First Heartland Jusan Bank JSC

Consolidated Financial Statements

for 2019
together with Independent Auditors' Report

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Independent Auditors' Report

To the Board of Directors of First Heartland Jusan Bank JSC

Opinion

We have audited the consolidated financial statements of First Heartland Jusan Bank JSC (previously, First Heartland Bank JSC) and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statements of profit or loss, 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (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 Consolidated Financial Statements* section of our report. We are independent of the Group 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 consolidated 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 consolidated financial statements of the Group as at and for the year ended 31 December 2018 were audited by other auditors who expressed an unmodified opinion on those statements on 29 April 2019.

«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.

Key Audit Matters

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

Reverse acquisition by First Heartland Bank JSC

Please refer to Notes 1 and 5 in the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
On 6 February 2019 the Group's parent company, First Heartland Securities JSC, purchased a controlling interest in Tsesnabank JSC, which was subsequently renamed to First Heartland Jusan Bank JSC. On 2 September 2019, a legal merger of First Heartland Bank JSC and First Heartland Jusan Bank JSC was completed. Although this merger transaction took place between parties under common control, management concluded that common control was transitory, (commencing on 6 February 2019), and that IFRS 3 Business Combination was therefore applicable. Although the continuing legal entity subsequent to the merger was First Heartland Jusan Bank JSC, management concluded that the acquirer for financial reporting purposes was First Heartland Bank JSC. This was principally due to the fact that First Heartland Jusan Bank JSC (formerly Tsesnabank JSC) had been acquired from an unrelated party immediately prior to the period of transitory common control. Accordingly, the reverse acquisition method was selected to account for this business combination in the Group's consolidated financial statements.	We read the contractual documentation relating to the acquisition of First Heartland Jusan Bank JSC, and its subsequent merger with First Heartland Bank JSC and made enquiries of management of the Group in order to confirm our understanding. We considered the Group's judgements, in particular with respect to the following key areas: - The determination of transitory common control and resulting application of IFRS 3. - The identification of First Heartland Bank JSC as the acquiring business. - The appropriate date from which the business combination should be reflected in the Group's consolidated financial statements. We reviewed the fair value of the identifiable assets and liabilities determined by the independent valuation expert, and involved our own valuation specialist to assess the appropriateness of the techniques applied. We critically assessed whether management had appropriately identified all assets acquired and liabilities assumed, in determining the resulting gain on reverse acquisition, including previously unrecognised intangible assets and liabilities. We also assessed whether the disclosures included in the consolidated financial statements with respect to the business combination, including those relating to significant accounting judgements and estimates, are appropriate.

Also, management determined that the appropriate date from which this transaction should be recorded in these consolidated financial statements should be 6 February 2019, due to the fact that this is the date on which First Heartland Jusan Bank JSC (formerly Tsesnabank JSC) originally became under common control with the Group. The acquisition method under IFRS 3 requires management to estimate the fair value of First Heartland Jusan Bank JSC's identifiable assets and liabilities at the acquisition date, which requires the application of significant judgement. Management appointed an independent valuation expert to assist them in this exercise. Accounting for the reverse acquisition is a key audit matter due to extent of accounting judgements and estimates required.	

Expected credit losses (ECL) for loans to customers measured at amortised cost	
Please refer to Notes 3, 6 and 23 in the consolidated financial statements.	
The key audit matter	**How the matter was addressed in our audit**
Loans to customers measured at amortised cost represent 18% of total assets and are stated net of an allowance for expected credit losses (ECL) that is estimated on a regular basis and is sensitive to assumptions used. The Group applies the ECL valuation model, which requires management to apply professional judgement and to make assumptions related to the following key areas: - timely identification of significant increase in credit risk and default events related to loans to customers (allocation between stages 1, 2 and 3 in accordance with IFRS 9); - assessment of probability of default (PD) and loss given default (LGD); - expected cash flows forecast for loans to customers classified in stage 3.	We analysed the key aspects of the Group's methodology and policies related to the ECL estimate for compliance with the requirements of IFRS 9, with the involvement of our own financial risk management specialists. To analyse the adequacy of professional judgement and assumptions made by management in relation to the ECL estimate, we performed the following: - For loans to corporate clients we assessed and tested the design and operating effectiveness of the controls over allocation of loans into stages. - For a sample of loans to corporate clients, we tested whether stages are correctly assigned by the Group by analyzing financial and non-financial information, as well as assumptions and professional judgements, applied by the Group. - For a sample of loans to corporate clients, we tested the correctness of data inputs for PD calculation.

Moreover, a very significant portion of the loan portfolio relates to loans classified as purchased or originated credit-impaired, whose carrying amount is determined based on an estimate of future cash flows derived from subjective assumptions including: - the valuation of underlying real estate collateral; and - expected realisation periods for such underlying collateral. Due to the significant volume of loans to customers measured at amortised cost and the related estimation uncertainty, this area is a key audit matter.	- For a sample of stage 3 loans to corporate customers, where ECL are assessed individually we critically assessed assumptions used by the Group to forecast future cash flows, including estimated proceeds from realizable collateral and their expected disposal terms based on our understanding and publicly available market information. - For loans to retail customers we tested the design and operating effectiveness of controls over timely reflection of delinquency in the underlying systems. We agreed input data into ECL calculation models to supporting documents on a sample basis. We also assessed whether the consolidated financial statements disclosures appropriately reflect the Group's exposure to credit risk.
Classification of loans to customers	
Please refer to Notes 3 and 23 in the consolidated financial statements.	
The key audit matter	**How the matter was addressed in our audit**
In order to determine the classification of loans to customers management of the Group has to assess the business model within which it holds loans to customers and whether its contractual terms give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding. Due to the nature of Group's portfolio of loans to customers and the judgement involved in determining classification, this area is a key audit matter.	We analysed the criteria used to determine the business models within which the Group holds loans to customers by making inquiries to responsible employees, reviewing the Group's internal documentation and analysing internal business processes on selected significant financial assets portfolios. We analysed the Group's assessment of whether contractual cash flows are solely payments of principal and interest by analysing underlying documents and contractual terms in relation to a sample of loans to customers. We also checked whether the Group has correctly identified and accounted for significant modifications of terms of loans to customers as of 31 December 2019, by means of analysis of underlying documents on a sample of loans to customers. We also assessed whether the consolidated financial statements provide an appropriate disclosure of key classification principles for loans to customers.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report of the Group but does not include the consolidated financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 consolidated 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 consolidated 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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Ashley Clarke
Engagement Partner

Sergey Dementyev
Certified Auditor
of the Republic of Kazakhstan,
Auditor's Qualification Certificate
МФ-0000086 of 27 August 2012

KPMG Audit LLC

State Licence 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

14 April 2020

	Note	2019	2018*
Interest income calculated using the effective interest rate	8	118,961	8,571
Other interest income	8	10,129	–
Interest expenses	8	(62,636)	(3,458)
Net interest income		**66,454**	**5,113**
Income from reduction of allowances for expected credit losses	9	1,594	3
Net interest income net of allowance for expected credit losses		**68,048**	**5,116**
Fee and commission income	10	10,037	112
Fee and commission expenses	11	(5,021)	(72)
Net fee and commission income		**5,016**	**40**
Gross insurance premiums written	12	6,408	–
Written premiums ceded to reinsurers	12	(1,521)	–
Net insurance premiums written		**4,887**	–
Change in the gross provision for unearned premiums	12	(347)	–
Reinsurers' share of change in the gross provision for unearned premiums	12	(461)	–
Net earned insurance premiums		**4,079**	–
Insurance claims incurred		(1,322)	–
Reinsurers' share of insurance claims incurred		145	–
Insurance claims incurred, net of reinsurance	13	**(1,177)**	–
Change in gross insurance contract provisions	13	(835)	–
Change in reinsurers' share in insurance contract provisions	13	949	–
Net insurance claims incurred	13	**(1,063)**	–
Net loss on change in fair value of loans to customers measured at fair value through profit or loss		(416)	–
Net gain on securities at fair value through profit or loss		553	–
Net gain/(loss) from derecognition of investment securities measured at fair value through other comprehensive income		1,365	(18)
Net gains from foreign currencies	14	8,910	204
Other (expense)/income		(69)	15
Other operating income		**10,343**	**201**
Loss on revaluation of property and equipment and intangible assets		(1,240)	–
Loss on operations with derivatives		(992)	–
Other income from reversal of provisions		3,058	–
Personnel expenses	15	(21,908)	(2,105)
Other general and administrative expenses	16	(22,103)	(829)
Other operating expenses		**(43,185)**	**(2,934)**
Gain on reverse acquisition	5	241,414	–
Profit before corporate income tax expense		**284,652**	**2,423**
Corporate income tax (expense)/benefit	17	(9,586)	162
Profit for the year		**275,066**	**2,585**

* The Bank has initially applied IFRS 16 Leases ("IFRS 16") at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. See *Note 3*.

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

Kaiyp A.T.
Chairman of the Board

Salikhova N. M.
Chief Accountant

14 April 2020

	Note	*2019*	*2018*
Profit for the year		**275,066**	**2,585**
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss			
- Net change in fair value of debt instruments at fair value through other comprehensive income		5,356	(19)
- Change in allowances for expected credit losses of debt instruments at fair value through other comprehensive income		117	–
- Amount reclassified to profit or loss as a result of derecognition of investment securities measured at fair value through other comprehensive income		(1,365)	18
Foreign currency differences arising on translation of foreign operations		649	–
Total items that are or may be reclassified subsequently to profit or loss		*4,757*	*(1)*
Items that will not be reclassified subsequently to profit or loss:			
- Revaluation reserve for property and equipment, net of tax KZT 167 million *(Note 24)*		*837*	–
Total items that will not be reclassified subsequently to profit or loss		*837*	–
Other comprehensive income/(loss) for the year		**5,594**	**(1)**
Total comprehensive income for the year		**280,660**	**2,584**
Earnings per share			
Basic and diluted earnings per ordinary share (KZT)	35	2,411.39	240.74

(in millions of Kazakhstani tenge unless otherwise stated)

	Note	*31 December 2019*	*31 December 2018**
Assets			
Cash and cash equivalents	18	298,047	54,599
Derivative financial instruments	19	13	34
Amounts due from banks and other financial institutions	20	3,548	–
Securities measured at fair value through profit or loss	21	5,027	94
Investment securities	22	606,861	101,751
Loans to customers	23	414,651	39
Promissory notes from the Ministry of Finance of the Republic of Kazakhstan ('MFRK')		70,241	–
Insurance premiums and reinsurance assets		3,313	–
Property, equipment and intangible assets	24	54,272	1,987
Non-current assets held for sale	25	9,144	–
Investment property	26	5,441	–
Current income tax asset		644	66
Deferred tax asset	17	2,284	–
Other assets	27	18,639	198
Total assets		**1,492,125**	**158,768**
Liabilities			
Amounts due to banks and other financial institutions	28	9,836	–
Amounts payable under repurchase agreements	29	4,987	–
Derivative financial instruments	19	42	–
Amounts due to customers	30	791,626	143,985
Debt securities issued	31	148,604	–
Subordinated debt	32	75,277	–
Lease liabilities	3	4,489	–
Current income tax liability		24	–
Deferred tax liability	17	73,522	160
Insurance contract provisions		5,961	–
Other liabilities	33	18,451	980
Total liabilities		**1,132,819**	**145,125**
Equity			
Share capital	34	216,540	9,280
Additional paid-in capital	34	631	74
Revaluation reserve for property and equipment		1,945	1,108
Fair value reserve		4,108	–
Foreign currency translation reserve		649	–
Reverse acquisition reserve	5	(137,564)	–
Retained earnings		272,997	3,181
Total equity		**359,306**	**13,643**
Total equity and liabilities		**1,492,125**	**158,768**

* The Bank has initially applied IFRS 16 *Leases* ("IFRS 16") at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. See *Note 3*.

	Note	*2019*	*2018**
Cash flows from operating activities			
Interest received		82,635	6,870
Interest paid		(49,530)	(2,985)
Fee and commission received		10,120	86
Fee and commission paid		(4,900)	(72)
Insurance premiums received		6,185	–
Insurance premiums paid to reinsurers		(2,306)	–
Net insurance claims paid		(1,165)	–
Realised gains lesses losses from dealing in foreign currencies		6,011	155
Receipts on financial derivative operations		(2,034)	–
Other income receipts		1,537	14
Personnel and other general and administrative expenses paid		(40,877)	(1,977)
Net increase/(decrease) in operating assets			
Amounts due from banks and other financial institutions		8,075	–
Securities at fair value through profit or loss		795	(93)
Loans to customers		34,731	25
Other assets		8,677	(85)
Net (decrease)/ increase in operating liabilities			
Amount due to banks and other financial institutions		(17,557)	–
Amounts due to customers		63,842	50,765
Amounts payable under repurchase agreements		(94,512)	–
Other liabilities		(6,150)	4
Net cash flow (used in)/from operating activities before corporate income tax		**3,577**	**52,707**
Corporate income tax paid		(374)	–
Net cash (used in)/from operating activities		**3,203**	**52,707**
Cash flows from investing activities			
Cash and cash equivalents acquired due to business combination	5	672,696	–
Purchase of investment securities measured at amortised cost		(4,356,715)	(1,241,061)
Repayment of investment securities measured at amortised cost		4,240,752	1,142,695
Purchase of investment securities at fair value through other comprehensive income		(598,877)	(142,598)
Sale and repayment of investment securities at fair value through other comprehensive income		310,027	141,749
Purchase of promissory notes of the Ministry of Finance of the Republic of Kazakhstan		(70,196)	–
Proceeds from sale of non-current assets held for sale		188	–
Acquisition of property, equipment and intangible assets		(4,376)	(138)
Proceeds from sale of property and equipment		148	–
Net cash from/(used in) investing activities		**193,647**	**(99,353)**

	Note	*2019*	*2018**
Cash flows from financing activities			
Redemption of subordinated debt	32	(15,159)	–
Redemption of debt securities issued	31	(7,163)	–
Repayment of lease liabilities	3	(1,406)	–
Proceeds from issue of share capital	34	70,253	1,000
Dividends paid to the Group's shareholder	34	(5,250)	(700)
Net cash from financing activities		**41,275**	**300**
Net increase/(decrease) in cash and cash equivalents		**238,125**	**(46,346)**
Effect of exchange rates changes on cash and cash equivalents		5,331	5,714
Effect of ECL changes on cash and cash equivalents		(8)	(12)
Cash and cash equivalents at the beginning of the year		54,599	95,243
Cash and cash equivalents at the end of the year	18	**298,047**	**54,599**

* The Bank has initially applied IFRS 16 Leases ("IFRS 16") at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. See *Note 3*.

(in millions of Kazakhstani tenge unless otherwise stated)

	Attributable to equity holders of the Group							
	Share capital	***Additional paid-in capital***	***Fair value reserve***	***Cumulative foreign currency translation reserve***	***Revaluation reserve for property and equipment***	***Reverse acquisition reverse***	***Retained earnings***	***Total capital***
Balance at 31 December 2018	9,280	74	–	–	1,108	–	3,181	**13,643**
Total comprehensive income								
Profit for the year	–	–	–	–	–	–	275,066	**275,066**
Other comprehensive income								
Items that are or may be reclassified subsequently to profit or loss:								
- -Net change in fair value of debt instruments at fair value through other comprehensive income	–	–	5,356	–	–	–	–	**5,356**
- Change in allowances for expected credit losses of debt instruments at fair value through other comprehensive income	–	–	117	–	–	–	–	**117**
- Amount reclassified to profit or loss as a result of derecognition of investment securities measured at fair value through other comprehensive income	–	–	(1,365)	–	–	–	–	**(1,365)**
Exchange differences on transalation	–	–	–	649	–	–	–	**649**
Total items that are or may be reclassified subsequently to profit or loss	–	–	*4,108*	*649*	–	–	–	***4,757***
Items that will not be reclassified subsequently to profit or loss:								
- Revaluation reserve for property and equipment, net of tax KZT 167 million *(Note 24)*	–	–	–	–	837	–	–	**837**
Total items that will not be reclassified subsequently to profit or loss	–	–	–	–	*837*	–	–	***837***
Total other comprehensive income	–	–	4,108	649	837	–	–	**5,594**
Total comprehensive income for the year	**–**	**–**	**4,108**	**649**	**837**	**–**	**275,066**	**280,660**
Transactions with owners recorded directly in equity								
Cancellation of opening share capital	(9,280)	(74)	–	–	–	9,354	–	**–**
Reverse acquisition reserve (*Note 34)*	146,287	631	–	–	–	(146,918)	–	**–**
Shares issued *(Note 34)*	70,253	–	–	–	–	–	–	**70,253**
Dividends paid	–	–	–	–	–	–	(5,250)	**(5,250)**
Total transactions with the owners	**207,260**	**557**	**–**	**–**	**–**	**(137,564)**	**(5,250)**	**65,003**
Balance at 31 December 2019	**216,540**	**631**	**4,108**	**649**	**1,945**	**(137,564)**	**272,997**	**359,306**

* The Group has initially applied IFRS 16 *Leases* at 1 January 2019, using the modified retrospective approach from 1 January 2019. Under this method, the standard is applied retrospectively and the cumulative effect from its initial recognition is recognised at the date of initial application.

The notes set out on pages 16 to 108 form an integral part of these consolidated financial statements

(in millions of Kazakhstani tenge unless otherwise stated)

	Attributable to equity holders of the Group						
	Share capital	***Additional paid-in capital***	***Fair value reserve***	***Cumulative foreign currency translation reserve***	***Revaluation reserve for property and equipment***	***Retained earnings***	***Total capital***
Balance at 31 December 2017	8,280	74	–	–	1,145	1,267	**10,766**
Effect of adoption of IFRS 9	–	–	–	–	–	(8)	**(8)**
Restated balance under IFRS 9 at 1 January 2018	**8,280**	**74**	**–**	**–**	**1,145**	**1,259**	**10,758**
Total comprehensive income							
Profit for the year	–	–	–	–	–	2,585	**2,585**
Total comprehensive income for the year	–	–	–	–	**–**	**2,585**	**2,585**
Transactions with owners recorded directly in equity							
Shares issued *(Note 34)*	1,000	–	–	–	–	–	**1,000**
Dividends paid	–	–	–	–	–	(700)	**(700)**
Total transactions with the owners	**1,000**	**–**	**–**	**–**	**–**	**(700)**	**300**
Amortisation of revaluation reserve for property and equipment	–	–	–	–	(37)	37	**–**
Balance at 31 December 2018	**9,280**	**74**	**–**	**–**	**1,108**	**3,181**	**13,643**

1. General information

Organisation and operations

These consolidated financial statements include the financial statements of First Heartland Jusan Bank JSC (former Tsesnabank JSC) (the "Bank") and its subsidiaries.

The Bank was registered on 17 January 1992 as Tsesnabank Open Joint Stock Company ("OJSC") 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.

On 6 February 2019, First Heartland Securities JSC, an investment arm of the financial holding company of Private Fund Nazarbayev Fund and group of autonomous education organisations Nazarbayev University and Nazarbayev Intellectual Schools purchased 99.8% of the ordinary shares of the Bank.

On 26 April 2019 the Bank was renamed First Heartland Jusan Bank JSC with the retail brand "Jusan Bank".

The Bank operates based on the general license No.1.2.35/225/37 for banking and other operations and activities on securities market granted on 29 August 2019 by the National Bank of the Republic of Kazakhstan (the "NBRK"). On 3 February 2020 the Bank's license No.1.2.35/225/37 for banking and other operations and activities on securities market was re-issued due to changes in the legislation.

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 Bank is a member of the Kazakhstan Deposit Insurance Fund (the "KDIF").

Reverse acquisition

On 27 June 2019, at the joint general meeting of the shareholders a decision was made on a voluntary reorganisation of the Bank in the form of a merger of First Heartland Bank JSC (i.e. a "legal subsidiary") with the Bank (i.e. a "legal parent company") in accordance with the procedure and on terms determined by the legislation of the Republic of Kazakhstan.

On 29 August 2019 First Heartland Bank JSC approved and signed a deed of transfer of its property, rights and liabilities to the Bank. On 2 September 2019, the merger of the Bank and First Heartland Bank was completed.

As part of the business combination under IFRS 3 Business Combinations, for the purpose of accounting, First Heartland Bank JSC was determined to be the "acquirer", while the Bank and its subsidiaries are defined as the "acquired group" based on the following facts:

- The Bank was previously acquired by First Heartland Securities JSC from an unrelated party on 6 February 2019, before being placed under a period of transitory common control with First Heartland Bank JSC, until the date of the legal merger.
- Following the acquisition by First Heartland Securities JSC, members of the Bank's Board of Directors and Management Board were replaced by representatives of First Heartland Bank JSC.
- Following the acquisition by First Heartland Securities, the Bank and its subsidiaries were renamed using the elements of the name of First Heartland Bank JSC.
- Following the acquisition by First Heartland Securities JSC, management decided to transfer the Bank's head office from Nur-Sultan to Almaty, where the head office of First Heartland Bank JSC and its parent compnay is located.

This accounting method in business combination is described as "reverse acquisition" under IFRS 3.

For the purpose of accounting for this business combination in these consolidated financial statements, the date of acquisition of the Bank and its subsidiaries is 6 February 2019 (*Note 5*), since that is the date when the Bank became under control of the shareholders of First Heartland Bank JSC.

Although following the merger transaction, the Bank is the continuing legal entity and parent company of the Group, the consolidated financial statements of the Bank and its subsidiaries (hereinafter, the "Group") for the year ended 31 December 2019 represent a continuation of the financial statements of First Heartland Bank JSC for the year ended 31 December 2018, since the economic substance is that First Heartland Bank JSC is the aquirer. Comparative information presented in these consolidated financial statements is also the comparative information of First Heartland Bank JSC.

1. General information, continued

Reverse acquisition, continued

The Group's consolidated statement of profit or loss and other comprehensive income reflects the financial performance of First Heartland Bank JSC for the year ended 31 December 2019, including financial performance of the Bank and its subsidiaries during the period from 6 February 2019 to 31 December 2019. The Group's consolidated statement of financial position as at 31 December 2019 reflects the assets and liabilities of First Heartland Bank JSC at the carrying value and the assets and liabilities of the Bank and its subsidiaries, initially recognised in these consolidated financial statements based on their fair value as at 6 February 2019 as adjusted to reflect movements during the period to 31 December 2019.

As at 31 December 2019, the Bank has 20 branches and 117 sub-branches from which it conducts business throughout the Republic of Kazakhstan. The registered address of the head office is 242 Nazarbayev Avenue, Medeusky District, Almaty, Republic of Kazakhstan. The majority of the Bank's assets and liabilities are located in the Republic of Kazakhstan.

Information on the Group's subsidiaries included in these consolidated financial statements as at 31 December 2019 and 31 December 2018 is presented below:

			Ownership, %	
Name	***Country of registration***	***Principal activity***	***31 December 2019***	***31 December 2018***
Plus Bank PJSC	Russian Federation	Banking	100.00	–
Jusan Garant Insurance Company JSC	Republic of Kazakhstan	Insurance activity	100.00	–
First Heartland Jusan Invest JSC	Republic of Kazakhstan	Broker and dealer services	100.00	–
OMAD Yug LLC	Republic of Kazakhstan	Doubtful and bad assets management	100.00	–
OMAD Centre LLC	Republic of Kazakhstan	Doubtful and bad assets management	100.00	–
First Heartland Capital JSC	Republic of Kazakhstan	Investment portfolio management	100.00	100.00

Shareholders

On 6 February 2019 First Heartland Securities JSC, owned by Private Fund "Nazarbayev Fund" and a group of autonomous education organisations Nazarbayev University and Nazarbayev Intellectual Schools, purchased a package of ordinary shares from Financial Holding "Tsesna" JSC and became the holder of 99.8% of the voting shares of the Bank.

As at 31 December 2019, the Bank's sole shareholder is First Heartland Securities JSC, which owns 100% of outstanding ordinary shares.

As at 31 December 2019, the ultimate controlling party of the Group is the Private Fund "Nazarbayev Fund", a non-profit organization created exclusively to support the financial activities of the autonomous educational organizations "Nazarbayev University" and "Nazarbayev Intellectual Schools" and their organizations (31 December 2018: autonomous educational organization "Nazarbayev University").

The consolidated financial statements of the Group for the year ended 31 December 2019 were authorised for release by the Management Board of the Bank on 13 April 2020.

Kazakhstan business environment

The Group's operations are primarily located in Kazakhstan. Consequently, the Group 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 44*). 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.

1. General information, continued

Kazakhstan business environment, continued

The consolidated 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 Group. The actual business environment may differ from management's assessment.

2. Basis of preparation

Statement of compliance

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

Basis for measurement

The consolidated financial statements are prepared on the historical cost basis except as stated in *Note 3*. For example, financial instruments measured at fair value through profit or loss ("FVTPL") and at fair value through other comprehensive income ("FVOCI"), financial derivatives, land and buildings and investment property are stated at fair value, and insurance liabilities are accounted for based on actuarial calculations.

Functional and presentation currency of the consolidated financial statements

The functional currency of the Bank and its subsidiaries, except for Plus Bank PJSC 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 functional currency of subsidiary Plus Bank PJSC is the Russian Rouble.

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

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

3. Significant accounting policies

Changes in accounting policies

Accounting principles used in preparation and presentation of the accompanying consolidated financial statements correspond to those used in preparation of the First Heartland Bank's consolidated 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 Group has not early adopted any other standards, interpretation or amendments that have been issued but not yet effective.

IFRS 16 Leases

The Group has initially adopted IFRS 16 *Leases* from 1 January 2019.

IFRS 16 replaces existing leases IFRS 17 *Lease*s, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases - Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. Thus, adoption of IFRS 16 did not have impact on the accounting of lease contracts under which the Group acts as a lessor.

The Group applied IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

3. Significant accounting policies, continued

Changes in accounting policies, continued

IFRS 16 Leases, continued

On transition to IFRS 16, the Group has used a number of simplifications of a practical nature and has not recognised right-of-use assets. In particular, the Group determined that the lease term ends within 12 months of the date of initial application, such leases do not contain extension options, and the Group will not be subject to significant economic penalties, if the Group fails to extend lease for the subsequent 12-month term.

Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of IFRS 16, which have been applied from the date of initial application:

i. *Group as a lessee*

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

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

Short-term leases and leases of low-value assets

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

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

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

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

3. Significant accounting policies, continued

Changes in accounting policies, continued

IFRS 16 Leases, continued

Summary of new accounting policies, continued

i. *Group as a lessee, continued*

Amounts recognised in the consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows

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

	Right-of-use assets		*Lease liabilities*
	Buildings	***Total***	
As at 31 December 2018	–	–	–
Additions from business combination	4,007	4,007	(3,954)
New additions	1,579	1,579	(1,486)
Disposals	(3)	(3)	3
Modifications to lease terms	(176)	(176)	158
Depreciation expense	(1,110)	(1,110)	–
Interest expense	–	–	(487)
Payments	–	–	1,406
Effect of changes in exchange rate	133	133	(129)
As at 31 December 2019	**4,430**	**4,430**	**(4,489)**

ii. *Operating lease − Group as a lessor*

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

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

Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Bank's and the subsidiaries' tax filings in different jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments.

The Group determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. The Interpretation did not have an impact on the consolidated financial statements of the Group.

3. Significant accounting policies, continued

Changes in accounting policies, continued

Annual Improvements 2015–2017 Cycle

IFRS 3 Business combination

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation. An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early adoption permitted.

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

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where it originally recognised those past transactions or events. An entity applies 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 Group's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

Amendments to IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. The entity applies the amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early adoption permitted.

Since the Group's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

Basis for consolidation

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquire; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

The Group elects on transaction-by-transaction basis whether to measure non-controlling interests at fair value, or at their proportionate share of the recognised amount of the identifiable net assets of the acquiree, at the acquisition date.

3. Significant accounting policies, continued

Basis for consolidation, continued

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Funds management

The Group manages and administers assets held in unit trusts and other investment vehicles on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity.

Acquisitions and disposals of non-controlling interests

The Group accounts for the acquisitions and disposals of non-controlling interests as transactions with equity holders in their capacity as equity holders. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the parent.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Reverse acquisition

If a transaction is determined to be accounted for as a reverse acquisition, the Group applies all principles of recognition and measurement of IFRS 3, including the requirement for recognition of goodwill but a legal acquiree/subsidiary will be considered as an accounting acquirer from a viewpoint of the financial statements, while a legal acquirer/parent company will be considered as an accounting acquiree. The amount of goodwill recognised under reverse acquisition, is determined as the excess of (a) over (b) below:

(a) the consideration (generally determined at acquisition-date fair value) transferred by the accounting acquirer, i.e. acquiree/subsidiary;

(b) the net of the acquisition-date amounts (or other value measurements recognised in according with the requirements of this IFRS) of the identifiable assets acquired and the liabilities assumed by the accounting acquiree, i.e. legal acquirer/parent company.

In a reverse acquisition, the accounting acquirer usually issues no consideration for the acquiree. Instead, the accounting acquiree usually issues its equity shares to the owners of the accounting acquirer. Accordingly, the acquisition-date fair value of the consideration transferred by the accounting acquirer for its interest in the accounting acquiree is based on the number of equity interests the legal subsidiary would have had to issue to give the owners of the legal parent the same percentage equity interest in the combined entity that results from the reverse acquisition. The fair value of the number of equity interests calculated in that way can be used as the fair value of consideration transferred in exchange for the acquiree.

The consolidated financial statements prepared following a reverse acquisition are issued under the name of the legal parent (accounting acquiree) but described in the notes as a continuation of the financial statements of the legal subsidiary (accounting acquirer) to adjust retroactively the accounting acquirer's legal capital to reflect the legal capital of the accounting acquiree. Comparative information presented is the information of the legal subsidiary (accounting acquirer), which was not initially presented in the previous financial statements of the legal parent (accounting acquiree), and also is retroactively adjusted to reflect the legal capital of the legal parent (accounting acquiree).

3. Significant accounting policies, continued

Basis for consolidation, continued

Reverse acquisition, continued

Because the consolidated financial statements represent the continuation of the financial statements of the legal subsidiary (accounting acquirer) except for its capital structure, the consolidated financial statements reflect:

(a) the assets and liabilities of the legal subsidiary (the accounting acquirer) recognised and measured at their pre-combination carrying amounts;

(b) the assets and liabilities of the legal parent (the accounting acquiree) recognised and measured at their acquisition-date fair value in accordance with IFRS 3;

(c) the retained earnings and other equity balances of the legal subsidiary (accounting acquirer) before the business combination but not the retained earnings and other equity balances of the legal parent (accounting acquiree);

(d) the amount recognised as issued equity interests in the consolidated financial statements determined by adding the issued equity interest of the legal subsidiary (the accounting acquirer) outstanding immediately before the business combination to the fair value of the legal parent (accounting acquiree) determined in accordance with IFRS 3. However, the equity structure (i.e. the number and type of equity interests issued) reflects the equity structure of the legal parent, including the equity interests the legal parent issued to effect the combination;

(e) the statement of profit or loss and other comprehensive income for the current period reflects profits and losses of the legal subsidiary (accounting acquirer) for the entire period together with the results of the legal parent (accounting acquiree) in the period following acquisition (based on fair values attributable thereto).

Accounting for reverse acquisition is applied only in the consolidated financial statements of the Group.

Foreign currency translation

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest rate and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary assets and liabilities denominated in foreign currencies that are measured based on historical cost are retranslated to the functional currency at the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of equity instruments (reclassified to financial assets) measured at fair value through other comprehensive income and recognised in other comprehensive income.

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

Foreign operations

The assets and liabilities of foreign subsidiaries, including goodwill and fair value adjustments arising on acquisition, are translated to tenge at the exchange rates at the reporting date. The income and expenses of foreign subsidiaries are translated to tenge at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve in equity.

3. Significant accounting policies, continued

Foreign operations, continued

When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such item form part of a net investment in a foreign operation and are recognised in other comprehensive income, and presented in the translation reserve in equity.

Measurement of fair value

The Group measures financial instruments classified as at FVTPL and FVOCI, and certain non-financial assets such as land and buildings 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 Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within 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) prices in active markets for identical assets or liabilities.
- Level 2: valuation models, in which significant assessment of fair value are based on inputs related to the lowest level of hierarchy and are observable in the market either directly or indirectly.
- Level 3: valuation models, in which significant assessment of fair value are based on inputs not based on observable data and the unobservable inputs have a significant effect on the instrument’s valuation.

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group 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.

Recognition of income and expenses

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

3. Significant accounting policies, continued

Recognition of income and expenses, continued

Interest income and expense

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

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

For purchased or originated credit-impaired ("POCI") financial assets, the Group calculates interest income by calculating the credit-adjusted effective interest rate and applying that rate to the amortised cost of the asset. The credit-adjusted effective interest rate 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 consolidated statement of profit or loss and other comprehensive income.

Fee and commission income

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

Other fee and commission income – including operations, guarantees and letters of credit and account servicing fees – is recognised as the related services are performed.

Loan commitment fee shall be recognised on a straight-line basis over the term of related loan commitment when granting a loan to the borrower under the loan commitment is not highly probable.

The contract with a customer, which resulted in a financial instrument recognised in the unconsolidated financial statements of the Bank, may be partially within the scope of IFRS 9 and partially within the scope of IFRS 15. In this case, the Bank first applies IFRS 9 to separate and measure that part of the contract, which is within the scope of IFRS 9 and then applies IFRS 15 to the remaining part of this contract.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same Group); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Group's operations are highly integrated and constitute two operating business segments – banking and insurance activity – for the purposes of IFRS 8 *Operating Segments*.

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 Group 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.

3. Significant accounting policies, continued

Financial assets and liabilities, continued

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

- amortised cost:
- at FVOCI; or
- at FVTPL.

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

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

Amounts due from banks and other financial institutions, loans to customers, investment securities at amortised cost

The Group measures amounts due from banks and other financial institutions, loans to customers, and other financial investments at amortised cost, only when both of the following conditions are met:

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

These terms are detailed below.

Business model assessment

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

The Group's business model is not assessed at the level of individual instruments but at a higher level of aggregated portfolios and is based on observable factors, such as:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

3. Significant accounting policies, continued

Financial assets and liabilities, continued

Initial measurement, continued

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

SPPI test

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

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgment 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 securities and promissory notes measured at FVOCI

The Group measures debt securities and promissory notes at FVOCI, if both of the following conditions are met:

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

FVOCI debt securities and promissory notes are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and gains and losses from foreign currencies 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 on debt securities and promissory notesat FVOCI will not decrease the carrying amount of these financial assets in the statement of financial position that continue to be measured at fair value. Instead, the amount equal to the allowance for expected losses that would be created when measuring the asset at amortised cost is recognized in OCI as the cumulative amount of the impairment with the recognition of corresponding amounts in profit or loss. The cumulative amount of losses recognised in OCI is reclassified to profit or loss when the asset is derecognised.

Equity instruments at FVOCI

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

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

3. Significant accounting policies, continued

Financial assets and liabilities, continued

Initial measurement, continued

Financial guarantees, letters of credit and credit related commitments

The Group issues guarantees, letters of credit and credit related commitments.

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

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

The Group occasionally issues commitments to provide loans at below-market interest rates. Such commitments are initially recognised at fair value and subsequently measured at the higher of an ECL allowance and the amount initially recognised less cumulative income, where appropriate.

Performance guarantees

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

Reclassification of financial assets and liabilities

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

Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, amount due from the NBRK, and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of short-term commitments. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

Receivables under repurchase and reverse repurchase agreements and securities lending

Securities sold under sale and repurchase agreements ("repo") are accounted for as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and in case the transferee has the right by contract or custom to sell or repledge them, reclassified as investment securities pledged under sale and repurchase agreements. The corresponding liabilities are presented as accounts payable on repurchase agreements. Securities purchased under agreements to resell ("reverse repo") are recorded as cash and cash equivalents. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective interest rate method.

Securities pledged under repo are retained in the statement of financial position. Securities borrowed are recorded in the statement of financial position only if 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 statement of income. The obligation to return them is recorded as a trading liability and measured at fair value.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments, including futures, forwards, swaps and options) on currency markets and capital markets. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors.

3. Significant accounting policies, continued

Financial assets and liabilities, continued

Initial measurement, continued

Derivative financial instruments, continued

Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the statement of profit or loss and other comprehensive income as "income/expense on operations with derivatives".

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

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

Borrowings

Issued separate financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to banks and other financial institutions, amounts due to customers, debt securities issued, subordinated debts and other borrowed funds. 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.

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

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the recognised amounts and an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The right to set off if that right is not contingent on a future event and enforceable both in:

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

Restructuring of loans to customers

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

The Group assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. Assessment of the Group's financial assets other then loans to customersis performed in a similar way.

The Group derecognises a financial asset, e.g. a loan to a customer, if the related contractual terms are renegotiated to the extent that it in fact becomes a new loan, and records the difference as gains or losses arising from derecognition before impairment loss is recognised. Upon initial recognition the loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI. When assessing, whether the loan to customer should be derecognised, the Group considers the following:

- change the currency of the financial asset;
- the change of a counterparty (e.g. a borrower);
- the change of terms of financial asset that lead to non-compliance with SPPI criterion (e.g. inclusion of conversion feature);
- combining and separating loan agreements.

3. Significant accounting policies, continued

Restructuring of loans to customers, continued

If the modification does not imply a substantial change in cash flows, such modification does not result in a derecognition. Based on the changes in cash flows discounted at the original effective interest rate, the Group recognises gains or losses from the modification that are recorded within interest income calculated using the effective interest rate method in the statement of profit or loss before impairment loss is recognised.

If the modification does not result in derecognition, the Group also reassesses the significant increase in credit risk or the need to classify assets as credit-impaired. After the designation of an asset as credit-impaired as a result of modification, it remains within Stage 3 for a probation period of at least 6 months. To transfer a restructured loan from Stage 3, regular payments of more than insignificant amounts of principal or interest are needed during at least half of the probation period in accordance with the modified amortisation schedule.

Impairment

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

- financial assets that are debt instruments;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

The Group 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 Group in accordance with the contract and the cash flows that the Group 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;
- *undrawn loan commitments*: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- *financial guarantee contracts*: the present value of expected payments to reimburse the holder less any amounts that the Group expects to recover.

3. Significant accounting policies, continued

Impairment, continued

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 Group 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.

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 Group on terms that the Group 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 Group 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.

3. Significant accounting policies, continued

Derecognition of financial assets and financial 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 statement of financial position where:

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

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

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

Write off

Financial assets are written off in part or in full, only when the Group does not expect to recover their value. If the amount to be written off is higher than the accumulated impairment allowance, the difference is at first recorded as the increase in the allowance that is subsequently applied to the gross carrying amount. All the subsequent reversals are recognised as credit loss expenses. The write-off relates to the derecognition event.

Financial liabilities

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

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

Government grants

Government grants are recognised when there is a reasonable assurance that they will be received and that the conditions associated with the grants will be complied with. If a government grant is issued to finance specific expenses, it is recognised as income on a systematic basis in the same periods in which costs, which the grant is to compensate, are expensed. Such grants are deducted from the appropriate expenses when such expenses are recognised in the consolidated financial statements.

Where the Group receives grants in the form of non-monetary assets, an asset and a grant are measured at nominal value and recognised in profit or loss in equal parts, in accordance with the pattern of consumption of the economic benefits embodied in the underlying asset over the estimated useful live thereof.

The benefit of a government loan at a below-market rate of interest is treated as a government grant. Loan is recognised and measured in accordance with IFRS 9 *Financial Instruments*. The benefit of the below-market rate of interest is measured as the difference between the initial carrying value of the loan measured in accordance with IFRS 9 and the proceeds received.

3. Significant accounting policies, continued

Property and equipment

Owned assets

Items of property and equipment except for land and buildings are stated in the consolidated financial statements at cost less accumulated amortisation and impairment losses.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

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

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. Revaluation is performed with sufficient frequency to avoid significant differences between the fair value of a revalued asset and its carrying amount.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the derived amount is restated based on the revalued amount of the asset. Any revaluation surplus is credited to the revaluation reserve for property and equipment 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 and equipment.

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

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the first day of the month following the acquisition date or, in respect of internally constructed assets, on the first day of the month following the time an asset is completed and ready for use. Land, construction-in-progress and assets to be installed are not depreciated. The estimated useful lives are as follows:

	Years
Buildings	25-100
Computer equipment	5-10
Vehicles	7
Other	2-20

The assets' 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.

Intangible assets

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

Licenses, patients, trademarks and permits valid within 12 (twelve) months are accounted for by the Group as deferred expenses.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful life is from 2 to 30 years.

Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment property is measured at fair value.

3. Significant accounting policies, continued

Non-current assets held for sale

The Group classifies a non-current asset (or a disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current asset (or a disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or a disposal group) and its sale must be highly probable.

High probability of sale implies the Group management's positive intent to follow a plan to sell the non-current asset (or a disposal group). In this case, it is necessary to start the program of active measures to search for a buyer and fulfil this plan. In addition, a non-current asset (or a disposal group) must have been actively marketed for a sale at price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the non-current asset (or a disposal group) as held for sale.

The Group measures the assets (or a disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Group recognises an impairment loss for any initial or subsequent write-down of the asset (or a disposal group) to fair value less costs to sell if events or changes in circumstance indicate that their carrying amount may be impaired.

Provisions

A provision is recognised in the consolidated statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the amount of such liability is significant, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Contingencies

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

Liabilities on pensions and other employee benefits

The Group does not have any pension arrangements separate from the State Pension Programme of the Republic of Kazakhstan, which requires withholdings by the employer calculated as a percentage from current gross salary payments. Such withholdings are expensed in the period in which the related salaries are earned and are included in '*Personnel expenses*' in the consolidated statement of profit or loss and other comprehensive income. The Group makes social tax contributions for its employees to the budget of the Republic of Kazakhstan. The Group has no post-retirement benefit obligations or commitments to pay.

Equity

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares, other than on a business combination, are recognised as a deduction equity net of any tax effects. Any excess of the fair value of consideration received over the par value of shares issued is recorded as additional paid-in capital.

Cumulative non-redeemable preference shares

The component of cumulative non-redeemable preference shares that exhibits characteristics of a liability is recognised as a liability in the consolidated statement of financial position, net of transaction costs. The corresponding cumulative dividends on those shares are charged as interest expense in the consolidated statement of profit or loss and other comprehensive income. On issuance of cumulative non-redeemable preference shares, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long-term liability on the amortised cost basis until extinguished on redemption.

Treasury shares

Where the Bank or its subsidiaries acquire the Bank's shares, their cost, including related transaction costs, net of corporate income tax, is deducted from total equity as treasury shares and recorded as a deduction from equity in the consolidated financial statements.

3. Significant accounting policies, continued

Dividends

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

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

Taxation

Corporate income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current corporate income tax includes the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustments to corporate income tax payable in respect of previous years. Current corporate income tax payable also includes any tax liability arising from dividends.

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.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

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

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

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current income tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current income tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

Insurance contracts

Classification of contracts

Contracts under which the Group accepts significant insurance risk from another party (the “policyholder”) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the “insured event”) adversely affects the policyholder or other beneficiary are classified as insurance contracts.

3. Significant accounting policies, continued

Insurance contracts, continued

Classification of contracts, continued

Insurance risk is the risk other than financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Insurance contracts may also transfer some financial risk.

Insurance risk is significant if, and only if, an insured event could cause the Group to pay significant additional benefits. After the contract is classified as an insurance contract, it remains so until all rights and obligations expire or are fulfilled.

Contracts under which the transfer of insurance risk to the Group from the policyholder is not significant are classified as financial instruments.

Recognition and measurement of contracts

Premiums

General business premiums written comprise the premiums on contracts entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period. Premiums are disclosed gross of commission payable to intermediaries and exclude taxes and levies based on premiums. The earned portion of premiums received is recognised as revenue. Premiums are earned from the date of attachment of risk, over the indemnity period, based on the pattern of risks underwritten. Outward reinsurance premiums are recognised as an expense in accordance with the pattern of reinsurance service received. The portion of outward reinsurance premiums not recognised is treated as a prepayment.

Provision for unearned premiums

The provision for unearned premiums comprises the proportion of gross premiums written which is estimated to be earned in the following or subsequent financial years, computed separately for each insurance contract using the daily pro-rata method, adjusted if necessary to reflect any variation in the incidence of risk during the period covered by the contract.

Claims

Claims comprise claims and claim handling expenses paid during the financial year together with the movement in the provision for outstanding claims.

Claims outstanding comprise provisions for the Group's estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date whether reported or not, and related internal and external claims handling expenses. Claims outstanding are assessed by reviewing individual claims and making allowance for claims incurred but not yet reported, the effect of both internal and external foreseeable events, such as changes in claims handling procedures, legislative changes and past experience and trends. Provisions for claims outstanding are not discounted.

Whilst management considers that the gross provisions for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and developments and may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the consolidated financial statements for the period in which the adjustments are made, and disclosed separately if material. The methods used, and the estimates made, are reviewed regularly.

Reinsurance assets

The Group cedes reinsurance in the normal course of business for the purpose of limiting its potential net loss through the diversification of its risks. Assets, liabilities, income and expense arising from ceded reinsurance contracts are presented separately from the related assets, liabilities, income and expense from the related insurance contracts because the reinsurance arrangements do not relieve the Group from its direct obligations to its policyholders.

Only rights under contracts that give rise to significant transfer of insurance risk are accounted for as reinsurance assets. Rights under contracts that do not transfer significant insurance risk are accounted for as financial instruments.

3. Significant accounting policies, continued

Insurance contracts, continued

Reinsurance assets, continued

Reinsurance premiums for ceded reinsurance are recognised as an expense on a basis that is consistent with the recognition basis for the premiums on the related insurance contracts. For general insurance business, reinsurance premiums are expensed over the period that the reinsurance cover is provided based on the expected pattern of the reinsured risks. The unexpensed portion of ceded reinsurance premiums is included in reinsurance assets.

The net amounts paid to a reinsurer at the inception of a contract may be less than the reinsurance assets recognised by the Group in respect of its rights under such contracts.

The amounts recognised as reinsurance assets are measured on a basis that is consistent with the measurement of the provisions held in respect of the related insurance contracts.

Reinsurance assets include recoveries due from reinsurance companies in respect of claims paid. These are classified as reinsurers' share in insurance contract provisions in the consolidated statement of financial position.

Reinsurance assets are assessed for impairment at each reporting date. An asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Group may not recover all amounts due, and that the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.

Insurance acquisition costs

Insurance acquisition costs include direct costs such as commissions paid to insurance agents and brokers and indirect costs such as administrative expenses connected with the processing of proposals and the issuing of policies. Insurance acquisition costs are expensed as incurred.

Liability adequacy test

At each reporting date, liability adequacy tests are performed to determine if the insurance contract provisions are adequate. Current best estimates of all future contractual cash flows and related expenses, such as claims handling expenses, and investment income from assets backing the insurance contract provisions are used in performing these tests.

If a shortfall is identified, an additional provision is established, if necessary. The deficiency is recognised in profit or loss for the year.

Insurance receivables and payables

Amounts due to and from policyholders, agents and reinsurers are financial instruments and are included in insurance receivables and payables, and not in insurance contract provisions or reinsurance assets.

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 Bank 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 Bank'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 judgements and estimates

Estimation uncertainty

The preparation of consolidated financial statements in conformity with IFRS requires management of the Group to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

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

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Additional details are provided in *Note 43.*

Fair value of property and equipment - land and buildings

The Group measures the fair value of land and buildings once every three years resulting from accounting for land and buildings at revalued amount in accordance with the Group's accounting policy.

As at 31 December 2019, the fair value of land and buildings of the Group were determined by independent appraisers. The valuation resulted in an increase in the carrying amounts of land and buildings by KZT 1,093 million recognised within equity of the Group. Loss on revaluation of land plots and buildings in the amount of KZT 1,240 million was recognised in the consolidated statement of profit or loss and other comprehensive income.

Classification of loans to customers

As a part of classification process, the Group assesses the contractual terms of the loans to customers to identify whether they represent solely payments of principal and interest on the amount outstanding. To make this assessment, the Group applies judgment and considers relevant factors such as asset performance and project risk related to loans, non- or limited-recourse characteristics, the extent of equity participation by the borrower, and the extent of other credit enhancements. 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 loan is classified at FVTPL.

Expected Credit Losses

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

- the Group's internal credit grading model, which assigns probabilities of default ("PD");
- the criteria used by the Group, including qualitative assessments, for assessing if there has been a significant increase in credit risk resulting in ECL for financial assets being measured on a lifetime basis;
- grouping of financial assets, including various formulas and choice of input data;
- determination of associations between macroeconomic scenarios and economic inputs such as unemployment levels and collateral values, and the resulting effect on PD, exposures at default ("EAD") and losses given default ("LGD");
- selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

Management of the Group monitors collateral on a regular basis. Management uses its judgments based on experience or independent estimates to adjust the value of collateral to reflect current market conditions.

The amount of impairment allowance recognised in the consolidated statement of financial position as at 31 December 2019 was KZT 510,276 million (31 December 2018: nil). Details are disclosed in *Note 23*.

4. Significant accounting judgements and estimates, continued

Estimation uncertainty, continued

Reverse acquisition

On 2 September 2019, a legal merger of First Heartland Bank JSC and the Bank was completed. The merged Group was renamed to First Heartland Jysan Bank JSC.

Although this merger transaction took place between parties under common control, management concluded that common control was transitory, commencing on 6 February 2019, and that IFRS 3 Business Combinations was therefore applicable.

Under IFRS 3, it was necessary for management of the Group to identify an acquiring entity in order to account for the business combination. Although the continuing legal entity subsequent to the merger was the Bank, management concluded that the acquirer for financial reporting purposes was First Heartland Bank JSC. This was principally due to the fact that the First Heartland Bank JSC's parent company had itself acquired the Bank JSC from an unrelated party immediately prior to the period of transitory common control. Further considerations relating to this accounting judgement are disclosed in *Note 1*.

Accordingly, the reverse acquisition method was selected to account for this business combination in the Group's consolidated financial statements.

Also, management determined that the appropriate date from which this transaction should be recorded in these consolidated financial statements should be 6 February 2019, due to the fact that this is the date on which the Bank originally became under common control with First Heartland Bank JSC.

Further details are disclosed in *Notes 1* and *5*.

Taxation

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

Management believes that as at 31 December 2019 and 2018 the Group is in compliance with the tax laws of the Republic of Kazakhstan and Russian Federation regulating its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretive tax issues.

5. Business combination

Merger with First Heartland Bank JSC

On 6 February 2019 First Heartland Securities JSC purchased a controlling interest in the Bank from Financial Holding "Tsesna" JSC and became the holder of 99.8% of the voting shares of the Bank.

On 27 August 2019 the Bank has acquired 100% of shares of First Heartland Bank JSC 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. The principal activities of First Heartland Bank are commercial operations, operations with securities, foreign exchange, derivatives transactions, lending, issuing guarantees, customer account opening and maintenance for legal entities and individuals, correspondent account opening and maintenance, cash transactions and other banking services provided to legal entities and individuals.

Taking control of the Bank and its subsidiaries will enable the Group to optimise operating processes. The acquisition is expected to provide the Group with an increased share of the market. The Group also expects to reduce costs through economies of scale.

As at the date of the merger, both legal entities were under common control of one ultimate shareholder – Private Fund Nazarbayev Fund. But common control existed only for a short period immediately before the merger, therefore, management determined the control to be "transitory" during that period. The transaction has therefore been reflected in accordance with IFRS 3 in these consolidated financial statements *(Note 1)*.

5. Business combination, continued

Merger with First Heartland Bank JSC, continued

Furthermore, management considers that it is appropriate to reflect the business combination from date that the Bank was acquired from an unrelated party by First Heartland Securities JSC on 6 February 2019, instead of the date of the legal merger with First Heartland Bank JSC, on 2 September 2019. As a result, these consolidated financial statements include the results of both combining businesses during the seven month period of transitory common control, in order to better reflect the substance of the business combination under IFRS 3.

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the acquisition date.

Fair value of identifiable net assets of the Bank and its subsidiaries	*At 6 February 2019*
Assets	
Cash and cash equivalents	672,696
Amounts due from banks and other financial institutions	12,272
Securities measured at fair value through profit or loss	5,748
Investment securities	91,448
Loans to customers	421,202
Property and equipment and intangible assets	40,338
Investment property	9,532
Insurance premiums and reinsurance assets	2,143
Non-current assets held for sale	3,538
Current tax asset	844
Deferred tax asset	2,274
Other assets	13,391
Total assets	**1,275,426**
Liabilities	
Amounts due to banks and other financial institutions	34,482
Amounts payable under repurchase agreements	98,432
Amounts due to customers	571,114
Debt securities issued	143,625
Subordinated debt	89,577
Insurance contract provisions	4,779
Deferred tax liability	63,350
Lease liability	3,954
Other liabilities	24,699
Total liabilities	**1,034,012**
Total identifiable net assets	**241,414**

The fair value of identifiable net assets of the Bank and its subsidiaries at 6 February 2019 is equal to KZT 241,414 million.

Due to the distressed business situation of the Bank at the time of the acquisition, and the conditions of a forced sale that stipulated measures on the part of the National Bank of the RK and Government of the RK related to the attraction of a new investor for the Company to allow for its subsequent additional capitalisation and recovery, it was necessary for the Group to complete the acquisition of the bank in a short timeframe.

The consideration offered for the Bank was determined based on a conservative estimate of the fair value of the Bank's assets and liabilities at the date of the sale. In particular, significant judgement was required to estimate expected future cash flows from the Bank's impaired corporate loan portfolio, due to these cash flows being dependent on the realisation of diverse objects of underlying collateral, over an uncertain future time period. As a result of this significant uncertainty regarding the expected future cash flows at the date of agreeing the sales price for the Bank, the consideration agreed between the buyer and seller was de minimis.

A more detailed estimate of the fair value of net identifiable assets of the Bank and its subsidiaries as at 6 February 2019 was completed by management of the Group at the end of 2019, and amounted to KZT 241,414 million. The Group therefore recognised a gain from a reverse acquisition of KZT 241,414 million in the consolidated statement of profit or loss. Management believes that this gain arose mainly due to the distressed business situation of the acquiree at the time of the transaction, and the resulting forced sale conditions.

5. Business combination, continued

Merger with First Heartland Bank JSC, continued

The valuation techniques used for measuring the fair value of material assets acquired were as follows.

Assets acquired	Valuation technique
Investment securities	*Market comparison technique and discounted cash flow technique:* The valuation model considers quoted market prices for similar items when available, and the present value of expected future cash flows discounted using a risk-adjusted market rate.
Loans to customers	*Discounted cash flow technique:* The valuation model considers the present value of expected future cash flows from the foreclosure of collateral, discounted using a risk-adjusted discount rate.
Property, plant and equipment	*Market comparison technique and cost technique*: The valuation model considers quoted market prices for similar items when available, and depreciated replacement cost when appropriate. Depreciated replacement cost reflects adjustments for physical deterioration as well as functional and economic obsolescence.

The valuation techniques used for measuring the fair value of material liabilities assumed were as follows.

Liabilities assumed	Valuation technique
Debt securities issued and subordinated debt	*Discounted cash flow technique:* The valuation model considers the present value of expected future cash flows discounted using a risk-adjusted market rate.

The methods and assumptions used to determine the fair value of the Bank and its subsidiaries' financial instruments at the acquisition date were substantially consistent with the fair value estimation techiniques described in *Note 43*, and used by the Group to determine fair values at the reporting date of 31 December 2019.

In addition to the above assumptions to determine the fair value of recognised assets, management also considered the existence of any previously unrecognised intangible assets, including the fair value of the existing brand name of the acquiree, and existing customer relationships. Management concluded that the value of such assets was not significant, and as a result they have not been recognised in the financial statements.

Given the significant amount of negative goodwill arising on acquisition, management also gave particular consideration to assessing the completeness of liabilities acquired, including the fair value of any contingent liabilities. Following a review of the Bank's contingent obligations, management considered that the fair value of any such obgligations was not material, due to the low likelihood outstaning claims being successful.

The respective amounts of gross contractual amounts and expected uncollectable amounts related to them at the acquisition date are as following:

- amounts due from banks and other financial institutions – KZT 13,258 million and KZT 986 millions;
- investment securities – KZT 93,331 million and KZT 1,883 million;
- loans to customers – KZT 1,081,938 million and KZT 660,468 million;
- other financial assets – KZT 17,987 million and KZT 4,596 million.

From the date of acquisition to 31 December 2019 the Bank and its subsidiaries contributed net interest income of KZT 62,152 million and profit of KZT 47,571 million.

If acquisition of business had occurred on 1 January 2019, management estimates that consolidated net interest income would have been KZT 68,887 million, and consolidated profit for the year would have been KZT 276,111 million. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2019.

6. Financial risk review

For information on the Group's financial risk management framework, see *Note 37*. The corresponding description of accounting policies is presented in *Note 3*.

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition , the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment and including forward-looking information.

6. Financial risk review, continued

Significant increase in credit risk, continued

The purpose of the assessment is to increase credit risk in respect of positions exposed to credit risk by comparing:

- the remaining lifetime PD for this point in time that was estimated at the reporting date;
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Group uses three criteria for determining whether there has been a significant increase in credit risk:

- quantitative test based on movement in PD (depending on the related group of risk of the financial instrument the movement of 100-200% increase in PD results in significant increase in credit risk);
- qualitative indicators; and
- backstop of 30 days past due.

Credit risk grades

The Group allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default. These factors may vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data.

Corporate exposure	All exposures (corporate and retail exposures)
• Information obtained during periodic review of borrowers' files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes. • Data from credit reference agencies, press articles, changes in external credit ratings. • Quoted bond and credit default swap ("CDS") prices for the issuer where available. • Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities.	• Payment record – this includes overdue status as well as a range of variable about payment ratios. • Utilisation of the granted limit. • Requests for and granting of forbearance. • Existing and forecast changes in business, financial and economic conditions.

Generating the term structure of PD

Credit risk grades and the client's share are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analysed by jurisdiction or region, by type of product and borrower as well as by credit risk grading.

The Group employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For the majority of exposures the key driver would be GDP forecast growth.

The Group uses expert judgment in assessment of forward-looking information. This assessment is based also on external information (see discussion below on incorporation of forward-looking information). The Group then uses these forecasts to adjust its estimates of PDs.

6. Financial risk review, continued

Determining whether credit risk has increased significantly

The Group assesses whether credit risk has increased significantly since initial recognition at each reporting period. The criteria for determining whether credit risk has increased significantly vary depending on different types of lending, in particular between corporate and retail, as well as by type of product and include both quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

Credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Group's quantitative modelling, it is determined that there are the objective factors resulting in deterioration of financial and economic position of the counteragent. When determining whether credit risk has increased significantly, remaining lifetime ECLs are adjusted for changes in maturity.

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Group's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as placement on a watch list. Such qualitative factors are based on its expert judgement and relevant historical experience.

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due, with the exception of amounts due from banks and investment securities, for which significant increase in credit risk occurs, if past due by more than 7 days. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases the Group determines a probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes history of up-to-date payment performance against the modified contractual terms.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement (Stage 1) to credit-impaired (Stage 3); and
- there is no unwarranted volatility in loss allowance from transfers between 12-month ECL (Stage 1) and lifetime ECL measurements (Stage 2).

Definition of default

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held);
- the borrower is past due more than 90 days on any material credit obligation to the Bank, with the exception of amounts due from banks and investment securities, which are considered to be in default if past due more than 7 days. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the Group considers indicators that are:

- qualitative – e.g. breaches of covenant;
- quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and

6. Financial risk review, continued

Definition of default, continued

- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Incorporating of forward-looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Group uses expert judgment in assessment of forward-looking information. This assessment is based on the information from external sources.

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variable and credit risk and credit losses. This key driver is inflation and GDP forecasts.

Predicted relationships between the key indicator and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data for the last 5 years.

Modified financial assets

The contractual terms of a loan agreement may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the borrower. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new instrument at fair value in accordance with the accounting policy set out in *Note 3*.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Group renegotiates loans to customers in financial difficulties (referred to as "forbearance activities") to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy.

For financial assets modified as part of the Group's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Group's ability to collect interest and principal and the Group's previous experience of similar forbearance action. As part of this process, the Group evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

6. Financial risk review, continued

Measurement of ECL, continued

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD. ECL for exposures in Stage 2 and Stage 3 is calculated by multiplying lifetime PD by LGD and EAD. For financial assets, which are individually credit-impaired, the amount of allowances is measured for the remaining lending period as a difference between the gross carrying amount of assets and present value of future cash flows.

Generally, these parameters are derived from internally developed statistical models of the Group and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on statistical models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where possible, the Group uses market inputs for assessment of PD of large counteragents - legal entities. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

The Group estimates LGD parameters based on the history of recovery rates of operating activities and sale of collateral, which are based on statistical data and judgements on defaulted borrowers. The LGD models consider the structure, collateral and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, loan-to-value ("LTV") ratios are a key parameter in determining LGD. LGDs are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EAD is potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the guarantee exposure when the financial guarantee becomes payable.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- instrument type;
- credit risk gradings;
- collateral type;
- LTV ratio for retail mortgages;
- date of initial recognition;
- remaining term to maturity;
- industry;
- geographic location of the borrower.

The groupings must be subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

For portfolios in respect of which the Group has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows.

	Carrying amount at 31 December 2019	***External benchmarks used***	
		PD	***LGD***
Cash and cash equivalents	256,862	Moody's default study	100%; 0% - if the Government acts as a counterparty
Amounts due from banks and other financial institutions	3,548	Moody's default study	100%; 0% - if the Government acts as a counterparty
Investment securities	606,799	Moody's default study	Moody's recovery rates study
Promissory notes from the MFRK	70,241	Moody's default study	0%

	Carrying amount at 31 December 2018	***External benchmarks used***	
		PD	***LGD***
Cash and cash equivalents	53,362	Moody's default study	70%; 0% - if the Government acts as a counterparty
Investment securities	101,751	Moody's default study	70%; 0% - if the Government acts as a counterparty

6. Financial risk review, continued

Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost, FVOCI debt instruments as at 31 December 2019 and 31 December 2018, respectively. Unless specially indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

Explanation of the terms: Stage 1, Stage 2, Stage 3, and POCI are included in *Note 3*.

	31 December 2019			
	Stage 1	***Stage 2***	***Stage 3***	***Total***
Cash and cash equivalents				
- rated from AA- to AA+	15,519	–	–	**15,519**
- rated from A- to A+	33,261	–	–	**33,261**
- rated from BBB- to BBB+	205,509	–	–	**205,509**
- rated from BB- to BB+	1,957	–	–	**1,957**
- rated from B- to B+	251	169	–	**420**
- not rated	120	76	–	**196**
	256,617	**245**	**–**	**256,862**
Expected credit losses	–	(5)	–	**(5)**
Total	**256,617**	**240**	**–**	**256,857**

	31 December 2018			
	Stage 1	***Stage 2***	***Stage 3***	***Total***
Cash and cash equivalents				
- rated from BBB- to BBB+	44,600	–	–	**44,600**
- rated from BB- to BB+	5,818	–	–	**5,818**
- rated from B- to B+	2,867	–	–	**2,867**
- not rated	89	–	–	**89**
	53,374	–	–	**53,374**
Expected credit losses	(12)	–	–	**(12)**
Total	**53,362**	**–**	**–**	**53,362**

	31 December 2019			
	Stage 1	***Stage 2***	***Stage 3***	***Total***
Amounts due from banks and other financial institutions				
- rated from A- to A+	46	–	–	**46**
- rated from BBB- to BBB+	970	–	–	**970**
- rated from BB- to BB+	1,015	–	–	**1,015**
- rated from B- to B+	154	3	–	**157**
- rated from CCC- to CCC+	45	–	–	**45**
- not rated	1,317	–	–	**1,317**
	3,547	**3**	**–**	**3,550**
Expected credit losses	(2)	–	–	**(2)**
Total	**3,545**	**3**	**–**	**3,548**
Investment securities measured at FVOCI				
- rated from BBB- to BBB+	359,047	–	–	**359,047**
- rated from BB- to BB+	6,383	–	–	**6,383**
- rated from B- to B+	128	615	–	**743**
Total	**365,558**	**615**	**–**	**366,173**
Investment securities measured at amortised cost				
- rated from BBB- to BBB+	240,423	203	–	**240,626**
Total	**240,423**	**203**	**–**	**240,626**
Acquired right of claim on promissory note to the MFRK				
- rated from BBB- to BBB+	70,241	–	–	**70,241**
Total	**70,241**	**–**	**–**	**70,241**

6. Financial risk review, continued

Credit quality analysis, continued

	31 December 2018			
	Stage 1	***Stage 2***	***Stage 3***	***Total***
Investment securities measured at fair value through other comprehensive income				
- rated from A- to A+	838	–	–	**838**
Total	**838**	**–**	**–**	**838**
Investment securities measured at amortised cost				
- rated from BBB- to BBB+	100,913	–	–	**100,913**
Total	**100,913**	**–**	**–**	**100,913**

	31 December 2019				
	Stage 1	***Stage 2***	***Stage 3***	***POCI***	***Total***
Loans to corporate customers at amortised cost					
- rated A- to A+	548	–	–	–	**548**
- rated from BBB- to BBB+	2,724	–	–	–	**2,724**
- rated BB- to BB+	4,015	–	–	–	**4,015**
- rated B- to B+	24,327	–	35	–	**24,362**
- rated from CCC- to CCC+	5,884	817	–	4,874	**11,575**
- not rated	24,911	47	126	6,620	**31,704**
- defaulted	–	–	10,328	613,161	**623,489**
	62,409	**864**	**10,489**	**624,655**	**698,417**
Expected credit losses	(405)	(29)	(10,315)	(474,334)	**(485,083)**
Loans to corporate customers	**62,004**	**835**	**174**	**150,321**	**213,334**

	31 December 2019				
	Stage 1	***Stage 2***	***Stage 3***	***POCI***	***Total***
Loans to corporate customers at amortised cost					
Not overdue	61,568	825	960	262,418	**325,771**
Overdue less than 30 days	803	1	–	87,546	**88,350**
Overdue 30-89 days	38	38	1,434	1,121	**2,631**
Overdue 90-179 days	–	–	1,001	8,892	**9,893**
Overdue 180-360 days	–	–	3,622	134,317	**137,939**
Overdue more than 360 days	–	–	3,472	130,361	**133,833**
	62,409	**864**	**10,489**	**624,655**	**698,417**
Expected credit losses	(405)	(29)	(10,315)	(474,334)	**(485,083)**
Total	**62,004**	**835**	**174**	**150,321**	**213,334**
Loans to retail customers at amortised cost					
Not overdue	41,691	23	433	28	**42,175**
Overdue less than 30 days	736	400	112	5	**1,253**
Overdue 30-89 days	40	470	782	35	**1,327**
Overdue 90-179 days	13	–	1,358	–	**1,371**
Overdue 180-360 days	–	–	1,962	–	**1,962**
Overdue more than 360 days	–	2	9,735	18,266	**28,003**
	42,480	**895**	**14,382**	**18,334**	**76,091**
Expected credit losses	(441)	(173)	(10,939)	(13,640)	**(25,193)**
Total	**42,039**	**722**	**3,443**	**4,694**	**50,898**
Loans to retail customers at fair value through other comprehensive income					
Not overdue	112,143	–	–	–	**112,143**
Overdue less than 30 days	794	3,689	–	–	**4,483**
Overdue 30-89 days	–	130	1,603	–	**1,733**
Overdue 90-179 days	–	–	967	–	**967**
Overdue 180-360 days	–	–	1,025	–	**1,025**
Overdue more than 360 days	–	–	866	–	**866**
	112,937	**3,819**	**4,461**	**–**	**121,217**
Expected credit losses (for information)	(3,320)	(1,237)	(22,983)	–	**(27,540)**
Total	**112,937**	**3,819**	**4,461**	**–**	**121,217**

6. Financial risk review, continued

Credit quality analysis, continued

	31 December 2018			
	Stage 1	***Stage 2***	***Stage 3***	***Total***
Loans to retail customers at amortised cost				
Not overdue	39	–	–	39
Total	**39**	**–**	**–**	**39**

	31 December 2019				
	Stage 1	***Stage 2***	***Stage 3***	***POCI***	***Total***
Other financial assets measured at amortised cost					
Not overdue	5,287	–	5	–	5,292
Overdue less than 30 days	118	–	1	–	119
Overdue 30-89 days	494	–	1	–	495
Overdue 90-179 days	9	–	15	–	24
Overdue 180-360 days	367	74	7	–	448
Overdue more than 360 days	34	–	3,507	–	3,541
	6,309	**74**	**3,536**	–	**9,919**
Expected credit losses	(223)	(74)	(1,196)	–	(1,493)
Total	**6,086**	**–**	**2,340**	**–**	**8,426**

	31 December 2018			
	Stage 1	***Stage 2***	***Stage 3***	***Total***
Other financial assets measured at amortised cost				
Not overdue	104	–	–	104
Total	**104**	–	–	**104**

7. Insurance risk management

The Group issues contracts that transfer insurance risk. This section summarises these risks and methods , which the Group uses to manage them.

Risk management objectives and policies for mitigating insurance risk

The Group's management of insurance is a critical aspect of the business. For insurance contracts, the objective is to select assets with duration and a maturity value which match the expected cash flows from the claims on those portfolios.

The primary insurance and reinsurance activity carried out by the Group assumes the risk of loss from persons or organisations that are directly subject to the risk. Such risks may relate to property, liability, accident, cargo, health, financial or other perils that may arise from an insurable event. As such the Group is exposed to the uncertainty surrounding the timing and severity of claims under the contract.

The Group manages its insurance risk through underwriting limits, approval procedures for transactions that involve new products or that exceed set limits, pricing guidelines, centralised management of reinsurance and monitoring of emerging issues.

The theory of probability is applied to the pricing and provisioning for insurance contracts. The principal risk is that the frequency and severity of claims is greater than expected. Insurance events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

Underwriting strategy

The Group's underwriting strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks over a number of years and, as such, it is believed that this reduces the variability of the outcome.

7. Insurance risk management, continued

Risk management objectives and policies for mitigating insurance risk, continued

Underwriting strategy, continued

The underwriting strategy is set out in the business plan that sets out the classes of business to be written, the territories in which business is to be written and the industry sectors to which the Group is prepared to underwrite. The strategy is cascaded down to individual underwriters through detailed underwriting authorities that set out the limits that any one underwriter can write by line size, class of business, territory and industry in order to enforce appropriate risk selection within the portfolio.

Calculation of the tariffs and prices on insurance product reflects current market conditions and covers the most probable assumptions necessary for the adjustment of future results, aiming to significantly mitigate financial risks.

Adherence to the underwriting authorities is being monitored by management on an on-going basis. Those transactions requiring special authorisation are subject to the special attention of the Board of Directors of Jysan Garant Insurance Company JSC.

Reinsurance strategy

The Group reinsures a portion of the risks it underwrites in order to control its exposures to losses and protect capital resources. The Group buys facultative and Excess-of-Loss ("XL") based reinsurance to reduce the net exposure and not to exceed the actual margin of solvency.

Ceded reinsurance contains credit risk, and such reinsurance recoveries are reported after deductions for known insolvencies and uncollectible items. The Group monitors the financial condition of reinsurers on an ongoing basis and reviews its reinsurance arrangements periodically.

The Group does not utilise any stop-loss reinsurance.

Terms and conditions of insurance contracts and nature of risks covered

The terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts are set out below. In addition, the following gives an assessment of the Group's main products and the ways in which it manages the associated risks.

General insurance contract – Civil liability of a carrier to passengers

Product features

The purpose of mandatory insurance of civil liability of a carrier to passengers is the carrier's property interest related to its obligation established by the civil legislation of the Republic of Kazakhstan to compensate damage caused to life, health and/or property of the passengers during their transportation. This product generates income from the insurance and reinsurance premiums less amounts paid to cover claims and expenses incurred by the Group. The amount payable to a passenger in case of his/her suffering a property damage and/or damage to health, life is fixed in accordance with the legislation of the Republic of Kazakhstan. General civil liability is generally considered a 'long tail' line, as it takes a relatively long period of time to finalise and settle claims for a given accident year.

Risk Management

The key risks associated with this product are underwriting risk, such as, uncertainty in calculation of the insurance payment and others. The estimated size of the reported loss is calculated based on the following information:

- In case of property damage the maximum amount is determined equal to the value of the baggage lost and/or things held by /(or put on) a passenger.
- In case of damage caused to health but without disability assignment a fixed amount is set as a compensation.
- If a disability is assigned a fixed amount is set for reimbursement, depending on the disability degree. If a passenger health is aggravated, and/or in case of his/her death, the reimbursable amount is subject to recalculation.
- In case of death a fixed reimbursable amount is determined.

Insurance risk is managed primarily through pricing, product design, underwriting and payments' management. The Group therefore monitors and reacts to changes in the general economic and commercial environment in which it operates.

7. Insurance risk management, continued

General insurance contracts – Employer's civil liability

Product features

The purpose of the employer's civil liability obligatory insurance is to insure an employee in the event of death or injury whilst at work. Income from this product is generated from the receipt of insurance premiums less amounts paid to cover claims and expenses incurred by the Group. The amount payable to an employee in the event of death or injury, is set in accordance with the laws of the Republic of Kazakhstan. As a result of the long period that it typically takes to finalise and settle claims, employer's civil liability is regarded as "long tail" business.

Risk Management

The key risks associated with this product are underwriting risk, such as, uncertainty in calculation of the insurance payment and others. The estimated size of the reported loss is calculated based on the following information:

- in case of persistent disablement of the employee:
  - amount of the lost future wages (income) to be reimbursed;
  - repayment period – the period of establishing physical disability by the medical expert committee (it may be several years or lifetime disability benefit);
  - degree of employer's culpability.
- in case of death:
  - funeral expenses;
  - number of persons having the right to be reimbursed for harm as required by the laws of the Republic of Kazakhstan;
  - age of persons having the right to be reimbursed for harm as required by the laws of the Republic of Kazakhstan*;*
  - amount of the lost future wages (income) to be reimbursed;
  - period of insurance payments.

Insurance risk is managed primarily through pricing, product design, underwriting and payments' management. The Group therefore monitors and reacts to changes in the general economic and commercial environment in which it operates.

Insurance contracts – Property

Product features

Property insurance indemnifies, subject to any limits or excesses, the policyholder against loss or damage to its own material property and business interruption arising from this damage.

The event giving rise to a claim for damage to buildings or contents usually occurs suddenly (such as a fire or burglary) and the cause is readily determinable. The claim will thus be notified promptly and can be settled without delay. Property business is therefore classified as 'short-tail', contrasted with 'long-tail' classes where the ultimate claim cost takes longer to determine.

Risk Management

The key risks associated with this product are underwriting risk, competitive risk, and claims experience risk.

Underwriting risk is the risk that the Group does not charge premiums appropriate for the different properties it insures. For private property insurance, it is expected that there will be large numbers of properties with similar risk profiles. However, for commercial business this may not be the case. Many commercial property proposals comprise a unique combination of location, type of business, and safety measures in place. Calculating a premium commensurate with the risk for these policies will be subjective, and hence risky.

7. Insurance risk management, continued

General insurance contracts – Employer's civil liability, continued

Risk Management, continued

Property classes are exposed to the risk that the insured will make false or invalid claims, or exaggerate the amount claimed following a loss. This largely explains why economic conditions correlate with the profitability of a property portfolio.

Insurance risk is managed primarily through pricing, independent assessment of property under international standards, product design, risk selection and reinsurance. The Group therefore monitors and reacts to changes in the general economic and commercial environment in which it operates.

Within the insurance process, concentrations of risk may arise where a particular event or series of events could impact heavily upon the Group's liabilities. Such concentrations may arise from a single insurance contract or through a small number of related contracts, and relate to circumstances where significant liabilities could arise.

Insurance contracts – Vehicles owner's civil liability and general civil liability

Product features

The Group undertakes general civil liability insurance on compulsory and voluntary types of insurance in the Republic of Kazakhstan, and vehicles owner's civil liability on compulsory types of insurance in the Republic of Kazakhstan. Under these contracts policyholders are reimbursed for any monetary compensation awards paid for the injury caused to body, life, health and /or property of the third parties. General civil liability is generally considered a long tail line, as it takes a relatively long period of time to finalise and settle claims for a given accident year.

Risk Management

The key risks associated with this product are underwriting risk, competitive risk, and claims experience risk. Calculating a premium commensurate with the risk for these policies will be subjective, and hence risky. Insurance risk is managed primarily through sensible pricing, product design, risk selection, appropriate investment strategy, rating and reinsurance. The Group therefore monitors and reacts to changes in the general economic and commercial environment in which it operates.

Insurance contracts – Cargo

Product features

The Group writes cargo insurance. Cargo insurance indemnifies, subject to any limits or excesses, the policyholder against loss or damage of cargo during transportation to the buyers. The return to shareholders under this product arises from the total premiums charged to policyholders less the amounts paid to cover claims and the expenses incurred by the Group. The event giving rise to a claim could be characterised as "low effect – high frequency" and the cause is readily determinable. The claim will thus be notified promptly and can be settled without delay. Cargo business is therefore classified as 'short-tail'.

Risk Management

The key risks associated with this product are underwriting risk, competitive risk, and claims experience risk. The Group will also be exposed to the risk of dishonest actions by policyholders.

Underwriting risk is the risk that the Group does not charge premiums appropriate for the different routes it insures. The risk on any policy will vary according to many factors such as route and destination, safety measures of the carrier, nature of cargo etc. Many commercial cargo proposals will comprise a unique combination of route and destination, type of cargo, and safety measures accepted by carriers. Calculating a premium commensurate with the risk for these policies will be subjective.

Cargo classes are exposed to the risk that the insured will make false or invalid claims, or exaggerate the amount claimed following a loss. This largely explains why economic conditions correlate with the profitability of a cargo portfolio. Insurance risk is managed primarily through sensible pricing, product design, risk selection and reinsurance. The Group therefore monitors and reacts to changes in the general economic and commercial environment in which it operates. Within the insurance process, it is unlikely that concentrations of risk may arise where a particular event or series of events could impact heavily upon the Group's liabilities. Cargo supplies are generally made by limited batches and various supplies are not connected.

7. Insurance risk management, continued

General insurance contracts – Employer's civil liability, continued

Insurance contracts – Casualty insurance

Product features

The purpose of the casualty insurance is to insure an employee in the event of death or significant injury caused to body, life or health, which leaded to full or partial disability of an insurant, or any other injury. Income from this product is generated from the receipt of insurance premiums less amounts paid to cover claims and expenses incurred by the Group. The amount payable to an employee in the event of death or injury is outlined in the contract and depends on the severity of injuries and their consequences. As a result of the long period that it typically takes to finalise and settle claims for a given accident year, casualty is regarded as "long tail" business.

Risk Management

The key risks associated with this product are underwriting risk, such as, uncertainty in calculation of the insurance payment and others.

The estimated size of the reported loss is calculated based on the following information:

- in case of persistent disablement of the employee:
  - repayment period – the period of establishing physical disability by the medical expert committee (it may be several years or lifetime disability benefit);
  - degree of the insurant's injury (disability).
- in case of death:
  - the payment is made in the amount of 100% of the insurance amount.

Concentration of insurance risk

A key aspect of the insurance risk faced by the Group is the extent of concentration of insurance risk which may exist where a particular event or series of events could impact significantly upon the Group's liabilities. Such concentrations may arise from a single insurance contract or through a small number of related contracts, and relate to circumstances where significant liabilities could arise. An important aspect of the concentration of insurance risk is that it may arise from the accumulation of risks within a number of individual classes or contracts tranche.

Concentrations of risk can arise in both high-severity, low frequency events, such as natural disasters and in situations where underwriting is biased towards a particular group, such as a particular geography or demographic trend.

The Group's key methods in managing these risks are two-fold. Firstly, the risk is managed through appropriate underwriting. Underwriters are not permitted to underwrite risks unless the expected profits are commensurate with the risks assumed. Secondly, the risk is managed through the use of reinsurance. The Group purchases reinsurance coverage for various classes of its liability and property business. The Group assesses the costs and benefits associated with the reinsurance programme on an ongoing basis.

Total aggregate exposures

The Group sets out the total aggregate exposure that it is prepared to accept in relation to concentrations of risk. It monitors these exposures both at the time of underwriting a risk, and on a monthly basis by reviewing reports which show the key aggregations to which the Group is exposed. The Group uses a number of modelling tools to monitor aggregation in order to measure the effectiveness of the reinsurance programmes and the net exposure to which the Group is exposed.

As at 31 December 2019 the Group has 119,092 insurance agreements in force (31 December 2018: nil).

7. Insurance risk management, continued

Total aggregate exposures, continued

Exposure to various business lines

The key concentrations identified as at 31 December 2019 are:

Type of insurance	*Total insured amount*	*Reinsurance amount*	*Net retention (after reinsurance)*
Vehicles owner's liability - obligatory	800,846	–	800,846
Civil liability of passenger carrier - obligatory	151,055	–	151,055
Property – voluntary	1,491,341	1,137,886	353,455
Transport and cargo – voluntary	193,650	59,576	134,074
Civil liability – voluntary	778,643	476,854	301,789
Other obligatory	6,827	–	6,827
Other voluntary	39,407	3,149	36,258
Casualty - voluntary	13,899	11,000	2,899
Financial losses liability – voluntary	81,748	79,061	2,687
Total	**3,557,416**	**1,767,526**	**1,789,890**

Exposure by other countries

The Group is not exposed to risks in any countries other than the Republic of Kazakhstan, as the Group has no insurance contracts covering risk outside the Republic of Kazakhstan.

Exposure to catastrophe events

The greatest likelihood of significant losses to the Group arises from catastrophic events, such as earthquake damage, resulting from an earthquake in Almaty. The Group does not possess catastrophe modelling techniques and the software enabling the modelling of Probable Maximum Loss ("PML"). However, the Group made an estimate of its losses that it believes will not exceed 20% of total aggregate exposure.

The key concentration identified is:

Catastrophe events	*Total insurance amount*	*Estimated PML (before reinsurance)*	*Net retention (after reinsurance)*
Almaty earthquake with magnitude exceeding seven points under Richter scale	103,295	20,659	20,659

Claims development

The Group uses statistical methods for insurance contract provisioning. Uncertainty about the amount and timing of claims payment for all insurance contracts is typically resolved within one year.

While the information in the table provides a historical perspective on the adequacy of unpaid claims estimates established in previous years, users of these consolidated financial statements are cautioned against extrapolating redundancies or deficiencies of the past on current unpaid loss balances. The Group believes that the estimate of total claims outstanding as of the end of 2019 is adequate. However, due to the inherent uncertainties in the reserving process, it cannot be assured that such balances will ultimately prove to be adequate.

7. Insurance risk management, continued

Analysis of claims development (gross) – total

	Accident year			
KZT million	***2016***	***2017***	***2018***	***2019***
Estimate of cumulative claims				
At the end of the accident year	2,883	2,827	1,946	2,972
- one year later	2,828	2,110	1,443	–
- two years later	2,854	2,206	–	–
- three years later	2,731	–	–	–
Estimate of cumulative claims	**2,731**	**2,206**	**1,443**	**2,972**
Cumulative payments to date	(2,628)	(1,993)	(1,185)	(1,046)
Gross outstanding claims liabilities	**103**	**213**	**258**	**1,926**

Analysis of claims development (gross) – Vehicle owner's civil liability

	Accident year			
KZT million	***2016***	***2017***	***2018***	***2019***
Estimate of cumulative claims				
At the end of the accident year	2,131	849	541	471
- one year later	2,282	744	494	–
- two years later	2,312	751	–	–
- three years later	2,149	–	–	–
Estimate of cumulative claims	**2,149**	**751**	**494**	**471**
Cumulative payments to date	(2,135)	(676)	(455)	(229)
Gross outstanding claims liabilities	**14**	**75**	**39**	**242**

8. Net interest income

Net interest income comprises the following:

	2019	***2018***
Interest income calculated using the effective interest method		
Loans to customers measured at amortised cost	46,851	3
Investment securities measured at amortised cost	26,134	7,635
Loans to customers measured at fair value through other comprehensive income	17,625	–
Investment securities measured at fair value through other comprehensive income	14,483	284
Cash and cash equivalents	12,166	649
Amounts due from banks and other financial institutions	1,081	–
Promissory notes from the MFRK	541	–
Other assets	80	–
	118,961	**8,571**
Other interest income		
Loans to customers measured at fair value through profit or loss	9,626	–
Securities measured at fair value through profit or loss	503	–
	10,129	**–**
Interest expense		
Amounts due to customers	(36,438)	(3,337)
Debt securities issued	(13,969)	–
Subordinated debt	(8,560)	–
Accounts payable under repurchase agreements	(1,708)	(121)
Amounts due to banks and other financial institutions	(1,353)	–
Lease liabilities	(487)	–
Other liabilities	(121)	–
	(62,636)	**(3,458)**
Net interest income	**66,454**	**5,113**

9. Income from reduction of allowances for expected credit losses

Income from reduction of allowances for expected credit losses comprises the following:

		2019				
	Note	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
Loans to customers at amortised cost	23	184	(159)	(4,089)	16,395	**12,331**
Loans to customers at fair value through other comprehensive income	23	(1,837)	(1,655)	(8,187)	–	**(11,679)**
Amounts due from banks and other financial institutions	20	80	–	–	–	**80**
Investment securities*)*	22	54	(83)	–	–	**(29)**
Credit related commitments	39	–	1	(15)	–	**(14)**
Cash and cash equivalents	18	(7)	–	–	–	**(7)**
Other financial assets	27	1	(14)	925	–	**912**
Total		**(1,525)**	**(1,910)**	**(11,366)**	**16,395**	**1,594**

		2018				
	Note	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
Investment securities	22	3	–	–	–	**3**
Total		**3**	**–**	**–**	**–**	**3**

10. Fee and commission income

Fee and commission income comprises the following:

	2019	*2018*
Transfer operations	3,680	–
Cash withdrawal	1,574	7
Client card account maintenance fees	1,106	6
Guarantee and letter of credit issuance fees	1,016	–
Settlement	718	56
Foreign exchange	378	–
Fee and commission income from insurance activity	296	
Internet banking	190	–
Fiduciary services	160	–
Safe deposit transactions services	82	–
Agent agreements with insurance companies	11	–
Cash collection	6	–
Other fee and commission income	820	43
Fee and commission income	**10,037**	**112**

The Group recognises fee and commission income in accordance with IFRS 15 *Revenue from Contracts with Customers* based on the objective, for which the amount of fee and commission is determined, and according to the adopted accounting policy for the appropriate financial instrument.

Fees and commissions for financial services, that are not integral to the effective interest rate on the appropriate financial instrument, is recognised depending on the type of the service either at the point in time or as the Group satisfies its performance obligation under the contract:

- fees and commissions for transfer operations, cash operations and foreign exchange is charged for execution of customers' payment orders in accordance with the tariffs depending on the type of transaction and is recognised as income at the time when transaction is performed;
- commission for guarantee and letter of credit issuance is paid by customers in advance and is recognised as income over the term of validity of a relevant guarantee or letter of credit.
- client account maintenance fees are recognised over time as the services are provided.

11. Fee and commission expense

Fee and commission expense comprises the following:

	2019	*2018*
Client card account maintenance fees	(1,804)	–
Insurance acquisition costs and insurance agents' services	(1,172)	–
Correspondent accounts maintenance	(527)	(16)
Fee and commission expense on foreign exchange	(379)	–
Fee and commission expense on letters of credit issued	(220)	–
Brokers' services	(216)	–
Fee and commission expense on agent services	(194)	–
Transfer operations	(170)	–
Agency contracts with auto dealers	(28)	–
Fee and commission expense on guarantees issued	(28)	–
Other fee and commission expense	(283)	(56)
Fee and commission expense	**(5,021)**	**(72)**

12. Net earned insurance premiums

	Obligatory insurance			*Voluntary insurance*			
2019 KZT million	***Vehicle owner's liability***	***Other obligatory***	***Property***	***Civil liability***	***Transport and cargo***	***Other voluntary***	***Total***
Gross premiums written	1,043	135	663	1,617	1,590	1,360	**6,408**
Change in the gross provision for unearned premiums	(247)	(4)	1,069	(614)	(90)	(461)	**(347)**
Gross earned premiums	**796**	**131**	**1,732**	**1,003**	**1,500**	**899**	**6,061**
Less: written premiums ceded to reinsurers	–	–	(215)	(288)	(588)	(430)	**(1,521)**
Reinsurers' share of change in the gross provision for unearned premiums	–	–	(939)	109	116	253	**(461)**
Ceded earned premiums	**–**	**–**	**(1,154)**	**(179)**	**(472)**	**(177)**	**(1,982)**
Net earned insurance premiums	**796**	**131**	**578**	**824**	**1,028**	**722**	**4,079**

13. Net insurance claims incurred

	Obligatory insurance			*Voluntary insurance*			
2019 KZT million	***Vehicle owner's liability***	***Other obligatory***	***Property***	***Civil liability***	***Transport and cargo***	***Other voluntary***	***Total***
Insurance claims incurred, net of reinsurance	(318)	(46)	(93)	(7)	(141)	(572)	**(1,177)**
Change in provisions for incurred but not reported claims	(21)	(30)	83	(31)	(56)	(13)	**(68)**
Change in provisions for reported but not settled claims	127	97	(544)	(289)	(149)	(9)	**(767)**
Change in reinsurers' share in provisions for incurred but not reported claims	–	6	(27)	2	19	22	**22**
Change in reinsurers' share in provisions for reported but not settled claims	–	–	419	448	52	8	**927**
Change in net insurance contract provisions	**106**	**73**	**(69)**	**130**	**(134)**	**8**	**114**
Net insurance claims incurred	**(212)**	**27**	**(162)**	**123**	**(275)**	**(564)**	**(1,063)**

14. Net gains from foreign currencies

Net foreign exchange gain is as follows:

	2019	*2018*
Gain on spot transactions	5,060	167
Revaluation of foreign currency items, net	3,850	37
Total	**8,910**	**204**

15. Personnel expenses

Personnel expenses are as follows:

	2019	*2018*
Employee compensation	(19,478)	(1,989)
Social contributions and payroll related taxes	(2,430)	(116)
Total	**(21,908)**	**(2,105)**

16. Other general and administrative expenses

Other general and administrative expenses are as follows:

	2019	*2018*
Depreciation and amortisation	(4,541)	(100)
Contributions to Guarantee Fund	(4,034)	–
Repair and maintenance	(2,723)	(62)
Taxes other than on income	(1,877)	(45)
Professional services	(1,202)	(212)
Transportation expenses	(1,129)	–
Rent	(1,121)	(59)
Communication and information services	(971)	(155)
Security	(727)	(31)
Advertising and marketing	(567)	–
Cash collection expenses	(319)	–
Business travel expenses	(228)	(87)
Fines and penalties	(188)	–
Stationery and office equipment supplies	(130)	–
Postal and courier services	(103)	–
Recruitment and training	(37)	–
Charity and sponsorship	(28)	–
Representation expenses	(23)	–
Insurance	(22)	–
Other	(2,133)	(78)
Other general and administrative expenses	**(22,103)**	**(829)**

17. Corporate income tax expense

Corporate income tax expense is as follows:

	2019	*2018*
Current corporate income tax expense		
Current year	(70)	–
Deferred corporate income tax (expense)/income– origination and decrease of temporary differences	(9,516)	162
Corporate income tax (expense)/ benefit	**(9,586)**	**162**

In 2019, the applicable tax rate for current and deferred tax is 20% (2018: 20%).

Reconciliation of effective tax rate for the years ended 31 December:

	2019	*%*	*2018*	*%*
Profit before income tax	**284,652**		**2,423**	
Income tax at the applicable income tax rate	**(56,930)**	**20.0**	**(485)**	**20.0**
Non-taxable gain from reverse acquisition	48,283	(17.0)	–	–
Non-taxable income	3,438	(1.2)	893	(36.9)
Unrecognised deferred tax asset	(4,797)	1.7	–	–
Non-taxable reversal of provision	612	(0.2)	–	–
Non-deductible interest expense	(192)	0.1	(244)	10.1
Non-deductible expense	–	–	(2)	0.1
	(9,586)	**3.4**	**162**	**(6.7)**

Deferred tax assets and liabilities

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to deferred tax assets and liabilities as at 31 December 2019 and 31 December 2018. Deferred income tax assets in respect of tax losses carried forward are recognised in these consolidated financial statements. The future tax benefits will only be realised if profits will be available against which the unused tax losses can be utilised and there are no changes to the law and regulations that adversely affect the Group's ability to claim the deductions in future periods.

The deductible temporary differences do not expire under current tax legislation. Period of use of tax loss carried forward expires in 10 years.

Deferred income tax assets and liabilities as at 31 December 2019 as well as their movements during the year are as follows:

	31 December 2018	*Acquired during business combination*	*Recognised in profit or loss*	*Recognised in equity*	*31 December 2019*
Debt securities issued	–	(101,893)	2,709	–	(99,184)
Subordinated debt	–	(12,520)	279	–	(12,241)
Unrecognised deferred tax asset	–	(909)	(4,797)	(135)	(5,841)
Loans to customers	–	1,650	2,309	(625)	3,334
Property and equipment and intangible assets	(330)	(636)	(330)	209	(1,087)
Other liabilities	170	1,657	211	(4)	2,034
Lease liabilities	–	(791)	(122)	15	(898)
Right-of-use assets	–	802	84	–	886
Tax loss carry-forwards	–	51,564	(9,859)	54	41,759
Deferred tax liability, net	**(160)**	**(61,076)**	**(9,516)**	**(486)**	**(71,238)**
Including:					
Deferred tax asset	**–**	**2,274**	**10**	**–**	**2,284**
Deferred tax liability	**(160)**	**(63,350)**	**(9,526)**	**(486)**	**(73,522)**

17. Corporate income tax expense, continued

Deferred tax assets and liabilities, continued

Deferred tax assets and liabilities as at 31 December 2018 as well as their movements during the year are as follows:

	31 December 2017	*Effect of transition to IFRS 9*	*Recognised in profit or loss*	*31 December 2018*
Property and equipment and intangible assets	(327)	–	(3)	**(330)**
Loans to customers	–	2	(2)	**–**
Other liabilities	3	–	167	**170**
Deferred tax liability, net	**(324)**	**2**	**162**	**(160)**

18. Cash and cash equivalents

Cash and cash equivalents consist of the following:

	31 December 2019	*31 December 2018*
Cash on hand	41,185	1,237
Balances on current accounts with the NBRK	81,403	31,118
Balances on current accounts with the CBRF	5,863	–
Balances on current bank accounts with other banks:		
- rated from A- to A+	4,561	–
- rated from BBB- to BBB+	3,641	607
- rated from BB- to BB+	1,918	5,818
- rated from B- to B+	339	177
-not rated	196	–
Term deposits with the NBRK (rated BBB-)	90,072	–
Current accounts and term deposits with other banks:		
- rated from AA- to AA+	15,519	–
- rated from A- to A+	28,700	–
- rated from BBB- to BBB+	180	1,921
- rated from BB- to BB+	39	–
- rated from B- to B+	81	2,690
-not rated	–	89
Reverse repurchase agreements	24,350	10,954
Precious metals	5	–
Gross cash and cash equivalents	**298,052**	**54,611**
Less impairment allowance	(5**)**	(12)
Cash and cash equivalents	**298,047**	**54,599**

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

None of cash and cash equivalents are past due.

Minimum reserve requirements

As at 31 December 2019, minimum reserve requirements are calculated in accordance with regulations issued by the NBRK. To meet the requirements the Bank places cash in reserve assets, which should be maintained at the level not less than average of cash on hand in the national currency and balances on current account with the NBRK in the national currency for a 4-week period (31 December 2018: at the level not less than average of cash on hand in the national currency and balances on current account with the NBRK in the national currency for a 4-week period), calculated as certain minimum level of residents' and non-residents' customer deposits and current accounts balances as well as other Bank's liabilities. As at 31 December 2019, the minimum reserve requirement is KZT 8,785 million (31 December 2018: KZT 2,956 million), and the reserve asset is KZT 25,246 million (31 December 2018: KZT 3,131 million).

Concentration of cash and cash equivalents

As at 31 December 2019 the Group has no accounts and term deposits with other banks, whose balance exceeds 10% of equity (31 December 2018: nil).

19. Derivative financial instrument

Foreign currency contracts

The Group enters into derivative transactions. The table below shows the fair values of derivatives carried as assets or liabilities, and its notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, base rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	31 December 2019			*31 December 2018*		
	Notional amount	*Fair value*		*Notional amount*	*Fair value*	
		Asset	*Liability*		*Asset*	*Liability*
Foreign currency contracts						
Swaps – foreign contracts	133,593	13	(32)	8,814	27	–
Swaps – domestic contract	8,253	–	(10)	692	7	–
		13	**(42)**		**34**	**–**

Foreign currency contracts in the table above stand for contracts concluded with RK non-resident entities and domestic contracts mean contracts concluded with RK resident entities.

At 31 December 2019, the Group has foreign currency swaps, which represent an agreement between two parties to exchange amounts corresponding to changes in foreign exchange rate based on notional amounts.

At 31 December 2018, the Group has no accounts payable and accounts receivable on foreign currency swap contracts.

During 2019, net loss on foreign currency derivative transactions amounted to KZT 992 million (2018: nil).

20. Amounts due from banks and other financial institutions

Amounts due from banks and other financial institutions are as follows:

	31 December 2019	*31 December 2018*
Mandatory reserves with the CBRF	946	–
Loans and deposits with other banks:		
- rated from A- to A+	46	–
- rated from BBB- to BBB+	24	–
- rated from BB- to BB+	1,015	–
- rated from B- to B+	157	–
- rated from CCC- to CCC+	45	–
- not rated	1,317	–
Gross amounts due from banks and other financial institutions	**3,550**	**–**
Allowance for expected credit losses	(2)	–
Amounts due from banks and other financial institutions	**3,548**	**–**

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

As at 31 December 2019 loans and deposits with other banks (not rated) of KZT 1,317 million comprise security deposits and a margin with the Kazakhstan Stock Exchange JSC ("KASE") (31 December 2018: nil).

Mandatory reserves with the CBRF is an interest-free deposit calculated in accordance with the requirements of the CBRF and the free use of which is restricted.

Concentration of amounts due from banks and other financial institutions

As at 31 December 2019, the Group has funds with KASE whose balance exceeds 10% of total amounts due from banks and other financial institutions. The gross value of this balance as at 31 December 2019 is KZT 1,317 million (31 December 2018: nil).

21. Securities measured at fair value through profit or loss

Securities measured at fair value through profit or loss comprise the following:

	31 December 2019	*31 December 2018*
Debt securities		
Notes of the NBRK	840	–
Bonds of banks rated from BB- to BB+	459	–
Total debt securities	**1,299**	–
Corporate bonds		
- rated from BBB- to BBB+	100	94
- rated from BB- to BB+	1,285	–
- rated from B- to B+	1,089	
Total corporate bonds	**2,474**	**94**
Equity financial instruments		
Corporate shares	1,254	–
	5,027	**94**

As at 31 December 2019 and 2018, financial instruments measured at fair value through profit or loss comprise securities held for sale that are not overdue.

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

22. Investment securities

Investment securities comprise:

	31 December 2019	*31 December 2018*
Investment securities measured at fair value through other comprehensive income	366,235	838
Investment securities measured at amortised cost	240,626	100,913
	606,861	**101,751**

Investment securities measured at fair value through other comprehensive income comprise:

	31 December 2019	*31 December 2018*
Debt investment securities		
Government bonds		
Notes of the NBRK	295,719	838
Eurobonds of MFRK	53,851	–
Total government bonds	**349,570**	**838**
Equity investment securities		
Corporate shares	62	–
Total equity instruments	**62**	**–**
Corporate bonds		
- rated from BBB- to BBB+	4,337	–
- rated from BB- to BB+	6,383	–
- rated from B- to B+	743	–
Total corporate bonds	**11,463**	**–**
Pledged under repurchase agreements		
Debt investment securities		
Government bonds		
Notes of the NBRK	5,140	–
Total government bonds pledged under repurchase agreements	**5,140**	–
	366,235	**838**

22. Investment securities, continued

All balances on investment securities measured at fair value through other comprehensive income are allocated to Stage 2 for ECL purposes (*Note 6*).

The table below provides an analysis of the changes in allowance for ECL for 2019 and 2018:

	2019	*2018*
ECL allowance as at 1 January	-	-
Net charge *(Note 9)*	(83)	–
Exchange differences	41	–
ECL allowance as at 31 December	**(42)**	–

Securities measured at amortised cost comprise:

	31 December 2019	*31 December 2018*
Debt investment securities		
Government bonds		
Notes of the NBRK	223,346	100,862
Eurobonds of the MFRK	17,059	51
Treasury bills of the MFRK	18	–
Total government bonds	**240,423**	**100,913**
Corporate bonds		
- rated from BBB- to BBB+	203	–
Total corporate bonds	**203**	**–**
	240,626	**100,913**

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

Corporate bonds represent interest-bearing securities, issued by local companies and banks. These securities are freely tradable on KASE.

All government bond balances are allocated to Stage 1 for ECL purposes. The table below provides an analysis of the changes in allowance for ECL for 2019 and 2018:

	2019	*2018*
Balance at 1 January		
Acquisition resulting from a business combination (Note 5)	(56)	–
Net reversal	54	–
Exchange differences	2	–
Balance at 31 December	**–**	**–**

23. Loans to customers

Loans to customers comprise the following:

	31 December 2019	*31 December 2018*
Loans to customers measured at amortised cost	774,508	39
Allowance on expected credit losses	(510,276)	–
Total loans to customers measured at amortised cost net of expected credit losses	**264,232**	**39**
Loans to customers measured at fair value through other comprehensive income	121,217	–
Loans to customers measured at fair value through profit or loss	29,202	–
	414,651	**39**

23. Loans to customers, continued

Loans to customers measured at amortised cost

Loans to customers measured at amortised cost comprise the following:

	31 December 2019					*31 December*
	Stage 1	***Stage 2***	***Stage 3***	***POCI***	***Total***	***2018***
Loans to corporate customers						
Loans to large corporates	9,048	221	9,382	220,209	**238,860**	**–**
Loans to small and medium-size companies	53,361	643	1,107	404,446	**459,557**	**–**
Total loans to corporate customers	**62,409**	**864**	**10,489**	**624,655**	**698,417**	**–**
Loans to retail customers						
Mortgage loans	22,725	242	1,869	4,286	**29,122**	**39**
Car loans	5,553	459	10,228	11,139	**27,379**	**–**
Express loans	9,011	163	135	760	**10,069**	**–**
Consumer loans	4,943	27	1,796	2,149	**8,915**	**–**
Credit cards	248	4	354	–	**606**	**–**
Total loans to retail customers	**42,480**	**895**	**14,382**	**18,334**	**76,091**	**39**
Loans to customers	**104,889**	**1,759**	**24,871**	**642,989**	**774,508**	**39**
						–
Allowance for expected credit losses	(846)	(202)	(21,254)	(487,974)	**(510,276)**	**–**
Loans to customers net of allowance for expected credit losses	**104,043**	**1,557**	**3,617**	**155,015**	**264,232**	**39**

Analysis of movements in impairment allowance

Below is an analysis of changes in gross carrying amount and corresponding ECL allowance for loans to corporate customers measured at amortised cost for the year ended 31 December 2019:

	2019				
	Stage 1	***Stage 2***	***Stage 3***	***POCI***	***Total***
Loans to corporate customers					
Gross carrying amount at 1 January	**–**	**–**	**–**	**–**	**–**
Acquisition resulting from a business combination (*Note 5*)	55,385	2,775	8,727	688,000	**754,887**
New assets originated or purchased	78,705	–	–	4,261	**82,966**
Assets that have been derecognised or repaid (except for write-offs)	(68,664)	(206)	(414)	(82,214)	**(151,498)**
Transfers to Stage 1	724	(724)	–	–	**–**
Transfers to Stage 2	(2,979)	2,979	–	–	**–**
Transfers to Stage 3	(760)	(3,486)	4,246	–	**–**
Write-offs	–	–	(1,072)	(2,328)	**(3,400)**
Net change in accrued interest	(89)	(531)	(1,556)	13,373	**11,197**
Effect of changes in exchange rates	87	57	558	3,563	**4,265**
At 31 December	**62,409**	**864**	**10,489**	**624,655**	**698,417**

23. Loans to customers, continued

Loans to customers measured at amortised cost, continued

Analysis of movements in impairment allowance, continued

	2019				
	Stage 1	***Stage 2***	***Stage 3***	***POCI***	***Total***
Loans to corporate customers					
ECL at 1 January	–	–	–	–	–
Acquisition resulting from a business combination (*Note 5*)	(465)	(1,029)	(7,478)	(486,875)	**(495,847)**
New assets originated or purchased	(211)	–	–	(4,261)	**(4,472)**
Assets that have been derecognised or repaid (except for write-offs)	266	1	(112)	30,112	**30,267**
Transfers to Stage 1	(107)	107	–	–	**–**
Transfers to Stage 2	61	(61)	–	–	**–**
Transfers to Stage 3	2	851	(853)	–	**–**
Net remeasurement of ECL	75	125	(2,097)	(9,371)	**(11,268)**
Unwinding of discount	–	–	(318)	(2,843)	**(3,161)**
Write-offs	–	–	1,072	2,328	**3,400**
Effect of changes in exchange rates	(26)	(23)	(529)	(3,424)	**(4,002)**
At 31 December	**(405)**	**(29)**	**(10,315)**	**(474,334)**	**(485,083)**

In 2019 the Group purchased a controlling interest in the Bank and its subsidiaries. This results in recognition of new instruments from the date of acquisition. However, due to the limitations of the automated banking information system, the related financial statement disclosures reflect the historic gross value of the purchased loan contracts, prior to their acquisition by the Group, together with a related allowance for expected credit losses. The additional gross disclosure of the historic loan amount does not affect the carrying amount of the newly recognised loans in the consolidated statement of financial position.

Below is an analysis of changes in gross carrying amount and corresponding ECL allowance for loans to retail customers measured at amortised cost for the year ended 31 December 2019:

	2019				
	Stage 1	***Stage 2***	***Stage 3***	***POCI***	***Total***
Loans to retail customers					
Gross carrying amount at 1 January	**39**	**–**	**–**	**–**	**39**
Acquisition resulting from a business combination (*Note 5*)	42,517	1,478	12,006	18,631	**74,632**
New assets originated or purchased	19,660	163	170	–	**19,993**
Assets that have been derecognised or repaid (except for write-offs)	(8,668)	(108)	(1,613)	(602)	**(10,991)**
Transfer to Stage 1	643	(288)	(355)	–	**–**
Transfer to Stage 2	(1,464)	1,547	(83)	–	**–**
Transfer to Stage 3	(1,678)	(1,537)	3,215	–	**–**
Net change in interest accrued	(9,102)	(404)	(541)	359	**(9,688)**
Write-offs	(3)	–	(232)	(50)	**(285)**
Unwinding of discount	(1)	–	1,181	–	**1,180**
Effect of changes in exchange rates	537	44	634	(4)	**1,211**
At 31 December	**42,480**	**895**	**14,382**	**18,334**	**76,091**

23. Loans to customers, continued

Loans to customers measured at amortised cost, continued

Analysis of movements in impairment allowance, continued

	2019				
	Stage 1	***Stage 2***	***Stage 3***	***POCI***	***Total***
Loans to retail customers					
ECL at 1 January	**–**	**–**	**–**	**–**	**–**
Acquisition resulting from a business combination (*Note 5*)	(414)	(283)	(7,221)	(13,608)	**(21,526)**
New financial assets originated or purchased	(334)	(71)	(67)	–	**(472)**
Assets that have been derecognised or repaid (except for write-offs)	5	–	(99)	52	**(42)**
Transfer to Stage 1	(167)	87	80	–	**–**
Transfer to Stage 2	45	(97)	52	–	**–**
Transfer to Stage 3	55	416	(471)	–	**–**
Net remeasurement of ECL	383	(214)	(1,714)	(137)	**(1,682)**
Write-offs	2	–	233	50	**285**
Unwinding of discount	–	–	(1,192)	–	**(1,192)**
Effect of changes in exchange rates	(16)	(11)	(540)	3	**(564)**
At 31 December	**(441)**	**(173)**	**(10,939)**	**(13,640)**	**(25,193)**

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2018 are as follows:

	2018			
	Stage 1	***Stage 2***	***Stage 3***	***Total***
Loans to retail customers				
Gross carrying amount at 1 January	**64**	**–**	**–**	**64**
Write-offs	(25)	–	–	**(25)**
At 31 December	**39**	**–**	**–**	**39**

23. Loans to customers, continued

Loans to customers measured at amortised cost, continued

Credit quality of loans to customers

The following table provides information on the credit quality of loans measured at amortised cost as at 31 December 2019:

	Loans to large corporates	*Loans to small and medium-size companies*	*Mortgage loans*	*Car loans*	*Consumer loans*	*Express loans*	*Credit cards*	*Total*
Loans to customers								
- not overdue	56,487	269,284	22,570	5,511	8,939	4,919	235	**367,945**
- overdue less than 30 days	67,792	20,558	601	475	73	90	14	**89,603**
- overdue 30-89 days	1,410	1,221	360	712	171	82	2	**3,958**
- overdue 90-179 days	5,766	4,127	211	688	70	398	5	**11,265**
- overdue more than 180 days and less than 1 year	64,144	73,795	373	1,442	24	114	9	**139,901**
- overdue more than 1 year	43,261	90,572	5,007	18,551	792	3,312	341	**161,836**
Total loans to customers before allowance for expected credit losses	**238,860**	**459,557**	**29,122**	**27,379**	**10,069**	**8,915**	**606**	**774,508**
Allowance for expected credit losses	(183,895)	(301,188)	(3,506)	(17,936)	(1,152)	(2,243)	(356)	**(510,276)**
Total loans to customers net of allowance for expected credit losses	**54,965**	**158,369**	**25,616**	**9,443**	**8,917**	**6,672**	**250**	**264,232**

The following table provides information on the credit quality of loans measured at amortised cost as at 31 December 2018:

	Loans to large corporates	*Loans to small and medium-size companies*	*Car loans*	*Mortgage loans*	*Consumer loans*	*Express loans*	*Credit cards*	*Total*
Loans to customers								
- not overdue	–	–	–	39	–	–	–	39
Total loans to customers	**–**	**–**	**–**	**39**	**–**	**–**	**–**	**39**

23. Loans to customers, continued

Key assumptions and judgments used in estimation of expected credit losses

Loans to corporate customers

In determining the loss allowance for expected credit losses on loans to corporate customers, management makes the following key assumptions:

- A discount of between 20% and 85% to the originally appraised value if the property pledged is sold.
- Exclusion from collateral value of unstable collaterals.
- A delay of up to 60 months in obtaining proceeds from the foreclosure of collateral.
- PD for loans referred to as Stage 1 in terms of credit quality was 0.01-27.45%, referred to as Stage 2 in terms of credit quality - 17.08-46.96%, depending on the borrower's internal rating.
- LGD for loans referred to as Stages 1 and 2 was 0 - 54.59%.

Changes in the above estimates may impact a loss allowance for expected credit losses. For example, to the extent that the discount to the originally appraised value of collateral on sale differs by plus/minus ten percent, loss allowance for expected credit losses on loans to corporate customers measured at amortised cost as at 31 December 2019 would be KZT 14,405 million lower/higher. To the extent that the delay in obtaining proceeds from the foreclosure of collateral differs by plus/minus one year, loss allowance for expected credit losses on loans to corporate customers measured at amortised cost as at 31 December 2019 would be KZT 12,803 million lower and KZT 11,264 million higher, respectively.

Loans to retail customers

The Bank estimates loss allowance for expected credit losses for loans to retail customers based on its past historical loss experience on each type of loan. The significant assumptions used by management in determining the loss allowance for expected credit losses for loans to retail customers include:

- migration rates are constant and can be estimated based on historic loss migration pattern for the past 5 years; a 12-month PD for groups of products referred to as Stage 1 in terms of credit quality was 2-43%;
- lifetime PD referred to as Stage 2 in terms of credit quality was 58 - 89%, depending on the group of products of homogeneous retail portfolio;
- recovery rates for uncollateralised loans are estimated based on historical cash recovery rates for the past 5 years; recovery rates for products of homogeneous portfolio referred to as Stage 1 and Stage 2 was 35.12%;
- a discount of between 30% and 50% to the annually appraised value if the property pledged is sold;
- a delay of up to 36 months in obtaining proceeds from the sale of foreclosed collateral.

Changes in the above estimates may impact a loss allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus three percent, loss allowance on loans to retail customers as at 31 December 2019 would be KZT 3,039 million lower/higher.

For information about the potential impact of the outbreak of the COVID-19 virus on the carrying amount of the Bank's loan portfolio in 2020, see *Note 44*.

Loans to retail customers measured at fair value through other comprehensive income

Loans to retail customers measured at fair value through other comprehensive income include the following position:

	2019			
	Stage 1	***Stage 2***	***Stage 3***	***Total***
Car loans				
At 31 December	**112,937**	**3,818**	**4,462**	**121,217**

During 2019, the Group sold car loans portfolios with fixed interest rates for the amount of KZT 15,151 million at the price of KZT 16,123 million to third parties (2018: nil), and undertook a commitment to repurchase individual loans during the period between four and eight months after their sale at notional value if loan was overdue for more than 30 calendar days. The Group has determined that it has transferred substantially all the risks and rewards to the transferee, and accordingly the loan portfolio has been derecognised. The Group's continuing involvement in transferred portfolios is recognised in the statement of financial position under "other liabilities" line item.

23. Loans to customers, continued

Loans to retail customers measured at fair value through other comprehensive income, continued

	2019			
	Stage 1	***Stage 2***	***Stage 3***	***Total***
Car loans				
Fair value at 1 January	–	–	–	–
Acquisition resulting from a business combination (*Note 5*)	75,443	3,033	3,847	**82,323**
New financial assets originated or purchased	73,231	–	–	**73,231**
Assets that have been derecognised (except for write-offs)	(11,783)	(61)	(2)	**(11,846)**
Transfer to Stage 1	861	(626)	(235)	–
Transfer to Stage 2	(4,211)	4,277	(66)	–
Transfer to Stage 3	(1,824)	(1,311)	3,135	–
Write-offs	–	–	(122)	**(122)**
Net repayments	(24,777)	(1,708)	(2,354)	**(28,839)**
Effect of changes in exchange rates	5,997	214	259	**6,470**
At 31 December	**112,937**	**3,818**	**4,462**	**121,217**

	2019			
	Stage 1	***Stage 2***	***Stage 3***	***Total***
Car loans				
ECL at 1 January	–	–	–	**–**
Acquisition resulting from a business combination (*Note 5*)	(1,563)	(872)	(12,505)	**(14,940)**
New financial assets originated or purchased	(2,318)	–	–	**(2,318)**
Assets that have been derecognised (except for write-offs)	307	1	24	**332**
Transfer to Stage 1	(398)	204	194	–
Transfer to Stage 2	185	(241)	56	–
Transfer to Stage 3	146	1,392	(1,538)	–
Write-offs	–	–	122	**122**
Net reameasurement of ECL	481	(1,655)	(8,187)	**(9,361)**
Effect of changes in exchange rates	(160)	(67)	(1,148)	**(1,375)**
At 31 December	**(3,320)**	**(1,238)**	**(22,982)**	**(27,540)**

Loans to corporate customers measured at fair value through profit or loss

Loans to corporate customers measured at fair value through profit or loss include the following items:

	31 December 2019	***31 December 2018***
Loans to large corporates	3,330	–
Loans to small and medium companies	25,872	–
Total	**29,202**	**–**

The following table provides information on the credit quality of loans to corporate customers measured at fair value through profit or loss as at 31 December 2019:

	Loans to large corporates	***Loans to small and medium companies***	***Total***
Loans to corporate customers at FVTPL			
- not overdue	2,661	3,553	**6,214**
- overdue 30-89 days	48	208	**256**
- overdue 90-179 days	–	660	**660**
- overdue more than 180 days and less than 1 year	621	16,874	**17,495**
- overdue more than 1 year	–	4,577	**4,577**
Total	**3,330**	**25,872**	**29,202**

23. Loans to customers, continued

Analysis of collateral and other credit enhancements

Loans to corporate customers

The following tables provides information on collateral and other credit enhancements securing loans to corporate customers (net of loss allowance) by types of collateral.

	31 December 2019			
	Carrying amount of loans to customers	***Fair value of collateral - for collateral assessed as of reporting date***	***Fair value of collateral - for collateral assessed as of loan inception date***	***Fair value of collateral not determined***
Stage 1				
Real estate	45,204	14,893	30,311	–
Guarantees	11,728	–	–	11,728
Cash and deposits	1,648	1,648	–	–
Movable property	845	185	660	–
Equipment	753	53	700	–
Other	354	–	354	–
Transport	325	–	325	–
No collateral or other credit enhancement	1,147	–	–	1,147
Total Stage 1 loans	**62,004**	**16,779**	**32,350**	**12,875**
Stage 2				
Real estate	479	–	479	–
Guarantees	13	–	–	13
No collateral or other credit enhancement	343	–	–	343
Total Stage 2 loans	**835**	**–**	**479**	**356**
Stage 3				
Real estate	148	–	148	–
Equipment	26	–	26	–
Total Stage 3 loans	**174**	**–**	**174**	**–**
POCI				
Real estate	123,458	117,578	5,880	–
Movable property	10,322	10,315	7	–
Equipment	4,536	4,122	414	–
Guarantees	2,791	–	–	2,791
Vehicles	1,346	1,011	335	–
Securities	1,132	1,132	–	–
Cash and deposits	614	614	–	–
No collateral or other credit enhancement	6,122	–	–	6,122
Total POCI loans	**150,321**	**134,772**	**6,636**	**8,913**
Loans measured at fair value through profit or loss				
Real estate	29,202	29,202	–	–
Total loans measured at fair value through profit or loss	**29,202**	**29,202**	**–**	**–**
Total loans to corporate customers	**213,334**	**151,551**	**39,639**	**22,144**

The tables above exclude overcollateralisation.

On November 27, 2019, the Bank approved a policy to ensure the fulfillment of obligations of borrowers (in 2018 the Bank did not amend the policies related to collateral). The amount stated in “No collateral or other credit enhancement” item comprises unsecured loans and part of loans not fully secured.

23. Loans to customers, continued

Analysis of collateral and other credit enhancements, continued

Loans to retail customers

For loans secured by multiple types of collateral, collateral that is most relevant for assessment of allowance for expected credit losses is disclosed. Guarantees received from individuals, such as shareholders of SME borrowers and corporate guarantees received from local companies not rated, are not considered for the assessment of allowance for expected credit losses' purposes.

Mortgage loans are secured by the underlying housing real estate. The Group's policy is to issue retail loans with a loan-to-value ratio of maximum 80%. Car loans are secured by the underlying cars. The Group's policy is to issue car loans with a loan-to-value ratio of maximum 90%. Consumer loans are generally secured by underlying properties and in certain cases by assets, including vehicles, cash deposits and guarantees.

The following tables provides information on collateral and other credit enhancements securing loans to retail customers (net of loss allowance) by types of collateral.

	31 December 2019			
Loans to retail customers measured at amortised cost	***Carrying amount of loans to customers***	***Fair value of collateral - for collateral assessed as of reporting date***	***Fair value of collateral - for collateral assessed as of loan inception date***	***Fair value of collateral not determined***
Stage 3				
Cash and deposits	10	10	–	–
Real estate	1,708	–	1,708	–
Movable property	1	–	1	–
Vehicles	1,421	–	1,421	–
Guarantees	26	–	19	7
No collateral or other credit enhancement	277	–	–	277
Total Stage 3 loans	**3,443**	**10**	**3,149**	**284**
POCI				
Cash and deposits	69	69	–	–
Real estate	2,424	–	2,424	–
Movable property	32	–	32	–
Vehicles	2,159	–	2,159	–
No collateral or other credit enhancement	10	–	–	10
Total POCI loans	**4,694**	**69**	**4,615**	**10**
Total loans to retail customers measured at amortised cost	**50,898**	**388**	**34,500**	**16,010**

	31 December 2019			
Loans to retail customers measured at FVOCI	***Carrying amount of loans to customers***	***Fair value of collateral - for collateral assessed as of reporting date***	***Fair value of collateral - for collateral assessed as of loan inception date***	***Fair value of collateral not determined***
Stage 3				
Vehicles	4,462	–	4,462	–
Total Stage 3 loans	**4,462**	**–**	**4,462**	–
Total loans to retail customers measured at FVOCI	**121,217**	–	**121,217**	–

23. Loans to customers, continued

Industry analysis of the loan portfolio

The following table represents loans issued to customers located within the Republic of Kazakhstan, who operate in the following economic sectors:

	31 December 2019	*31 December 2018*
Manufacturing	177,143	–
Services	203,716	–
Agriculture	8,647	–
Trade	104,190	–
Construction	154,650	–
Transport	37,150	–
Finance and insurance	40,047	–
Education	1,542	–
Other	534	–
Total loans to corporate customers	**727,619**	–
Loans to retail customers		
Mortgage loans	45,832	–
Car loans	12,803	–
Consumer loans	10,068	–
Express loans	7,312	–
Credit cards	76	–
Total loans to retail customers	**76,091**	–
Total loans to customers before allowance for expected credit losses	**803,710**	–
Allowance for expected credit losses	(510,276)	–
Total loans to customers net of allowance for expected credit losses	**293,434**	–

The following table represents loans issued to customers located within Russian Federation, who operate in the following economic sectors:

Loans to retail customers measured at fair value through other comprehensive income	*31 December 2019*	*31 December 2018*
Car loans	121,217	–
Total loans to retail customers measured at fair value through other comprehensive income	**121,217**	–

Significant credit exposures

As at 31 December 2019 the Group has three borrowers or groups of related borrowers (31 December 2018: none), whose loan balances exceed 10% of equity. The gross value of these loans as at 31 December 2019 is KZT 193,509 million (31 December 2018: none).

Loan maturities

The maturity of the Bank's loan portfolio is presented in *Note 37*, which shows the remaining period from the reporting date to the contractual maturity of the loans.

24. Property and equipment and intangible assets

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

	Land and buildings	*Computer equipment*	*Vehicles*	*Construction in progress*	*Other*	*Intangible assets*	*Right-of-use assets (Note 3)*	*Total*
Cost/ revalued amounts								
Balance at 1 January 2019	2,869	–	–	–	625	199	–	**3,693**
Acquisition resulting from a business combination (*Note 5*)	26,013	1,090	279	128	4,881	3,940	4,007	**40,338**
Additions	15,564	1,550	44	1,672	1,707	886	1,579	**23,002**
Disposals and write-offs	(7,096)	(341)	(113)	(33)	(587)	(53)	(3)	**(8,226)**
Transfers	4	66	–	(83)	13	–	–	**–**
Effect of revaluation	(1,002)	–	–	(1,024)	–	962	(176)	**(1,240)**
Translation difference	346	–	–	–	173	138	–	**657**
Balance at 31 December 2019	**36,698**	**2,365**	**210**	**660**	**6,812**	**6,072**	**5,407**	**58,224**
Depreciation and amortisation								
Balance at 1 January 2019	1,098	–	–	–	519	89	–	**1,706**
Depreciation and amortisation for the year	621	647	106	–	1,252	805	1,110	**4,541**
Disposals and write-offs	(169)	(339)	(86)	–	(513)	(52)	–	**(1,159)**
Effect of revaluation	(1,212)	–	–	–	–	–	–	**(1,212)**
Translation difference	33	–	–	–	116	60	(133)	**76**
Balance at 31 December 2019	**371**	**308**	**20**	**–**	**1,374**	**902**	**977**	**3,952**
Carrying amount								
As at 31 December 2019	**36,327**	**2,057**	**190**	**660**	**5,438**	**5,170**	**4,430**	**54,272**

24. Property and equipment and intangible assets, continued

	Land plots and buildings	*Computer equipment*	*Vehicles*	*Construction in progress*	*Other*	*Intangible assets*	*Total*
Cost/ revalued amounts							
Balance at 1 January 2018	2,871	–	–	–	546	151	**3,568**
Additions	–	–	–	–	92	48	**140**
Disposals and write-offs	(2)	–	–	–	(12)	–	**(14)**
Transfers	–	–	–	–	–	–	**–**
Balance at 31 December 2018	**2,869**	–	–	–	**626**	**199**	**3,693**
Depreciation and amortisation							
Balance at 1 January 2018	1,040	–	–	–	510	70	**1,620**
Depreciation and amortisation for the year	60	–	–	–	21	20	**101**
Disposals and write-offs	(3)	–	–	–	(12)	–	**(15)**
Balance at 31 December 2018	**1,097**	–	–	–	**519**	**90**	**1,706**
Carrying amount							
As at 31 December 2018	**1,771**	–	–	–	**106**	**110**	**1,987**

The Group has no property and equipment and intangible assets pledged as collateral.

The Group engaged independent appraisal companies, including Otsenka i Expertiza LLP, MKF Russell Bedford A+ Partner LLP, Crowe Consulting & CF Qazaqstan LLP and Market-Consulting LLP, to measure the fair value of major items of land and buildings owned by the Group. Fair value was determined using the comparative sales analysis method. The appraisal was conducted during the period from 2 September 2019 to 31 October 2019. With regard to other items of land and buildings the Group carried out an internal appraisal.

24. Property and equipment and intangible assets, continued

Should the cost of the building had been determined using the cost model, its carrying amount would have been as follows:

	2019	*2018*
Cost	59,464	625
Accumulated depreciation	(5,090)	(238)
Carrying amount	**54,374**	**387**

The fair values of the land plots and buildings are categorised into Level 2 of the fair value hierarchy.

25. Non-current assets held for sale

	2019	*2018*
Balance at 1 January		
Acquisition resulting from a business combination (*Note 5*)	3,538	–
Additions	18,071	–
Disposal	(8,604)	–
Effect of revaluation	(4,185)	–
Foreign exchange difference	324	–
Balance at 31 December	**9,144**	–

Non-current assets held for sale comprise the interest in the charter capital of the companies and real estate that the Group has accepted in exchange for its rights of claim in relation to the impaired loans to customers.

In accordance with the Resolution of the Board of Directors of the Bank of 30 March 2019, management announced its plans to sell the equity shares in the charter capital of the companies to contribute thereof to the Group's subsidiary, which is engaged in doubtful and bad assets management. At 31 December 2019 the equity shares in the charter capital of the companies were accounted for as a disposal group held for sale (31 December 2018: nil).

Category of land, buildings and structures comprise non-residential premises. Management of the Group is planning to complete a transaction on the sale of premises before 30 September 2020.

At 31 December 2019 given non-residential premises were accounted for as a disposal group held for sale (31 December 2018: nil).

26. Investment property

Management of the Group believes that the carrying value of investment property items reflects their fair value as at 31 December 2019. The fair value of investment property is categorised into Level 3 of the fair value hierarchy.

The fair value of investment property is based on a valuation by a qualified independent valuer involved by management of the Group as at 31 December 2019.

	2019	*2018*
Balance at 1 January		
Acquisition resulting from a business combination (*Note 5*)	9,532	–
Additions	479	–
Disposals	(3,886)	–
Remeasurement	(936)	–
Foreign exchange difference	252	–
Balance at 31 December	**5,441**	**–**

27. Other assets

Other assets include the following items:

	31 December 2019	*31 December 2018*
Receivables on operations with currency	4,679	–
Fee and commission receivable on guarantees issued	1,384	73
Amount due from local commercial bank	217	–
Receivables from collection agencies	180	–
Other receivables	3,459	31
Expected credit losses	(1,493)	–
Other financial assets	**8,426**	**104**
Prepayments	6,064	–
Prepayments for office buildings	3,757	–
Repossessed collateral	2,720	–
Prepayments for intangible assets	245	–
Receivables from assignment of rights of claim on loans	186	–
Materials and supplies	102	–
Other non-financial assets	236	94
Loss allowance	(3,097)	–
Other non-financial assets	**10,213**	**94**
Other assets	**18,639**	**198**

Analysis of movements in impairment allowance

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

	2019	*2018*
ECL allowance as at 1 January	–	–
Acquisition resulting from a business combination (*Note 5*)	(2,420)	–
Net reversal	912	–
Write-offs	15	–
ECL allowance 31 December	**(1,493)**	**–**

Movements in the impairment allowance for other non-financial assets for the years ended 31 December 2019 and 31 December 2018 are as follows:

	2019	*2018*
Balance at 1 January	–	–
Net charge	(3,124)	–
Write-offs	67	–
Movements in foreign exchange rates and other movements	(40)	–
Balance at 31 December	**(3,097)**	–

As at 31 December 2019 included in other non-financial assets are total overdue other receivables of KZT 3,097 million, of which KZT 337 million are overdue for more than 90 days (31 December 2018: KZT none).

28. Amounts due to banks and other financial institutions

Amounts due to banks and other financial institutions comprise the following items:

	31 December 2019	*31 December 2018*
Loans from state companies	6,023	–
Loans from other banks and financial institutions	3,643	–
Correspondent accounts of other banks	169	–
	9,835	–
Derivative financial instruments		
Foreign currency contracts	1	–
	9,836	–

As at 31 December 2019, loans received from state companies included loans from Entrepreneurship Development Fund DAMU JSC ("Damu") and Development Bank of Kazakhstan JSC ("DBK") in the amount of KZT 4,342 million and KZT 1,681 million, respectively (31 December 2018: none). Loans are denominated in tenge, bear the nominal interest rate of 0.1% per annum (effective interest rate is 11.5% p.a.) and mature in 2034-2035.

As at 31 December 2019 the Group has no banks and financial institutions, whose balances exceed 10% of equity (31 December 2018: none).

29. Amounts payable under repurchase agreements

	31 December 2019	*31 December 2018*
Amounts payable under repurchase agreements	4,987	-

Securities pledged under repurchase agreements

At 31 December 2019, the Group holds amounts payable under the repurchase agreements of KZT 4,987 million (31 December 2018: none), which are secured by investment securities measured at fair value through other comprehensive income, with fair value of KZT 5,140 million (*Note 22)*.

These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities. All transactions were closed during next reporting month.

30. Current accounts and deposits from customers

	31 December 2019	*31 December 2018*
Current accounts and demand deposits		
Corporate	82,975	27,406
Retail	20,261	18
Term deposits		
Corporate	173,086	116,123
Retail	512,998	–
Interest accrued	2,306	438
	791,626	**143,985**
Held as security of guarantees and letters of credit	(1,186)	(30)

As at 31 December 2019, the Group maintained customer deposit balances of KZT 9,588 million that serve as collateral for loans and unrecognised credit instruments granted by the Group (31 December 2018: KZT 33 million).

As at 31 December 2019, the Group has one customer (31 December 2018: three customers), whose balances exceed 10% of equity. The total balances of the above customer as at 31 December 2019 amount to KZT 92,719 million (31 December 2018: KZT 131,414 million).

31. Debt securities issued

The summary of debt securities issued at 31 December 2019 and 31 December 2018 is presented below:

					Carrying amount	
	Date of issue	*Year of maturity*	*Coupon rate, p.a.*	*Effective rate, p.a.*	*31 December 2019*	*31 December 2018*
KZT- denominated bonds of the thirtieth issue	05.02.2019	05.02.2034	0.1%	11.5%	66,983	–
KZT- denominated bonds of the thirty-third issue	15.10.2018	29.01.2034	0.1%	11.5%	27,071	–
KZT- denominated bonds of the twenty-eighth issue	22.01.2019	22.01.2034	0.1%	11.5%	18,906	–
KZT- denominated bonds of the thirty-fifth issue	28.01.2019	28.01.2034	0.1%	11.5%	11,187	–
KZT- denominated bonds of the twentieth issue	04.06.2013	04.06.2023	Inflation rate +1.0%	8.3%	9,714	–
KZT- denominated bonds of the twenty-ninth issue	28.01.2019	28.01.2034	0.1%	11.5%	6,712	–
KZT- denominated bonds of the twenty-eighth issue	28.01.2019	28.01.2034	0.1%	11.5%	5,012	–
KZT- denominated bonds of the seventh issue	11.07.2007	11.07.2027	7.5%	10.9%	2,813	–
KZT- denominated bonds of the thirty-fourth issue	22.01.2019	22.01.2034	0.1%	11.5%	206	–
					148,604	–

Issued debt securities of the Bank are listed on KASE.

As at 31 December 2019 the debt securities issued comprise the debt bonds denominated in tenge, which mature in 2023-2034.

Reconciliation of movements of liabilities to cash flows arising from financing activities

	2019	*2018*
Balance at 1 January	–	–
Acquisition resulting from a business combination (*Note 5*)	143,625	–
Changes from movements in cash flows arising from financing activities		
Redemption of debt securities issued	(7,163)	–
	(7,163)	**–**
Interest expense	13,969	–
Interest paid	(1,827)	–
Balance at 31 December	**148,604**	**–**

32. Subordinated debt

	31 December 2019	*31 December 2018*
Subordinated bonds	72,799	–
Cumulative non-redeemable preference shares	2,478	–
	75,277	–

As at 31 December 2019, subordinated debt comprises quoted bonds and 2,500,000 cumulative non-redeemable preferred shares for the total amount of KZT 2,478 million. In case of bankruptcy, the redemption of the subordinated debt would be made after the repayment in full of all other liabilities by the Group but before repayment of the cumulative non-redeemable preferred shares.

32. Subordinated debt, continued

Subordinated bonds

The summary of subordinated bond issues at 31 December 2019 and 31 December 2018 is presented below:

					Carrying amount	
	Date of issue	*Year of maturity*	*Coupon rate*	*Effective rate*	*31 December 2019*	*31 December 2018*
KZT-denominated bonds	25.10.2017	25.10.2032	4.0%	15.0%	39,528	–
KZT- denominated bonds of the twenty first issue	10.04.2014	10.04.2021	8.0%	9.7%	9,924	–
KZT- denominated bonds of the fourteenth issue	04.06.2013	04.06.2020	8.0%	9.7%	4,981	–
KZT- denominated bonds of the twenty second issue	10.04.2014	10.04.2021	8.0%	9.7%	4,953	–
KZT- denominated bonds of the fifteenth issue	04.06.2013	04.06.2023	8.0%	9.7%	4,764	–
KZT- denominated bonds of the sixteenth issue	04.06.2013	04.06.2028	9.0%	9.7%	4,750	–
KZT- denominated bonds of the twenty third issue	10.04.2014	10.04.2021	8.0%	9.7%	2,983	–
KZT-denominated bonds	19.03.2013	19.03.2020	8.0%	9.7%	916	–
					72,799	**–**

The Group's subordinated bonds issued are quoted on the KASE.

Participation in the Program of Strengthening Financial Stability of the Banking Sector

By Resolution of the NBRK No.191 dated 10 October 2017, the Bank was approved to participate in the Program of Strengthening Financial Stability of the Banking Sector in the Republic of Kazakhstan (the "Program").

According to the terms of the Program, the Bank received cash funds from the NBRK's subsidiary, Joint Stock Company "Kazakhstan Sustainability Fund", by virtue of issue of the Bank's registered coupon subordinated bonds ("Bonds") convertible to the Bank's ordinary shares according to the terms of the Bond Issue Prospectus.

The Group is subject to restrictions (covenants) in its activities valid for 5 years from the Bonds' issue date, breach of any of each will result in exercising by the Bonds' holders of their right of Bonds being converted to the Group's ordinary shares:

- The Group undertakes to comply with capital adequacy ratios set by the authorised body for the second-tier banks of the Republic of Kazakhstan;
- The Group undertakes not to commit action intended to withdraw the Bank's assets; at that, summary of activities to be considered the withdrawal of assets is set out in the Bond Issue Prospectus.

Reconciliation of movements of liabilities to cash flows arising from financing activities

	2019	*2018*
Balance at 1 January		
Acquisition resulting from a business combination (*Note 5*)	89,577	–
Changes from movements in cash flows arising from financing activities		
Redemption of subordinated debt	(15,159)	–
	(15,159)	**–**
Interest expense	8,560	–
Interest paid	(7,701)	–
Balance at 31 December	**75,277**	**–**

Cumulative non-redeemable preference shares

Holders of cumulative non-redeemable preference shares receive a minimum cumulative dividend of 10% of the par value of their shareholding. The preference shares do not carry the right to vote unless the dividend is in arrears. All shares rank equally with regard to distribution of residual value of the Bank's net assets, except that preference shareholders participate only to the extent of the face value of the shares adjusted for any dividends in arrears. All preference shares were issued and fully paid at price of KZT 1,000 each.

32. Subordinated debt, continued

Cumulative non-redeemable preference shares, continued

As at 31 December 2019, the Group accrued dividends on cumulative non-redeemable preference shares in the amount of KZT 250 million (as at 31 December 2018: KZT 250 million).

33. Other liabilities

Other liabilities comprise the following items:

	31 December 2019	*31 December 2018*
Liabilities on electronic money issued	1,262	–
Insurance and reinsurance payables	1,201	–
Other lenders	2,801	121
Total other financial liabilities	**5,264**	**121**
Accounts payable to Mortgage Organisation "Baspana" JSC	4,833	–
Accrued vacation and other amounts due to employees	3,456	828
Provision for guarantees issues	3,311	–
Other taxes payable	639	–
Deferred income on guarantees and letters of credit issued	448	–
Other prepayment	83	–
Other non-financial liabilities	417	31
Total other non-financial liabilities	**13,187**	**859**
Total other liabilities	**18,451**	**980**

Accounts payable to Mortgage Organization "Baspana" JSC

In 2018, the NBRK approved the residential mortgage programmes "Mortgage Program "7-20-25" and "Baspana Hit". Main objective of these programme is providing opportunities to population to buy primary housing and encouraging banks to provide related financing. According to the terms of "Mortgage Program "7-20-25", loans are issued in KZT, carry an annual interest rate of 7.0% and mature in 25 years. The initial contribution makes up 20.0%. According to the terms of "Baspana Hit" programme, loans are issued in KZT, carry an annual nominal interest rate equal to a base rate of the National Bank of the RK + 175 basis points and mature in 15 years. The initial contribution makes up 20.0%. No commission for issue and servicing a loan is charged.

As part of the programmes "Mortgage Program "7-20-25" and "Baspana Hit", the Bank issued mortgage loans to customers and transferred it to Mortgage Organization "Baspana" JSC (the "Operator") in exchange for consideration in cash in the amount of the loans' nominal value. The Group acts as an agent under this programme and receives a commission fee of 4.0% p.a. of the interest received. Under the conditions of transfer of the Group's assets to the Operator, if a default event in relation to the transferred loans occurs, the Group is obligated to repurchase the transferred loans from the Operator. Therefore, the Group retains all the credit risks and rewards of ownership of the loans transferred and continues to recognise these loans in its assets. As at 31 December 2019, the carrying amount of loans transferred to the Operator amounts to KZT 4,833 million and the carrying amount of the liabilities amounts to KZT 4,833 million (at 31 December 2018: nil).

34. Share capital

Issued capital

As at 31 December 2019 the authorised share capital comprises 697,500,000 ordinary shares (31 December 2018: 9,600,000 ordinary shares of First Heartland Bank JSC). The Bank's issued and outstanding share capital comprises 132,317,024 ordinary shares (31 December 2018: 4,981,913 ordinary shares of First Heartland Bank JSC). The shares have no nominal value.

During 2019, the ordinary shares were additionally issued, including 4,400,000 ordinary shares at an offer price of KZT 2,000 per share; 39,281,706 ordinary shares at an offer price of KZT 1,782 per share and 11,135,318 ordinary shares at an offer price of KZT 1,032.75 per share (in 2018: 381,913 ordinary shares of First Heartland Bank JSC at an offer price of KZT 2,618 per share).

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Group.

34. Share capital, continued

Nature and purpose of reserves

Property and equipment revaluation reserve

The revaluation reserve of property, plant and equipment is used to recognise revaluation increase in fair value of land and building as well as revaluation decrease in fair value of land and building, however, revaluation decrease is recognised to the extent that it relates to a previous revaluation increase in the value of the same asset previously recognised in equity.

Fair value reserve

Fair value reserve comprises change in the fair value of financial assets designated at fair value through other comprehensive income.

Cumulative reserve for translation in presentation currency

Reserve for translation in presentation currency comprises foreign exchange reserve and is used to reflect the translation differences, which arise in translation of the financial statements of foreign operations.

Reverse acquisition reserve

Under the business combination (*Notes 1 and 5*), First Heartland Bank JSC was identified as the acquirer. However, due to the fact that the Bank is the parent of the Group, its legally issued share capital is reflected in these financial statements as a component of equity. The reverse acquisition reserve represents an adjustment to the Group's equity in accordance with IFRS, in order to allow the registered share capital of the Bank to be presented as a separate component.

Dividends

In accordance with Kazakhstan legislation and the Bank's charter documents, distributable reserves are subject to the rules and regulations of the Republic of Kazakhstan.

According to the decision of the meeting of the shareholders on April 29, 2019 and August 26, 2019, it was decided to distribute dividends in the amount of KZT 2,500 million and KZT 2,750 million, respectively (in 2018: KZT 700 million). The amount of dividends per one ordinary share is KZT 501.82 and KZT 552.00, respectively (in 2018: KZT 140.81).

35. Earnings per share

Basic and diluted earnings per share

Basic earnings per share as at 31 December 2019 are based on the profit of KZT 275,149 million (31 December 2018: profit of KZT 2,585 million), and a weighted average number of ordinary shares outstanding of 114,069,555 (31 December 2018: 10,737,631 shares) and are calculated as follows.

	2019*	***2018*** **
Basic earnings per share		
Profit attributable to ordinary shareholders	275,066	2,585
Weighted average number of ordinary shares	114,069,555	10,737,631
Basic earnings per share, in KZT	**2,411.39**	**240.74**

* Weighted average First Heartland Bank JSC's historical weighted average number of ordinary shares outstanding is adjusted multipling the exchange ratio established in the merger agreement (*Note 5*).

** First Heartland Bank JSC's historical weighted average number of ordinary shares outstanding is adjusted multipling the exchange ratio established in the merger agreement (*Note 5*).

36. Segment analysis

As at 31 December 2019 the Group has two reportable segments, as described below, which are the Group's strategic business units (31 December 2018: one business segment). The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the chief operating decision maker reviews internal management reports on at least a quarterly basis. The operations of each of the reportable segments are summarised below:

- banking – includes extension of loans, taking deposits and other transactions with customers; trading and corporate finance activities, funding the Group's activities and banking risk management through borrowings, and issue of debt securities;
- insurance – conducting insurance and reinsurance activities.

36. Segment analysis, continued

Information regarding the results of each reportable segment is included below. The segments' performance is assessed based on a segment's profit before income tax, as included in the internal management reports based on statutory financial statements, that are reviewed by the Chairman of the Board of the Group. Segment profit is used to evaluate the segment's operating results as management believes that such information is the most relevant in evaluating the results of certain segments relative to others who operate within these industries. Inter-segment pricing is determined on an arm's length basis.

Segment breakdown of assets and liabilities is set out below:

	31 December 2019
ASSETS	
Banking	1,493,298
Insurance	17,043
Unallocated assets	15,804
Total assets	**1,526,145**
LIABILITIES	
Banking	1,126,005
Insurance	7,440
Unallocated liabilities	2,345
Total liabilities	**1,135,790**

Segment information for the main reportable segments for the year ended 31 December 2019 is set out below:

	Banking	*Insurance*	*Unallocated segments*	*Total*
Interest income calculated using the effective interest method	117,924	752	403	119,079
Other interest income	9,724	259	145	10,128
Fee and commission income	9,713	296	138	10,147
Gross earned insurance premiums	-	5,694		5,694
Net gain on securities measured at fair value through other comprehensive income	1,364	–	1	1,365
Net foreign exchange gain (loss)	8,942	(25)	(7)	8,910
Other operating income	(422)	19	516	113
Net gain/ (loss) on financial instruments at fair value through profit or loss	132	(1)	426	557
Other income from reversal of provisions	6,923	–	–	6,923
Revenue	**154,300**	**6,994**	**1,622**	**162,916**
Interest expense	(62,660)	–	(291)	(62,951)
Fee and commission expense	(3,660)	(1,448)	(23)	(5,131)
Written premiums ceded to reinsurers and reinsurers' share of change in the gross provision for unearned premiums	–	(1,521)	–	(1,521)
Net insurance claims incurred	–	(1,063)	–	(1,063)
Impairment losses	1,458	(84)	(195)	1,179
Loss on investments in subsidiaries	(37,943)	–	–	(37,943)
Loss on revaluation of property and equipment and intangible assets	(1,240)	–	–	(1,240)
Loss on revaluation of assets held for sale and investment property	(4,192)	–	327	(3,865)
Personnel expenses	(20,437)	(1,169)	(302)	(21,908)
Other general and administrative expenses	(21,954)	(530)	(691)	(23,175)
Segment financial result	**3,672**	**1,179**	**447**	**5,298**
Income tax expense	–	–	–	(9,586)
Net profit after taxes	–	–	–	**(4,288)**
Other segment items				
Additions of property and equipment	1,155	31	15	1,201
Depreciation and amortisation	4,232	43	186	4,461

Interest expense is allocated between the segments on the basis of information presented in the consolidated financial statements of each reporting segment, taking into account the elimination of intra-Group operations.

36. Segment analysis, continued

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

	2019
Revenues	
Total revenue for reportable segments	162,916
Elimination of inter-segment revenue	(506)
Consolidated revenue	**162,410**
Profit or loss	
Total revenue for reportable segments	(4,288)
Gain on reverse acquisition	241,414
Elimination of inter-segment profit or loss	37,940
Consolidated profit for the year	**275,066**
ASSETS	
Total assets for reportable segments	1,526,145
Elimination of inter-segment assets	(34,020)
Consolidated assets	**1,492,125**
LIABILITIES	
Total liabilities for reportable segments	1,135,790
Elimination of inter-segment liabilities	(2,971)
Consolidated liabilities	**1,132,819**

The geographic information for 2019 below analyses the Group's revenue and non-current assets by the country of domicile and other countries.

	Revenue	*Non-current assets*
The Republic of Kazakhstan	137,398	59,082
Russian Federation	25,518	8,253
Total	**162,916**	**67,335**

The majority of revenues from external customers relate to residents of the Republic of Kazakhstan. The majority of non-current assets are located in the Republic of Kazakhstan. As at 31 December 2019, non-current assets (property and equipment and intangible assets, investment property) of KZT 8,523 million are located in the Russian Federation (31 December 2018: nil).

The Group operates in the Republic of Kazakhstan and foreign countries. In presenting the geographic information, the allocation of revenue has been based on the geographic location of customers and assets.

Major customers

For the year ended 31 December 2019, no customers of the reportable segments represented more than 10% of the Group's total revenue.

37. Risk management

Management of risk is fundamental to the business of banking and forms an essential element of the Group's operations. The major risks faced by the Company are those related to market risk, credit risk, liquidity risk as well as operational, legal and reputational risks.

Risk management policies and procedures

The Group's risk management policy has the following objectives: to identify, analyse and manage risks faced by the Group, establish limits on risk levels and relevant controls; and continuously assess levels of risks and ensure that exposure to risks stays within the established limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, bank products and services offered and emerging best practice.

The Board of Directors of the Bank has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and approving its risk management policies and procedures as well as approving significant large exposures.

37. Risk management, continued

Risk management policies and procedures , continued

The Management Board is responsible for monitoring and implementating risk mitigation measures and ensuring that the Group operates within established risk parameters. The Head of Risk Department is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. The director of these Risk Departments is the Chief Risk Officer ("CRO").

Credit, market and liquidity risks are managed and controlled by the Board of Directors, Management Board and through a system of Credit Committees and the Authorised Collegial Bodies ("ACB"). In order to facilitate efficient and effective decision-making, the Group established a hierarchy of credit committees, depending on the type and amount of the exposure.

Both external and internal risk factors are identified and managed throughout the Group. Particular attention is given to identifying the full range of risk factors and determination of the level of assurance over the current risk mitigation procedures. Apart from the standard credit, market and liquidity risk analysis, the Risk Department monitors operational risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices and foreign currency rates.

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

Overall authority for market risk is vested in the Management Board and Board of Directors. Market risk limits are approved by Management Board and Board of Directors based on recommendations of the Market Risk Department.

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

The Group also utilises Value-at-Risk ("VaR") methodology to monitor market risk of its trading positions.

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

37. Risk management, continued

Market 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:

	Less than 1 month	*From 1 to 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*More than 5 years*	*Non-interest bearing*	*At 31 December 2019*
ASSETS							
Cash and cash equivalents	145,653	–	–	–	–	152,394	298,047
Amounts due from banks and other financial institutions	398	–	748	–	46	2,356	3,548
Financial instruments measured at fair value through profit or loss	265	448	1,499	1,492	114	1,209	5,027
Investment securities	274,160	232,026	26,974	20,013	53,626	62	606,861
Loans to customers	116,792	5,818	33,314	166,049	92,619	59	414,651
Promissory notes from the MFRK	–	–	536	69,705	–	–	70,241
	537,268	**238,292**	**63,071**	**257,259**	**146,405**	**156,080**	**1,398,375**
LIABILITIES							
Amounts due to banks and other financial institutions	244	–	–	3,375	6,217	–	9,836
Accounts payable under repurchase agreements	4,987	–	–	–	–	–	4,987
Amounts due to customers	115,661	61,440	239,487	279,530	2,727	92,781	791,626
Debt securities issued	176	272	9,863	–	138,293	–	148,604
Subordinated debt	–	917	6,103	22,519	43,510	2,228	75,277
	121,068	**62,629**	**255,453**	**305,424**	**190,747**	**95,009**	**1,030,330**
	416,200	**175,663**	**(192,382)**	**(48,165)**	**(44,342)**	**61,071**	**368,045**

	Less than 1 month	*From 1 to 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*More than 5 years*	*Non-interest bearing*	*At 31 December 2018*
ASSETS							
Cash and cash equivalents	29,850	–	–	–	–	24,749	54,599
Securities measured at fair value through profit or loss	94	–	–	–	–	–	94
Investment securities	88,582	4,630	8,539	–	–	–	101,751
Loans to customers	2	–	–	37	–	–	39
	118,528	**4,630**	**8,539**	**37**	–	**24,749**	**156,483**
LIABILITIES							
Amounts due to customers	138,639	5,346	–	–	–	–	143,985
	138,639	**5,346**	**–**	**–**	**–**	**–**	**143,985**
	(20,111)	**(716)**	**8,539**	**37**	**–**	**24,749**	**12,498**

37. Risk management, continued

Market risk, continued

Average effective interest rates

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

	31 December 2019 *Average effective interest rate, % p.a.*			*31 December 2018* *Average effective interest rate, % p.a.*		
	KZT	*USD*	*Other currencies*	*KZT*	*USD*	*Other currencies*
Interest-bearing assets						
Cash and cash equivalents	9.52	1.47	6.30	–	1.54	–
Amounts due from banks and other financial institutions	8.59	1.80	–	–	–	–
Financial instruments measured at fair value through profit or loss	12.59	5.49	–	–	–	–
Investment securities measured at fair value through other comprehensive income	9.03	2.47	0.60	8.89	–	–
Investment securities measured at amortised cost	8.12	3.36	–	8.63	–	–
Loans to customers	17.70	10.44	19.88	5.60	–	–
Promissory notes from the MFRK	–	4.04	–	–	–	–
Interest-bearing liabilities						
Amounts due to banks and other financial institutions	11.26	–	–	–	–	–
Accounts payable under repurchase agreements	10.00	–	–	–	–	–
Amounts due to customers	10.40	1.74	1.15	5.51	0.05	–
Debt securities issued	11.28	–	–	–	–	–
Subordinated debt	12.57	–	–	–	–	–
Lease liabilities	13.25	4.00	7.45	–	–	–

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities in bank book. An analysis of sensitivity of profit or loss (net of taxes) and equity to changes in interest rate (repricing risk) based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities expected during a 12-month period, existing as at 31 December 2019 and 31 December 2018 is as follows:

	31 December 2019		*31 December 2018*	
	Profit or loss	*Equity*	*Profit or loss*	*Equity*
100 bp parallel fall	(3,785)	(3,785)	133	133
100 bp parallel rise	3,785	3,785	(133)	(133)

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of financial instruments at fair value though profit or loss and financial assets measured at FVOCI due to changes in the interest rates based on positions existing as at 31 December 2019 and 31 December 2018 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves using modified duration method is as follows:

	31 December 2019		*31 December 2018*	
	Equity	*Profit or loss*	*Equity*	*Profit or loss*
100 bp parallel fall	781	6,186	–	104
100 bp parallel rise	(781)	(6,186)	–	(104)

37. Risk management, continued

Currency risk

The Group has assets and liabilities denominated in several foreign currencies.

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

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

At 31 December 2019	*KZT*	*USD*	*EUR*	*RUB*	*Other currencies*	*Total*
Assets						
Cash and cash equivalents	122,232	62,976	83,463	27,710	1,666	**298,047**
Amounts due from banks and other financial institutions	2,329	112	–	1,105	2	**3,548**
Securities measured at fair value through profit or loss	4,150	815	–	–	62	**5,027**
Investment securities	533,899	19,318	53,644	–	–	**606,861**
Loans to customers	226,860	59,459	243	128,089	–	**414,651**
Promissory notes from the MFRK*	–	70,241	–	–	–	**70,241**
Insurance premiums under reinsurance contracts	1,113	–	–	–	–	**1,113**
Other financial assets	1,999	58	6,016	353	–	**8,426**
Total financial assets	**892,582**	**212,979**	**143,366**	**157,257**	**1,730**	**1,407,914**
Liabilities						
Amounts due to banks and other financial institutions	9,713	115	8	–	–	**9,836**
Accounts payable under repurchase agreements	4,987	–	–	–	–	**4,987**
Amounts due to customers	346,632	285,664	21,951	135,788	1,591	**791,626**
Debt securities issued	148,604	–	–	–	–	**148,604**
Subordinated debt	75,277	–	–	–	–	**75,277**
Lease liability	3,540	30	–	919	–	**4,489**
Other financial liabilities	3,495	281	75	1,413	–	**5,264**
Total financial liabilities	**592,248**	**286,090**	**22,034**	**138,120**	**1,591**	**1,040,083**
The effect of derivatives held for risk management	1,291	124,570	(121,193)	(4,697)	–	**(29)**
Net position as at 31 December 2019	**301,625**	**51,459**	**139**	**14,440**	**139**	**367,802**

* Promissory notes from the MFRK are denominated in KZT but are indexed to the change in US dollar to KZT exchange rate.

37. Risk management, continued

Currency risk, continued

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

At 31 December 2018	*KZT*	*USD*	*EUR*	*RUB*	*Other currencies*	*Total*
Assets						
Cash and cash equivalents	12,162	29,850	10,233	62	2,292	**54,599**
Financial instruments measured at fair value through profit or loss	94	–	–	–	–	**94**
Investment securities	98,523	3,228	–	–	–	**101,751**
Loans to customers	39	–	–	–	–	**39**
Other financial assets	58	46	–	–	–	**104**
Total financial assets	**110,876**	**33,124**	**10,233**	**62**	**2,292**	**156,587**
Liabilities						
Amounts due to customers	97,712	42,526	1,451	5	2,291	**143,985**
Other financial liabilities	50	23	48	–	–	**121**
Total financial liabilities	**97,762**	**42,549**	**1,499**	**5**	**2,291**	**144,106**
The effect of derivatives held for risk management	(684)	9,505	(8,787)	–	–	**34**
Net position as at 31 December 2018	**12,430**	**80**	**(53)**	**57**	**1**	**12,515**

A weakening of the KZT, as indicated below, against the following currencies at 31 December 2019 and 31 December 2018, would have decreased/increased equity and profit or loss by the amounts shown below. This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	31 December 2019		*31 December 2018*	
	Profit or loss	*Equity*	*Profit or loss*	*Equity*
20% appreciation of USD against KZT	8,233	8,233	13	13
20% appreciation of EUR against KZT	22	22	(8)	(8)
20% appreciation of RUB against KZT	(20)	(20)	9	9

A strengthening of the KZT against the above currencies at 31 December 2019 and 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.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Other price risk arises when the Group takes a long or short position in a financial instrument.

An analysis of sensitivity of profit or loss and equity to changes in equity securities prices based on positions for equity instruments existing as at 31 December 2019 and 2018 and a simplified scenario of a 10% change in all equity securities prices is as follows:

	2019		*2018*	
	Profit or loss	*Equity*	*Profit or loss*	*Equity*
10% increase in securities prices	100	5	–	–
10% decrease in securities prices	(100)	(5)	–	–

37. Risk management, continued

Credit risk

Credit risk is the probability of financial loss to the Group if a customer or counterparty fails to meet its contractual obligations according to agreed terms. The Group 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 credit policy establishes and determines the major requirements to be followed in lending activity, including:

- aims and objectives the Group's lending activity;
- priorities and restrictions in lending;
- credit risk allowable level;
- system of the credit risk limits;
- terms of granting loans to the individuals and legal entities, including entities having special relations with the Bank;
- stages and participants of the lending process;
- decision-making system;
- key principles and methods of credit risk management in the Group;
- internal control system for the credit risk management process.

On the basis of the Credit Policy, which covers the key directions of the Group's activity and the system of the credit risk management instruments, the Group has built a more efficient lending process in the segments of the corporate business, small- and medium-size business and retail business, as described below.

Corporate and SME loan credit applications are analysed by the Credit Analysis Department and SME lending divisions in branches, respectively, which are responsible for the analysis of issuing loans. The minimum rating required for the borrower to obtain a loan has been established in accordance with the decision of the Board of Directors of the Group.

Then, to consider a project at the meeting of the authorised body that makes decisions on concluding a transaction, the opinions of the Group's departments are provided, including:

- opinion of the Legal Department;
- opinion of the Security Department;
- opinion of the Collateral Department;
- and opinion of the Risk Management Department.

For the purpose of effective risk management, the Risk Management Department, while analysing the projects, assigns a rating (probability of default) to the borrower.

Currently, the Group uses the rating and scoring models for each business segment: small, medium, corporate and retail clients.

Based on the submitted opinions, the Credit Committee makes a decision depending on the level of authority to make decisions. In this case, transactions in excess of 5% of the Group's equity are approved exclusively by the decision of the Board of Directors of the Group.

Retail loan credit applications are reviewed by the Retail Lending Department through the use of scoring models and application data verification procedures developed together with the Risk management.

To achieve the Group's key performance indicators, while setting the interest rates for the customers from the corporate business, SME and retail business, the level of credit risk accepted under each transaction is taken into account, and at least the following factors are analysed:

- rating/scoring (probability of default of the borrowers);
- losses if the borrower defaults;
- funding costs;

37. Risk management, continued

Credit risk, continued

- cost of capital;
- the Group's overheads.

As a part of this lending process, to ensure the timely response to the changes in the financial position and paying capacity of the Borrower and ability to make the appropriate management decisions, the Group exercises the ongoing monitoring of the status of individual loans, and regularly revalues the paying capacity of its borrowers. Revaluation procedures are based on the financial statements and other information provided by the borrower itself or otherwise obtained by the Group.

Also, requirements to collateral are very important for the management of credit risk. The Group had developed and implemented effective procedures for the monitoring of collateral, in order to avoid the decrease of coverage of the credit portfolio by the collateral.

To ensure the effective risk management at the portfolio level the Group uses such methods as diversification of the loan portfolio and system of management reporting, which allows exercising the regular monitoring of the Group lending activity, identifying the major problems and implementing the risk minimisation instruments as well as stress-testing of credit risk.

The Group uses the system of credit risk limits, which comprises:

- credit risk allowable level;
- limits by the categories of borrowers;
- limits on the types of lending;
- limits for the retail segment, comprising the portfolio limits and individual limits;
- limits on lending in terms of the specific industries, etc.

Monitoring and control are exercised periodically and findings are submitted for consideration to the Management Board/Board of Directors of the Bank.

This instrument allows the Group to control the lending activity based on the strategic development targets and risk taking in different areas.

The system of management reporting is functioning within the Group, the purpose of which is to provide the high quality, reliable and accurate information on the credit risk level and its deviation from the set value. The management reports are generated at the level of both the Group and individual segments on a monthly/quarterly basis, and submitted for consideration to the Management Board/Board of Directors of the Bank.

The Group applies the methodology of credit risk stress-testing, which is performed using a scenario analysis and sensitivity analysis. While performing the stress -testing, the Group uses the following scenarios:

- general business scenario, which is based on assessment of influence of deterioration of the economic situation in the country, including decline in economic growth in general and in individual industries;
- scenario pecific to the Group's business, which is based on assessment of influence of the local stress-factors, including those related to the specifics of the Bank's lending activity and structure of its loan portfolio.

Credit risk stress-testing makes it possible to respond on a timely basis to changes in macroeconomic and other indicators that may adversely affect the Group's operations, and to forecast the impact of these factors and develop risk mitigation methods.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the consolidated statement of financial position and unrecognised contractual commitment amounts. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

37. Risk management, continued

Credit risk, continued

The maximum exposure to credit risk from financial assets at the reporting date is as follows:

	31 December 2019	*31 December 2018*
Assets		
Cash and cash equivalents	256,862	53,362
Amount due from banks and other financial institutions	3,548	–
Financial instruments measured at fair value through profit or loss	3,773	94
Investment securities	606,799	101,751
Loans to customers	414,651	39
Promissory notes from the MFRK	70,241	–
Insurance premiums	3,313	–
Other financial assets	8,426	104
Total maximum exposure to credit risk	**1,367,613**	**155,350**

For the analysis of concentration of credit risk in respect of loans to customers refer to *Note 23.*

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in *Note 37.*

As at 31 December 2019 the Group has no debtors or groups of related debtors (31 December 2018: none), credit risk exposure to whom exceeds 10% of maximum credit risk exposure.

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 Group's consolidated statement of financial position; or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the consolidated statement of financial position.

Similar 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 Group receives and accepts collateral in the form of cash and marketable securities in respect of the following transactions:

- loans to customers collateralised by cash on bank deposits; and
- repurchase and reverse 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 transitions upon the counterparty's failure to post collateral.

37. Risk management, continued

Offsetting financial assets and financial liabilities, continued

The table below shows financial assets and financial liabilities subject to an enforceable master netting arrangement or similar agreement as at 31 December 2019:

Types of financial assets/liabilities	Gross amounts of recognised financial assets/ liabilities	Gross amount of recognised financial assets/liabilities offset in the consolidated statement of financial position	Net amount of financial assets/liabilities presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position		Net amount of financial assets presented in the statement of financial position
				Financial instruments	Cash collateral received	
Loans to customers	14,688	–	14,688	–	(4,074)	10,614
Accounts receivable under reverse repurchase agreements	24,523	–	24,523	(24,523)	–	–
Total financial assets	**39,211**	**–**	**39,211**	**(24,523)**	**(4,074)**	**10,614**
Amounts due to customers	4,074	–	4,074	(4,074)	–	-
Accounts payable under repurchase agreements	4,987	–	4,987	(4,987)	–	–
Total financial liabilities	**9,061**	**–**	**9,061**	**(9,061)**	**–**	**–**

The table below shows financial assets and financial liabilities subject to an enforceable master netting arrangement or similar agreement as at 31 December 2018:

Types of financial assets/liabilities	Gross amounts of recognised financial assets/ liabilities	Gross amount of recognised financial assets/liabilities offset in the consolidated statement of financial position	Net amount of financial assets/liabilities presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position		Net amount of financial assets presented in the statement of financial position
				Financial instruments	Cash collateral received	
Loans to customers	39	–	39	–	33	6
Total financial assets	**39**	**–**	**39**	**–**	**33**	**6**
Amounts due to customers	33	–	33	(33)	–	–
Total financial liabilities	**33**	**–**	**33**	**–**	**–**	**–**

The securities lent under agreements to repurchase represent the transferred financial assets that are not entirely derecognised.

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

37. Risk management, continued

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. 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 Group 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 Group's liquidity policy is reviewed by the Management Board and approved by the Board of Directors.

The key objectives of the Group's liquidity risk management are as follows:

- to ensure that the Group is able to discharge its liabilities in time and in full scope;
- to invest the Group's free cash flows in high income earning and highly liquid assets.

In the process of liquidity risk management the Group is governed by the following principles:

- liquidity is managed on a day-to-day basis and continuously;
- sound management of assets and liabilities;
- management of access to the interbank market;
- diversification and stability of liabilities;
- application of the methods and instruments for the liquidity risk assessment, which do not contradict the regulatory legal acts of the NBRK;
- clear split of powers and responsibility for liquidity management between the bodies of the Group, its officials and business units;
- setting of limits that ensure the adequate level of liquidity and meet the size, nature of business and financial position of the Group;
- in case of a conflict between the liquidity and returns, to make decision in favour of liquidity;
- planning of the liquidity requirements;
- regular monitoring of the decisions to provide liquidity, which have been made before.

Liquidity risk management policy provides for assessment of the total liquidity requirement under both normal and stressed conditions, taking into account the Group's strategy and those types of activity, which expose the Group to the liquidity risk; allowable level of the Group's risk, within the limits of which the Group sets the system of liquidity risk internal limits; size, nature and complexity of the Group's business, and legislation of the RK.

To manage the liquidity risk, a system of the liquidity risk management is established, which is based on the standards and instruments recommended by Basel Committee on Bank Supervision and complies with the requirements of the NBRK and best global practices. The liquidity risk management system meets the current market situation, strategy, size and level of complexity of the Group's operations and ensures the efficient identification, measurement, monitoring and control of the Group liquidity risk, with due consideration of the intra-group transactions.

The Group seeks to actively support a diversified and stable funding base comprising debt securities in issue, long- and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and efficiently to unforeseen liquidity requirements.

The liquidity position is monitored on a daily basis and liquidity forecasting is performed on a regular basis by the Strategic Risks Department both under normal and stress market conditions. Under normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a daily basis. Decisions on liquidity management are made by the authorised collegial body and implemented by the Strategic Risks Department.

37. Risk management, continued

Liquidity risk, continued

The following tables show the undiscounted cash flows on financial liabilities and unrecognised credit related commitments on the basis of their earliest possible contractual maturity. The total gross outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial assets, liability or credit related commitment.

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

At 31 December 2019	*Demand and less than 1 month*	*From 1 to 3 months*	*From 3 months to 1 year*	*From 1 to 5 years*	*More than 5 years*	*No maturity*	*Total gross amount outflow*	*Carrying amount*
Liabilities								
Amounts due to banks and other financial institutions	246	341	1,469	2,083	28,976	–	**33,115**	9,836
Amounts payable under repurchase agreements	5,027	–	–	–	–	–	**5,027**	4,987
Derivative financial instruments	42	–	–	–	–	–	**42**	42
Amounts due to customers	328,996	50,002	190,670	263,949	3,605	–	**837,222**	791,626
Debt securities issued	319	300	881	15,929	618,882	–	**636,311**	148,604
Subordinated debt	–	936	11,474	46,917	134,061	–	**193,388**	75,277
Lease liabilities	25	382	1,603	7,019	159	–	**9,188**	4,489
Other financial liabilities	1,700	2,087	574	162	14	727	**5,264**	5,264
Total liabilities	**336,355**	**54,048**	**206,671**	**336,059**	**785,697**	**727**	**1,719,557**	**1,040,125**
Credit related commitments	2,531	–	–	–	–	–	**2,531**	2,531

Future interest payments for non-redeemable cumulative preference shares, which are payable annually, are not included in the table above.

37. Risk management, continued

Liquidity risk, continued

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

At 31 December 2018	*Demand and less than 1 month*	*From 1 to 3 months*	*From 3 months to 1 year*	*From 1 to 5 years*	*More than 5 years*	*No maturity*	*Total gross amount outflow*	*Carrying amount*
Liabilities								
Amounts due to customers	138,639	5,533	–	–	–	–	**144,172**	143,985
Other financial liabilities	77	44	–	–	–	–	**121**	121
Total liabilities	**138,716**	**5,577**	**–**	**–**	**–**	**–**	**144,293**	**144,106**

The tables above show the undiscounted cash flows of non-derivative financial liabilities, including issued financial guarantee contracts, and unrecognised loan commitments on the basis of their earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

In accordance with Kazakhstan legislation, depositors can withdraw their term deposits at any time, losing in most of the cases the accrued interest. These deposits are classified in accordance with their stated maturity dates. In accordance with Russian legislation, individuals can withdraw their term deposits at any time, losing in most of the cases the accrued interest. As at 31 December 2019, the carrying amount of these term deposits amounted to KZT 72,638 million (31 December 2018: nil).

However, management believes that in spite of this early withdrawal option and the fact that a substantial portion of customers accounts are on demand, diversification of these customer accounts and deposits by number and type of depositors, and the past experience of the Group indicates that these customer accounts provide a long-term and stable source of funding.

Management expects that the cash flows from certain assets and liabilities will be different from their contractual terms either because management has the discretionary ability to manage the cash flows or because past experience indicates that cash flows will differ from contractual terms. The table below shows an analysis, by contractual maturities, of the amounts recognised in the consolidated statement of financial position as at 31 December 2019:

37. Risk management, continued

Liquidity risk, continued

At 31 December 2019	*Demand and less than1 month*	*From 1 to 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*More than 5 years*	*No maturity*	*Overdue*	*Total*
Non-derivative assets								
Cash and cash equivalents	298,047	–	–	–	–	–	–	**298,047**
Amounts due from banks and other financial institutions	1,808	–	748	–	46	946	–	**3,548**
Securities measured at fair value through profit or loss	265	448	1,499	1,492	114	1,209	–	**5,027**
Investment securities	274,160	232,026	26,974	20,013	53,627	61	–	**606,861**
Loans to customers	26,552	5,818	33,314	166,049	92,619	59	90,240	**414,651**
Promissory notes from the MFRK	–	–	536	69,705	–	–	–	**70,241**
Insurance premiums and reinsurance assets	1,810	135	496	362	–	–	510	**3,313**
Property and equipment and intangible assets	–	–	–	1,550	6	52,716	–	**54,272**
Non-current assets held for sale	–	–	8,805	–	–	339	–	**9,144**
Investment property	–	–	–	–	5,378	63	–	**5,441**
Current income tax asset	–	–	473	32	–	139	–	**644**
Deferred tax asset	–	–	41	37	–	2,206	–	**2,284**
Other assets	810	381	1,158	857	95	11,259	4,079	**18,639**
Total assets	**603,452**	**238,808**	**74,044**	**260,097**	**151,885**	**68,997**	**94,829**	**1,492,112**
Non-derivative liabilities								
Amounts due to banks and other financial institutions	244	–	–	3,375	6,217	–	–	**9,836**
Amounts payable under repurchase agreements	4,987	–	–	–	–	–	–	**4,987**
Amounts due to customers	208,442	61,440	239,487	279,530	2,727	–	–	**791,626**
Debt securities issued	176	272	196	9,667	138,293	–	–	**148,604**
Subordinated debt	–	917	6,103	22,519	43,510	2,228	–	**75,277**
Lease liabilities	24	190	739	3,460	76	–	–	**4,489**
Current income tax liability	–	–	24	–	–	–	–	**24**
Deferred tax liabilities	–	–	3,213	12,303	57,846	12	148	**73,522**
Insurance contract provisions	2,531	278	2,382	770	–	–	–	**5,961**
Other liabilities	5,159	2,369	3,895	564	4,887	1,395	182	**18,451**
Total liabilities	**221,563**	**65,466**	**256,039**	**332,188**	**253,556**	**3,635**	**330**	**1,132,777**
Net position	**381,889**	**173,342**	**(181,995)**	**(72,091)**	**(101,671)**	**65,362**	**94,499**	**359,335**

37. Risk management, continued

Liquidity risk, continued

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

At 31 December 2018	*Demand and less than 1 month*	*From 1 to 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*More than 5 years*	*No maturity*	*Overdue*	*Total*
Non-derivative assets								
Cash and cash equivalents	54,599	–	–	–	–	–	–	**54,599**
Securities at fair value through profit or loss	94	–	–	–	–	–	–	**94**
Investment securities	88,582	4,630	8,539	–	–	–	–	**101,751**
Loans to customers	2	–	–	37	–	–	–	**39**
Property and equipment and intangible assets	–	–	–	–	–	1,987	–	**1,987**
Current tax asset	–	–	66	–	–	–	–	**66**
Other assets	123	75	–	–	–	–	–	**198**
Total assets	**143,400**	**4,705**	**8,605**	**37**	–	**1,987**	–	**158,734**
Non-derivative liabilities								
Amount due to customers	138,639	5,346	–	–	–	–	–	**143,985**
Deferred tax liabilities	–	–	–	160	–	–	–	**160**
Other liabilities	–	890	–	90	–	–	–	**980**
Total liabilities	**138,639**	**6,236**	–	**250**	–	–	**–**	**145,125**
Net position	**4,761**	**(1,531)**	**8,605**	**(213)**	–	**1,987**	–	**13,609**

37. Risk management, continued

Operational risk

Operational risk is the probability of loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors, such as those arising from legal and regulatory requirements (excluding strategic risk and reputational risk).

The Group had developed the policy on operational risk management, which was approved by the Board of Directors.

The Group is establishing the system of operational risk management that is organised in three levels:

- Level 1 - risk management by the departments of the Group.
- Level 2 - risk management by the independent operational risk management department.
- Level 3 − independent assessment of operational risk management system effectiveness by the internal audit department.

Level 1 relates to risk coordinators that were appointed in the departments of the Group, who are responsible for the collection and direction of information about the operational risk to the risk management department. Risk management department conducts the education of risk coordinators of the Group and controls the work performed by risk coordinators.

The Group uses automated systems for the collection and analysis of information about operation risk events. Risk coordinators collect the information about operation risk events, each event is evaluated by the risk management department together with process holders and then directed to the specialised collegial body.

Additional instrument of operational risk management is the process of self-assessment of operational risk in the departments of the Group. Self-assessment is conducted by risk management coordinators directed by the risk management department. The results are organised in risk maps.

Separate operational risk assessment is conducted before implementation of new products, processes and systems.

On a monthly basis, Management Board and Board of Directors review the information on operational risk

38. Capital management

NBRK sets and monitors capital requirements for the Bank. The Bank defines as capital those items defined by statutory regulation as capital for credit institutions.

- Tier 1 capital is a total of basic and additional capital. Basic capital comprises ordinary share capital, share premium, current and prior periods' retained earnings and reserves created thereof, less treasury share capital, intangible assets including goodwill, and current and prior periods losses, deferred tax asset net of deferred tax liability and other revaluation reserves. Additional capital comprises of perpetual contracts and paid-in preference share capital less adjustments for the Group's investment in its own perpetual financial instruments and treasury preference shares. Tier 2 capital, which comprises the subordinated debt denominated in the national currency, less investments in the subordinated debt of the financial organisations not consolidated with the Bank under IFRS.

Total capital is the sum of tier 1 and tier 2 capital less difference between retail deposits and equity according to the balance sheet data, multiplied by 5.5, and less the positive difference between provisions (reserves) calculated in accordance with the Guidelines on creation of provisions (reserves) for impairment of the bank's assets in the form of loans and receivables as per Appendix 1 to the Regulations and provisions (reserves) created and stated in the banks' accounting records under IFRS and the requirements of the Law of the RK on Accounting and Financial Reporting (the "positive difference"). Various further limits and qualifying criteria are applied to the above elements of the capital base. Various further limits and qualifying criteria are applied to the above elements of the capital base.

38. Capital management, continued

In accordance with the regulations set by the NBRK the Group has to maintain total capital adequacy within the following coefficients:

- a ratio of basic capital to the sum of credit risk-weighted assets and, contingent liabilities market risk-weighted assets and contingent assets and liabilities, and quantified operational risk (k1) at least at 0.075;
- a ratio of tier 1 capital, net of investments, to the sum of credit risk-weighted assets and, contingent liabilities, market risk-weighted assets and contingent liabilities and quantified operational risk (k1-2) at least at 0.085;
- a ratio of equity to the sum of credit risk-weighted assets and, contingent liabilities, market risk weighted assets and, contingent assets and liabilities , and quantified calculated based on the market risk and a quantitative measure of operational risk (k2) at least at 0.100.

The Bank is subject to minimum capital requirements calculated in accordance with the requirements established by the NBRK:

	31 December 2019	*31 December 2018*
Tier 1 capital	339,028	13,532
Tier 2 capital	106,588	13,532
Positive difference deductible from equity	–	–
Total statutory capital	**445,616**	**27,064**
Total risk weighted statutory assets, contingent liabilities, operational and market risk	**551,180**	**–**
		–
k1	**0.613**	**0.581**
k1.2	**0.615**	**0.581**
k.2	**0.808**	**0.581**

NBRK's requirements established by covenants under liabilities incurred by the Bank. The Bank complied with all externally imposed capital requirements as at 31 December 2019 (First Heartland Bank JSC complied with all externally imposed capital requirements as at 31 December 2018).

39. Credit related commitments

The Group has outstanding credit related commitments to extend loans. These credit related commitments take the form of approved loans and credit card limits and overdraft facilities.

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years. The Group also provides guarantees by acting as settlement agent in securities borrowing and lending transactions.

The Group applies the same credit risk management policies and procedures when granting credit commitments, financial guarantees and letters of credit as it does for granting loans to customers.

The contractual amounts of credit related commitments are set out in the following table by category. The amounts reflected in the table for credit related commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if the counterparties failed completely to perform as contracted.

	31 December 2019	*31 December 2018*
Financial guarantees issued	1,979	48
Letters of credit	108	–
Credit card commitments	444	–
	2,531	**48**
Less: amounts due to customers held to secure the guarantees and letters of credits	(1,186)	–
	1,345	**48**

39. Credit related commitments, continued

Agreements for credit- and credit line-related commitments provide for the Group's right to unilaterally withdraw from an agreement once conditions unfavourable to the Group have arisen, including change of refinancing, inflation and exchange rates, and other conditions.

Total outstanding contractual amount of credit- and credit line-related commitments, and guarantees and letters of credit does not necessarily represent future cash claims as the term of commitments may expire or the said commitments may be cancelled without funds being provided to the borrower.

As at 31 December 2019, the Group has no outstanding off-balance sheet commitments that exceed 10% of equity (31 December 2018: none).

40. Operating lease

Leases as lessee

Non-cancellable operating lease rentals as at 31 December 2019 and 31 December 2018 are payable as follows:

	31 December 2019	*31 December 2018*
Less than one year	90	–

The Group leases a number of premises and equipment under operating leases. The leases typically run for an initial period of one to five years, with an option to then renew the lease. Lease payments are usually increased annually to reflect market rentals. None of the leases include contingent rentals.

During the reporting period KZT 1,121 million were recognised as expense in the consolidated statement of profit or loss and other comprehensive income in respect of operating leases (31 December 2018: KZT 59 million).

41. 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 Group 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 Group's property or relating to Group's operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

Litigations

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints, will not have a material adverse effect on the financial condition or the results of future operations.

Taxation contingencies in Kazakhstan

The taxation system in the RK 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 consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

42. Related party transactions

Control relationship

The sole shareholder of the Group is First Heartland Securities JSC that own 100% of ordinary shares. First Heartland Securities JSC produces publicly available consolidated financial statements. As at 31 December 2019, the ultimate controlling party of the Group is the Private Fund "Nazarbayev Fund" (31 December 2018: Mr. Zhaksybek D.A., individual).

Remuneration to the key management personnel

Total remuneration paid to the key management personnel in 2019 and 2018 is as follows:

	2019	*2018*
Key management personnel	1,767	1,387

Transactions with the key management personnel

The outstanding balances and average interest rates as at 31 December 2019 and 2018 for transactions with the key management personnel are as follows:

	31 December 2019	*Average interest rate, %*	*31 December 2018*	*Average interest rate, %*
Liabilities				
Amounts due to customers	2,065	6.28	–	–
Other liabilities	6	–	670	–

Amounts included in profit or loss in relation to transactions with the key management personnel are as follows:

	2019	*2018*
Interest expenses	(6)	–
Other operating expense	–	(5)
	(6)	**(5)**

42. 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. The outstanding balances and the related average interest rates as at 31 December 2019 and related profit or loss amounts of transactions for the year ended 31 December 2019 with other related parties are as follows:

	Parent Company		*Ultimate parent company and other fellow subsidiaries*		*Other**		
	KZT mln	***Average interest rate, %***	***KZT mln***	***Average interest rate, %***	***KZT mln***	***Average interest rate, %***	***Total KZT mln***
Consolidated statement of financial position							
ASSETS							
Loans to customers							
- in KZT							
Principal	–	–	–	–	5,096	12.34	**5,096**
Other assets	–	–	–	–	89	–	**89**
LIABILITIES							
Amounts due to banks and other financial institutions							
- in KZT	1	–	–	–	–	–	**1**
Amounts due to customers							
- in KZT	–	–	48	–	38,116	6.46	**38,164**
- in USD	–	–	9,603	–	53,814	0.31	**63,417**
- in other currency	–	–	–	–	5,709	0.05	**5,709**
Consolidated statement of profit or loss							
Interest income	–	–	–	–	969	–	**969**
Interest expenses	–	–	–	–	(213)	–	**(213)**
Other general and administrative expenses	–	–	–	–	(110)	–	**(110)**

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

	Parent Company		*Ultimate parent company and other fellow subsidiaries*		*Other**		
	KZT mln	***Average interest rate***	***KZT mln***	***Average interest rate***	***KZT mln***	***Average interest rate, %***	***Total KZT mln***
Consolidated statement of financial position							
ASSETS							
Other assets	–	–	39	–	6	–	**45**
LIABILITIES							
Amounts due tocustomers	1		112,567		26,642		**139,210**
Other liabilities	–	–	2	–	–	–	**2**
Consolidated statement of profit or loss							
Interest expenses	–	–	2,895	–	442	–	**3,337**
Fee and commission expenses	33	–	–	–	–	–	**33**
Other income	1	–	41	–	19	–	**61**

* Other related parties are mainly presented by the balances of autonomous education organisation Nazarbayev University and corporate fund Social Development Fund.

43. Fair value of financial instruments

Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2019:

	FVTPL	*Amortised cost*	*FVOCI*	*Total carrying amount*	*Fair value*
Cash and cash equivalents	–	298,047	–	**298,047**	298,047
Derivative financial instruments	13	–	–	**13**	13
Amounts due from banks and other financial institutions	–	3,548	–	**3,548**	3,548
Securities measured at fair value through profit or loss	5,027	–	–	**5,027**	5,027
Investment securities at FVOCI	–	–	366,235	**366,235**	366,235
Investment securities at amortised cost	–	240,626	–	**240,626**	241,431
Loans to customers	29,202	264,232	121,217	**414,651**	416,302
Promissory notes from the MFRK	–	–	70,241	**70,241**	70,241
Insurance premiums and reinsurance assets	–	1,113	–	**1,113**	1,113
Other financial assets	–	8,426	–	**8,426**	8,426
	34,242	**815,992**	**557,693**	**1,407,927**	**1,410,383**
Amounts due to banks and other financial institutions	–	9,836	–	**9,836**	9,836
Amounts payable under repurchase agreements	–	4,987	–	**4,987**	4,987
Derivative financial instruments	42	–	–	**42**	42
Amounts due to customers	–	791,626	–	**791,626**	790,684
Debt securities issued	–	148,604	–	**148,604**	147,182
Subordinated debt	–	75,277	–	**75,277**	73,136
Lease liabilities	–	4,489	–	**4,489**	4,489
Other financial liabilities	–	5,264	–	**5,264**	5,264
	42	**1,040,083**	–	**1,040,125**	**1,035,620**

43. Fair value of financial instruments, continued

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

	FVTPL	*Amortised cost*	*FVOCI*	*Total carrying amount*	*Fair value*
Cash and cash equivalents	–	54,599	–	**54,599**	54,599
Derivative financial assets	34	–	–	**34**	34
Securities measured at fair value through profit or loss	94	–	–	**94**	94
Investment securities at FVOCI	–	–	839	**839**	839
Investment securities at amortised cost	–	100,913	–	**100,913**	100,825
Loans to customers	–	39	–	**39**	39
Other financial assets	–	104	–	**104**	104
	128	**155,655**	**839**	**156,622**	**156,534**
Current accounts and deposits from customers	–	143,985	–	**143,985**	143,954
Other financial liabilities	–	121	–	**121**	121
	–	**144,106**	**–**	**144,106**	**144,075**

43. Fair value of financial instruments, 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 ordinary 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 Group determines fair values using other valuation techniques.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

Valuation techniques include net present value and discounted cash flow models and comparison to similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices and foreign currency exchange rates. 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.

The Group uses widely recognised valuation models for determining the fair value of common and simpler financial instruments. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps.

For more complex instruments, the Group uses proprietary valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Example of instruments involving significant unobservable inputs includes certain securities for which there is no active market.

The following assumptions are used by the Management to estimate the fair values of financial instruments as at 31 December 2019:

- discount rates of 12.0% − 13.4% and 4.4% − 5.2% are used for discounting future cash flows from loans to corporate customers denominated in KZT and USD, respectively (31 December 2018: nil);
- discount rates of 10.0% − 40.0% are used for discounting future cash flows from loans to retail customers (31 December 2018: 5.60 %);
- discount rates of 0.8% − 7.4% and 0.5% − 9.0% are used for discounting future cash flows from current accounts and deposits of corporate and retail customers, respectively (31 December 2018: 0.8% − 11.6% and nil, respectively);
- discount rate of 11.5% is used for discounting future cash flows from debt securities issued (31 December 2018: nil);
- discount rate of 14.0% is used for discounting future cash flows from subordinated debt (31 December 2018: nil).

Fair value hierarchy

The table below analyses financial instruments measured at fair value at 31 December 2019 and 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 consolidated statement of financial position.

As at 31 December 2019	***Level 2***	***Level 3***	***Total***
Financial instruments at FVTPL			
- assets	5,040	29,202	**34,242**
- liabilities	42	–	**42**
Financial assets at FVOCI			
- debt and other fixed income instruments	557,693	–	**557,693**
	562,691	**29,202**	**591,893**

43. Fair value of financial instruments, continued

Fair value hierarchy, continued

As at 31 December 2018	***Level 1***	***Total***
Financial instruments at FVTPL		
- assets	128	**128**
Financial assets at FVOCI		
- debt and other fixed income instruments	839	**839**
	967	**967**

Securities, which are listed on 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, the financial instruments classified as Level 2, include government securities for the amount of KZT 352,995 million and promissory notes from the MFRK in the amount of KZT 70,241 million (as ot 31 December 2018, the financial instruments classified as Level 2 include government securities for the amount of KZT 68,833 million).

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 Group uses valuation techniques that rely on unobservable inputs – e.g. volatilities of certain underlying, expectations of termination periods.

The fair value of loans to customers measured at FVTPL is determined using the discounted cash flows valuation technique. The valuation model considers the present value of expected future cash flows from the foreclosure of collateral, discounted using a risk-adjusted discount rate from 11.54% to 14.54%. For the assumptions used in estimation of expected future cash flows from the foreclosure of collateral please refer to *Note 23*.

The following table shows a reconciliation for the year ended 31 December 2019 for fair value measurements in Level 3 of the fair value hierarchy:

	Level 3	
	Loans to customers measured at FVTPL	***Total***
Balance at 1 January 2019		
Acquisition resulting from a business combination (*Note 5*)	26,733	**26,733**
Interest income	9,626	**9,626**
Interest paid	(6,741)	**(6,741)**
Net loss on change in fair value of loans to customers measured at fair value through profit or loss	(416)	**(416)**
Balance at 31 December 2019	**29,202**	**29,202**

43. Fair value of financial instruments, continued

Fair value hierarchy, continued

Although the Group believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements 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.

	Level 1	*Level 2*	*Level 3*	*Total fair values*	*Total carrying amount*
Assets					
Cash and cash equivalents	–	298,047	–	**298,047**	**298,047**
Amounts due from banks and other financial institutions	–	3,548	–	**3,548**	**3,548**
Investment securities at amortised cost	–	241,229	202	**241,431**	**240,626**
Loans to customers	–	107,251	158,632	**265,883**	**264,232**
Other financial assets	–	8,426	–	**8,426**	**8,426**
Liabilities					
Amounts due to banks and other financial institutions	–	9,836	–	**9,836**	**9,836**
Amounts payable under repurchase agreements	–	4,987	–	**4,987**	**4,987**
Amounts due to customers	–	790,684	–	**790,684**	**791,626**
Debt securities issued	–	147,182	–	**147,182**	**148,604**
Subordinated debt	–	73,136 1	–	**73,136**	**75,277**
Lease liabilities	–	4,489	–	**4,489**	**4,489**
Other financial liabilities	–	5,264	–	**5,264**	**5,264**

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.

	Level 1	*Level 2*	*Level 3*	*Total fair values*	*Total carrying amount*
Assets					
Cash and cash equivalents	–	54,599	–	**54,599**	**54,599**
Investment securities at amortised cost	100,825	–	–	**100,825**	**100,913**
Loans to customers	–	–	39	**39**	**39**
Liabilities					
Amounts due to customers	–	143,954	–	**143,954**	**143,985**

44 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 430 KZT to one USD at 10 April 2020.

44 Subsequent events, continued

Effect of COVID-19 Virus, continued

In March 2020 the Agency for Financial Market Regulation in Kazakhstan issued a statement that certain retail and small business borrowers of banks in Kazakhstan would be allowed a deferment on their overdue loan payments due to the COVID-19 outbreak.

Management of the Group 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 in Kazakhstan. It may also lead to a reduction in the carrying amounts of the Group's assets during 2020, in particular its loans to customers, whose values are sensitive to changes in the value of underlying collateral and expected realization periods (see *Note 23*). The extent of these effects, including the resulting impact on the Group's financial results in 2020, is not possible to determine at the date of approval of these financial statements.

Approximately KZT 25,865 million of Insurance Company Jusan Garant JSC total insurance exposure at 31 December 2019 relates to medical insurance, and this coverage continues to be offered by the company during 2020. Management have considered the potential impact of the coronavirus on the company's claims expected during 2020, and have made a preliminary assessment that the contractual terms of its medical insurance agreements excludes coverage of such pandemic diseases. However, the wider effects of the virus and its effect on the Kazakhstan economy, including any resulting impact on Insurance Company Jusan Garant JSC's financial results in 2020, is not possible to determine at the date of approval of these financial statements.

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 Jusan Garant JSC and First Heartland Jusan Invest JSC to the sole shareholder - First Heartland Securities JSC, 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 consolidated financial statements. A cash consideration of KZT 15,706 million will be received as a result of disposal.

On 2 March 2020, according to the decision of the Board of Directors of the sole shareholder First Heartland Securities JSC, there was an approval of a payment of dividends from the Bank's net retained earnings of prior years. The amount of dividends per one ordinary share is KZT 145.57, representing a total amount of KZT 19,289 million.

On 27 March 2020, the Group completed placement of debt securities with a nominal value of KZT 20,758 million and a coupon rate of 0.1% p.a. and maturity in 2030, which was the final stage of the financial rehabilitation of the Bank. The effect of this transaction on the consolidated statement of profit or loss and other comprehensive income has not been determined at the date of approval of these consolidated financial statements.