JSC "KazakhExport"
Export Insurance Company

Financial Statements
for the year ended 31 December 2019

Contents

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Independent Auditors' Report

To the Board of Directors of JSC "KazakhExport" Export Insurance Company

Opinion

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

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

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 Financial Statements* section of our report. We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) together with the ethical requirements that are relevant to our audit of the 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.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 financial statements.

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

Assel Urdabayeva
Certified Auditor
of the Republic of Kazakhstan
Auditor's Qualification Certificate
No. MФ-0000096 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

28 February 2020

	Note	2019 KZT'000	2018 KZT'000
Gross insurance premiums written	6	2,324,296	2,679,063
Written premiums ceded to reinsurers	6	(44,811)	(562,370)
Net insurance premiums written		**2,279,485**	**2,116,693**
Change in the gross provision for unearned premiums	6	(569,908)	(707,365)
Reinsurers' share of change in the gross provision for unearned premiums	6	(139,797)	(366,915)
Net earned insurance premiums		**1,569,780**	**1,042,413**
Claims paid	7	(240,262)	(55,817)
Reimbursement from recourse claims	7	6,802	450
Change in gross insurance contract provisions	7	(2,988,533)	(771,803)
Change in reinsurers' share in insurance contract provisions	7	(50,501)	41,589
Net claims paid		**(3,272,494)**	**(785,581)**
Interest income calculated using the effective interest method	8	4,786,889	2,896,843
Other interest income	8	69,489	102,896
Interest expense	8	(24,877)	(29,185)
Net gain from change in fair value of investment securities measured at fair value through profit or loss		73,437	61,006
Net foreign exchange gain		619,708	612,379
Net commission (expense)/income		(4,496)	2,135
General administrative expenses	9	(1,647,296)	(1,162,595)
Reversal of impairment loss/(impairment loss) on debt financial assets		662,640	(691,790)
Other operating (expense)/income, net		(134,280)	4,207
Profit before income tax		**2,698,500**	**2,052,728**
Income tax expense	10	(342,916)	(467,176)
Profit for the year		**2,355,584**	**1,585,552**
Other comprehensive income, net of income tax			
Items that are or may be reclassified subsequently to profit or loss:			
Movement in fair value reserve			
- Net change in fair value		(1,303)	239,197
- Net change in fair value transferred to profit or loss		5,200	(1,435)
Other comprehensive income for the year, net of income tax		**3,897**	**237,762**
Total comprehensive income for the year		**2,359,481**	**1,823,314**

The financial statements as set out on pages 6 to 60 were approved by the Management Board on 28 February 2020 and were signed on its behalf by:

«KazakhExport»

Iskakov R.B.
Chairman of the Management Board

Sartkozhinova Zh.K.
Chief Accountant

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

	Note	2019 KZT’000	2018 KZT’000
ASSETS			
Cash and cash equivalents	11	17,655,699	26,871,413
Placements with banks	12	46,574,121	11,099,359
Investment securities:			
- measured at fair value through other comprehensive income	13	10,224,696	7,435,977
- measured at amortised cost	13	10,682,611	-
- measured at fair value through profit or loss	13	660,849	1,511,226
Insurance and reinsurance receivables	14	1,391,256	1,014,713
Reinsurers’ share in insurance contract provisions	15	318,795	509,093
Property and equipment		87,645	71,662
Current tax asset		328,773	92,632
Deferred tax assets	10	36,951	24,455
Other assets		237,245	15,726
Total assets		**88,198,641**	**48,646,256**
LIABILITIES			
Insurance contract provisions	15	8,444,237	4,885,796
Insurance and reinsurance payables		65,708	36,764
Loan from Samruk-Kazyna JSC		144,388	212,512
Other liabilities		350,823	201,514
Total liabilities		**9,005,156**	**5,336,586**
EQUITY			
Share capital	16(a)	71,100,000	37,100,000
Additional paid-in capital on loan received from Samruk-Kazyna JSC at the below market rate		732,819	732,819
Stabilisation reserve		65,919	7,904
Provision for unexpected risks		2,555,200	510,942
Revaluation reserve for changes in fair value of securities		(1,263,767)	(1,267,664)
Retained earnings		6,003,314	6,225,669
Total equity		**79,193,485**	**43,309,670**
Total liabilities and equity		**88,198,641**	**48,646,256**

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

	2019 KZT'000	2018 KZT'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	**2,698,500**	**2,052,728**
Adjustments for:		
Change in insurance contract provisions, less reinsurers' share	3,748,739	1,804,494
Amortisation of discount and premiums	(307,360)	66,729
Depreciation and amortisation	16,970	15,681
Interest expense on loan received from Samruk-Kazyna JSC	24,877	29,185
(Reversal of impairment loss)/impairment loss on debt financial assets	(662,640)	691,790
Net gain from change in fair value of investment securities measured at fair value through profit or loss	(73,437)	(61,006)
Interest income calculated using the effective interest method	(4,479,529)	(2,963,572)
Other interest income	(69,489)	(102,896)
Unrealised foreign exchange difference	(619,708)	(601,197)
Cash flows from operating activities before changes in operating assets and liabilities	**276,923**	**931,936**
(Increase)/decrease in operating assets		
Placements with banks	(32,912,669)	(2,501,958)
Insurance and reinsurance receivables	(385,673)	(59,298)
Other assets	(255,026)	26,771
Increase/(decrease) in operating liabilities		
Insurance and reinsurance payables	28,944	(118,220)
Other liabilities	145,715	63,186
Net cash used in operating activities before interest received and income tax paid	**(33,101,786)**	**(1,657,583)**
Income tax paid	(588,308)	(367,057)
Interest receipts	3,486,196	2,513,306
Interest paid	(541)	(786)
Cash flows (used in)/from operating activities	**(30,204,439)**	**487,880**

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

	2019 KZT’000	2018 KZT’000
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and repayment of investment securities	1,062,500	-
Acquisition of debt securities	(13,284,230)	-
Acquisition of property and equipment and intangible assets	(30,218)	(31,183)
Cash flows used in investing activities	**(12,251,948)**	**(31,183)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Share issue	34,000,000	-
Repayment of loan from Samruk-Kazyna JSC	(92,460)	(92,460)
Dividends paid	(475,666)	(639,389)
Cash flows from/(used in) financing activities	**33,431,874**	**(731,849)**
Net decrease in cash and cash equivalents	**(9,024,513)**	**(275,152)**
Effect of changes in exchange rates on cash and cash equivalents	(191,201)	101,231
Cash and cash equivalents at the beginning of the year	26,871,413	27,045,334
Cash and cash equivalents at the end of the year (Note 11)	**17,655,699**	**26,871,413**

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

KZT'000	Share capital	Additional paid-in capital on loan received from Samruk-Kazyna JSC at the below market rate	Stabilisation reserve	Provision for unexpected risks	Revaluation reserve for changes in fair value of securities	Retained earnings	Total equity
Balance at 1 January 2019	37,100,000	732,819	7,904	510,942	(1,267,664)	6,225,669	43,309,670
Total comprehensive income							
Profit for the year	-	-	-	-	-	2,355,584	2,355,584
Other comprehensive income							
Items that are or may be reclassified subsequently to profit or loss:							
Net change in fair value	-	-	-	-	3,897	-	3,897
Total other comprehensive income	**-**	**-**	**-**	**-**	**3,897**	**-**	**3,897**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**3,897**	**2,355,584**	**2,359,481**
Transactions with owners, recorded directly in equity							
Share issue	34,000,000	-	-	-	-	-	34,000,000
Dividends paid (Note 16(c))	-	-	-	-	-	(475,666)	(475,666)
Transfer to provision for unexpected risks (Note 16(d))	-	-	-	2,044,258	-	(2,044,258)	-
Transfer to stabilisation reserve	-	-	58,015	-	-	(58,015)	-
Total transactions with owners	**34,000,000**	**-**	**58,015**	**2,044,258**	**-**	**(2,577,939)**	**33,524,334**
Balance at 31 December 2019	**71,100,000**	**732,819**	**65,919**	**2,555,200**	**(1,263,767)**	**6,003,314**	**79,193,485**

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

KZT’000	**Share capital**	**Additional paid-in capital on loan received from Samruk-Kazyna JSC at the below market rate**	**Stabilisation reserve**	**Provision for unexpected risks**	**Revaluation reserve for changes in fair value of securities**	**Retained earnings**	**Total equity**
Balance at 1 January 2018	37,100,000	732,819	62,114	-	(1,849,217)	6,142,446	42,188,162
Impact of adopting IFRS 9 at 1 January 2018	-	-	-	-	343,791	(406,208)	(62,417)
Restated balance as at 1 January 2018	**37,100,000**	**732,819**	**62,114**	**-**	**(1,505,426)**	**5,736,238**	**42,125,745**
Total comprehensive income							
Profit for the year	-	-	-	-	-	1,585,552	1,585,552
Other comprehensive income							
Items that are or may be reclassified subsequently to profit or loss:							
Net change in fair value	-	-	-	-	237,762	-	237,762
Total other comprehensive income	**-**	**-**	**-**	**-**	**237,762**	**-**	**237,762**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**237,762**	**1,585,552**	**1,823,314**
Transactions with owners, recorded directly in equity							
Dividends paid (Note 16(c))	-	-	-	-	-	(639,389)	(639,389)
Transfer to provision for unexpected risks (Note 16(d))	-	-	-	510,942	-	(510,942)	-
Transfer to stabilisation reserve	-	-	(54,210)	-	-	54,210	-
Total transactions with owners	**-**	**-**	**(54,210)**	**510,942**	**-**	**(1,096,121)**	**(639,389)**
Balance at 31 December 2018	**37,100,000**	**732,819**	**7,904**	**510,942**	**(1,267,664)**	**6,225,669**	**43,309,670**

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

1 Reporting entity

(a) Organisation and operations

JSC “KazakhExport” Export Insurance Company (hereinafter, the “Company”) is a joint-stock company incorporated in 2003 in the Republic of Kazakhstan in accordance with the Kazakhstan legislation.

The Company holds a license to conduct insurance and reinsurance activity No.2.1.55 dated 21 May 2018 issued by the National Bank of the Republic of Kazakhstan (the NBRK), which replaced the license No.2.1.55 dated 20 April 2017 issued by the NBRK. The license allows the Company to conduct the voluntary insurance in the following classes:

1) insurance of guarantees and sureties;
2) insurance against other financial losses;
3) insurance of the financial organisations’ losses, except for the insurance classes specified in sub-paragraphs 13), 14), 15) and 16) of paragraph 3, Article 6 of the Law of the Republic of Kazakhstan “On Insurance Activity”;
4) loan insurance;
5) civil liability insurance, except for the classes specified in sub-paragraphs 9)-11) of paragraph 3, Article 6 of the Law of the Republic of Kazakhstan “On Insurance Activity”; and
6) performing reinsurance operations.

The areas of the Company’s strategic development comprise further improvement of the instruments to support export, create conditions to increase a number of exporters and enhance the operating efficiency.

The Company’s registered office and place of business is: 55A Mangilik El Avenue, Nur-Sultan, Republic of Kazakhstan, 010000.

(b) Shareholder

As at 31 December 2019 and 31 December 2018, National Management Holding “Baiterek” JSC hereinafter referred to as the “Parent Company” owns 100% of the outstanding shares. The Company’s ultimate shareholder is the Government of the Republic of Kazakhstan. Under the Contract of Share Transfer No.299-и dated 29 May 2013, the Company’s holding of shares was transferred under trust management to National Management Holding “Baiterek” JSC. National Management Holding “Baiterek” JSC was established in accordance with the Decree of the President of the Republic of Kazakhstan dated 22 May 2013, No.571 “On Certain Measures for Optimisation of the System of Management of the Development Institutions, Financial Organisations and Development of the National Economy.”

As at 31 December 2019 the number of employees of the Company was 76 people (2018: 62 employees).

(c) Kazakhstan business environment

The Company’s operations are primarily located in Kazakhstan. Consequently, the Company is exposed to the economic and financial markets of Kazakhstan which display characteristics of an emerging market.

The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Kazakhstan. The financial statements reflect management’s assessment of the impact of the Kazakhstan business environment on the operations and the financial position of the Company. The actual future business environment may differ from management’s assessment.

2 Basis of accounting

(a) Statement of compliance

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

This is the first set of the Company's financial statements in which IFRS 16 *Leases* has been applied. Changes to significant accounting policies are described in Note 2(e).

(b) Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management 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.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

- Insurance contract provisions - Note 15.

(c) Basis of measurement

The financial statements are prepared on the historical cost basis except that financial instruments measured at FVTPL and FVOCI are stated at fair value.

(d) Functional and presentation currency

The national currency of the Republic of Kazakhstan is the Kazakhstan Tenge (KZT). The Kazakhstan Tenge is a functional currency of the Company as it best reflects the economic substance of operations and underlying circumstances conducted by the Company, which have an impact on its activity. The KZT is also the presentation currency for the purposes of these financial statements.

Financial information presented in KZT is rounded to the nearest thousand.

(e) Changes in accounting policies and presentation

IFRS 16

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

The Company has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019.

Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

(i) Definition of a lease

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining Whether an Arrangement contains a Lease*. The Company now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 2(e)(ii).

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

(ii) As a lessee

The Company leases number of property items. As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Company recognises right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

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

Leases classified as operating leases under IAS 17

Previously, the Company classified property leases as operating leases under IAS 17.

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

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets.

The Company leases a number of property items (office premises). Given the short term (12 months) and absence of preferential right to extend a lease in accordance with the legislation, since 1 January 2019 the Company continues accounting these contracts as operating lease under IFRS 16.

(iii) Impacts on financial statements

Impacts on transition

Taking into account that all leased property items have short stated term (12 months) and continue to be accounted for as operating leases, no changes have occurred in the accounting for these leases as compared to the previous periods. Therefore, there is no impact of IFRS 16 on the financial statements of the Company on transition. A number of other new standards and amendments to the existing standards are effective from 1 January 2019 but they do not have a material effect on the Company's financial statements.

3 Significant accounting policies

Except for the changes disclosed in Note 2(e), the Company has consistently applied the following accounting policies to all periods presented in these financial statements.

(a) Interest

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The ‘amortised cost’ of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

The ‘gross carrying amount of a financial asset’ measured at amortised cost is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see 3(b)(iv).

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and other comprehensive income includes:

- interest on financial assets measured at amortised cost;
- interest on debt instruments measured at FVOCI.

Other interest income presented in the statement of profit or loss and other comprehensive income includes interest income on non-derivative debt financial instruments measured at FVTPL.

Interest expense presented in the statement of profit or loss and other comprehensive income includes:

- interest expense on financial liabilities measured at amortised cost.

(b) Financial assets and financial liabilities

(i) Classification

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

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

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt financial assets measured at FVOCI, gains and losses are recognised in other comprehensive income, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When a debt financial asset measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Company makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.

The information considered includes:

- 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 Company’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 Company’s stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, ‘principal’ is defined as the fair value of the financial asset on initial recognition. ‘Interest’ is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Company considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Company’s claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets.

(ii) Derecognition

Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

From 1 January 2018 any cumulative gain/loss recognised in other comprehensive income in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities.

The Company enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

In transactions in which the Company neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Company continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

(iii) Modification of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as 'substantial modification'), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

Changes in cash flows on existing financial assets or financial liabilities are not considered as modification, if they result from existing contractual terms, if the loan contract entitles the Company to do so.

The Company performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Company 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. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset deemed to have expired. In making this evaluation the Company analogises to the guidance on the derecognition of financial liabilities.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Company plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases. The Company further performs qualitative evaluation of whether the modification is substantial.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Company first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

Financial liabilities

The Company derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

The Company 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. The Company concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial liability;
- change in collateral or other credit enhancement.

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

(iv) Impairment

See also Note 4.

The Company recognises loss allowances for expected credit losses (ECL) on debt financial assets that are not measured at FVTPL.

The Company measures loss 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.

The Company considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

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 entity in accordance with the contract and the cash flows that the Company expects to receive);
- *financial assets that are credit-impaired at the reporting date*: as the difference between the gross carrying amount and the present value of estimated future cash flows.

Restructured financial assets

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

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset (see Note 4).

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

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

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Company on terms that the Company 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.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- *financial assets measured at amortised cost:* as a deduction from the gross carrying amount of the assets;
- *debt instruments measured at FVOCI:* no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-offs

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in ‘impairment losses on financial instruments’ in the statement of profit or loss and other comprehensive income.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Company’s procedures for recovery of amounts due.

(c) Foreign currency transactions

Foreign currency transactions are translated into the functional currency of the Company using the exchange rates prevailing at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the 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 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 was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(d) Insurance contracts

(i) Classification of contracts

Contracts under which the Company 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. 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 contracts may also transfer some financial risk.

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

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

(ii) 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 Company'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 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.

(iii) Reinsurance assets

The Company 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 Company 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.

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 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 statement of financial position.

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

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 Company may not recover all amounts due, and that the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer.

(iv) 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.

(v) 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. The deficiency is recognised in profit or loss for the year.

(vi) 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.

(e) Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances held with banks 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 Company in the management of short-term commitments. Cash and cash equivalents are recognised at amortised cost in the statement of financial position.

(f) Placements with banks

The Company maintains advances, deposits with banks for various periods of time exceeding three months. Bank deposits with a fixed maturity term are subsequently measured at amortised cost using the effective interest method. Placements with banks are carried at amortised cost net of any allowance for impairment losses, if any.

(g) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

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

(ii) 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 date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

- Machinery and equipment	3-4 years;
- Vehicles	5 years;
- Intangible assets	3 years.

(h) Intangible assets

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

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

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful life is 5 years.

(i) Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the statement of financial position and the counterparty liability included in amounts payable under repo transactions. The difference between the sale and repurchase prices represents interest expense and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell ("reverse repo") are recorded as amounts receivable under reverse repurchase agreements within cash and cash equivalents, if the contracts validity is less than three months. The difference between the purchase and resale prices represents interest income and is recognised over the term of the repo agreement using the effective interest method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

(j) Impairment of non-financial assets

Non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non-financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(k) Provisions

A provision is recognised in the statement of financial position when the Company 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.

(l) Share capital

(i) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(ii) Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a decrease in equity.

(iii) Dividends

The ability of the Company to declare and pay dividends is subject to the current legislation of the Republic of Kazakhstan.

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

(m) Taxation

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

Current tax

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

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets are recognised for unused tax losses, unused 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 used. 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 Company 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 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 tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

(n) Standards issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2020 and earlier application if permitted.

IFRS 17 *Insurance Contracts*

Scope of IFRS 17 is similar to IFRS 4 *Insurance Contracts*. On initial recognition, the liability of a group of insurance contracts is made up of the following components:

– The fulfilment cash flows, which represent the risk-adjusted present value of the entity's rights and obligations to the policyholders, comprising:
  - estimates of future cash flows;
  - discounting; and
  - a risk adjustment for non-financial risk.

- The contractual service margin (CSM), which represents the unearned profit the Company will recognise as it provides services over the coverage period.

Fulfilment cash flows representing a net outflow on initial recognition are recognised as an immediate loss.

Subsequent to initial recognition liability of a group of insurance contracts comprises the liability for remaining coverage (fulfilment cash flows and the CSM) and the liability for incurred claims (fulfilment cash flows for claims and expenses already incurred but not yet paid).

The fulfilment cash flows are remeasured at each reporting date to reflect current estimates. Generally, the changes in the fulfilment cash flows are treated in a number of ways:

– changes in the effect of the time value of money and financial risk are reflected in the statement of financial position;

– changes related to past and current service are recognised in profit or loss; and

– changes related to future service adjust the CSM.

When certain criteria are met, a simplified approach – the premium allocation approach (PAA) – may be used.

Insurance revenue is derived from the changes in the liability for remaining coverage for each reporting period that relate to services for which the Company expects to receive consideration.

Investment components are excluded from insurance revenue and insurance service expenses. Insurance service results are presented separately from insurance finance income or expense. The Company can choose to disaggregate insurance finance income or expense between profit or loss and other comprehensive income (OCI).

IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2021.

Early adoption is permitted if IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* are applied at the adoption date or earlier.

Full retrospective application is required – however, if it is impracticable, a modified retrospective approach and a fair value approach are available.

The Company has not started a formal assessment of potential impact on its financial statements resulting from the application of IFRS 17 neither has initiated any specific actions towards the preparation for implementation of IFRS 17.

Accordingly, it is not practicable to estimate the impact that the application of IFRS 17 will have on the Company’s financial statements.

Other standards

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

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

4 Financial risk review

This note presents information about the Company’s exposure to financial risks. For information on the Company’s financial risk management framework, see Note 17.

Credit risk - Amounts arising from ECL

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company 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 Company’s historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- 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).

Credit risk grades

The Company allocates each exposure to a credit risk grade based on relevant external credit risk grade of Standard & Poor’s, Fitch Ratings, Moody’s Investors Services that is determined to be predictive of the risk of default.

If the counterparty has no external rating, the counterparty is rated based on completed checklist that is developed for independent assessment of the counterparty’s rating.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates. The Company allocates credit risks by stages. All financial assets (except for credit-impaired financial assets) are designated at stage 1 on initial recognition. The asset remains in stage 1 until the risk of default on instrument is low or is not increased significantly since initial recognition. The asset migrates to stages 2 or 3 from stage 1 after the risk of default has significantly changed. The monitoring typically involves use of the following data.

Exposures (deposits in banks, investment securities)
• Information obtained during periodic review of counterparty files – e.g. audited financial statements.
• Data from credit reference agencies, press articles, changes in external credit ratings;
• 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.
• Existing and forecast changes in business, financial and economic conditions.

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Company collects performance and default information about its credit risk exposures analysed by jurisdiction or region, type of product and borrower as well as by credit risk grading. The Company 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 Company then uses these forecasts to adjust its estimates of PDs.

Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

The Company will deem the credit risk of a particular exposure to have increased significantly since initial recognition if, the internal/external rating is determined to have decreased by more than two (or more) grades since initial recognition.

In measuring increases in credit risk, remaining lifetime ECLs are adjusted for changes in maturity.

The Company 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 to credit-impaired;
– there is no unwarranted volatility in loss allowance from transfers between 12-month ECL (stage 1) and lifetime ECL measurements (stage 2).

As a backstop, the Company considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. 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.

Definition of default

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

- the counterparty is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the counterparty is more than 90 days past due on credit obligation to the Company.

In assessing whether a borrower is in default, the Company considers quantitative indicators e.g. overdue status and non-payment on another obligation of the same issuer to the Company; and 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 Company 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 Company uses expert judgment in assessment of forward-looking information. This assessment is based also on external information. Standard macroeconomic variables examined in this context include GDP growth, exchange rate, oil prices, oil production, private debt ratio, unemployment rate, private sector demand etc.

Periodically, the Company carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Company 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. These key drivers are GDP forecasts and level of arrears.

Predicted relationships between the key indicator and default and loss rates on various portfolios of financial assets have been developed based on the external provider's data.

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).

These parameters are generally derived from Standards & Poor's and Moody's studies. They are adjusted to reflect forward-looking information as described above.

External data of Standards & Poor's studies over a considerable period (e.g. average historical PD values over the period between 1981 and 2017) are used to build PDs due to lack of sufficient historical data. PDs are to be recalculated as far as revised studies are available (generally, on an annual basis).

If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

The Company estimates LGD parameters depending on the type of counterparty.

LGD is not applicable for exposures designated at stage 3 or credit-impaired assets, and the Company estimates these instruments on an individual basis.

For financial assets designated as stages 1 and 2, the following 3 categories of LGD are considered:

– LGD is close to 0%, if the government acts as a counterparty;

– LGD is 70%, if the Kazakhstani bank acts as a counterparty; and

– for other counterparties, LGD is calculated based on Moody's recovery studies according to the external rating of a counterparty. LGD parameters are to be recalculated as far as revised studies are available (generally, on an annual basis).

EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For securities EAD is calculated based on the carrying amount of an item in tenge, including acquisition cost, current accrued interest and discount/premium.

The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows.

		External benchmarks used	
KZT'000	**Credit exposure 31 December 2019**	**PD**	**LGD**
Cash and cash equivalents	17,655,699	S&P's default study	Moody's recovery studies / for positions inside Kazakhstan LGD is based on historical recovery data from defaulted financial institutions
Placements with banks	46,574,121		
Investment securities at measured at fair value through other comprehensive income	10,224,696		
Investment securities measured at amortised cost	10,682,611		

Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost and FVOCI debt instruments as at 31 December 2019. Unless specially indicated, for financial assets, the amounts in the table represent gross carrying amounts.

	31 December 2019			
KZT'000	**Stage 1 12-month expected credit losses**	**Stage 2 Lifetime ECL of assets not credit-unimpaired**	**Stage 3 Lifetime ECL for credit-impaired assets**	**Total**
Cash and cash equivalents				
- rated from BBB- to BBB+	4,433,130	-	-	4,433,130
- rated from BB to BB+	2,796,474	-	-	2,796,474
- rated from B- to B+	139	-	-	139
- not rated (Citibank Kazakhstan)	10,428,008	-	-	10,428,008
	17,657,751	**-**	**-**	**17,657,751**
Loss allowance	**(2,052)**	**-**	**-**	**(2,052)**
Total cash and cash equivalents	**17,655,699**	**-**	**-**	**17,655,699**
Placements with banks				
- rated from BB to BB+	46,623,596	-	-	46,623,596
- rated from B- to B+	24,018	-	-	24,018
	46,647,614	**-**	**-**	**46,647,614**
Loss allowance	**(73,493)**	**-**	**-**	**(73,493)**
Total placements with banks	**46,574,121**	**-**	**-**	**46,574,121**

	31 December 2019			
KZT'000	**Stage 1 12-month expected credit losses**	**Stage 2 Lifetime ECL of assets not credit-unimpaired**	**Stage 3 Lifetime ECL for credit-impaired assets**	**Total**
Debt securities measured at fair value through other comprehensive income				
- rated from AA+ to AA-	283,884	-	-	283,884
- rated from BBB- to BBB+	9,944,577	-	-	9,944,577
	10,228,461	**-**	**-**	**10,228,461**
Impairment allowance	**(3,765)**	**-**	**-**	**(3,765)**
Total debt securities measured at fair value through other comprehensive income	**10,224,696**	**-**	**-**	**10,224,696**
Debt securities measured at amortised cost				
- rated from BBB- to BBB+	10,682,611	-	-	10,682,611
	10,682,611	**-**	**-**	**10,682,611**
Impairment allowance	**-**	**-**	**-**	**-**
Total debt securities measured at amortised cost	**10,682,611**	**-**	**-**	**10,682,611**
Total financial assets	**85,216,437**	**-**	**-**	**85,216,437**
Total loss allowance	**(79,310)**	**-**	**-**	**(79,310)**
Total carrying amount	**85,137,127**	**-**	**-**	**85,137,127**

The following table sets out information about the credit quality of financial assets measured at amortised cost and FVOCI debt instruments as at 31 December 2018. Unless specially indicated, for financial assets, the amounts in the table represent gross carrying amounts.

	31 December 2018			
KZT'000	**Stage 1 12-month expected credit losses (ECL)**	**Stage 2 Lifetime ECL of assets not credit-unimpaired**	**Stage 3 Lifetime ECL for credit-impaired assets**	**Total**
Cash and cash equivalents				
- rated from BBB- to BBB+	16,757,098	-	-	16,757,098
- rated from BB to BB+	8,117,154	-	-	8,117,154
- rated from B- to B+	199,768	-	-	199,768
- not rated	1,797,393	-		1,797,393
	26,871,413	**-**	**-**	**26,871,413**
Loss allowance	**-**	**-**	**-**	**-**
Total cash and cash equivalents	**26,871,413**	**-**	**-**	**26,871,413**
Placements with banks				
- rated from BBB- to BBB+	2,002	-	-	2,002
- rated from BB to BB+	9,969,137	-	-	9,969,137
- rated from B- to B+	617,145	-	1,266,716	1,883,861
	10,588,284	**-**	**1,266,716**	**11,855,000**
Loss allowance	**(55,466)**	**-**	**(700,175)**	**(755,641)**
Total placements with banks	**10,532,818**	**-**	**566,541**	**11,099,359**
Debt securities measured at fair value through other comprehensive income				
- rated from AA+ to AA-	259.87	-	-	259,876
- rated from BBB- to BBB+	7,176,101	-	-	7,176,101
Impairment allowance	**-**	**-**	**-**	**-**
Total debt securities measured at fair value through other comprehensive income	**7,435,977**	**-**	**-**	**7,435,977**
Total financial assets	**44,895,674**	**-**	**1,266,716**	**46,162,390**
Total loss allowance	**(55,466)**	**-**	**(700,175)**	**(755,641)**
Total carrying amount	**44,840,208**	**-**	**566,541**	**45,406,749**

5 Insurance risk management

The Company issues contracts that transfer insurance risk. This section summarises these risks and the way the Company manages them.

(a) Risk management objectives and policies for mitigating insurance risk

The Company's management of insurance is a critical aspect of the business.

The primary insurance and reinsurance activity carried out by the Company 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 Company is exposed to the uncertainty surrounding the timing and severity of claims under the contract.

The Company 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.

(i) Underwriting strategy

The Company'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.

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 Company is prepared to underwrite.

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 Company's Board of Directors.

(ii) Reinsurance strategy

The Company reinsures a portion of the risks it underwrites in order to control its exposures to losses and protect capital resources. The Company buys facultative and obligatory 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 provisions and uncollectible items. The Company monitors the financial condition of reinsurers on an ongoing basis and reviews its reinsurance arrangements periodically. The Company monitors the financial and credit rating of reinsurers on a monthly basis, and also analyses financial soundness of reinsurers on a quarterly and annual basis.

The Company does not utilise any stop-loss reinsurance to control its risk of losses resulting from one-off event.

(b) Terms and conditions of insurance and reinsurance 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 Company's main products and the ways in which it manages the associated risks.

(i) Insurance contracts – Insurance against other financial loss

Product features

Insurance against other financial loss protects the property interest of an exporter related to contract execution by a foreign counterparty-importer.

Covered risks:

Insured political events:

- acts of the governmental authority of the country of transit or the country of destination of delivery of the Kazakhstani goods, works, services, or the country of the foreign counterparty on expropriation, confiscation, restriction of ownership rights to the goods, works, services, the result of the work performed owned by the exporter;
- contingency actions of the governmental authority of the country of destination of delivery of the Kazakhstani goods, works, services restricting or prohibiting delivery of the goods, performance of works, provision of services;
- war, civil commotion, mass riots outside the Republic of Kazakhstan, preventing the execution of obligations under the contract insured;
- contingency actions of the governmental authority in the country of the foreign counterparty restricting or prohibiting the conversion into a freely convertible currency and/or transfer of payment.

Insured commercial events:

- bankruptcy of the foreign counterparty;
- default on financial obligations under the contract by the foreign counterparty.

Risk management

The risk assessment is based on the specific character of the transaction, which the exporter is willing to insure. The Company's risk assessment comprises two components: assessment of political or country risks and assessment of commercial risks. The projects are assessed on the basis of a country (political) risk and the risk related to trustworthiness of a counterparty abroad.

Commercial risk assessment

The Company assesses separately each transaction to determine the trustworthiness of a buyer. The Company, in assessment of the commercial risks, is based on assessment of the buyer's country, industry, market position and financial position.

Insurance risk assessment

The Company assesses the country risks according to the list of countries and classification of countries by the risk level published by the Organisation for Economic Cooperation and Development (OECD). This list also contains recommendations for the export credit agencies of the OECD countries on the premium rates depending on the insurance period by country categories.

(ii) Reinsurance contracts – Insurance of loans

Product features

Insurance of loans protects the property interest of a credit organisation related to the obligations of an exporting entity (borrower) to reimburse, in accordance with the procedure set by the legislation and loan agreement, the losses incurred as a result of non-fulfilment (improper fulfilment) of liabilities under a loan agreement.

Covered risks:

Insured political events:

- war, civil commotion, mass riots inside and outside the Republic of Kazakhstan, preventing the execution of obligations under the loan contract;

- contingency actions of the governmental authority restricting or prohibiting the conversion into a freely convertible currency and/or transfer of payment.

Insured commercial events:

- Non-fulfilment (improper fulfilment) by a policyholder of monetary obligations according to the terms and conditions of a loan contract;
- Bankruptcy of a policyholder.

Risk management

The risk assessment is based on the adequate assessment of a borrower, its financial position, assessment of political or country risks and commercial risks. The projects are assessed on the basis of a borrower’s credit risk related to its paying capacity and factors that may affect it.

(iii) Reinsurance 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 Company 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. The Company operates in a competitive environment and is hence under the risk of writing premiums with reference to the competitors’ pricing strategies rather than to its own loss experience.

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 Company therefore monitors and reacts to changes in the general economic and commercial environment in which it operates.

Within the reinsurance process, concentrations of risk may arise where a particular event or series of events could impact heavily upon the Company’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.

(iv) Reinsurance contracts – Employer’s civil liability

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 Company. 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 for a given accident year, 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 Company therefore monitors and reacts to changes in the general economic and commercial environment in which it operates.

(v) Reinsurance contracts – General civil liability

The Company undertakes general civil liability insurance on compulsory and voluntary types of insurance in the Republic of Kazakhstan.

Risk management

The risk assessment is based on the specific character of the transaction, which the exporter is willing to insure. The Company's risk assessment comprises two components: assessment of political or country risks and assessment of commercial risks. The projects are assessed on the basis of a country (political) risk and the risk related to trustworthiness of a counterparty abroad.

(c) Concentration of insurance risk

A key aspect of the insurance risk faced by the Company is the extent of concentration of insurance risk which may exist where a particular event or series of events could impact significantly upon the Company'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 of damage and 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 Company'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 Company purchases reinsurance coverage for various classes of its liability and property business. The Company assesses the costs and benefits associated with the reinsurance programme on an ongoing basis.

(d) Total aggregate exposures

The Company 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 Company is exposed. The Company 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 Company is exposed.

As at 31 December 2019 the Company had 362 insurance agreements that were in force (31 December 2018: 1,796 insurance agreements).

Due to expiry of the term of contracts of inward and outward reinsurance under the class of “insurance of employees against industrial accidents”, there is no amount of existing obligations (insured amount). At the same time, the Company has loss statistics and, as a result, loss provisions are formed in accordance with the current legislation.

Exposure to various business lines

The key concentrations identified as at 31 December 2019 are:

Insurance type	Total insured amount KZT’000	Reinsurance amount KZT’000	Net retention (after reinsurance) KZT’000
Voluntary			
Property insurance	2,334,288	-	2,334,288
Other financial loss insurance	44,193,205	-	44,193,205
Loan insurance	78,029,368	(3,295,000)	74,734,368
Other voluntary insurance	8,765,933	-	8,765,933
Total	**133,322,794**	**(3,295,000)**	**130,027,794**

The key concentrations identified as at 31 December 2018 are:

Insurance type	Total insured amount KZT’000	Reinsurance amount KZT’000	Net retention (after reinsurance) KZT’000
Obligatory insurance			
Employer’s liability	60,312,452	(60,306,420)	6,032
Carrier’s civil liability to passengers	240,260	-	240,260
Voluntary insurance			
Property insurance	69,771,873	(12,713,171)	57,058,702
Other financial loss insurance	43,626,778	-	43,626,778
Air/water/motor transport	14,336,469	-	14,336,469
Loan insurance	59,813,873	(5,378,040)	54,435,833
Other voluntary insurance	109,332,566	-	109,332,566
Total	**357,434,271**	**(78,397,631)**	**279,036,640**

(e) Claims development

The Company 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 financial statements are cautioned against extrapolating redundancies or deficiencies of the past on current unpaid loss balances. The Company 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.

Analysis of claims development for 2019 (gross) – total

			Accident year						
KZT'000	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**Total**
Estimate of cumulative claims									
At end of accident year	174,163	110,144	287,453	429,562	1,419,905	935,213	297,850	1,943,018	-
- one year later	109,447	114,865	289,674	285,243	1,934,327	1,003,008	520,009	-	-
- two years later	173,463	150,006	273,674	206,683	2,055,213	1,246,757	-	-	-
- three years later	180,608	116,426	293,618	255,458	2,200,925	-	-	-	-
- four years later	179,983	171,237	383,563	472,215	-	-	-	-	-
- five years later	235,309	256,264	601,266	-	-	-	-	-	-
- six years later	325,689	493,434	-	-	-	-	-	-	-
- seven years later	547,480	-	-	-	-	-	-	-	-
Estimate of cumulative claims as at 31 December 2019	**547,480**	**493,434**	**601,266**	**472,215**	**2,200,925**	**1,246,757**	**520,009**	**1,943,018**	**8,025,104**
Cumulative payments as at 31 December 2019	153,354	99,308	207,140	78,089	1,803,988	706,495	53,956	216,389	3,318,719
Gross outstanding claims liabilities as at 31 December 2019	**394,126**	**394,126**	**394,126**	**394,126**	**396,937**	**540,262**	**466,053**	**1,726,629**	**4,706,385**

Analysis of claims development for 2018 (gross) – total

			Accident year						
KZT'000	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**Total**
Estimate of cumulative claims									
At end of accident year	115,562	162,651	110,144	287,453	429,562	1,419,905	935,213	297,850	-
- one year later	99,624	80,531	114,865	289,674	285,243	1,934,327	1,003,008	-	-
- two years later	105,984	133,825	150,006	273,674	206,683	2,055,213	-	-	-
- three years later	116,739	130,638	116,426	293,618	255,458	-	-	-	-
- four years later	151,355	114,691	171,237	383,563	-	-	-	-	-
- five years later	149,833	168,316	256,264	-	-	-	-	-	-
- six years later	204,695	251,973	-	-	-	-	-	-	-
- seven years later	294,822	-	-	-	-	-	-	-	-
Estimate of cumulative claims as at 31 December 2018	**294,822**	**251,973**	**256,264**	**383,563**	**255,458**	**2,055,213**	**1,003,008**	**297,850**	**4,798,151**
Cumulative payments as at 31 December 2018	117,128	74,279	78,570	205,869	77,764	1,802,958	703,274	20,461	3,080,303
Gross outstanding claims liabilities as at 31 December 2018	**177,694**	**177,694**	**177,694**	**177,694**	**177,694**	**252,255**	**299,734**	**277,389**	**1,717,848**

6 Premiums

	Obligatory insurance			**Voluntary**					
2019 KZT’000	**Employer’s liability**	**Vehicle owner's liability**	**Other obligatory**	**Property insurance**	**Other financial losses insurance**	**Air/Water/ Motor transport**	**Loan insurance**	**Other voluntary**	**Total**
Gross insurance premiums written	(257)	-	-	(435)	491,116	-	1,898,216	(64,344)	2,324,296
Change in the gross provision for unearned premiums	29,993	499	-	12,628	31,116	951	(911,382)	266,287	(569,908)
Gross earned premiums	**29,736**	**499**	**-**	**12,193**	**522,232**	**951**	**986,834**	**201,943**	**1,754,388**
Less: written premiums ceded to reinsurers	27	-	-	-	-	-	(44,838)	-	(44,811)
Reinsurers’ share of change in the gross provision for unearned premiums	(29,395)	-	-	(597)	(35,112)	-	(74,693)	-	(139,797)
Ceded earned premiums	**(29,368)**	**-**	**-**	**(597)**	**(35,112)**	**-**	**(119,531)**	**-**	**(184,608)**
Net earned insurance premiums	**368**	**499**	**-**	**11,596**	**487,120**	**951**	**867,303**	**201,943**	**1,569,780**

	Obligatory insurance			**Voluntary insurance**					
2018 KZT’000	**Employer’s liability**	**Vehicle owner's liability**	**Other obligatory**	**Property insurance**	**Insurance against other financial losses**	**Air/Water/ Motor transport**	**Loan insurance**	**Other voluntary**	**Total**
Gross insurance premiums written	352,291	1,650	-	139,242	396,127	5,207	1,295,828	488,718	2,679,063
Change in the gross provision for unearned premiums	419,373	2,599	119	16,728	(105,977)	2,591	(640,826)	(401,972)	(707,365)
Gross earned premiums	**771,664**	**4,249**	**119**	**155,970**	**290,150**	**7,798**	**655,002**	**86,746**	**1,971,698**
Less: written premiums ceded to reinsurers	(345,243)	-	-		-	-	(217,127)	-	(562,370)
Reinsurers’ share of change in the gross provision for unearned premiums	(410,918)	-	-	(4,410)	(35,112)	-	83,848	(323)	(366,915)
Ceded earned premiums	**(756,161)**	**-**	**-**	**(4,410)**	**(35,112)**	**-**	**(133,279)**	**(323)**	**(929,285)**
Net earned insurance premiums	**15,503**	**4,249**	**119**	**151,560**	**255,038**	**7,798**	**521,723**	**86,423**	**1,042,413**

7 Claims incurred

	Obligatory insurance			Voluntary insurance					
2019 KZT’000	**Employer’s liability**	**Vehicle owner's liability**	**Other obligatory**	**Property insurance**	**Insurance against other financial losses**	**Air/Water/ Motor transport**	**Loan insurance**	**Other voluntary**	**Total**
Claims paid	24,483	-	-	2,113	4,126	79	209,461	-	240,262
Claims paid, net of reinsurance	**24,483**	**-**	**-**	**2,113**	**4,126**	**79**	**209,461**	**-**	**240,262**
Change in provisions for incurred but not reported claims	(46,919)	(82)	-	(6,959)	1,575,547	(261)	44,774	165,353	1,731,453
Change in provisions for reported but not settled claims	(22,315)	-	-	(36,549)	71,457	(10,185)	1,227,703	26,969	1,257,080
Change in reinsurers’ share in insurance contract provisions	44,194	-	-	(2,885)	-	-	9,192	-	50,501
Change in net reinsurance contract provisions	**(25,040)**	**(82)**	**-**	**(46,393)**	**1,647,004**	**(10,446)**	**1,281,669**	**192,322**	**3,039,034**
Reimbursement from recourse claims	-	-	-	-	(4,802)	-	(2,000)	-	(6,802)
Net claims paid	**(557)**	**(82)**	**-**	**(44,280)**	**1,646,328**	**(10,367)**	**1,489,130**	**192,322**	**3,272,494**

	Obligatory insurance			Voluntary insurance					
2018 KZT’000	**Employer’s liability**	**Vehicle owner's liability**	**Other obligatory**	**Property insurance**	**Insurance against other financial losses**	**Air/Water/ Motor transport**	**Loan insurance**	**Other voluntary**	**Total**
Claims paid	17,253	-	-	17,021	21,543	-	-	-	55,817
Claims paid, net of reinsurance	**17,253**	**-**	**-**	**17,021**	**21,543**	**-**	**-**	**-**	**55,817**
Change in provisions for incurred but not reported claims	(17,974)	(161)	(13)	(169,460)	458,070	(907)	472,415	19,548	761,518
Change in provisions for reported but not settled claims	11,611	-	-	76,980	(22,149)	(20,813)	-	(35,344)	10,285
Change in reinsurers’ share in insurance contract provisions	(30,326)	-	-	(3,642)	-	1,038	(8,745)	86	(41,589)
Change in net reinsurance contract provisions	**(36,689)**	**(161)**	**(13)**	**(96,122)**	**435,921**	**(20,682)**	**463,670**	**(15,710)**	**730,214**
Reimbursement from recourse claims	-	-	-	-	(450)	-	-	-	(450)
Net claims paid	**(19,436)**	**(161)**	**(13)**	**(79,101)**	**457,014**	**(20,682)**	**463,670**	**(15,710)**	**785,581**

8 Interest income/(expense)

	2019 KZT'000	2018 KZT'000
Interest income calculated using the effective interest method		
Placements with banks, and cash and cash equivalents	3,851,521	2,512,949
Investment securities at measured at fair value through other comprehensive income	893,463	383,893
Investment securities measured at amortised cost	41,905	-
	4,786,889	**2,896,843**
Other interest income		
Investment securities at fair value through profit or loss	69,489	102,896
	69,489	**102,896**
Interest expense		
Interest expense on loan received from Samruk-Kazyna JSC	(24,877)	(29,185)
	(24,877)	**(29,185)**

9 General administrative expenses

	2019 KZT'000	2018 KZT'000
Salaries and bonuses	919,355	629,138
Rent	148,008	108,786
Consulting and professional services	124,552	78,712
Business trip expenses		
Advertising and marketing	80,029	81,681
Social tax and social contributions	71,463	47,498
Administrative expense of the Board of Directors	40,102	27,045
Transportation costs	32,072	30,454
Repair and maintenance	24,488	19,170
Training	23,760	14,938
Communication services	18,854	11,659
Insurance of employees	18,756	12,385
Depreciation and amortisation	16,970	15,681
Membership fees	13,263	7,864
Other taxes and duties	4,724	5,706
Bank services	4,195	2,224
Representation expenses	1,052	1,074
Other	2,412	1,958
	1,647,296	**1,162,595**

10 Income tax expense

	2019 KZT'000	2018 KZT'000
Current year tax expense	355,412	485,270
Total current income tax	**355,412**	**485,270**
Movement in deferred tax assets and liabilities due to origination and reversal of temporary differences and movement in valuation allowance	(12,496)	(18,094)
Total income tax expense	**342,916**	**467,176**

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

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

	2019		2018	
	KZT'000	%	KZT'000	%
Profit before tax	**2,698,500**	**100**	**2,052,728**	**100**
Income tax at the applicable tax rate	(539,700)	(20)	(410,546)	(20)
Non-taxable income on investment securities	136,318	5	108,640	5
Other non-taxable income/(non-deductible expenses)	60,466	2	(165,270)	(8)
	(342,916)	**(13)**	**(467,176)**	**(23)**

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 net deferred tax assets and liabilities as at 31 December 2019 and 31 December 2018.

The deductible temporary differences do not expire under current tax legislation of the Republic of Kazakhstan.

Movement in temporary differences during the year ended 31 December 2019 is presented as follows:

KZT'000	Balance 1 January 2019	Recognised in profit or loss	Balance 31 December 2019
Property, equipment and intangible assets	620	(5,275)	(4,655)
Other payables	632	368	1,000
Vacation and bonuses reserve	23,203	17,403	40,606
	24,455	**12,496**	**36,951**

Movement in temporary differences during the year ended 31 December 2018 is presented as follows:

KZT'000	Balance 1 January 2018	Recognised in profit or loss	Balance 31 December 2018
Property, equipment and intangible assets	(911)	1,531	620
Other payables	1,344	(712)	632
Vacation and bonuses reserve	5,928	17,275	23,203
	6,361	**18,094**	**24,455**

	2019	2018
	KZT'000	KZT'000
Reverse repurchase agreements	-	5,371,853
Current accounts and on-demand deposits with banks	17,657,751	21,499,560
Loss allowance	(2,052)	-
Total cash and cash equivalents net of loss allowance	**17,655,699**	**26,871,413**

11 Cash and cash equivalents

As at 31 December 2019 the Company has accounts with one bank (31 December 2018: two banks), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2019 is KZT 10,428,008 thousand (2018: KZT 13,127,719 thousand).

As at 31 December 2018 the Company entered into reverse repo agreements at Kazakhstan Stock Exchange. The subject of these agreements were the treasury notes of the Ministry of Finance issued by the Government of the Republic of Kazakhstan. The fair value of pledged securities was KZT 5,358,913 thousand.

As at 31 December 2019 the Company recognises a loss allowance for cash and cash equivalents in the amount equal to 12-month expected credit losses.

12 Placements with banks

	2019 KZT’000	2018 KZT’000
Placements with banks	46,647,614	11,855,000
Loss allowance	(73,493)	(755,641)
Total placements with banks net of impairment allowance	**46,574,121**	**11,099,359**

Movement in loss allowance

The following table provides movement in loss allowance as at 31 December 2019:

KZT’000	**Stage 1**	**Stage 3**	**Total**
Balance at the beginning of the year	55,466	700,175	755,641
Net remeasurement of loss allowance	18,027	(700,175)	(682,148)
Balance at the end of the period	**73,493**	**-**	**73,493**

The following table provides movement in loss allowance as at 31 December 2018:

KZT’000	**Stage 1**	**Stage 3**	**Total**
Balance at the beginning of the year	62,417	-	62,417
Transfer to Stage 3	(20,661)	20,661	-
Net remeasurement of loss allowance	13,710	679,514	693,224
Balance at the end of the period	**55,466**	**700,175**	**755,641**

As at 31 December 2019, the annual effective interest rates generated by placement with banks ranged between 1% and 9.4% per annum (31 December 2018: from 1.7% to 11%).

As at 31 December 2019 the Company has accounts with three banks (31 December 2018: one bank), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2019 is KZT 39,658,160 thousand (2018: KZT 6,703,565 thousand).

Reversal of provisions for deposits in Stage 3 in the amount of KZT 700,175 thousand has been due to maturity of deposits with First Heartland Jýsan Bank JSC (former Tsesnabank JSC) in March 2019.

	31 December 2019 KZT’000	31 December 2018 KZT’000
Measured at fair value through other comprehensive income	10,224,696	7,435,977
Measured at amortised cost	10,682,611	-
Measured at fair value through profit or loss	660,849	1,511,226
	21,568,156	**8,947,203**

13 Investment securities

	2019 KZT'000	2018 KZT'000
Measured at fair value through other comprehensive income		
Government bonds of the Republic of Kazakhstan		
Rated BBB-	5,895,300	6,224,127
Government bonds of foreign states		
Rated AA+	283,884	259,876
Total government bonds	**6,179,184**	**6,484,003**
Corporate bonds of Kazakhstan companies		
Rated from BBB+ to BBB-	1,019,759	951,974
Total corporate bonds of Kazakhstan companies	**1,019,759**	**951,974**
Securities of international financial organisations		
Rated from BBB+ to BBB-	3,025,753	-
Total securities of international financial organisations	**3,025,753**	**-**
	10,224,696	**7,435,977**
Measured at fair value through profit or loss		
Bonds of Kazakhstan banks		
Rated from BB+ to BB-	-	365,108
Rated from B+ to B-	660,849	629,686
Total bonds of Kazakhstan banks	**660,849**	**994,794**
Corporate bonds of Kazakhstan companies		
Not rated	-	516,432
Total corporate bonds of Kazakhstan companies	**-**	**516,432**
	660,849	**1,511,226**
Measured at amortised cost		
Notes of the National Bank of the Republic of Kazakhstan		
Rated BBB-	6,935,599	-
Total government bonds	**6,935,599**	**-**
Corporate bonds of Kazakhstan companies		
Rated BBB-	3,747,012	-
Total corporate bonds of Kazakhstan companies	**3,747,012**	**-**
	10,682,611	**-**

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

As at 31 December 2019 the annual effective interest rates on investments securities varies from 4.26% to 9.5% (31 December 2018: from 3.78% to 8.54%). During the year ended 31 December 2019 the Company acquired 100 bonds issued by Astana LRT at the price of USD 100,000 per unit, which mature in 2024. Bonds bear a coupon rate of 3.25% per annum. Bonds were recognised at fair value of KZT 3,752,606 thousand calculated using a market interest rate of 3.94%. Loss in the form of discount on difference between the nominal value and fair value of KZT 120,794 thousand was recognised in other expenses. Bonds of Astana LRT LLC are secured by the guaranteed of the Government of the Republic of Kazakhstan represented by the Ministry of Finance of the Republic of Kazakhstan on the basis of the guarantee obligation No.5ГГД019 dated 20 September 2019. As the sovereign rating of the Republic of Kazakhstan assigned in accordance with the standard of the rating agency Standards & Poor's or similar standards of other international agencies is BBB-, this rating is applicable to the bonds of Astana LRT LLC.

14 Insurance and reinsurance receivables

	2019 KZT’000	2018 KZT’000
Amounts due from policyholders	1,403,340	974,612
Amounts due from reinsurers	221	40,149
	1,403,561	**1,014,761**
Impairment allowance	(12,305)	(48)
	1,391,256	**1,014,713**

As at 31 December 2019 and 31 December 2018 the Company had no balances with policyholders, whose balances exceeded 10% of equity. Movements in the impairment allowance on insurance and reinsurance receivables for the years ended 31 December are as follows:

	2019 KZT’000	2018 KZT’000
Balance at the beginning of the year	(48)	(48)
Net charge	(12,257)	(268)
Write-offs	-	268
Balance at the end of the year	**(12,305)**	**(48)**

Credit quality of insurance and reinsurance receivables

The following table provides information on the credit quality of insurance and reinsurance receivables as at 31 December 2019:

	Gross receivables KZT’000	Impairment allowance KZT’000	Net receivables KZT’000	Impairment allowance to gross receivables %
Amounts due from policyholders and reinsurers				
Amounts due from policyholders				
Not overdue	1,368,176	-	1,368,176	-
Overdue or impaired:				
- overdue less than 90 days	22,430	-	22,430	-
- overdue more than 90 days and less than 1 year	12,734	(12,084)	650	95
Total overdue or impaired receivables from policyholders	**35,164**	**(12,084)**	**23,080**	**34**
Total amounts due from policyholders	**1,403,340**	**(12,084)**	**1,391,256**	**1**
Amounts due from reinsurers				
Overdue or impaired:				
- overdue more than 1 year	221	(221)	-	100
Total overdue or impaired receivables from reinsurers	**221**	**(221)**	**-**	**100**
Total amounts due from reinsurers	**221**	**(221)**	**-**	**100**
Total amounts due from policyholders and reinsurers	**1,403,561**	**(12,305)**	**1,391,256**	**1**

The following table provides information on the credit quality of insurance and reinsurance receivables as at 31 December 2018:

	Gross receivables KZT’000	Impairment allowance KZT’000	Net receivables KZT’000	Impairment allowance to gross receivables %
Amounts due from policyholders and reinsurers				
Amounts due from policyholders				
Not overdue	974,612	-	974,612	-
Total amounts due from policyholders	**974,612**	**-**	**974,612**	**-**
Amounts due from reinsurers				
Not overdue	39,868	-	39,868	-
Overdue or impaired:				
- overdue less than 90 days	60	-	60	-
- overdue more than 90 days and less than 1 year	173	-	173	-
- overdue more than 1 year	48	(48)	-	100
Total overdue or impaired receivables from reinsurers	**281**	**(48)**	**233**	**17**
Total amounts due from reinsurers	**40,149**	**(48)**	**40,101**	**0.12**
Total amounts due from policyholders and reinsurers	**1,014,761**	**(48)**	**1,014,713**	**-**

15 Insurance contract provisions and reinsurers’ share in insurance contract provisions

	Gross 2019 KZT’000	Reinsurance 2019 KZT’000	Net 2019 KZT’000
Unearned premium provision	3,737,856	(228,797)	3,509,059
Provision for claims incurred but not reported	3,153,004	(83,029)	3,069,975
Provision for claims reported but not settled	1,553,377	(6,969)	1,546,408
	8,444,237	**(318,795)**	**8,125,442**

	Gross 2018 KZT’000	Reinsurance 2018 KZT’000	Net 2018 KZT’000
Unearned premium provision	3,167,948	(368,594)	2,799,354
Provision for claims incurred but not reported	1,421,551	(110,957)	1,310,594
Provision for claims reported but not settled	296,297	(29,542)	266,755
	4,885,796	**(509,093)**	**4,376,703**

(a) Analysis of movements in provisions for claims incurred but not reported and in provisions for claims reported but not settled

	2019 KZT’000	2018 KZT’000
Balance at the beginning of the period	1,577,349	847,135
Current year claims’ reported	1,943,018	297,850
Adjustment for prior years claims due to change in assumptions	1,327,343	586,212
Claims paid, gross	(281,828)	(112,259)
Change in reinsurers’ share	50,501	(41,589)
Balance at the end of the year	**4,616,383**	**1,577,349**

(b) Analysis of movements in provision for unearned premiums

	2019 KZT’000	2018 KZT’000
Balance at beginning of the year	2,799,354	1,725,074
Premiums written	2,535,133	2,682,780
Premiums earned	(1,965,225)	(1,975,415)
Change in reinsurers’ share	139,797	366,915
Balance at the end of the year	**3,509,059**	**2,799,354**

(c) Analysis of insurance contract provisions by main lines of business

	Obligatory insurance			Voluntary insurance					
2019 KZT'000	**Employer's liability**	**Vehicle owners liability**	**Other obligatory**	**Property**	**Other financial loss insurance**	**Air/water/motor transport**	**Loan insurance**	**Other voluntary**	**Total**
Provision for unearned premiums	-	-	-	1,673	792,622	-	2,763,928	179,633	3,737,856
Provision for claims incurred but not reported	269,067	-	-	-	2,127,808	-	566,329	189,800	3,153,004
Provision for claims reported but not settled	2,811	-	-	160,641	106,154	173	1,227,703	55,895	1,553,377
Gross insurance contract provisions	**271,878**	**-**	**-**	**162,314**	**3,026,584**	**173**	**4,557,960**	**425,328**	**8,444,237**
Reinsurers' share in insurance contract provisions	(83,028)	-	-	(6,969)	(201,824)	-	(26,974)	-	(318,795)
Net insurance contract provisions	**188,850**	**-**	**-**	**155,345**	**2,824,760**	**173**	**4,530,986**	**425,328**	**8,125,442**

	Obligatory insurance			Voluntary insurance					
2018 KZT'000	**Employer's liability**	**Vehicle owners liability**	**Other obligatory**	**Property**	**Other financial loss insurance**	**Air/water/motor transport**	**Loan insurance**	**Other voluntary**	**Total**
Provision for unearned premiums	29,993	499	-	14,301	823,738	951	1,852,546	445,920	3,167,948
Provision for claims incurred but not reported	315,986	82	-	6,959	552,261	261	521,555	24,447	1,421,551
Provision for claims reported but not settled	25,126	-	-	197,190	34,697	10,358	-	28,926	296,297
Gross insurance contract provisions	**371,105**	**581**	**-**	**218,450**	**1,410,696**	**11,570**	**2,374,101**	**499,293**	**4,885,796**
Reinsurers' share in insurance contract provisions	(156,617)	-	-	(4,681)	(236,936)	-	(110,859)	-	(509,093)
Net insurance contract provisions	**214,488**	**581**	**-**	**213,769**	**1,173,760**	**11,570**	**2,263,242**	**499,293**	**4,376,703**

(d) Key provision assumptions

The process used to determine the assumptions is intended to result in neutral estimates of the most likely or expected outcome. The sources of data used as inputs for the assumptions are internal, using detailed studies that are carried out annually. The assumptions are checked to ensure that they are consistent with observable market prices or other published information. There is, however, a general lack of publicly available information on the Kazakhstan insurance market that would be relevant to identification of assumptions and sensitivities.

The nature of the business makes it difficult to predict with certainty the likely outcome of any particular claim and the ultimate cost of notified claims. Each notified claim is assessed on a separate, case by case basis with due regard to the claim circumstances, information available from loss adjusters and historical evidence of the size of similar claims. Case estimates are reviewed regularly and are updated as and when new information arises. The provisions are based on information currently available. However, the ultimate liabilities may vary as a result of subsequent developments. The impact of many of the items affecting the ultimate cost of the loss is difficult to estimate. The provision estimation difficulties also differ by class of business due to differences in the underlying insurance contract, claim complexity, the volume of claims and the individual severity of claims, determining the occurrence date of a claim, and reporting lags.

Provisions for claims incurred but not reported (“IBNR”) are estimated using a range of modified chain ladder and Bornhuetter-Ferguson statistical methods. Such methods extrapolate the development of paid and incurred claims for each accident year based upon observed development of earlier years.

To the extent that these methods use historical claims development information they assume that the historical claims development pattern will occur again in the future. There are reasons why this may not be the case. Such reasons include economic, legal, political and social trends, change in mix of business, random fluctuations, including the impact of large losses.

The assumptions that have the greatest effect on the measurement of general insurance contract provisions are the expected loss ratios for the most recent accident months. The expected loss ratio is the ratio of expected claims to earned premiums. When determining the total liability, the projection of future cash flows includes the estimated values of parameters that can affect the amount of an individual claim.

The performance of the Company’s portfolio is sensitive mainly to changes in expected loss ratios. The Company adjusts its insurance tariffs on a regular basis, based on the latest developments in these variables so that any emerging trends are taken into account.

When other information influencing increase in the insurance risk is identified, the Company establishes additional provisions for individual insurance contracts. As each insurance contract/insurance limit has the differentiated risk sources, additional provisioning can also be provided on a differentiated basis, depending on the activity a policyholder is engaged in.

To assess provisions by classes of loan insurance, insurance of guaranties and sureties, other financial loss insurance, loss insurance of financial organisations, the Company is authorised to use data of the export credit insurance organisations (Prague Club of the Berne Union - association of the largest export credit agencies) as the Prague Club is the only leading international association of organisations that provide insurance of export credits and investments. The Union is an international organisation that is aimed at promoting international cross-border trade and investments and ensure professional data exchange between its members and that has accumulated financial and other data for more than twenty-five years.

16 Equity

(a) Share capital

KZT'000	Ordinary shares 2019	Ordinary shares 2018
Authorised shares (ordinary shares)	90,760	90,080
Issued and outstanding shares (ordinary shares)	90,760	90,080
Number of shares	87,300	87,300
Nominal value, KZT'000	265,75	265,75
Number of shares	2,780	2,780
Nominal value, KZT'000	5,000	5,000
Number of shares	680	-
Nominal value, KZT'000	50,000	-
Issued and fully paid, KZT'000	**71,100,000**	**37,100,000**

(b) Capital management

The Company is subject to the regulatory requirements of the Republic of Kazakhstan regarding solvency margin as defined by regulations of the NBRK.

The Company is required to maintain a solvency margin ratio at not less than one. Solvency margin ratio is determined by division of actual solvency margin by minimum required solvency margin. Minimum required solvency margin is a composite measure based on a number of factors including net earned premiums, claims paid and premiums ceded to foreign reinsurers. As at 31 December 2019 and 31 December 2018 the Company complies with the solvency margins which are as follows:

	2019 KZT'000	2018 KZT'000
Actual solvency margin	70,270,705	42,101,880
Minimum solvency margin	1,515,000	1,082,250
Solvency margin	**46.4**	**38.9**

(c) Dividends

In accordance with Kazakhstan legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with IFRS or net profit for the current year if there is an accumulated loss brought forward. A distribution cannot be made if this would result in negative equity or the entity's insolvency. In accordance with the legislation of the Republic of Kazakhstan, as at 31 December 2019, total reserves available for distribution amounted to KZT 6,003,314 thousand (31 December 2018: KZT 6,225,669 thousand).

During the year ended 31 December 2019 dividends of KZT 475,666 thousand or KZT 5,240.92 per share, with total number of shares being 90,760, were declared and paid (2018: KZT 639,389 thousand or KZT 7,098.01 per share, with the total number of shares being 90,080).

(d) Provision for unexpected risks

In 2019 the Company charged provision for unexpected risks of KZT 2,044,258 thousand within retained earnings (31 December 2018: provision for unexpected risks of KZT 510,942 thousand within retained earnings), as in accordance with the Resolution of the Management Board of the National Bank of the Republic of Kazakhstan №12 dated 31 January 2019 "On Making Amendments to the Resolution of the Management Board of the National Bank of the Republic of Kazakhstan No.304 dated 26 December 2016", the Company is obliged to create a provision for those insurance products, where unearned premium reserve may not cover all expected insurance losses.

17 Financial instrument risk management

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

(a) Risk management policies and procedures

The Company's risk management policies aim to identify, analyse and manage the risks faced by the Company, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

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

The Management Board is responsible for monitoring and implementing risk mitigation measures, and ensuring that the Company operates within established risk parameters. The Head of the Risk Management 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. He reports directly to the Board of Directors and indirectly to the Chairman.

Both external and internal risk factors are identified and managed throughout the Bank. Special attention is given to revealing the whole list of risk factors and determining the level of adequacy of the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Management Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their respective areas of expertise.

(b) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. Market risk comprises currency risk, interest rate risk, yield curve risk and other price risks. Market risk arises from open positions in interest rate and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices and 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 Risk Management Department, which is controlled by the Board of Directors. Market risk limits are approved by the Board of Directors.

The Company manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits. These are monitored on a regular basis.

The management of the interest rates risk component of market risk by monitoring the interest rate gap is supplemented by monitoring the sensitivity of the Company's net interest margin to various standard and non-standard interest rate scenarios.

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

Interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period.

Interest rate risk is managed principally through monitoring interest rate gaps. Interest gap position for investment securities measured at fair value through profit or loss (2018: investment securities measured at fair value through profit or loss) with carrying amount of KZT 653,560 thousand as at 31 December 2019 (31 December 2018: KZT 1,446,824 thousand) is within the period from 3 to 6 months (31 December 2018: from 3 to 6 months).

An analysis of the sensitivity of net profit or loss and equity of the Company as a result of changes in fair value of investment securities measured at fair value through other comprehensive income, measured at fair value through profit or loss and measures at amortised cost (2018: investment securities measures at fair value through other comprehensive income and measured at fair value through profit or loss) to changes in the interest rates (based on positions existing as at 31 December 2019 and 3 December 2018 and based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves) is as follows:

	31 December 2019		31 December 2018	
KZT'000	**Profit**	**Equity**	**Profit**	**Equity**
100 bp parallel rise	(16,685)	(315,944)	(21,285)	(295,823)
100 bp parallel fall	17,356	335,224	22,204	316,976

(ii) Currency risk

The Company has assets and liabilities denominated in several foreign currencies. Currency risk is the risk that the fair value or the 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:

KZT'000	**KZT**	**USD**	**RUR**	**Other**	**Total**
Assets					
Cash and cash equivalents	12,058,651	4,435,927	1,100,141	60,980	17,655,699
Placements with banks	36,140,606	3,743,145	6,690,370	-	46,574,121
Investment securities:					
- measured at fair value through other comprehensive income	8,921,053	1,019,759	-	283,884	10,224,696
- measured at fair value through profit or loss	660,849	-	-	-	660,849
- measured at amortised cost	6,935,599	3,747,012	-	-	10,682,611
Insurance and reinsurance receivables	1,385,012	6,244	-	-	1,391,256
Total assets	**66,101,770**	**12,952,087**	**7,790,511**	**344,864**	**87,189,232**
Liabilities					
Loan from Samruk-Kazyna JSC	(144,388)	-	-	-	(144,388)
Insurance and reinsurance payables	(64,388)	-	(1,320)	-	(65,708)
Other financial liabilities	(85,927)	-	-	(51)	(85,978)
Total liabilities	**(294,703)**	**-**	**(1,320)**	**(51)**	**(296,074)**
Net position as at 31 December 2019	**65,807,067**	**12,952,087**	**7,789,191**	**344,813**	**86,893,158**

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

KZT'000	KZT	USD	RUR	Other	Total
Assets					
Cash and cash equivalents	23,063,775	3,175,701	631,130	807	26,871,413
Placements with banks	5,750,994	544,309	4,804,056	-	11,099,359
Investment securities:					
- measured at fair value through other comprehensive income	6,224,127	951,974	-	259,876	7,435,977
- measured at fair value through profit or loss	1,511,226	-	-	-	1,511,226
Insurance and reinsurance receivables	1,003,560	11,153	-	-	1,014,713
Total assets	**37,553,682**	**4,683,137**	**5,435,186**	**260,683**	**47,932,688**
Liabilities					
Loan from Samruk-Kazyna JSC	(212,512)	-	-	-	(212,512)
Insurance and reinsurance payables	(35,582)	-	(1,182)	-	(36,764)
Other financial liabilities	(45,795)	-	-	(53)	(45,848)
Total liabilities	**(293,889)**	**-**	**(1,182)**	**(53)**	**(295,124)**
Net position as at 31 December 2018	**37,259,793**	**4,683,137**	**5,434,004**	**260,630**	**47,637,564**

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

KZT'000	2019	2018
10% appreciation of USD (2018: 10%)	1,036,167	374,651
10% appreciation of RUB (2018: 10%)	623,135	434,720

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

(c) Credit risk

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

The Company continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. Apart from individual customer analysis, the credit portfolio is assessed by the Risk Department with regard to credit concentration and market risks.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the 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.

The maximum exposure to on balance sheet credit risk at the reporting date is as follows:

	2019 KZT’000	2018 KZT’000
ASSETS		
Cash and cash equivalents	17,655,699	26,871,413
Placements with banks	46,574,121	11,099,359
Investment securities:		
- measured at fair value through other comprehensive income	10,224,696	7,435,977
- measured at fair value through profit or loss	660,849	1,511,226
- measured at amortised cost	10,682,611	-
Insurance and reinsurance receivables	1,391,256	1,014,713
Reinsurers’ share in insurance contract provisions	318,795	509,093
Total maximum exposure	**87,508,027**	**48,441,781**

As at 31 December 2019 the Company had 4 debtors (31 December 2018: 4 debtors), credit risk exposure to whom exceeds 10 percent maximum credit risk exposure. The credit risk exposure for these customers as at 31 December 2019 is KZT 52,157,807 thousand (31 December 2018: KZT 30,364,023 thousand).

Offsetting financial assets and financial liabilities

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

- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the 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 Company receives and accepts collateral in the form of cash and marketable securities in respect of the following transactions:

- repurchase agreements, reverse repurchase agreements.

This means that securities received/given as collateral cannot be pledged or sold during the term of the transaction but must be returned on maturity of the transaction.

The following table provides information on financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2018.

KZT’000

Types of financial assets	Gross amount of recognised financial assets	Gross amount of recognised financial liabilities offset in the statement of financial position	Net amount of financial assets presented in the statement of financial position	Related amounts not offset in the statement of financial position		Net amount
				Financial instruments (including non-cash collateral)	Cash collateral received	
Reverse repurchase agreements, securities borrowings and similar agreements	5,371,853	-	5,371,853	(5,371,853)	-	-

(d) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity 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 Company mitigates this risk by analysing liquidity gaps and maturity on an ongoing basis.

The following table shows financial liabilities by remaining contractual maturity dates as at 3 December 2019. Insurance liabilities are shown based on expected maturities. Insurance contract provisions are presented net of reinsurers' share:

KZT'000	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Total
Financial liabilities					
Insurance contract provisions	2,453	13,134	3,958,752	4,469,898	8,444,237
Loan from Samruk-Kazyna JSC	-	-	92,830	92,645	185,475
Insurance and reinsurance payables	64,388	-	1,320	-	65,708
Other financial liabilities	11,134	74,844	-	-	85,978
Total financial liabilities as at 31 December 2019	**77,975**	**87,978**	**4,052,902**	**4,562,543**	**8,781,398**

The following table shows financial liabilities by remaining contractual maturity dates as at 31 December 2018. Insurance liabilities are shown based on expected maturities. Insurance contract provisions are presented net of reinsurers' share:

KZT'000	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Total
Financial liabilities					
Insurance contract provisions	11,167	40,633	1,145,622	3,688,374	4,885,796
Loan from Samruk-Kazyna JSC	-	-	93,015	185,475	278,490
Insurance and reinsurance payables	36,764	-	-	-	36,764
Other financial liabilities	45,848	-	-	-	45,848
Total financial liabilities as at 31 December 2018	**93,779**	**40,633**	**1,238,637**	**3,873,849**	**5,246,898**

18 Leases

Leases in which the Company is a lessee

The Company leases number of property items. The leases typically run for an initial period of more than 1 year, with an option to then renew the lease. This contract was previously identified as an operating lease under IAS 17. On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Accordingly, the definition of a lease in accordance with IFRS16 was applied to the contract signed or modified on or after 1 January 2019.

19 Contingencies

(a) Litigations

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

(b) Taxation contingencies

The taxation system in Kazakhstan is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities, in particular recognition of income, expenses and other items of the financial statements under IFRS. Taxes are subject to review and investigation by various levels of authorities, which have the authority to impose severe fines and interest charges. A tax year generally remains open for review by the tax authorities for five subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

These circumstances may create tax risks in 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 tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

20 Financial assets and liabilities: fair values and accounting classifications

(a) Accounting classifications and fair values

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

KZT’000	Measured at amortised cost	Measured at fair value through other comprehensive income	Measured at fair value through profit or loss	Total carrying amount	Fair value
Cash and cash equivalents	17,655,699	-	-	17,655,699	17,655,699
Placements with banks	46,574,121	-	-	46,574,121	46,574,121
Investment securities:					
- measured at fair value through other comprehensive income	-	10,224,696	-	10,224,696	10,224,696
- measured at fair value through profit or loss	-	-	660,849	660,849	660,849
- measured at amortised cost	10,682,611	-	-	10,682,611	10,682,611
Insurance and reinsurance receivables	1,391,256	-	-	1,391,256	1,391,256
Reinsurers’ share in insurance contract provisions	318,795	-	-	318,795	318,795
	76,622,482	**10,224,696**	**660,849**	**87,508,027**	**87,508,027**
Loan from Samruk-Kazyna JSC	(144,388)	-	-	(144,388)	(156,023)
Other financial liabilities	(85,978)	-	-	(85,978)	(85,978)
	(230,366)	**-**	**-**	**(230,366)**	**(242,001)**

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

KZT’000	Measured at amortised cost	Measured at fair value through other comprehensive income	Measured at fair value through profit or loss	Total carrying amount	Fair value
Cash and cash equivalents	26,871,413	-	-	26,871,413	26,871,413
Placements with banks	11,099,359	-	-	11,099,359	11,099,359
Investment securities:					
- measured at fair value through other comprehensive income	-	7,435,977	-	7,435,977	7,435,977
- measured at fair value through profit or loss	-	-	1,511,226	1,511,226	1,511,226
Insurance and reinsurance receivables	1,014,713	-	-	1,014,713	1,014,713
Reinsurers’ share in insurance contract provisions	509,093	-	-	509,093	509,093
	39,494,578	**7,435,977**	**1,511,226**	**48,441,781**	**48,441,781**
Loan from Samruk-Kazyna JSC	(212,512)	-	-	(212,512)	(218,542)
Other financial liabilities	(45,848)	-	-	(45,848)	(45,848)
	(258,360)	**-**	**-**	**(258,360)**	**(264,390)**

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

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

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, comparison to similar instruments for which market-observable prices exist and other valuation models. 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, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. 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.

(b) Fair value hierarchy

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

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

This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect difference between the instruments.

As at 31 December 2019 and 31 December 2018 fair value of all financial instruments has been categorised as a Level 2 fair value.

21 Related party transactions

(a) Control relationships

Related parties of the Company include counterparties that represent shareholders of the Company; members of the Board of Directors and the Management Board.

The Company’s parent company is JSC National Managing Holding “Baiterek”. The Company’s ultimate shareholder is the Government of the Republic of Kazakhstan.

(b) Transactions with key management personnel

Total remuneration included in general and administrative expenses (see Note 9) for the years ended 31 December 2019 and 31 December 2018 is as follows:

	2019 KZT'000	2018 KZT'000
Members of the Board of Directors	18,813	6,438
Members of the Management Board	153,592	93,199
	172,405	**99,637**

(c) Transactions with other related parties

Other related parties comprise the government companies that are not part of "Baiterek" group.

State guarantee issued by the Government of the Republic of Kazakhstan

On 23 December 2019 the Ministry of Finance of the RK, EIC KazakhExport JSC and Company for Asset Rehabilitation and Management JSC signed the Agreement on Issue of the State Guarantee of the Republic of Kazakhstan to support export for the amount of KZT 102 billion, with 10-year term, as security of its liabilities related to repayment of debt on insurance indemnities.

The state guarantee received by the Company will increase the amount of insurance obligations assumed without additional cash contributions to the Company's equity.

The outstanding balances as of 31 December 2019 and related profit or loss amounts of transactions for the year then ended with other related parties are as follows:

KZT'000	Fellow subsidiaries	Other	Total
Assets			
Investment securities measured at fair value through other comprehensive income	-	6,915,059	6,915,059
Investment securities at amortised cost	-	10,682,611	10,682,611
Insurance and reinsurance receivables	308,302	-	308,302
Current tax asset	-	328,773	328,773
Other assets	-	228,145	228,145
Liabilities			
Loan from Samruk-Kazyna JSC	-	144,388	144,388
Payables	-	64,339	64,339
Provision for unearned premiums	592,458	518,503	1,110,961
Other liabilities	11,134	25,693	36,827
Profit/(loss)			
Gross insurance premiums written	998,940	780,103	1,779,043
Change in the gross provision for unearned premiums	(17,195)	89,355	72,160
Finance income	-	551,100	551,100
Finance costs		(25,268)	(25,268)
Other expenses	(124,835)	(16,349)	(141,184)
Income tax expense	-	(342,916)	(342,916)

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

KZT'000	Fellow subsidiaries	Other	Total
Assets			
Cash and cash equivalents	-	5,371,853	5,371,853
Investment securities measured at fair value through other comprehensive income	-	7,176,101	7,176,101
Insurance and reinsurance receivables	301,349	-	301,349
Current tax asset	-	92,632	92,632
Liabilities			
Loan from Samruk-Kazyna JSC	-	212,512	212,512
Provision for unearned premiums	609,653	203,470	813,123
Other liabilities	9,136	2,026	11,162
Profit/(loss)			
Change in the gross provision for unearned premiums	90,346	(203,470)	(113,124)
Finance income	-	413,171	413,171
Finance costs	-	(29,185)	(29,185)
Other expenses	(79,811)	(11,177)	(90,988)
Income tax expense	-	(467,176)	(467,176)