Summary of accounting policies, continued

Impairment, continued

Credit-impaired financial assets, continued

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Company on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered impaired.

In making an assessment of whether an investment in sovereign debt (other financial assets) is credit-impaired, the Company considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

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 from the separate statement of financial position where:

- The rights to receive cash flows from the asset have expired;
- The Company 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 Company 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;
- When the Company 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 Company'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 Company could be required to repay.

3. Summary of accounting policies, continued

Derecognition of financial assets and liabilities, continued

Financial assets, continued

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 Company's continuing involvement is the amount of the transferred asset that the Company 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. In this case the extent of the Company'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 in part or in full only when the Company does not expect to recover their value. 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 subsequently applied to the gross carrying amount. Any subsequent reversals are credited to credit loss expense. A write-off constitutes a derecognition event.

Financial liabilities

A financial liability is derecognized 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.

Taxation

The current income tax expense is calculated in accordance with the regulations of the Republic of Kazakhstan. Deferred tax is 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 income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Property and equipment

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

3. Summary of accounting policies, continued

Property and equipment, continued

Following initial recognition at cost, land and buildings are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed regularly to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Any revaluation surplus is credited to the revaluation reserve for property included in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised within profit or loss. In which case an increase in the asset is recognised in profit or loss. A revaluation deficit is recognised in profit or loss, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property.

An annual transfer from the revaluation reserve for property and equipment to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost. Upon disposal, the relevant amount included within revaluation reserve is transferred to retained earnings.

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

Buildings and constructions	50 years
Furniture and office equipment	From 5 to 10 years
Computers	1 to 5 years
Vehicles	5 years

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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

Investment property

Investment property is land or building or a part of building held to earn rental income or for capital appreciation and which is not used by the Company or held for the sale in the ordinary course of business. Property that is being constructed or developed or redeveloped for future use as investment property is also classified within investment property.

Investment property is initially recognized at cost, including transaction costs, and subsequently remeasured at fair value reflecting market conditions at the end of the reporting period. Fair value of the Company's investment property is determined on the basis of various sources including reports of independent appraisers, who hold a recognized and relevant professional qualification and who have experience in valuation of property of similar location and category.

Intangible assets

Intangible assets comprise computer software and licenses

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The acquired software licenses are capitalized on the basis of costs incurred to purchase and implement this 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 15 years.

3. Summary of accounting policies, continued

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Share capital

Share capital

Ordinary shares are classified as part of equity. Incremental costs directly attributable to the issue of ordinary shares are shown net of tax effect as a decrease in equity.

Repurchase of treasury shares

Where the Company repurchases treasury shares, the amount paid, including the costs directly attributable to the repurchase, is recorded in the separate financial statements as a decrease in equity.

Dividends

The ability of the Company to declare and pay dividends is subject to the rules and regulations of the Kazakhstan legislation.

Dividends in relation to ordinary shares are reflected in the separate financial statements as an appropriation of retained earnings in the period when they are declared.

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company 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 Company calculates interest income on debt financial assets measured at amortized cost or at FVOCI by applying the effective interest rate ("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 Company 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 income or expense.

When a financial asset becomes credit-impaired, the Company calculates interest income 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 Company reverts to calculating interest income on a gross basis.

For purchased or originated credit-impaired ("POCI") financial assets, the Company calculates interest income 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 income on all financial assets at FVTPL is recognised using the contractual interest rate in "Other interest income" in the separate statement of profit and loss and other comprehensive income.

Fee and commission income

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

3. Summary of accounting policies, continued

Recognition of income and expenses, continued

Fee and commission income, continued

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, custody and other management and advisory fees.

Commission income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as where the Company'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.

Dividend income

Income is recognised when the Company's right to receive the payment is established.

Foreign currency translation

The separate financial statements are presented in Tenge, which is the Company's functional and presentation currency. Transactions in foreign currencies are initially translated into functional currency at the exchange rate at the date of the transaction established by the Kazakhstan Stock Exchange (hereinafter – the "KASE") and published by the NBRK. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the separate statement of profit or loss and other comprehensive income. 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 that are measured in terms of historical cost in a foreign currency are not retranslated. Differences between the contractual exchange rate of a transaction in a foreign currency and the official KASE exchange rate on the date of the transaction are included in net loss or gain on transactions with foreign currencies.

The KASE exchange rates at 31 December 2019 and 2018, were KZT 382.59 and KZT 384.20 to USD 1, respectively.

Standards and interpretations not yet adopted

A number of new standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Company has not early adopted the new or amended standards in preparing these financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Company's financial statements:

- *Amendments to References to Conceptual Framework in IFRS Standards.*
- *Definition of a Business (Amendments to IFRS 3).*
- *Definition of Material (Amendments to IAS 1 and IAS 8).*
- *IFRS 17 Insurance Contracts.*

4. Significant accounting judgments, estimates and assumptions

The preparation of the Company's separate financial statements requires management to make assumptions, estimates and judgements that affect the reported amounts of assets and liabilities at the date of preparation of the separate financial statements and the reported amounts of revenues and expenses for the reporting period. The most significant assumptions are reviewed below.

Expected credit losses/losses from impairment of financial assets

The measurement of impairment losses 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 Company's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Company'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 lifetime expected credit loss ("LTECL") basis and the qualitative assessment.
- Development of ECL models, including the choice of inputs.

Classification of financial assets

The Company applies judgement to determine the classification of financial assets, in particular identifying the business model for managing the assets and the asset's contractual terms. For the details, please, refer to the Note 3.

5. Net interest income

Net interest income includes the following iterms:

	2019 KZT'000	2018 KZT'000
Interest income calculated using the effective interest method		
Securities measured at amortized cost	210,477	71,460
Amounts receivable under reverse repurchase agreements	24,666	66,801
Securities at fair value through other comprehensive income	6,412	-
Cash and cash equivalents	5,212	236
	246,767	**138,497**
Other interest income		
Securities at fair value through profit or loss	297,481	31,046
Other interest income	-	867
	297,481	**31,913**
Interest expense		
Amounts payable under repurchase agreements	(18,413)	(3,503)
Other interest expenses	-	(866)
	(18,413)	**(4,369)**
	525,835	**166,041**

6. Fee and commission income

Fee and commission income includes the following iterms:

	2019 KZT'000	2018 KZT'000
Consulting fee	860,821	327,872
Brokerage fee	594,104	185,077
Commission for underwriting services	178,987	-
Fee and commission income	**1,633,912**	**512,949**

The nature and basis for recognition of commission income is disclosed in Note 3.

7. Fee and commission expense

Fee and commission expense includes the following items:

	2019 KZT'000	2018 KZT'000
Central depository services	70,411	17,333
Broker services	16,156	3,203
Stock exchange services	9,853	31,246
Other	11,768	3,639
Fee and commission expense	**108,188**	**55,421**

8. Dividend income

Dividends includes the following items:

	2019 KZT'000	2018 KZT'000
Investment in subsidiary	5,673,175	700,000
Financial instruments at fair value through profit or loss	14,875	6,150
	5,688,050	**706,150**

9. Net (loss)/gain on transactions with foreign currencies

Net (loss)/gain on transactions with foreign currencies includes the following items:

	2019 KZT'000	2018 KZT'000
Gain on spot transactions and derivatives	39,331	(3,347)
Gain on revaluation of financial assets and liabilities	(125,709)	210,365
	(86,378)	**207,018**

10. Impairment losses on financial instruments

The table below shows the ECL for financial assets recorded in profit or loss for the year ended 31 December:

	2019 KZT'000	2018 KZT'000
Securities at fair value through other comprehensive income	(3,573)	-
Cash and cash equivalents	(13)	(37)
Securities measured at amortized cost	2,904	(2,904)
Other assets	610	(1,311)
	(72)	**(4,252)**

Impairment losses on financial instruments in the table above relates to financial instruments classified to Stage 1.

11. Personnel expenses

Personnel expenses includes the following items:

	2019 KZT'000	2018 KZT'000
Employee compensation	1,552,577	791,258
Social contribution and payroll related taxes	147,880	79,594
	1,700,457	**870,852**

12. Other general administative expenses

Other general administrative expenses includes the following iterms:

	2019 KZT'000	2018 KZT'000
Professional services	121,316	100,936
Communication and information services	45,577	18,424
Compensation of costs for underwriting services	35,248	-
Travel expense	33,470	3,620
Taxes other than income tax	13,461	2,447
Occupancy	10,390	-
Repairs and maintenance	8,995	6,512
Depreciation	7,999	4,822
Bank services	6,647	2,161
Transportation expenses	5,092	1,780
Recruitment and training	2,286	133
Postal and courier services	1,067	304
Insurance	336	45
Stationery and office equipment supplies	158	83
Advertising and marketing	46	681
Other	30,195	13,129
	322,283	**155,077**

13. Income tax benefit/(expense)

Corporate income tax expenses includes the following:

	2019 KZT'000	2018 KZT'000
Current tax expense		
Current year tax expense	(23,207)	(43,542)
Underprovided in prior years	(1,735)	-
	(24,942)	**(43,542)**
Deferred tax expense		
Origination and reversal of temporary differences	154,122	(418)
Total income tax benefit/(expense)	**129,180**	**(43,960)**

The Republic of Kazakhstan is the only tax jurisdiction in which the Company's income is taxable. In accordance with tax legislation the applied corporate income tax rate is 20% in 2019 and 2018.

As at 31 December 2019, corporate income tax liability of the Company comprised KZT 21,564 thousand (2018: corporate income tax liability of the Company comprised KZT 43,426 thousand).

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

	2019 KZT'000	%	2018 KZT'000	%
Profit before income tax	**5,797,865**		**450,166**	
Income tax at the applicable tax rate	(1,159,573)	(20)	(90,033)	(20)
Underprovided in prior periods	(1,735)	(0)	-	-
Change in unrecognised deferred tax assets	103,397	2	(103,397)	(23)
Non-deductible expenses	(13,191)	(0)	(11,007)	(2)
Non-taxable interest and dividend income*	1,200,282	21	160,477	36
Income tax	**129,180**	**2**	**(43,960)**	**(10)**

*Includes tax effect of dividend income received from Kazakhstan companies (Note 8) that is non-taxable in accordance with the Tax Code of the Republic of Kazakhstan.

13. Income tax benefit/(expense), continued

Deferred tax assets and deferred tax liabilities

Temporary differences between the cost of assets and liabilities recorded in the separate financial statements and the amounts used for the purposes of calculation of taxable base, give rise to net deferred tax assets and liabilities as of 31 December 2019 and 31 December 2018.

Change in the temporary differences during 2019 and 2018 may be presented as follows:

KZT'000	Balance 1 January 2019	Recognised in profit or loss	Balance 31 December 2019
Investment property	(9,646)	(1,342)	(10,988)
Property, equipment and intangible assets	650	(5,706)	(5,056)
Reserves for employee compensation	103,397	56,843	160,240
Other liabilities	-	930	930
	94,401	**50,725**	**145,126**
Unrecognised deferred tax assets	(103,397)	103,397	-
Deferred tax (liabilities)/assets	**(8,996)**	**154,122**	**145,126**

KZT'000	Balance 1 January 2018	Recognised in profit or loss	Balance 31 December 2018
Investment property	-	(9,646)	(9,646)
Property, equipment and intangible assets	(10,061)	10,711	650
Other liabilities	1,483	101,914	103,397
	(8,578)	**102,979**	**94,401**
Unrecognised deferred tax assets	-	(103,397)	(103,397)
Deferred tax liabilities	**(8,578)**	**(418)**	**(8,996)**

14. Cash and cash equivalents

Cash and cash equivalents comprised the following at 31 December:

	31 December 2019 KZT'000	31 December 2018 KZT'000
Current account balances with banks and other financial institutions		
- rated from AA- to AA+	9,028	-
- rated from BBB- to BBB+	3,257,920	54,924
- rated from BB- to BB+	251	13,563
- rated from B- to B+	71,713	416,731
- not rated	7,253	26,000
	3,346,165	**511,218**
Less loss allowance	(50)	(37)
Cash and cash equivalents	**3,346,115**	**511,181**

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

All balances of cash equivalents are allocated to Stage 1 for the purpose of measuring ECL.

15. Securities measured at fair value through profit or loss

As at 31 December, securities measured at fair value through profit or loss are as follows:

	31 December 2019 KZT'000	31 December 2018 KZT'000
Held by the Company		
Government bonds		
- Notes of the NBRK	1,740,853	544,198
- US Treasury	401,505	2,684,556
Total government bonds	**2,142,358**	**3,228,754**
Corporate bonds		
- rated from BBB to BBB+	3,657,159	1,311,298
- rated from BB- to BB+	1,699,690	489,074
- rated from B- to B+	22,230	225,844
- not rated	164,914	-
Total corporate bonds	**5,543,993**	**2,026,216**
Equity investments		
- Corporate shares	91,604	274,366
- Shares	16,056	-
	7,794,011	**5,529,336**
Pledged under sale and repurchase agreements		
Government bonds		
- Notes of the NBRK	1,305,324	-
Total government bonds	**1,305,324**	-
	9,099,335	**5,529,336**

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

16. Securities measured at fair value through other comprehensive income

As at 31 December, securities measured at fair value through other comprehensive income are as follows:

	31 December 2019 KZT'000	31 December 2018 KZT'000
Held by the Company		
Corporate bonds		
- rated from BBB to BBB+	617,755	-
- rated from BB- to BB+	540,825	-
Total corporate bonds	**1,158,580**	-
Less impairment allowance	(3,573)	-
Total corporate bonds, net of allowance for expected credit losses	**1,155,007**	-

The above table is based on the credit ratings assigned by Standard and Poor's agency or other agencies converted into Standard and Poor's ratings scale.

All balances of securities measured at fair value through other comprehensive income are allocated to Stage 1 for the purpose of measuring ECL.

17. Securities measured at amortized cost

As at 31 December securities measured at amortized cost comprise:

	31 December 2019 KZT'000	31 December 2018 KZT'000
Held by the Company		
Corporate bonds		
- rated from BBB to BBB+	-	1,211,054
- rated from BB- to BB+	-	193,265
- not rated	1,519,222	1,522,642
Total corporate bonds	**1,519,222**	**2,926,961**
Less impairment allowance	-	(2,904)
Total corporate bonds, net of allowance for expected credit losses	**1,519,222**	**2,924,057**

The above table is based on the credit ratings assigned by Standard and Poor's agency or other agencies converted into Standard and Poor's ratings scale.

All balances of securities measured at amortized cost are allocated to Stage 1 for the purpose of measuring ECL.

18. Investment in subsidiary

The main subsidiaries of the Company as at 31 December 2019 and 2018 are as follow:

Name	Country of residence	Principal activity	Share of ownership, % 31 December 2019	Carrying amount thousand KZT 31 December 2019	Share of ownership, % 31 December 2018	Carrying amount thousand KZT 31 December 2018
JSC First Heartland Jysan Bank	Kazakhstan	Banking	100.00	81,854,666	-	-
JSC First Heartland Bank	Kazakhstan	Banking	-	-	100.00	11,500,001
				81,854,666		**11,500,001**

On 6 February 2019 the Company purchased a controlling interest in JSC First Heartland Jysan Bank (formerly Tsesnabank JSC), (the "Bank") from Financial Holding "Tsesna" JSC, for de minimis consideration. The Company subsequently purchased additional newly issued shares of the Bank for total cash consideration of KZT 70,354,665 thousand.

On 27 August 2019 the Bank acquired 100% of the issued shares of First Heartland Bank JSC from the Company by means of a share exchange at a ratio of 2.235149 shares of the Bank for 1 share of First Heartland Bank JSC. On 2 September 2019, a legal merger of the Bank and First Heartland Bank was completed.

19. Property, equipment and intangible assets

Movements of property and equipment and intangible assets for 2019 are as follows:

KZT'000	Computer	Vehicles	Furniture	Other	Intangibles	Total
Cost						
Balance at 1 January 2019	10,067	-	3,997	2,093	21,489	37,646
Additions	9,358	55,784	15,462	2,440	25,262	108,306
Disposals	(422)	-	(3,079)	(87)	(878)	(4,466)
Balance at 31 December 2019	**19,003**	**55,784**	**16,380**	**4,446**	**45,873**	**141,486**
Accumulated depreciation and amortisation						
Balance at 1 January 2019	3,543	-	2,333	1,091	9,277	16,244
Depreciation for the year	2,944	664	1,295	484	2,612	7,999
Disposals	(422)	-	(2,186)	(87)	(660)	(3,355)
Balance at 31 December 2019	**6,065**	**664**	**1,442**	**1,488**	**11,229**	**20,888**
Carrying amount						
Balance at 31 December 2019	**12,938**	**55,120**	**14,938**	**2,958**	**34,644**	**120,598**

Movements of property and equipment and intangible assets for 2018 are as follows:

KZT'000	Land and buildings	Computer	Furniture	Other	Intangibles	Total
Cost						
Balance at 1 January 2018	155,564	5,778	3,194	2,842	10,532	177,910
Additions	-	5,734	1,394	609	10,957	18,694
Disposals	-	(1,445)	(591)	(1,358)	-	(3,394)
Transfer to investment property	(155,564)	-	-	-	-	(155,564)
Balance at 31 December 2018	-	**10,067**	**3,997**	**2,093**	**21,489**	**37,646**
Accumulated depreciation and amortisation						
Balance at 1 January 2018	4,308	3,462	2,387	2,266	8,167	20,590
Depreciation for the year	1,480	1,526	523	183	1,110	4,822
Disposals	-	(1,445)	(577)	(1,358)	-	(3,380)
Transfer to investment property	(5,788)	-	-	-	-	(5,788)
Balance at 31 December 2018	-	**3,543**	**2,333**	**1,091**	**9,277**	**16,244**
Carrying amount						
Balance at 31 December 2018	-	**6,524**	**1,664**	**1,002**	**12,212**	**21,402**

The Company does not have fixed assets and intangible assets as collateral.

19. Property, equipment and intangible assets, continued

In December 2018, the Company decided to lease out the building and land located at the following address: 162/A Dostyk Str., Almaty. In connection with rezoning of these facilities, the Company reclassified the building and land into investment property.

The fair value of investment property is based on a valuation by a qualified independent valuer involved by management of the Company as at 31 December 2017.

Management has assessed the changes in real estate prices between 31 December 2017 and 31 December 2019 and concluded that the carrying amount of investment property does not differ materially that would have been determined using fair value at the end of the reporting date. The fair value of investment property is categorised into Level 3 of the fair value hierarchy. The Company has no restrictions on the realisability of its investment properties and no contractual obligations to either purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

20. Other assets

As at 31 December, other assets comprise the following:

	31 December 2019 KZT'000	31 December 2018 KZT'000
Commissions receivable	263,403	9,800
Declared dividends	211,587	-
Other	15,954	17,650
Impairment allowance	(1,049)	(1,659)
Total other financial assets	**489,895**	**25,791**
Prepayments	4,464	14,662
Materials and supplies	-	1,809
Other	6,973	1,029
Total other non-financial assets	**11,437**	**17,500**
Total other assets	**501,332**	**43,291**

Analysis of movements in impairment allowance

Movements in allowance for expected credit losses for other financial assets for the years ended 31 December 2019 and 2018 are as follows:

	2019 KZT'000	2018 KZT'000
Balance as at 1 January	**1,659**	**348**
Net remeasurement of loss allowance	(610)	1,311
Balance as at 31 December	**1,049**	**1,659**

All balances of other financial assets are allocated to Stage 1 for the purpose of measuring ECL. As at 31 December 2019 and 31 December 2018 none of other assets were overdue

21. Amounts payable under repurchase agreements

As at 31 December 2019 the Company entered into sale and repurchase agreements with a total carrying amount of KZT 1,305,324 thousand at KASE. Collateral of this agreement are bonds of the Ministry of Finance of the Republic of Kazakhstan with a fair value of KZT 1,305,324 thousand as at 31 December 2019. As of 31 December 2018 the Company did not have such agreements.

These operations are conducted under conditions that are common and generally accepted for standard lending, borrowing and lending securities. All operations were closed during the next reporting month.

22. Other liabilities

As at 31 December, other liabilities comprise the following:

	31 December 2019 KZT'000	31 December 2018 KZT'000
Other creditors	36,480	23,292
Total other financial liabilities	**36,480**	**23,292**
Accrued vacation and other amounts due to employees	801,198	516,985
Other taxes payable	44,634	8,088
Deferred income	309	17
Total other non-financial liabilities	**846,141**	**525,090**
Total other liabilities	**882,621**	**548,382**

23. Equity

Issued share capital

The number of authorised, placed and outstanding ordinary shares and share capital as at 31 December 2019 and 2018 are as follows:

	31 December 2019	31 December 2018
Common shares		
Number of authorized shares	54,000,000	4,000,000
Number of placed shares	8,433,359	2,149,930
Number of treasury shares	(149,486)	(149,486)
Number of outstanding shares	8,283,873	2,000,444

Holders of ordinary shares are entitled to receive dividends when declared and have the right for one vote at annual and general shareholders' meetings.

Movement in equity is presented as follows:

	Number of shares	Issue price per 1 share, in KZT	KZT'000
As at 31 December 2018	**2,000,444**	-	**19,785,360**
Issuance of shares in February-March 2019	6,283,429	11,140	70,002,175
As at 31 December 2019	**8,283,873**	-	**89,787,535**

Dividends

In accordance with the laws of the Republic of Kazakhstan and the statutory documents of the Company, the distributable reserves fall within the scope of the legal and regulatory framework of the Republic of Kazakhstan.

Although ordinary shareholders have voting rights, the dividend payment is not guaranteed. Distributable income is determined on the basis of income recorded in the Company's separate financial statements. For the year ended 31 December 2019, dividends in the amount of KZT 422,976 thousand were declared and distributed, 51 KZT per share (2018: dividends in the amount of KZT 36,008 thousand were declared and distributed, 18 KZT per share).

24. Risk management

Introduction

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

24. Risk management, continued

Introduction, continued

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

Risk management structure

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

Board of Directors

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

Management Board

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

Risk management

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

Control of risks

The Risk Controlling Unit is responsible for monitoring compliance with risk principles, policies and limits. The Company uses a double control system for risk management, based on the separation of back and front office functionality and the main monitoring by the Risk Management Department over the levels of risk exposure. The prepared reports considered by the Investment Committee contain current risk levels as well as recommendations for mitigation.

Internal audit

Risk management processes throughout the Company are audited annually by the internal audit function, that examines both the adequacy of the procedures and the Company'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 Company'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 Company 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 Company. These limits reflect the business strategy and market environment of the Company as well as the level of risk that the Company is willing to accept, with additional emphasis on selected industries. In addition the Company monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, the Investment Committee, 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 periodic basis detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for expected credit losses to the Authorized Bodies.

24. Risk management, continued

Risk management structure, continued

Risk measurement and reporting systems, continued

For all levels throughout the Company, 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.

Risk mitigation

As part of its overall risk management, the Company uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies and exposures arising from forecast transactions.

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

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 Company's performance to developments affecting a particular industry or geographical location.

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

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 responsibility for market risk management is vested in the Investment Committee. The Investment Committee approves market risk limits at the suggestion of the risk management unit.

The Company manages its market risk by setting open position limits and triggers (pre-limit approach) in relation to separate financial instruments, mismatch of maturities between assets and liabilities sensitive to a change in interest rates, currency position and stop-loss limits which are monitored on a regular basis and reviewed and approved by the Investment Committee.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company 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.

24. Risk management, continued

Market risk, continued

Interest rate risk, continued

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major financial instruments is as follows:

KZT'000	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2019							
ASSETS							
Cash and cash equivalents	-	-	-	-	-	3,346,115	3,346,115
Securities at fair value through profit or loss	1,948,427	366	3,547,631	3,473,387	21,864	107,660	9,099,335
Securities at fair value through other comprehensive income	15,225	7,701	-	1,132,081	-	-	1,155,007
Amounts receivable under reverse repurchase agreements	40,000	-	-	-	-	-	40,000
Securities measured at amortized cost	-	-	1,519,222	-	-	-	1,519,222
	2,003,652	**8,067**	**5,066,853**	**4,605,468**	**21,864**	**3,453,775**	**15,159,679**
LIABILITIES							
Amounts payable under repurchase agreements	1,305,324	-	-	-	-	-	1,305,324
	1,305,324	-	-	-	-	-	**1,305,324**
	698,328	**8,067**	**5,066,853**	**4,605,468**	**21,864**	**3,453,775**	**13,854,355**

KZT'000	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2018							
ASSETS							
Cash and cash equivalents	-	-	415,882	-	-	95,299	511,181
Securities at fair value through profit or loss	3,231,000	211,266	1,311,298	486,828	14,578	274,366	5,529,336
Amounts receivable under reverse repurchase agreements	130,096	-	-	-	-	-	130,096
Securities measured at amortized cost	-	-	2,924,057	-	-	-	2,924,057
	3,361,096	**211,266**	**4,651,237**	**486,828**	**14,578**	**369,665**	**9,094,670**

24. Risk management, continued

Market risk, continued

Interest rate risk, continued

Average effective interest rates

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

	31 December 2019 Average interest rate, %		31 December 2018 Average interest rate, %	
	KZT	**US Dollar**	**KZT**	**US Dollar**
Interest bearing assets				
Cash and cash equivalents	-	-	-	0.43
Securities at fair value through profit or loss	9.82	2.55	9.32	1.34
Securities at fair value through other comprehensive income	-	2.69	-	-
Amounts receivable under reverse repurchase agreements	10.15	-	9.27	-
Securities measured at amortized cost	11.31	-	10.80	3.98
Interest bearing liabilities				
Amounts payable under repurchase agreements	9.32	-	-	-

Currency risk

The Company 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 because of changes in foreign exchange rates.

The structure of financial assets and liabilities by currencies as at 31 December 2019 is as follows:

	KZT	**US Dollars, KZT'000**	**Total, KZT'000**
ASSETS			
Cash and cash equivalents	3,051	3,343,064	3,346,115
Securities at fair value through profit or loss	3,277,326	5,822,009	9,099,335
Securities at fair value through other comprehensive income	-	1,155,007	1,155,007
Amounts receivable under reverse repurchase agreements	40,000	-	40,000
Securities measured at amortized cost	1,519,222	-	1,519,222
Other financial assets	475,226	14,669	489,895
Total assets	**5,314,825**	**10,334,749**	**15,649,574**
LIABILITIES			
Amounts payable under repurchase agreements	1,305,324	-	1,305,324
Other financial liabilities	12,759	23,721	36,480
Total liabilities	**1,318,083**	**23,721**	**1,341,804**
Net position as at 31 December 2019	**3,996,742**	**10,311,028**	**14,307,770**

24. Risk management, continued

Market risk, continued

Currency risk, continued

The structure of financial assets and liabilities by currencies as at 31 December 2018 is as follows:

	KZT	US Dollars, KZT'000	Other currencies KZT'000	Total, KZT'000
ASSETS				
Cash and cash equivalents	28,972	482,202	7	511,181
Securities at fair value through profit or loss	1,905,814	3,623,522	-	5,529,336
Securities measured at amortized cost	2,532,560	391,497	-	2,924,057
Amounts receivable under reverse repurchase agreements	130,096	-	-	130,096
Other financial assets	9,405	16,386	-	25,791
Total assets	**4,606,847**	**4,513,607**	**7**	**9,120,461**
LIABILITIES				
Other financial liabilities	4,078	19,214	-	23,292
Total liabilities	**4,078**	**19,214**	**-**	**23,292**
Net position as at 31 December 2018	**4,602,769**	**4,494,393**	**7**	**9,097,169**

A weakening of the KZT, as indicated below, against the following currencies at 31 December 2019 and 31 December 2018 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis for the financial assets and liabilities is on a net of tax basis and is based on foreign currency exchange rate variances that the Company 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.

	31 December 2019		31 December 2018	
	Profit or loss KZT'000	Equity KZT'000	Profit or loss KZT'000	Equity KZT'000
10% appreciation of USD against KZT	824,882	824,882	359,551	359,551
10% appreciation of other currencies against KZT	-	-	1	1

A strengthening of the KZT against the above currencies at 31 December 2019 and 31 December 2018 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Credit risk

Credit risk is the probability of financial loss to the Company if a customer or counterparty fails to meet its contractual obligations according to agreed terms. The Company has policies and procedures in place to manage credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration and the establishment of a Credit Committee to actively monitor credit risk. The credit policy is reviewed and approved by the Board of Directors.

The risk management policy establishes:

- methodology for assessing the creditworthiness of counterparties, issuers and financial companies;
- methodology for assessing expected credit losses.

The company has developed credit quality verification procedures in order to ensure early identification of possible changes in the creditworthiness of counterparties. Limits on counterparties are determined using a credit risk classification system based on an analysis of the financial stability of the counterparty. The credit quality check procedure allows the Company to assess the size of potential losses on the risks to which it is exposed and take the necessary measures. Decisions regarding the policy on credit risk management, setting limits for Clients / Counterparties / Issuers are made within the established authority and approved by the Investment Committee.

24. Risk management, continued

Credit risk, continued

Impairment assessment

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

The Company has established a methodology 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 Company groups its instruments as described below:

Stage 1:	When instruments are first recognised, the Company recognises an allowance based on 12m ECL. Stage 1 instruments also include facilities where the credit risk has improved and an instrument has been reclassified from Stage 2.
Stage 2:	When an instrument has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECL. Stage 2 instruments also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
Stage 3:	Instruments considered credit-impaired. The Company recognizes an allowance for the LTECL.
POCI:	Purchased or originated credit impaired 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 Company considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the counterparty becomes 90 days past due on its contractual payments. The Company believes that a default has occurred with respect to amounts due from banks, and is taking immediate steps to eliminate it if there is a decrease in the bank's credit rating established by international rating agencies.

24. Risk management, continued

Credit risk, continued

Treasury relationships and relationships with commercial banks

The Company's treasury relationships and relationships with commercial banks comprise relationships with counterparties such as financial services institutions, banks, broker-dealers, exchanges and clearing-houses. To assess such relationships, the Risk Management Department of the Company analyzes publicly available information, such as financial statements, and data from other external sources, such as external ratings of international rating agencies.

Exposure at default

EAD represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the counterparty's ability to increase its exposure while approaching default and potential early repayments too. To calculate the EAD for a Stage 1instrument, the Company 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.

Loss given default

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.

Significant increase in credit risk

The Company 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 Company assesses whether there has been a significant increase in credit risk since initial recognition.

Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

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

Grouping of financial assets for ECL measurement

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

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

- The treasury and interbank relationships (such as amounts due from banks, cash equivalents and securities measured at amortised cost and FVOCI).
- Financial assets that have been classified as POCI when the original loan was derecognised and a new loan was recognised as a result odebt restructuring.

The maximum exposure to a credit risk is reflected in the cost of financial assets, at which they are reflected in the separate statement of financial position, and in the amount of unrecognized contractual obligations. Netting of assets and liabilities is not significant for mitigating the potential credit exposure.

24. Risk management, continued

Credit risk, continued

Grouping of financial assets for ECL measuremen, continued

The maximum level of credit risk in relation to financial assets as of reporting date can be represented as follows:

	31 December 2019 KZT'000	31 December 2018 KZT'000
ASSETS		
Cash and cash equivalents	3,346,115	511,181
Securities at fair value through profit or loss	8,991,675	5,254,970
Securities at fair value through other comprehensive income	1,155,007	-
Amounts receivable under reverse repurchase agreements	40,000	130,096
Securities measured at amortized cost	1,519,222	2,924,057
Other financial assets	489,895	25,791
Total maximum exposure of risk	**15,541,914**	**8,846,095**

Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Company's 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 separate statement of financial position.

The similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements, and securities borrowing and lending agreements.

The Company receives and accepts collateral in the form of cash and marketable securities in respect of the following transactions:

- Sale and repurchase agreements, and reverse sale and repurchase agreements.

This means that securities received/given as collateral can be pledged or sold during the term of the transaction but must be returned on 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.

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2019:

KZT'000 Types of financial assets/ financial liabilities	Gross amounts of recognised financial assets/liabilities	Net amount of financial asset/liability presented in the separate statement of financial position	Amounts not offset in the separate statement of financial position: Financial instruments	Net amount
Securities at fair value through profit or loss	1,305,324	1,305,324	(1,305,324)	-
Amounts receivable under reverse repurchase agreements	40,000	40,000	(40,000)	-
Total financial assets	**1,345,324**	**1,345,324**	**(1,345,324)**	**-**
Amounts payable under repurchase agreements	1,305,324	1,305,324	(1,305,324)	-
Total financial liabilities	**1,305,324**	**1,305,324**	**(1,305,324)**	**-**

24. Risk management, continued

Credit risk, continued

Offsetting financial assets and financial liabilities, continued

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2018:

KZT'000 Types of financial assets/ financial liabilities	Gross amounts of recognised financial assets/liabilities	Net amount of financial asset/liability presented in the separate statement of financial position	Amounts not offset in the separate statement of financial position Financial instruments	Net amount
Amounts receivable under reverse repurchase agreements	130,096	130,096	(130,096)	-
Total financial assets	**130,096**	**130,096**	**(130,096)**	**-**

The securities pledged under repurchased agreements represent the transferred financial assets that are not derecognised in their entirety.

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the separate statement of financial position that are disclosed in the above tables are measured in the separate statement of financial position at amortised cost. The amounts in the above tables that are offset in the separate statement of financial position are measured on the same basis.

Liquidity risk

It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Company maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. The risk management policy governs the main processes for controlling the risk of liquidity loss.

The Company seeks to actively support a diversified and stable funding base comprising current accounts 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 Investment Committee constantly monitors the liquidity gap indicators and makes appropriate decisions to minimize liquidity risk and its control within the established limits.

The following tables contain information on undiscounted cash flows on financial liabilities and unrecognized credit commitments relating to the earliest maturity date possible in accordance with the terms of the contract. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liabilities or credit related commitments.

The maturity analysis for financial liabilities as at 31 December 2019 is as follows:

KZT'000	Demand and less than 1 month	1-3 months	3-12 months	The total amount of the disposal (receipt) of cash flows	Carrying amount
Liabilities					
Amounts payable under repurchase agreements	1,307,264	-	-	1,307,264	1,305,324
Other financial liabilities	32,034	766	3,680	36,480	36,480
Total liabilities	**1,339,298**	**766**	**3,680**	**1,343,744**	**1,341,804**

24. Risk management, continued

Liquidity risk, continued

The maturity analysis for financial liabilities as at 31 December 2018 is as follows:

KZT'000	Demand and less than 1 month	1-3 months	3-12 months	The total amount of the disposal (receipt) of cash flows	Carrying amount
Liabilities					
Other financial liabilities	-	-	23,292	23,292	23,292
Total liabilities	**-**	**-**	**23,292**	**23,292**	**23,292**

The above tables contain information on undiscounted cash flows on non-derivative financial liabilities relating to the earliest maturity date, which is possible in accordance with the terms of the contract.

24. Risk management, continued

Liquidity risk, continued

The table below shows an analysis, by contractual maturities, of the amounts recognised in the separate statement of financial position as at 31 December 2019:

KZT'000	Demand and less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	No maturity	Total
Non-derivative assets							
Cash and cash equivalents	3,346,115	-	-	-	-	-	3,346,115
Securities at fair value through profit or loss	1,948,427	366	3,547,631	3,473,387	21,864	107,660	9,099,335
Securities at fair value through other comprehensive income	15,225	7,701	-	1,132,081	-	-	1,155,007
Amounts receivable under reverse repurchase agreements	40,000	-	-	-	-	-	40,000
Securities measured at amortized cost	-	-	1,519,222	-	-	-	1,519,222
Investment in subsidiary	-	-	-	-	-	81,854,666	81,854,666
Property, equipment and intangible assets	-	-	-	-	-	120,598	120,598
Investment property	-	-	-	-	-	149,776	149,776
Deferred tax assets	-	-	-	145,126	-	-	145,126
Other assets	277,243	8,033	216,056	-	-	-	501,332
Total assets	**5,627,010**	**16,100**	**5,282,909**	**4,750,594**	**21,864**	**82,232,700**	**97,931,177**
Non-derivative liabilities							
Amounts payable under repurchase agreements	1,305,324	-	-	-	-	-	1,305,324
Current corporate income tax liabilities	-	-	21,564	-	-	-	21,564
Other liabilities	48,493	28,941	805,187	-	-	-	882,621
Total liabilities	1,353,817	28,941	826,751	-	-	-	2,209,509
Net position	**4,273,193**	**(12,841)**	**4,456,158**	**4,750,594**	**21,864**	**82,232,700**	**95,721,668**

24. Risk management, continued

Liquidity risk, continued

The table below shows an analysis, by contractual maturities, of the amounts recognised in the separate statement of financial position as at 31 December 2018:

KZT'000	Demand and less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	No maturity	Total
Non-derivative assets							
Cash and cash equivalents	511,181	-	-	-	-	-	511,181
Securities at fair value through profit or loss	3,231,000	1,859	1,311,298	486,828	223,985	274,366	5,529,336
Amounts receivable under reverse repurchase agreements	130,096	-	-	-	-	-	130,096
Securities measured at amortized cost	-	-	2,924,057	-	-	-	2,924,057
Investment in subsidiary	-	-	-	-	-	11,500,001	11,500,001
Property, equipment and intangible assets	-	-	-	-	-	21,402	21,402
Investment property	-	-	-	-	-	149,776	149,776
Other assets	26,799	11,592	4,900	-	-	-	43,291
Total assets	**3,899,076**	**13,451**	**4,240,255**	**486,828**	**223,985**	**11,945,545**	**20,809,140**
Non-derivative liabilities							
Current corporate income tax liabilities	-	-	43,426	-	-	-	43,426
Deferred corporate income tax liabilities	-	-	-	8,996	-	-	8,996
Other liabilities	4,077	8,093	536,212	-	-	-	548,382
Total liabilities	4,077	8,093	579,638	8,996	-	-	600,804
Net position	**3,894,999**	**5,358**	**3,660,617**	**477,832**	**223,985**	**11,945,545**	**20,208,336**

24. Risk management, continued

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. In order to reduce operational risk, the Company has a process in place to approve new products, types of activities, processes and systems for introducing significant changes to existing products, types of activities, processes and systems. The Company can manage these risks using controls system and by monitoring and appropriately responding to potential risks. Controls include effective segregation of duties, access rights, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

25. Capital management

The Company maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Company's capital is monitored using, among other measures, the ratios established by the NBRK. During 2019 the Company complied with its capital requirements imposed by the NBRK.

The Company, being a banking conglomerate, defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the NBRK banking conglomerates have to maintain a ratio of total capital to risk weighted assets, contingent liabilities above the prescribed minimum level. As at 31 December 2019 this minimum level of total capital to risk weighted assets and contingent liabilities is 10% (2018: 10%). As at 31 December 2019 the Company's ratio was equal to 66.0% (31 December 2018: 78.3%).

The primary objectives of the Company's capital management are to ensure that the Company complies with externally imposed capital requirements and that the Company maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value. According to the requirements of the NBRK, the capital adequacy ratio for brokerage and(or) dealer companies must be at least 1. From 1 January 2019, the liquidity ratio should be at least 1.3. Liquid assets and liabilities calculated in accordance with the NBRK requirements were derived from the Company's separate financial statements.

As at 31 December 2019 and 2018, the Company's capital adequacy ratio on this basis exceeded the statutory minimum.

At 31 December, the Company's capital adequacy ratio calculated according to the NBRK requirements was as follow:

	31 December 2019 KZT'000	31 December 2018 KZT'000
Liquid assets	14,078,676	9,113,383
Liabilities	(2,187,943)	(600,921)
Net liquid assets	**11,890,733**	**8,512,462**
Minimum capital required by NBRK	189,375	180,375
Capital adequacy ratio	62.79	47.19

26. Commitments and contingencies

Insurance

The insurance industry in the RK is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Company does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Company's property or relating to Company's operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Company's operations and financial position.

26. Commitments and contingencies

Litigations

In the ordinary course of business, the Company 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 condition or the results of future operations.

Taxation contingencies in Kazakhstan

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. A tax year remains open for review by the tax authorities during the five subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

These circumstances may create tax risks in the Republic of Kazakhstan that are 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 separate financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

27. Related party transactions

Compensation of key management personnel

The total compensation of key management personnel for the years ended 31 December 2019 and 2018 is as follows:

	31 December 2019 KZT'000	31 December 2018 KZT'000
Key management personnel	1,205,287	809,802

As at 31 December 2019 and 2018, balances of accounts and the corresponding profit or loss on transactions with key management personnel are as follows:

	31 December 2019 KZT'000	Average interest rate, %	31 December 2018 KZT'000	Average interest rate, %
Separate statement of financial position				
ASSETS				
Other assets	15	-	796	-
LIABILITIES				
Other liabilities	628,125	-	504,895	-

Amounts included in profit or loss on operations with key management personnel are as follows:

	31 December 2019 KZT'000	31 December 2018 KZT'000
Separate statement of profit or loss and other comprehensive income		
Fee and commission income	1,020	1,941

27. Related party transactions, continued

Transactions with other related parties

Other related parties include the parent company, ultimate parent company, fellow subsidiaries and other related entities. As at 31 December 2019 the outstanding balances and the related average interest rates and profit or loss on transactions with other related parties for the year ended 31 December 2019 are as follows:

	Parent Company		Other subsidiaries of the parent company		Subsidiary of the Company		Subsidiary of the Bank		Other related parties*		
	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	Total thousand KZT
Separate statement of financial position											
ASSETS											
Cash and cash equivalents											
- in KZT	-	-	-	-	1,478	-	-	-	-	-	1,478
Investment in subidiary											
- in KZT	-	-	-	-	81,854,666	-	-	-	-	-	81,854,666
Other assets											
- in KZT	820	-	1,168	-	212,866	-	2,059	-	251,231	-	468,144
LIABILITIES											
Other liabilities											
- in KZT	-	-	429	-	1,600	-	-	-	90	-	2,119
Profit (loss)											
Fee and commission income	6,515	-	1,395	-	33,338	-	9,648	-	1,426,601	-	1,477,497
Dividend income	-	-	-	-	5,673,175	-	-	-	-	-	5,673,175
Other general administrative expenses	(5,720)	-	(4,950)	-	(5,059)	-	(207)	-	(10,797)	-	(26,733)

* Other related parties mainly comprise the balances of the ultimate controlling party and the corporate fund Social Development Fund that share the same key management personnel.

27. Related party transactions, continued

Transactions with other related parties, continued

As at 31 December 2018 the outstanding balances and the related average interest rates and profit or loss on transactions with other related parties for the year ended 31 December 2018 are as follows:

	Parent Company		Other subsidiaries of the parent company		Subsidiary of the Company		Subsidiary of the Bank		Other related parties*		
	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	Total thousand KZT
Separate statement of financial position											
ASSETS											
Cash and cash equivalents											
- in KZT	-	-	-	-	1,469	-	-	-	-	-	1,469
Investment in subidiary											-
- in KZT	-	-	-	-	11,500,001	-	-	-	-	-	11,500,001
Other assets											
- in KZT	-	-	-	-	-	-	5,395	-	776	-	6,171
LIABILITIES											
Other liabilities											
- in KZT	184	-	-	-	-	-	-	-	-	-	184
Profit (loss)											-
Interest expense	-	-	-	-	-	-	-	-	(866)	-	(866)
Fee and commission income	3,702	-	187,748	-	33,697	-	15,437	-	247,142	-	487,726
Dividend income	-	-	-	-	700,000	-	-	-	-	-	700,000
Other general administrative expenses	(7,099)	-	(5,404)	-	(720)	-	-	-	-	-	(13,223)

* Other related parties are the entities that are controlled by the ultimate controlling party.

28. Financial assets and liabilities: fair values and accounting classifications

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:

KZT'000	Measured at fair value through profit or loss	Measured at amortised cost	Measured at fair value through other comprehensive income	Total carrying amount	Fair value
Cash and cash equivalents	-	3,346,115	-	3,346,115	3,346,115
Securities at fair value through profit or loss	9,099,335	-	-	9,099,335	9,099,335
Securities at fair value through other comprehensive income	-	-	1,155,007	1,155,007	1,155,007
Amounts receivable under reverse repurchase agreements	-	40,000	-	40,000	40,000
Securities measured at amortized cost	-	1,519,222	-	1,519,222	1,523,094
Other financial assets	-	489,895	-	489,895	489,895
	9,099,335	**5,395,232**	**1,155,007**	**15,649,574**	**15,653,446**
Amounts payable under repurchase agreements	-	1,305,324	-	1,305,324	1,305,324
Other financial liabilities	-	36,480	-	36,480	36,480
	-	**1,341,804**	**-**	**1,341,804**	**1,341,804**

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2018:

KZT'000	Measured at fair value through profit or loss	Measured at amortised cost	Measured at fair value through other comprehensive income	Total carrying amount	Fair value
Cash and cash equivalents	-	511,181	-	511,181	511,181
Securities at fair value through profit or loss	5,529,336	-	-	5,529,336	5,529,336
Amounts receivable under reverse repurchase agreements	-	130,096	-	130,096	130,096
Securities measured at amortized cost	-	2,924,057	-	2,924,057	2,880,040
Other financial assets	-	25,791	-	25,791	25,791
	5,529,336	**3,591,125**	**-**	**9,120,461**	**9,076,444**
Other financial liabilities	-	23,292	-	23,292	23,292
	-	**23,292**	**-**	**23,292**	**23,292**

28. Financial assets and liabilities:fair values and accounting classifications, continued

Accounting classifications and fair values, continued

The estimates of fair value are intended to approximate 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. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Company determines fair values using other valuation techniques.

Valuation methods include cash flow discounting models and estimates of the net present value, comparisons with similar instruments for which market quotes are known, and other valuation models. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

At each reporting date, the Company analyzes changes in the value of assets and liabilities for which, according to accounting policies, the Company requires revaluation or reanalysis. For the purposes of this analysis, the Company checks the basic input data used in the previous valuation, comparing the information in the valuation calculations with contracts and other significant documents.

Fair value hierarchy

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: inputs other than quotes prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for identical or similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The table below analyses financial instruments measured at fair value as at 31 December 2019, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the separate statement of financial position:

KZT'000	Level 1	Level 2	Total
Securities at fair value through profit or loss			
- assets	5,945,498	3,046,177	8,991,675
Securities at fair value through other comprehensive income			
- Debt and other fixed income instruments	1,155,007	-	1,155,007
	7,100,505	**3,046,177**	**10,146,682**

Securities, which are listed on the KASE but which do not have an active market as at 31 December 2019, are classified as Level 2 in the fair value hierarchy. As at 31 December 2019 financial instruments categorised to Level 2 category comprise government securities of KZT 3,046,177 thousand.

28. Financial assets and liabilities: fair values and accounting classifications, continued

Fair value hierarchy, continued

The table below analyses financial instruments measured at fair value as at 31 December 2018, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the separate statement of financial position:

KZT'000	Level 1	Level 2	Total
Securities at fair value through profit or loss			
- assets	4,710,772	544,198	5,254,970
	4,710,772	**544,198**	**5,254,970**

Securities, which are listed on the KASE but which do not have an active market as at 31 December 2018, are classified as level 2 in the fair value hierarchy. As at 31 December 2018 financial instruments categorised to Level 2 category comprise government securities of KZT 544,198 thousand.

In many cases, all significant inputs into the valuation techniques are wholly observable, for example by reference to information from similar transactions in the currency market. In cases where all inputs are not observable, for example because there are no observable trades in a similar risk at the reporting date, the Company uses valuation techniques that rely on unobservable inputs – e.g. volatilities of certain underlying, expectations on termination periods.

Despite the fact that the Company believes that its fair value measurements are adequate, the use of different methods and judgments may lead to different estimates of fair value.

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2019:

KZT'000	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Assets					
Cash and cash equivalents	-	3,346,115	-	3,346,115	3,346,115
Amounts receivable under reverse repurchase agreements	-	40,000	-	40,000	40,000
Securities measured at amortized cost	-	1,523,094	-	1,523,094	1,519,222
Other financial assets	-	489,895	-	489,895	489,895
Liabilities					
Amounts payable under repurchase agreements	-	1,305,324	-	1,305,324	1,305,324
Other financial liabilities	-	36,480	-	36,480	36,480

28. Financial assets and liabilities: fair values and accounting classifications, continued

Fair value hierarchy, continued

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2018:

KZT'000	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Assets					
Cash and cash equivalents	-	511,181	-	511,181	511,181
Amounts receivable under reverse repurchase agreements	-	130,096	-	130,096	130,096
Securities measured at amortized cost	-	2,880,040	-	2,880,040	2,924,057
Other financial assets	-	25,791	-	25,791	25,791
Liabilities					
Other financial liabilities	-	23,292	-	23,292	23,292

29. Subsequent events

Effect of COVID-19 Virus

On 15 March 2020 the government of the Republic of Kazakhstan declared a state of emergency which has subsequently been extended to 30 April 2020 in response to the global COVID-19 virus pandemic. A number of restrictions on the movement of individuals within Kazakhstan have been imposed, in order to reduce the spread of the virus. This has reduced the normal economic activities of many businesses in the country.

Other governments across the world have imposed similar restrictions in order to limit the impact of the virus, resulting in a significant reduction in global economic activity.

Global oil prices also fell significantly in March 2020, and the Kazakhstan Tenge weakened against the USD from a rate of KZT 382.59 to one USD at 31 December 2019, to approximately 435 KZT to one USD at 22 April 2020.

Management of the Company consider that the economic effects of the COVID-19 virus are likely to be significant both globally and in Kazakhstan. This may result in a contraction in economic activity, and a fall in asset prices in Kazakhstan. However, the net assets of the Company's subsidiary are significantly in excess of its carrying amount in these separate financial statements, and management therefore consider that impairment of this investment is unlikely to occur.

Other subsequent events

On 2 March 2020, the Board of Directors of the Bank approved a related party transaction related to the disposal of 100% of shares of the subsidiaries: Insurance Company Jýsan Garant JSC and First Heartland Jýsan Invest JSC to the Company, in accordance with the Law of the Republic of Kazakhstan "On Banks and Banking Activity". The deal was not completed at the date of approval of these separate financial statements. A cash consideration of KZT 15,706 million will be paid by the Company as a result of disposal.

On 2 March 2020, according to the decision of the Board of Directors of the Company, there was an approval of a payment of dividends from the Bank's net retained earnings of prior years. The amount of attributable to Company dividends per one ordinary share is KZT 145.57, representing a total amount of KZT 19,261,389 thousand. The dividend was paid and received by the Company on 5 March 2020.

29. Subsequent events, continued

Other subsequent events, continued

On 20 April 2020, according to the decision of the Board of Directors of the Company, there was an approval of a further dividend payment from the Bank's retained earnings. The amount of dividends per one ordinary share is KZT 710.81, representing a total amount of KZT 94,052,264 thousand, and KZT 440.31 per one preferred share, representing a total amount of KZT 931,640 thousand. The dividend was paid and received by the Company on 20 April 2020.