National Investment Coporation of the National Bank of Kazakhstan JSC

Financial Statements
for the year ended 31 December 2019

Contents

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Independent Auditors' Report

To the Board of Directors of National Investment Corporation of the National Bank of Kazakhstan JSC

Opinion

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

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

Basis for Opinion

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional 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. МФ-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

4 March 2020

	Note	2019 KZT'000	2018 KZT'000
Interest income calculated using the effective interest method	5	2,636,154	2,618,493
Operating expenses	6	(1,605,687)	(1,829,048)
Commission income from services provided	7	3,049	3,044
Other expenses		(10,012)	(10,978)
Profit before income tax		**1,023,504**	**781,511**
(Expense) income tax benefit	8	(10,211)	6,957
Profit for the year		**1,013,293**	**788,468**
Other comprehensive income, net of income tax			
Items that are or may be reclassified subsequently to profit or loss:			
Movement in fair value reserve (debt instruments):			
- Net change in fair value		-	11,088
Total items that are or may be reclassified subsequently to profit or loss		-	*11,088*
Other comprehensive income for the year, net of income tax		**-**	**11,088**
Total comprehensive income for the year		**1,013,293**	**799,556**

The financial statements as set out on pages 6 to 34 were approved by management on 4 March 2020 and were signed on its behalf by:

Tajiyakov G.B.
Chairman of the Board

Kishibayeva K. N.
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	31 December 2019 KZT'000	31 December 2018 KZT'000
ASSETS			
Cash and cash equivalents	9	1,304,854	3,235,221
Investment securities	10	39,876,053	37,816,155
Property, equipment and intangible assets		70,086	51,132
Other assets		191,614	159,551
Total assets		**41,442,607**	**41,262,059**
LIABILITIES			
Other liabilities	11	363,063	413,246
Total liabilities		**363,063**	**413,246**
EQUITY	12		
Share capital		40,000,000	40,000,000
Additional paid-in capital		66,189	60,311
Retained earnings		1,013,355	788,502
Total equity		**41,079,544**	**40,848,813**
Total liabilities and equity		**41,442,607**	**41,262,059**

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

	2019 KZT'000	2018 KZT'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	2,746,678	2,812,588
Commission from trust management receipts	3,043	2,650
Other expense payments	(10,012)	(10,977)
Personnel expenses paid	(917,314)	(1,080,351)
Other general administrative expenses payments	(714,930)	(698,119)
Increase in operating assets		
Other assets	(43,740)	(43,015)
Net cash flows from operating activities	**1,063,725**	**982,776**
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of investment securities	(7,772,522)	-
Proceeds from sale and redemption of investment securities	5,602,100	403,258
Purchases of property, equipment and intangible assets	(35,230)	(18,650)
Net cash from/(used in) investing activities	**(2,205,652)**	**384,608**
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of dividends	(788,440)	(1,316,240)
Net cash used in financing activity	**(788,440)**	**(1,316,240)**
Net increase/(decrease) in cash and cash equivalents	**(1,930,367)**	**51,144**
Cash and cash equivalents as at the beginning of the year	3,235,221	3,184,077
Cash and cash equivalents as at the end of the year (Note 9)	**1,304,854**	**3,235,221**

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**	**Fair value reserve**	**Retained earnings**	**Total equity**
Balance as at 1 January 2018	40,000,000	56,819	(11,088)	1,316,274	41,362,005
Impact of adopting IFRS 9 as at 1 January 2018	-	-	-	-	-
Restated balance as at 1 January 2018	**40,000,000**	**56,819**	**(11,088)**	**1,316,274**	**41,362,005**
Total comprehensive income					
Profit for the year	-	-	-	788,468	788,468
Other comprehensive income					
Items that are or may be reclassified subsequently to profit or loss:					
Fair value reserve (debt instruments):					
Net change in fair value of investment securities measured at fair value through other comprehensive income	-	-	11,088	-	11,088
Total items that are or may be reclassified subsequently to profit or loss	-	-	*11,088*	-	*11,088*
Total other comprehensive income	-	-	11,088	-	11,088
Total comprehensive income for the year	-	-	**11,088**	**788,468**	**799,556**
Transactions with owners, recorded directly in equity					
Gratuitously received property and services	-	3,492	-	-	3,492
Dividends paid (Note 12(c))	-	-	-	(1,316,240)	(1,316,240)
Total transactions with owners	-	**3,492**	-	**(1,316,240)**	**(1,312,748)**
Balance as at 31 December 2019	**40,000,000**	**60,311**	-	**788,502**	**40,848,813**
Balance as at 1 January 2019	40,000,000	60,311	-	788,502	40,848,813
Total comprehensive income					
Profit and other comprehensive income for the year	-	-	-	1,013,293	1,013,293
Transactions with owners, recorded directly in equity					
Gratuitously received property and services	-	5,878	-	-	5,878
Dividends paid (Note 12(c))	-	-	-	(788,440)	(788,440)
Total transactions with owners	-	**5,878**	-	**(788,440)**	**(782,562)**
Balance as at 31 December 2019	**40,000,000**	**66,189**	-	**1,013,355**	**41,079,544**

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

National Investment Corporation of the National Bank of Kazakhstan JSC (the "Company") was established in the Republic of Kazakhstan as a joint-stock company in 2012, the state registration certificate of legal entity № 798-1910-06-AO dated 25 June 2012 (as amended on 31 January 2017).

The Company principal activities are the trust management of the assets of the National Fund of the RK, gold and currency reserves of the National Bank of the Republic of Kazakhstan (the "NBRK"), pension assets and other assets, in accordance with the procedure established by the laws of the RK.

The Company carried out its activities on the securities market under the state license No. 4.1.4.110 dated 20 December 2012 to manage the investment portfolio issued by the NBRK. Due to changes made to the Law on the Securities Market, starting from 15 May 2015 the Company has been operating without the state license.

The Company's registered office is 136 Dostyk Avenue, 050051, Almaty, Republic of Kazakhstan.

The sole shareholder of the Company is the NBRK (the "Parent Company"). The majority of funding is from the Parent Company. As a result, the Company is economically dependent on the Parent Company. In addition, the Company's activities are closely linked with the Parent Company's requirements. Related party transactions are described in detail in Note 17.

In accordance with the terms and conditions of agreement on trust management of a part of the gold and currency reserves of the NBRK concluded between the Company and the NBRK, on 18 June 2015 the NBRK established special purpose entity (the "Fund") to implement the program of investment in the alternative investments. The Company owns the voting shares of the Fund of the nominal value of USD 100 (KZT 19 thousand) and manages its assets. The value of shares was converted into KZT using the exchange rate at the date of transaction. In the statement of financial position these investments are recognised in other assets.

Although the Company manages the Fund's assets the Company is not exposed to risk of variable returns from the Fund as all the economic benefits from the investments made by the Fund are received directly by the NBRK. In fact, the Company acts as an agent as there is no a linkage element between the powers the Company exercise and returns. Accordingly, the Fund is not consolidated by the Company in accordance with IFRS 10 *Consolidated Financial Statements*.

(b) 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 emerging market characteristics. Legal, tax and regulatory frameworks continue to develop, but are subject to varying interpretations and frequent changes that, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in Kazakhstan. The financial statements reflect the management's assessment of the impact of the Kazakhstan business environment on the operations and financial position of the Company. The future business environment may differ from the 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 16 *Leases* has been applied. Changes to significant accounting policies are described in Note 2(e).

(b) Basis of measurement

The financial statements are prepared on the historical cost basis.

(c) Functional and presentation currency

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

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

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

(d) 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.

Assumptions and estimations uncertainty

Information about significant assumptions and estimation uncertainties made in these financial statements for year ended 31 December 2019 is included in the following notes:

- impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information – Note 4;
- consolidation of the Fund – Note 1(a);
- estimates of fair values of financial assets and liabilities – Note 18.

(e) Changes in accounting policies and presentation

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

IFRS 16 introduces a single, on-balance sheet lease 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.

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

The Company applied the practical expedient, in particular, did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application, to grandfather the definition of a lease on transition. This means that it applied IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

The Company has analysed the requirements of the standard and concluded that new standard has no significant impact on the financial statements of the Company.

3 Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these financial statements, except as explained below, related to the Company's adoption of IFRS 16 (Note 2(e)), which is applicable from January 2019.

(a) Foreign currency

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 year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting year.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in profit or loss.

(b) Interest

Effective interest rate

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

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

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

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

Amortised cost and gross carrying amount

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

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(d)(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.

(c) Cash and cash equivalents

Cash and cash equivalents include cash, the Company's current accounts held with the NBRK, and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Company in the management of short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(d) Financial assets and financial liabilities

(i) Classification

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

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

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

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

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

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

- interest 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.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment-by-investment basis.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss (see Note 3(d)(ii)) unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in other comprehensive income. Cumulative gains and losses recognised in other comprehensive income are transferred to retained earnings on disposal of an investment.

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 made 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;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

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

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

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

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

Reclassification

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

(ii) Derecognition

Financial assets

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

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

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. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognised as a separate asset or liability.

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.

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

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.

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

- change the currency of the financial asset;
- inclusion of conversion feature.

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

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

If such a modification is carried out because of financial difficulties of the borrower (see Note 3(d)(iv)), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest method. (see Note 3(b)).

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 performs a quantitative and qualitative evaluation of whether the modification is substantial considering qualitative factors, quantitative factors and 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;
- inclusion of conversion option;
- change in the subordination of the financial liability.

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

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

(iv) Impairment

See also Note 4.

The Company recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments.

No impairment loss is recognised on equity investments.

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

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition (see Note 4).

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

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

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised are referred to as 'Stage 2' financial instruments.

Measurement of ECL

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

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

Restructured financial assets

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

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset (see Note 4).
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired (referred to as 'Stage 3 financial assets'). 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.

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

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.

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

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.

Write-offs

Debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Company determines that the emitter 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.

(e) Investment securities

The 'investment securities' caption in the statement of financial position includes:

- debt investment securities measured at amortised cost (see Note 3(d)(i)); these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

(f) Property, plant and equipment

(i) Owned assets

Items of property and equipment are stated 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) Lease

Policy applicable from 1 January 2019

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term (see Note 2 (e)).

Policy applicable before 1 January 2019

Where the Company is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Company, the total lease payments are charged to profit or loss for the year (as lease expenses) on a straight-line basis over the period of the lease.

(iii) 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:

- equipment	5 to 12 years;
- fixtures and fittings	5 to 25 years;
- motor vehicles	5 to 7 years;
- computer software	3 to 5 years.

(g) Intangible assets

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

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

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 1 to 10 years.

(h) Share capital

(i) Ordinary shares

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

(ii) 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.

(i) 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 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.

Deferred tax assets and liabilities are recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are not recognised for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit.

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

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(j) Standards issued but not yet adopted

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

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

- IFRIC 23 *Uncertainty over Tax Treatments;*
- *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19);*
- *Annual Improvements to IFRS Standards 2015-2017 Cycle – various standards;*
- *Amendments to References to Conceptual Framework in IFRS Standards;*
- IFRS 17 *Insurance Contracts.*

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 13.

Credit risk - Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 3(d)(iv).

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).

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

- quantitative test based on movement in probability of default (PD);
- qualitative indicators; and
- backstop of 30 days past due.

Credit risk grades

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

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

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

Corporate exposure	All exposures (corporate and retail exposures)
• Data from credit reference agencies, press articles, changes in external credit ratings	• Requests for and granting of forbearance
• Quoted bond and credit default swap (CDS) prices for the borrower where available	• Existing and forecast changes in business, financial and economic conditions
• Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities	

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 and by type of product and borrower/issuer as well as by credit risk grading. For some portfolios, information purchased from external credit reference agencies is also used.

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

Determining whether credit risk has increased significantly

The Company assesses whether credit risk has increased significantly since initial recognition at each reporting period. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower/issuer, and the geographical region. What is considered significant will differ for different types of lending, in particular between corporate and retail.

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

As a backstop, the 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. Due dates are determined without considering any grace period that might be available to the borrower.

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

Definition of default

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

- the borrower/issuer is unlikely to pay its credit obligations to the Company in full;
- the borrower/issuer is past due more than 90 days on any material credit obligation to the Company; or
- it is becoming probable that the borrower/issuer will restructure the asset as a result of bankruptcy due to the inability to pay its credit obligations;
- due from bank exposures and securities are past due more than 7 days.

In assessing whether a borrower/issuer is in default, the Company considers indicators that are:

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

Incorporation of forward-looking information

The Company incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL. External information used may include economic data and forecasts published by governmental bodies and monetary authorities.

The Company uses – based on data availability and credibility of sources – an analysis of historical data to estimate relationships between macro-economic variables and credit risk and credit losses. The key drivers may include variables such as interest rates, unemployment rates, GDP forecasts and other.

Modified financial assets

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

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

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

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants.

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

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired (see Note 3(d)(iv)). A customer needs to demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

Measurement of ECL

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

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

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

The methodology of estimating PDs is discussed above under the heading "Generating the term structure of PD".

The Company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

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 and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Company measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Company considers a longer period.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics, such as product type and credit risk grading (past due grading).

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

For portfolios in respect of which the Company has limited historical data, external benchmark information is used to supplement the internally available data.

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

		External benchmarks used	
	Exposure at 31 December 2019	**PD**	**LGD**
Cash and cash equivalents	1,304,854	Fitch's default study	From 45% to 100% depending on type of collateral;
Investment securities	39,876,053		
Other financial assets	3,049	-	0% - if counteragent is Government of the Republic of Kazakhstan

Credit quality analysis

The following tables sets out information about the credit quality of financial assets measured at amortised cost as at 31 December 2019 and 2018. Unless specially indicated, for financial assets, the amounts in the table represent gross carrying amounts.

Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in Note 3(d)(iv).

KZT'000	**31 December 2019** **Stage 1** **12-month ECL**	**Stage 2** **Lifetime ECL not credit-impaired**	**Stage 3** **Lifetime ECL credit-impaired**	**Total**
Cash and cash equivalents				
National Bank of the Republic of Kazakhstan	1,304,854	-	-	1,304,854
	1,304,854	**-**	**-**	**1,304,854**
Loss allowance	-	-	-	-
Carrying amount	**1,304,854**	**-**	**-**	**1,304,854**
Investment securities				
Investment securities measured at amortised cost:				
rated BBB-	39,876,053	-	-	39,876,053
	39,876,053	**-**	**-**	**39,876,053**
Loss allowance	-	-	-	-
Carrying amount	**39,876,053**	**-**	**-**	**39,876,053**
Other financial assets				
Not overdue	3,049	-	-	3,049
	3,049	**-**	**-**	**3,049**
Loss allowance	-	-	-	-
Carrying amount	**3,049**	**-**	**-**	**3,049**

KZT'000	**31 December 2018** **Stage 1** **12-month ECL**	**Stage 2** **Lifetime ECL not credit-impaired**	**Stage 3** **Lifetime ECL credit-impaired**	**Total**
Cash and cash equivalents				
National Bank of the Republic of Kazakhstan	3,235,221	-	-	3,235,221
	3,235,221	**-**	**-**	**3,235,221**
Loss allowance	-	-	-	-
Carrying amount	**3,235,221**	**-**	**-**	**3,235,221**
Investment securities				
Investment securities measured at amortised cost:				
rated BBB-	37,816,155	-	-	37,816,155
	37,816,155	**-**	**-**	**37,816,155**
Loss allowance	-	-	-	-
Carrying amount	**37,816,155**	**-**	**-**	**37,816,155**
Other financial assets				
Not overdue	3,044	-	-	3,044
	3,044	**-**	**-**	**3,044**
Loss allowance	-	-	-	-
Carrying amount	**3,044**	**-**	**-**	**3,044**

5 Interest income calculated using the effective interest method

	2019 KZT'000	2018 KZT'000
Interest income on financial assets recorded at amortised cost:		
Investment securities measured at amortised cost	2,400,703	2,317,131
Cash and cash equivalents:		
Term deposits	235,451	281,620
	2,636,154	**2,598,751**
Interest income on financial assets recorded at fair value:		
Investment securities measured at fair value through other comprehensive income	-	19,742
	-	**19,742**
Total interest income calculated using the effective interest method	**2,636,154**	**2,618,493**

6 Operating expenses

	2019 KZT'000	2018 KZT'000
Salary and related taxes	864,660	1,119,030
Communications and information services	331,497	287,821
Professional services	172,735	169,056
Business trips	95,072	114,020
Taxes other than on income	55,701	49,987
Training expenses	23,228	38,353
Depreciation and amortisation	16,266	12,106
Transportation	12,741	9,687
Stationery and office supplies	7,162	5,593
Insurance	6,587	5,419
Repairs and maintenance	6,081	4,025
Operating lease expense	4,540	4,540
Representation expenses	3,108	3,480
Utilities	2,994	3,094
Security	1,310	884
Other	2,005	1,953
	1,605,687	**1,829,048**

7 Commission income from services provided

The entire amount of income from services provided relates to a management fee received under the agreement on trust management of a part of the gold and currency reserves concluded with the NBRK in 2013. In 2019 and 2018 the annual fee was calculated as a fixed amount of USD 8,000 translated into KZT using the official exchange rate of the NBRK at the end of the reporting year.

8 Expense (income) tax benefit

	2019 KZT'000	2018 KZT'000
Movement in deferred tax assets due to origination and reversal of temporary differences	(10,211)	6,957
Total income tax benefit (expense)	**(10,211)**	**6,957**

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

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

	2019 KZT'000	%	2018 KZT'000	%
Profit before income tax	**1,023,504**		**781,511**	
Income tax at the applicable tax rate	(204,701)	(20.0)	(156,302)	(20.0)
Non-taxable income on state securities	199,909	19.5	173,185	22.2
Non-deductible expenses	(5,419)	(0.5)	(9,926)	(1.3)
	(10,211)	**(1.0)**	**6,957**	**0.9**

Deferred tax asset and liability

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 as at 31 December 2019 and 2018. Future tax benefits will only be realised if profits will be available against which unused tax losses can be utilised and there are no changes to the Kazakh law and regulations that adversely affect the Company's ability to claim deductions in future periods.

Movements in temporary differences during the years ended 31 December 2019 and 2018 are presented as follows.

KZT'000	Balance 1 January 2019	Recognised in profit or loss	Recognised in equity	Balance 31 December 2019
Property, equipment and intangible assets	(2,735)	(1,534)	-	(4,269)
Other liabilities	81,831	(8,677)	(1,471)	71,683
	79,096	**(10,211)**	**(1,471)**	**67,414**

KZT'000	Balance 1 January 2018	Recognised in profit or loss	Recognised in equity	Balance 31 December 2018
Property, equipment and intangible assets	(1,982)	(753)	-	(2,735)
Other liabilities	74,994	7,710	(873)	81,831
	73,012	**6,957**	**(873)**	**79,096**

Income tax recognised directly in equity

KZT'000	2019	2018
Gratuitously received services and property from the shareholder	1,471	873

9 Cash and cash equivalents

	31 December 2019 KZT'000	31 December 2018 KZT'000
Nostro accounts with the NBRK	28,570	38,448
Nostro accounts with the NBRK	**28,570**	**38,448**
Loss allowance	-	-
Net total nostro accounts with the NBRK	**28,570**	**38,448**
Cash equivalents		
Term deposits with the NBRK with maturity less than 90 days	1,276,284	3,196,773
Total term deposits with the NBRK	**1,276,284**	**3,196,773**
Loss allowance	-	-
Net total term deposits with the NBRK	**1,276,284**	**3,196,773**
Total cash equivalents	**1,276,284**	**3,196,773**
Total cash and cash equivalents	**1,304,854**	**3,235,221**

Based on the trust management agreement No. 77 НБ/15 of 01 March 2017, the Company transferred under trust management its own assets (the securities and part of cash) for investing and reinvesting. As at 31 December 2019, the amount of cash under trust management of NBRK is KZT 1,276,284 thousand.

As at 31 December 2019 there is no provision for expected credit losses on cash and cash equivalents (31 December 2018: nil).

All cash and cash equivalents are included in Stage 1 of the credit risk grade.

10 Investment securities

	31 December 2019 KZT'000	31 December 2018 KZT'000
Investment securities measured at amortised cost	39,876,053	37,816,155
Total investment securities	**39,876,053**	**37,816,155**

Investment securities measured at amortised cost

The total amount of investment securities measured at amortised cost is represented by government securities of the Ministry of Finance and National Bank of the Republic of Kazakhstan denominated in KZT, and rated BBB-, with maturities in 2034 and 2020, respectively.

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

In accordance with the Investment Policy, the Company holds these securities within a business model to collect contractual cash flows. The published price quotations for substantially the same debt securities with identical terms are available from the local stock exchange.

As at 31 December 2019 there is no provision for expected credit losses on investment securities measured at amortised cost (31 December 2018: nil).

All investment securities measured at amortised cost are included in Stage 1 of the credit risk grade.

11 Other liabilities

	2019 KZT'000	2018 KZT'000
Payables to suppliers	13,272	10,801
Total other financial liabilities	**13,272**	**10,801**
Bonus and vacation reserves	349,791	402,445
Total other non financial liabilities	**349,791**	**402,445**
Total other liabilities	**363,063**	**413,246**

12 Share capital and reserves

(a) Issued capital

As at 31 December 2019 and 2018 the authorised, issued and outstanding share capital comprises 4,000,000 ordinary shares. All shares have a nominal value of KZT 10,000.

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

(b) Additional paid-in capital

Additional paid-in capital represents property, lease out of office buildings and provision of other services received on a gratuitous basis from the Company's shareholder, net of income tax.

(c) Dividends

In accordance with the legislation of the Republic of Kazakhstan, 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. A distribution cannot be made if this would result in negative equity or the Company's insolvency. In 2019, the Company declared and paid dividends in the amount of KZT 788,440 thousand, KZT 197.11 per one ordinary share (2018: KZT 1,316,240 thousand, KZT 329.06 per one ordinary share).

(d) Fair value reserve

The fair value reserve for investment securities measured at fair value through other comprehensive income comprises the cumulative net change in the fair value, until the assets are derecognised or impaired.

13 Risk management

(a) Risk management policies and procedures

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

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

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

The Management Board is responsible for monitoring and implementation of risk mitigation measures and making sure that the Company operates within established risk parameters. The risk manager 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. Both external and internal risk factors are identified and managed throughout the Company's organisational structure.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate 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, while optimising the return, received for the risk assumed.

Overall authority for market risk is vested in the Department of Risk Management.

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

KZT'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2019							
ASSETS							
Cash and cash equivalents	1,276,285	-	-	-	-	28,569	1,304,854
Investment securities measured at amortised cost	1,296,847	2,559,932	-	-	36,019,274	-	39,876,053
Other assets	-	-	-	-	-	3,049	3,049
Total assets	**2,573,132**	**2,559,932**	**-**	**-**	**36,019,274**	**31,618**	**41,183,956**
LIABILITIES							
Other financial liabilities	-	-	-	-	-	13,272	13,272
Total liabilities	**-**	**-**	**-**	**-**	**-**	**13,272**	**13,272**
Net position	**2,573,132**	**2,573,132**	**-**	**-**	**36,019,274**	**18,346**	**41,170,684**
31 December 2018							
ASSETS							
Cash and cash equivalents	3,196,773	-	-	-	-	38,448	3,235,221
Investment securities measured at amortised cost	-	1,590,443	-	-	36,225,712	-	37,816,155
Other assets	-	-	-	-	-	3,044	3,044
Total assets	**3,196,773**	**1,590,443**	**-**	**-**	**36,225,712**	**41,492**	**41,054,420**
LIABILITIES							
Other financial liabilities	-	-	-	-	-	10,801	10,801
Total liabilities	**-**	**-**	**-**	**-**	**-**	**10,801**	**10,801**
Net position	**3,196,773**	**1,590,443**	**-**	**-**	**36,225,712**	**30,691**	**41,043,619**

Average effective interest rate

The table below displays average effective interest rates for financial assets and financial liabilities as at 31 December 2019 and 2018:

	Average effective interest rate,%	
	Tenge	
	2019	2018
Cash and cash equivalents:		
Short-term deposits with NBRK	8.75	8.25
Investment securities measured at amortised cost (held-to-maturity investments)	6.36	6.36

Interest rate sensitivity analysis

An analysis of sensitivity of profit or loss and equity (net of taxes) to changes in interest rates (repricing risk) based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest bearing assets and liabilities existing as at 31 December 2019 is as follows:

	2019	2018
	Equity KZT'000	Equity KZT'000
100 bp parallel fall	36,794	35,112
100 bp parallel rise	(36,794)	(35,112)

(ii) Currency risk

As at 31 December 2019 and 2018 the Company's assets and liabilities were denominated in tenge.

(c) Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company has policies and procedures in place to manage credit exposures (both for recognised financial assets and unrecognised contractual commitments).

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the statement of financial position. As at 31 December 2019 and 2018 there were no financial assets past due or impaired.

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

	2019 KZT'000	2018 KZT'000
ASSETS		
Cash and cash equivalents	1,304,854	3,235,221
Investment securities measured at amortised cost (held-to-maturity investments)	39,876,053	37,816,155
Other assets	3,049	3,044
Total maximum exposure to credit risk	**41,183,956**	**41,054,420**

Offsetting financial assets and financial liabilities

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

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

This means that securities received/given as collateral can be pledged or sold during the term of the transaction but must be returned on maturity of the transaction. The terms also give each counterparty the right to terminate the related transitions upon the counterparty's failure to post collateral.

There are no financial assets and financial liabilities subject to enforceable master netting arrangements and similar arrangements as at 31 December 2019.

(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. 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 maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. The liquidity procedure is reviewed and approved by the Management Board.

As at 31 December 2019 and 2018 the Company's financial assets exceeded financial liabilities and the Company did not have significant liquidity risk exposures.

14 Capital management

The Company has no formal policy for capital management but management seeks to maintain a sufficient capital base for meeting the Company's operational and strategic needs, and to maintain confidence of market participants. This is achieved with efficient cash management, constant monitoring of Company's revenues and profit, and long-term investment plans mainly financed by the Company's operating cash flows. With these measures the Company aims for steady profits growth.

Due to changes to the Laws on the Securities Market during 2015 the Company operates without the state license, as a result, no any regulatory capital requirements are applicable as at 31 December 2019.

15 Contingencies

(a) Insurance

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

(b) Litigation

Management is unaware of any significant actual, pending or threatened claims against the Company.

(c) 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 the Republic of Kazakhstan that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Kazakhstan tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

16 Trust management

The Company provides services on trust management of the assets to the Parent Company, whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer. The Company receives fee income for providing these services. Trust assets are not assets of the Company and are not recognised in the statement of financial position. The Company is not exposed to any credit risk related to such placements, as it does not guarantee these investments.

17 Related party transactions

(a) Control relationships

As at 31 December 2019 and 2018, the Company is wholly owned by the NBRK. The ultimate controlling party is the Government of the Republic of Kazakhstan.

Publicly available financial statements are produced by the Company's Parent Company.

(b) Transactions with members of the key management personnel

Total remuneration included in personnel expenses for the years ended 31 December 2019 and 2018 is as follows:

	2019 KZT'000	**2018 KZT'000**
Salary expense	136,385	161,278
Salary related taxes	12,199	14,666
	148,584	**175,944**

The outstanding balances as of 31 December 2019 and 31 December 2018 with members of the key management personnel are as follows:

	2019 KZT'000	**2018 KZT'000**
Statement of financial position		
Other liabilities	52,719	44,530

(c) Transactions with other related parties

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

	Parent Company KZT'000	Other subsidiaries of the Parent Company KZT'000	State organisations KZT'000	Total KZT'000
Statement of financial position				
ASSETS				
Cash and cash equivalents	1,304,854	-	-	1,304,854
Investment securities measured at amortised cost	-	-	39,876,053	39,876,053
Other assets	3,049	-	181,090	184,139
LIABILITIES				
Other liabilities	(1,325)	(2,515)	-	(3,840)
Profit or loss				
Interest income calculated using the effective interest method	-	-	2,636,154	2,636,154
Operating expenses	(11,478)	(19,972)	(118,395)	(149,845)
Commission income from services provided	3,049	-	-	3,049
Other expenses	(10,012)	-	-	(10,012)
Income tax benefit	-	-	(10,211)	(10,211)

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

	Parent Company KZT'000	Other subsidiaries of the Parent Company KZT'000	State organisations KZT'000	Total KZT'000
Statement of financial position				
ASSETS				
Cash and cash equivalents	3,235,221	-	-	3,235,221
Investment securities measured at amortised cost	-	-	37,816,155	37,816,155
Other assets	3,044	-	150,651	153,695
LIABILITIES				
Other liabilities	(881)	(1,888)	-	(2,769)
Profit or loss				
Interest income calculated using the effective interest method	-	-	2,618,493	2,618,493
Operating expenses	(15,472)	(16,066)	(119,920)	(151,458)
Commission income from services provided	3,044	-	-	3,044
Other expenses	(10,977)	-	-	(10,977)
Income tax benefit	-	-	6,957	6,957
Other comprehensive income, net of income tax				
Movement in fair value reserve (debt instruments):				
- Net amount reclassified to profit or loss	-	-	11,088	11,088

The majority of balances resulting from transactions with related parties mature within one year. Transactions with related parties are not secured.

18 Financial assets and liabilities fair values and accounting classifications

(a) Accounting classifications and fair values

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

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

The estimated fair values of all financial instruments of the Company approximate their carrying values.

(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.

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

KZT'000	**Level 2**	**Total fair value**	**Total carrying amount**
Assets			
Cash and cash equivalents	1,304,854	1,304,854	1,304,854
Investment securities measured at amortised cost	30,303,437	30,303,437	37,609,717
Other assets - Short-term commission receivable from the NBRK	3,049	3,049	3,049

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

KZT'000	**Level 2**	**Total fair value**	**Total carrying amount**
Assets			
Cash and cash equivalents	3,235,221	3,235,221	3,235,221
Investment securities measured at amortised cost	32,139,246	32,139,246	37,816,155
Other assets - Short-term commission receivable from the NBRK	3,044	3,044	3,044