JSC “KazakhExport”
Export Insurance Company
(formerly “KazExportGarant” Export Insurance Corporation)

Financial Statements
for the year ended 31 December 2018

Contents

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Independent Auditors' Report

To the Shareholders and Board of Directors of JSC "KazakhExport" Export Insurance Company (formerly JSC "KazExportGarant" Export Insurance Corporation)

Opinion

We have audited the financial statements of JSC "KazakhExport" Export Insurance Company (formerly JSC "KazExportGarant" Export Insurance Corporation) (the "Company"), which comprise the statement of financial position as at 31 December 2018, 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 2018, 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 Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) 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 IESBA Code. 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 judgment 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.

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

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

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

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 2019

	Note	2018 KZT'000	2017* KZT'000
Gross premiums written	7	2,679,063	1,905,462
Written premiums ceded to reinsurers	7	(562,370)	(571,988)
Net premiums written		**2,116,693**	**1,333,474**
Change in the gross provision for unearned premiums	7	(707,365)	(904,701)
Reinsurers' share of change in the gross provision for unearned premiums	7	(366,915)	219,335
Net earned premiums		**1,042,413**	**648,108**
Claims paid	8	(55,817)	(1,382,188)
Reimbursement from recourse claims	8	450	1,242,081
Change in gross insurance contract provisions	8	(771,803)	(175,806)
Change in reinsurers' share in insurance contract provisions	8	41,589	83,852
Net claims paid		**(785,581)**	**(232,061)**
Interest income calculated using the effective interest method	9	2,896,843	2,856,172
Other interest income	9	102,896	133,914
Interest expense	9	(29,185)	(33,370)
Net gain from change in fair value of investment securities measured at fair value through profit or loss		61,006	-
Net foreign exchange income		612,379	65,109
Net commission income/(expense)		2,135	(408)
General administrative expenses	10	(1,162,595)	(891,030)
Impairment losses on debt financial assets		(691,790)	-
Other operating income, net		4,207	16,373
Profit before income tax		**2,052,728**	**2,562,807**
Income tax expense	11	(467,176)	(431,511)
Profit for the year		**1,585,552**	**2,131,296**
Other comprehensive income, net of income tax			
Items that are or may be reclassified subsequently to profit or loss:			
Movement in fair value reserve (available-for sale financial assets):			
- Net change in fair value		239,197	234,699
- Net change in fair value transferred to profit or loss		(1,435)	-
Other comprehensive income for the year, net of income tax		**237,762**	**234,699**
Total comprehensive income for the year		**1,823,314**	**2,365,995**

*The Company has initially applied IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 2(e)). As a result of adoption of IFRS 9 the Company changed presentation of certain captions, comparative information is re-presented accordingly (see Note 3(n)).

The financial statements as set out on pages 6 to 66 were approved by the Management Board on 28 February 2019:

Iskakov R.V.
Chairman of the 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	2018 KZT'000	2017* KZT'000
ASSETS			
Cash and cash equivalents	12	26,871,413	27,045,334
Placements with banks	13	11,099,359	8,436,945
Investment securities:			
- measured at fair value through other comprehensive income	14	7,435,977	-
- measured at fair value through profit or loss	14	1,511,226	-
Available-for-sale financial assets	14	-	8,576,549
Insurance and reinsurance receivables	15	1,014,713	956,700
Reinsurers' share in insurance contract provisions	16	509,093	834,419
Property and equipment		71,662	46,593
Current tax asset		92,632	216,116
Deferred tax assets	11	24,455	6,361
Other assets		15,726	44,540
Total assets		**48,646,256**	**46,163,557**
LIABILITIES			
Insurance contract provisions	16	4,885,796	3,406,628
Insurance and reinsurance payables		36,764	154,984
Loan from Samruk-Kazyna JSC		212,512	276,573
Other liabilities		201,514	137,210
Total liabilities		**5,336,586**	**3,975,395**
EQUITY			
Share capital	17 (a)	37,100,000	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		7,904	62,114
Provision for unexpected risks		510,942	-
Revaluation reserve for changes in fair value of securities		(1,267,664)	(1,849,217)
Retained earnings		6,225,669	6,142,446
Total equity		**43,309,670**	**42,188,162**
Total liabilities and equity		**48,646,256**	**46,163,557**

*The Company has initially applied IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 2(e)). As a result of adoption of IFRS 9 the Company changed presentation of certain captions, comparative information is re-presented accordingly (see Note 3(n)).

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

	2018 KZT'000	2017* KZT'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	**2,052,728**	**2,562,807**
Adjustments for:		
Change in insurance contract provisions, less reinsurers' share	1,804,494	777,320
Amortisation of discount and premiums	66,729	62,733
Depreciation and amortisation	15,681	11,779
Interest expense on loan received from Samruk-Kazyna JSC	29,185	33,370
Impairment losses on debt financial assets	691,790	-
Net gain from change in fair value of investment securities measured at fair value through profit or loss	(61,006)	-
Interest income calculated using the effective interest method	(2,896,843)	(2,856,172)
Other interest income	(102,896)	(133,914)
Unrealised foreign exchange difference	(601,197)	65,109
Cash provided from operating activities before changes in operating assets and liabilities	**998,665**	**686,269**
(Increase)/decrease in operating assets		
Placements with banks	(2,568,687)	(4,013,453)
Insurance and reinsurance receivables	(59,298)	(211,142)
Other assets	26,771	(32,451)
Increase/(decrease) in operating liabilities		
Insurance and reinsurance payables	(118,220)	133,566
Other liabilities	63,186	68,519
Net cash used in operating activities before interest received and income tax paid	**(1,657,583)**	**(3,531,929)**
Income tax paid	(367,057)	(394,332)
Interest receipts	2,513,306	2,643,031
Interest paid	(786)	(925)
Cash flows from/(used in) operating activities	**487,880**	**(1,284,155)**

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

	2018 KZT’000	2017 KZT’000
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment and intangible assets	(31,183)	(39,590)
Cash flows used in investing activities	**(31,183)**	**(39,590)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Share issue	-	13,900,000
Repayment of loan received from Samruk-Kazyna JSC	(92,460)	(92,460)
Dividends paid	(639,389)	(32,956)
Cash flows (used in)/from financing activities	**(731,849)**	**13,774,584**
Net (decrease)/increase in cash and cash equivalents	**(275,152)**	**12,450,839**
Effect of changes in exchange rates on cash and cash equivalents	101,231	(43,062)
Cash and cash equivalents at beginning of year	27,045,334	14,637,557
Cash and cash equivalents at end of year (Note 12)	**26,871,413**	**27,045,334**

*The Company has initially applied IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 2(e)). As a result of adoption of IFRS 9 the Company changed presentation of certain captions, comparative information is re-presented accordingly (see Note 3(n)).

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 loans received from Samruk-Kazyna JSC at 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 2017	23,200,000	732,819	24,450	226,361	(2,083,916)	3,855,409	25,955,123
Total comprehensive income							
Profit for the year	-	-	-	-	-	2,131,296	2,131,296
Other comprehensive income							
Items that are or may be reclassified subsequently to profit or loss:							
Net change in fair value	-	-	-	-	234,699	-	234,699
Total other comprehensive income	-	-	-	-	234,699	-	234,699
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**234,699**	**2,131,296**	**2,365,995**
Transactions with owners, recorded directly in equity							
Share issue (Note 17(a))	13,900,000	-	-	-	-	-	13,900,000
Dividends paid (Note 17(c))	-	-	-	-	-	(32,956)	(32,956)
Transfer to provision for unexpected risks (Note 17(d))	-	-	-	(226,361)	-	226,361	-
Transfer from stabilisation reserve		-	37,664	-	-	(37,664)	-
Total transactions with owners	**13,900,000**	**-**	**37,664**	**(226,361)**	**-**	**155,741**	**13,867,044**
Balance at 31 December 2017*	**37,100,000**	**732,819**	**62,114**	**-**	**(1,849,217)**	**6,142,446**	**42,188,162**

*The Company has initially applied IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 2(e)). As a result of adoption of IFRS 9 the Company changed presentation of certain captions, comparative information is re-presented accordingly (see Note 3(n)).

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 loans received from Samruk-Kazyna JSC at 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 as at 1 January 2018	-	-	-	-	343,791	(406,208)	(62,417)
Restated balance 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 17(c))	-	-	-	-	-	(639,389)	(639,389)
Transfer to provision for unexpected risks (Note 17(d))	-	-	-	510,942	-	(510,942)	-
Transfer from 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 Company has initially applied IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 2(e)). As a result of adoption of IFRS 9 the Company changed presentation of certain captions, comparative information is re-presented accordingly (see Note 3(n)).

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 (formerly "KazExportGarant" Export Insurance Corporation) (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;
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, Astana, Republic of Kazakhstan, 010000.

(b) Shareholder

As at 31 December 2018 and 31 December 2017, 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 2018 the number of employees of the Company was 62 people (2017: 47 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 future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

The accompanying financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

This is the first set of the Company's annual financial statements in which IFRS 9 *Financial Instruments* 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 IFRS 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 could 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.

Judgments

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes:

- Applicable to 2018 only
  - classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding – Note 3(b).
  - establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL – Note 4.

Assumptions and estimations uncertainty

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2018 is included in the following notes:

- Applicable to 2018 only
  - impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information – Note 4.
- Applicable to 2018 and 2017
  - insurance contract provisions – Note 16.

(c) Basis of measurement

The financial statements are prepared on the historical cost basis except that financial instruments measured at fair value through profit or loss and at fair value through other comprehensive income and available-for-sale financial assets are stated at fair value.

2 Basis of preparation, continued

(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

The Company has initially adopted IFRS 9 from 1 January 2018.

A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Company’s financial statements.

Due to the transition methods chosen by the Company in applying IFRS 9, comparative information throughout these financial statements has not generally been restated.

The effect of initially applying these standards is mainly attributed to the following:

- an increase in impairment losses recognised on financial assets (see Note 5);
- additional disclosure related to IFRS 7 (see Notes 4 and 5).

IFRS 9 Financial instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As a result of the adoption of IFRS 9, the Company has adopted consequential amendments to IAS 1 ‘Presentation of Financial Statements’, which require separate presentation in the statement of profit or loss and other comprehensive income of interest revenue calculated using the effective interest method. Previously, the Company disclosed this amount in notes to the financial statements.

Additionally, the Company has adopted consequential amendments to IFRS 7 ‘Financial Instruments: Disclosures’ that are applied to disclosures about 2018 but have not been applied to the comparative information.

The key changes to the Company’s accounting policies resulting from its adoption of IFRS 9 are summarised below.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income and fair value through profit or loss. IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. For an explanation of how the Company classifies financial assets under IFRS 9, see Note 3(b)(i).

2 Basis of preparation, continued

(e) Changes in accounting policies and presentation, continued

IFRS 9 Financial instruments, continued

Classification of financial assets and financial liabilities, continued

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

For an explanation of how the Company classifies financial liabilities under IFRS 9, see Note 3(b)(i).

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Company applies the impairment requirements of IFRS 9, see Note 3(b)(iv).

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in accumulated loss as at 1 January 2018. Accordingly, the information presented as at and for the year ended 31 December 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented as at and for the year ended 31 December 2018 under IFRS 9.

The Company used the exemption not to restate comparative periods but considering that the amendments made by IFRS 9 to IAS 1 introduced the requirement to present 'interest income calculated using the effective interest rate' as a separate line item in the statement of profit or loss and other comprehensive income, the Company has reclassified comparative interest income on net investments in finance leases to 'other interest income' and changed the description of the line item from 'interest income' to 'interest income calculated using the effective interest method'.

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
  - The determination of the business model within which a financial asset is held.

For more information and details on the changes and implications resulting from the adoption of IFRS 9, see Note 5.

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 income and expense

Policy applicable from 1 January 2018

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.

3 Significant accounting policies, continued

(a) Interest income and expense, continued

Policy applicable from 1 January 2018, continued

Effective interest rate, continued

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 Note 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.

3 Significant accounting policies, continued

(a) Interest income and expense, continued

Policy applicable before 1 January 2018

Effective interest rate

Interest income and expense were recognised in profit or loss using the effective interest method. The effective interest rate was the rate that exactly discounted the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Company estimated future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

Other fees, commissions and other income and expense items are recognised in profit or loss when the corresponding service is provided.

Dividend income is recognised in profit or loss on the date when dividends are declared.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

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.

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

Financial assets – Policy applicable from 1 January 2018

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.

3 Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

(i) Classification, continued

Financial assets – Policy applicable from 1 January 2018, continued

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 income 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.

3 Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

(i) Classification, continued

Financial assets – Policy applicable from 1 January 2018, continued

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

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.

Financial assets – Policy applicable before 1 January 2018

The Company classified its financial assets into one of the following categories:

- loans and receivables;
- held-to-maturity investments; and
- available-for-sale.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Company:

- intends to sell immediately or in the near term;
- upon initial recognition designates as at fair value through profit or loss;
- upon initial recognition designates as available-for-sale; or
- may not recover substantially all of its initial investment, other than because of credit deterioration.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Company has the positive intention and ability to hold to maturity, other than those that:

- the Company upon initial recognition designates as at fair value through profit or loss;
- the Company designates as available-for-sale; or
- meet the definition of loans and receivables.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

3 Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

(i) Classification, continued

Reclassification, continued

Financial liabilities

The Company classifies its financial liabilities as measured at amortised cost.

Financial liabilities are not reclassified subsequent to their initial recognition.

(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.

3 Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

(iii) Modification of financial assets and financial liabilities, continued

Financial assets, continued

Changes in cash flows on existing financial assets or financial liabilities are not considered as modification, if they result from existing contractual terms, and if the loan agreement 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 analogizes 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 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 liabilities.

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.

3 Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

(iii) Modification of financial assets and financial liabilities, continued

Financial liabilities, continued

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.

Policy applicable before 1 January 2018

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, then the contractual rights to cash flows from the original financial asset deemed to have expired. In this case, the original financial asset is derecognised (see Note 3(b)(ii)) and a new financial asset is recognised at fair value plus any eligible transaction costs.

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognised, then impairment of the asset was measured using the pre-modification interest rate (see Note 3 (b)(iv)).

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.

If the modification of a financial liability was not accounted for as derecognition, then any costs and fees incurred were 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.

Policy applicable from 1 January 2018

The Company recognises loss allowances for expected credit losses (ECL) on financial assets that are debt instruments 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;
- 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'.

3 Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

(iv) Impairment, continued

Policy applicable from 1 January 2018, continued

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

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

Measurement of ECL

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

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

Restructured financial assets

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

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

3 Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

(iv) Impairment, continued

Policy applicable from 1 January 2018, continued

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 reasonable expectation of recovering a financial asset. 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.

Policy applicable before 1 January 2018

Impairment of assets

The Company assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the Company determines the amount of any impairment loss.

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a loss event) and that event (or events) has had an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of financial asset or group of financial assets that the Company would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

Financial assets carried at amortised cost

Financial assets carried at amortised cost consist principally of finance lease receivables and other receivables (loans and receivables). The Company reviews its loans and receivables, to assess impairment on a regular basis.

3 Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

(iv) Impairment, continued

Policy applicable before 1 January 2018, continued

Financial assets carried at amortised cost, continued

The Company first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan or receivable in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data related to similar borrowers. In such cases, the Company uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognised in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a loan or receivable is uncollectible, it is written off against the related allowance for impairment. The Company writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by transferring the cumulative loss that is recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security was always recognised in other comprehensive income.

3 Significant accounting policies, continued

(c) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the 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 in a foreign currency that are measured based on historical cost are translated to the functional currency 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 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 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.

3 Significant accounting policies, continued

(d) Insurance contracts, continued

(ii) Recognition and measurement of contracts, continued

Claims, continued

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.

3 Significant accounting policies, continued

(d) Insurance contracts, continued

(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 deficiency is identified, an additional provision is established, if necessary. 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 and reinsurance 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 carried 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. Due from banks 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 and equipment

(i) Owned assets

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

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

(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 to 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 five years.

3 Significant accounting policies, continued

(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 on the balance sheet 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 in profit or loss over the term of the reverse 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 reversed is only reversed 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 in financial statements.

(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 the 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 rules and regulations of Kazakhstan legislation.

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

3 Significant accounting policies, continued

(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) Comparative information

As a result of adoption of IFRS 9 the Company changed presentation of certain captions in the primary forms of financial statements. Comparative information is reclassified to conform to changes in presentation in the current period.

The effect of main changes in presentation of the statement of profit or loss and other comprehensive income for the year ended 31 December 2017 is as follows:

- The presentation of interest income was amended to present interest on non-derivative financial assets measured at FVTPL separately under 'other interest income' line item.

The effect of the changes above on the statement of profit or loss and other comprehensive income is summarised in the table below:

'000 KZT	As previously reported	Effect of reclassifications	As reclassified
Net finance income	2,956,716	(2,956,716)	-
Interest income calculated using the effective interest method	-	2,856,172	2,856,172
Other interest income	-	133,914	133,914
Interest expense	-	(33,370)	(33,370)

3 Significant accounting policies, continued

(o) Standards issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2019 with earlier application permitted.

IFRS 16 *Leases*

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases—Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

(i) Leases in which the Company is a lessee

The Company has completed an initial assessment of the potential impact on its financial statements but has not yet completed its detailed assessment. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, the development of the Company's lease portfolio, the Company's assessment of whether it will exercise any lease renewal options and the extent to which the Company chooses to use practical expedients and recognition exemptions.

The Company will recognise new assets and liabilities for its operating leases of office premises. In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Company recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

No significant impact is expected for the Company's finance leases.

(ii) Transition

The Company plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

The Company plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

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.

3 Significant accounting policies, continued

(o) Standards issued but not yet effective, continued

IFRS 17 *Insurance Contracts, continued*

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.

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

- IFRIC 23 *Uncertainty over Income Tax Treatments;*
- *Long-term Interests in Associates and Joint Ventures* (Amendments to IAS 28);
- *Plan Amendment, Curtailment or Settlement* (Amendments to IAS 19);
- *Annual Improvements to IFRSs 2015-2017 Cycle–various standards;*
- *Amendments to References to Conceptual Framework in IFRS Standards.*

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 18.

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.

4 Financial risk review, continued

Credit risk - Amounts arising from ECL, continued

Determining whether credit risk has increased significantly, continued

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 (stage 1) measurement to credit-impaired (stage3);
- 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.

4 Financial risk review, continued

Credit risk - Amounts arising from ECL, continued

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	
'000 KZT	**Exposure as at 31 December 2018**	**PD**	**LGD**
Deposits in banks	11,855,000	S&P's default study	Moody's recovery studies / for positions inside Kazakhstan, LGD is based on historical recovery data from defaulted financial institutions
Investment securities measured at fair value through other comprehensive income	7,435,977		

4 Financial risk review, continued

Credit quality analysis

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

	31 December 2018				
‘000 KZT	**Stage 1 12-month ECLs**	**Stage 2 Lifetime ECL not credit-impaired**	**Stage 3 Lifetime ECL credit-impaired**	**Total**	**31 December 2017**
Placements with banks					
- rated from BBB- to BBB+	2,002	-	-	2,002	-
- rated from BB to BB+	9,969,137	-	-	9,969,137	1,531,756
- rated from B- to B+	617,145	-	1,266,716	1,883,861	6,905,189
	10,588,284	**-**	**1,266,716**	**11,855,000**	**8,436,945**
Impairment allowance	**(55,466)**	**-**	**(700,175)**	**(755,641)**	**(62,417)**
Total placements with banks	**10,532,818**	**-**	**566,541**	**11,099,359**	**8,374,528**
Debt securities measured at fair value through other comprehensive income					
- rated from AA+ to AA-	259,876	-	-	259,876	247,610
- rated from BBB- to BBB+	7,176,101	-	-	7,176,101	5,976,867
- rated from BB to BB+	**-**	-	-	**-**	869,935
Impairment allowance	-	-	-	-	-
Total debt securities measured at fair value through other comprehensive income	**7,435,977**	**-**	**-**	**7,435,977**	**7,094,412**
Total financial assets	**18,024,261**	**-**	**1,266,716**	**19,290,977**	**15,531,357**
Total impairment allowance	**(55,466)**	**-**	**(700,175)**	**(755,641)**	**(62,417)**
Total carrying amount	**17,968,795**	**-**	**566,541**	**18,535,336**	**15,468,940**

5 Transition to IFRS 9

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Company’s financial assets and financial liabilities as at 1 January 2018.

‘000 KZT	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	Remea-surement	New carrying amount under IFRS 9
Financial assets						
Government debt securities	14	Available-for-sale	FVOCI – debt instrument	6,224,477	-	6,224,477
Corporate debt securities	14	Available-for-sale	FVOCI – debt instrument	869,935	-	869,935
Corporate debt securities	14	Available-for-sale	FVTPL (mandatory)	1,482,137	-	1,482,137
Placements with banks	13	Loans and receivables	Amortised cost	8,436,945	(62,417)	8,374,528
Cash and cash equivalents	12	Loans and receivables	Amortised cost	27,045,334	-	27,045,334
Other financial assets		Loans and receivables	Amortised cost	638	-	638
Total financial assets				**44,059,466**	**(62,417)**	**43,997,049**
Financial liabilities						
Loans received		Amortised cost	Amortised cost	276,573	-	276,573
Total financial liabilities				**276,573**	**-**	**276,573**

The Company’s accounting policies on the classification of financial instruments under IFRS 9 are set out in Note 3(b)(i). The application of these policies resulted in the reclassifications set out in the table above and explained below.

5 Transition to IFRS 9, continued

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9, continued

The following table analyses the impact of transition to IFRS 9 on reserves and retained earnings. The impact relates to the fair value reserve and retained earnings. There is no impact on other components of equity.

KZT'000	Impact of adopting IFRS 9 at 1 January 2018
Revaluation reserve for changes in fair value – FVOCI debt (31 December 2017 – Revaluation reserve for available-for-sale financial assets)	
Closing balance under IAS 39 (31 December 2017)	(1,849,217)
Reclassification of debt investment securities from measurement category available-for-sale to measurement category fair value through profit or loss	343,791
Recognition of expected credit losses under IFRS 9 for debt investment securities measured at fair value through other comprehensive income	-
Opening balance under IFRS 9 (1 January 2018)	**(1,505,426)**
Retained earnings	
Opening balance under IAS 39 (31 December 2017)	6,142,446
Reclassification of debt investment securities from measurement category available-for-sale to measurement category fair value through profit or loss	(343,791)
Recognition of expected credit losses under IFRS 9	(62,417)
Opening balance under IFRS 9 (1 January 2018)	**5,736,238**

The following table reconciles:

- the closing impairment allowance for financial assets in accordance with IAS 39 as at 31 December 2017; to
- the opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018.

For financial assets, this table is presented by the related financial assets measurement categories in accordance with IAS 39 and IFRS 9, and shows separately the effect of the changes in the measurement category on the loss allowance at the date of initial application of IFRS 9, i.e. as at 1 January 2018.

	Impairment allowance and other provisions			
KZT'000	**31 December 2017 (IAS 39/ IAS 37)**	**Reclas-sification**	**Remea-surement**	**1 January 2018 (IFRS 9)**
Placements with banks	-	-	(62,417)	(62,417)
Total measured at amortised cost	**-**	**-**	**(62,417)**	**(62,417)**
Debt investment securities available-for-sale under IAS 39/debt investment securities measured at fair value through other comprehensive income under IFRS 9	-	-	-	-
Total measured at fair value through other comprehensive income	**-**	**-**	**-**	**-**

6 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.

6 Insurance risk management, continued

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

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.

6 Insurance risk management, continued

(b) Terms and conditions of insurance and reinsurance contracts and nature of risks covered, continued

(i) Insurance contracts – Insurance against other financial loss, continued

Product features, continued

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 – 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.

6 Insurance risk management, continued

(b) Terms and conditions of insurance and reinsurance contracts and nature of risks covered, continued

(ii) Reinsurance contracts – Property, continued

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 reinsurance contract or through a small number of related contracts, and relate to circumstances where significant liabilities could arise.

(iii) 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.

6 Insurance risk management, continued

(b) Terms and conditions of insurance and reinsurance contracts and nature of risks covered, continued

(iii) Reinsurance contracts – Employer's civil liability, continued

Risk management, continued

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.

(iv) Reinsurance contracts – Vehicles owner's civil liability and general civil liability

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

Risk management

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

(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 Company, 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 2018 the Company had 1,796 insurance agreements that were in force (31 December 2017: 3,818 insurance agreements).

6 Insurance risk management, continued

(d) Total aggregate exposures, continued

(i) Exposure to various business lines

The key concentrations identified as at 31 December 2018 are:

Insurance type	Total insured amount '000 KZT	Reinsurance amount '000 KZT	Net retention (after reinsurance) '000 KZT
Obligatory insurance			
Employer's liability	60,312,452	(60,306,420)	6,032
Carrier's liability to passengers	240,260	-	240,260
Voluntary insurance			
Property	69,771,873	(12,713,171)	57,058,702
Civil liability	95,913,175	-	95,913,175
Railway transport	13,712,754	-	13,712,754
Insurance against other financial loss	115,493,696	(5,378,040)	110,115,656
Civil liability of the vehicle owners	175,000	-	175,000
Accident	700,801	-	700,801
Civil liability of owners of water transport, including:	490,545	-	490,545
Water transport	623,715	-	623,715
Total	**357,434,271**	**(78,397,631)**	**279,036,640**

The key concentrations identified as at 31 December 2017 are:

Insurance type	Total insured amount '000 KZT	Reinsurance amount '000 KZT	Net retention (after reinsurance) '000 KZT
Obligatory insurance			
Employer's liability	120,477,618	(120,154,660)	322,958
Carrier's liability to passengers	1,371,690	-	1,371,690
Other obligatory insurance	73,743	-	73,743
Voluntary insurance		-	
Property	91,139,803	(20,385,941)	70,753,862
Civil liability	166,031,100	(2,050,295)	163,980,805
Railway transport	6,543,499	-	6,543,499
Insurance against other financial loss	46,019,394	(5,624,640)	40,394,754
Civil liability of the vehicle owners	7,046,847	-	7,046,847
Accident	1,095,981	-	1,095,981
Cargo	998,556	-	998,556
Civil liability of owners of water transport, including:	490,500	-	490,500
Air transport	291,541	-	291,541
Water transport	712,768	-	712,768
Total	**442,293,040**	**(148,215,536)**	**294,077,504**

(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, except employer's civil liability, 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 2018 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.

6 Insurance risk management, continued

(e) Claims development, continued

Analysis of claims development for 2018 (gross) – total

	Accident year								
'000 KZT	**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 Insurance risk management, continued

(e) Claims development, continued

Analysis of claims development for 2017 (gross) – total

	Accident year							
‘000 KZT	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**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	-
- one year later	99,624	80,531	114,865	289,674	285,243	1,934,327	-	-
- two years later	105,984	133,825	150,006	273,674	206,683	-	-	-
- three years later	116,739	130,638	116,426	293,618	-	-	-	-
- four years later	151,355	114,691	171,237	-	-	-	-	-
- five years later	149,833	168,316	-	-	-	-	-	-
- six years later	204,695	-	-	-	-	-	-	-
Estimate of cumulative claims as at 31 December 2017	**204,695**	**168,316**	**171,237**	**293,618**	**206,683**	**1,934,327**	**935,213**	**3,914,089**
Cumulative payments as at 31 December 2017	110,405	74,026	76,947	199,098	75,855	1,786,037	645,676	2,968,044
Gross outstanding claims liabilities as at 31 December 2017	**94,290**	**94,290**	**94,290**	**94,520**	**130,828**	**148,290**	**289,537**	**946,045**

7 Premiums

	Obligatory insurance			**Voluntary insurance**					
2018 '000 KZT	**Employer's liability**	**Vehicle owner's liability**	**Other obligatory**	**Property**	**Other financial loss insurance**	**Air/Water/ Motor transport**	**Loan insurance**	**Other voluntary**	**Total**
Gross 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 premiums	**15,503**	**4,249**	**119**	**151,560**	**255,038**	**7,798**	**521,723**	**86,423**	**1,042,413**

	Obligatory insurance			**Voluntary insurance**					
2017 '000 KZT	**Employer's liability**	**Vehicle owner's liability**	**Other obligatory**	**Property**	**Other financial loss insurance**	**Air/Water/ Motor transport**	**Loan insurance**	**Other voluntary**	**Total**
Gross premiums written	569,347	4,862	265	148,364	133,334	23,369	927,961	97,960	1,905,462
Change in the gross provision for unearned premiums	(447,397)	3,722	1,100	21,045	84,607	4,984	(682,498)	109,736	(904,701)
Gross earned premiums	**121,950**	**8,584**	**1,365**	**169,409**	**217,941**	**28,353**	**245,463**	**207,696**	**1,000,761**
Less: written premiums ceded to reinsurers	(557,906)	-	-	(3,814)	-	-	(8,951)	(1,317)	(571,988)
Reinsurers' share of change in the gross provision for unearned premiums	439,804	-	-	(2,446)	(34,944)	-	(74,609)	(108,470)	219,335
Ceded earned premiums	**(118,102)**	**-**	**-**	**(6,260)**	**(34,944)**	**-**	**(83,560)**	**(109,787)**	**(352,653)**
Net earned premiums	**3,848**	**8,584**	**1,365**	**163,149**	**182,997**	**28,353**	**161,903**	**97,909**	**648,108**

8 Claims incurred

	Obligatory insurance			Voluntary insurance					
2018 '000 KZT	**Employer's liability**	**Vehicle owner's liability**	**Other obligatory**	**Property**	**Other financial loss insurance**	**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 claims provisions	(30,326)	-	-	(3,642)	-	1,038	(8,745)	86	(41,589)
Change in net insurance 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**

	Obligatory insurance			Voluntary insurance					
2017 '000 KZT	**Employer's liability**	**Vehicle owner's liability**	**Other obligatory**	**Property**	**Other financial loss insurance**	**Air/Water/ Motor transport**	**Loan insurance**	**Other voluntary**	**Total**
Claims paid	23,695	-	-	36,399	1,310,918	11,176	-	-	1,382,188
Claims paid, net of reinsurance	**23,695**	**-**	**-**	**36,399**	**1,310,918**	**11,176**	**-**	**-**	**1,382,188**
Change in provisions for incurred but not reported claims	130,149	(280)	(100)	23,737	46,966	416	21,881	(9,412)	213,357
Change in provisions for reported but not settled claims	(433)	-	-	39,194	(119,374)	(14,216)	-	57,278	(37,551)
Change in reinsurers' share in claims provisions	(96,897)	-	-	416	-	(143)	4,252	8,520	(83,852)
Change in net insurance contract provisions	**32,819**	**(280)**	**(100)**	**63,347**	**(72,408)**	**(13,943)**	**26,133**	**56,386**	**91,954**
Reimbursement from recourse claims*	-	-	-	-	(1,242,081)	-	-	-	(1,242,081)
Net claims paid	**56,514**	**(280)**	**(100)**	**99,746**	**(3,571)**	**(2,767)**	**26,133**	**56,386**	**232,061**

* During 2016, as a result of default, Tojiksodirotbank OJSC failed to discharge its liabilities on the letters of credit issued. The Company was the insurer of Tojiksodirotbank OJSC liabilities and paid an insured amount of KZT 1,071,679 thousand to the beneficiaries in 2016 and KZT 1,244,346 thousand in 2017, respectively. On 13 December 2016, based on decision of the National Bank of Tajikistan, the work for recovery of financial position of Tojiksodirotbank OJSC was completed and as a result the bank repaid the debt to the Company in the amount of KZT 1,242,081 thousand.

9 Interest income/(expense)

	2018 '000 KZT	2017 '000 KZT
Interest income calculated using the effective interest method		
Placements with banks and cash and cash equivalents	2,512,949	2,466,223
Investment securities measured at fair value through other comprehensive income	383,893	389,949
	2,896,843	**2,856,172**
Other interest income		
Investment securities measured at fair value through profit or loss	102,896	133,914
	102,896	**133,914**
Interest expense		
Interest expense on loan from Samruk-Kazyna JSC	(29,185)	(33,370)
	(29,185)	**(33,370)**

10 General administrative expenses

	2018 '000 KZT	2017 '000 KZT
Salaries and bonuses	629,138	403,302
Rent	108,786	38,789
Advertising and marketing	81,681	100,210
Consulting and professional services	78,712	158,518
Business trip expenses	66,622	60,074
Social tax and social contributions	47,498	35,023
Transportation expenses	30,454	9,673
Administrative expense of the Board of Directors	27,045	6,955
Depreciation and amortisation	15,681	11,779
Training expenses	14,937	6,628
Communication services	11,659	3,312
Other taxes and duties	5,706	1,821
Bank charges	2,224	5,899
Sponsorship	-	11,147
Fines and penalties	-	2,924
Other	42,452	34,976
	1,162,595	**891,030**

11 Income tax expense

	2018 '000 KZT	2017 '000 KZT
Current year tax expense	485,270	434,276
Total current tax expense	**485,270**	**434,276**
Movement in deferred tax assets and liabilities due to origination and reversal of temporary differences and movement in valuation allowance	(18,094)	(2,765)
Total income tax expense	**467,176**	**431,511**

In 2018, the applicable tax rate for current and deferred tax is 20% (2017: 20%).

11 Income tax expense, continued

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

	2018 '000 KZT	%	2017 '000 KZT	%
Profit before income tax	**2,052,728**	**100**	**2,562,807**	**100**
Income tax at the applicable tax rate	(410,546)	(20)	(512,561)	(20)
Non-taxable income on investment securities	108,640	5	100,695	4
Other non-deductible expenses	(165,270)	(8)	(19,645)	(1)
	(467,176)	**(23)**	**(431,511)**	**(17)**

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 2018 and 31 December 2017.

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 2018 is presented as follows:

'000 KZT	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**

Movement in temporary differences during the year ended 31 December 2017 is presented as follows:

'000 KZT	Balance 1 January 2017	Recognised in profit or loss	Balance 31 December 2017
Property, equipment and intangible assets	68	(979)	(911)
Other payables	1,344	-	1,344
Vacation and bonuses reserve	2,184	3,744	5,928
	3,596	**2,765**	**6,361**

12 Cash and cash equivalents

	2018 '000 KZT	2017 '000 KZT
Reverse repurchase agreements	5,371,853	1,501,602
Current accounts and demand deposits with banks	21,499,560	25,543,732
	26,871,413	**27,045,334**

As at 31 December 2018, the Company entered into reverse repurchase 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 carrying amount of those agreements and fair value of securities pledged amounted to KZT 5,354,066 thousand (2017: KZT 1,512,914 thousand).

No cash and cash equivalents are impaired or past due.

As at 31 December 2018 the Company has accounts with two banks (31 December 2017: three banks), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2017 is KZT 13,127,719 thousand (2017: KZT 18,339,097 thousand).

13 Placements with banks

	2018 ‘000 KZT	2017 ‘000 KZT
Deposits	11,855,000	8,436,945
Loss allowance	(755,641)	-
Total placements with banks, net of loss allowance	**11,099,359**	**8,436,945**

Movement in loss allowance

‘000 KZT	Stage 1	Stage 3	Total
Balance at 1 January	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 31 December	**55,466**	**700,175**	**755,641**

As Standards&Poor’s rating agency downgraded a credit rating of Tsesnabank JSC to B-, and due to lack of a positive dynamics in performance of Tsesnabank JSC after obtaining a financial support at the end of third quarter of 2018, the Company’s placements with Tsesnabank JSC were transferred to Stage 3. The Company established an allowance for ECL of KZT 700,175 thousand based on individual assessment and analysis of available financial information at the end of the year.

As at 31 December 2018, the annual effective interest rates generated by placement with banks ranged between 1.7% and 11% per annum (31 December 2017: 1.97% and 15.7%).

As at 31 December 2018 the Company has accounts with one bank (31 December 2017: none), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2018 is KZT 6,703,565 thousand (2017: nil).

14 Investment securities/available-for-sale financial assets

	31 December 2018 ‘000 KZT	31 December 2017 ‘000 KZT
Measured at fair value through other comprehensive income	7,435,977	-
Measured at fair value through profit or loss	1,511,226	-
Available-for-sale financial assets	-	8,576,549
	8,947,203	**8,576,549**

	2018 ‘000 KZT	2017 ‘000 KZT
Neither past due nor impaired		
Measured at fair value through other comprehensive income		
Government bonds of the Republic of Kazakhstan		
Rated BBB-	6,224,127	5,976,867
Government bonds of foreign states		
Rated AA+	259,876	247,610
Total government bonds	**6,484,003**	**6,224,477**
Corporate bonds of Kazakhstan companies		
Rated from BBB+ to BBB-	951,974	-
Rated from BB+ to BB-	-	869,935
Total corporate bonds of Kazakhstan companies	**951,974**	**869,935**
Measured at fair value through profit or loss		
Bonds of Kazakhstan banks		
Rated from BB+ to BB-	365,108	356,039
Rated from B+ to B-	629,686	631,591
Total bonds of Kazakhstan banks	**994,794**	**987,630**
Corporate bonds of Kazakhstan companies		
Not rated	516,432	494,507
Total corporate bonds of Kazakhstan companies	**516,432**	**494,507**
	8,947,203	**8,576,549**

14 Investment securities/available-for-sale financial assets, continued

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 2018 the annual effective interest rates generated by available-for-sale investments ranged between 3.78% and 8.54% per annum (31 December 2017: between 4.4% and 8.5%).

15 Insurance and reinsurance receivables

	2018 ‘000 KZT	2017 ‘000 KZT
Amounts due from policyholders	974,612	775,652
Amounts due from reinsurers	40,149	181,096
	1,014,761	**956,748**
Impairment allowance	(48)	(48)
	1,014,713	**956,700**

As at 31 December 2018 and 31 December 2017 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:

	2018 ‘000 KZT	2017 ‘000 KZT
Balance at the beginning of the year	(48)	(6,850)
Net charge	(268)	(673)
Write-off	268	7,475
Balance at the end of the year	**(48)**	**(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 2018:

	Gross receivables ‘000 KZT	Impairment allowance ‘000 KZT	Net receivables ‘000 KZT	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 and reinsurance receivables, continued

Credit quality of insurance and reinsurance receivables, continued

The following table provides information on the credit quality of insurance and reinsurance receivables as at 31 December 2017:

	Gross receivables '000 KZT	Impairment allowance '000 KZT	Net receivables '000 KZT	Impairment allowance to gross receivables %
Amounts due from policyholders and reinsurers				
Amounts due from policyholders				
Not overdue	775,652	-	775,652	-
Total amounts due from policyholders	**775,652**	**-**	**775,652**	**-**
Amounts due from reinsurers				
Not overdue	175,829	-	175,829	-
Overdue or impaired:				
- overdue less than 90 days	3,050	-	3,050	-
- overdue more than 90 days and less than 1 year	2,217	(48)	2,169	2
Total overdue or impaired receivables from reinsurers	5,267	(48)	5,219	1
Total amounts due from reinsurers	**181,096**	**(48)**	**181,048**	**0.03**
Total amounts due from policyholders and reinsurers	**956,748**	**(48)**	**956,700**	**0.01**

16 Insurance contract provisions and reinsurers' share in insurance contract provisions

	Gross 2018 '000 KZT	Reinsurance 2018 '000 KZT	Net 2018 '000 KZT
Provision for unearned premiums	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**

	Gross 2017 '000 KZT	Reinsurance 2017 '000 KZT	Net 2017 '000 KZT
Provision for unearned premiums	2,460,583	(735,509)	1,725,074
Provision for claims incurred but not reported	660,033	(90,743)	569,290
Provision for claims reported but not settled	286,012	(8,167)	277,845
	3,406,628	**(834,419)**	**2,572,209**

16 Insurance contract provisions and reinsurers’ share in insurance contract provisions, continued

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

	2018 ‘000 KZT	2017 ‘000 KZT
Balance at the beginning of the year	847,135	755,181
Current year claims’ reported	297,850	935,213
Adjustment for prior years claims due to change in assumptions	586,212	622,781
Claims paid, gross	(112,259)	(1,382,188)
Change in reinsurers’ share	(41,589)	(83,852)
Balance at the end of the year	**1,577,349**	**847,135**

(b) Analysis of movements in provision for unearned premiums

	2018 ‘000 KZT	2017 ‘000 KZT
Balance at the beginning of the year	1,725,074	1,039,708
Premiums written	2,682,780	1,905,462
Premiums earned	(1,975,415)	(1,000,761)
Change in reinsurers’ share	366,915	(219,335)
Balance at the end of the year	**2,799,354**	**1,725,074**

16 Insurance contract provisions and reinsurers' share in insurance contract provisions, continued

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

	Obligatory insurance			Voluntary insurance					
2018 '000 KZT	**Employer's liability**	**Vehicle owner's 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**

	Obligatory insurance			Voluntary insurance					
2017 '000 KZT	**Employer's liability**	**Vehicle owner's liability**	**Other obligatory**	**Property**	**Other financial loss insurance**	**Air/Water/ Motor transport**	**Loan insurance**	**Other voluntary**	**Total**
Provision for unearned premiums	449,366	3,098	119	31,029	717,761	3,542	1,211,720	43,948	2,460,583
Provision for claims incurred but not reported	333,960	243	13	176,419	94,191	1,168	49,140	4,899	660,033
Provision for claims reported but not settled	13,515	-	-	120,210	56,846	31,171	-	64,270	286,012
Gross insurance contract provisions	**796,841**	**3,341**	**132**	**327,658**	**868,798**	**35,881**	**1,260,860**	**113,117**	**3,406,628**
Reinsurers' share in insurance contract provisions	(537,209)	-	-	(5,449)	(272,048)	(1,038)	(18,266)	(409)	(834,419)
Net insurance contract provisions	**259,632**	**3,341**	**132**	**322,209**	**596,750**	**34,843**	**1,242,594**	**112,708**	**2,572,209**

16 Insurance contract provisions and reinsurers’ share in insurance contract provisions, continued

(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 chain ladder 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 years. 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.

Management believes that due to the short-tailed nature of the majority of the Company’s business excluding employer’s liability and property insurance classes, 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.

17 Equity

(a) Share capital

	Ordinary shares 2018	**Ordinary shares 2017**
Authorised shares (ordinary shares)	90,080	90,080
Issued and outstanding shares (ordinary shares)	90,080	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
Issued and fully paid, KZT’000	**37,100,000**	**37,100,000**

17 Equity, continued

(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. The solvency margin ratio is determined by division of actual solvency margin by minimum required solvency margin. The 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 2018 and 31 December 2017 the Company complies with the solvency margins which are as follows:

	2018 '000 KZT	2017 '000 KZT
Actual solvency margin	42,101,880	40,946,246
Minimum solvency margin	1,082,250	922,977
Solvency margin	**38.9**	**44.4**

(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 profit for the 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 2018, reserves available for distribution amounted to KZT 6,225,669 thousand (31 December 2017: KZT 6,142,446 thousand).

During the year ended 31 December 2018 dividends of KZT 639,389 thousand or KZT 7,324 per share were declared and paid (2017: KZT 32,956 thousand or KZT 377.5 per share).

(d) Provision for unexpected risks

In 2018 the Company charged provision for unexpected risks of KZT 510,942 thousand within retained earnings (31 December 2017: no provision for unexpected risks), as in accordance with the Resolution of the Management Board of the Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Market and Financial Organisations № 131 of 22 August 2008 on approval of the "Instruction for Establishment of Prudential Ratios and other Binding Norms and Limits for Insurance (Reinsurance) Organisation and Insurance Group, Including the Minimum Charter Capital, Guarantee Fund, Solvency Margin and Deadlines for Submission of Reports on Compliance with the Prudential Ratios", the Company is obliged to create a provision for those insurance products, where unearned premium reserve may not cover all expected insurance losses.

18 Financial instrument risk management

Management of risk is fundamental to the business of the Company 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.

18 Financial instrument risk management, continued

(a) Risk management policies and procedures, continued

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 revealed and managed internally in the organisation. 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 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. As at 31 December 2018, interest gap position for investment securities measured at fair value through other comprehensive income (2017: available-for-sale financial assets) with carrying amount of KZT 1,466,824 thousand (31 December 2017: KZT 1,430,833 thousand) is within the period from 3 to 6 months (31 December 2017: from 3 to 6 months). An analysis of the sensitivity of net profit or loss and equity (net of taxes) to 100 basis point symmetrical rise in yield curves will have positive effect amounted to KZT 8,470 thousand (31 December 2017: KZT 8,771 thousand). 100 basis point symmetrical fall in yield curves as at 31 December 2018 and 31 December 2017 would have had the equal but opposite effect, on the basis that all other variables remain constant.

18 Financial instrument risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

An analysis of the sensitivity of the net income for the year and equity as a result of changes in fair value of investment securities measured at fair value through other comprehensive income and at fair value through profit or loss (2017: financial assets available-for-sale) due to changes in the interest rates based on positions existing as at 31 December 2018 and 2017 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	31 December 2018		31 December 2017	
	Profit	**Equity**	**Profit**	**Equity**
100 bp parallel rise	(21,285)	(295,823)	-	(322,824)
100 bp parallel fall	22,204	316,976	-	347,946

(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 2018:

‘000 KZT	**KZT**	**USD**	**RUB**	**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	**37,259,794**	**4,683,137**	**5,434,004**	**260,630**	**47,637,565**

18 Financial instrument risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2017:

'000 KZT	KZT	USD	RUB	Other	Total
Assets					
Cash and cash equivalents	26,992,594	15,036	33,775	3,929	27,045,334
Placements with banks	3,586,689	3,685,515	1,164,741	-	8,436,945
Available-for-sale financial assets	7,459,004	869,935	-	247,610	8,576,549
Insurance and reinsurance receivables	940,416	16,284	-	-	956,700
Total assets	**38,978,703**	**4,586,770**	**1,198,516**	**251,539**	**45,015,528**
Liabilities					
Loan from Samruk-Kazyna JSC	(276,573)	-	-	-	(276,573)
Insurance and reinsurance payables	(154,984)	-	-	-	(154,984)
Other financial liabilities	(55,515)	-	-	(48)	(55,563)
Total liabilities	**(487,072)**	**-**	**-**	**(48)**	**(487,120)**
Net position as at 31 December 2017	**38,491,631**	**4,586,770**	**1,198,516**	**251,491**	**44,528,408**

A weakening of the KZT, as indicated below, against the following currencies at 31 December 2018 and 31 December 2017 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.

'000 KZT	2018	2017
10% appreciation of USD (2017: 10%)	374,651	366,942
10% appreciation of RUB (2017: 10%)	434,720	95,881

A strengthening of the KZT against the above currencies at 31 December 2018 and 31 December 2017 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 occurring as a result of default by a borrower or counterparty on their obligation to the Company. 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.

18 Financial instrument risk management, continued

(c) Credit risk, continued

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

	2018 '000 KZT	2017 '000 KZT
ASSETS		
Cash and cash equivalents	26,871,413	27,045,334
Placements with banks	11,099,359	8,436,945
Investment securities:		
- measured at fair value through other comprehensive income	7,435,977	-
- measured at fair value through profit or loss	1,511,226	-
Available-for-sale financial assets	-	8,576,549
Insurance and reinsurance receivables	1,014,713	956,700
Reinsurers' share in insurance contract provisions	509,093	834,419
Total maximum exposure	**48,441,781**	**45,849,947**

As at 31 December 2018 the Company had 4 debtors (31 December 2017: 4 debtor), credit risk exposure to whom exceeds 10 percent maximum credit risk exposure. The credit risk exposure for these customers as at 31 December 2018 is KZT 30,364,023 thousand (31 December 2017: KZT 26,192,924 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.

These 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.

18 Financial instrument risk management, continued

(c) Credit risk, continued

Offsetting financial assets and financial liabilities, continued

'000 KZT

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: Financial instruments (including non-cash collateral)	Related amounts not offset in the statement of financial position: Cash collateral received	Net amount
Reverse repo agreements, securities borrowings and similar agreements	5,371,853	-	5,371,853	(5,371,853)	-	-

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 2017.

'000 KZT

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: Financial instruments (including non-cash collateral)	Related amounts not offset in the statement of financial position: Cash collateral received	Net amount
Reverse repo agreements, securities borrowings and similar agreements	1,501,602	-	1,501,602	(1,501,602)	-	-

18 Financial instrument risk management, continued

(d) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched, since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The 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 31 December 2018. Insurance liabilities are shown based on expected maturities. Insurance contract provisions are presented net of reinsurers’ share:

‘000 KZT	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**

The following table shows financial liabilities by remaining contractual maturity dates as at 31 December 2017. Insurance liabilities are shown based on expected maturities. Insurance contract provisions are presented net of reinsurers’ share:

‘000 KZT	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Total
Financial liabilities					
Insurance contract provisions	2,744	87,090	1,084,606	2,232,188	3,406,628
Loan from Samruk-Kazyna JSC	-	-	93,200	278,490	371,690
Insurance and reinsurance payables	154,984	-	-	-	154,984
Other financial liabilities	55,563	-	-	-	55,563
Total financial liabilities as at 31 December 2017	**213,291**	**87,090**	**1,177,806**	**2,510,678**	**3,988,865**

19 Operating leases

Leases as lessee

The Company leases the premises from a related party under operating lease. The lease typically run for an initial period of up to one year, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals.

The ownership for leased equipment does not pass to the Company. The rent paid is increased to market rent at regular intervals and the Company does not participate in the residual value, it was determined that substantially all the risks and rewards of the premises are with the landlord. As such, the Company determined that the leases are operating leases. During 2018 the operating lease payments of KZT 108,786 thousand (2017: KZT 38,789 thousand) were recognised within the administrative expenses.

20 Contingencies

(a) Litigation

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

(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, including opinions with respect to IFRS treatment of revenues, expenses and other items in the financial statements. 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.

21 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 2018:

'000 KZT	Amortised cost	At FVOCI	At FVPL	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 table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2017:

'000 KZT	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	27,045,334	-	-	27,045,334	27,045,334
Placements with banks	8,436,945	-	-	8,436,945	8,436,945
Available-for-sale financial assets	-	8,576,549	-	8,576,549	8,576,549
Insurance and reinsurance receivables	956,700	-	-	956,700	956,700
Reinsurers' share in insurance contract provisions	834,419	-	-	834,419	834,419
	37,273,398	**8,576,549**	**-**	**45,849,947**	**45,849,947**
Loan from Samruk-Kazyna JSC	-	-	(276,573)	(276,573)	(273,186)
Other financial liabilities	-	-	(55,563)	(55,563)	(55,563)
	-	**-**	**332,136**	**(332,136)**	**(328,749)**

21 Financial assets and liabilities: fair values and accounting classifications, continued

(a) Accounting classifications and fair values, continued

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

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

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 values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

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

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

As at 31 December 2018 and 31 December 2017 fair value of all financial instruments has been categorised as a Level 2 fair value.

22 Related party transactions

(a) Control relationship

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 Management Holding “Baiterek”. The Company’s ultimate shareholder is the Government of the Republic of Kazakhstan.

22 Related party transactions, continued

(b) Transactions with key management personnel

Total remuneration included in general and administrative expenses (see Note 10) for the years ended 31 December 2018 and 31 December 2017 is as follows:

	2018 '000 KZT	2017 '000 KZT
Members of the Board of Directors	6,438	4,638
Members of the Management Board	93,199	75,051
	99,637	**79,689**

(c) Transactions with other related parties

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

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:

'000 KZT	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)

The outstanding balances as of 31 December 2017 and related profit or loss amounts of transactions for the year then ended with other related parties are as follows:

'000 KZT	Fellow subsidiaries	Other	Total
Assets			
Cash and cash equivalents	-	1,501,602	1,501,602
Available-for-sale financial assets	-	6,846,802	6,846,802
Insurance and reinsurance receivables	365,630	-	365,630
Current tax asset	216,116	-	216,116
Liabilities			
Loan from Samruk-Kazyna JSC	-	276,573	276,573
Provision for unearned premiums	700,000	-	700,000
Other liabilities	3,232	290	3,522
Profit/(loss)			
Change in the gross provision for unearned premiums	(89,914)	-	(89,914)
Finance income	-	341,699	341,699
Finance costs	-	(33,370)	(33,370)
Other expenses	(38,789)	(3,405)	(42,194)