2019

ANNUAL REPORT

Contents:

ҚАЗАҚСТАН ХАЛЫҚ БАНКІ
HALYK BANK
НАРОДНЫЙ БАНК КАЗАХСТАНА

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GLOSSARY

Glossary

1	Altyn Bank	Altyn Bank JSC (SB of China Citic Bank Corporation Ltd)
2	AML/CTF	Anti-Money Laundering and Countering Financing of Terrorism
3	BCC	Branch credit committee
4	BNCC	Branch network credit committee
5	Business Roadmap – 2020	The "Road Map for Business 2020" Unified Programme for Supporting Entrepreneurship and Business Development
6	CITIC Bank	China CITIC Bank Corporation Limited
7	GDR	Global Depositary Receipt
8	Halyk Bank, the Bank	Halyk Bank of Kazakhstan
9	Halyk Group, the Group	Halyk Bank Group of Companies
10	IS	Information security
11	IT	Information technology
12	KASE	Kazakhstan Stock Exchange
13	KKB	Kazkommertsbank
14	Retail Credit Committee	Retail Credit Committee of the Head Bank
15	RK	Republic of Kazakhstan
16	SCC	Small credit committee of the regional branch
17	SME	Small and medium enterprises
18	SPV	Special purpose vehicle

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AT A GLANCE

At a glance

Financial highlights (consolidated basis)

Key figures	01.01.2020		01.01.2019	
	KZT million	US$ million*	KZT million	US$ million*
Loans to customers	3,752,445	9,844	3,481,079	9,061
Total assets	9,234,758	24,227	8,959,024	23,319
Amounts due to customers	6,406,413	16,807	6,526,930	16,988
Debt securities issued	834,446	2,189	900,791	2,345
Amounts due to credit institutions	305,965	803	168,379	438
Total equity	1,307,223	3,429	1,065,646	2,774

Key figures	2019		2018	
	KZT million	US$ million**	KZT million	US$ million**
Net interest income	367,924	961	316,274	917
Fee and commission income	123,256	322	113,241	328
Operating expenses (including impairment loss on non-financial assets)	(149,655)	(391)	(164,531)	(477)
Net income	334,511	874	254,238	737

Key ratios	2019	2018
Return on average common equity	28.8%	27.9%
Return on average assets	3.7%	3.0%
Net interest margin	5.3%	5.1%
Net interest spread	5.2%	5.2%
Cost-to-income	26.0%	31.7%
Cost-to-average assets	1.7%	1.9%
CET1 capital adequacy ratio (CET1)	20.6%	18.5%
Tier 1 capital adequacy ratio	20.6%	18.5%
Total capital adequacy ratio	21.9%	19.9%

Number of customers/accounts

Key ratios	01.01.2020	01.01.2019
Retail accounts (active), thousands	7,695	7,239
Performing SME loan borrowers	5,563	4,885
Corporate customers	2,884	2,670
Payment cards, thousands	9,055	9,332
Retail loans, thousands	839	848
Mortgage loans, thousands	36	39
Other secured and unsecured consumer loans, thousands	803	809
Internet banking users, thousands		
— Individuals	4,241	3,585
— Legal entities	162	131

* Calculated using the official National Bank of Kazakhstan rate on the corresponding date

** Calculated using the official National Bank of Kazakhstan average rate for the corresponding period

Distribution network

Halyk Bank	626 outlets, including:
	24 regional branches
	120 sub-regional offices
	111 personal service centres
	3 VIP centres
	52 VIP centres
	282 cash settlement units
	34 business centres (corporate customers)
	4,459 ATMs
	88,463 POS terminals
	1,000 payment terminals
	32 multi-service kiosks

Halyk Insurance Company	18 branches and 207 points of sale
Halyk Life	18 branches and 7 representative offices
Halyk Finance	1 branch
Halyk Leasing	1 branch and 1 representative office
Halyk Collection	Cash collection department (Almaty), 18 branches and 36 offices
Halyk Bank Kyrgyzstan	10 branches and 8 cash settlement units
Halyk Bank Georgia	8 branches
Moskommertsbank	2 branches and 5 additional offices
Halyk Bank Tajikistan	1 branch and 10 outlets
Kazteleport	22 regional offices

As of 31 December 2019, Halyk Group had 16,387 full-time equivalent employees.

Structure of Halyk Group

Holding Group ALMEX

65.1%

Halyk Bank

Halyk Bank Georgia 100%	Moskommertsbank 100%	Tenge Bank 100%	Halyk Bank Tajikistan 100%
Halyk Finance 100%	Halyk Bank Kyrgyzstan 100%	Halyk Insurance Company 99.99%	Halyk Life 100%
Kazteleport 100%	Kazkommerts Securities 100%	Halyk Collection 100%	Halyk Leasing 100%
Halyk Project 100%	Halyk Finservice 100%	Halyk Aktiv 1 100%	KUSA Halyk 100%
	Halyk Aktiv 100%		

As of the date of publication of this annual report:

- Halyk Bank's stake in Altyn Bank (a subsidiary of China Citic Bank Corporation Ltd) is 40%
- Halyk Bank's stake in First Credit Bureau is 38.8%

Information about shareholders of Halyk Group with at least 5% of Halyk Bank's common shares issued as of 1 January 2020[1]:

Name	Common shares	Proportion of total shares in circulation
Total shares authorised	25,000,000,000	-
Holding Group ALMEX	7,583,538,228	65.1%
Unified Accumulative Pension Fund	718,054,740	6.2%
GDRs (ISIN: US46627J3023/US46627J2033)	3,001,602,000	25.7%
Other	353,390,222	3.0%
Total shares in circulation	11,656,585,190	100.0%
Shares bought back by the Bank	(1,693,495,385)	-
Shares retained by companies in the Group	(97,464,207)	-
Total shares issued	13,447,544,782	-
Total shares in circulation (as per KASE listing rules)	3,452,430,002	-
Market share price, KZT*	133.37	-

* Market share price as of 31 December 2019, determined and published by KASE (www.kase.kz) on a weekly basis.

Holding Group ALMEX is a holding company that has a controlling interest in Halyk Bank.

The Unified Accumulative Pension Fund (UAPF) collects obligatory pension payments, obligatory professional pension payments and voluntary pension payments and disburses pension payments. It is one of the leading institutional investors on Kazakhstan's stock market and the sole administrator and operator of all financial and information flows of the country's pension system.

The sole shareholder of the UAPF is the State Property and Privatisation Committee of the Ministry of Finance of Kazakhstan.

The state's stake in the UAPF is held in trust by the National Bank of Kazakhstan, which manages its assets jointly with Kazakhstan's Presidential Council for Pension Asset Management. Since 1 January 2016, by decree of the president of Kazakhstan, the functions for developing proposals to improve pension asset management have been transferred to the National Fund Management Council, which is headed by the president of Kazakhstan.

* Common shares of the Bank have been listed on the Kazakhstan Stock Exchange (KASE) since 1998 and common shares in the form of global depositary receipts on the London Stock Exchange (LSE) since 2006.

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BUSINESS MODEL

Business model

Solid financial position, capable of withstanding negative macroeconomic developments

- High level of capitalisation: common equity tier 1 capital adequacy ratio of 20.6%, tier 1 capital adequacy ratio of 20.6% and total capital adequacy ratio of 21.9%
- High level of profitability (return on average equity was an average of 25.5% for 2014-19)
- High level of liquidity: liquid assets to total assets ratio of 44.3%
- High-quality funding base: loans to deposits ratio of 55.5%
- Sufficient provisioning and continuous work to improve asset quality: the share of non-performing loans (overdue by 90 days or more) has been reduced to 6.9%, the provision coverage ratio is 145.2% and the share of Stage 3 loans is down to 16%
- Highest long-term credit ratings among second-tier Kazakh banks with no major overseas shareholders:
  - Moody's Investor Services – Ba1 ('positive' outlook, as of 27 August 2019)
  - Fitch Ratings – BB ('negative' outlook, as of 8 April 2020)
  - Standard & Poor's – BB ('stable' outlook, as of 28 November 2018)

Systemically important financial group in Kazakhstan with a strong market position

- Effective risk management ensures high-quality assets, sustainable profitability and a high level of capitalisation
- Kazakhstan's leading universal financial group, with the largest client base and sales channel network in the country
- Halyk Bank is the undisputed leader in Kazakhstan in terms of assets (total market share of 33.0%), equity (34.2%) and net income (39.9%), while Halyk Group ranks third in terms of assets and second in terms of net income among commercial banks in the CIS, and 10th in terms of assets and fifth in terms of net income in the CIS, including state-owned banks
- Largest payment agent for pensions and social payments (2.5 million customers, market share of 68.5%)
- Active participant in government business-support programmes

Substantial market shares in key business segments

- Largest branch network, with 626 outlets
- Total market share of Halyk Bank among second-tier banks is 34% of retail deposits and 38.99% of retail demand deposits
- Share of corporate deposits among second-tier banks is 37.6%
- Share of gross loans is 28.8%, share of net loans is 29.2%
- Share of retail lending market is 17.3%
- Share of total cards issued is 28%
- Share of letters of credit is 73% [1]
- Share of portfolio of guarantees is 44%i [1]

Solid and low-cost funding base

- 'Safe haven' for deposits during a crisis
- One of the lowest funding rates among second-tier banks
- Deposits comprise 80.8% of the funding base, of which 34.7% are current accounts that pay 0% or low interest (highest share in the market)
- Low debt burden – debt securities comprise just 10.5% of total liabilities

Diversified sources of income and high cost efficiency ratio

- High profitability is supported by diversified commission income inflows, which generated 12.1% of total revenues in 2019
- Strict control of operating expenses: cost-to-income ratio of 26.0% in 2019

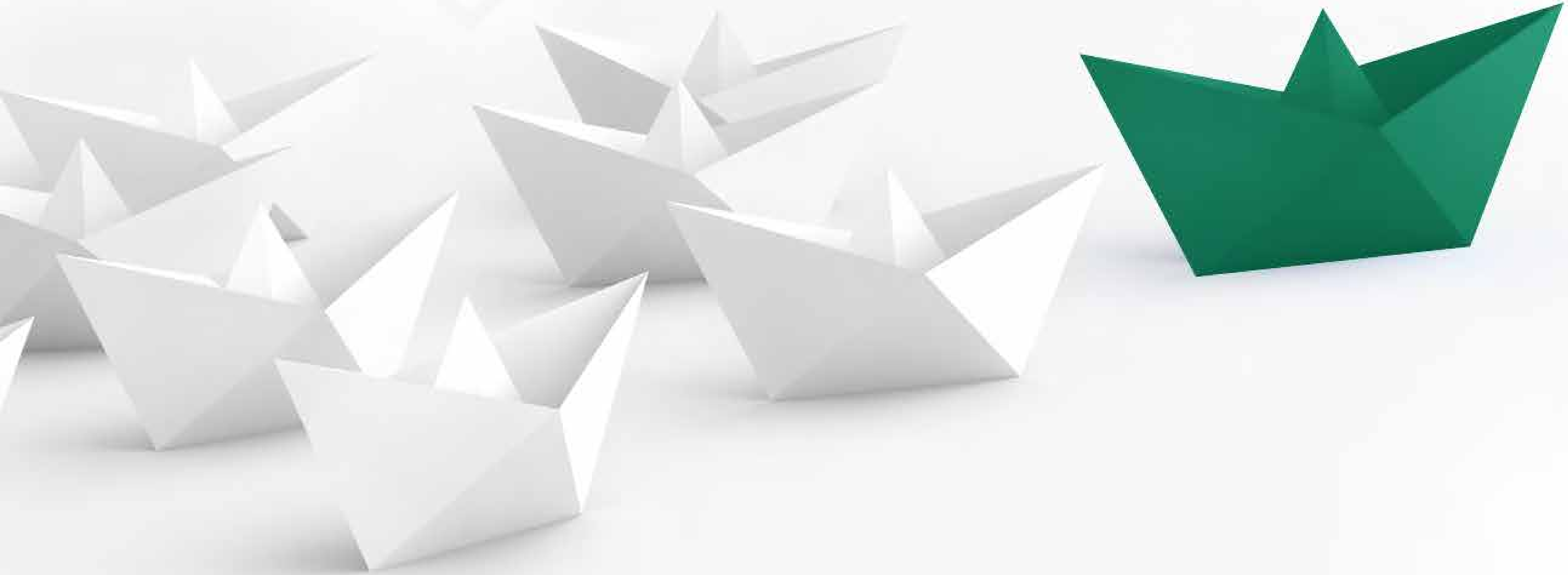
Continuous development of remote and online service channels

- Wide range of remote channels for retail, corporate and SME customers
- Broadest network of 4,459 ATMs for a 39% market share
- Largest provider of acquiring services on Kazakh market with 88,463 POS terminals (every second POS terminal in Kazakhstan is related to Halyk Bank) and 1,000 payment terminals
- Homebank.kz is the leading online banking platform in Kazakhstan with 4.2 million users (81 million transactions in 2019); a total of 17.5-17.9 million monthly online customer visits (80% via mobile banking); and mobile applications are ranked in the top-5 among free mobile applications in the "Finance" categories in Google Play and the App Store
- Advanced online banking platform for corporate customers with 162.3 thousand user

Focus on digitalisation

- In early 2019, Halyk Bank created a special "Go Digital" division and engaged external consultants to develop new strategic digital initiatives
- The ecosystem for customers (retail and corporate) continues to be developed and expanded further using digital services and solutions
- Digitalisation is growing within the Bank: work is ongoing to automate business processes and back office functions

[1] Among top-10 second-tier Kazakh banks



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STATEMENT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS, ALEXANDER PAVLOV

Statement of the Chairman of the Board of Directors, Alexander Pavlov

Dear shareholders, clients and partners,

Once again, Halyk Group has set a record for profitability and is ahead of the guideposts established in our current, three-year strategy for 2019-2021. In 2019, Halyk Group's net profit stood at KZT334.5 billion, higher than the 2018 result by KZT80.3 billion or 31.6%, while the net profit of Halyk Bank amounted to KZT314.6 billion, higher than the 2018 result by KZT33.1 billion or 11.8%.

At the heart of these results are the positive dynamics of revenues from the core business, the introduction of new financial products and an increase in cost efficiency compared to 2018.

In a world of rapidly evolving technology and customer requirements, a key goal is to preserve the reliability and adaptivity of banking systems, the creation of convenient ecosystems and the development of competitive advantages through the introduction of innovative financial products and service technologies, as well as an increase in service quality. In order to achieve these goals, the bank is undertaking the following measures:

- improvement of processes and their maximum possible introduction into remote, self-service channels, as well as the regular addition of new services to Homebank, OnlineBank and HalykZalog[1], where we listen to customer opinions in identifying the need for them, as well as making remote channels more convenient for customers;
- we observe the best practices of both local and foreign banks and make the greatest possible effort to bring our processes in line with best practices, conducting analysis and re-engineering of existing business processes;
- the project HalykGid[2] has been developed and introduced for Bank employees, allowing them find easily any answer to a client's question and, in the same way, fill the gaps in their knowledge of the Bank's products and services. This facilitates increasing the skills of employees, while the Bank also carries out regular training and testing of front-office employees;
- the introduction of innovative solutions for the Contact Centre enabled the Bank to reduce waiting times for operators and helped reduce complaints about problems reaching the Contact Centre;
- we simplified the Bank's product line;
- we are optimising to the maximum possible degree the use of hard-copy paperwork, including making the transition to digital signatures, significantly reducing the processing involved in many client services and products as well as the need for the Bank to sign documents in hard-copy form, in addition to scanning, archiving and storage of paper documents;
- now our clients can order a card, not only through HomeBank, but through the Bank's website, and have the card delivered to anywhere in Kazakhstan. They can also obtain a loan remotely;
- the issuance of cards in Bank branches has become as quick as possible (following the introduction of mobile embossing machines);

[1] HalykCollateral
[2] HalykGuide

- the installation of automatic embossing machines is planned in the near term, which will issue cards to clients upon the customer providing identification, without them having to visit a branch;
- the introduction of chatbots, which can instantly answer a wide range of customer questions, allows for a reduction in the number of calls to the Contact Centre and has led to a drop in the number of negative comments on social networks (Facebook and Instagram);
- for the improvement of client service for small and medium businesses, it is now possible to obtain loan instalments online without visiting branches;
- the introduction of such innovative banking services as:
  - making payments through Apple Pay, Homebank Pay and Samsung Pay;
  - QR code payments for purchases/services from businesses;
  - loyalty programme GO bonus was introduced for all card transactions;
  - banking kiosks for legal entities and individuals.

The stable macroeconomic situation in the Kazakh economy in 2019 provided an incentive for the development of the financial services market, which allowed the Bank and the subsidiary organisations of Halyk Group to offer their clients the most favourable conditions for a wide range of products and services.

In 2019, the Kazakh economy demonstrated a positive GDP growth dynamic, beginning with growth under 4% in the first quarter, accelerating to nearly 5% in the final quarter. Against a background of GDP growth, there was an increase in government spending to 20.4% of GDP (1.6pp year-on-year), parallel with a continuing increase in demand for retail loans that fuelled the expansion and growth of investments.

Widescale budget injections, together with a significant increase in investments in 2019, pushed the economy to a new growth level of 4.5% in 2019, which was higher than the average dynamic of 4.2% over the previous decade. The combination of direct stimulus and administrative measures supported domestic demand, countering the negative impact of the global situation on the oil market, while inflation was maintained at a moderate level of 5.4%, significantly below the multi-year trend.

Domestic consumption maintained high growth rates – investment was up 8.5% and retail trade rose 5.8%. The raw materials sector, energy and housing construction were the main drivers of investment in fixed capital.

The profitability of the banking sector grew significantly by comparison with 2018, amounting to KZT812 billion in 2019 (+28%).

The total loan portfolio of Kazakh banks increased its growth rate in 2019, having added 7.1% by comparison with 1.3% in 2018, and amounted to KZT14.7 trillion. The retail portfolio expanded by 26.8% to KZT6.3 trillion compared to the previous year (+17.2% in 2018) through 24.4% growth in consumer loans to KZT4.4 trillion and the expansion of mortgage loans by 33.8% to KZT1.8 trillion. Loans to legal entities grew by 4.5% year-on-year to KZT4.1 trillion, while the SME portfolio fell by 13.3% to KZT4.0 trillion, which led to an overall reduction in business lending by 5%. As a result, the share of loans to businesses in the total volume of loans fell to 54.7% (61.7% in 2018).

Unfortunately, despite the acceleration of growth in loan volumes, the loan portfolio of the banking sector increased primarily due to the aggressive growth of consumer lending combined with the simultaneous reduction of lending to the real economy. In 2019, the retail portfolio of the banking sector grew by 25.6%, compared with 16.8% in 2018, when the corporate portfolio contracted by 7.5%.

In lending to the retail segment, the Bank maintains the most reasonable and responsible policies toward borrowers, which reduces the risk to both sides and fosters systemic stability. The retail loan portfolio grew by 10% due to mortgage and unsecured loans. At the same time, the bank has notably increased its standard loan portfolio for SMEs by 20%.

An important corporate event for the Bank was the inclusion on 30 September 2019 of its common shares and global depositary receipts (GDRs) on the official list of the Astana International Exchange (AIX). The common shares of the Bank are listed under the ticker (HSBK) and the GDRs under the ticker (HSBK.Y) with the price and calculations in US dollars and fully convertible to GDRs on the London Stock Exchange.

On 4 October 2018, the major shareholder of the Bank, Holding Group ALMEX, announced the successful completion of a Secondary Public Offering (SPO) on the market of 29.32 million GDRs (the GDR offering), each of which is equivalent to 40 common shares of the Bank. The quantity of GDRs sold as part of the GDR offering accounted for 10% of the issued shares (excluding those repurchased) of the Bank. The transaction for the placement of the GDRs proved successful: the Bank achieved its aims of increasing the liquidity of GDRs by increasing the share of the free float from 17% to 27% of the total. The investor base of the Bank was expanded nearly twofold with quality investors – large global investors and emerging-markets funds.

The results of the Asset Quality Review (AQR) provided to the National Bank of Kazakhstan confirmed the quality of the bank's assets and the very high level of capital adequacy (k1, 20%) among second-tier banks as at 1 April 2019. Despite the very conservative approach to the audit, the results received do not impact the capital adequacy and financial results of the Bank. The results of the AQR once again confirm the correctness of the strategy for growth and development of the Bank, objectively reflecting the position of the financial institution on the banking market of Kazakhstan as a reliable and strong partner for its customers.

International ratings also provide a high evaluation of the Bank for the quality of its balance sheet. On 4 December 2019, the international ratings agency Fitch upgraded its long-term issuer default rating (IDR) for the bank from "BB" to "BB+" with a positive outlook. The viability rating of the bank was also upgraded, to "bb+", which is the highest in the Kazakh banking sector. The rating of financial reliability reflects the rating of the Bank without external support (on a solo basis).

The Bank regularly monitors publications on issues and practices of corporate governance released by international organisations setting standards in the area of finance and banking (the Organisation for Economic Cooperation and Development (OECD), the Basel Committee on Banking Supervision and others) with the goal of building an efficient, transparent, stable and innovative banking conglomerate, which uses the best practices and standards of corporate governance adopted both in Kazakhstan and in OECD member states. According to a survey of the level of transparency of Kazakh companies carried out by the ratings agency Expert RA Kazakhstan in 2019, the Bank topped the list of Kazakh non-state-owned banks according to the degree of information disclosure about its activity and level of development of corporate governance.

Subsidiary organisations of the Bank made a great contribution to the development of Halyk Group. In particular:

Halyk Finance earned the highest net profit on the market (KZT4,724 million) among organisations managing investment portfolios. The subsidiary investment and brokerage companies Halyk Finance and Kazkommerts Securities were in the top three of leading underwriters of local bonds placements in 2019.

In 2019, subsidiary bank Halyk Bank Kyrgyzstan also demonstrated robust growth, exceeding the average growth rate on the market for assets threefold and by loan portfolio more than twofold. The dynamic growth in 2018-2019 enabled the recapitalisation of the subsidiary bank in Kyrgyzstan in December 2019. As a result, the share capital was increased twofold from KGS600 million to KGS1.2 billion.

The primary goals of Commercial Bank Moskommertsbank in 2019 were the improvement in the quality of its loan portfolio and the sale of non-core assets. The share capital of the bank was increased by RUR3 billion to support its operational activity.

In order to support the growth of its loan portfolio, subsidiary bank Halyk Bank Georgia increased its share capital by GEL14 million. On the basis of the bank's results, Fitch upgraded its viability rating from "BB-" to "BB" with a positive outlook. During 2019, the bank delivered net profit in the amount of GEL11.27 million (KZT1,541 million).

In 2019, Tenge Bank received a license from the Central Bank of the Republic of Uzbekistan to carry out banking activity and service customers. Operations were begun on lending, cash management services and other services.

The insurance companies of Halyk Group solidly occupy leading positions for their business segments on the Kazakh insurance market. Halyk Insurance Company increased its share of the market for gross premiums from 17% (in 2018) to 19% and continues to occupy second place on the overall insurance market in Kazakhstan.

Halyk Life was the leader according to all insurance indicators last year. The share of gross life insurance premiums stood at 39% and the level of net profit was the highest on the market (KZT8,218 million).

In November 2019, it was decided to renew the leasing activity of the Bank's subsidiary Halyk Leasing, which provides companies with the opportunity to attract financing without the requirement of providing collateral.

An important role in the problem loans portfolio recovery at the Bank is played by bad assets management subsidiary organisations (SPVs) of the Bank. The Bank transferred to SPVs 36 doubtful and bad assets in the amount of KZT39.5 billion. Last year, assets for the amount of KZT77 billion were sold from the balance sheets of these SPVs. Operating profit in 2019 stood at KZT15 billion. In total, during 2019, repayments from the SPVs to the Bank amounted to KZT56 billion. The total assets of the SPVs as at the beginning of 2020 exceeded KZT200 billion.

Halyk Group always plays an active role in the implementation of state programmes designed to develop the economic activity of the population. With this goal, we plan to continue participation in state programmes to support small and medium enterprises.

We are setting ambitious goals before our subsidiary companies in the coming year.

Thus, we have given our overseas subsidiary banks - in Russia and Tajikistan - the goal of delivering stable profit indicators, in Georgia and Kyrgyzstan the development of modern banking products and technologies, and in Uzbekistan the maintenance of aggressive growth and strengthening of market positions.

On the insurance market, the Group companies Halyk Insurance Company and Halyk Life should maintain their market positions and gradually shift emphasis in favour of online insurance.

Halyk Group is expecting the active development of the retail business of Halyk Finance, as well as on the increase of its regional presence and further development of online sales.

We continue to intensively develop on the telecommunications market with the use of the extensive resources provided by Kazteleport.

The material base of subsidiary company Halyk Collection will continue to strengthen and it will focus its efforts on expanding its core business, first of all by attracting outside customers and the development and expansion of services offered.

Overall, we will strengthen our work on the development, preparation and training of employees of Halyk Group. Steps will continued to be taken to develop and renew the material base, the optimisation of the branch network and the further introduction of digital products, which will enable the further growth in the quality of service for clients of companies that are part of Halyk Group.

Together with the Halyk Charitable Fund, the Bank, as part of its commitment to social responsibility, is implementing various programmes. Thus, in 2019, we carried out social projects with a total value of around KZT3 billion. They included aid to those affected by the accident in the city of Arys, support for children in orphanages, medical organisations and specialist institutions, fostering of popular interest in culture and sports, including sponsorship of the Astana Opera and the Kazakh State Academic Theatre of Opera and Ballet named after Abay and much more. One of the most important social projects coordinating the activity of large Kazakh charitable funds was the support of the crowdfunding platform Birgemiz.kz, created in 2018.

The Board of Directors adheres to the principles of transparency in the activities of the Bank and all companies in Halyk Group. We are fully open to productive work with shareholders, investors, ratings agencies, analysts and other interested parties.

We are convinced that as a result of the implementation of our strategic plans, we will move closer to our goal of becoming a genuinely innovative and high-technology financial institution, a first-choice bank for all segments of customers and a key player on the market for banking services.

In conclusion, on behalf of the Board of Directors, I would like to express my gratitude to our shareholders, partners, clients and all of our colleagues for the fruitful collaboration, understanding and support for Halyk Group's strategic development course.

Alexander Pavlov

Chairman of the Board of Directors

Halyk Bank

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STATEMENT OF THE CHAIRPERSON OF THE MANAGEMENT BOARD OF HALYK BANK UMUT SHAYAKHMETOVA

Statement of the Chairperson of the Management Board of Halyk Bank Umut Shayakhmetova

Dear clients, partners and shareholders,

The year 2019 was a notable one for the financial system of our country. Above all, it will be remembered for a series of important events linked to changes in international, social and political and economic life that had a substantial impact on the broader macroeconomic situation in Kazakhstan. The persistent instability in global markets, trade and sanctions "wars" between the US and China and the US and Russia, have indirectly led to volatility in the domestic financial sector, affected the stability of the tenge exchange rate and caused the regulator to change the base rate.

Among the defining domestic political factors in 2019, undoubtedly, were the stepping down of the first president of the Republic, the subsequent early presidential elections and the implementation of a whole raft of social initiatives by the new head of state. In particular, this involves major government actions to reduce the debt burden of Kazakh citizens, including the repayment of debts owed on unsecured consumer loans.

One of the alarming trends of 2019 in the Kazakh banking sector was the reduction of loans to the real sector of the economy and, at the same time, the continued aggressive growth of consumer credit.

In this regard, the government and the National Bank of Kazakhstan undertook a series of limiting measures, which, in the near term, should bring about stability on the retail lending market and provide an overall positive effect on the Kazakh banking sector. This includes legislative amendments to tighten the issuance of retail loans beginning in 2020 to recipients of directed social aid and additional requirements for the risk weightening of assets, indebtedness of borrowers and quality of loans.

In their activity on the financial market, Halyk Bank and the Group were impacted overall by such factors as the Asset Quality Review (AQR) of the Kazakh banking sector conducted in the second half of 2019, the division of regulatory functions between the National Bank of Kazakhstan and the Agency for Regulation and Development of the Financial Market, and the plans announced by the National Bank of Kazakhstan for its relocation to the capital of Kazakhstan. Without doubt, these are three big initiatives that were partially completed in 2019 and that will influence the market in the coming year.

Among other factors affecting the banking market were the implementation of measures for the rehabilitation of Tsesnabank, which, in particular, had an effect on the reduction of NPLs in the domestic banking sector, as well as the general tendency at the end of 2019 linked to the appreciation of the tenge and the lowering of the base rate by the National Bank of Kazakhstan.

In these conditions, Halyk Bank continued the process of transformation, confirming its reputation as the largest successful financial group on the Central Asian market, possessing all of the necessary resources for carrying out operations in investment banking, insurance, leasing, cash collection and telecommunications areas, as well as the opportunities of its subsidiary banks in Russia, Kyrgyzstan, Tajikistan, Uzbekistan and Georgia.

It was no exception that 2019, the first year for the implementation of the previously approved medium-term growth strategy of Halyk Group for the period 2019-2021, proved to be another year of growth for Halyk Bank and Group companies in almost all business areas.

This is particularly confirmed by the results of the AQR, which Halyk Bank passed comfortably.

Today, Halyk Bank services 75 out of the 100 largest companies in Kazakhstan. The Bank has not only become a major player in Kazakhstan but also a major regional bank with subsidiaries operating in six countries.

This allows the Bank to attract investors and customers both in Kazakhstan and on international markets that want to develop their business in Kazakhstan or countries where Halyk Bank is present.

In May, the Bank's majo shareholder, Holding Group ALMEX, following numerous feedback received from the investment community, announced an evolution of a number of alternatives in order to improve the liquidity profile of the Halyk Bank shares, including a potential partial disposal of its stake in the capital markets.

As a result, the first GDR placement on the secondary market in the history of Halyk Bank took place in the autumn. Large international banks were attracted to carry out the SPO. As a result of the placement on the LSE and AIX, the Bank achieved its aims of increasing its liquidity – 10% of the outstanding shares were sold in the form of global depositary receipts. In addition, the Bank substantially expanded and improved the quality of its investor base with domestic and international investors. In the view of international experts, this was a very high-quality offering and the largest deal in terms of the volume of placement in the EMEA market over the last three years. The total share of GDR holders in the shareholder structure grew to 27%.

The Bank's profit grew by 31.6% in 2019, exceeding the planned figures and reached KZT334.5 billion.

The standard SME loan portfolio notably rose by 24% and the retail loan portfolio grew by 7.9%, attributable to mortgages and unsecured loans.

In the summer of 2019, our subsidiary bank, Tenge Bank, began operations in the capital of Uzbekistan. Through our subsidiary bank, we are prepared to provide corporate and retail customers with the entire range of banking services on a high level, fostering the development of business in both countries, promoting the expansion of economic relations in the Central Asian region and increasing cooperation and support of bilateral trade.

During 2019, the Bank carried out the recapitalisation of its subsidiary banks in Russia (Moskommertsbank), in Kyrgyzstan (Halyk Bank Kyrgyzstan) and in Georgia (Halyk Bank Georgia).

During the year, changes in corporate governance took place. Thus, over the course of 2019, Kuat Kusainbekov, Aslan Talpakov and Nurlan Zhagiparov left the Management Board of the Bank. At the same time, new members joined the governing body: Mikhail Kablashev, Askar Smagulov and Zhumabek Mamutov. In connection with the relocation of the National Bank of Kazakhstan to the capital, we strengthened the Bank's presence and representation of the Bank in Nur-Sultan, appointing Yertay Salumov as deputy chairman of the Management Board and director of the Astana Regional branch, who oversees work with state bodies, the National Bank of Kazakhstan and national companies. A resolution of the Board of Directors of Halyk Bank in October 2019 increased the number of directors on the Bank's Management Board to 10 members.

Last year, the Bank continued its active participation in the implementation of a wide range of government programmes. In particular, the Programme for the Regional Financing of Small and Medium Enterprises; the Enbek State Programme for the Development of Productive Employment and Mass Entrepreneurship for 2017-2021; the Damu Fund-2 Programme for the Support of Small and Medium Enterprises in the Secondary Manufacturing Sector (the Bank is number one in terms of disbursed and allocated funds); the Nurly Zher State Programme for Housing Construction; the Road Map for Business 2020 State Programme for the Support and Development of Business (1, 2 and 3 areas). As a part of the Road Map for 2020, in terms of both subsidies, the Bank occupies the first place among participating banks in the number of signed contracts, in terms of the guarantees – the first place in the number of signed contracts and the total amount of the guarantees of the fund. In 2019, the Bank began the financing of the first projects under the Mechanism for Lending to Priority Projects programme.

Halyk Bank was and remains a leader in working with small and medium-sized businesses, especially in lending. Thus, in February 2019, the Bank allocated an additional KZT1 billion at 5% as the third tranche under the programme for preferential lending to women's businesses, and, in June, as part of the Year of Youth, launched the Zhas Halyk programme for unsecured lending for young entrepreneurship, allocating KZT1 billion.

As part of the programme implemented to improve service quality, Halyk Bank opened a third centre for serving business customers, specialising in servicing legal entities in Almaty, which offers the full range of banking services for organisations, including attractive financing solutions for small and medium enterprises as part of government programmes, as well as operational service for businesspeople and payroll services.

In parallel, the work on the development and improvement of technological services and providing the most modern transactional services for businesses has continued. Last year, as part of the improvement programme for business, the Bank was the first in Kazakhstan to launch settlement services between legal entities on a 24-hour, seven-days-a-week basis through the Onlinebank HALYK platforml. As a result, Kazakh companies that are customers of the Bank have the ability to carry out settlements day and night.

For individual customers, the Bank has launched online loans, a convenient service that permits the customer to apply for loans online through the Homebank.kz application without having to go to the branch. The time from the customer lodging the application to receiving the money on their card is no longer than three minutes.

In October, the Bank launched a permanent bonus campaign: 1% on all non-cash transactions in Kazakhstan and abroad on all Halyk Bank/Qazkom payment cards, through the Bank's own or third-party point-of-service terminals and payments for electronic commerce.

The Bank launched 50 mobile embossing terminals for the cities of Almaty and Nur-Sultan, allowing customers the ability to instantly print a personalised card in the branch. In the first half of 2020, the Bank plans to provide mobile embossing terminals to 145 Halyk Bank offices around the country.

The quantity of registered Homebank users increased to four million, and active users by twofold compared to the previous year. In 2019, around 300 new payment codes were implemented for payment terminals, including the acceptance of voluntary pension contributions and a service for lending to current borrowers.

The Bank continued to carry out capital investments in the development and modernisation of its branch network and maintenance of its material and technical base. With the goal of expanding customer access to its services, a new regional branch of the Bank was opened in Turkistan, where the administrative centre of South Kazakhstan region was moved. During 2019, six sales channels were opened, including: two personal service centres in the Turkistan and Zhanaozen branches, two banking service centres in the Akmola and Turkistan branches and two offices in the Mangistau and West Kazakhstan branches. Reconstruction and modernisation were completed at 33 regional facilities, including a sales channel with Digital Concepts at the MEGA Alma-Ata Shopping Centre.

In order to replace outdated and outmoded banking machines, the Bank acquired and installed 504 units in high-visibility locations across Kazakhstan.

As a result, as at 1 January 2020, the total number of sales channels stood at 626 units, including 24 regional branches, 120 district offices and 282 cash settlement offices, 111 personal service centres, 52 banking service centres, 34 business centres (to service legal entities) and three VIP service centres.

At the end of the year, the customer base reached 11 million, while the share of unique active customers, using at least one of the Bank's products, was 69%. The number of cards in circulation continued to grow and reached more than nine million cards.

In order to maintain the stable functioning of communications infrastructure and provide improved client service to the customers of the Bank, an investment was carried out to create a unified Contact Centre using cutting-edge technologies, including the application of voice biometrics and artificial intelligence solutions (voice robot).

The Bank's solid position at the international level was confirmed by the leading rating agencies. Halyk Bank was the only one in Kazakhstan to see its ratings upgrade.

The international ratings agency S&P Global Ratings announced the affirmation of long-term and short-term credit ratings, as well as national scale ratings for Halyk Bank: BB/Stable/B, on the national scale – "kzA+", taking into account its systemic importance for the Kazakh economy.

The international ratings agency Moody's confirmed the long-term deposit rating of Halyk Bank at the level "Ba1" and changed its outlook from stable to positive.

The international ratings agency Fitch upgraded its long-term issuer default rating for Halyk Bank from "BB" to "BB+" with a positive outlook. The Bank's Viability Rating was also upgrared and is the highest in the Kazakh banking sector. The Viability Rating reflects the rating of the Bank without taking into account external support (on a solo basis).

Despite a challenging year for the financial sector in 2019, Halyk Bank received the highest awards from authoritative experts and international financial publications. Thus, according to an evaluation of the level of transparency of Kazakh companies, carried out by Expert RA Kazakhstan ratings agency, Halyk Bank topped the list of Kazakh non-state banks in terms of disclosure of information about its activities.

Halyk Bank rose to 1,522nd place from 1,595th place in the Global 2000 annual rating of the largest and most influential public companies in the world and remains the only representative of our country.

Halyk Bank was also recognised as the "Best Bank in Kazakhstan" in the area of trade finance according to the international magazine Global Finance and according to the results of the annual selection of "Europe Banking Awards 2018" by the international analytical magazine EMEA Finance.

Today, Halyk Bank is a barometer for the development of the economy of Kazakhstan. And these are more than just elegant words. In the view of investors, it is a "proxy name" representing the Kazakh economy. We are the largest bank and the situation inside the institution reflects, as a whole, the situation in the country's economy. On the market, the Bank accounts in absolute terms for an impressive market share of loans and deposits, of individual and business customers and in terms of the diversification of its loan portfolio – the retail segment, small and medium businesses and large corporations.

At the heart of Halyk Bank's successful performance are a bundle of components, first of all, the tremendous work of the Bank's employees, the customers, investors, partners and shareholders confidencegrowing from year to year.

In the coming year, all of the Group companies will be required to mobilise their efforts to fulfil the primary areas of the medium-term strategy, linked to further technological reshaping the continuation of the processes of transformation, digitalisation and the launch of new innovations and technological products sought by the market.

I am convinced that as a result of our joint efforts, the year 2020 will be a time of new progressive and innovative achievements directed towards growth, quality and the further development of the leader of Kazakhstan's financial market.

Umut Shayakhmetova

Chairperson of the Management Board

Halyk Bank

6

BOARD OF DIRECTORS

Alexander Pavlov (b. 1953)

Chairman, Independent director

Mr Pavlov was elected chairman of the Board of Halyk Bank in March 2004 and re-elected to the same post in April 2017.

He has held numerous high-level posts in Kazakhstan's government over the years, including first deputy prime minister, deputy prime minister – minister of finance, and head of the Main Tax Inspectorate – first deputy minister of finance. He has also worked in the management teams of large Kazakh machinery and natural resource companies and represented Kazakhstan at numerous international financial organisations.

Mr Pavlov is a graduate of the Belarus State Institute of People's Economy, where he specialised in economics (1970-74), and of the Academy for Social Sciences of the Central Committee of the Communist Party of the USSR, where he specialised in political science (1991).

Arman Dunaev (b. 1966)

Independent director

Mr Dunaev was elected to the Board of Halyk Bank in September 2013 and re-elected to the same post in April 2017.

His experience in Kazakhstan's government includes such posts as first deputy minister of finance, minister of finance and chairman of the Agency for Regulation and Supervision of the Financial Market and Financial Organisations. He has also held management positions in the quasi-government sector. He is currently a member of the boards of directors of several Halyk Bank subsidiaries.

Mr Dunaev is a graduate of Kazakh State University named after S. Kirov with a degree in political economy and has a PhD from Moscow State University named after M. Lomonosov.

Franciscus Cornelis Wilhelmus (Frank) Kuijlaars (b. 1958)

Independent director

Mr Kuijlaars was elected to the Board of Halyk Bank in April 2009 and re-elected to the same post in April 2017.

From 1990 to 2007, he served at ABN AMRO Bank and later at RBS as head of corporate and investment banking in Belgium, regional manager in Brazil and country manager in Russia and Argentina. Mr Kuijlaars was a member of the Supervisory Board in Russia, Kazakhstan and Uzbekistan. After his appointment as corporate executive vice president in 2001, in addition to supervision of global energy issues, he was a member of the executive committees of EMEA countries, as well as a member of the Corporate and Investment Banking Committee. He is an adviser to several international organisations and for a long time was a member of the Foreign Investor Council of the President of the Republic of Kazakhstan. Mr Kuijlaars was chairman of the Board of Directors and independent director of National Company KazMunayGas, as well as an independent non-executive director and independent member of the Supervisory Board of Amsterdam Trade Bank N.V. He is the owner and managing director of Eureka (Energy) Ventures B.V.

Mr Kuijlaars received a Master's in law from Erasmus University, Rotterdam, the Netherlands. He studied at the Dutch Institute of Banks and Insurance Companies and in a number of postgraduate programmes in such international institutions as Fontainebleau (France), Cambridge (UK) and Harvard Business School (US).

Mazhit Yessenbayev (b. 1949)

Member of the Board of Directors, Representative of Holding Group ALMEX

Mr Yessenbayev was elected to the Board of Halyk Bank in April 2014 and re-elected to the same post in April 2017.

Over the years, he has held numerous important positions in Kazakhstan's government, including head of the Main Tax Inspectorate – first deputy minister of finance, chairman of the State Tax Committee, governor of Karaganda region, minister of finance, minister of industry and trade, governor of Akmola region, chairman of the Agency for Competition Protection and chairman of the Customs Control Committee of the Ministry of Finance. He has also represented Kazakhstan in a number of international financial organisations. Since February 2014, he has been chairman of the Management Board and a member of the Board of Directors of Holding Group ALMEX.

Mr Yessenbayev graduated from the Kazakh Polytechnic Institute named after V. Lenin with a degree in economics and the mining industry. He also completed postgraduate studies on the Council for the Study of Productive Forces under the State Planning Committee of the USSR, has a PhD in economics and is an associate professor.

Christof Ruehl (b. 1958)

Independent director

Mr Ruehl was appointed to the Board of Halyk Bank in June 2007 and re-elected to the same post in April 2017.

He previously worked at the University of California, Los Angeles, where he was an assistant professor of economics. He also worked for the World Bank Group as chief economist in Washington, chief economist in Moscow, and lead economist and sector leader in Brazil. At British Petroleum, Mr Ruehl held the positions of deputy chief economist, group chief economist and vice president. In 2008, he became chairman of the British Institute of Energy Economics, London. From July 2014 to May 2019, Mr Ruehl was first global head of research at Abu Dhabi Investment Authority. In November 2019, he became a senior research scholar at the Center on Global Energy Policy at Columbia University's School of International and Public Affairs.

Mr Ruehl holds an MBA from the University of Bremen, Germany.

Anton Musin (b. 1978)

Independent director

Mr Musin was appointed to the Board of Halyk Bank in April 2019.

Prior to that, from March 2003 to April 2007, he worked as a systems analyst and project manager at Xerox LTD in Moscow, Russia. From April 2007 to October 2009, he was a consultant and manager at Accenture LTD in Moscow, Russia. From October 2009 to August 2010, he held the position of senior manager at KPMG in Moscow, Russia. Since August 2010, Mr Musin has been a senior manager and managing director (partner) at Accenture LTD in Dubai, United Arab Emirates.

Mr Musin graduated from Stankin Moscow State University of Technology with a degree in technology, equipment and machinery automation (1999). He also holds a Master's in engineering, technology and robotics from Budapest University of Technology and Economics in Hungary.

Umut Shayakhmetova (b. 1969)

Member of the Board of Directors, Chairperson of the Management Board

Ms Shayakhmetova was appointed as chairperson of the Management Board of Halyk Bank on 22 January 2009. She was elected as a member of the Board of Directors in April 2009 and re-elected to the same post in April 2017.

Over the years, she served as chairperson of the Management Board of ABN AMRO Asset Management and deputy chairperson of the Management Board of ABN AMRO Bank Kazakhstan. She became deputy chairperson of the Management Board of Halyk Bank in November 2004. Since May 2011, she has been president of the Gymnastics Federation of Kazakhstan. In June 2015, she was elected chairperson of the Regional Council of Businesswomen at the Chamber of Entrepreneurs in Almaty. In June 2016, she was appointed as chairperson of the Financial Sector Committee of the Presidium of the Atameken National Chamber of Entrepreneurs and chairperson of the Regional Council Eastern Europe, Central Asia, Russia and Caucasus at UnionPay International. Since June 2018, she has been a member of the Board of Directors and representative of Halyk Bank at Altyn Bank.

Ms Shayakhmetova is an economics graduate of the People's Friendship University named after P. Lumumba, Moscow, and holds an MBA from Rutgers University, New Jersey, US.

7 MANAGEMENT BOARD

Umut Shayakhmetova (b. 1969)

Chairperson of the Management Board

Please refer to the "Board of Directors" section.

Aivar Bodanov (b. 1962)

Deputy chairman: Security and Problem Loans

Mr Bodanov was re-appointed as deputy chairman of the Management Board of Halyk Bank in March 2018, after having previously served at Halyk Bank from September 2014 to May 2017 in the following positions: director of the Security Department and deputy chairman of the Management Board.

He started his career in 1984 as a high-voltage overhead specialist for Dzhambul Grid Operating Company. He then worked as a specialist and senior producer at the Grazhdanstroy construction enterprise, as well as a chief engineer at the Kultbytstroy construction enterprise. In 1988-89, he attended the Sverdlovsk Higher Courses of the Ministry of Internal Affairs of the USSR. From 1990 to 2014, Mr Bodanov held numerous posts in the Department of Internal Affairs, the State Investigative Committee and the Tax and Financial Police. These included deputy head of the Agency of Kazakhstan for Combating Economic Crimes and Corruption; head of the Department for Combating Economic Crimes and Corruption in Almaty and West Kazakhstan regions; head of the Department for Investigating Economic and Financial Crimes under the Agency of Kazakhstan for Combating Economic Crimes and Corruption; deputy head of the Financial Police Department in Kyzylorda, South Kazakhstan and Atyrau regions; and others. From May to December 2017, Mr Bodanov served as head of the Internal Investigations Department, head of the Third Service of the General Prosecutor's Office of Kazakhstan. From February to March 2018, he was head of the Department of Internal Security and Prevention of Corruption in the Courts of the Department for the Support of the Courts of the Supreme Court of Kazakhstan.

Mr Bodanov holds the rank of Major General in the Financial Police and has received the Aibyn II Order of Valour and other medals. He is a graduate of the Dzhambul Irrigation and Construction Institute, where he specialised in hydraulic engineering of river constructions and hydroelectric power plants, and holds a law degree from the Karaganda Higher School under the Ministry of Internal Affairs of Kazakhstan.

Mikhail Kablashev (b. 1978)

Deputy chairman: IT

Mr Kablashev has been deputy chairman of the Management Board of Halyk Bank since 4 March 2019. Since 2018, he has been a member of the Board of Directors of QPayments. Since 2019, he has also been chairman of the Board of Directors of Kazteleport.

He began his career in banking in 2001. From 2001 to 2005, he held various positions at Nauryz Bank Kazakhstan. From March 2005 to January 2007, Mr Kablashev worked at Halyk Bank as chief manager of the acquiring network support division of the card centre and then head of the acquiring network support division of the card centre. From 2007 to 2012, he went back to Nauryz Bank Kazakhstan, where he worked as deputy director of the system support and telecommunication department, director of the system support and telecommunication department, and then director of the information and communication technology management division of the department of information and communication technology management. After that, Mr Kablashev returned to Halyk Bank, where from September 2012 to July 2017 he held the positions of director of the system support and telecommunication department and then director of the IT infrastructure department. From 2016 to 2017, he worked concurrently at Altyn Bank as director of the digital bank project office. From July 2017 to July 2018, he held the position of chief IT director of the IT block at Kazkommertsbank. On 28 July 2018, he returned to Halyk Bank as chief IT director.

Mr Kablashev has a degree in applied mathematics from Al-Farabi Kazakh National University.

Aliya Karpykova (b. 1970)

Deputy chairperson: Finance, Accounting and Subsidiaries

Ms Karpykova has been deputy chairperson of the Management Board of Halyk Bank since October 2011, Board member of Kazakhinstrakh since 2016 and Board member of Kazkommertsbank since 2017.

She has worked in the Kazakh banking system since 1992. From 1992 to 1996, she held various positions at the National Bank of Kazakhstan. From 1996 to 1997, Ms Karpykova worked in Barents Group as an adviser on a project on accounting reform in the Kazakh banking system. From 1998 to 2001, she was the director of the financial control and administration department and then a member of the Management Board – chief accountant of Citibank Kazakhstan. From 2001 to 2004, she was managing director and then first deputy chairperson of the Management Board of Nauryz Bank Kazakhstan. She has worked at Halyk Bank since 2004, including as managing director responsible for risk management, head of risk management and finance director.

Ms Karpykova has a degree in political economy from Al-Farabi Kazakh National University.

Murat Koshenov, CFA, FRM (b. 1973)

Deputy chairman: Corporate Banking

Mr Koshenov has been deputy chairman of the Management Board of Halyk Bank since September 2014 and is currently chairman of the Board of Moskommertsbank.

He has worked in finance and banking since 2000. From 2002 to 2010, he worked first as head of broker-dealer operations at ABN AMRO Asset Management, and then as risk manager, head of the risk management division and deputy chairman of the Management Board at SB ABN AMRO Bank Kazakhstan (later SB RBS (Kazakhstan)). He joined Halyk Bank in January 2010 as chief risk officer and then became compliance controller.

Mr Koshenov has a degree in physics from Al-Farabi Kazakh National University and an MBA from the Kazakhstan Institute of Economics, Management and Strategic Research.

Zhumabek Mamutov (b. 1982)

Deputy chairman: Retail Banking

Mr Mamutov has been deputy chairman of the Management Board of Halyk Bank since 28 October 2019.

He has worked in banking since 2004. From 2004 to 2008, he held the following positions: director of the Zangar branch at SB ABN AMRO Bank Kazakhstan; head of the retail banking division of the retail banking department, and then business development manager at SB ABN AMRO Bank Kazakhstan; and branch affairs specialist of the marketing department of NPF ABN AMRO KaspiyMunayGaz Kazakhstan. From 2008 to 2009, he was head of the regional and sales administration of the HNWI department at Kazinvestbank. Mr Mamutov worked at Kazkommertsbank from January 2010 to February 2014 and again from July 2015 to May 2017 in the following roles: managing director, executive director of the office of the Management Board, executive director of the card business development department, executive director of the banking card department, adviser to the office of the chairman of the Management Board, adviser to the executive directorate of the chairman of the Management Board, and director of the retail banking department. From February 2014 to July 2015, he was director of the department for planning and monitoring the implementation of retail banking strategies at SB Sberbank. From May 2017 to February 2018, Mr Mamutov was deputy chairman of the Management Board at Bank Kassa Nova, as well as member of the Management Board and deputy chairman of the Management Board at Nova Leasing. From February 2018 to October 2019, he held the position of member of the Management Board and deputy chairman of the Management Board at Forte Bank.

In 2016, Mr Mamutov was awarded the anniversary medal in honour of Kazakhstan's 25 years of independence. He has a degree in statistics from Kazakh Economic University named after T. Ryskulov

Yertai Salimov (b. 1974)

Deputy chairman – director of Astana region branch: oversight of national companies

Mr Salimov has been deputy chairman of the Management Board of Halyk Bank since February 2015 and a member of the Supervisory Board of Halyk Bank Tajikistan since August 2018. Since October 2019, he has also been director of the Astana region branch.

He joined Halyk Bank in August 1995 and has extensive experience of operations at the Bank, having worked as deputy head of the non-trading operations and the precious metals desks in the foreign exchange operations department; a leading banker on the precious metals handling and precious metals desks in the international operations department; chief banker on the commodity desk in the trade finance department; chief banker on the commodity desk in the commercial department; senior dealer in the treasury; head of forex, money market operations and head of trading operations in the treasury; deputy director and director in the treasury; head of the chief operations department; chief operating officer; member of the Board and independent director of the Kazakhstan Stock Exchange; and chairman of the Board of Halyk Finance.

Mr Salimov has a degree in finance and credit from the Kazakh State Academy of Management with major in Credit and Finance.

Dauren Sartayev (b. 1982)

Deputy chairman: SME Banking and PR

Mr Sartayev has been deputy chairman of the Management Board of Halyk Bank since July 2018.

He began working in the banking industry in 2004 at Kazkommertsbank, where he held the positions of manager, head of SME banking and head of small business banking. From 2010 to 2012, he worked at Temirbank as head of credit risk, branch director and director of problem loans. He was appointed as a member of the Management Board and managing director of Kazkommertsbank in June 2016, where he curated corporate lending, SME banking and the branch network. In July 2017, Mr Sartayev became deputy chairman of the Management Board of Kazkommertsbank. He previously worked at Kcell, where he headed the branch in the city of Shymkent and managed the offices in Almaty and Almaty region. He also worked at the Kazakhstan representative office of the international auditing firm Ernst and Young.

Mr Sartayev has a law degree from Kazakh Humanitarian Law University in Almaty. He also holds an MBA in strategic management and entrepreneurship from Moscow International Higher Business School and an MBA in strategic management from Kazakh Economic University named after T. Ryskulov.

Zhannat Satubaldina (b. 1961)

Deputy chairperson: Operations, Resources and Administration

Ms Satubaldina was appointed as deputy chairperson of the Management Board of Halyk Bank in July 2018. She has a PhD in economics with diverse experience in government organisations and private companies in the oil and gas, transport, financial and banking sectors.

She started her career in 1982 as a junior associate in the Research Institute of Planning and Governance Process Automation, part of the State Planning Committee of the Kazakh SSR, and later taught at the Academy of Experts of Kazakhstan. In 1993, she began to work in the financial sector, heading the Planning Department of Kazmetallbank. From 1994 to 1999, she held various positions at Metallinvest, an investment privatisation fund. In 1999-2002, she worked at financial sector regulatory and supervisory bodies, including as head of the Licencing and Supervision Department, executive director of the National Securities Commission of Kazakhstan, and deputy director of the Securities Market Regulation Department of the National Bank of Kazakhstan. In 2002, she joined Kazakhstan Temir Zholy, the national railways operator, where in the course of four years she held the positions of chief accountant, vice president and managing director of finance. From 2006 to 2007, she was deputy CEO for economics and finance at KazTransOil, as well as a member of the Board of Directors of Halyk Bank's Accumulating Pension Fund and of North-West Pipeline Company MunayTas. From 2007 to 2009, she served as managing director for economics and finance at KazMunayGas. From 2009 to 2014, she was deputy finance director at KMG-Kashagan B.V. In 2014-16, Ms Satubaldina served as deputy chairperson of the Management Board of Halyk Bank. In July 2017, she was appointed as deputy chairperson of the Management Board of Kazkommertsbank, where she was responsible for the financial bloc.

Ms Satubaldina is a graduate of Almaty Institute of People's Economy and holds a PhD in economics from Moscow State University named after M. Lomonosov.

Askar Smagulov (b. 1975)

Deputy chairman: Fast IT and Transactional Banking

Mr Smagulov was appointed as deputy chairman of the Management Board of Halyk Bank on 2 May 2019.

He started his career at SB ABN AMRO Bank Kazakhstan, where he worked as a treasury dealer, senior dealer, head dealer, head of the trade division of the treasury, head dealer of the department of financial risks and operational business development, and director of the treasury. He then worked at Halyk Bank from February 2005 to May 2018, including as director of the treasury, adviser to the office of the Board of Directors and Management Board (in addition to other duties), member of the Management Board and deputy chairman of the Management Board. During this tenure at Halyk Bank, Mr Smagulov also held various leadership positions at its subsidiaries, including chairman of the Board of Directors of Kazteleport from February 2010 to May 2015, chairman of the Management Board and member of the Board of Directors of Altyn Bank from November 2014 to June 2018 and chairman of the Board of Directors of Moskommertsbank from July 2017 to June 2019. In April 2019, he returned to Halyk Bank as adviser to the office of the Management Board.

Mr Smagulov has a degree in economics and management from Al-Farabi Kazakh National University and an MBA from University of Rochester (US). In 2013, he was awarded the public order of Honoured Financier by the Financial Institutions' Association of Kazakhstan and the state award medal in honour of the 20th anniversary of the Kazakh tenge.

8

KEY EVENTS

Key events

February

- Halyk Finance acts as the underwriter for Kcell's KZT16.8 billion bond placement on KASE.
- Halyk Finance acts as the underwriter for KazAgroFinance's KZT4 billion bond placement on KASE.
- Kazkommerts Securities acts as the underwriter for Eurasian Development Bank's KZT20 billion bond placement on KASE.
- Halyk Bank Kyrgyzstan expands its network via opening the 10-th branch in the city of Karakol.

March

- International ratings agency AM Best confirms Halyk Life's financial strength rating at 'B+' and credit rating at 'bbb-', the outlook 'stable', which is the highest among life insurers in Kazakhstan.
- Kazteleport receives Payment Card Industry Data Security Standard (PCI DSS) certificate for its service of hosting customer equipment in its data centre.
- Moskommertsbank launches its Express Guarantee module for receipt and automatic processing of applications for issuance of bank guarantees to secure tender bids and performance of government contracts, scoring, assessing the financial position of principal and generating the documents required for the issuance of bank guarantees.

April

- Halyk Finance acts as the financial consultant and underwriter for Polymetal International plc's US$20.3 million sale of shares on AIX.
- Halyk Finance acts as the underwriter for IK Baspana's KZT10 billion bond placement on KASE.

May

- Tenge Bank receives banking licence No. 85 dated 18 May 2019 issued by the Central Bank of Uzbekistan.
- Halyk Finance acts as the underwriter for IK Baspana's KZT10 billion bond placement on KASE.

June

- Halyk Finance acts as the financial consultant and underwriter for Kazakhtelecom's KZT80 billion bond placement on KASE.
- Halyk Finance acts as the underwriter for IK Baspana's KZT8.9 billion bond placement on KASE.
- Kazkommerts Securities places KZT27.5 billion in bonds for Kazakhstan Development Bank.
- Halyk Life launches the borrower insurance product in Altyn Bank, theinsurance policies totalling more than KZT2 billion were issued during seven months. Altyn Bank begins concluding borrower insurance contracts online in October.
- Halyk Bank Georgia increases its charter capital by GEL14 million.

July

- Halyk Finance acts as the underwriter for IK Baspana's KZT11 billion bond placement on KASE.
- Kazkommerts Securities places KZT41 billion in bonds for Kazakhstan Development Bank.
- Kazkommerts Securities places KZT10.8 billion in bonds for Kazakhstan Mortgage Company.

August

- Halyk Finance acts as the underwriter for IK Baspana's KZT10 billion bond placement on KASE.
- Kazteleport obtains a state licence from Kazakhstan's National Security Committee to provide services for identifying technical channels for information leakage and using special investigative methods.

September

- Halyk Finance acts as the arranger and joint bookrunner for NAK Kazatomprom's SPOon AIX.
- Halyk Finance acts as the financial consultant and underwriter for NAK Kazatomprom's KZT70 billion bond placement on KASE.
- Halyk Bank launches payment of premiums for endowment life insurance via its corporate website (the Bank's processing) and financial terminals, as well as simplifies the procedure for paying via the Homebank financial portal.

October

- SPO of Halyk Bank's GDRs on LSE and AIX.
- Halyk Finance acts as the underwriter for IK Baspana's KZT23 billion bond placement on KASE.
- Kazkommerts Securities places KZT20 billion in bonds for Kazakhstan Development Bank.

November

- Halyk Finance acts as the underwriter for IK Baspana's KZT39.7 billion bond placement on KASE.
- Halyk Bank decides to resume the leasing operations of Halyk Leasing.
- Halyk Life begins sales of Halyk Kazyna, a new product that is indexed to the US dollar exchange rate, including via Altyn Bank.

December

- Fitch Ratings changes its long-term issuer default rating (IDR) for Halyk Bank Georgia from 'BB-' to 'BB', the outlook 'positive'.
- Effective 25 December 2019, Halyk Finservice renews its government registration after a change in the company's name (former name QPayments) and legal address.
- International ratings agency AM Best confirms Halyk Insurance Company's financial strength rating and long-term credit rating at 'B++', as well as its credit rating at 'bbb', the outlook 'stable'.
- Halyk Finance acts as the underwriter for IK Baspana's KZT1 billion bond placement on KASE.
- Fitch Ratings changes its long-term (IDR) for Halyk Finance, in foreign and national currency, from 'BB' to 'BB"', the outlook 'positive'. The ratings agency also confirms its short-term IDR for Halyk Finance, in foreign and national currency, at 'B' and its support rating at '3'.
- Kazkommerts Securities acts as the underwriter for Kazakhstan Development Bank's KZT30 billion bond placement.
- Kazkommerts Securities acts as the underwriter for QS Holding's KZT18.4 billion corporate bonds placement.
- Kazteleport completes the construction of its data centre at the address 24, Abaya St., Nur-Sultan.
- Halyk Bank Kyrgyzstan doubles its charter capital from KGS600 million to KGS1.2 billion.
- Moskommertsbank increases its charter capital by RUB3 billion.
- In 2019, Halyk Bank works with Halyk Insurance Company to integrate its services into the Homebank system, including launching the option to purchase the vehicle owner's compulsory civil liability insurance policies (comprehensive and standard mandatory insurance).

9

AWARDS

AWARDS

Halyk Bank
EMEA Finance
"Best Trade Finance Provider in Kazakhstan"

Halyk Bank
Expert RA Kazakhstan
Top of the list of non-state banks in Kazakhstan in terms of information disclosure

Halyk Finance
Global Finance
"Best Investment Bank in Frontier Markets" based on 2019 results

Halyk Finance
Global Finance
"Best Equity Bank in Central and Eastern Europe"

Halyk Finance
Global Finance
"Best Investment Bank in Kazakhstan"

Halyk Finance
EMEA Finance
"Best Investment Bank in Kazakhstan"

Halyk Finance
Cbonds
"Best Investment Bank in Kazakhstan"

Halyk Finance
Global Business Outlook
"Best Investment Bank in Kazakhstan"

Halyk Finance
Finance Asia
"Best Investment Bank in Kazakhstan"

Kazkommerts Securities
International Finance Awards
"Best Underwriters – Investment Banking - Kazakhstan" in 2019

Kazkommerts Securities
Global Finance
Best Investment Bank in Frontier Markets

10 MACROECONOMIC SITUATION IN 2019

Macroeconomic situation in 2019

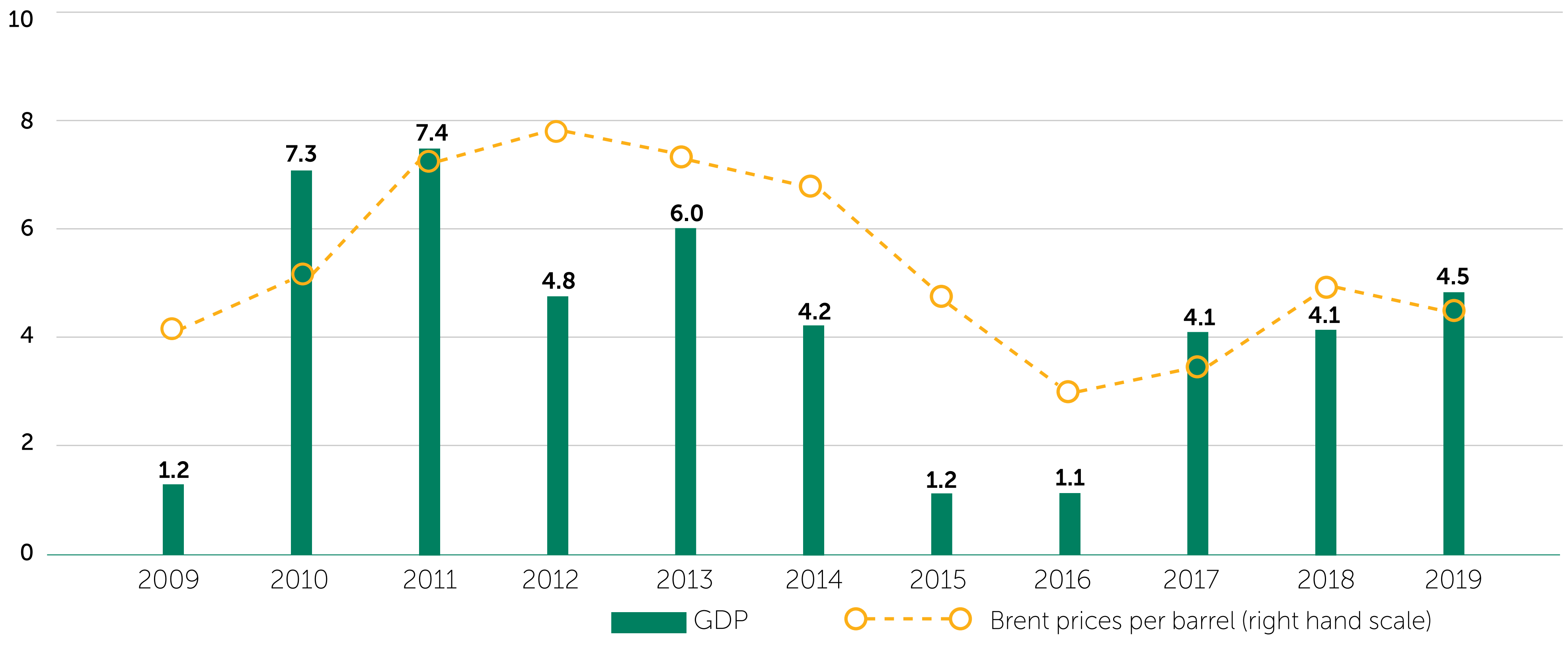
In terms of economic growth, 2019 proved to be a rather successful year for Kazakhstan. GDP growth accelerated from the level of 4.1% achieved in 2017 and 2018, to 4.5%, outpacing even the most optimistic analysts' forecasts, and despite the fall of the annual average oil price by 10% year-on-year. Kazakhstan has not demonstrated such rates of growth since 2013, when the price of oil was about twice as high as the 2019 level.

An increase in consumption and investment were the main factors driving the acceleration of economic growth. In 2019, total trade volumes increased by 7.6% and investment in fixed assets grew by 8.5%, as a result of which growth in construction increased by nearly 13%. Multiple fiscal and administrative stimuli directed at increasing the income of the population, as well as continuing growth of retail credit, had a positive influence on consumer activity.

Oil production in 2019 increased insignificantly, by 0.2% year-on-year to 90.5 million tonnes. At the same time, during the year, major technical works was carried out at the largest oil fields. As a result, although the total production of oil in the country was practically unchanged, it increased by 7% at Kashagan and by 4% at Tengiz, while falling by 7% at Karachaganak. In total, the three fields currently account for more than 60% of all oil production in the country and their share is growing rapidly. For example, in 2016, after the relaunch of Kashagan, the share of these projects accounted for exactly half of the production in Kazakhstan.

The weakening of demand for crude on the global market in 2019, against a background of large volumes of supply and sustained high levels of reserves, pushed oil prices into decline. Over the course of last year, the cost of a barrel of Brent crude fluctuated within a corridor of US$54 and US$75, with an annual average price of US$64, which was higher than the average level of US$50 during the period 2015-2017, but 10% lower than the US$71 figure in 2018. Kazakhstan's export structure was made up by approximately 70% of crude oil export, its contribution into economic growth declined in 2019. Industrial production grew by 3.8%, slowing from 4.4% and 7.3% in 2017.

Acceleration of economic growth, despite falling oil prices



Source: CS MNE, Bloomberg

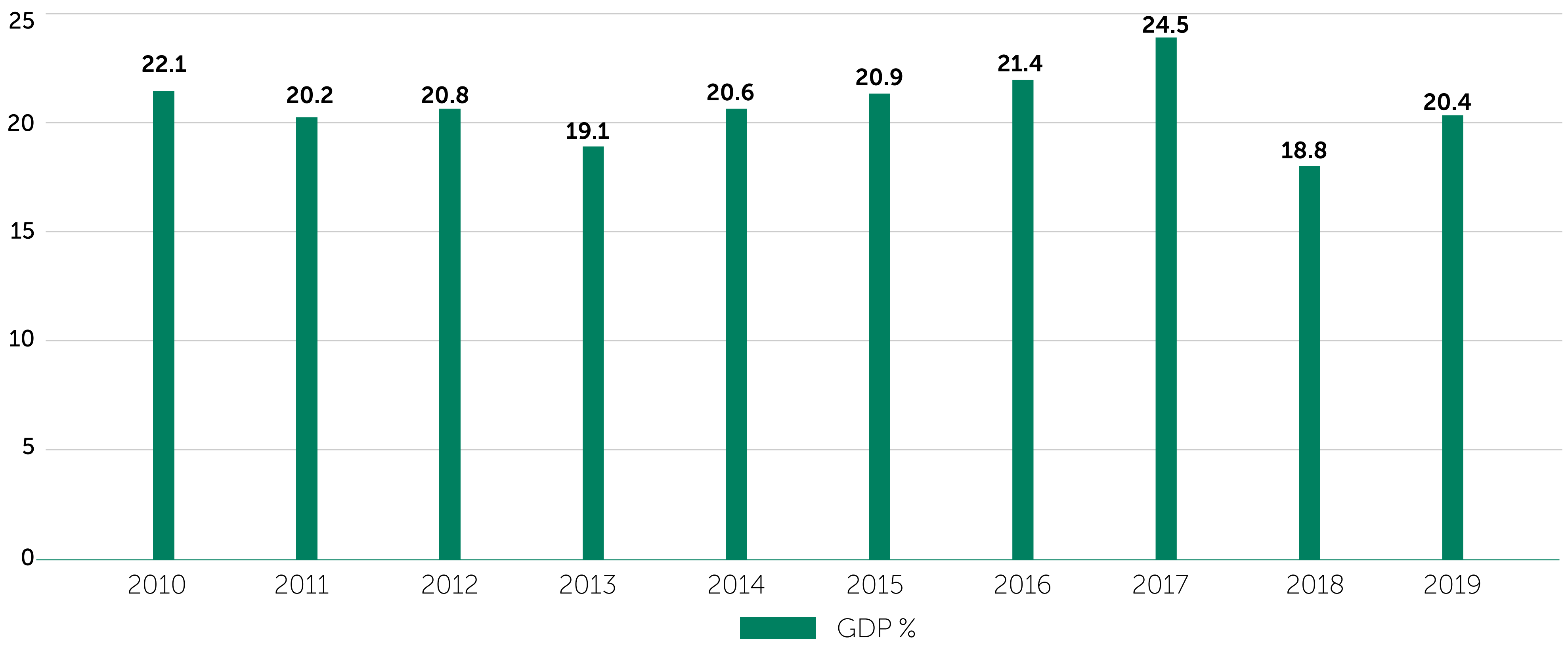
In 2019, investment in fixed capital increased by an impressive 8.5%, although in terms of growth, it was lower than the 17.5% growth rate in 2018. Growth in investment in 2019 was the second-highest rate in the past decade, and, as in previous years, was driven by an increase in investment in the extraction sector by 20.5% year-on-year, while its total volume was equivalent to 8% of GDP. The largest oilfield projects were the major contributors to the investment expansion in the country.

For example, Tengiz has already carried out a large part of the spending as part of its US$36.8 billion investment programme, while according to information from Chevron, the final sum of investment could grow to US$42.5 billion. The solid injections being made at present into production capacity should increase the level of oil extraction to more than 100 million tonnes in 2023. Against a background of growth in investment in the extraction sector, investment in manufacturing fell by 22.6% year-on-year, and in the transportation industry by 21.5% year-on-year.

Under deteriorating external environment – the slowdown in the growth in the global environment to 2.9% (IMF estimate) from 3.6% in 2018, accompanied by the slump in oil prices, the government carried out a significant increase of stimulus of the economy. State budget expenditures relative to GDP in 2019, according to preliminary estimates, increased to 20.4%, compared to 18.8% in the previous year.

The increase in the expenditures from the state budget brought about growth in the deficit from 1.3% to 1.9% of GDP. Financing of the state budget deficit was primarily covered through transfers from the National Fund, internal borrowing and Eurobond issuance.

Budget stimulus



CS MNE, Ministry of Finance of the Republic of Kazakhstan

Multiple fiscal and administrative stimuli directed at increasing the income of the population, as well as the continuing growth of consumer credit, had a positive impact on consumer activity. In 2019, wages grew by 14.5% in nominal terms and by 8.3% in real terms, which contributed to an increase in the minimum wage by 50% in January 2019. However, the effect of wage growth has levelled an increased demand for hard currency by the population and slower economic growth in some regions

Macroeconomic situation in 2019

of the country. As a result, despite the growth in the purchasing power of the population, retail trade grew more slowly than the previous year, at a modest 5.8% in constant prices. The volume of retail turnover exceeded KZT 11 trillion, KZT 1.3 trillion higher than the indicator for 2018 in nominal terms. The turnover of food products amounted to KZT 3.8 trillion, growing by 3.2% year-on-year (KZT 3.4 trillion in 2018), the sales of non-food goods reached KZT 7.6 trillion, with growth of 7.1% year-on-year (KZT 6.7 trillion in 2018).

As was already noted, in 2019, the government concentrated its efforts on increasing wages, assisted by the resources in the state budget. Toward this end, a series of measures were applied: increasing social payments to the population, a tax amnesty, the writing-off of bad consumer debt, supporting low prices on fuel on the domestic market and a reduction of tariffs on domestic utilities. As we see, such measures supported the population's consumer activity. At the same time, if it had not been for growing expectations of currency devaluation, in our view, the growth of retail turnover would have been substantially higher. The increase in demand for hard currency led the population to intensify its purchasing of hard currency by around 30% year-on-year.

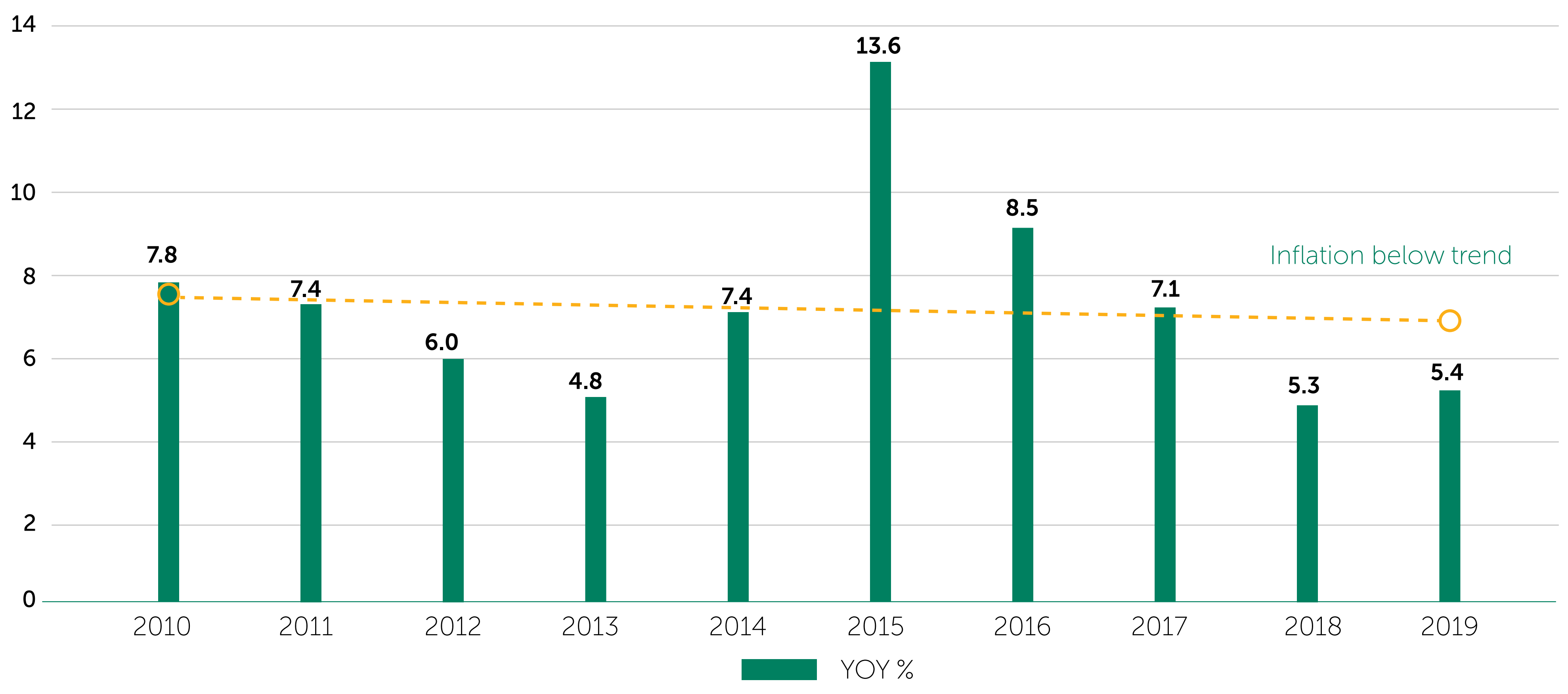
The unemployment rate in 2019 remained unchanged at the level of 4.8%, where it had been during the second half of 2018. The dynamics of the unemployment rate has been on the downside since in 2010 it stood as high as at 5.8%.

Kazakhstan's consolidated international reserves as at the end of 2019 amounted to US$90.9 billion. During the year, the consolidated reserves increased by 2.2%, primarily due to 6.8% growth of the assets of the National Fund to US$61.9 billion, at the same time the gross international reserves of the National Bank of Kazakhstan fell by 6.4% and amounted to US$29.0 billion. A reduction in the most liquid portion of the gold holdings of the National Bank of Kazakhstan was observed, foreign currency holdings, contracted by 39% from the beginning of the year to US$10.1 billion.

Revenues of the National Fund in 2019 fell to KZT2.8 trillion (excluding investment income) from KZT 3.2 trillion in 2018. Notably, the increase in transfers from the National Fund to the budget from KZT 2.6 trillion to KZT3.1 trillion resulted in the outgoings from the National Fund exceeding deposits by KZT0.2 trillion. The share of transfers in total state budget revenues stood at 24% and was unchanged from the previous year. In terms of share of GDP, the total assets of the National Fund fell last year from 41% to 39%, which is the lowest figure since 2014.

During 2019, the regulator's interest rate policy formed neutral monetary conditions. In the first half of the year, the regulator lowered the base rate to 9.0%, and in September, took the decision to raise it by 0.25%, as consumer inflation rose from 4.8% year-on-year in March to 5.5% year-on-year in August. During the year, expanding domestic demand was observed, which was supported by an increase in the real incomes of the population and the growth of the economy, on one side, and the expansion of consumer lending, on the other. External conditions were under pressure: the uncertainty around the US-China trade disputes, volatility observed on the energy markets, while inflation in countries that are trading partners remained below the inflation level in Kazakhstan. As the year progressed, the regulator did not raise the base rate, despite announcing at its last meeting in 2018 that monetary conditions were weakly restraining.

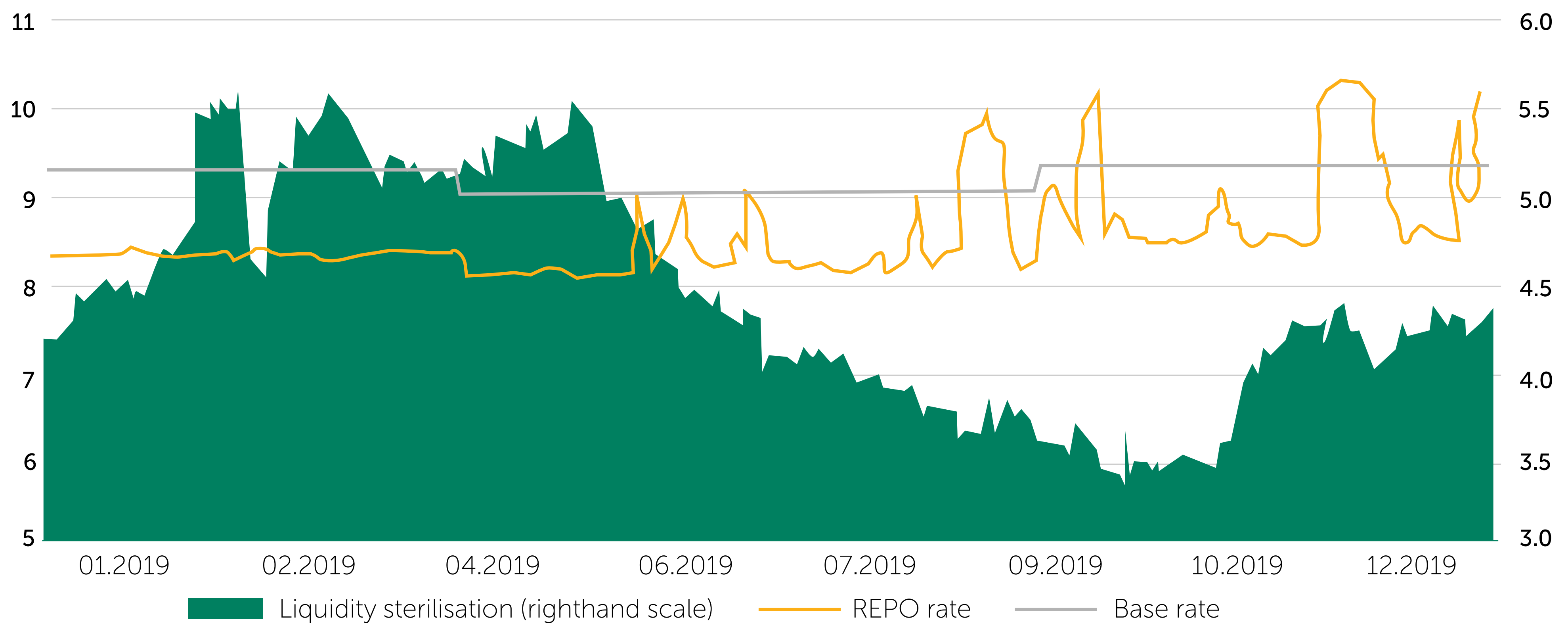
Inflation is stable



Source: CS MNE

The volume of excessive liquidity sterilised by the National Bank of Kazakhstan stayed at a high level. It reached KZT5.5 trillion in the first half of the year, but finished the year at KZT4.4 trillion. Short-term notes were the primary vehicle for absorbing excess liquidity and they accounted for an average of 80% of sterilisation. Money-market rates were formed mainly at the lower end of the regulator's rate band in the first half of the year, but due to the increase in inflation risks, they periodically were above the base rate in the second half of the year. In 2019, the inflation management of the regulator was complicated by the government's decision to sharply increase the spending portion of the budget, which caused additional distortions to the balance of consumer prices.

Money market condition



Source: NBRK, KASE

Banking sector in 2019*

The major event in the beginning of 2019 was the change in shareholders of Tsensabank and its subsequent rebranding as First Heartland Jýsan Bank. Later, the merger of Jýsan and FHB led to the reduction in the number of Kazakh banks to 27. Also last year, following a decree from the President of Kazakhstan, there was a writing-down of consumer debts of certain segments of the population and a series of regulatory measures were undertaken to tighten consumer lending. A no-less-important event during the year was the conduct of the asset quality review (AQR) encompassing 14 banks accounting for 87% of the market. According to the results of the AQR, the banks required recapitalisation of KZT50 billion, as during the course of the audit, out of KZT429 billion found to be insufficient, more than KZT180 billion of this potential amount (42%) had already been settled by the banks themselves. Also last year, the decision was taken to divide the authority of the National Bank of Kazakhstan and a newly spun-off special agency for the regulation of financial markets.

The total loan portfolio of Kazakh banks accelerated its growth, adding 7.1% in 2019, compared to an increase of 1.3% in 2018, and stood at KZT14.7 billion. The retail portfolio expanded by 26.8% to KZT6.3 trillion and demonstrated an acceleration in growth in comparison with the previous year (+17.2% in 2018) attributable to a 24.4% increase in consumer loans to KZT4.4 trillion and an expansion of mortgage lending by 33.8% to KZT1.8 trillion. Loans to legal entities grew by 4.5% year-on-year to KZT4.1 trillion, while the SME portfolio fell by 13.3% year-on-year to KZT4.0 trillion, which drove a reduction in business loans by 5%. As a result, the share of loans to businesses in the total loan portfolio fell to 54.7% (61.7% in 2018).

During the year, assets of the banking sector increased by 6.2%, and its deposit base expanded by 5.5%, compared with growth of 2.2% in 2018. The primary contributor to growth in the deposits was deposits by the population, which increased by 6.2% year-on-year. Following a contraction in the previous year, corporate deposits grew by 4.7% year-on-year in 2019.

Despite the higher rates of growth of the banking sector in 2019 by comparison to the previous year, its impact on the economy continued to decline. According to estimates by Halyk Finance, the ratio of loans issued by second-tier banks to GDP fell during the year from 22.3% to 21.4%, and the ratio of deposits to GDP also declined – from 27.6% to 26.1%. As a result, taking into account the real growth of GDP in the amount of 4.5% and inflation at the level of 5.4%, the nominal growth in loans and deposits lagged the nominal growth of the economy.

As before, the main reasons for this lag were structural problems in the Kazakh economy, which is oriented towards natural resource exports with a low share of added value and characterised by a strong government presence. The result of this is insufficient development, as well as the slow growth of real revenues in sectors that are not impacted by government measures to increase salaries.

According to National Bank of Kazakhstan data, the level of NPL90+ problem loans was 8.1% at the end of the year (+0.7% compared to the beginning of the year). Provisions at the end of the year accounted for 13% of the total loan portfolio and covered the volume of NPL90+ problem loans by 164%.

In 2019, the net profit of the banking system stood at KZT812 billion, which is the highest level over the past eight years.

*This analysis is based on the National Bank of Kazakhstan's regulatory reporting, the data from which could significantly differ from the audited financial reporting of each bank.

11

FINANCIAL REVIEW

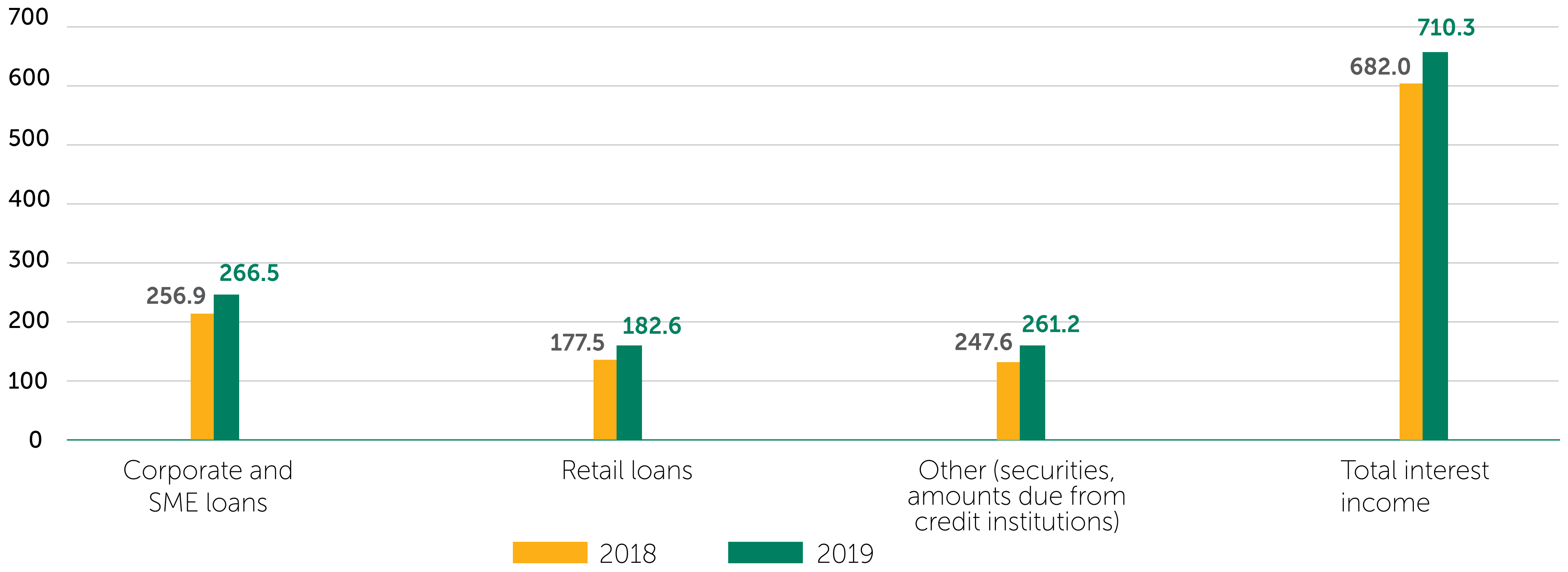
FINANCIAL REVIEW

Net income increased by 31.6% to KZT 334.5bn for 12M 2019 compared to KZT 254.2bn for 12M 2018 mainly due to net interest income growth in 12M 2019. For 12M 2018 the Bank had higher loss from impairment of non-financial assets of KZT 27.3 bn compared to 7.4bn for 12M 2019, and in 2Q 2018 there was a de-recognition of tax loss carry forward of KZT 43.3bn by Kazkommertsbank's (KKB) due to the merger into Halyk Bank.

Consolidated income statement

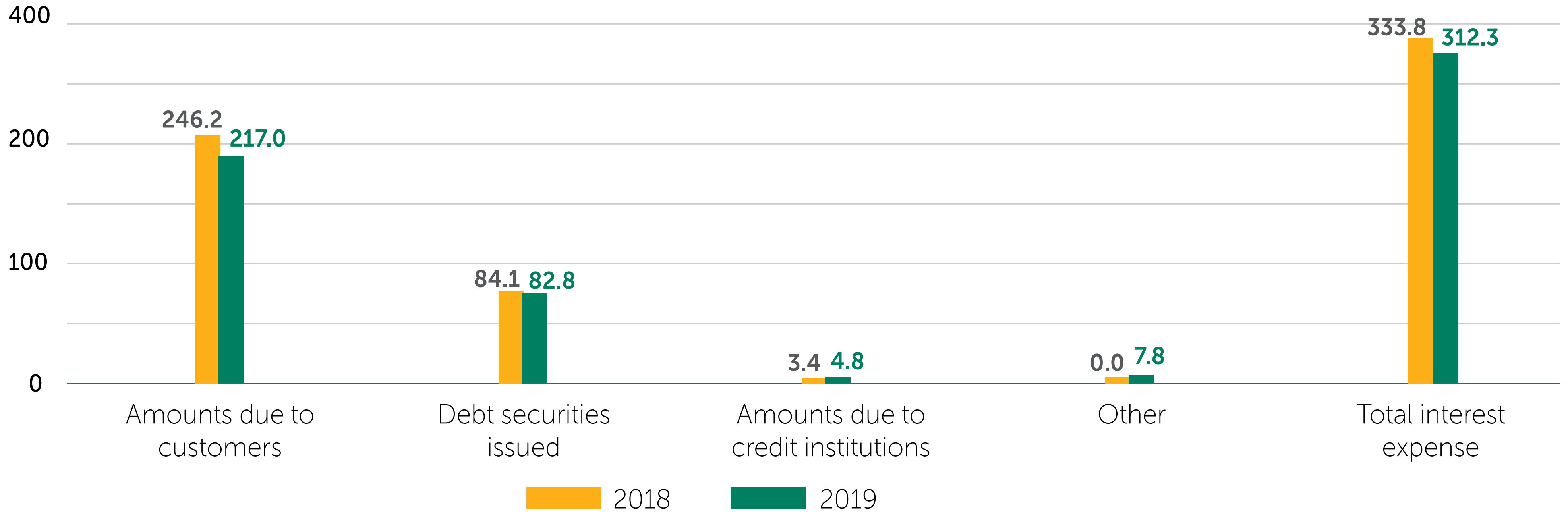
Interest income increased by 4.1% to KZT 710.3bn for 12M 2019 compared to KZT 682.0bn for 12M 2018 mainly as a result of increase in average balances of interest-earning assets by 9.8%.

Interest income by assets, KZT billion



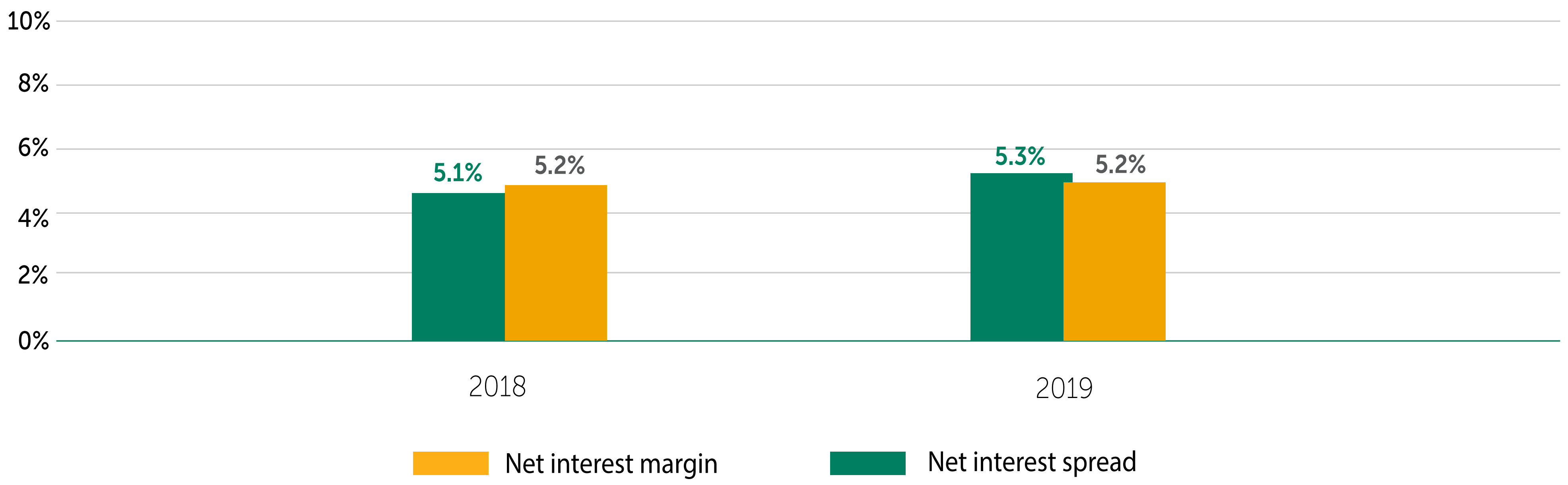
Interest expense for 12M 2019 decreased by 6.4% compared to 12M 2018 mainly due to continuous repricing of retail term deposits following the decrease of deposit interest rate cap by Kazakhstan Deposit Insurance Fund.

Interest expense by liabilities, KZT billion



As a result of increase in net interest income and due to increase in the share of placement of interest-bearing liabilities into interest-earning assets, net interest margin increased to 5.3% p.a. for 12M 2019 compared to 5.1% p.a. in 12M 2018.

Net interest margin and net interest spread



Cost of risk on loans to customers for 12M 2019 was at 0.7%, more normalized level compared to 0.5% for 12M 2018 which was mainly due to repayment of a large ticket impaired corporate loan and transfer of few problem corporate loans to subsidiary SPVs in 4Q 2018.

Fee and commission income* for 12M 2019 increased by 8.8% p.a. vs. 12M 2018 as a result of growing volumes of transactional banking, mainly in payment cards operations, as well as letters of credit and guarantees issued.

Prior to the merger, the transfers within legal entities' current accounts in Halyk and KKB were treated as external transfers and relevant fees were applied. After the integration, the transfers between those current accounts are being treated as internal and therefore are free of charge. As a result, fees derived from Bank transfers – settlements decreased in 12M 2019 vs. 12M 2018. The decrease in fees derived from cash operations in 12M 2019 vs. 12M 2018 was mainly due to increased volumes of non-cash transactions.

Fee and commission expense increased by 40.1% compared to 12M 2018 mainly due to increased number of transactions of other banks' cards in the acquiring network of the Bank.

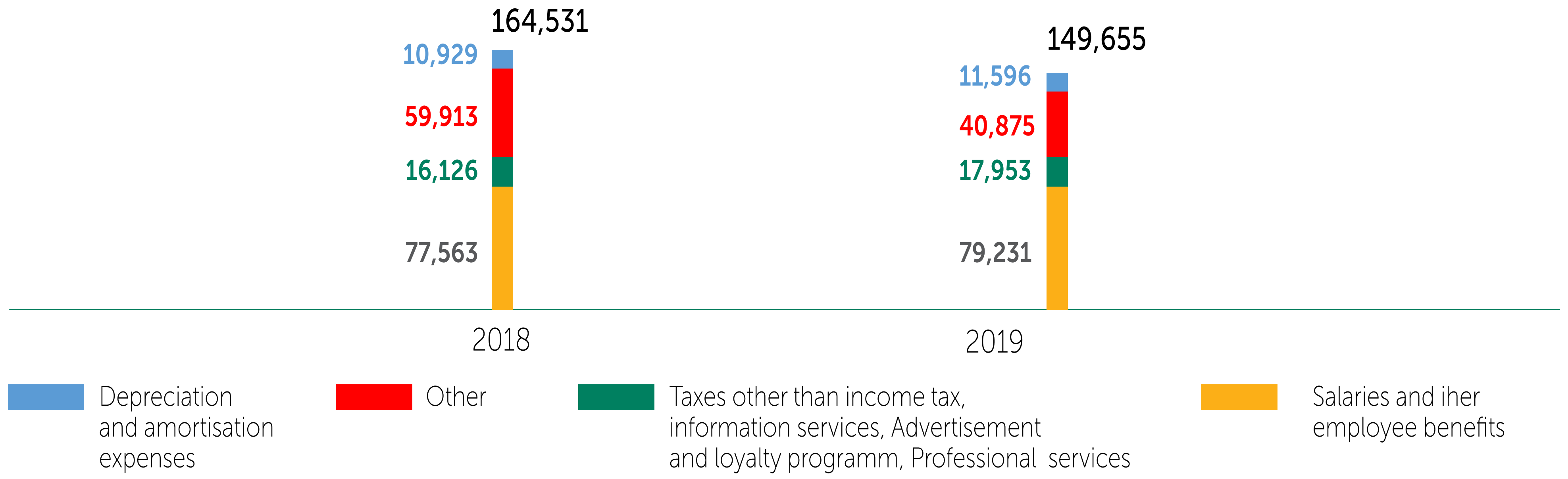
	For years ended 31 December	
	2019	2018
	KZT mln	KZT mln
Plastic card operations	63 147	53 866
Bank transfers - settlements	15 878	16 456
Cash operations	11 335	12 010

* Starting from 1Q 2019 the portion of fees relating to payment card operations, which was previously accounted within cash operations and bank transfers, are represented as fees derived from payment card operations. Figures for 4Q 2018 were recalculated accordingly.

	For years ended 31 December	
	2019	2018
Servicing customers' pension payments	8,131	8,037
Bank transfers – salary projects	6,925	7,200
Letters of credit and guarantees issued	9,718	7,019
Maintenance of customer accounts	3,310	4,049
Other	4,812	4,604
	123,256	113,241

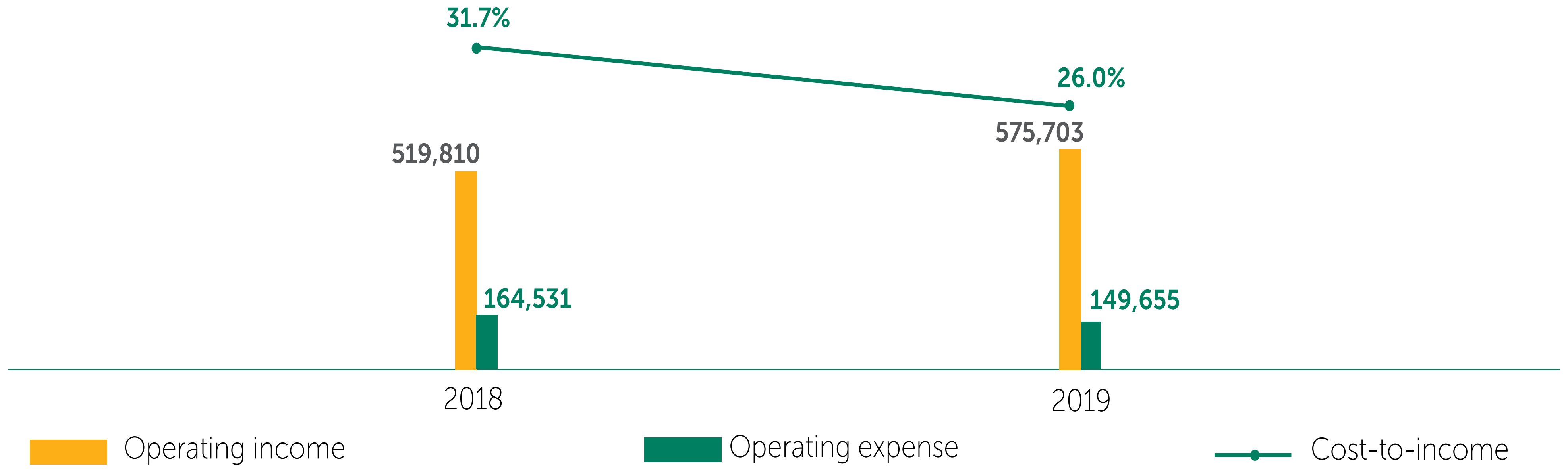
Operating income increased by 10.8% vs. 12M 2018 mainly due to increase in net interest income.

Operating expenses, KZT million



On the back of lower operating expenses and higher operating income for 12M 2019 vs. 12M 2018, the Bank's cost-to-income ratio decreased to 26.0% compared to 31.7% for 12M 2018.

Cost-to-income ratio

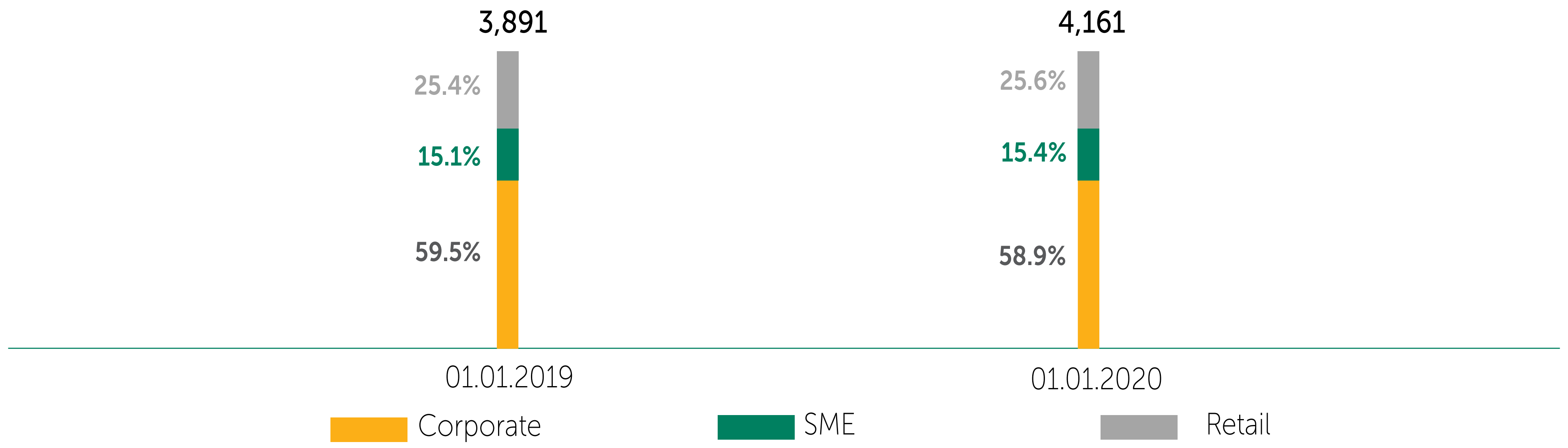


Consolidated statement of financial position

As at YE 2019 total assets increased by 3.1% vs. YE 2018, and their structure was improved thanks to increased share of higher-yielding loans to customers.

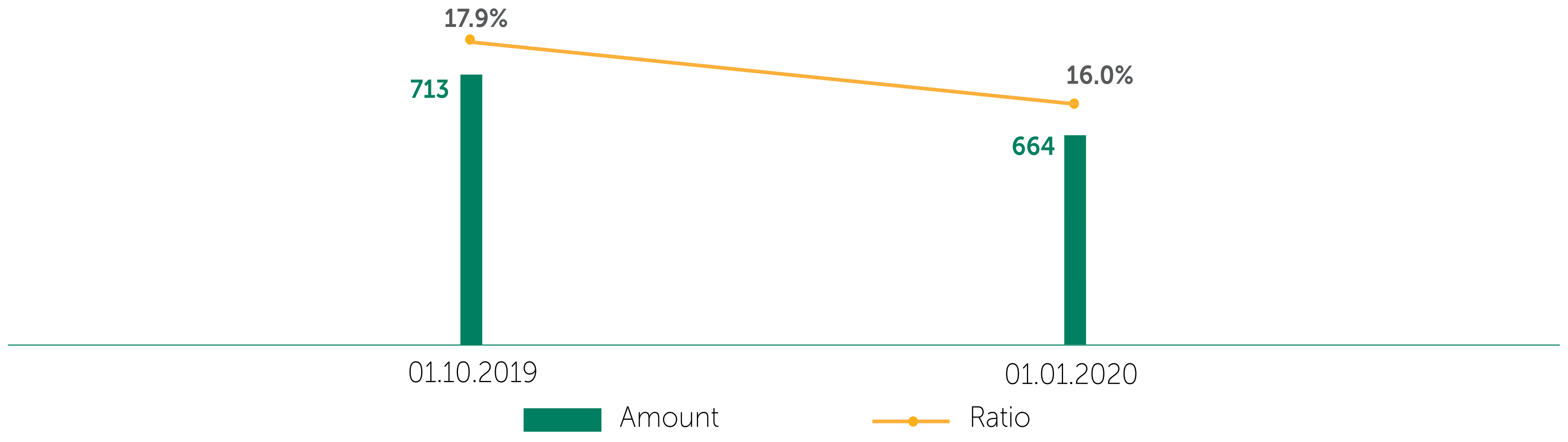
Compared with the YE 2018, loans to customers increased by 6.9% on a gross basis and 7.8% on a net basis. Increase of gross loan portfolio in 2019 was attributable to increase in corporate loans (5.9% on a gross basis), increase in SME loans (9.4% on a gross basis), and increase in retail loans (7.9% on a gross basis).

Total gross loans by sectors, KZT billion



As at the end of 4Q 2019, Stage 3 ratio decreased to 16.0% from 17.9% as at the end of 3Q 2019 mainly as a result of write-off and repayment of previously impaired indebtedness of corporate and retail borrowers.

Stage 3 (including POCI), KZT billion



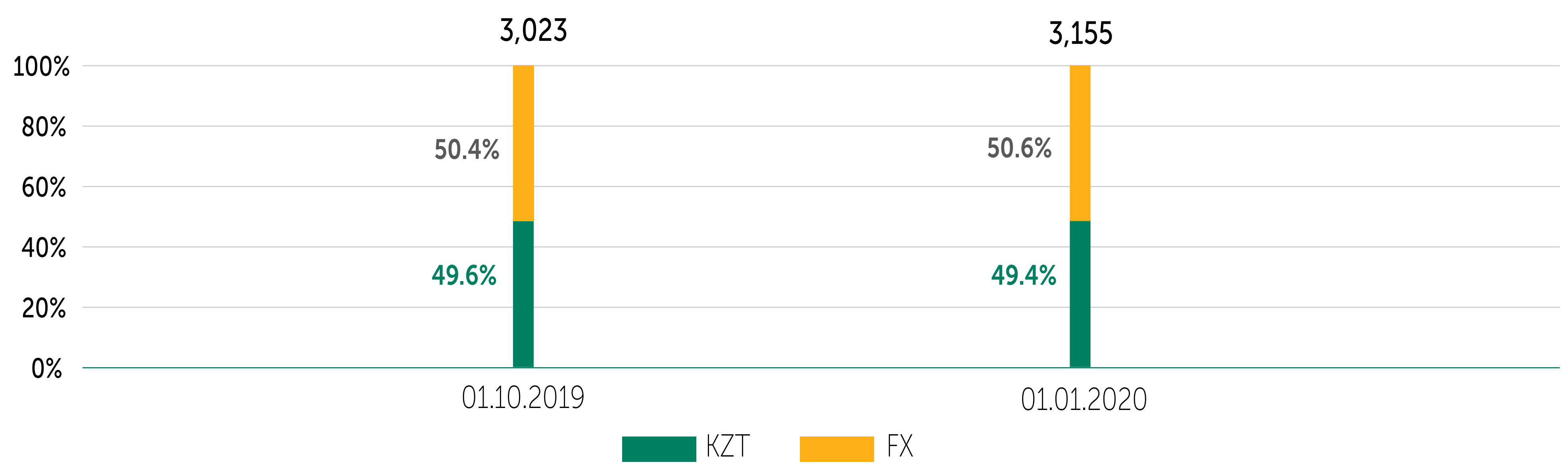
Allowances for expected credit losses rose by 0.3% yearon-year as of the year-end 2018, mainly due to an increase in provisions within the normalized cost of risk.

Deposits of legal entities increased by 0.8% and deposits of individuals decreased by 4.3%, compared to YE 2018 mainly due to partial withdrawal of funds by the Bank's customers to finance their

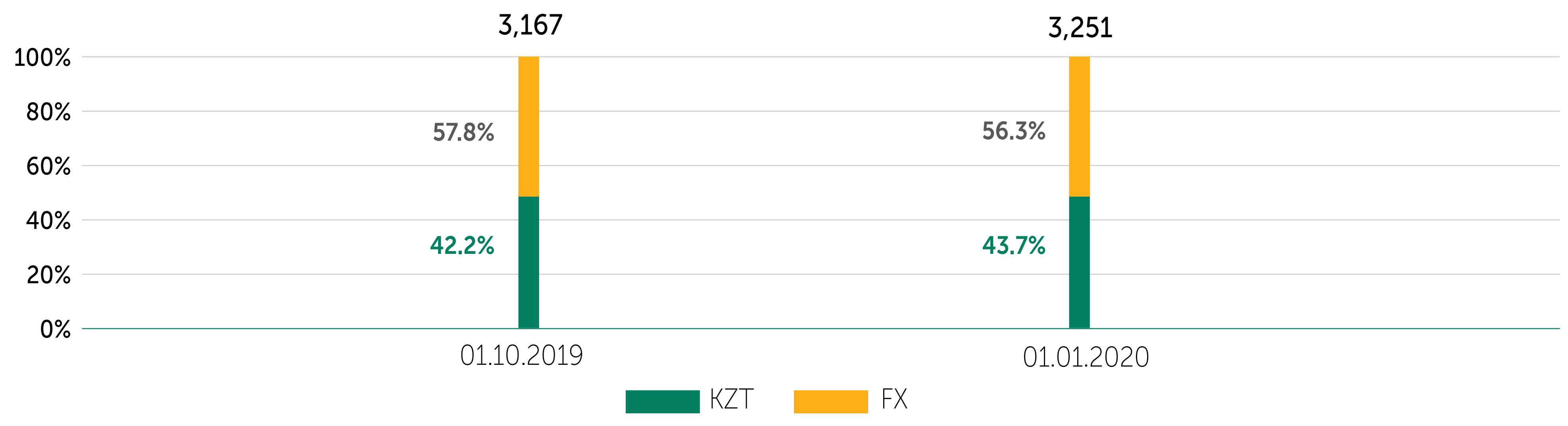
Financial review

ongoing needs and transfer of a part of FX retail deposits into USD-denominated bonds placed at Astana International Exchange. As at 31 December 2019, the share of corporate KZT deposits in total corporate deposits was 49.4% compared to 49.6% as at 30 September 2019, whereas the share of retail KZT deposits in total retail deposits was 43.7% compared to 42.2% as at the end of 3Q 2019.

Corporate deposits by currency, KZT billion



Retail deposits by currency, KZT billion



Amounts due to credit institutions increased by 81.7% vs. YE 2018 mainly due to increase in loans and deposits from Kazakhstan banks (including loans under REPO agreements) attracted for placement at higher rates. As at 31 December 2019, 86.2% of the Bank's obligations to financial institutions were represented by loans from Kazakhstan banks (incl. loans under REPO agreements), KazAgro national managing holding, DAMU development fund, Development Bank of Kazakhstan drawn in 2014–2017 within the framework of government programs supporting certain sectors of economy.

Debt securities issued decreased by 7.4% vs. YE 2018, mainly due to the early partial prepayment of Bank's USD 750,000,000 Eurobond issue on 1 March 2019, redemption of Bank's KZT 3.5bn subordinated bonds on 26 April 2019 and redemption of Bank's KZT 59.9bn coupon bonds on 14 November 2019. As at the date of this press-release, the Bank's debt securities portfolio was as follows:

Description of the security	Nominal amount outstanding	Interest rate	Maturity Date
Eurobond	500 mln. USD	7.25% p.a.	January 2021
Eurobond	548 mln. USD	5.5% p.a.	December 2022
Local bonds	100.0 bn KZT	7.5% p.a.	November 2024
Local bonds	131.7 bn KZT	7.5% p.a.	February 2025
Local bonds	93.6 bn KZT	8.75% p.a.	January 2022
Subordinated coupon bonds	101.1 bn KZT	9.5% p.a.	October 2025
Local bonds listed at Astana International Exchange	172.5 mln USD	3.0% p.a.	April 2022

Compared with the YE 2018 total equity increased by 22.7% as a result of net profit earned by the Bank during 12M 2019.

The Bank's capital adequacy ratios were as follows:

Capital adequacy ratios, unconsolidated:

	01.01.2020	01.01.2019
k1-1	21.3%	19.7%
k1-2	21.3%	19.7%
k2	23.1%	21.6%

Capital adequacy ratios, consolidated:

	01.01.2020	01.01.2019
CET 1	20.6%	18.5%
Tier 1 capital	20.6%	18.5%
Total capital	21.9%	19.9%

12 BUSINESS REVIEW

Business review

Halyk Bank's core business focuses on retail, corporate and SME banking. Through subsidiaries, the Bank also provides insurance, cash collection, asset management, brokerage, telecommunication and leasing services.

Retail banking

Retail deposits

In 2019, the deposit portfolio among second-tier banks in Kazakhstan increased by KZT536 billion (around 6.11%) to KZT9.3 trillion, of which Halyk Bank accounted for KZT3.2 trillion. The Bank retained its leading position with a market share of 34% and a share of term deposits of 33.2%.

The Bank optimised its deposit product line during the reporting period in accordance with the new methodology used to determine and set the maximum interest rate on new retail deposits by the Kazakhstan Deposit Insurance Fund (KDIF).

In 2019, the KDIF reapproved the maximum interest rates in national currency seven times, depending on the currency, maturity, category and possibility for replenishment.

The average interest rates in national currency during the year for savings deposits increased by 1%, while the interest rates decreased by 0.6% for deposits that do not allow partial withdrawal or replenishment during their tenure and by 0.7% for deposits that allow partial withdrawal or replenishment during their tenure.

The maximum interest rates for deposits in foreign currency remained unchanged.

In 2019, the following projects were implemented for deposits and current accounts:

- To expand the product line for customers, new deposit lines were launched (Maximum, Optimum and Universal):
  - Maximum deposits have the effective rate of up to 14% in tenge and up to 2.0% in foreign currency, without the possibility for replenishment or partial withdrawal.
  - Universal deposits are convenient for customers and offer the possibility for replenishment or partial withdrawal with an effective rate of up to 9.8% in tenge and up to 1.0% in foreign currency.
  - Optimal deposits offer the possibility for replenishment but do not allow partial withdrawals with an effective rate of up to 10.6% in tenge and up to 1.7% in foreign currency.
- To save time, deposits can now be replenished directly, bypassing the current account in the payment terminal.
- Credit and debit operations can now be performed for current accounts using automated tellers.
- Retail customers can now activate suspended accounts via Homebank.
- For faster, more convenient service, customers no longer need to visit a branch. Homebank now offers an opportunity to generate statements and notifications on 20-digit current accounts, savings accounts and current card accounts in PDF format.
- An SMS notification service has been launched for current and savings accounts to inform customers about credit and debit operations regardless of the transaction channel used.

Retail lending

As of 1 January 2020, Halyk Bank's retail loan portfolio KZT1,036 billion, up 9.4% year-on-year. The main driver of retail lending was consumer loans, which accounted for 73% of the Bank's overall loan portfolio. The total amount of retail loans issued during 2019 was KZT597.3 billion.

In 2019, the Bank's share of the retail lending market was 17.3%.

During the reporting period, the Bank introduced the following new retail lending products:

Credit lines on payment cards

The purpose of this product is to offer a flexible tool for obtaining various consumer loan products, including online. Customers can apply at their branch once to obtain a loan and sign the necessary documents, after which they can receive new loans in a simpler manner, including via remote channels.

Homebank portal lending

Customers can also initiate loans via Homebank without visiting a branch of the Bank. Documents are signed using an electronic digital signature.

Loans and deferred payment for purchases

The Bank offers consumer loans for purchases via the application of its partner, Technodom Operator.

Together with Technodom Operator, the Bank has a new offering for all its clients. Now anyone, including new customers of the Bank, can quickly and conveniently apply for deferred payment from any smartphone and pick up their purchase at a convenient time and place, or arrange delivery. With this product, customers registration in the Bank's systems online using the Technodom application and their the Homebank login.

New customers are registered using video liveness detection and scanned identity documents, which makes it possible to verify customers online in government databases by checking their identity card and recorded video.

Deferred payment for a period of three months can be granted with an option of setting extended maturities (6, 12 and 24 months) during the campaigns carried out by Technodom Operator. In addition, no issuance fee is charged on these products (loans and deferred payment for purchases).

Payment cards

As of 1 January 2020, the number of active payment cards issued by second-tier banks was 5.2 million. Halyk Bank remained the market leader with a share of 28.3%.

In 2019, the Bank introduced the following new payment card products:

Halyk Bonus

On 1 October 2019, the new payment card Halyk Bonus was launched. It is a modern offering for maximum coverage of daily needs.

Halyk Sinooil

On 16 March 2019, the new payment card Halyk Sinooil was launched for car owners. The card offers a 5% bonus when paying in the Sinooil network, as well as several free services related to car maintenance, including round-the-clock online consultations with AutoLawyer.

Halyk Club

On 1 October 2019, the Bank began offering a guaranteed bonus of 1% on all purchases. After card issuance, customers become members of Halyk Club, which includes the following:

- 1% guaranteed bonus on all purchases
- 25% maximum bonus at more than 13,000 points of sale withing the Halyk Club partner network
- 10% maximum bonus for special programmes

Other new offerings

On 21 November 2019, the Bank began delivering Halyk payment cards free of charge in the cities of Almaty and Nur-Sultan.

On 5 December 2019, it became possible to receive an embossed card within 10 minutes at 50 branches in Almaty and Nur-Sultan.

In May 2019, the salary transfer scheme was optimised to reduce the enrolment time from two hours to 30 minutes.

In October 2019, card issuance through the HomeBank application began.

Payroll projects

Payroll projects are one of the Bank's main strategic services. In total, the bank has around 32,000 payroll projects.

In 2019, the volume of payroll transfers (including Kazkommertsbank) rose by 6% year-on-year to KZT4.4 trillion.

Social payments

As one of the main financial institutions that has been disbursing social payments in Kazakhstan since 1996, Halyk Bank serves around 2.5 million pensioners and recipients of benefits. It accounts for 70.7% of social payments in Kazakhstan in terms of volume and 68.5% in terms of the number of transactions.

Payment terminals

In 2019, Halyk Bank's payment terminal network was optimised by acquiring 290 terminals instead of renting them. New services were also introduced, including accepting voluntary pension contributions, submitting applications for preliminary retail loan approval and accepting mandatory social medical contributions. In addition, optimised services included reducing the amount of numbers that need to be entered to replenish a card account, as well as improving the system for navigating and searching for services.

In 2019, the total number of transactions conducted via the Bank's payment terminal network rose by 5.3% year-on-year to 16.3 million transactions, compared with 15.5 million transactions in 2018.

Remote services for individuals

The primary goal for the Homebank portal in 2019 was to develop services and provide as wide a range of online services as possible to reduce the number of customer visits to Bank branches. An online customer support chat bot was introduced to answer frequently asked questions and, if necessary, redirect a user to a contact centre manager for a detailed consultation.

In addition, a service was introduced to order certificates for embassies with delivery. Users can submit an online application and their certificate is delivered to the customer within three working days. Customers can also use such popular online services as requesting bank cards, opening deposits and applying for loans.

With online loan applications, customers no longer need to visit a branch of the Bank, credit scores are determined online, and customers can sign agreements using electronic digital signatures, which are also issued via Homebank.

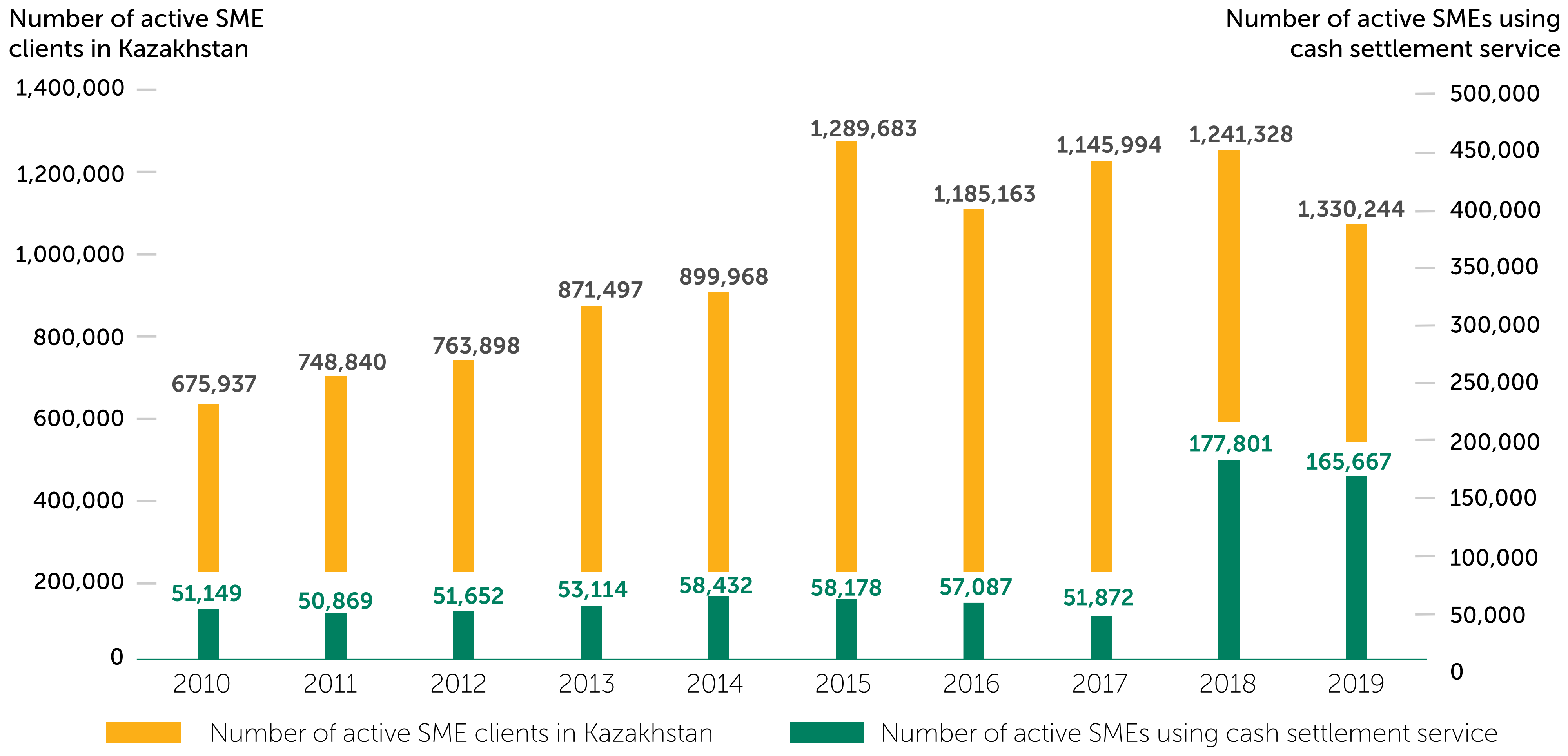
Another new service that was launched is rapid transfers using the mobile number for a cardholder from any second-tier bank in Kazakhstan: the system recognises the customer and, if they are not a Halyk Bank customer, generates a link that a cardholder of another second-tier bank can use to enter their card number and receive the transfer.

Work also continues to add payment service providers in Homebank: as of the end of December 2019, the system offered payments using 3,703 services, which is an increase of more than 2,500 services during the year. To make it faster to add new payment services, the Bank's Transaction Business Centres made it possible for new service providers to register online. To improve customer loyalty, a new option was introduced for the Bank's customers to pay service providers using the bonus points received for transactions.

The Homebank application has been installed more than 4.1 million times in Google Play and the App Store. The total number of Homebank users exceeds 4.2 million.

SME banking

As of 1 January 2020, the Bank had around 166,000 SME clients, including some 7,800 borrowers, and had issued roughly 24,600 SME loans.

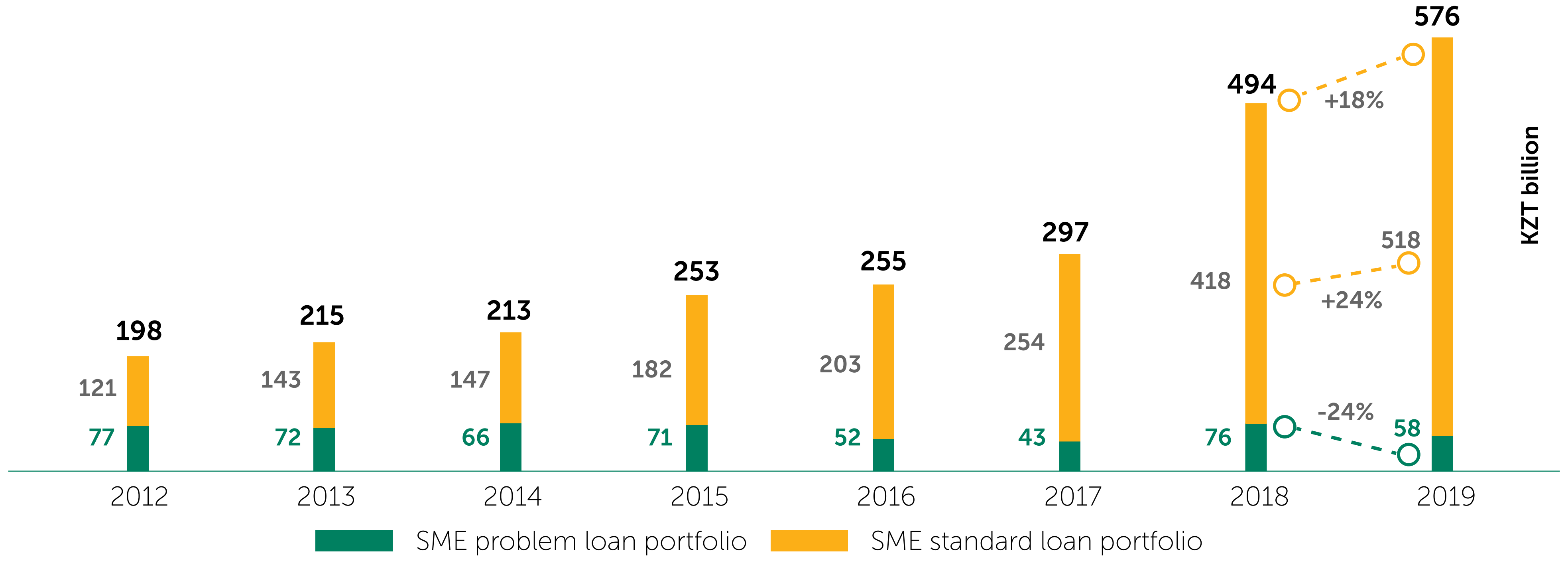


Note: According to the Statistic Committee of the Ministry of National Economy's data for 2014, the number of individual entrepreneurs was based on the data of the State Revenue Committee of the Ministry of Finance (excluding agriculture). The sharp increase in 2015 was caused by the enactment of Kazakhstan's "Law on Private Entrepreneurship", which stated that for statistical purposes, data on SMEs could be categorised as such based on number of employees only ("On amending certain legislative acts of the Republic of Kazakhstan to reduce permits and optimise the control and supervisory functions of state bodies"). The information about SMEs takes these changes into account.

Of the total number of SME clients, there were:

- 35,600 clients using two products
- 9,700 clients using three or more products

In addition, the number of clients using more than one product was 45,300, or 27% of all active customers.

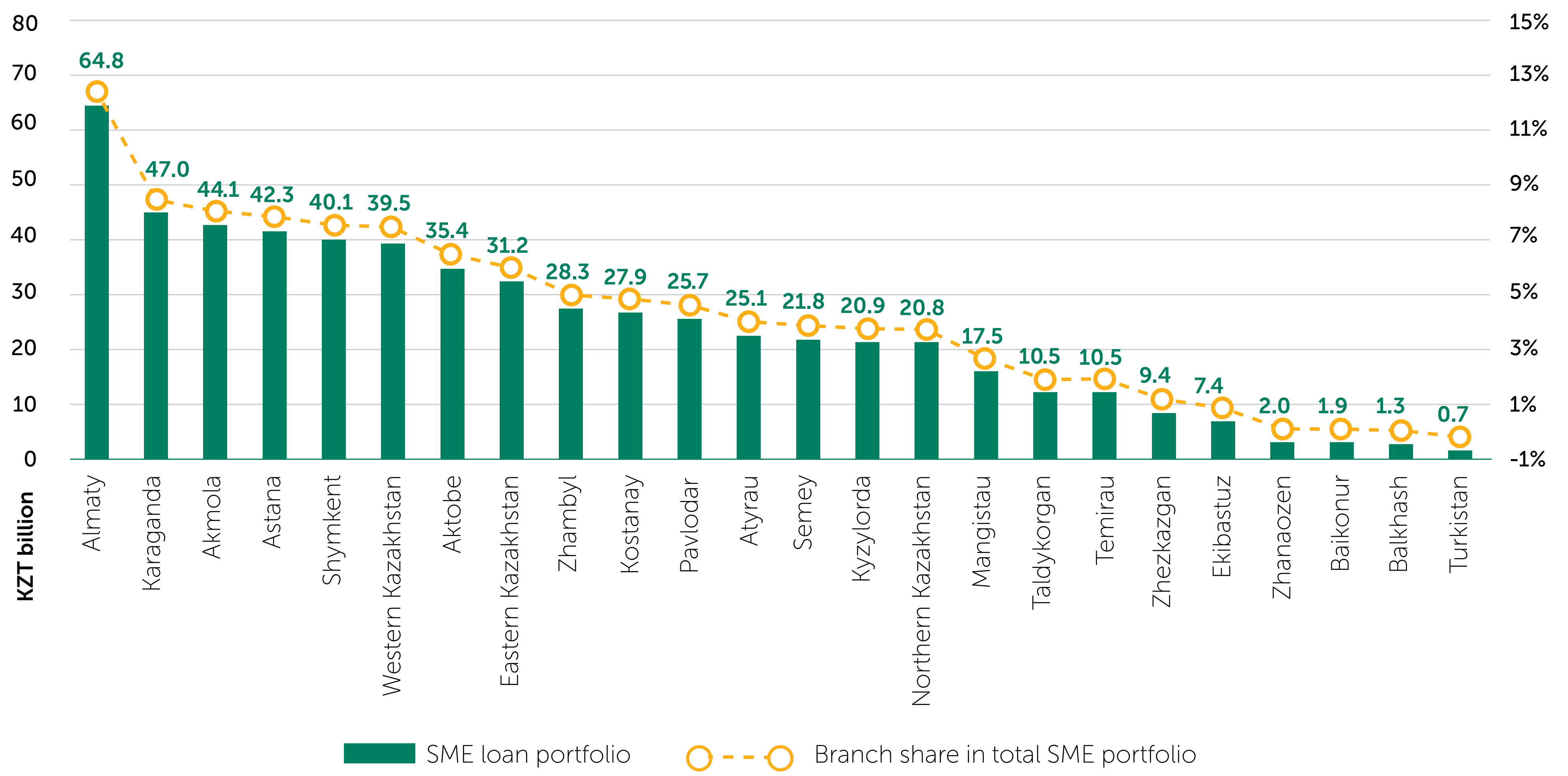


*Borrowers with loans in the amount of KZT45 billion were transferred to the corporate client department; in 2018 the total value of the portfolio was KZT539 billion.

The following trends were seen in SME lending:

- The Bank's SME loan volumes are increasing steadily, up 7% year-on-year from KZT674.3 billion in 2018 to KZT721 billion in 2019
- The Bank continues to work to improve the quality of its SME loan portfolio, which led to a significant reduction in its problem SME loan portfolio (down 24% year-on-year) and an increase in the standard (non-problem) SME loan portfolio (up 24% year-on-year) since the start of the year
- The Bank is strengthening its position on the documentary market; the annual average portfolio of uncovered (supported by collateral) bank guarantees issued by the Bank rose by around 12% year-on-year from KZT47.3 billion in 2018 to KZT53.1 billion in 2019

By region, as of 1 January 2020, the largest shares of the SME portfolio were 11.2% for Almaty region, 8.1% for Karaganda region, 7.6% for Akmola region, 7.3% for Astana region and 7.0% for Shymkent region.



Throughout 2019, Halyk Bank played and continues to play an active role in state programmes together with the Damu Entrepreneurship Development Fund to support business in Kazakhstan.

As part of the "Business Roadmap – 2020" programme, a total of 3,858 of projects were signed (subsidy agreements) and the subsidised loan portfolio amounted to KZT692.16 billion. On each of these metrics and overall, Halyk Bank consistently ranks in first place among banks that participate in the programme.

Another important area of cooperation with the Damu Entrepreneurship Development Fund is a loan guarantee programme that Halyk Bank offers to private businesses. Since the programme was launched, a total of 1,591 guarantee agreements have been signed with Halyk Bank's customers, which accounts for 24% of the total number of guarantees (6,663) that have been issued under the programme, placing the Bank in first place in this metric, as well. The Bank also ranks in first place in terms of the total volume of loans guaranteed by the Damu Entrepreneurship Development Fund at KZT23.47 billion, or 23% of the total amount of guarantees issued under this programme.

In addition to "Business Roadmap – 2020", Halyk Bank is involved in numerous other joint programmes to finance private business with the Damu Entrepreneurship Development Fund.

Since April 2014, the government has allocated KZT64 billion for its programme to support SMEs in the processing industry. Through the programme, including funds that have been reused after repayment, the Bank has funded 5,001 projects for a total of KZT210.1 billion. Halyk Bank is among the top three banks in terms of funds allocated and disbursed under the initiative.

In May 2016, the Bank began to help with implementing a Regional SME Financing Programme funded by the Damu Entrepreneurship Development Fund and regional governments. As of 31 December 2019, the programme included 14 of Kazakhstan's regions (Almaty region, Aktobe region, Atyrau region, Akmola region, Mangistau region, Kyzylorda region, Western Kazakhstan region, Kostanay region, Northern Kazakhstan region, Zhambyl region, Eastern Kazakhstan region, Pavlodar region, Karaganda region and Turkistan region), as well as the cities of Almaty and Nur-Sultan. The Bank has signed 64 agreements with the fund for a total amount of KZT22.5 billion.

To date, the Bank has fully allocated the first loans under 56 of the 64 agreements under this programme. For the remaining eight agreements totalling around KZT3.4 billion, 71% of the first loans have already been issued and active work continues to fully allocate the funds.

As part of the programme to develop productive employment and mass entrepreneurship, as of 31 December 2019, the Bank had placed KZT10.9 billion in 14 of Kazakhstan's regions (Almaty region, Aktobe region, Eastern Kazakhstan region, Zhambyl region, Western Kazakhstan region, Karaganda region, Kyzylorda region, Pavlodar region, Turkistan region, Kostanay region, Akmola region, Mangistau region, Northern Kazakhstan region and Atyrau region), as well as the cities of Almaty, Nur-Sultan and Shymkent. Overall, the Bank has already allocated KZT9.8 billion under this programme, placing it second.

In 2019, the Bank continued to implement the "Nurly Zher" housing construction programme to stimulate home construction by private builders.

In December 2018, Halyk Bank began to participate in the "Credit Mechanism for Priority Projects" state programme. To date, the Bank has accepted applications from entrepreneurs in the amount of KZT47.8 billion, of which the Bank has approved KZT26.8 billion.

Corporate banking

In 2019, Halyk Bank once again confirmed its position as a leader in Kazakhstan's corporate banking sector. Each year, the bank maintains a high-quality loan portfolio. In Kazakhstan's current banking environment, Halyk Bank enjoys significant advantages, including the largest limit on the group of borrowers, as well as high liquidity in tenge and foreign currencies, which help it to increase its presence in corporate lending. The Bank continues to work successfully with its major corporate customers and is working to expand its client base.

The Bank offers quality customer service, as well as a wide range of products, services and tools to meet customer needs. The primary indicator of its effective customer policies is the continuous growth in the number of customers served. Their continued trust in the Bank is confirmed by the growth of funds in customer accounts, as well as the rising number of banking products they use. The Bank has conducted numerous customer satisfaction and loyalty surveys with its corporate clients, who have provided positive feedback and have expressed a willingness to recommend Halyk Bank to their business partners.

In 2019, the Bank held a number of image-building events for companies, including a business forum for corporate and SME customers where the discussion included strategy and business development tools for companies in Kazakhstan, promising new markets and niches, industry expertise from market leaders and representatives of development institutions, building effective business models, possibilities for collaboration on customer projects, as well as potential joint projects with the Bank. In 2020, the Bank plans to hold similar events for its customers as a platform to create close business ties and partnerships among entrepreneurs and the expert community representing various economic sectors and development institutions in Kazakhstan.

The Bank works with most major companies in Kazakhstan. Its corporate customers include quasi-government companies, market-leading private Kazakh businesses, major companies with foreign shareholders, as well as the most promising SMEs in various sectors of Kazakhstan's economy. The Bank's team strives to perfect its services and processes for its more than 2,000 active corporate clients, developing new products and improving the quality of its banking services.

The main products provided to corporate customers include lending, trade finance and documentary operations, corporate cash settlement services, payroll projects and merchant acquiring services. The Bank also offers the full suite of Halyk Group services, including all types of insurance, brokerage, cash collection and other services.

In the corporate cash settlement business, the Bank continues to focus closely on developing remote service technologies, adding new features to its online banking offering for companies. For most corporate clients, the features of the system have been customised to match their organisational structures and business profiles. Cash flow management and control services are available for groups of companies. In 2019, the Onlinebank service for corporate customers was upgraded with convenient new features including 24/7 payments for legal entities, a counterparty due diligence service, the ability to use QR codes to receive payments and Onlinebank invoicing, among others.

Corporate lending, which accounts for the majority of the Bank's loan portfolio, continues to occupy a leading position in the business structure. The Bank offers its customers various types of corporate lending products, including secured and unsecured loans, overdraft loans, loans secured by collected proceeds, loans for financing investments and operations, etc. The Bank's target corporate clients include large industry leaders whose creditworthiness is confirmed by leading rating agencies. The Bank is moderately expanding its loan portfolio, adapting to the new economic environment, maintaining the traditionally low share of non-performing loans (NPL 90+) in its portfolio, and is working to improve the quality of its loan portfolio.

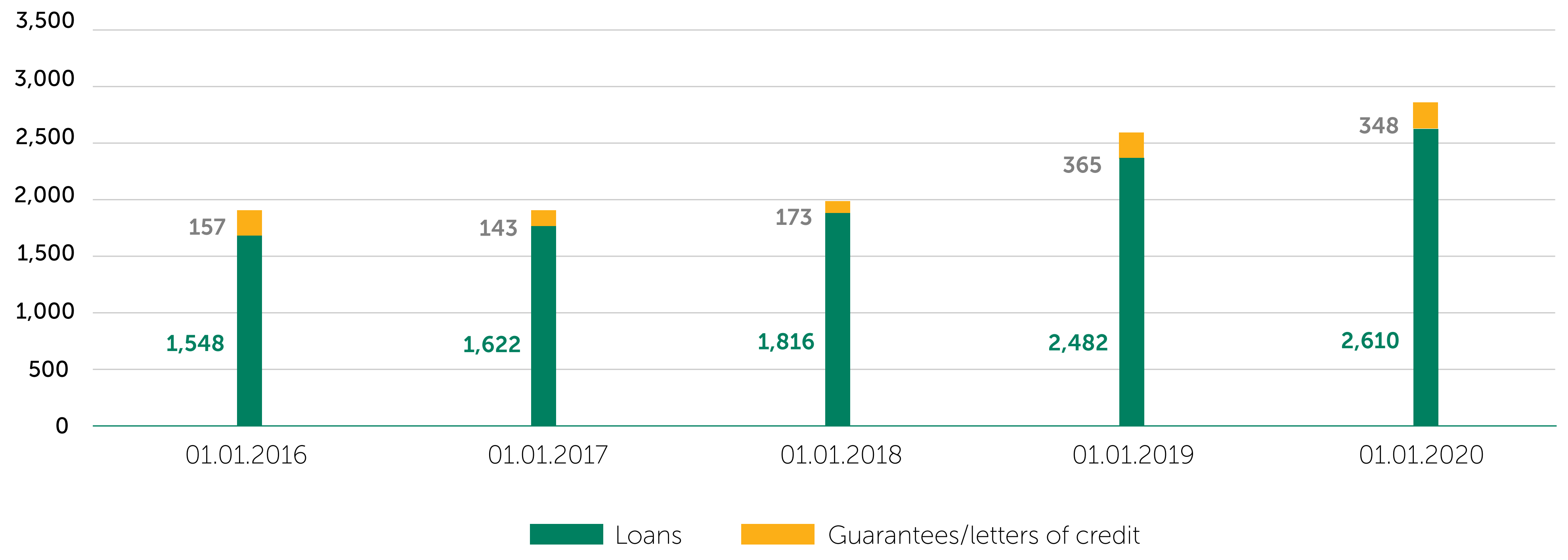
The main objective of the Bank's corporate lending policy in 2019 was to maintain its position in this market amid an environment of moderate economic growth. During the reporting period, the Bank also focused on maintaining customer loyalty and reducing problem loans, as well as monitoring, analysing and diversifying credit risks. The Bank's basic corporate lending principles and terms remained unchanged in 2019: priority was given to corporate customers with a solid reputation, positive credit history, stable financial condition and high solvency.

Halyk Bank remains actively involved in a state programme to support large enterprises, which is being implemented through the Development Bank of Kazakhstan. Overall, the Bank has allocated KZT30.9 billion, while in 2019, using resources provided by the National Fund, it financed major manufacturers in the pharmaceutical, chemical, textile and food industries, as well as the production of oil and gas equipment, construction materials and lubricants.

In 2019, in line with the business development plans, the Bank began to introduce a new factoring product. In 2020, it intends to increase the volumes of the factoring business.

Overall, the corporate banking business ended 2019 with good results, implementing several major projects to finance the metals and mining, telecommunication, retail, oil and agricultural sectors. The Bank's high liquidity and capital reserves, as well as its ability to offer customers a wide range of services through an extensive regional network, contributed to an increase in market share in the corporate sector.

Changes in Halyk Bank's corporate portfolio (KZT bln)



In 2020, the Bank intends to maintain its leading positions in the corporate segment by making the best possible use of the experience and potential of the entire Halyk Group in the interests of its customers.

The Bank also plans to continue its policy of developing its relationship with existing clients while further expanding its customer base, as well as increasing their use of Halyk Group products and services, offering a range of financial solutions and actively using the capabilities of Halyk Group. Special attention will be paid to improving efficiency and maintaining high standards of customer service.

The Bank's key priorities in the development of its corporate business in 2020 are:

- Expanding the lending product line, including sales chain financing
- Expanding and improving the transactional line (settlement products, cash management and industry solutions)
- Developing online services for legal entities
- Expanding analytical information about the market with industry breakdowns to identify potential customers and build proactive sales

Subsidiaries

Assets of subsidiaries as of 31 December 2019

Name	Assets, KZT billion	Market share by assets, %
Halyk Bank Georgia	71.3	1.09
Halyk Finance*	47.3	25
Kazkommerts Securities*	18.6	10
Halyk Insurance Company**	149.4	15
Moskommertsbank	122.2	0.024
Hakyk Life***	176.2	40
Halyk Bank Kyrgyzstan	53.0	3.8
Halyk Leasing	6.6	n/a
Halyk Bank Tajikistan	21.5	3.3
Halyk Collection	4.5	n/a
Kazteleport	5.5	n/a
Halyk Finservice	0.5	n/a
Halyk Project	50.5	n/a
KUSA Halyk	74.8	n/a
Halyk Aktiv	45.8	n/a
Halyk Aktiv 1	29.3	n/a
Tenge Bank	14.8	0.1

* Market share by assets is based on organisations that manage investment portfolios

** Market share by assets is based on general insurance companies

*** Market share by assets is based on life insurance companies

Dividends paid by the Bank's subsidiaries in 2019

Name	Amount, KZT million
Halyk Finservice	80
Halyk Collection	1,936
Halyk Life	1,500
Halyk Finance	3,000
Kazkommerts Securities	1,500
Halyk Insurance Company	3,452
Halyk Bank Tajikistan	819
TOTAL	12,287

Banking

Subsidiary banks

The Bank provides banking services in Russia, Kyrgyzstan, Georgia, Tajikistan and Uzbekistan through its subsidiaries in those countries.

Halyk Bank Georgia

Halyk Bank Georgia is a commercial bank incorporated in Georgia that focuses on corporate, SME and retail banking. As of 31 December 2019, it had total assets of GEL530 million (KZT71,277 million), a gross loan portfolio of GEL428.7 million (KZT57,652 million) and total equity of GEL123.2 million (KZT16,570 million). In 2019, it generated net income of GEL11.27 million (KZT1,516 million).

In December 2019, Fitch Ratings increased its long-term issuer default rating for Halyk Bank Georgia from 'BB-' to 'BB', the outlook 'positive'.

Halyk Bank Kyrgyzstan

Halyk Bank Kyrgyzstan is a commercial bank incorporated in Kyrgyzstan that offers universal banking services. As of 31 December 2019, it had total assets of SOM9,663 million (KZT53,048 million), which was 36% or SOM2,568 million (KZT14,099 million) higher than a year earlier. Its gross loan portfolio as of 31 December 2019 was SOM6,301 million (KZT34,594 million), up 32.8% year-on-year. Its total equity was SOM2,346 million (KZT12,880 million), an increase of SOM713 million, of which SOM600 million came from an additional capitalisation conducted in December. In 2019, it reported net income of SOM113 million (KZT619.4 million).

In February 2019, the new branch in the city of Karakol had its grand opening. The branch worked successfully in the 10 months of the year that it was open, exceeding its planned lending volumes.

Overall, Halyk Bank Kyrgyzstan now has four branches in Bishkek and six in major regional centres.

Moskommertsbank

Moskommertsbank is a universal bank registered in 2001 that offers a wide range of banking products and services for corporate and retail customers, as well as financial institutions. It focuses on SME lending, corporate banking, bank guarantees, acquiring in retail service outlets and retail banking.

As of 31 December 2019, based on audited financial statement, it had assets of RUB19,843 million (KZT122,233 million), a gross loan portfolio of RUB10,916 million (KZT67,241 million) and total equity of RUB3,739 million (KZT23,035 million). In 2019, it reported net income of RUB98 million (KZT580 million).

Halyk Bank Tajikistan

Halyk Bank Tajikistan is a universal bank in Tajikistan. As of 31 December 2019, it had assets of TJS544 million (KZT21,493 million), total equity of TJS112 million (KZT4,409 million) and a gross loan portfolio of TJS55 million (KZT2,185 million). In 2019, it reported net income of TJS12 million (KZT482.6 million). In 2019, Halyk Bank Tajikistan implemented new Colvir ABC, 1C and Bonita systems.

Halyk Bank Tajikistan has a significant presence in the local market in terms of cashless payments using plastic cards with a share of around 46.8% at the end of 2019.

Tenge Bank

Tenge Bank is a universal bank in Uzbekistan. As of 31 December 2019, it had assets of UZS366.8 billion (KZT14,783 million), total equity of UZS115.2 billion (KZT4,642 million) and a gross loan portfolio of UZS136.5 billion (KZT5,503 million). In 2019, it reported a net loss of UZS2.8 billion (KZT122.7 million). Tenge Bank began its operations less than a year ago.

Insurance

Halyk Insurance Company

The Bank's subsidiary Halyk Insurance Company is a non-life insurance company that provides a comprehensive range of insurance services to all types of legal entities and individuals in numerous sectors.

As of 31 December 2019, Halyk Insurance Company is one of the largest general insurance companies in Kazakhstan, ranking second in the country in terms of assets and fourth in terms of total equity.

At the year-end, the company's assets totalled KZT149.4 billion for a market share of 16%. Its net income for the year was KZT6.8 billion and net premiums amounted to KZT59.4 billion, or 19.8% of the overall insurance market (unaudited market data without contracts of termination).

In December 2019, A.M. BEST confirmed its financial stability rating and long-term credit rating for the company at 'B++' and its issuer credit rating at 'bbb', the outlook 'stable'.

Halyk Life

Bank's subsidiary Halyk Life is a life insurance company thar offers various types of personal insurance products, including annuity, accident and medical insurance products. It also offers a wide range of life insurance products, including unique offerings that have their own specialised after-sales customer service teams and specialised IT programmes.

In 2019, Halyk Life held leading positions among life insurance companies on all key financial metrics. It had total assets of KZT176.2 billion for a market share of 40% and total equity of KZT29.1 billion, or 37% of the overall equity in Kazakhstan's life insurance market. During the reporting period, two new life insurance companies appeared on the local market. In terms of insurance premiums, Halyk Life had a 39% share with a total volume of KZT69.7 billion. In 2019, the company reported net income of KZT8.4 billion.

In March 2019, A.M. BEST confirmed its financial stability rating for Halyk Life at 'B+' and its issuer credit rating at 'bbb-', the highest ratings among life insurance companies in Kazakhstan.

Investment banking

Halyk Finance

Halyk Finance is one of Kazakhstan's leading investment houses. It provides a full range of brokerage, asset management, investment research, consulting and underwriting services.

As of 31 December 2019, Halyk Finance had total assets of KZT47.3 billion and total equity of KZT22.1 billion. Its net income in 2019 was KZT4.7 billion.

At the year-end, Halyk Finance's proprietary investment portfolio was KZT45.4 billion. The total portfolio of securities for brokerage services customers had a market value of KZT224.7 billion and assets under management amounted to KZT260.3 billion.

In 2019, the company was once again recognised as the "Best Investment Bank in Kazakhstan" by prominent information agencies and authoritative publications, including Global Finance, Cbonds, EMEA Finance, Global Business Outlook and Finance Asia.

Kazkommerts Securities

Kazkommerts Securities is a leading investment bank in Kazakhstan. The company offers a wide range of capital markets services, including brokerage, investment portfolio management, financial consulting on the issuance and placement of securities, and investment research.

As of 31 December 2019, it had assets of KZT18.6 billion and total equity of KZT18.4 billion. In 2019, Kazkommerts Securities reported net income of KZT2.2 billion.

As of the year-end, Kazkommerts Securities' proprietary investment portfolio stood at KZT18.3 billion. The total portfolio of securities for brokerage services customers had a market value of KZT100.1 billion.

In 2019, the company was once again recognised with awards from prominent information agencies and authoritative publications, including Global Finance and International Finance Awards.

Infocommunication business

Kazteleport

Kazteleport provides a wide range of infocommunication services, including for Halyk Bank and its subsidiaries: maintenance services for POS terminals, supply of consumables, telecommunication and server equipment, maintenance of the Bank's self-service devices, as well as services for storage, transmission and protection of information.

In 2019, the company built a commercial data centre in Nursultan at Ulitsa Abaya 24, received payment card industry data security standard (PCI DSS) certification for the service of placing customer equipment in the data centre, launched commercial operations of the Service Desk IQ system to provide after-sales services for the Bank's self-service devices, and received a state licence from Kazakhstan's National Security Committee to provide the service of identifying channels for information leakage and special tools designed to conduct internal investigations.

As of 31 December 2019, Kazteleport had total assets of KZT5,460 million and total equity of KZT4,092 million. Its net income in 2019 was KZT937.6 million.

Halyk Finservice

Halyk Finservice is a subsidiary of Halyk Bank that provides technical processing support services for processing and storing data, namely collection, processing and storage cardholder transactional data.

As of 31 December 2019, Halyk Finservice had assets of KZT521 million and total equity of KZT459 million. In 2019, it reported net income of KZT172.7 million.

Cash collection

Halyk Collection

Halyk Collection is the leader in the market of collection services for banknotes, coins and valuables. It is positioned in Halyk Group as a subsidiary offering services independently while also providing cash to the Bank's sales channels.

As of 31 December 2019, Halyk Collection had total assets of KZT4,492.9 million, total equity of KZT3,191.2 million and charter capital of KZT406.5 million. Its net income for 2019 was KZT2,084 million.

Halyk Collection's branch network includes a City Cash Collection division (in Almaty), 18 branches and 36 outlets that offer collection services in regions, cities, towns and smaller settlements throughout Kazakhstan. The company uses equipment that complies with modern requirements. All of its vehicles are fully armoured and their movement is tracked via a GPS monitoring system. Halyk Collection's operations are covered by risk reinsurance on the Lloyd's insurance market with best-in-class insurance organisations that have financial stability ratings of at least 'AA-'.

Distressed asset management organisations and other companies

The main purpose of these companies is to improve the Bank's loan portfolio by acquiring doubtful and bad assets using borrowed funds, applying quality asset management principles to rehabilitate them with minimal credit losses for Halyk Group, and then successfully selling the assets to fully repay the companies' obligations to the Bank.

As of 31 December 2019, the total assets of Halyk Group's distressed asset management organisations amounted to KZT201.9 billion.

Halyk Project

In 2012, Halyk Bank established its Halyk Project subsidiary to manage distressed assets as part of the Concept on Improving the Quality of Second-Tier Bank Assets, approved by a resolution of Kazakhstan's Council for Financial Stability and Development of the Financial Market. Halyk Bank was the first second-tier bank in Kazakhstan to receive the regulator's permission to establish a subsidiary to manage doubtful and bad assets.

In 2019, Halyk Project received 14 assets amounting to KZT4.9 billion. As of the year-end, its asset portfolio totalled KZT50.5 billion.

The income received from the sale of assets and provision of services in 2019 was KZT26.8 billion and the operating profit from the company's primary activities was KZT4.8 billion.

KUSA Halyk

Halyk Bank's subsidiary KUSA Halyk was created in 2013 as part of the Concept on Improving the Quality of Second-Tier Bank Assets, approved by a resolution of Kazakhstan's Council for Financial Stability and Development of the Financial Market.

In 2019, the Bank transferred 16 assets valued at KZT25.8 billion. At the year-end, the portfolio of current assets stood at KZT74.8 billion.

The total proceeds from the sale of assets and provision of services in 2019 was KZT10.8 billion. Operating income from the company's core business totalled KZT2.9 billion.

Halyk Aktiv, Halyk Aktiv 1

The Bank's subsidiaries Halyk Aktiv and Halyk Aktiv 1 were created in 2013-14 as part of the Concept on Improving the Quality of Second-Tier Bank Assets, approved by a resolution of Kazakhstan's Council for Financial Stability and Development of the Financial Market.

In 2019, the Bank transferred 5 assets valued at KZT8.8 billion. At the year-end, the portfolio of current assets stood at KZT75.2 billion.

The total proceeds from the sale of assets and provision of services in 2019 was KZT30.6 billion. Operating income from the companies' core business totalled KZT7.4 billion.

Halyk Leasing

Halyk Leasing was one of the first leasing companies in Kazakhstan. Its primary focus is acquiring and transferring special equipment under financial lease, including heavy, construction, roadmaking, industrial, oilfield, mining, extracting and agricultural equipment, as well as commercial vehicles for cargo and passenger transport, etc.In November 2019, Halyk Bank decided to resume its leasing operations. As of 31 December 2019, Halyk Leasing had total assets of KZT6,564 million.

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RISK MANAGEMENT

Risk Management

Halyk Group's risk management policy is focused on creating an integrated risk management system in line with the scope and scale of the Group's activity and accepted risk profile, as well as supporting its business development requirements. The Group seeks to continuously develop its risk management system and improve the way in which it identifies, manages, assesses and controls risks.

In H2 2019, the National Bank of Kazakhstan (NBK) conducted an Asset Quality Review (AQR) for the Kazakh banking sector. The AQR perimeter included 14 major banks, which account for 87% of total banking assets and 90% of the loan portfolio. To ensure transparency and objectivity, the NBK conducted the AQR with the assistance of an international consultant and independent audit companies. The Kazakh banking sector was assessed using the European Central Bank's methodology, in accordance with IFRS9 and the requirements of Kazakh legislation governing accounting and prudential regulation.

The AQR process included two stages. The first stage entailed selecting portfolios for detailed analysis during the second stage. The second stage consisted of nine interconnected blocks of work evaluating various aspects of the banking sector: from the application of accounting standards and prudential regulation to detailed analysis of credit files and assessments of models for calculating provisions at the portfolio level. The AQR reporting date on which the data for the entire analysis were based was set as 1 April 2019.

The NBK's AQR found that, as of 1 April 2019, there was no capital shortage at the consolidated level (aggregated results of all participating banks); the k1 and k2 prudential standards are met with an excess at the system level taking into account the results of the AQR programme.

As the Bank operates in accordance with the requirements of Kazakh legislation, including in the field of accounting and prudential regulation, as well as with the requirements of IFRS9, the individual AQR results did not significantly affect the Bank's financial condition and stability. According to the regulator, the adjustment to the value of the Bank's assets and capital as of 1 April 2019 could be equal to KZT18.9 billion, although this assessment did not take into account changes in the market environment and the Bank's portfolio that have occurred since the AQR date. At the same time, the Bank's financial results for 2019 contain a significant part of the changes to adjust the value of assets determined by the regulator based on the AQR results.

The AQR results provided by the NBK confirmed the quality of the Bank's assets. Despite the highly conservative assessment approaches that were applied, the results will not affect the Bank's capital adequacy and financial results. The AQR serves as another confirmation that Halyk Bank has chosen the correct growth and development strategy and objectively reflects its position as a financial institution in the Kazakh banking market that is a reliable and strong partner for its customers.

Credit risk management

To ensure effective credit risk management, the Bank has implemented a risk management system and business processes to segregate the sales and risk management functions. It has also created an organisational structure that facilitates credit risk management, including collegiate bodies and subdivisions that take part in the credit risk assessment and management process.

The Bank manages credit risk by:

- Adhering to the 'three lines of defence' principle, namely initial analysis of credit risk by the initiating subdivision, analysis by the risk management function, and control by the internal audit function
- Setting counterparty limits depending on the type of (credit) transactions or products
- Diversifying the loan portfolio to mitigate a concentration of risk related to any one borrower, sector or geographical area
- Monitoring the loan portfolio to identify any deterioration in quality at an early stage
- Maintaining adequate provisioning to cover potential losses

The Bank's system of making lending decisions is based on the delegation of certain powers by the Board of Directors to appropriate collegiate bodies and the establishment of credit limits for each body. For corporate borrowers, loan applications are reviewed by the Commercial Directorate. Loan applications that exceed the limits set for the Commercial Directorate, as well as transactions with related parties, require further approval by the Board of Directors. For SME borrowers, lending powers are delegated to the SME Centre for Decision-Making and Credit Committee of the branch network, while retail banking decisions are delegated to the Centre for Decision-Making and the Retail Credit Committee (RCC) of the Head Office. Standard loans under unsecured retail lending programmes are approved automatically after being reviewed by a specialised software module that includes automated underwriting, internal and external database checks, scoring estimates of an applicant, etc. Applications for non-standard unsecured lending are subject to credit approval by the Centre for Decision-Making and/or the RCC.

Credit committees of subsidiary banks are also authorised to make lending decisions within specific limits. The Bank regularly monitors and, if necessary, revises, independent decision-making limits and the authority of the credit committees in subsidiary banks.

In 2019, the Bank began to implement Fico Blaze Decision Manager, a software solution that automates the decision-making strategy for Retail Banking loan products. Work has begun to transfer the business logic for retail lending processes to this module and is expected to be completed in 2020.

In accordance with its development strategy and Kazakh legislation, the Bank has reviewed and updated its key parameters for determining acceptable risk, which the Bank then monitors. New SME business loan self-financing limits have been established for the SME Centre for Decision-Making and Credit Committee of the branch network, and the SME lending process has been optimised.

In 2019, the SME Digital Product Credit Risk Division was created to develop and support SME lending digital products and business processes in accordance with the Bank's risk appetite and regulatory requirements.

To assess its exposure to adverse changes in foreign and domestic macroeconomic conditions and determine the effect of stress scenarios (provisioning level, migration of credit ratings, nonperforming loan ratio), the Bank conducts regular stress tests on its loan portfolio. A stress test was conducted in 2019 using rather conservative forecasts for decrease in oil prices and GDP. The stress test results indicated that the Bank's capitalisation is resilient to asset quality deterioration.

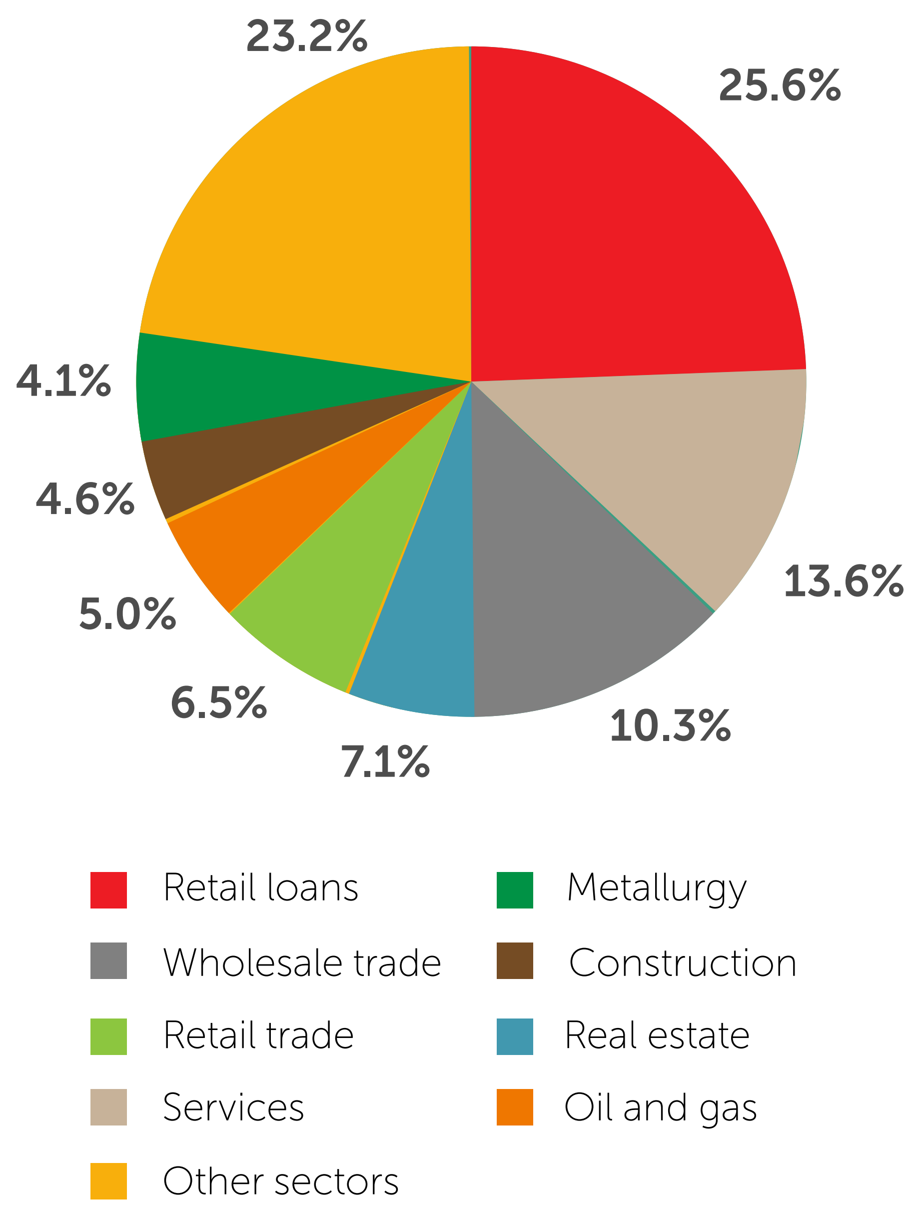
The existing Risk Analyst rating model that the Bank uses to assess the likelihood of a default and the associated rating on corporate and SME clients is widely used to determine loan collateral criteria, as well as to conduct stress-testing on significant individual loans. To keep the rating model up to date, as well as to improve the performance of the Bank's model, it is regularly validated. In 2019, the model was validated with the assistance of representatives of the Moody's international ratings agency and the validated model will be introduced in the Bank's lending process in 2020.

During 2019, work with problem loans continued, securing repayment through the sale of collateral, claims and lawsuits, transferring assets to doubtful asset management organisations and writing off bad debt. These measures have helped to reduce the share of overdue debt.

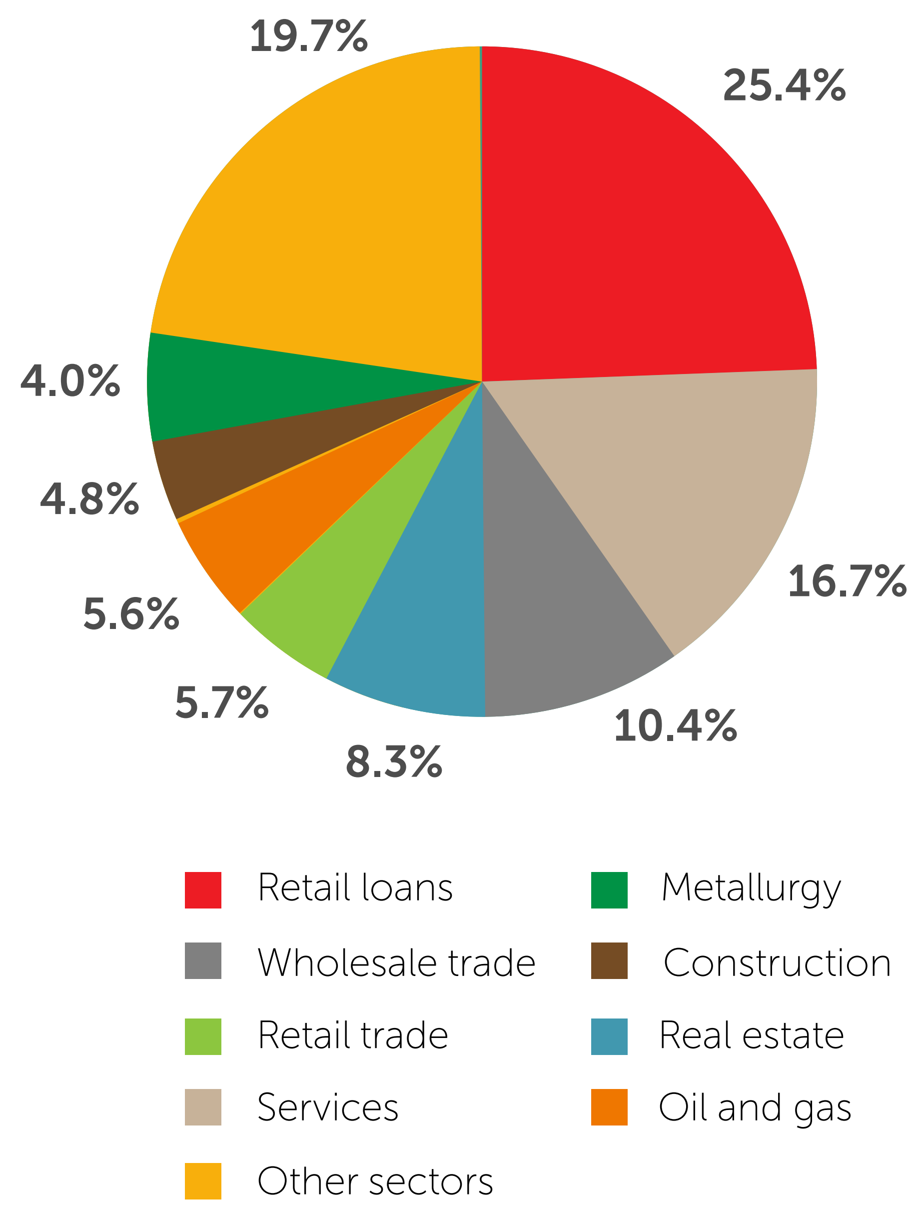
As of 31 December 2019, retail loans represented a significant share of the loan portfolio (26%), with consumer and mortgage loans accounting for 19% and 6%, respectively. In terms of industry breakdown, the largest segments were services (14%), wholesale trade (10%), real estate (7%), retail trade (7%) and oil and gas (5%).

Breakdown of Halyk Group's loan portfolio by sector, %

31 December 2019



31 December 2018



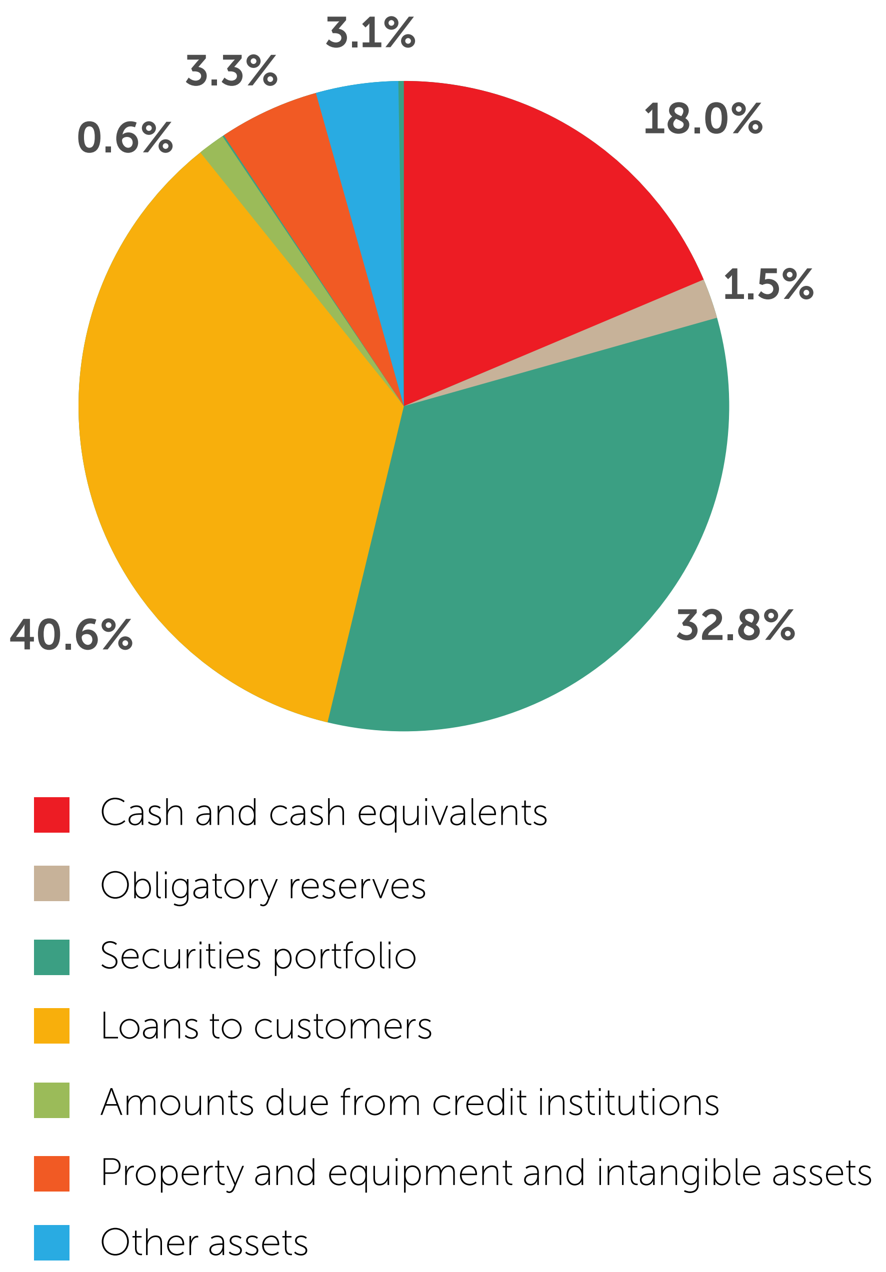
Asset/liability management

To create an optimal structure of assets that ensures a balanced approach to managing the risk-return ratio, the Group invests in a spread of domestic and overseas assets, diversified in terms of banking products, industry, currency and maturity.

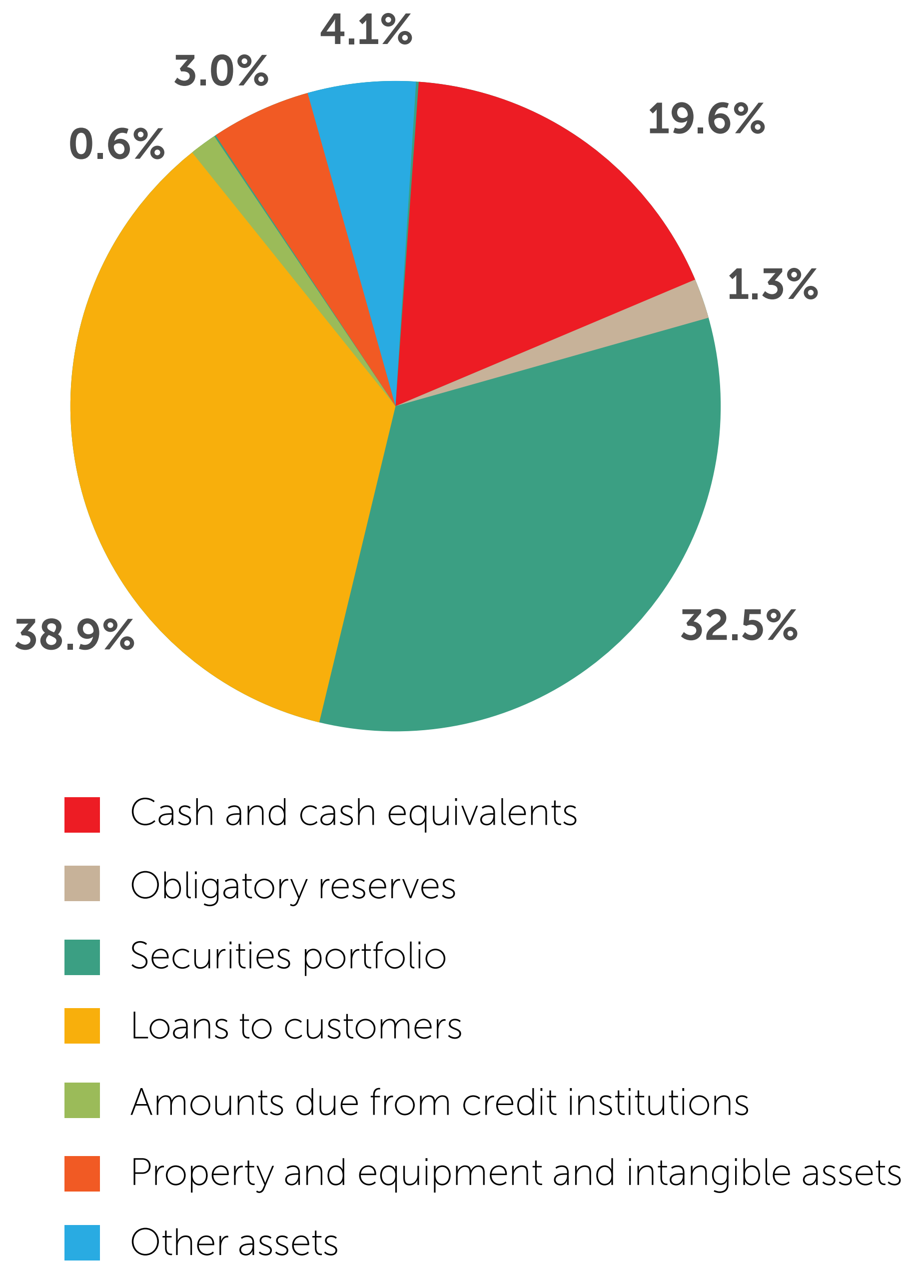
The breakdown of the Group's assets in 2018 and 2019 was as follows.

Breakdown of Halyk Group's assets, %

31 December 2019



31 December 2018



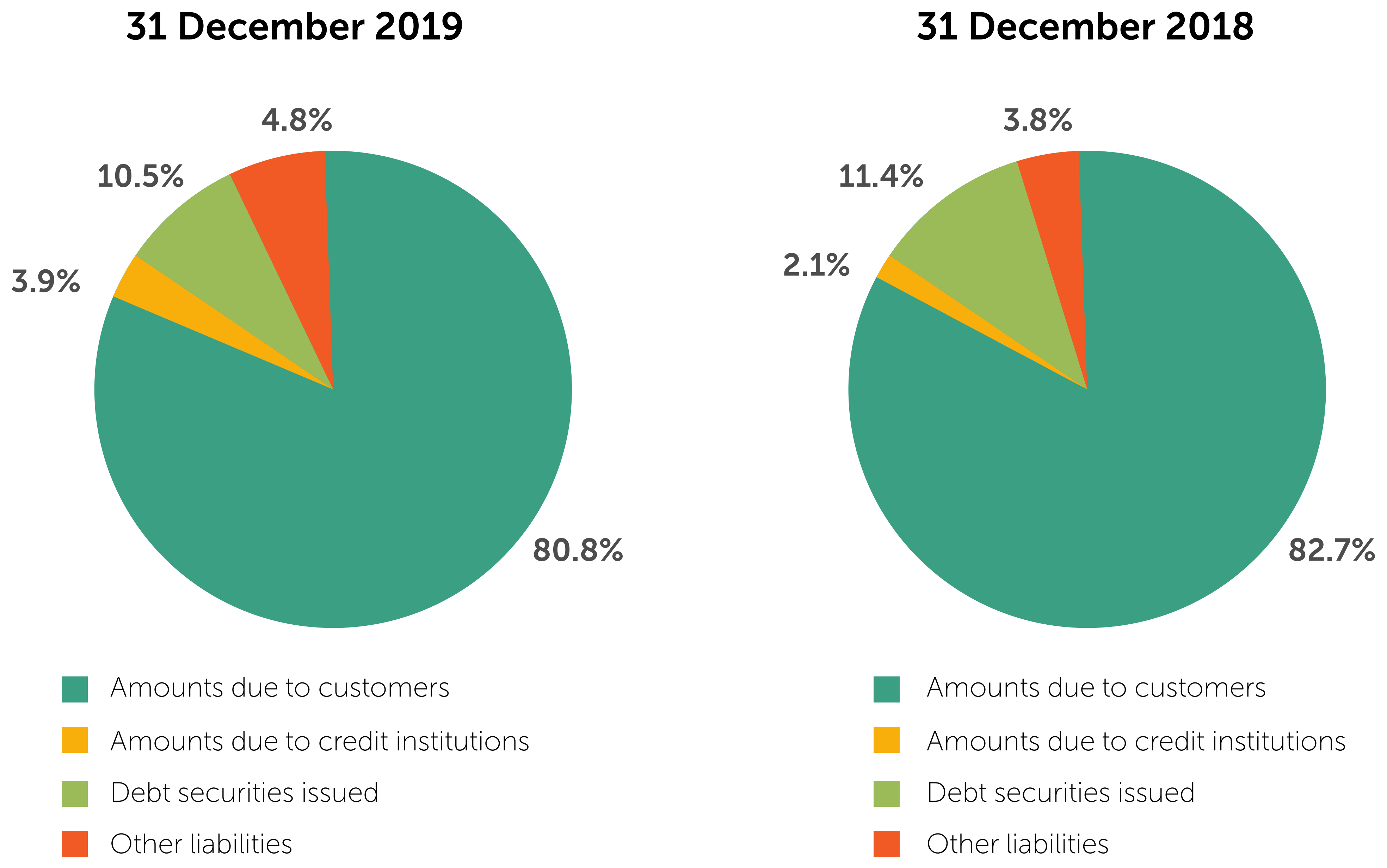
In 2019, Halyk Group's assets grew by 3.1% year-on-year. This was mainly due to the loan portfolio expanding on a net basis by KZT271.4 billion (up 7.8% year-on-year) and the securities portfolio rising by KZT 20 billion (up 0.7% year-on-year). The loan portfolio remains the largest item among Halyk Group's assets: as of 31 December 2019, it accounted for 40.6% of the total. Other key assets are investments in securities (trading and investment portfolio; share of 32.8%), as well as cash and cash equivalents (share of 18.0%).

The Group regularly checks its limits for counterparty banks for consistency with its risk profile. Whenever the Group identifies any negative factors affecting the operations of its counterparty banks and/or their countries of operation, it makes immediate relevant adjustments to reduce the amount and term of such limits.

For liquidity management purposes, the Bank maintains a stable and diversified structure of liabilities, which consists of borrowings and deposits with fixed maturities and liabilities payable on demand.

The breakdown of the Group's liabilities in 2018 and 2019 was as follows.

Breakdown of the Group's liabilities, %



While the volume of the Group's liabilities was largely the same, the structure changed: the share of amounts due to customers was down slightly but still accounts for the largest proportion of liabilities at 80.8% in 2019, compared with 82.7% in 2018.

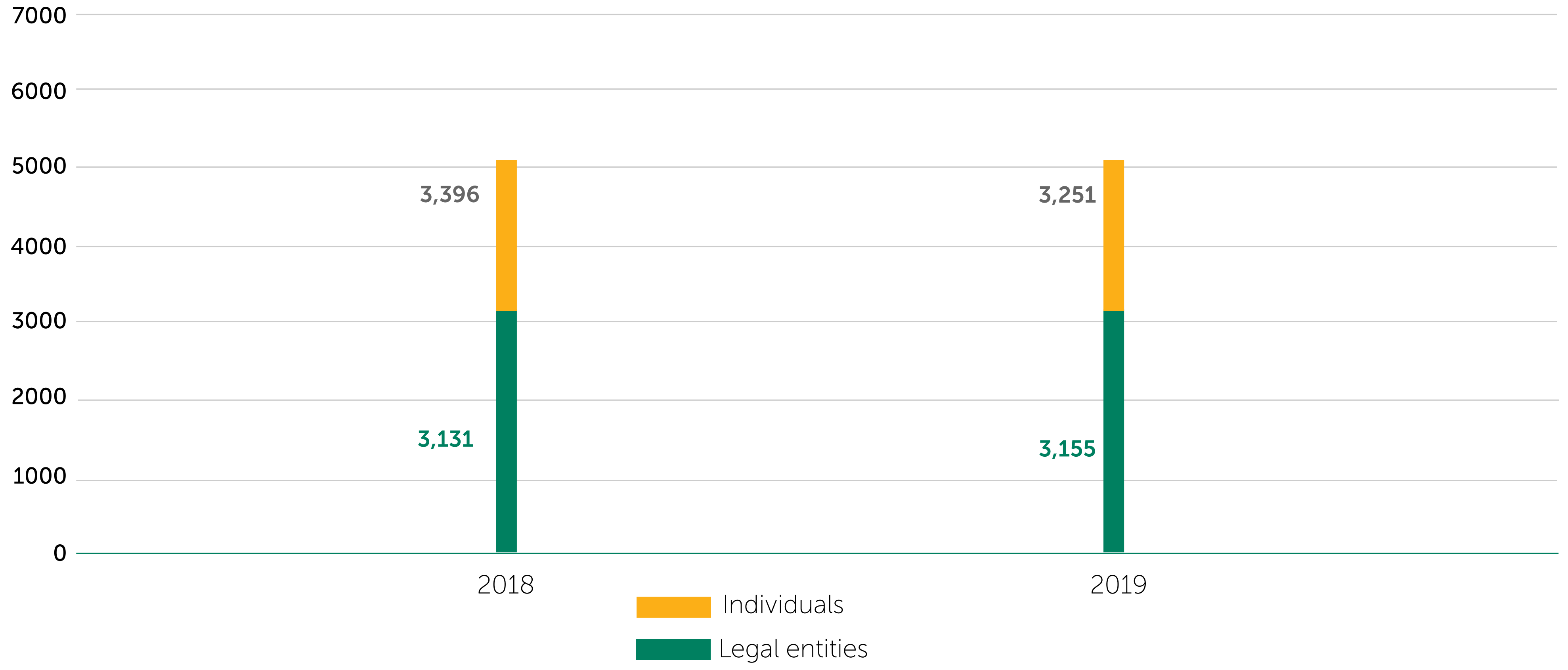
Notably, in 2019, the Board of Directors of the Kazakhstan Deposit Insurance Fund (KDIF) changed the methodology used to calculate the maximum interest rates on new retail deposits.

As of September 2019:

- The KDIF will announce the maximum interest rates on deposits monthly, instead of quarterly, as was the previous practice.
- When calculating the maximum interest rates, the FDIF will rely on one of two values, depending on the type and term of the deposit: the weighted average market interest rate or the NBK's base rate.

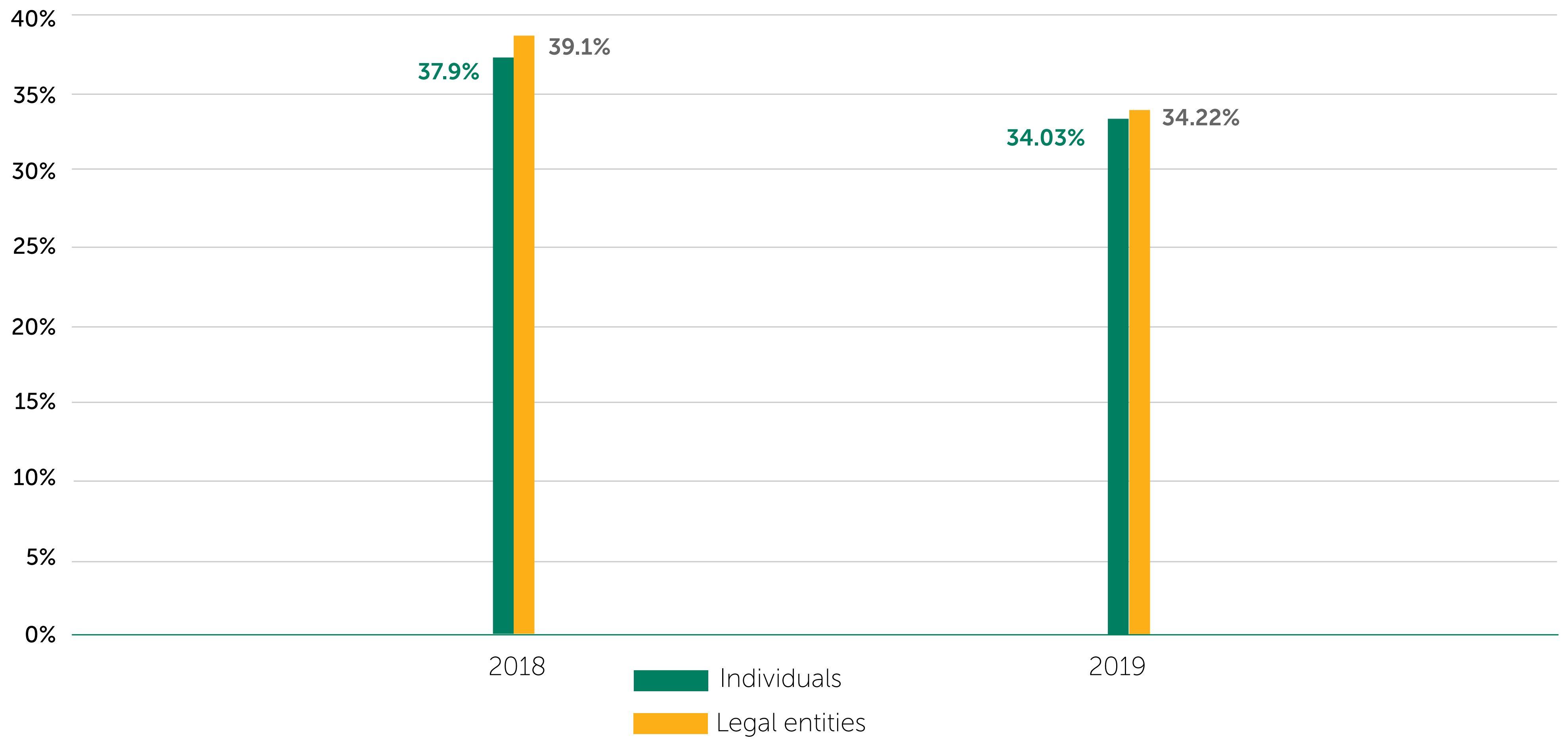
For non-term deposits, the interest rate will be equal to the base rate plus the spread, which is determined by a fixed value in percentage points, which depends on the applicable rate and type of deposit.

Amounts due to the Group's customers, KZT billion



The Bank's focus on raising funds in the domestic market helped it to maintain leading positions in the customer account market. As of 1 January 2020, Halyk Bank was the market leader in terms both of retail and corporate deposits, with respective market shares of 34.0% (compared with 37.9% at the end of 2018) and 37.6% (compared with 39.1% at the end of 2018).

Market share by amounts due to customers of Halyk Bank, %



To assess its exposure to liquidity risk, the Bank conducts regular stress tests showing the impact of the outflow of customers with the highest concentration on the Bank's liquidity position, as well as annual 'bottom-up' stress tests under the scenarios and parameters established by the National Bank of Kazakhstan.

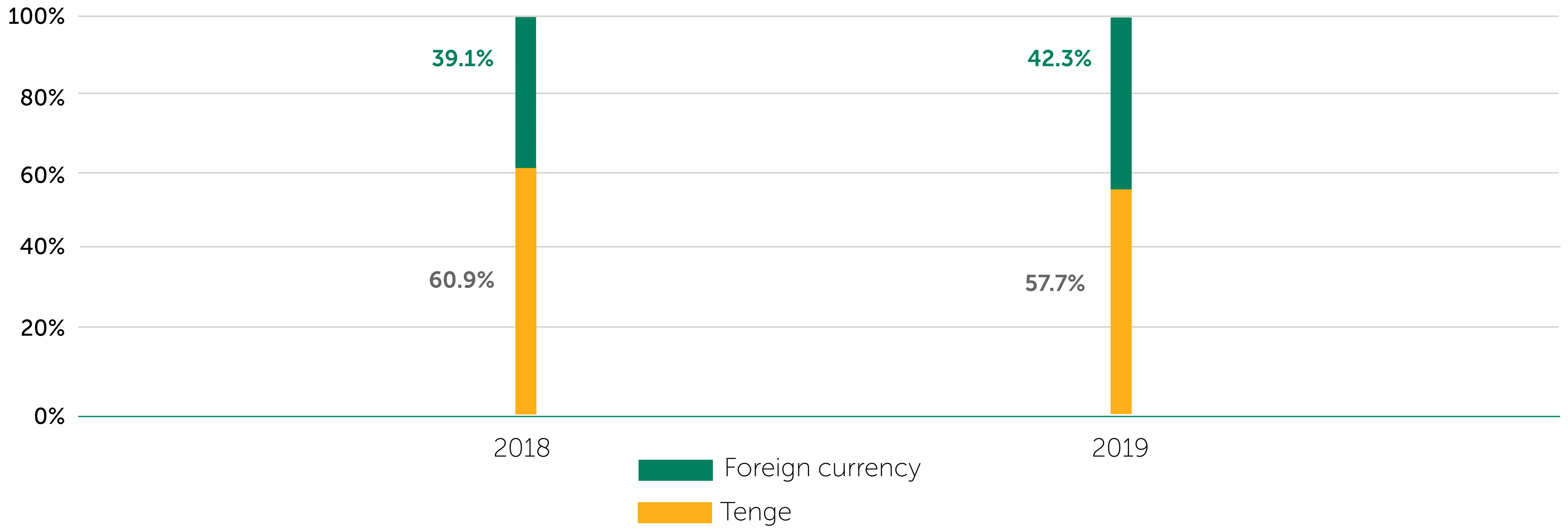
Market risk management

In 2019, the Bank adhered to its conservative policy on currency position management, maintaining neutral positions in all currencies.

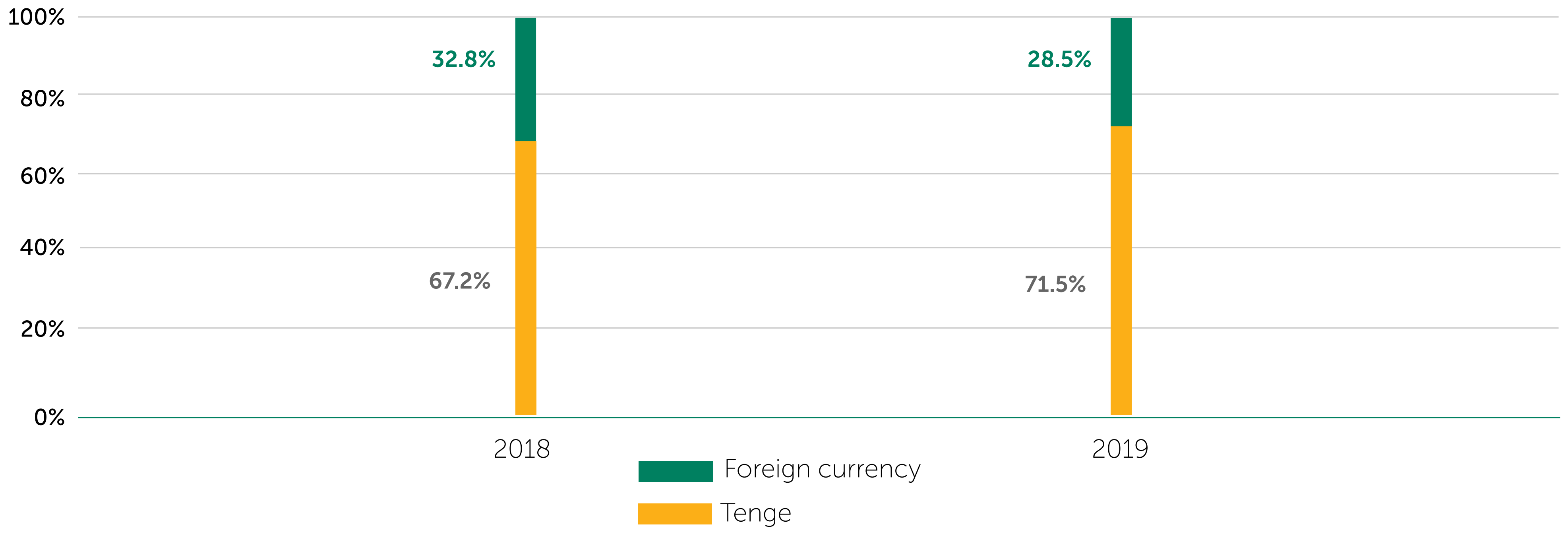
The share of the Group's assets in tenge dropped from 60.9% in 2018 to 57.7% in 2019.

The Group's deposit structure was changed slightly due to an increase in amounts due to customers in tenge to 46.5% (compared with 44.5% at the end of 2018).

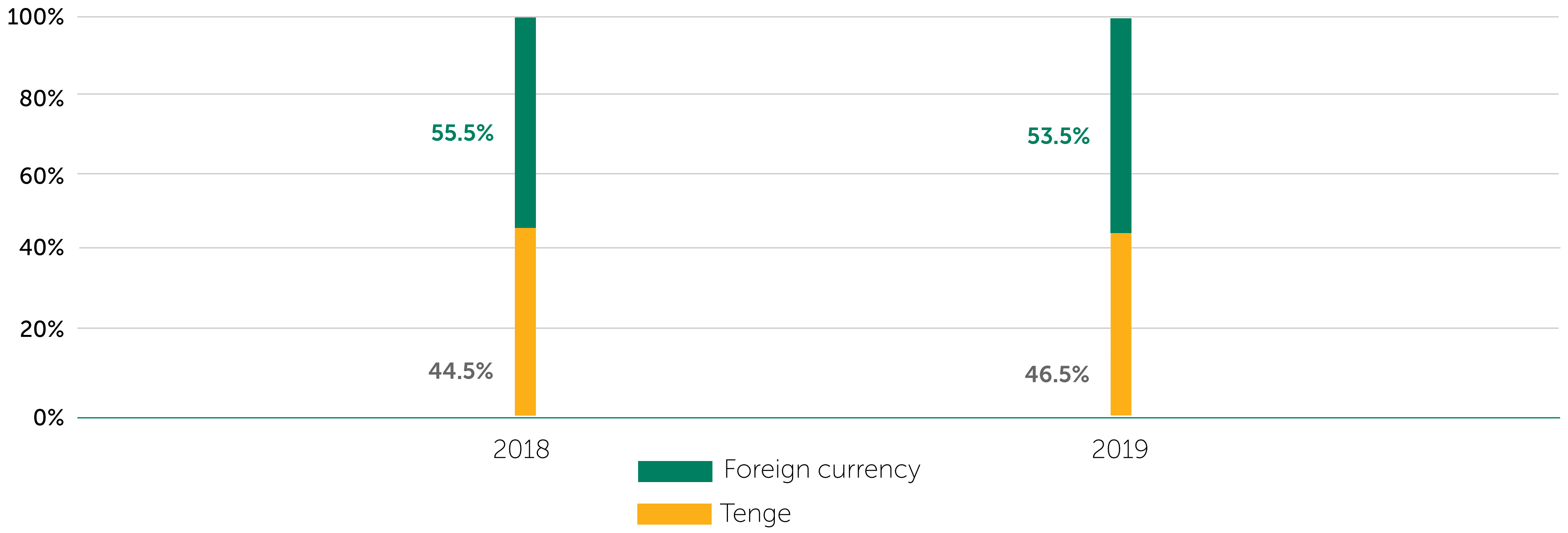
Breakdown of the Group's financial assets by currency, %



Breakdown of the Group's net loans by currency, %



Breakdown of amounts due to the Group's customers by currency, %



The Group has identified the following sources of interest rate risk: interest rate risk on securities portfolios and interest rate risk resulting from the mismatch of maturities (interest rate repricing) of assets and liabilities sensitive to interest rate changes (risk of interest rate changes). The Group manages the risks of changes in interest rates and market risk by adjusting its interest rate position and maintaining a positive interest margin.

Within the framework of the interest rate risk assessment model, which evaluates the sensitivity of equity capital to changes in interest rates, taking into account yield curve dynamics as well as the duration of assets and liabilities, the appropriate limit on interest rate risk that represents the maximum level of equity capital sensitivity to changes in market interest rates has been set.

Internal limits that restrict the level of market risk (currency, interest rate and price risks) are established by the authorised bodies within the acceptable exposure limit and are monitored daily. The limits are regularly reviewed for relevance and correlation with market conditions and the Group's risk appetite.

Operational risk management

In the normal course of its business, the Bank is exposed to operational risk. This is defined as the risk of losses resulting from inadequate or insufficient internal processes or systems, human factors or external events. These include legal risk (and exclude strategic and reputational risk).

The operational risk management unit within the risk management function of the Bank has developed and uses various operational risk management tools, such as:

- The Bank performs operational risk assessments when launching new products/services, systems and business processes, or implementing major changes thereto. The Organisation and Reinforcement of Preventive Action (ORAP) system is a fully functional and widely used tool, and it has covered the most significant areas of the Bank's operations since 2010. In 2019, ORAP covered such business areas as remote banking for individuals and legal entities, as well as new sales channels, services and products, loan process optimisation, account opening, automated customer service procedures, etc.

- The Bank regularly collects and analyses information about operational risk events, which are registered and classified as appropriate in a special database. The information collected is used to generate management reports on operational risks to support decisions about corrective actions to minimise overall operating losses. Information about operational risk events exceeding the regulatory threshold is sent to the National Bank of Kazakhstan in a quarterly report.
- The Bank continues to develop an operational risk management tool, Key Risk Indicators (KRIs). The Bank currently uses more than 41 KRIs in various business lines, which make it possible to identify the most significant risks to the Bank's IT systems and critical business processes.
- The Bank has conducted scenario analysis projects aimed at preventing the types of fraudulent transactions that have occurred at other second-tier banks from happening at the Bank. They have highlighted the main process shortfalls and the departments involved have been provided corresponding recommendations to develop risk-mitigation measures to eliminate or minimise the probability of such a scenario occurring at the Bank.
- The Bank has conducted a self-assessment of its control system to create a risk map and risk matrix.
- The operational risk management unit is a permanent member of working groups on various projects at the Bank, as well as focusing on fraud elimination, including the "Minimising the retail risks of internal/external fraud" project, which culminated in 2019 with the creation and replication of an operational authorisation tool that scans and compares the biometric data of the Bank's clients (using fingerprints). The operational risk management unit is also always included in working groups created to investigate the causes of damage to the Bank, as well as commissions created to analyse problems and risk areas with a view to minimising them and developing appropriate mitigation measures.
- The existing risk management and internal control systems of the Bank's subsidiaries were also reviewed.

Business continuity management

To ensure that it can respond rapidly and effectively to emergency situations, the Bank maintains systems and resources to manage and support business continuity, which include legal documents, infrastructure, competent employees and other items that allow the Bank to manage the continuity of its overall operations.

The Bank's business continuity management infrastructure consists of a Disaster Recovery site in Nur-Sultan and two backup facilities in Almaty, which feature all necessary equipment and technology for dealing with incidents.

In 2019, the Bank's business continuity work included exercises, testing, staff training and other activities necessary to continuously support the business continuity process.

IT and information security risk management

In 2019, the Bank continued its efforts to manage information technology (IT) and information security (IS) risks and further developed its IT and IS risk management system (IT and IS RMS). In 2019 the Bank has conducted cycle of IT and IS risk management activities (including assessment, processing and monitoring) with the mandatory development of action plans aimed to minimise the identified IT and IS risks.

Capital management

In 2019, the Bank continued to manage its capital to ensure the business continuity of all Group companies and optimise its debt-to-equity ratio. In the reporting period, the Bank ensured compliance with the capital requirements set by regulatory standards and Basel Accords.

From 1 January 2016, the Group has calculated its capital adequacy ratios in accordance with the prudential standards prescribed for banks by Kazakhstan's regulatory authorities, in consideration of the Basel Committee's recommendations. In general, the National Bank of Kazakhstan's methodology for calculating regulatory capital levels and its components comply with the Basel III standards. At the same time, the methodology applies separate regulatory adjustments that are not provided for by Basel III standards but are allowed under the Basel III recommendations concerning the application of additional methodological amendments by local regulatory bodies.

For example, in 2019, the National Bank introduced a new capital adequacy buffer called the "regulatory buffer".

The Bank complies with all regulatory requirements governing the capital levels and adequacy, fulfilling the approved standards with a large safety margin.

To assess its exposure to the risk of adverse changes in the macroeconomic situation, the Bank runs regular stress tests on the sensitivity of capital adequacy ratios to changes in various macroeconomic factors, including annual 'bottom-up' stress tests required by the National Bank.

Compliance risk management

Halyk Bank defines compliance risk as the threat of losses arising from noncompliance by it and its employees with Kazakh legislation, regulatory requirements, internal documents regulating services provided by the Bank and its operations on financial markets, and legislation of other countries governing the Bank's activities. An integral part of the internal risk management system, the Bank's compliance risk management is based on a four-step approach – detection, identification, evaluation and measurement – as well as risk monitoring and control.

To ensure an effective system of compliance risk management and internal control, the Bank has established a cross-functional system based on the 'three lines of defence' principle.

- The first line identifies and monitors risks across all subdivisions and by all employees with a view to minimising compliance risk and taking corrective measures.
- The second implements compliance risk management policy, while compliance control is carried out by the Compliance Service, consisting of the chief compliance controller, who reports to and is elected by the Board of Directors, and the Compliance Control Department, which the controller oversees.
- The third is responsible for independently evaluating the performance of the compliance risk management subdivision by internal audit.

The Bank's primary methods for managing compliance risk are:

- Continuously monitoring Kazakh legislation and legislation of other countries governing the Bank's activities.
- Monitoring the compliance of authorised persons and employees of the Bank with legislation in Kazakhstan and other countries governing the Bank's activities.
- Ensuring that employees and subdivisions correctly understand and follow Kazakh legislation and the Bank's internal documents, as well as the legislation of other countries governing the activities of the Bank, its structural divisions and employees.
- Identifying, evaluating, monitoring and mitigating compliance risks, including when developing and structuring new banking products and services, introducing new business processes and technologies, etc.
- Ensuring that mandatory requirements of the regulator and other official bodies are met on time and to the required standard.
- Organising compliance monitoring (checks) of subdivisions' activities by Compliance Control Department staff.
- Using various tools to identify and evaluate the Bank's compliance risks, including appraisal and self-appraisal methods for subdivisions.
- Controlling access to insider information, maintaining confidentiality and preventing potentially illegal use of such information by insiders, including by maintaining an up-to-date list of people with access to such information.
- Ensuring that the Bank complies with anti-money laundering/combating the financing of terrorism (AML/CFT) measures.
- Ensuring that employees comply with the requirements of internal documents governing the prevention of conflicts of interest, etc.

When carrying out its duties as the main compliance channel, to minimise and prevent potential compliance risks, the Compliance Control Department:

- Organises and coordinates assessments/self-assessments by subdivisions of their compliance with Kazakh legislation and the Bank's internal documents. Self-assessment compliance risk reports are submitted to the Management Board monthly and the Board of Directors quarterly for review. Based on the findings, action plans are prepared to mitigate risks identified during the self-assessment and qualified as mid or high level and the Compliance Control Department oversees their implementation.
- Identifies and evaluates the level of compliance risk faced by the Bank, appraises the effectiveness of the Bank's control system, and evaluates the residual compliance risk. The results are sent to the Management Board monthly and the Board of Directors quarterly. To enhance control and mitigate residual compliance risks, an action plan is prepared and overseen by the Compliance Control Department.
- Organises regular compliance training for the Bank's employees, including in AML/CFT and the Foreign Account Tax Compliance Act (FATCA). New recruits and existing employees in the subdivisions responsible undergo annual training. In 2019, both face-to-face and e-learning courses were held, in accordance with the approved training plan. Their aim was to raise awareness among the employees responsible about compliance, as well as AML/CFT and FATCA procedures.

In addition, one of the Compliance Control Department's main objectives is to ensure that the Bank complies with Kazakh legislation on AML/CFT.

The Bank has implemented all necessary systems aimed at preventing money laundering and the financing of terrorism, including various know-your-customer procedures for clients (their representatives) and beneficiary owners that:

- Group customers based on risk (risk-based approach), depending on which simplified or enhanced due diligence (namely collecting and recording client data) will be conducted.
- Check whether potential or existing customers feature on sanctions lists (international or local).
- Check whether a potential customer is a foreign publicly exposed person.
- Analyse a customer's reputation.
- Conduct other checks (transactions, deals, etc).

If such checks cannot be completed satisfactorily, a commercial relationship will not be established.

In accordance with Kazakh AML/CFT legislation, the Bank has a duty to inform the relevant official bodies about client transactions that are subject to financial monitoring (threshold and suspicious). The Bank has implemented all necessary information systems to recognise transactions that are subject to financial monitoring, based on various identified types, schemes and scenarios, and to send the respective data to the authorised body. In addition, according to the Bank's internal documents, responsible subdivisions also participate in the process of identifying suspicious nonautomated transactions and then forwarding the information to the Compliance Control Department.

The Bank also complies with international economic sanctions when servicing customers and working with counterparties. For this purpose, it has implemented automatic transaction screening and manual controls. Throughout its operations, the Bank adheres to the principles of transparency, fairness and integration with the global community.

14

CORPORATE GOVERNANCE

Corporate Governance

High standards of corporate governance are vital for the success of Halyk Bank (the Bank) and its subsidiaries (jointly, Halyk Group) on a free and competitive market. The Bank and the companies that comprise Halyk Group need an effective corporate governance system that outlines the relationships linking the Board of Directors, Management Board and shareholders.

The Bank's corporate governance approach is built on fairness, honesty, accountability, transparency, professionalism and competence.

The Bank's corporate governance structure is based on respecting the rights and interests of all stakeholders and contributes to the Bank's success by increasing its value, supporting its financial stability and profitability, and reassuring investors and shareholders that their money is being used efficiently.

Compliance with the Bank's Code of Corporate Governance

The Bank's current Code of Corporate Governance, which was approved by the General Shareholder Meeting in December 2006, defines the main standards and principles applied in managing the Bank, including relations between the Board of Directors and Management Board, between shareholders and employees, as well as functioning mechanisms and decision-making procedures of the Bank's internal bodies.

The Bank's Code of Corporate Governance has been developed in accordance with existing Kazakh legislation, as well as local and international best practice in corporate governance.

The Bank's Code of Corporate Governance includes the following principles:

- Shareholders should actually be able to exercise their rights to take part in managing the Bank
- Shareholders should actually be y able to take part in the distribution of the Bank's net income (receive dividends)
- The Bank should ensure that shareholders are provided with accurate, timely and complete information regarding its financial position, economic indicators, results and management structures to ensure balanced decisions by shareholders and investors
- The Board of Directors should conduct the strategic management of the Bank and oversee the Management Board's activities, while its Directors should report to shareholders
- The Management Board should be able to manage the Bank effectively and in good faith and report to the Board of Directors and shareholders
- Ethical standards should be set for shareholders and the Bank's officials should ensure maximum operational transparency
- There should be an effective system of internal control that is evaluated objectively

The Board of Directors and Management Board confirm that the Bank conducts its activities in accordance with the principles, provisions and procedures set by the Code of Corporate Governance.

By accepting, streamlining and adhering strictly to the Code of Corporate Governance, the Charter and other internal documents, the Bank confirms its intention to encourage the development and improvement of corporate governance best practice.

Compliance with the UK Corporate Governance Code

This section has been prepared in accordance with section DTR 7.2. of the UK Financial Conduct Authority's Disclosure and Transparency Rules (corporate governance statements).

As a foreign company with global depository receipts admitted to the Official List of the London Stock Exchange, the Bank is not required to comply with the UK Corporate Governance Code published by the Financial Reporting Council – the independent regulator of the United Kingdom. However, in accordance with DTR 7.2, the Bank is obliged to disclose information about its compliance with both the Kazakh Code of Corporate Governance and the existing corporate governance principles to which it adheres above those stipulated in Kazakh legislation.

The Bank considers the UK Corporate Governance Code a guideline for further development of corporate governance.

The Bank's Code of Corporate Governance and the UK Corporate Governance Code

The Bank's Code of Corporate Governance includes several distinctions from the UK Corporate Governance Code. Below are the main differences:

UK Corporate Governance Code	The Bank's Code of Corporate Governance
The UK Corporate Governance Code stipulates a maximum three-year term for the re-election of directors.	The Bank's Code of Corporate Governance does not require a regular re-election of the Board. Instead, the scope of the General Shareholder Meeting covers determining the Board's term of authority. The General Shareholder Meeting of 21 April 2017 set a three-year term for the current Board.
The UK Corporate Governance Code provides for meetings of non-executive directors at least annually, in particular, to appraise the chairman's performance.	In 2019, non-executive directors held informal meetings, also attended by the corporate secretary, to discuss strategic issues, ways to improve corporate governance processes, the Board's activities, and to improve the work of the corporate secretary.

UK Corporate Governance Code	The Bank's Code of Corporate Governance
The UK Corporate Governance Code stipulates that at least half of the Board, excluding the chairman, consists of independent non-executive directors.	The Bank's Code of Corporate Governance does not directly require this due to Kazakh legal requirements, which state that at least one third of the Board's members must be independent directors. However, the composition of the Board, as appointed by the General Shareholder Meetings on 21 April 2017 and 18 April 2019, includes five independent non-executive directors out of seven.
The UK Corporate Governance Code stipulates that non-executive directors should carefully analyse to what extent the Management Board's work fulfils the aims and objectives set, monitor its activities, and check that financial information published is complete and that financial controls and the risk management system are effective and reliable.	Under the Bank's Code of Corporate Governance, all members of the Board of Directors are responsible for this.
The UK Corporate Governance Code stipulates that the Board of Directors should ensure that an appropriate succession plan is in place when appointing members of the Board of Directors and the senior management, in order to create an appropriate balance of skills and experience in the company and in the Board of Directors, and to continuously refresh the talent pool.	The Bank's Code of Corporate Governance defines a procedure for creating the Board of Directors and requirements for candidates to it, the aim being to ensure an optimal balance of experience and knowledge needed for the Board of Directors to function effectively.

Halyk Bank's Code of Corporate Governance can be found on the corporate website: https://halykbank.kz/en/about-bank/korporativnoe-upravlenie

Corporate governance events in 2019

- The Bank worked to organise and hold a General Shareholder Meeting of the Bank on 18 April 2019, at which 14 decisions were taken regarding matters under consideration.
- At the General Shareholder Meeting of the Bank on 18 April 2019, a decision was taken to pay dividends for 2018 at the rate of KZT10.78 per common share, or 50% of net income for the period. The payment was made to 6,383 shareholders in the amount of KZT126,347 million. Under the revisions to Kazakh legislation that took effect on 1 July 2019, the remainder of the Bank's unpaid dividends in the amount of KZT362 million was transferred to an account opened at the Central Securities Depository to account for the unclaimed funds. In 2019, work also continued to pay dividends on the Bank's common shares for past years, the remainder of which for the years 1998-2017 was also transferred to the unclaimed funds account at the Central Securities Depository in the total amount of KZT360 million. As the Bank's shareholders update their account information, the Central Securities Depository shall pay unclaimed dividends.
- As of 18 April 2019, Anton Musin was elected to the Board of Directors as an independent director. Mr Musin has extensive experience in developing and implementing innovative technological solutions and products at banks and financial organisations aimed at enhancing services for retail and corporate customers. Effective the same day, Anvar Saidenov resigned from his position as an independent director on the Board of Directors.
- On 24 June and 26 November 2019, the Board of Directors approved the following changes and additions to Halyk Bank's Dividend Policy:
  - Dividend payments on common shares shall amount to 50-100% of total net income for the reporting period as determined by the Bank's audited consolidated financial statements.
  - The Board of Directors shall retain the right to suggest to the General Shareholder Meeting not to direct part of net income for the reporting period as determined by the Bank's audited consolidated financial statements towards dividend payments on common shares, or to reduce the total amount of funds directed towards dividend payments on common shares to less than 50% of total net income for the reporting period as determined by the Bank's audited consolidated financial statements.
  - The changes to the dividend payment procedure is in accordance with amendments to Kazakh legislation.
- During 2019, the Bank continued to buy back its own common shares, acquiring 5,000 of its own common shares from an individual shareholder for a total consideration of KZT275,000.
- Thirty official appeals of the Bank's shareholders were considered regarding dividend payments, financial assistance for shares, updating shareholders' personal data, the share buyback, share ownership rights, as well as requests for information about income tax withholding and other matters concerning the Bank's activities and Kazakh securities market legislation.
- On 30 September 2019, the Bank's common shares and Global Depository Receipts (GDRs) were included in the official list of the Astana International Exchange (AIX). The Bank's common shares are listed under the ticker (HSBK) and its GDRs under the ticker (HSBK.Y) with an exchange rate and settlement in US dollars and fully convertible into GDRs on the London Stock Exchange (LSE).
- The Bank's Charter, Corporate Governance Code and Policy on the Board of Directors were updated to bring them into compliance with the requirements of current Kazakh legislation.
- To ensure a systematic approach to the Bank's corporate social responsibility and sustainability efforts, a Policy on Corporate Social Responsibility was approved in 2019.
- In 2019, there were changes in the composition of the Management Board.
- A corporate management training course was developed and training events were held with Halyk Group's corporate secretaries.
- In 2019, the corporate governance practices at the Banks Kazakh and foreign subsidiaries were analysed and a report was prepared with recommendations for improvement.
- The results were reviewed of the Bank's stress-testing that was conducted based on a general economic scenario for 2020 (using scenario analysis).

Corporate governance structure

The Board of Directors has the following consultancy and advisory bodies: the Strategic Planning Committee, Audit Committee, Nominations and Remunerations Committee and Social Responsibilities Committee. For more details on their work, please see the respective subsection below.

The Management Board has created a number of working bodies, including directorates, committees and working groups. This allows it to consider major issues in detail in separate segments. Where necessary and if required by law, decisions made by such working bodies are brought to the Management Board or Board of Directors for approval.

To ensure best practice in corporate governance, the Board of Directors is assisted by internal and external auditors, as well as a compliance controller, head of internal audit, chief risk officer, chief legal adviser, corporate secretary, and others.

The Bank has risk management and compliance control services, an internal audit department, as well as a corporate secretary responsible for corporate governance issues.

The Bank engages 'Big Four' professional services firms to audit the financial statements of Halyk Group. In 2019, this was carried out by Deloitte.

Functions between the Board of Directors and the Management Board are allocated in accordance with Kazakh law.

Board of Directors structure

As at 1 January 2020, the composition of the Board of Directors was as follows:

Board of Directors composition	
Alexander Pavlov	Chairman, independent non-executive director
Arman Dunaev	Strategic Planning Committee chairman, Social Responsibilities Committee chairman, member of the Board of Directors, independent non-executive director
Frank Kuijlaars	Nomination and Remuneration Committee chairman, member of the Board of Directors, independent non-executive director
Mazhit Yessenbayev	Member of the Board of Directors, representative of Holding Group ALMEX
Christof Ruehl	Audit Committee chairman, member of the Board of Directors, independent non-executive director
Anton Musin	Member of the Board of Directors, independent non-executive director
Umut Shayakhmetova	Member of the Board of Directors, chairperson of the Management Board
Total	7 directors

When determining the independence of the directors, the Board of Directors uses the criteria stipulated by Kazakh law.

Directors' skills and experience

The Bank seeks the best balance of experience, skills and vision in its directors. The presence of a variety of views when discussing issues allows the Board of Directors to exercise its duties and represent the interests of shareholders most effectively.

Independent directors contribute international experience, strategic vision, insight into the largest industries where the Bank operates, corporate governance and risk management. At the same time, all directors possess knowledge of banking activities, finance in general and human resources management, including issues of remunerations.

Information on the skills and experience of the Board of Directors is summarised below:

Directors' skills and experience	
Banking	7 directors
Oil and gas and mining	4 directors
Other industries in the real economy	5 directors
Finance	7 directors
Leadership	7 directors
Risk management	4 directors
IT	1 director
International experience	5 directors
Strategic vision	7 directors
Corporate governance	7 directors
Human resource management	7 directors
Total	7 directors

Management Board structure

In 2019, there were several changes in the Management Board. On 4 March 2019, Mikhail Kablashev was appointed to the post of deputy chairman of the Management Board and Kuat Kussainbekov stepped down from the Management Board after transferring to another position. On 2 May 2019, Askar Smagulov was appointed as deputy chairman of Halyk Bank's Management Board. On 28 October 2019, Zhumabek Mamutov was appointed as deputy chairman of the Halyk Bank's Management Board.

As of 1 January 2020, the composition of the Management Board was as follows:

Management Board composition	
Umut Shayakhmetova	Chairperson of the Management Board HR, Treasury, Strategic Office, Legal, Compliance and International Activities
Aivar Bodanov	Deputy chairman Security and Problem Loans
Aliya Karpykova	Deputy chairperson Finance, Accounting and Subsidiaries
Murat Koshenov	Deputy chairman Corporate Banking
Mikhail Kablashev	Deputy chairman IT
Yertai Salimov	Deputy chairman Relationships with National Companies, director of the Astana region branch
Askar Smagulov	Deputy chairman Transactional Banking, Innovation and Homebank
Zhumabek Mamutov	Deputy chairman Retail Banking and Contact Centre
Dauren Sartayev	Deputy chairman SME Banking and PR
Zhannat Satubaldina	Deputy chairperson Operations, Resources and Administration
Total	10 members

Activities of the Board of Directors

In general, the Board of Directors and its committees work in accordance with the plans for respective periods.

In 2019, the Board of Directors held 91 meetings, including four in person and 87 in absentia. At the meetings in person, the Board of Directors discussed the most important strategic issues, such as:

- The results for 2018 of implementing the Group's strategy for 2016-18
- The results for H1 2019 of implementing the Group's strategy for 2019-21
- The results of the operations and budget execution of the Bank and Halyk Group for 2018 and H1 2019
- The approval of the consolidated budget of Halyk Group (IFRS) and Halyk Bank for 2020
- The internal audit department's working plan for 2020 and long-term working plan for 2021-23
- The election and resignation of several members of the Management Board, as well as changes to the composition of several committees of the Board of Directors
- Approval of the Bank's major projects
- The Asset Quality Review (AQR) in Kazakhstan, as well as the Bank's AQR progress
- Preliminary approval of the Bank's 2018 financial statements and quarterly performance reports of the Management Board
- A review of the methodology that the risk management department uses to conduct stress-testing based on a general economic scenario, as well as the methodology that Halyk Finance uses to compile macroeconomic forecast scenarios for the stress-testing
- The quarterly reports of the compliance controller regarding the effectiveness of the management and control of compliance risks, as well as matters related to internal control at Halyk Bank
- Analysis of the Bank's loan portfolio quality
- Analysis of the Bank's related-party and other transactions

Absentee voting was conducted for routine issues that are included in the Board of Directors' duties by law or by the Bank's internal documents, and most urgent issues that could not wait until the next ordinary meeting in person.

Detailed committee reports

General provisions

The Board committees are consulting and advisory bodies to the Board of Directors. All their suggestions are recommendations that are made for the Board of Directors' consideration.

Under Kazakh law, committee members are Board of Directors' members and experts. More detailed information on the composition of the committees is provided below in the subsections on the activities of the respective committees.

Audit Committee

The Audit Committee was established in July 2005 and its members are:

Christof Ruehl – chairman, independent non-executive director

Alexander Pavlov – member, independent non-executive director

Arman Dunaev – member, independent non-executive director

All committee members are independent non-executive directors who are knowledgeable and experienced in accounting and tax accounting, financial statements, internal and external auditing, and risk management.

Committee functions

The committee assists the Board of Directors on issues of the completeness and authenticity of financial and other reports, compliance of the Bank and its subsidiaries with legal requirements and internal documents (compliance control), selection and independence of the external auditor, adequacy and efficiency of internal control and risk management systems, and coordination of external and internal audit activities.

Committee activity

In 2019, the committee held three meetings in person and 35 in absentia.

To ensure the completeness and reliability of the financial statements, the committee reviewed the external auditor's interim (quarterly) financial reports, as well as letters to the management of the Bank and subsidiaries, and also approved and submitted for consideration by the Board of Directors the annual financial statements for 2018. As part of this work, the committee discussed the principles of the most important accounting judgments, policies and procedures, among other things, with the external auditor and the Bank's finance department.

During the reporting period, the committee worked closely with the internal audit department and considered the following matters: the internal audit budget and working plan; information on the results of audits; management reports on internal audit issues; internal audit department personnel matters; and draft internal regulatory documents governing the internal audit department's work.

In 2019, the committee also reviewed the quarterly analytical reports on the Bank's portfolio quality prepared by the risk management service.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee was established in September 2007 and its members are:

Frank Kuijlaars – chairman, independent non-executive director

Alexander Pavlov – member, independent non-executive director

Umut Shayakhmetova – member, chairperson of the Management Board

The majority of the committee is independent non-executive directors, and all committee members have extensive experience in human resources management, including issues of remunerations.

Committee functions

The committee makes recommendations to the Board of Directors regarding candidates for the Board of Directors, the Management Board and the boards of directors of the Bank's subsidiaries, on the remunerations system for members of the Board of Directors and Management Board, and on the salaries of the boards of directors and executive bodies of subsidiaries.

Committee activity

In 2019, the committee held 13 meetings in absentia and did not hold any in person.

The committee submitted for the Board of Directors' review recommendations concerning the election of Anton Musin as an independent director on the Board of Directors, as well as recommendations concerning candidates for positions on the Bank's Management Board and the Boards of Directors of the Bank's subsidiaries.

Remuneration to the members Management Board for 2019 totalled KZT2,025,783,489.55 (including annual bonus) and was determined based on the following three factors:

- An assessment of the position that determines its significance (value) for the organisation, as well as the degree of influence of the manager's work on the Bank's final results.
- The level of remuneration for comparable positions in the regional labour market.
- An assessment of the activities of the Bank's managers, which is used to determine the annual bonus.

Remuneration to the members of the Board of Director for 2019 totaled KZT674,451,936.25 and the fundamental principles for remuneration of members of the Board of Directors are:

- The relationship of compensation to the members of Board of Directors
  - with the level of personal qualifications and contribution to the results of the Bank
  - with the execution of their duties and achievement of goals in the interests of the Bank and its shareholders

Strategic Planning Committee

The Strategic Planning Committee was established in April 2012 and its members are:

Arman Dunaev – chairman, independent non-executive director

Alexander Pavlov – member, independent non-executive director

Anton Musin – member, independent non-executive director

Mazhit Yessenbayev – member, director

Umut Shayakhmetova – member, chairperson of the Management Board

Murat Koshenov – member, expert (non-voting member)

Mikhail Kablashev – member, expert non-voting member)

Askar Smagulov – member, expert (non-voting member)

Committee functions

The committee assists the Board of Directors in matters regarding Halyk Group's strategy, analyses reports on strategy implementation, and monitors the external environment and its impact on the Group's strategic plans.

Committee activity

In 2019, the committee held three meetings in person.

The committee reviewed the results for 2018 of the implementation of Halyk Group's Development Strategy for 2016-18, as well as the results for H1 2019 of the implementation of Halyk Group's Development Strategy for 2019-21. The analysis showed satisfactory progress.

The committee also analysed changes in the external environment (regulatory, economic, financial, etc) and assessed the impact of such changes on Halyk Group's Development Strategy for 2019-21.

Social Responsibility Committee

The Social Responsibility Committee was established in April 2012 and its members are:

Arman Dunaev – chairman, independent non-executive director

Frank Kuijlaars – member, independent non-executive director

Christof Ruehl – member, independent non-executive director

Dauren Sartayev – member, expert (non-voting member)

Saginbek Shunkeyev – member, expert (non-voting member)

Committee functions

The committee assists the Board of Directors in issues regarding the Bank's policy on corporate social responsibility and sustainability development; the Bank's compliance with legislative requirements regarding corporate social responsibility; and preliminary consideration of the expenses budget related to charity and the implementation of social projects for the respective period.

Committee activity

In 2019, the committee held two meetings in person.

It reviewed the following matters:

- A report on the sponsorship and charity activity of Halyk Bank the Halyk Fund for 2018
- A plan for the main sponsorship and charity events of Halyk Bank the Halyk Fund for 2019
- Measures to develop the institution of corporate social responsibility in Halyk Bank
- A report on the sponsorship and charity activity of Halyk Bank and the Halyk Fund for 2019
- A plan for the main sponsorship and charity events of Halyk Bank and the Halyk Fund for 2020

Relations with minority shareholders

The Bank strives to continuously improve its system for working with minority shareholders, which allows them to ask questions and receive the necessary information conveniently (in writing, by email and/or by telephone).

Communications from minority shareholders and their wishes are regularly analysed. The Bank informs shareholders of all substantial news, corporate events, changes to its activities that relate to holders of its shares and bonds, and planned events via its website, the websites of stock exchanges and financial reporting depositary websites.

Where necessary, employees of the Head Office provide consultations to employees of branches on shareholder relations about accrued dividends, changes in shareholders' banking details, conveyance of heritage rights and other matters.

Dividend policy

Shareholders' rights to dividends and the procedure for the payment thereof are stipulated by the Bank's Charter and the Code of Corporate Governance approved by General Shareholder Meetings.

In September 2012, the Board of Directors approved the Dividend Policy of Halyk Bank. The resolution was intended to serve as a separate, flexible internal regulatory document.

The main purpose of the Bank's Dividend Policy is to establish a clear and transparent decision-making mechanism regarding dividend payments, their size, the procedure and timelines of payment considering the following limitations:

- Ensuring that the Bank has an adequate distribution of net profits
- Ensuring that there are no restrictions on the payment of dividends provided for by Kazakh legislation or contained in contracts the Bank has entered with third parties, particularly with foreign financial organisations (covenants)
- Maintaining (retaining) the Bank's international credit ratings
- Conducting an audit of the Bank's financial statements for the reporting period
- Complying with decisions of the General Shareholder Meeting
- Paying dividends no more than once per calendar year
- Avoiding a default or situation when paying dividends could lead to a default on the Bank's obligations
- Complying with the projected CET 1 capital adequacy ratio on a consolidated basis taking into account planned dividend payments of no less than 17%

Existing limitations on payments of dividends on common shares (covenants) are as follows:

- When determining the dividend amount (per common share) to recommend to the General Shareholder Meeting, the Board of Directors considers the Bank's total equity and assumes that the amount of money used to pay dividends on common shares will total 50-100% of total net income for the reporting period as determined by the Bank's audited consolidated financial statements. To ensure that the dividend payment is made, the Bank will use, among other resources, cash received as dividend payments from the Bank's subsidiaries.
- In accordance with the Bank's strategic goals, the Board of Directors retains the right to suggest to the General Shareholder Meeting not to direct part of net income for the reporting period as determined by the Bank's audited consolidated financial statements towards dividend payments on common shares, or to reduce the total amount of funds directed towards dividend payments on common shares to less than 50% of total net income for the reporting period as determined by the Bank's audited consolidated financial statements.

Payment of dividends on common shares is subject to the Bank or the registry system having the correct shareholder information no later than 90 calendar days from the date following the date on which the General Shareholder Meeting takes a decision regarding the payment of a dividend on the Bank's common shares.

If the Bank or the registry system do not have the shareholder's current information, dividends on the Bank's common shares are paid to the account for unclaimed money opened in the Central Securities Depository accounting system no later than 90 calendar days from the date following the date on which the General Shareholder Meeting takes a decision regarding the payment of a dividend on the Bank's common shares.

Dividends paid for previous financial years are as follows:

	For 2018	For 2017	For 2016	For 2015	For 2014	For 2013	For 2012	For 2011	For 2010
Per preferred share	None trading			0.338	2.61	1.8	2.24	5.24	5.49
Per common share	126.71	69.38	-	-	34.26	18.55	12.22	-	-
Total	126.71	69.38	-	0.338	36.87	20.35	14.46	5.24	5.49

Awareness and training of members of the Board of Directors

New members of the Board of Directors are provided with an introductory package with basic information about the history and current positions of the Bank and Halyk Group, an organisational chart of the Bank, a director's responsibilities, and the main reports from the consolidated financial statements as of the most recent reporting date.

Members of the Board of Directors are also given information about the main changes in banking law.

In 2019, seminars and training sessions were held for members of the Bank's Board of Directors and Management Board covering the topics of strategic development, change management and IT.

The Bank intends to further develop and improve the knowledge and qualifications of members of the Board of Directors.

Risk management and internal control roles and responsibilities

Risk management and internal control functions within the Bank are distributed as follows:

- The Board of Directors carries out strategic governance on internal control and risk management, and approves and periodically revises policies. The working body of the Board of Directors for risk management and internal controls is the Audit Committee.
- The Board of Directors also considers large transactions of the Bank, transactions where the Bank has an interest, and related-party transactions, including with respect to an absence of preferential conditions.
- The Management Board is responsible for the implementation of risk management policies. The Bank has the following key committees that carry out various risk management and control functions: credit committees (Commercial Directorate (Credit Committee of the Head Office)), Credit Committee of the Branch Network, Retail Credit Committee, Bad Loans Committee, Committee for Managing Assets and Liabilities (ALCO), and Risk Committee.
- Structural divisions of the Bank are directly responsible for identifying and assessing inherent risks, the adequacy of controls and business continuity.
- Independent risk management and compliance services are responsible for organising the risk management system, which ensures identification, assessment, control and monitoring of credit, operational, market, compliance and liquidity risks. The risk management and compliance functions are headed by the chief risk officer and the chief compliance controller.
- The internal audit service performs independent and objective evaluations of the efficiency of risk management, internal control and corporate governance systems.

Three lines of defence' risk management system

Risk management in the Bank is based on the 'three lines of defence' system. The first line of defence includes the top management and structural divisions, the second line of defence encompasses the risk management committees/risk management function and compliance, and the third line of defence is internal audit.

- The first line of defence is the controls developed to ensure correct day-to-day operations by various business divisions of the Bank. The controls are developed by the business divisions and are an integral part of business processes. Clearly delineated controls help to ensure an adequate level of risk minimisation and compliance with internal regulations, as well as compliance with external regulatory requirements. The divisions themselves manage and monitor the controls, enabling them to detect risks, weaknesses of business processes and possible unforeseen events, and to react to them in a timely manner.
- The second line of defence is the risk management committees, the risk management function and compliance. The committees and risk management function are responsible for managing risks within the set risk appetite. The main chain loop of the second line of defence is the risk management function. To ensure an adequate level of control, the risk management function determines procedures for assessing risks (credit, financial and operational) and monitoring risks.

- The risk management team carries out regular independent risk monitoring, develops control methods for efficient risk management on the first line of defence and, along with the compliance division, assists business divisions with regulatory requirements compliance in their respective areas.
- The third line of defence is the internal audit function (see “Internal Audit”).

The Bank acknowledges that it is impossible to totally exclude risks inherent to banking operations. However, the Bank is confident that its risk management system enables them to be minimised significantly.

Code of Conduct

The Bank builds relations with employees and clients according to the principles of law, mutual respect and trust.

In 2015, the Bank approved the Rules of Corporate Ethics, which aim to:

- Secure the mission, values, principles and standards of business ethics and behaviour
- Develop a uniform corporate culture based on high ethical standards, and support an atmosphere of trust, mutual respect and decency
- Increase and maintain trust in the Bank from shareholders, clients, business partners, public authorities, the public and other interested parties, and strengthen its reputation as an open and honest player on the financial market
- Assist in interacting effectively with stakeholders
- Prevent violations of the current laws of Kazakhstan by the Bank’s employees

These rules cover the professional behaviour of officials and employees of the Bank in discharging their duties, and in relationships with each other and shareholders, clients, business partners, public authorities, the public and other interested parties entering into relations with the Bank.

Bank executives seek to set a personal example of commitment to the Bank. They allocate time to create a talent pool for the Bank, consult and coach, and gather employees into a team united by a common mission, values and principles.

Every employee is obliged to maintain the image and business reputation of the Bank at a high level.

Internal audit

In accordance with the International Internal Audit Standards Board’s revised International Standards for the Professional Practice of Internal Auditing effective 1 January 2017 (the “Standards”), the internal audit function’s mission is to maintain and increase the value of Halyk Group through independent audits and consultations (using a risk-based approach) and providing recommendations to improve the Group’s operations.

The internal audit function is guided in its work by legislative norms, regulatory requirements, the Standards and the Bank’s internal regulatory documents.

To ensure the independence and objectivity of the internal audit, the internal audit department functionally reports to the Bank’s Board of Directors. Working interaction with members of the Board of Directors regarding audit matters is carried out via the Audit Committee and directly.

The annual work plan of the internal audit department is considered by the Audit Committee and approved by the Board of Directors.

In 2019, work continued to maintain full compliance with the Standards, as confirmed by independent external consultant PricewaterhouseCoopers LLP in 2017, as well as to introduce best international practice.

The internal audit department provides methodological assistance on an ongoing basis to bring the internal audit services of the Bank’s subsidiaries into compliance with the Standards.

Nomination and contracting of directors (general information on procedures)

When nominated, directors are subject to approval by the Kazakh regulator in accordance with the Rules for Granting Assent to the Appointment (Election) of Managing Persons of Financial Institutions and Bank and Insurance Holdings, JSC Deposit Insurance Fund, including criteria regarding the absence of an impeccable business reputation, and the set of documents necessary for approval.

Contracts are concluded with directors in accordance with the Bank’s Policy on Management Personnel Remunerations and Reimbursements and Creating an Annual Performance Results Bonus Awards Reserve.

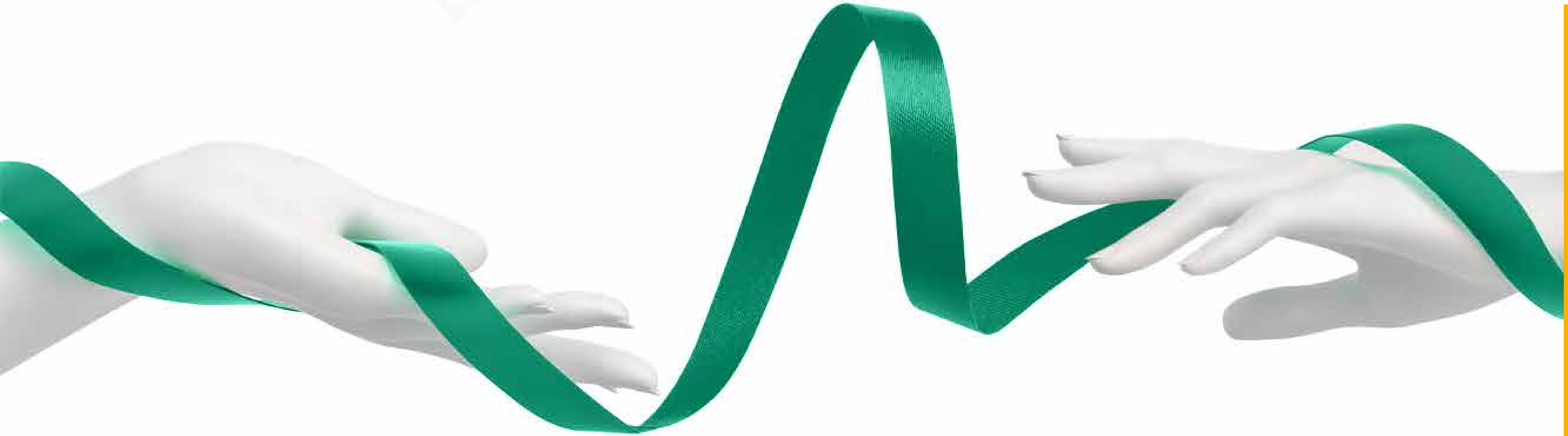
Decisions on payments and individual amounts of directors’ remunerations (apart from the chairman of the Board of Directors and the chairperson of the Management Board) are made by the chairman of the Board of Directors based on recommendations of the Nomination and Remuneration Committee.

Contracts with directors, setting individual amounts, the frequency and the conditions for payment of remunerations and withholding of respective taxes in accordance with Kazakh law, (apart from that of the chairperson of the Management Board) are concluded by the chairperson of the Management Board on behalf of the Bank.

Insurance of fiduciary liability

The Board of Directors and Management Board understand the risks arising from incorrect or mistaken management decisions or actions.

To safeguard shareholders from potential damage from such events, the Bank insures the liability of its directors and officials.



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SOCIAL REPORT

SOCIAL REPORT

Halyk Bank believes in the fundamental idea that business should create value not only for shareholders, but also for society as a whole.

This belief informs the Bank's social responsibility efforts, which encompass various areas, including the development and implementation of advanced technologies with support for cultural and social initiatives, as well as respect for children's health, the elderly and the environment. Each year, the Bank finances social and cultural projects, in addition to making sizeable donations to charity projects that support children in sponsored orphanages and boarding schools throughout Kazakhstan, public health and social initiatives.

The primary vehicle for these projects is the Halyk Fund, which Halyk Group's shareholders established in spring 2016. One unique aspect of the fund is how it strives to actively use banking products and technology in its charity work.

Today, the charity and sponsorship efforts of the Bank and Halyk Fund are focused on various areas: giving every child a healthy start in life; helping people with disabilities to integrate in society; and supporting community services. In addition to the fund's own initiatives, it also supports public charity projects alongside non-governmental organisations as well as the Bank's customers on the basis of the equal social partnership principle.

Social projects

Victory Marathon

Each year, as part of its social responsibility efforts, the Bank provides material assistance to depositors who are World War II veterans and home front workers in the lead up to the celebration of Victory Day on 9 May. In addition, the Bank's employees visit veterans whose health no longer permits them to visit the Bank's branches and citywide events.

The Victory Marathon also encompasses sponsored World War II veterans, home front workers and people who survived concentration camps as children. For example, veterans who live alone and have limited mobility receive the heartfelt gratitude and personal attention of the Bank's employees, as well as food packages and medicines.

In 2019, Halyk Bank donated around KZT9 million to veterans. Overall, in the past decade, the Bank has distributed more than KZT112 million to veterans' organisations and World War II veterans.

Road to School

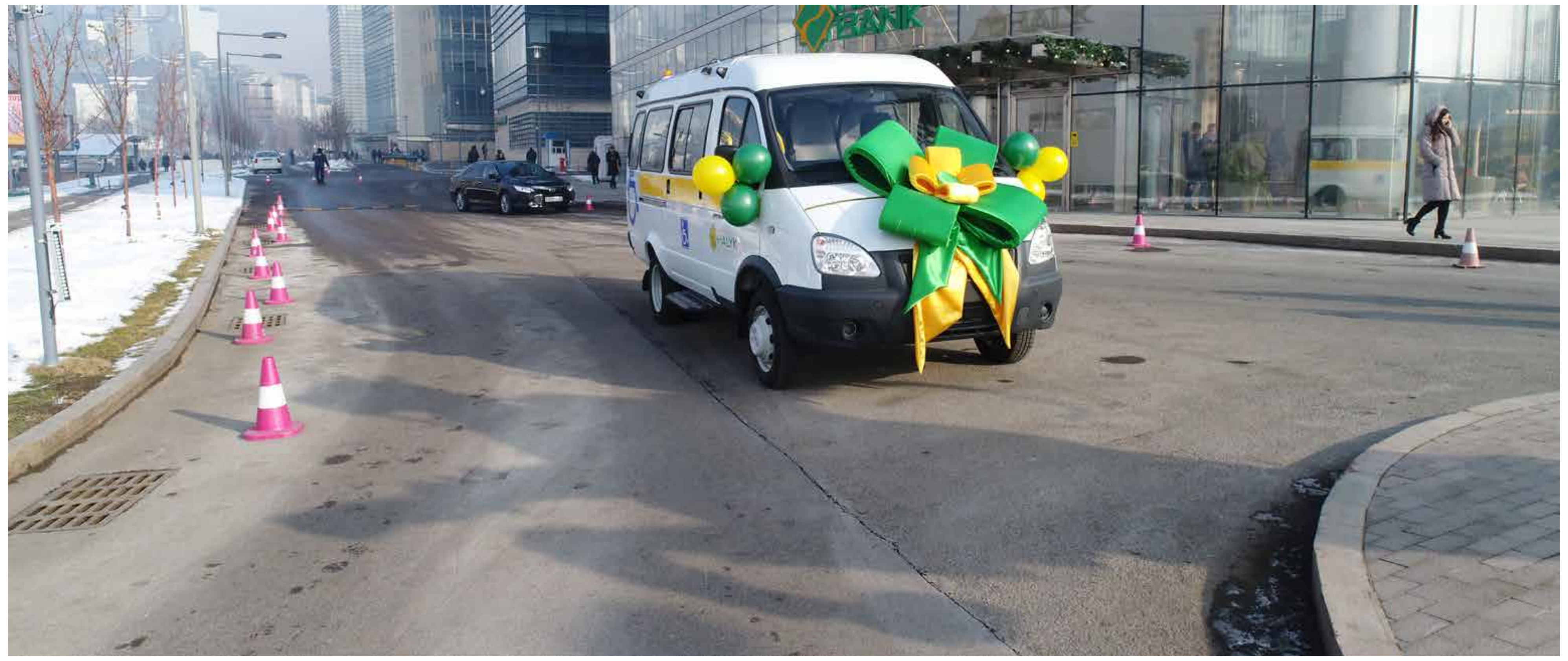
As part of the nationwide Road to School campaign, nearly 600 first grade students from low-income and large families across the country went to their first day of school with backpacks and school supplies donated by the Halyk Fund and the Bank.

This is part of an initiative backed by Kazakhstan's Ministry of Education and Science, educational organisations and regional governors' offices with traditional financial support from the Bank via the Halyk Fund.

In the past four years, the Bank has helped to prepare more than 3,500 first graders from low-income and large families with total targeted donations of more than KZT43.5 million.

Handitaxi

Helping people with disabilities is a priority aspect of the Bank's social policy. In 2019, together with the Halyk Fund, the Bank helped the major social project Handitaxi to donate 15 specially fitted vehicles for transporting people with limited mobility to regional associations of the disabled.



Since the project began, 36 such vehicles with a total value of more than KZT336 million have been donated to regional associations. Each vehicle features wheelchair lifts, cabins with panoramic windows, a sliding right door and rear doors with 180-degree hinges. Thanks to the project, these specialised vehicles will serve not only large and small towns, but also rural districts, when needed.

Ayala Charity Fund

Each day in Kazakhstan, new-born children need emergency care during the first hours of their lives. In 2019, the Bank supported the Ayala Charity Fund's project that purchased Tecotherm Neo therapeutic hypothermia devices for Turkestan region's Perinatal Centre no. 3. Therapeutic hypothermia devices are used to precisely regulate the body temperature of new-borns and control cell repair or affected areas of a baby's brain. The project's budget totalled more than KZT27 million.

School named after Ivan Zhurba and Altyn Tumar kindergarten

The Halyk Fund and Halyk Group's business partners collected and donated funds to repair the secondary school named after Ivan Zhurba and Altyn Tumar kindergarten, which were damaged during the reporting period as a result of the tragedy in the town of Arys. The repair and construction work continued around the clock and the work on the school alone involved around 100 people. Overall, more than KZT 1 billion was spent on the repair work.

To help support the residents of Arys, the Bank also began to provide free payment cards on which they can receive government assistance (KZT100,000 per resident) on special current accounts. The Bank donated more than 32,000 payment cards and flew them to the region.

Medical equipment for Arys Central Regional Hospital

The Halyk Fund also provided charitable assistance to the Arys Central Regional Hospital by acquiring more than KZT130 million in medical equipment. The new equipment will allow the hospital to ensure adequate and timely medical care for emergency and routine procedures, childbirth and ordinary patient treatment.

The equipment supplied included an operating table, infusion and syringe pumps, an incubator for new-borns, a phototherapeutic unit, children's medical heaters, a mammography system, beds, mechanical ventilation apparatuses, Bionet patient monitors, etc. Overall, more than 30 pieces of medical equipment manufactured in South Korea, the Czech Republic and Switzerland were donated.

Apartments for families of SOS Children's Villages in Almaty

In 2019, the Almaty municipal government, the Nursultan Nazarbayev Educational Foundation, the Halyk Fund, SOS Children's Villages Kazakhstan and Almaty's Orphanage No. 1 signed a memorandum of cooperation. Their goal is to strengthen the social support system and protect the rights of children deprived of parental care so that they can grow up in a loving family environment and fully integrate with urban society.

As part of this initiative, in 2019, the Bank and Halyk Fund acquired and donated two apartments to SOS Children's Villages Kazakhstan. Each apartment has three bedrooms, their combined area is more than 330 square metres and they cost more than KZT120 million. The donated apartments were also renovated free of charge, fully furnished and supplied with all needed appliances and food for move-in day.

Arts and culture

Astana Opera (Nur-Sultan)

As one of Kazakhstan's leading financial institutions, Halyk Bank is proud to be the general partner of the Astana Opera, one of the country's most important opera and ballet theatres. Since 2013, the

Bank has supported several new productions, as well as opera and ballet festivals. The amount of sponsorship support was KZT100 million.

Abay State Academic Theatre of Opera and Ballet (Almaty)

In 2019, the Bank significantly increased its funding for its foundational sponsorship project: Almaty's Abay Theatre of Opera and Ballet. A total of KZT50 million was donated so that the theatre could take its outstanding ballet performances on a tour of Europe. The theatrical troupe's trip opened new professional frontiers for the young professionals.

Halyk Art Prize

In 2019, the Bank supported the Halyk Art Prize project, which seeks to foster modern art and society in Kazakhstan, support young artists in the country and discover up-and-comers at the decisive stages of their careers. The amount of sponsorship support totalled KZT4 million.

Support for presentation of literary work and concert of Zhania Aubakirova

The Bank also supported the presentation of the book "Variations on a theme…", as well as solo concerts in Almaty and Nur-Sultan celebrating 30 years of the work of Zhania Aubakirova, an artist who has been honoured by the government of Kazakhstan for her work.

The solo concerts were also supported by the Bank's partners, the Abay State Academic Theatre of Opera and Ballet and Astana Opera. After the concert, there was a private presentation of Zhania Aubakirova's book, "Variations on a theme…". The amount of sponsorship support was around KZT 7 million.

National sport

Over many years, Halyk Bank, together with the Halyk Fund, have spent tens of millions of tenge on the development of youth sport in Kazakhstan. The goal of this work is to help domestic sporting organisations to create the necessary foundation for training athletes, as well as to promote healthy lifestyles.

Investing in sport in Kazakhstan makes it possible to hold professional and amateur competitions that encourage young athletes to defend their national honour in the international arena. Special attention is paid to athletes with disabilities.

Halyk League

For more than 13 years, the Halyk Fund and Kazakhstan's National Basketball Federation have been running the Halyk League, a joint social project that supports children from sponsored orphanages and boarding schools throughout Kazakhstan. The project has already produced three people who have achieved the title of master sportsman and more than 50 candidates for the title.

Graduates of the orphanages and boarding schools that participate in the project have continued their careers in sport, including as players in professional clubs and as basketball coaches. This fact is direct evidence that the project prepares children to realise their full potential in their adult lives. In the past 13 years, around KZT366 million has been invested in this project.

Hope Cup Championship

The annual Hope Cup Championship is part of the Halyk League social project that is financed by the Halyk Fund and Halyk Bank. Throughout the year, pupils from 17 orphanages in 15 cities and towns around Kazakhstan take part in basketball clubs led by professional coaches.

In 2019, the Championship included more than 170 teenagers, many of whom are beginning the process of transitioning from the orphanage into independent life. As a motivational training event, the Halyk Fund organised a meeting with a legendary Guinness-record setting marathon runner who has raced through all the world's deserts, Marat Zhylanbayev, an entrepreneur who himself grew up in an orphanage and has personal experience of overcoming all the obstacles facing these young people as they embark on their independent lives. The fund allocated more than KZT33 million for the championship.

Special Olympics

In 2019, the Halyk Fund continued the tradition of supporting the Special Olympics Public Association. The support helped the organisation to hold nine national events for young people with intellectual disabilities. The events were attended by more than 1,900 participants. In eight years of cooperation with the Special Olympics, KZT18.5 million of material support has been provided.

Gymnastics Federation of Kazakhstan

Each year, the Bank supports the Gymnastics Federation of Kazakhstan. In 2019, the Kazakhstani athletes took part in many competitions, winning 25 gold medals, 32 silvers and 25 bronzes for sporting and artistic gymnastics, as well as sporting acrobatics. Milad Karimi qualified for the 2020 Summer Olympics in Tokyo.

In November 2019, the federation held the FIG Academy, a sporting gymnastics event that was attended by 36 people from 14 Asian countries. In addition, 15 trainers from Kazakhstan took part in the event and received valuable experience. The Bank allocated KZT100 million to support the Gymnastics Federation of Kazakhstan in 2019.

Halyk Arena

In 2019, the Bank extended its sponsorship agreement granting naming rights for Halyk Arena and allocated KZT185 million in sponsorship funds, as well as supported the new general development plan for using Halyk Arena as a leisure and sport centre in Almaty in 2019-24. Thanks to the Bank's financial support, Halyk Arena was able to hose 22 major sporting events in 2019 that were attended by more than 124,000 people.

Support of education, childhood and youth

The Halyk Fund and Halyk Bank especially prioritise actively engaging in educational projects in Kazakhstan. This work helps to summarise the knowledge and experience of many generations of researchers and scientists across the world in order to transmit this invaluable information to young citizens, since investing in education serves as a reliable foundation for the future welfare of the country and guarantees its further prosperity and development. An important element of these projects is support for children from low-income families, young orphans and children with disabilities.

Halyk SMART

The Bank has always sought to foster innovative solutions, which is why, through the Halyk Fund, it invests in research and development. For the third consecutive year, the Bank is supporting the Halyk SMART educational YouTube channel: https://www.youtube.com/watch?v=K5suHp_j_wE. On the channel, viewers can find new popular scientific videos in the Kazakh and Russian languages covering such subjects as astrophysics, neurobiology, evolution and global economics.

In 2019 alone, the YouTube channel added more than 137,000 new subscribers and had more than 13 million views. The annual budget totalled KZT8 million, bringing the total amount allocated for the project to KZT21.4 million over three years.

IITU ROBOCON National Championship

The Bank supported creative young people by participating in the IITU ROBOCON National Championship. The championship gives students the opportunity to participate in the development of new business development solutions and ideas. The championship included developers and innovators from 15 universities around the country. The budget totalled more than KZT5 million.

Orphanage No. 1

The Halyk Fund works with Orphanage No. 1 and the Nursultan Nazarbayev Educational Foundation under a memorandum of cooperation signed on 15 May 2017 to create favourable conditions for children in orphanages, including improving their educational process, their physical and moral upbringing, and their preparedness to integrate with society.

Thanks to this cooperation, over the past two years, the children's academic performance has improved (knowledge quality rose from 26% to 38.5%). Graduates of the ninth and eleventh grades have been given the opportunity to choose their desired specialties for admission to colleges and universities.

The implementation of educational programmes, such as supplemental education, provides each student a real opportunity to choose their educational path and gives makes it possible for them to achieve success in accordance with their own abilities, regardless of their academic performance. As a whole, this creates a favourable psychological climate and positively influences social activity. The Halyk Fund allocated more than KZT10 million for this project.

Birgemiz.kz charitable platform

To ensure transparency in the financing of charitable projects in Kazakhstan, the Birgemiz.kz crowdfunding platform was created in 2018. This platform, along with the mobile application of the same name, makes it possible to make donations without registration, in two clicks, from a card from any bank. The recipients of charitable support can be projects from diverse social spheres, including health, help for the elderly or animal protection.

In 2019 alone, more than 1,200 people registered as charitable givers on the platform, donating more than KZT7 million in financial aid. In addition, the Halyk Fund also allocated nearly KZT2 million. All of these funds were transferred to various charitable efforts of the funds that participate in the project, including:

- Ayala Charity Fund
- Amila Foundation for Cancer Patients
- Voluntary Charity Society Public Fund
- BlagoDaruyu Public Fund
- Together Against Cancer Public Fund
- Ark Institution
- Rasima-Foodbank Kazakhstan Private Fund
- Umirge Sen Public Fund
- Kasietti Zhol Public Charity Fund
- Eldani Charity Fund

In the two years since the platform launched, 10 charity funds have registered 22 social projects, of which six have been successfully completed. In the short time of its existence, the Birgemiz.kz platform has gathered more than KZT17 million in donations, of which the Halyk Fund has allocated KZT5.5 million.

Halyk Bank's HR system

The Bank's human resources (HR) system is governed by the Kazakh Labour Code, Tax Code, Law on Banks and Banking Activities and other normative acts.

The main objectives of the Bank's HR policy are to:

- streamline the organisational structure and HR planning
- select and deploy employees
- train and develop employees and create a talent pool
- oversee productivity, employee incentivisation and salaries
- foster a positive corporate culture and provide social support for employees

The Bank works consistently and systematically to optimise and automate its business processes, which helps to improve labour productivity.

The Bank's organisational structure and headcount are regularly reviewed to ensure that they correspond with its structure, type and lines of business.

The Bank's HR policy, based on the Halyk Group corporate strategy, complies with the strategy, organisational structure and risk profile of the Bank, as well as the results achieved and Kazakh legislation.

The Bank's headcount trends, 2009-19

Business area	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Difference 2019 / 2009	
Branches	7,792	7,725	7,470	7,394	7,395	7,308	7,367	7,074	7,254	10,187	10303	32%	2,511
Head Office	1,522	1,524	1,491	1,496	1,534	1,638	1,744	1,761	1,835	2,894	3,072	102%	1,550
Total	9,314	9,188	8,962	8,890	8,928	8,946	9,112	8,835	9,089	13,081	13,375	44%	4,061
Difference	-594	-126	-226	-72	38	18	166	-276	254	3 992	294		
% Branches	-6.2%	-0.9%	-3.3%	-1.0%	0.0%	-1.2%	0.8%	-4.0%	2.5%	40.4%	1.1%		
% Head Office	-5.0%	0.2%	-2.2%	0.3%	2.6%	6.7%	6.5%	1.0%	4.2%	57.7%	6.2%		
Total	-6%	-1%	-2%	-1%	0.4%	0.2%	1.9%	-3.0%	2.9%	43.9%	2.3%		

To successfully implement the Bank's stated goals, the numerical composition of the Management Board was updated, new Management Board members were elected, and their areas of oversight were defined.

One of the Bank's strategic objectives is to improve its position in the field of digital banking, which will make it possible for the Bank to become an innovative, high-tech, financial institution with global reach. To achieve this goal, in 2019, the Bank's management decided to strengthen the IT unit, which was transformed into the Go Digital project team, and high-quality IT specialists were selected and recruited.

In 2019, the HalykStarT programme was launched, which seeks to attract promising and engaged students for paid internships with possible further employment at the Bank upon graduation. The project is being introduced to IT units and the best-performing students have already accepted permanent positions at the Bank. To search for promising young specialists, the Bank works with leading universities in Kazakhstan to arrange internships.

Candidate selection is conducted in accordance with the approved Rules for candidate search and selection in Halyk Bank. To improve the efficiency of the selection of specialists, methodological instructions have been developed for managers, competency maps have been compiled and meetings have been held to strengthen the role of managers, including in candidate selection. To help find promising young specialists, the Bank also attends job fairs.

For the purpose of transitioning from classical mentorship to growth mentorship, the mentorship process has been automated using the StarMap Agile competency mapping tool.

The Bank also continues to expand the range of self-service processes available to its staff in terms of employment-related activities, as well as to increase the scope of management reporting on personnel.

Staff development

The Bank's HR training and development policy in 2019 was carried out in the direction of continuous improvement of professional knowledge and improvement of practical skills in IT systems for employees of the Bank's business units.

The priority areas of internal corporate training for employees of the retail business of the branch network included the development of sales skills and improvement of service levels. For employees of the SME business, they included business accounting. For employees of the Head Office, they included training on Agile and Scrum that was part of the strategic initiative called "Project management paradigm shift – implementation of the Agile methodology".

A separate training cycle was developed and conducted for managers and employees of the Contact Centre Department with modules called "Mentorship", "A leader's role in a team" and "Self-management skills: how to avoid burn-out at work". A total of 343 Contact Centre Department employees took part in this training cycle.

In 2019, the HR Department continued its systematic approach to training employees and managers in the Bank's staff reserve. Members of the staff reserve received training aimed at developing management skills, improving personal performance and initiative, and developing emotional intellect using external business trainers (205 members of the Head Office staff reserve attended such training).

For the first time, facilitation sessions were held for managers of independent structural units of the Head Office, as well as managers and employees of the Contact Centre Department. This is an innovative technology that helps to organise the discussion process and improve the quality of decision making.

A training session was conducted for senior executives of the Bank and its subsidiary companies in the corporate format with the help of external trainers from CIS countries on the topics "Introduction to Agile for Leaders" and "How to Make Effective Changes in the Company Using the Adizes Methodology".

Systematic orientation events were held aimed at the effective absorption of new employees in the Bank's workforce, increasing their loyalty and supporting a beneficial business environment at the Bank, including the "Business communication skills" internal training course.

Corporate training was also held for employees of subsidiary companies. The Bank's business trainers visited Halyk Bank Tajikistan and Halyk Bank Kyrgyzstan to hold courses for employees and managers of these subsidiaries.

Work continued to develop distance learning and testing systems. The opportunities of the Bank's existing distance learning system, the systematic growth in the popularity of this type of training with the large-scale coverage of remote employees allowed for an increase in 2019 by several factors in the number of employees trained and learning programmes implemented.

The Bank's employees were able to independently choose distance learning courses to study from a catalogue of available courses on the distance learning portal at any time convenient for them.

In 2019, the following Halyk Group subsidiaries were integrated into the Bank's distance learning and testing system: Halyk Project, Halyk Bank Tajikistan, Halyk Bank Kyrgyzstan, 'Halyk' Insurance Company, Halyk Aktiv, Halyk Leasing and KUSA Halyk.

The work of teachers of the branch network has been substantially transformed: the practice of holding video conferences for teachers to increase professional knowledge and technical study (exchange of experience) of teachers has been introduced (five video conferences were held in 2019). In addition, a process for inspecting teachers' activities, training base and the effectiveness of training was organised involving visits by an HR methodologist business coach to regional offices.

In 2019, as part of the client-centric transformation (CCT) project, a mass training course was developed and conducted for front-office employees of the retail business of the Bank's branch network that provided a test environment to learn business processes and how to use software. More than 900 of the Bank's employees attended the training, which was led by mentors from the retail business who had been trained previously.

For the first time in five years, a 360-degree review was conducted in 2019. The target group for the review included directors of the Bank's branch network. The 360-degree review made it possible to determine which competencies are the branch directors' strengths and which competencies need to be developed.

A training cycle was developed and conducted for university students to popularise continuous learning.

Staff motivation and loyalty

To learn employees' opinions, in 2019, the Bank conducted an employee engagement study and an employee compensation satisfaction survey.

Many of the employees' suggestions were used to improve the Bank's compensation system.

In March 2019, the Bank conducted a systematic review of employee salaries, as a result of which fixed salaries were increased by an average of 15%. The incentive system for employees of the retail, transaction and SME businesses are constantly being improved depending on KPI performance.

In October 2019, the Bank launched a new corporate website featuring interesting new information, which increased site visits threefold.

As part of an initiative to increase staff loyalty and encourage two-way communication between employees and the management, the Bank analyses the working environment within its units from social and psychological perspectives.

In May 2019, the Bank reviewed employee achievements to reward the top performers of 2018. The best employees were awarded monetary bonuses, certificates and letters of appreciation in three categories:

- Best Bank employee: "Professionalism and Dedication to the Bank's Values" (first-degree nomination)
- Best Bank employee: "Diligence and the Pursuit of Success" (second-degree nomination)
- "Employee of the Year" (third-degree nomination)

Winners in the first- and second-degree nominations were invited to Almaty for an award ceremony to receive their letters of appreciation and certificates, a celebratory dinner with the Management Board and a tour of the city.

To motivate and encourage branches and their subdivisions, a contest has been held since 2017 between branches to determine the "Best Division in its Field of Activity". The winners receive certificates and monetary prizes.

Each employee has the opportunity to make their contribution to improve the Bank's processes and labour conditions. Employees who have their suggestions implemented and employees who show the greatest initiative are awarded certificates and monetary prizes as part of the programme.

In 2019, the following events and contests were conducted to strengthen corporate and sporting spirit for the Bank's employees.

Holiday events

- International Women's Day (8 March)
- Nauryz, the celebration of which was organised and held in a completely new format
- Defenders of the Fatherland Day (7 May) and Victory Day (9 May)
- Halyk Bank Day (10 October)
- the day of the national currency (tenge)
- New Year's events
- a corporate trip into nature was organised for employees at the Nurly Tau active recreation centre and trout farm

Sporting events organised by the bank and outside organisations

- the qualifying and final competitions of the III Spartakiad among teams from Halyk Group for the Halyk Group Cup; the finals were held in Karaganda
- KPMG chess tournament among financial institution employees in Almaty

- the VIII annual "Courage to be First" charity marathon in which 378 employees from the Head Office took part
- the "Clash of Titans" tournament (billiards, carting, bowling and karaoke)
- a tennis tournament among employees of the Head Office

Competitions

- photo contest for the most original marriage proposal
- best traditional outfit contest
- national traditions contest
- best poem about the Bank contest
- interactive mini-quiz (questions about the Bank) dedicated to Halyk Bank Day
- best New Year decoration contest

The Bank and its employees play an active role in socially significant projects. Throughout the year, there are charitable events and the provision of assistance to retirees of the Bank to mark 9 May and 1 October and on anniversaries, as well as charity trips for the Bank's employees to orphanages in January, June and September. In 2019, a total of KZT1,718,900 in donations for orphanages was collected.

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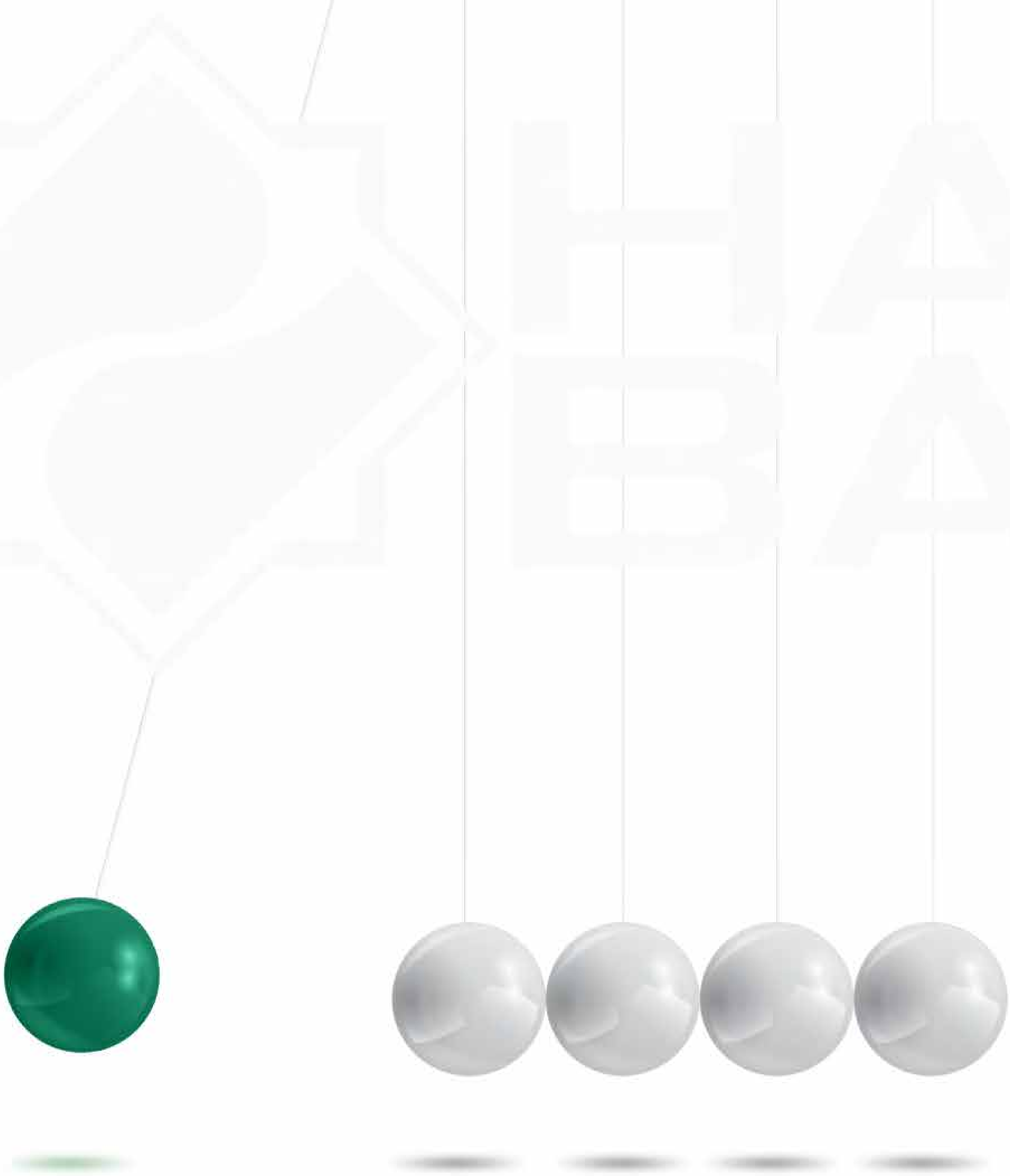
RESPONSIBILITY STATEMENT

Responsibility statement

We herewith confirm that, to the best of our knowledge:

- the consolidated financial statements in this annual report are prepared in accordance with International Financial Reporting Standards and give a true and fair view of the financial position, results, cash flow and changes in equity of Halyk Bank and its subsidiaries; and
- the annual report includes a fair review of the development and performance, of the financial position of Halyk Bank and its subsidiaries included in the consolidated financial statements and taken as a whole and the principal risks and uncertainties that Halyk Bank faces.

UMUT SHAYAKHMETOVA
CHAIRPERSON OF THE MANAGEMENT BOARD



17 OUTLOOK

Outlook

Halyk Group is a key player in all financial market segments and a rapidly expanding universal financial services group with sufficient financial strength, a solid financial, resource and IT base, qualified personnel and a proven management team.

After the integration of Kazkommertsbank, Halyk Bank is now the largest commercial bank in Kazakhstan and the region, surpassing its nearest competitors in all key parameters. The Bank leads the national banking sector on all metrics (as of 1 January 2020): 33% market share in terms of assets, 29.2% in terms of loans (net) to customers, 35.8% in terms of deposits (including 34.0% in retail and 37.6% in corporate), and 39.9% in terms of net income.

As part of the development strategy for 2019-21, several initiatives have been outlined to qualitatively transform the customer service of Halyk Group and Halyk Bank. The Group's main strategic efforts during the period are aimed at updating and improving the business model to provide better service quality and high-tech financial services and products.

To achieve the goals outlined in the strategy, the business and operating model will need to adapt to shift the mindset and foster a culture of innovation, as well as update the corporate environment and approaches to decision making. Focusing primarily on satisfying the needs of customers requires combining all functional units, using customer feedback to offer prompt and quality service, making the sales process more focused and efficient, and introducing more complex and high-tech products.

The primary development strategy of Halyk Group and Halyk Bank in 2019-21 is a growth, not a defensive one. The priorities for this strategic cycle include:

- Using and improving on competitive advantages, especially in terms of technological effectiveness, customer experience and service quality
- Positioning the Bank as a key partner and bank of first choice for diverse groups of customers
- Serving the needs of a wide range of customers and creating value for Kazakhstan's broader society and economy, and in doing so diversifying sources of profitability and liquidity
- Taking advantage of opportunities for selective international expansion

The strategic cycle for 2019-21 is based on the following principles:

Leading positions in all key customer segments

- Given the combined market shares of Halyk Bank and Kazkommertsbank (30-50% of most segments), focusing only on select customer segments is not practical, as it may lead to a loss in overall market share
- Diversification by working with a wide range of corporate customers and open (non-payroll) retail customers is needed to reduce the dependence of the Bank's profitability/liquidity on state companies
- The Bank's openness and availability for all customer segments and their needs are a strategic focus for its positioning as a key partner, as well as to protect from rapidly growing competitors

Customer-oriented approach, focus on service quality

Digital services and solutions in line with best market practice

- Customer experience and digitalisation are the key competitive difference of banking services, especially for retail and SME banking, where customers' expectations are always rising
- To ensure long-term improvement of these aspects, several changes to the business and operating model must be made (not counting technology): innovation culture, decision-making approaches, use of customer feedback and motivation system

Kazakhstan's main transactional bank

- Creating a leading supplier of transactional services for all payment flows (cash and non-cash) throughout the economy, using a unique infrastructure for retail and corporate customers (processing, acquiring, ATMs and terminals, etc), as well as various specialised digital services and payment solutions
- Ensuring the availability of banking services for all segments of the population as another element of more open positioning

Implementing these strategic principles will help to improve the key performance indicators of Halyk Bank and the Group, significantly grow market share for major products, increase profits and ensure that financial ratios remain sustainably high. This will be achieved through a more focused and efficient sales process, as well as by launching more complex products that are ahead of the competition. These strategic principles position Halyk Bank as the bank of first choice and the main transactional bank for all customer segments, and as a bank providing high-tech and quality service.

In 2019, the first year of the new strategic cycle, several strategic projects were already implemented:

- In line with the strategic principle of selective international expansion, Tenge Bank, a subsidiary of Halyk Bank in Uzbekistan, was created and started serving customers
- The reorganisation and rebranding of subsidiaries Halyk Bank Tajikistan (formerly Kazkommertsbank Tajikistan) and Halyk Finservice (formerly QPayments) were completed
- After launching the Onlinebank 24/7 service, Halyk Bank became the first second-tier bank to process payments 24 hours a day, 7 days a week
- The Bank began offering consumer loans via Homebank and its payment terminals
- The ecosystem of non-banking services was expanded
- For better and faster service, the Bank introduced a new account portal, banking kiosks and automated transfers

In 2020, several additional projects will be launched as part of the further implementation of the current strategic cycle, including online small business lending, big data services, a sales marketplace and an ecosystem to offer third-party services to corporate customers, among others.

Halyk Group believes that implementing these measures, with the support of customers, partners and shareholders, will make it possible to achieve the goals outlined for the new strategic period, proving its broad capabilities and strong reputation as the undisputed leader in Kazakhstan's financial system.

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AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR 2019 (INCLUDING INDEPENDENT AUDITORS' REPORT), NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2019

Contents:

ҚАЗАҚСТАН ХАЛЫҚ БАНКІ
HALYK BANK
НАРОДНЫЙ БАНК КАЗАХСТАНА

Statement of Management's Responsibilities For the Preparation and Approval of the Consolidated Financial Statements For the years ended 31 December 2019, 2018 and 2017

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of JSC Halyk Bank ("the Bank") and its subsidiaries (collectively – "the Group") as at 31 December 2019, 2018 and 2017, the related consolidated statement of profit or loss, the consolidated statement of other comprehensive income for the years then ended, changes in equity and cash flows for the years then ended, and of significant accounting policies and notes to the consolidated financial statements (the "consolidated financial statements") in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance; and
- making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- maintaining accounting records in compliance with the Republic of Kazakhstan legislation;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the years ended 31 December 2019, 2018 and 2017 were approved by the Management Board on 6 March 2020.

On behalf of the Management Board:

Umut B. Shayakhmetova
Chairperson of the Board
6 March 2020 Almaty, Kazakhstan

Pavel A. Cheussov
Chief Accountant
6 March 2020 Almaty, Kazakhstan

INDEPENDENT AUDITORS' REPORT

To the Shareholders of JSC Halyk Bank

Opinion

We have audited the consolidated financial statements of JSC Halyk Bank and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at 31 December 2019, 2018 and 2017, the consolidated statements of profit or loss, consolidated statements of other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

Key Audit Matters

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

Why the matter was determined to be a key audit matter?	How the matter was addressed in the audit?
Collective assessment of the expected credit losses on loans to customers As at 31 December 2019, the Group reported total gross loans of KZT 4,161,163 million, including KZT 1,323,464 million subject to collective impairment assessment, which comprise 32% of total gross loans. The expected credit losses ("ECL") resulting from this assessment amounted to KZT 121,282 million. For loans assessed on a collective basis, there is a risk of errors in the underlying data used in assessment of the ECL, including errors in loan data (maturity date or outstanding balances), inaccurate or incomplete inputs and assumptions used in assessing probability of default (PD), loss given default data (LGD) and inconsistency of historical and forward-looking information with available market based data. Due to the significance and subjectivity of judgements used by management of the Group and the volume of loans assessed on a collective basis, we identified the collective assessment of expected credit losses as a key audit matter. Refer to Notes 3, 4, 11, 23 and 35 to the consolidated financial statements for the description of the Group's policy and disclosures of gross carrying amounts and related allowances balances.	We obtained an understanding of processes and control procedures related to the loan origination, credit risk management and ECL assessment for loans to customers, assessed on a collective basis. We challenged the reasonableness of the methodology on collective loan loss provisioning and its compliance with IFRS 9 Financial Instruments requirements. We checked that the data inputs and key assumptions used in the models for assessing PDs and LGDs reflect historical information about incurred credit losses adjusted for relevant forward-looking macroeconomic factors. With the involvement of our actuarial and internal valuation specialists, we tested the mathematical accuracy and computation of the ECL on loans to customers assessed on a collective basis by re-performing and calculating elements of the expected credit losses based on relevant source data. This included assessing the appropriateness of model design and formulas used, considering modelling techniques and recalculating PDs, LGDs and Exposure at default. On a sample basis, we tested the accuracy and completeness of the data used in the ECL models, such as collateral values and statistics for recoveries of loans, we traced back information used in the ECL models to source data and also assessed the appropriateness of forward-looking information used in the models. We evaluated the adequacy and completeness of sclosures in the consolidated financial statements relating to the loans to customers in accordance with IFRS requirements. We found no material exceptions in these tests.

Individual assessment of the expected credit losses on loans to customers	
As at 31 December 2019, the Group's gross loans assessed for impairment on an individual basis amounted to KZT 2,837,699 million, which accounts for 68% of total gross loans. The related ECL comprised KZT 287,436 million. The amount of allowances for the ECL on individually significant loans is dependent on the accuracy of allocation of loans to appropriate stage of impairment in the provisioning system of the Group. In particular, there is a risk that exposures with significant increase in credit risk and credit-impaired exposures (movements between stage 1, stage 2 and stage 3 and vice versa) are not completely or accurately identified/classified as at the reporting date, as not all relevant qualitative, quantitative and forward-looking information was captured. Additionally, the ECL on individually significant credit-impaired loans in stage 3 may be misstated due to errors related to the estimation of future cash receipts or use of inappropriate or unsupported information. Due to the significance of the allowance for expected credit losses on individually assessed loans and the complexity and subjectivity of management's judgements, we identified the individual assessment of ECL as a key audit matter.	We obtained an understanding of the loan origination and credit risk management processes. We assessed the Group's definitions of significant increase in credit risk and credit-impairment for assessment of individual loans' ECL. We also evaluated the design and implementation of controls related to individual assessment of the ECL on loans to customers. For a sample of loans identified as stage 1, we performed a detailed credit review and challenged the Group's analysis of whether there was a significant increase in credit risk (stage 2) or default (stage 3). In order to evaluate whether the loans have been appropriately classified to the respective stage, we analysed internal credit ratings (scoring), credit risk factors and checked if relevant impairment events, such as delinquency of interest or principal, restructuring events and certain financial performance indicators, had been identified on a timely manner. On a sample basis, we re-performed calculations of allowances for ECL for individually significant loans in stage 2 and 3, including reviewing the Group's documented credit assessment of the borrowers, challenging assumptions underlying the ECL calculation, such as future cash flow projections and the valuation of collateral held, as well as agreeing key assumptions to supporting documents.
Refer to Notes 4, 11, 23 and 35 to the consolidated financial statements for the description of impairment indicators on individually significant loans and disclosure of gross carrying amounts and related allowances for such loans.	We evaluated the adequacy and completeness of disclosures in the consolidated financial statements relating to the loans to customers in accordance with IFRS requirements. We found no material exceptions in these tests.

Other Information – Annual Report

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

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

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

When we read the Annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Mark Smith

Engagement partner
Chartered Accountant
Institute of Chartered Accountants of Scotland
License № M21857
Glasgow, Scotland

Nurlan Bekenov

General Director
Deloitte LLP
State license on auditing in the
Republic of Kazakhstan
№ 0000015, type MFU-2, issued by
the Ministry of Finance of the
Republic of Kazakhstan
dated 13 September 2006

Zhangir Zhilysbayev

Qualified auditor
of the Republic of Kazakhstan
Qualification certificate
No.MF-0000116
dated 22 November 2012

6 March 2020
Almaty, Republic of Kazakhstan

Consolidated Statement of Financial Position As at 31 December 2019, 2018 and 2017

(Millions of Kazakhstani Tenge)

	Notes	31 December 2019	31 December 2018	31 December 2017
ASSETS				
Cash and cash equivalents	5	1,664,337	1,755,138	1,780,548
Obligatory reserves	6	141,006	115,741	111,039
Financial assets at fair value through profit or loss	7	185,031	186,836	144,976
Amounts due from credit institutions	8	53,161	55,035	87,736
Available-for-sale investment securities	9	n/a	n/a	2,565,425
Financial assets at fair value through other comprehensive income	9	1,630,921	1,765,933	n/a
Debt securities at amortised cost, net of allowance for expected credit losses	10	1,212,981	1,055,907	n/a
Precious metals		9,248	3,496	5,111
Investments in associate	16	26,732	20,437	-
Loans to customers	11, 39	3,752,445	3,481,079	3,251,102
Investment property	12	46,558	58,868	37,517
Commercial property	13	113,381	70,318	48,774
Current income tax assets	24	1,704	34,478	15,320
Deferred income tax assets	24	197	323	517
Property and equipment	14	134,862	130,987	137,684
Intangible assets	15	9,721	8,435	8,251
Goodwill		3,085	3,085	3,085
Insurance assets	18	82,009	65,651	40,162
Other assets	19	121,613	91,148	68,129
		9,188,992	8,902,895	8,305,376
Assets classified as held for sale	17	45,766	56,129	552,405
TOTAL ASSETS		9,234,758	8,959,024	8,857,781

Consolidated Statement of Financial Position As at 31 December 2019, 2018 and 2017

(Millions of Kazakhstani Tenge)

	Notes	31 December 2019	31 December 2018	31 December 2017
LIABILITIES AND EQUITY				
LIABILITIES				
Amounts due to customers	20, 39	6,406,413	6,526,930	6,131,750
Amounts due to credit institutions	21	305,965	168,379	255,151
Financial liabilities at fair value through profit or loss	7	20,444	7,022	5,831
Debt securities issued	22	834,446	900,791	962,396
Current income tax liability	24	10,029	126	2,720
Deferred tax liability	24	45,570	66,188	8,789
Provisions	23	3,924	2,546	16,098
Insurance liabilities	18	223,702	182,441	139,543
Other liabilities	25	77,042	38,955	66,419
		7,927,535	7,893,378	7,588,697
Liabilities directly associated with assets classified as held for sale	17	-	-	334,627
TOTAL LIABILITIES		7,927,535	7,893,378	7,923,324
EQUITY				
Share capital	26	209,027	209,027	143,695
Share premium reserve		3,867	1,839	1,839
Treasury shares		(114,634)	(111,441)	(104,234)
Retained earnings and other reserves		1,208,957	966,215	820,716
		1,307,217	1,065,640	862,016
Non-controlling interest		6	6	72,441
Total equity		1,307,223	1,065,646	934,457
TOTAL LIABILITIES AND EQUITY		9,234,758	8,959,024	8,857,781

On behalf of the Management Board:

Umut B. Shayakhmetova
Chairperson of the Board
6 March 2020 Almaty, Kazakhstan

Pavel A. Cheussov
Chief Accountant
6 March 2020 Almaty, Kazakhstan

The notes on pages 96 to 173 form an integral part of these consolidated financial statements.

Consolidated Statement of Profit or Loss for the years ended 31 December 2019, 2018 and 2017

(Millions of Kazakhstani Tenge, Except for Earnings per Share which is in Tenge)

	Notes	Year ended 31 December 2019	Year ended 31 December 2018	Year ended 31 December 2017
CONTINUING OPERATIONS				
Interest income calculated using the effective interest method	28, 39	701,350	675,699	497,597
Other interest income	28, 39	8,954	6,342	8,731
Interest expense	28, 39	(312,326)	(333,772)	(257,805)
NET INTEREST INCOME BEFORE CREDIT LOSS EXPENSE	28	397,978	348,269	248,523
Credit loss expense	23	(30,054)	(31,995)	(67,302)
NET INTEREST INCOME		367,924	316,274	181,221
Fee and commission income	29	123,256	113,241	87,640
Fee and commission expense	29	(54,646)	(39,006)	(26,732)
Fees and commissions, net		68,610	74,235	60,908
Net (loss)/gain on financial assets and liabilities at fair value through profit or loss	30	(18,734)	114,158	31,423
Net realised gain from financial assets at fair value through other comprehensive income (IAS 39 – available-for-sale investment securities)		8,138	2,428	1,064
Net foreign exchange gain/(loss)	31	45,379	(64,577)	(4,949)
Insurance underwriting income	32	92,983	67,315	55,108
Share in profit of associate	16	5,742	2,899	-
Other income		36,043	21,765	23,618
OTHER NON-INTEREST INCOME		169,551	143,988	106,264
Operating expenses	33	(142,226)	(137,223)	(105,797)
Loss from impairment of non-financial assets		(7,429)	(27,308)	(6,533)
(Other credit loss expense)/recoveries of other credit loss expense	23	(1,308)	15,951	1,737

Consolidated Statement of Profit or Loss for the years ended 31 December 2019, 2018 and 2017

(Millions of Kazakhstani Tenge, Except for Earnings per Share which is in Tenge)

	Notes	Year ended 31 December 2019	Year ended 31 December 2018	Year ended 31 December 2017
Insurance claims incurred, net of reinsurance	18, 32	(84,637)	(59,986)	(48,615)
NON-INTEREST EXPENSES		(235,600)	(208,566)	(159,208)
INCOME BEFORE INCOME TAX EXPENSE		370,485	325,931	189,185
Income tax expense	24	(35,974)	(82,474)	(25,598)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		334,511	243,457	163,587
DISCONTINUED OPERATIONS				
Profit for the year from discontinued operations		-	9,974	9,876
NET PROFIT		334,511	253,431	173,463
Attributable to:				
Non-controlling interest		-	(807)	101
Common shareholders		334,511	254,238	173,362
		334,511	253,431	173,463
EARNINGS PER SHARE	34			
(in Kazakhstani Tenge)				
Basic and diluted earnings per share		28.64	22.75	15.77
Basic and diluted earnings per share from continuing operations		28.64	21.86	14.88

On behalf of the Management Board:

Umut B. Shayakhmetova
Chairperson of the Board
6 March 2020 Almaty, Kazakhstan

Pavel A. Cheussov
Chief Accountant
6 March 2020 Almaty, Kazakhstan

The notes on pages 96 to 173 form an integral part of these consolidated financial statements.

Consolidated Statement of Other Comprehensive Income for the years ended 31 December 2019, 2018 and 2017

(Millions of Kazakhstani Tenge)

	Year ended 31 December 2019	Year ended 31 December 2018	Year ended 31 December 2017
NET PROFIT	334,511	253,431	173,463
Other comprehensive income:			
Items that will not be subsequently reclassified to profit or loss:			
Gain/(loss) resulting on revaluation of property and equipment (2019, 2018 and 2017 – net of tax – KZT 18 million, KZT 56 million, KZT 222 million)	124	2,151	(113)
Gain on revaluation of equity financial assets at fair value through other comprehensive income	25	558	n/a
Items that may be subsequently reclassified to profit or loss:			
Gain/(loss) on revaluation of debt financial assets at fair value through other comprehensive income, including impaired during the period (IAS 39 - available-for-sale investment securities) (2019, 2018 and 2017 – net of tax – KZT nil)	42,387	(6,456)	32,592
Reclassification adjustment relating to financial assets at fair value through other comprehensive income disposed of in the period (IAS 39 – available-for-sale investment securities) (2019, 2018 and 2017 – net of tax – KZT nil)	(8,138)	(2,428)	(1,064)
Share of other comprehensive income/(loss) of associate	553	(167)	-
Exchange differences on translating foreign operations (2019, 2018, 2017 – net of tax – KZT nil)	(552)	2,784	1,473
Other comprehensive income/(loss) for the year	34,399	(3,558)	32,888
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	368,910	249,873	206,351
Attributable to:			
Non-controlling interest	-	(1,954)	2,942
Common shareholders	368,910	251,827	203,409
	368,910	249,873	206,351

On behalf of the Management Board:

Umut B. Shayakhmetova
Chairperson of the Board
6 March 2020 Almaty, Kazakhstan

Pavel A. Cheussov
Chief Accountant
6 March 2020 Almaty, Kazakhstan

The notes on pages 96 to 173 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity for the years ended 31 December 2019, 2018 and 2017

(Millions of Kazakhstani Tenge)

	Share capital Common shares	Share premium reserve	Treasury common shares	Cumulative translation reserve*	Revaluation reserve of financial assets at fair value through other comprehensive income*	Property revaluation reserve*	Retained earnings*	Total equity	Non-controlling interest	Total equity
31 December 2018	209,027	1,839	(111,441)	9,657	(4,804)	20,970	940,392	1,065,640	6	1,065,646
Net income	-	-	-	-	-	-	334,511	334,511	-	334,511
Other comprehensive (loss)/ income	-	-	-	(552)	34,827	124	-	34,399	-	34,399
TOTAL COMPREHENSIVE (LOSS)/INCOME	-	-	-	(552)	34,827	124	334,511	368,910	-	368,910
Treasury shares purchased	-	-	(16,304)	-	-	-	-	(16,304)	-	(16,304)
Treasury shares sold	-	2,028	13,111	-	-	-	-	15,139	-	15,139
Dividends – common shares	-	-	-	-	-	-	(125,923)	(125,923)	-	(125,923)
Insurance bonuses to the insured	-	-	-	-	-	-	(245)	(245)	-	(245)
Release of property and equipment revaluation reserve on depreciation and disposal of previously revalued assets	-	-	-	-	-	(1,076)	1,076	-	-	-
31 DECEMBER 2019	209,027	3,867	(114,634)	9,105	30,023	20,018	1,149,811	1,307,217	6	1,307,223

Consolidated Statement of Changes in Equity for the years ended 31 December 2019, 2018 and 2017

(Millions of Kazakhstani Tenge)

	Share capital Common shares	Share premium reserve	Treasury common shares	Cumulative translation reserve*	Revaluation reserve of financial assets at fair value through other comprehensi-ve income*	Property revaluation reserve*	Retained earnings*	Total equity	Non-controlling interest	Total equity
31 DECEMBER 2017	143,695	1,839	(104,234)	6,570	13,008	15,470	785,668	862,016	72,441	934,457
Impact of adopting IFRS 9	-	-	-	-	(9,539)	-	(33,467)	(43,006)	(11,857)	(54,863)
Restated opening balance under IFRS 9	143,695	1,839	(104,234)	6,570	3,469	15,470	752,201	819,010	60,584	879,594
Net income	-	-	-	-	-	-	254,238	254,238	(807)	253,431
Other comprehensive income/(loss)	-	-	-	2,784	(7,346)	2,087	64	(2,411)	(1,147)	(3,558)
TOTAL COMPREHENSIVE INCOME/(LOSS)	-	-	-	2,784	(7,346)	2,087	254,302	251,827	(1,954)	249,873
Treasury shares purchased	-	-	(935)	-	-	-	-	(935)	-	(935)
Treasury shares sold	-	-	1,119	-	-	-	-	1,119	-	1,119
Effect from exchange of preferred shares of JSC Kazkommertsbank	-	-	-	-	-	-	(817)	(817)	6,175	5,358
Dividends – common shares	-	-	-	-	-	-	(69,363)	(69,363)	-	(69,363)
Change in share due to the legal merger with JSC Kazkommertsbank	65,332	-	(7,391)	303	(927)	4,127	3,355	64,799	(64,799)	-
Release of property and equipment revaluation reserve on depreciation and disposal of previously revalued assets	-	-	-	-	-	(714)	714	-	-	-
31 DECEMBER 2018	209,027	1,839	(111,441)	9,657	(4,804)	20,970	940,392	1,065,640	6	1,065,646

Consolidated Statement of Changes in Equity (continued) for the years ended 31 December 2019, 2018 and 2017

(Millions of Kazakhstani Tenge)

	Share capital Common shares	Share premium reserve	Treasury shares	Cumulative translation reserve*	Revaluation reserve of available-for-sale investment securities*	Property revaluation reserve*	Retained earnings*	Total equity	Non-controlling interest	Total equity
31 DECEMBER 2016	143,695	1,911	(103,121)	5,097	(15,679)	16,609	617,081	665,593	-	665,593
Net income	-	-	-	-	-	-	173,362	173,362	101	173,463
Other comprehensive income	-	-	-	1,473	28,687	(113)	-	30,047	2,841	32,888
TOTAL COMPREHENSIVE INCOME	-	-	-	1,473	28,687	(113)	173,362	203,409	2,942	206,351
Treasury shares purchased	-	(72)	(1,675)	-	-	-	-	(1,747)	-	(1,747)
Treasury shares sold	-	-	562	-	-	-	-	562	-	562
Insurance bonuses to the insured	-	-	-	-	-	-	(171)	(171)	-	(171)
Purchase of additional share capital of JSC Kazkommertsbank	-	-	-	-	-	-	(1,387)	(1,387)	7	(1,380)
Sale of shares in JSC Kazkommertsbank to JSC HG ALMEX	-	-	-	-	-	-	(4,243)	(4,243)	69,492	65,249
Release of property and equipment revaluation reserve on depreciation and disposal of previously revalued assets	-	-	-	-	-	(1,026)	1,026	-	-	-
31 DECEMBER 2017	143,695	1,839	(104,234)	6,570	13,008	15,470	785,668	862,016	72,441	934,457

* These amounts are included within Retained earnings and other reserves in the consolidated statement of financial position.

On behalf of the Management Board:

Umut B. Shayakhmetova
Chairperson of the Board
6 March 2020 Almaty, Kazakhstan

Pavel A. Cheussov
Chief Accountant
6 March 2020 Almaty, Kazakhstan

The notes on pages 96 to 173 form an integral part of these consolidated financial statements.

Statement of Management's Responsibilities For the Preparation and Approval of the Consolidated Financial Statements For the years ended 31 December 2019, 2018 and 2017

Consolidated Statement of Cash Flows
For the years ended 31 December 2019, 2018 and 2017

(Millions of Kazakhstani Tenge)

	Notes	Year ended 31 December 2019	Year ended 31 December 2018	Year ended 31 December 2017
CASH FLOWS FROM OPERATING ACTIVITIES:				
Interest received from financial assets at fair value through profit or loss		6,200	3,849	2,348
Interest received from cash and cash equivalents and amounts due from credit institutions		38,080	36,435	23,610
Interest received on available-for-sale investment securities		n/a	n/a	23,730
Interest received on financial assets at fair value through other comprehensive income		45,300	84,013	n/a
Interest received on debt securities at amortised cost, net of allowance for expected credit losses		93,345	93,426	n/a
Interest received from loans to customers		449,927	422,865	315,392
Interest paid on amounts due to customers		(214,704)	(217,606)	(201,006)
Interest paid on amounts due to credit institutions		(4,647)	(3,635)	(4,213)
Interest paid on debt securities issued		(65,309)	(55,730)	(63,365)
Fee and commission received		123,223	110,754	86,662
Fee and commission paid		(54,314)	(39,263)	(26,214)
Insurance underwriting income received		89,586	63,535	49,056
Ceded reinsurance share (paid)/received		(2,593)	669	(2,374)
(Payments)/receipts from financial derivatives		(154)	17,812	11,955
Other income received		36,043	21,765	23,618
Operating expenses paid		(123,333)	(117,397)	(87,001)
Insurance claims paid		(54,351)	(50,064)	(34,553)
Cash flows from operating activities before changes in net operating assets		362,299	371,428	117,645
Changes in operating assets and liabilities:				
(Increase)/decrease in operating assets:				
Obligatory reserves		(25,274)	(4,656)	(31,604)
Financial assets at fair value through profit or loss		(13,906)	59,389	408,395
Amounts due from credit institutions		5,313	54,826	(26,757)
Precious metals		(4,907)	2,131	(168)
Loans to customers		(395,660)	(157,296)	(311,999)

Consolidated Statement of Cash Flows (continued) For the years ended 31 December 2019, 2018 and 2017

(Millions of Kazakhstani Tenge)

	Notes	Year ended 31 December 2019	Year ended 31 December 2018	Year ended 31 December 2017
Assets classified as held for sale		10,394	10,427	(2,219)
Insurance assets		(5,862)	(1,097)	12,493
Other assets		(14,554)	23,212	(3,472)
(Decrease)/increase in operating liabilities:				
Amounts due to customers		(58,841)	(20,599)	48,893
Amounts due to credit institutions		138,087	(89,881)	37,972
Financial liabilities at fair value through profit or loss		13,390	1,162	(187)
Insurance liabilities		6,180	10,588	(6,454)
Other liabilities		32,908	(32,986)	(67,957)
Net cash inflow from operating activities before income tax		49,567	226,648	174,581
Income tax paid		(13,789)	(46,633)	(52,365)
NET CASH INFLOW FROM OPERATING ACTIVITIES		35,778	180,015	122,216

	Notes	Year ended 31 December 2019	Year ended 31 December 2018	Year ended 31 December 2017
CASH FLOWS FROM INVESTING ACTIVITIES:				
Cash (outflow)/inflow on disposal/acquisition of a subsidiary (2018 – JSC Altyn Bank, 2017 – JSC Kazkommertsbank)		-	(110,175)	678,622
Purchase and prepayments for property and equipment and intangible assets		(16,887)	(9,199)	(13,862)
Proceeds on sale of property and equipment and intangible assets		3,028	3,611	1,403
Proceeds on sale of investment property		6,278	2,809	-
Proceeds on sale of commercial property		26,311	19,952	3,918
Proceeds from sale of financial assets at fair value through other comprehensive income (IAS 39 - available-for-sale investment securities)		349,067	54,421	1,244,554
Purchase of financial assets at fair value through other comprehensive income (IAS 39 - available-for-sale investment securities)		(109,407)	(219,839)	(1,753,899)
Proceeds from sale of debt securities at amortised cost, net of allowance for expected credit losses		24,413	56,544	-
Purchase of debt securities at amortised cost, net of allowance for expected credit losses		(179,882)	(66,583)	-
Capital expenditures on commercial property		(327)	(973)	(830)

Consolidated Statement of Cash Flows (continued)
For the years ended 31 December 2019, 2018 and 2017

(Millions of Kazakhstani Tenge)

	Notes	Year ended 31 December 2019	Year ended 31 December 2018	Year ended 31 December 2017
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES		102,594	(269,432)	159,906
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds on sale of treasury shares		15,139	1,119	562
Purchase of treasury shares		(16,304)	(935)	(1,747)
Dividends paid – common shares		(125,923)	(69,363)	-
Redemption and repayment of debt securities issued	22	(82,261)	(167,463)	(197,892)
Repayment of lease liabilities		(1,490)	n/a	n/a
Proceeds from sale of shares in JSC Kazkommertsbank to JSC HG ALMEX		-	-	65,249
Purchase of additional share capital of JSC Kazkommertsbank		-	-	(4,940)
Purchase of shares by subsidiary		-	(6,984)	-
NET CASH OUTFLOW FROM FINANCING ACTIVITIES		(210,839)	(243,626)	(138,768)
Effect of changes in foreign exchange rates on cash and cash equivalents		(18,334)	164,897	5,411
Net change in cash and cash equivalents		(90,801)	(168,146)	148,765
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	5	1,755,138	1,923,284	1,774,519
CASH AND CASH EQUIVALENTS, END OF THE YEAR*	5	1,664,337	1,755,138	1,923,284

* As at 31 December 2017, cash and cash equivalents includes cash and cash equivalents of asset held for sale of KZT142,736 million.

During the years ended 31 December 2019, 2018 and 2017, there were non-cash transfers, which were excluded from the consolidated statement of cash flows and disclosed in Notes 12, 13, 17 and 26.

On behalf of the Management Board:

Umut B. Shayakhmetova
Chairperson of the Board
6 March 2020 Almaty, Kazakhstan

Pavel A. Cheussov
Chief Accountant
6 March 2020 Almaty, Kazakhstan

The notes on pages 96 to 173 form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements For the years ended 31 December 2019, 2018 and 2017

(Millions of Kazakhstani Tenge)

1. Principal activities

JSC Halyk Bank ("the Bank") and its subsidiaries (collectively, "the Group") provide corporate and retail banking services principally in Kazakhstan, Russia, Kyrgyzstan, Tajikistan, Georgia and Uzbekistan, leasing services in Kazakhstan and Russia, as well as asset management, insurance and brokerage services in Kazakhstan. The primary state registration of the Bank with the authorities of justice of Kazakhstan was made on 20 January 1994. The Bank operates under license No. 1.2.47/230/38/1 for carrying out banking and other operations and activities on the securities market, renewed by the National Bank of the Republic of Kazakhstan ("NBRK") on 8 November 2016. The Bank is a member of the obligatory deposit insurance system provided by the JSC Kazakhstan Deposit Insurance Fund.

The Bank's primary business includes originating loans and guarantees, collecting deposits, trading in securities and foreign currencies, executing transfers, cash and payment card operations, as well as rendering other banking services to its customers. In addition, the Bank acts as a non-exclusive agent of the Government of the Republic of Kazakhstan in channeling various budgetary payments and pensions through its nationwide branch network.

The Bank has a primary listing with the Kazakhstan Stock Exchange («KASE») and Astana International Exchange. The Bank's Global Depository Receipts («GDRs») are primary listed on the London Stock Exchange and Astana International Exchange. In addition, the Bank's Eurobonds are primary listed on the London Stock Exchange and Luxembourg Stock Exchange.

The Group is ultimately controlled by Timur Kulibayev and his wife Dinara Kulibayeva.

As at 31 December 2019, the Bank operated through its head office in Almaty and its 24 regional branches, 120 sub-regional offices and 482 cash settlement units (31 December 2018 – 23, 121 and 503, respectively, 31 December 2017 – 23, 122 and 532, respectively) located throughout Kazakhstan. The address of the Bank's registered office is: 40 Al-Farabi Avenue, Almaty, A26M3K5, Republic of Kazakhstan.

As at 31 December 2019, the number of the Group's full-time equivalent employees was 16,387 (31 December 2018 – 16,131, 31 December 2017 – 18,410).

The consolidated financial statements of the Group for the years ended 31 December 2019, 2018 and 2017 were authorised for issue by the Management Board on 6 March 2020.

Legal proceedings

From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly, no provision has been made in these consolidated financial statements.

Operating environment

Emerging markets such as Kazakhstan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Kazakhstan continue to change rapidly and tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Kazakhstan is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Kazakhstan produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. Moreover, the state of the economy is significantly influenced by government spending on major infrastructure projects and various programs of the country's socio-economic development.

During 2019, the average price of Brent crude oil was approximately 62.35 USD/bbl (66.73 USD/bbl in 2018). GDP growth in 2019 amounted to 4.5% (4.1% in 2018). The main drivers of the economy were construction, transport, trade and communications. At the same time, the manufacturing sector outstripped the mining industry in growth, showing growth of 4.4% versus 3.7%.

As at 31 December 2019, the base rate set by the NBRK was 9.25% ± 1% (9.25% ± 1% as at 31 December 2018). The cost of funding decreased to 4.2% as at 31 December 2019 from 4.7% as at 31 December 2018, whereas the demand for new loans increased. Short-term notes of the NBRK remain the key instrument to withdraw excess KZT liquidity from the system.

Management of the Group is monitoring developments in the current environment and taking measures it considers necessary in order to support the sustainability and development of the Group's business in the foreseeable future. However, the impact of further economic developments on the future operations and financial position of the Group is at this stage difficult to determine.

In the second half of 2019, the NBRK conducted an asset quality review (the "AQR") of the banking sector in Kazakhstan. The AQR verification perimeter included the 14 largest banks, which accounts for 87% share of total banking assets and 90% of the sector's loan portfolio. To ensure transparency and objectivity of the assessment, the NBRK conducted the AQR together with an international consultant and independent audit companies.

The AQR was carried out in accordance with the methodology of the European Central Bank, as well as in accordance with the requirements of the legislation of Kazakhstan in the field of accounting and prudential regulation.

According to the AQR results published by the NBRK, there is no equity deficit as at 1 April 2019 on the consolidated banking sector level (aggregation of the results of all participating banks in the AQR); prudential norms k1 and k2 are fulfilled with a margin at the system level, taking into account the AQR results. Based on the AQR results, participating banks were provided with reports containing comments/ recommendations for improving business processes, on the basis of which detailed action plans will be developed.

Taking into account that the Bank operates in accordance with requirements of Laws of the Republic of Kazakhstan and IFRS, individual AQR results for the Bank did not have a significant impact on the financial position and stability of the Group. Therefore, according to the NBRK, the adjustment

Notes to the Consolidated Financial Statements For the years ended 31 December 2019, 2018 and 2017

(Millions of Kazakhstani Tenge)

on the Bank's assets and equity as at 1 April 2019 could comprise KZT 18.9 billion, which does not take into account changes in the market environment and changes in the Bank's portfolio that have occurred from the AQR date to 31 December 2019 (including repayment of loans, change in collateral, additional allowances for ECL, etc.).

As a result, the Bank does not expect that the AQR results will have an impact on the financial position and stability of the Bank in the future.

Ownership

As at 31 December 2019, 2018 and 2017, the Group was owned by the following shareholders, which own individually more than 5% of the issued shares of the Group:

31 DECEMBER 2019

	Total shares	Stake in total shares in circulation	Common shares	Stake in common shares in circulation
JSC HG Almex	7,583,538,228	65.1%	7,583,538,228	65.1%
Unified Accumulative Pension Fund Joint Stock Company	718,054,740	6.2%	718,054,740	6.2%
GDR holders	3,001,602,000	25.7%	3,001,602,000	25.7%
Other	353,390,222	3.0%	353,390,222	3.0%
TOTAL SHARES IN CIRCULATION (ON CONSOLIDATED BASIS)	11,656,585,190	100%	11,656,585,190	100%

31 DECEMBER 2018

	Total shares	Stake in total shares in circulation	Common shares	Stake in common shares in circulation
JSC HG Almex	8,756,202,348	75.0%	8,756,202,348	75.0%
Unified Accumulative Pension Fund Joint Stock Company	718,054,740	6.1%	718,054,740	6.1%
GDR holders	1,840,105,600	15.8%	1,840,105,600	15.8%
Other	365,393,741	3.1%	365,393,741	3.1%
TOTAL SHARES IN CIRCULATION (ON CONSOLIDATED BASIS)	11,679,756,429	100%	11,679,756,429	100%

31 DECEMBER 2017

	Total shares	Stake in total shares in circulation	Common shares	Stake in common shares in circulation
JSC HG Almex	8,086,451,772	73.6%	8,086,451,772	73.6%
Unified Accumulative Pension Fund Joint Stock Company	716,281,746	6.5%	716,281,746	6.5%
GDR holders	1,852,878,720	16.8%	1,852,878,720	16.8%
Other	338,204,581	3.1%	338,204,581	3.1%
TOTAL SHARES IN CIRCULATION (ON CONSOLIDATED BASIS)	10,993,816,819	100%	10,993,816,819	100%

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2. Basis of presentation

Statement of compliance

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

These consolidated financial statements have been prepared assuming that the Group is a going concern, as the Group have the resources to continue in operation for the foreseeable future. In making this assessment, the management have considered a wide range of information in relation to present and future economic conditions, including projections of cash flows, profit and capital resources.

These consolidated financial statements are presented in millions of Kazakhstani Tenge ("KZT" or "Tenge"), except for earnings per share amounts and unless otherwise indicated.

These consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are accounted for at fair value and insurance liabilities which are accounted for based on actuarial calculations and certain property and equipment which are carried at revalued cost less depreciation and impairment as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The Group presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the date of the consolidated statement of financial position (current) and more than 12 months after the date of the consolidated statement of financial position (non-current) is presented in Note 35.

Functional currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of the Bank is KZT. The presentation currency of the consolidated financial statements is KZT.

Consolidated subsidiaries

These consolidated financial statements include the following subsidiaries:

SUBSIDIARIES	Holding %			Country	Industry
	31 December 2019	31 December 2018	31 December 2017		
JSC Halyk-Leasing	100	100	100	Kazakhstan	Leasing
JSC Kazteleport	100	100	100	Kazakhstan	Telecommunications
OJSC Halyk Bank Kyrgyzstan	100	100	100	Kyrgyzstan	Banking
JSC Halyk Finance	100	100	100	Kazakhstan	Broker and dealer activities
LLC Halyk Collection	100	100	100	Kazakhstan	Cash collection services
JSC Halyk-Life	100	100	100	Kazakhstan	Life insurance
JSC Insurance Company Halyk	99.99	99.99	100	Kazakhstan	General insurance
JSC Halyk Bank Georgia	100	100	100	Georgia	Banking
LLC Halyk Project	100	100	100	Kazakhstan	Management of doubtful and loss assets
JSC Commercial Bank Moskommertsbank*	100	100	100	Russia	Banking
CJSC Halyk Bank Tajikistan*	100	100	100	Tajikistan	Banking

* As at 31 December 2017, the ownership is held by subsidiary undertaking – JSC Kazkommertsbank ("KKB").

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SUBSIDIARIES	Holding %			Country	Industry
	31 December 2019	31 December 2018	31 December 2017		
JSC Kazkommertsbank Securities*	100	100	100	Kazakhstan	Broker and dealer activities
LLP KUSA Halyk*	100	100	100	Kazakhstan	Management of doubtful and loss assets
LLP Halyk Activ*	100	100	100	Kazakhstan	Management of doubtful and loss assets
LLP Halyk Activ-1*	100	100	100	Kazakhstan	Management of doubtful and loss assets
JSC Halyk Finservice*	100	100	100	Kazakhstan	Payment card processing and other related services
JSCB Tenge Bank	100	-	-	Uzbekistan	Banking
JSC Life Insurance Company Kazkommerts Life*	-	-	100	Kazakhstan	Life insurance
JSC Insurance Company Kazkommerts-Policy*	-	-	99.97	Kazakhstan	Insurance
Kazkommerts Finance 2 B.V.*	-	-	100	Kingdom of the Netherlands	Raising funds for the Bank on international capital markets
Kazkommerts International B.V.*	-	-	100	Kingdom of the Netherlands	Raising funds for the Bank on international capital markets
JSC Kazkommertsbank	-	-	74.72	Kazakhstan	Banking
OJSC NBK-Bank	-	-	100	Russia	Banking
JSC Altyn Bank (SB of JSC Halyk Bank)	-	-	100	Kazakhstan	Banking

* As at 31 December 2017, the ownership is held by subsidiary undertaking – JSC Kazkommertsbank ("KKB").

On 26 July 2018, the Joint General Shareholder Meeting (JGSM) of the Bank and KKB made a resolution to approve the Transfer Certificate stipulating the transfer to the Bank, as the assignee, of KKB's property, rights and obligations, as well as all rights and obligations with respect to all KKB's creditors and debtors, and the Bank's succession of all KKB's rights and obligations. At the same time, the JGSM approved the ratio of 0.956552, at which KKB common shares would be exchanged for the Bank's common shares. The exchange ratio was calculated in accordance with the formula approved by the resolution of the JGSM of the Bank and KKB dated 20 April 2018.

On 27 July 2018, the Bank and KKB signed the Transfer Certificate, which represents legal registration of the transfer of all KKB's property, rights and obligations to the Bank within the framework of voluntary reorganisation of the Bank and KKB via a legal merger of KKB with the Bank.

Within the framework of the voluntary reorganization of the Bank and KKB via a legal merger of KKB with the Bank, the Bank's 758,687,723 common shares were allocated among the shareholders of KKB (excluding the Bank) in exchange for KKB's common shares according to the share exchange ratio approved at the JGSM of the Bank and KKB dated 26 July 2018.

On 22 May 2018, the Group announced the completion of the reorganization thereof through the merger of JSC NBK-Bank (Subsidiary of JSC Halyk Bank) into the Commercial Bank "Moskommertsbank" (JSC) (Subsidiary of JSC Kazkommertsbank).

On 29 August 2018, the Group announced the completion of transferring all property and all rights and obligations of JSC Insurance Company Kazkommerts-Policy (Subsidiary of JSC Kazkommertsbank) to JSC Kazakhinstrakh (Subsidiary of JSC Halyk Bank).

On 1 November 2018, within the framework of voluntary reorganization, JSC Halyk-Life (Subsidiary of JSC Halyk Bank) and JSC Life Insurance Company Kazkommerts Life (Subsidiary of JSC Kazkommertsbank) signed the Transfer Certificate, as a result of which JSC Halyk-Life became the full assignee of all the rights and obligations of JSC Life Insurance Company Kazkommerts Life.

On 29 August 2018, the BOD of the Bank approved the establishment of a new subsidiary in Uzbekistan – JSCB Tenge Bank. On 24 May 2019, the Central Bank of Uzbekistan issued a license to JSCB Tenge Bank for carrying out banking and other operations. On 10 July 2019, JSCB Tenge Bank started to serve customers in Uzbekistan and on that date is included in the consolidated financial statements.

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3. Significant accounting policies

Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Bank and entities (including structured entities) controlled by the Bank and its subsidiaries. Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

The profit or loss and each component of other comprehensive income are attributed to the owners of the Bank and to any non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to any non-controlling interests even if this results in any non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full upon consolidation.

Non-controlling interests

Non-controlling interest represent the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Bank.

Non-controlling interests are presented separately in the consolidated statement of profit or loss and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Group. Transactions with non-controlling shareholders are presented as financing activities in the consolidated statement of cash flows.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- Deferred tax assets or liabilities are recognised and measured in accordance with IAS 12 "Income Taxes" ("IAS 12");
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or

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share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 "Share-based Payment" ("IFRS 2") at the acquisition date; and

- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" ("IFRS 5") are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

Business combination under common control

A business combination involving business entities under common control is a business combination whereby all of the combining business entities are ultimately controlled by the same party or parties, both before and after the business combination, and that control is not transitory.

The effects of combinations of businesses under common control are accounted for by the Group by the pooling of interests method, assuming that: assets and liabilities of the combining business entities are measured at their carrying values as disclosed in the Group's consolidated financial statements, merger-related transaction costs are expensed in the consolidated statement of profit or loss, mutual balances are eliminated, any difference between the purchase price paid/transferred and the value of net assets acquired (at their carrying values disclosed in the consolidated financial statements) shall be recognized in equity of the acquirer.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see above) less accumulated impairment losses, if any.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, unrestricted balances on correspondent accounts and amounts due from credit institutions and reverse repo agreements with original maturities within three months.

Obligatory reserves

Obligatory reserves represent funds in correspondent accounts with the National Banks of Kazakhstan, Kyrgyzstan, Georgia, Tajikistan, Uzbekistan and the Central Bank of the Russian Federation and cash which are not available to finance the Group's day to day operations and, hence, are not considered as part of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

Precious metals

Assets and liabilities denominated in precious metals are translated at the current rate computed based on the second fixing of the London Metal Exchange rates, using the KZT/USD exchange rate effective at the date. Changes in the bid prices are recorded in net foreign exchange gain/(loss).

Amounts due from credit institutions

In the normal course of business, the Group maintains current accounts or deposits for various periods of time with other banks. Amounts due from credit institutions with a fixed maturity term are subsequently measured at amortised cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Amounts due from credit institutions are carried net of any allowance for expected credit losses.

Recognition and measurement of financial instruments

The Group recognises financial assets and liabilities on its consolidated statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognised using settlement date accounting. Where regular way purchases of financial instruments will be subsequently measured at fair value, the Group accounts for any change in the fair value of the asset between trade date and settlement date in the same way it accounts for acquired instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Financial assets

All financial assets are recognized and derecognized on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL. Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognized immediately in profit or loss.

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All recognized financial assets that are within the scope of IFRS 9 Financial Instruments ("IFRS 9") are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- Retention of an asset to obtain the cash flows stipulated by the contract. This business model suggests financial asset management aims to realize cash flows by receiving principal and interest payments over the life of the financial instrument. Within the framework of this business model, holding a financial asset to maturity is a priority, but early disposal is not prohibited.
- Retention of an asset with a view for obtaining contractual cash flows and sale of financial assets. This business model assumes that the management of financial assets is aimed at both obtaining contractual cash flows and sale of financial assets. Within the framework of this business model, the receipt of cash from the sale of a financial asset is a priority, which is characterized by a greater frequency and volume of sales compared to «holding an asset to receive contractual cash flows» business model.
- Retention of an asset for other purposes. Within the framework of this business model, financial assets can be managed with the following purposes:
  - management with a view to selling cash flows through the sale of financial assets;
  - liquidity management to meet daily funding needs;
  - a portfolio, which management and performance is measured on a fair value basis;
  - a portfolio, which matches the definition of held for trading. Financial assets are deemed to be held for trading if they were acquired mainly with a view to subsequent disposal in the near future (up to 180 days), gaining short-term profit, or represent derivative financial instruments (except for a financial guarantee or derivative financial instrument that was designated as a hedging instrument).

In accordance with IFRS 9, financial assets are classified as follows:

- bank loans classified as assets at amortised cost are contained within the framework of a business model which aims to receive cash flows exclusively for repayment of unpaid interest and principal stipulated by loan agreement and that have contractual cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding;
- balances on correspondent accounts, interbank loans/deposits, repo transactions are classified, as a rule, as assets, estimated at amortised cost, since they are managed within the framework of a business model, which aims to receive cash flows stipulated by the contract, and that have contractual cash flows that are SPPI;
- debt securities may be classified into any of the three classification categories, taking into account the selected business model and compliance with the SPPI criterion;
- equity securities are generally classified as instruments at fair value through profit or loss;
- trading securities and derivatives are classified as financial assets at fair value through profit or loss.

Financial assets or financial liabilities at fair value through profit or loss

Financial assets at FVTPL are:

- Assets with contractual cash flows that are not SPPI; or/and
- Assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
- Assets designated at FVTPL using the fair value option.
- Financial liabilities are classified as at fair value through profit or loss where the financial liability is either held for trading or it is designated as at fair value through profit or loss.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading, may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial liabilities, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

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Financial assets and financial liabilities at fair value through profit or loss are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded in net (loss)/gain on financial assets and liabilities at fair value through profit or loss. Interest earned or incurred is accrued in interest income or expense, respectively, according to the terms of the contract, while dividend income is recorded in "Other income" when the right to receive the payment has been established.

Debt instruments at amortised cost or at fair value through other comprehensive income ("FVTOCI")

The Group assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Group's business model for managing the asset.

For an asset to be classified and measured at amortised cost or at FVTOCI, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding.

For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

An assessment of business models for managing financial assets is performed at the date of initial application of IFRS 9 to determine the classification of a financial asset. The business model is applied retrospectively to all financial assets existing at the date of initial application of IFRS 9. The Group determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Group's business model does not depend on management's intentions for an individual instrument; therefore, the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

The Group has more than one business model for managing its financial instruments that reflect how the Group manages its financial assets in order to generate cash flows. The Group's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

The Group considers all relevant information available when making the business model assessment. However, this assessment is not performed based on scenarios that the Group does not reasonably expect to occur, such as so-called 'worst case' or 'stress case' scenarios. The Group takes into account all relevant evidence available such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and
- How managers of the business are compensated (e.g. whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

At initial recognition of a financial asset, the Group determines whether newly recognized financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Group reassess its business models each reporting period to determine whether the business models have changed since the preceding period. For the current reporting period, the Group has not identified a change in its business models.

When a debt instrument measured at FVTOCI is derecognized, the cumulative gain/loss previously recognized in OCI is reclassified from equity to profit or loss. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognized in OCI is not subsequently reclassified to profit or loss but transferred within equity. Debt instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment.

Financial assets policies applicable prior to 1 January 2018

Financial assets in the scope of IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39") are classified as either financial assets at fair value through profit or loss, loans and receivables, investments held to maturity or available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets depending on the nature and purpose of the financial assets, which is determined at the time of initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans to customers granted by the Group are initially recognised at fair value plus related transaction costs that directly relate to acquisition or creation of such financial assets. Subsequently, loans are carried at amortised cost using the effective interest method. Loans to customers are carried net of any allowance for expected credit losses.

Loans and receivables are included within amounts due to customers, amounts due from credit institutions and other assets in the consolidated statement of financial position.

Investments held to maturity

Investments held to maturity are debt securities with determinable or fixed payments. The Group has the positive intent and ability to hold them to maturity. Such securities are carried at amortised cost using the effective interest method, less any allowance for impairment. Amortised discounts and premiums are recognised in interest income over the period to maturity using the effective interest method.

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Available-for-sale investment securities

Available-for-sale investment securities are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables or investments held to maturity, or are not held for trading and are not designated at fair value through profit or loss on initial recognition. Available-for-sale investment securities are initially recorded at fair value. After initial recognition, available-for sale investment securities are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the consolidated statement of profit or loss. However, interest calculated using the effective interest method and foreign exchange movements for debt securities are recognised in the consolidated statement of profit or loss. Dividends declared are included in other income in the consolidated statement of profit or loss.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market prices at the close of business on the reporting date.

Collateral

The Group obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Group a claim on these assets for both existing and future customer liabilities.

Reclassification of financial assets

If the business model under which the Group holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that result in reclassifying the Group's financial assets. Changes in contractual cash flows are considered under the accounting policy on Modification and derecognition of financial assets described below.

Modification and derecognition of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. In addition, the introduction or adjustment of existing covenants of an existing loan would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the interest rate that arises when covenants are breached).

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously monitors renegotiated loans to ensure that they are performing and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR. Renegotiated terms are evidence of impairment for loans assessed for impairment on an individual basis, for which deterioration of the financial position is observed.

The Group renegotiates loans to customers in financial difficulty to maximize collection and minimize the risk of default. A loan forbearance is granted in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to covenants. The Group has an established forbearance policy, which applies for corporate and retail lending.

When a financial asset is modified the Group assesses whether this modification results in derecognition. In accordance with the Group's policy a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Group considers qualitative factors, such as contractual cash flows after modification are no longer SPPI, change in currency or change of counterparty, the extent of change in interest rates, maturity, covenants.

When a financial asset is modified due to commercial reasons, the Group considers various qualitative factors (change in currency, interest rate, maturity) and on that basis concludes whether old loan should be derecognised and new loan should be recognised at fair value.

In the case where the financial asset is derecognized the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new loan is considered to be originated credit-impaired asset. This applies only in the case where the fair value of the new loan is recognized at a significant discount to its revised par amount because there remains a high risk of default, which has not been reduced by the modification.

Reclassification of financial assets policies applicable prior to 1 January 2018

Non-derivative financial assets (other than those designated at fair value through profit or loss upon initial recognition) may be classified out of the fair value through profit or loss category in the following circumstances:

- Financial assets that would have met the definition of loans and receivables at initial recognition (if the financial asset had not been required to be classified as held for trading) may be reclassified out of the fair value through profit or loss category if there is the intention and ability to hold the financial asset for the foreseeable future or until maturity; and

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- Financial assets (except financial assets that would have met the definition of loans and receivables at initial recognition) may be reclassified out of the fair value through profit or loss category and into another category in rare circumstances.

When the financial asset is reclassified as described in the above circumstances, the financial asset is reclassified at its fair value on the date of reclassification. Any gain or loss already recognised in the statement of profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.

Impairment

Calculation of financial assets impairment is carried out taking into account the following factors:

- In order to calculate the ECL, the Bank performs a loan assessment on an individual basis and on a group basis depending on general credit risk features.
- ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.
- Calculations are based on justified and verified information, which may be received without any significant costs or efforts. Calculation of the present value of the expected future cash flows of the secured financial asset reflects the cash flow that may result from foreclosure, less the cost of obtaining and selling collateral, regardless of whether the recovery is probable or not. The allowance is based on the Group's own experience in assessing losses and management assumptions about the level of losses likely to be recognised on assets in each category of a credit risk, based on debt servicing capabilities and borrower's credit track record.
- Impairment for treasury operations (investments in debt securities, reverse repurchase transactions, interbank loans and deposits, correspondent account transactions, accounts receivable under treasury transactions) is calculated taking into account the counterparty's rating, probability of default, duration of a transaction and the extent of loss in case of a default.
- The estimated credit losses for treasury operations are estimated on an individual basis (except for individual claims in the form of receivables).

Financial assets are segmented by stages in accordance with the following approach:

- Stage 1: There is no significant increase in credit risk since recognition of an asset, impairment is recognised as expected losses over the next 12 months;
- Stage 2: Significant increase in credit risk since recognition of an asset, impairment is recognised as expected losses over the life of a financial asset;
- Stage 3: Financial asset is in default or has signs of impairment.

Allowances for expected credit losses

ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- Full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

For more details about staging refer to Note 23.

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

- For undrawn loan commitments, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the Group if the holder of the commitment draws down the loan and the cash flows that the Group expects to receive if the loan is drawn down; and
- For financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Group expects to receive from the holder, the debtor or any other party.

The Group measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original effective interest rate ("EIR"), regardless of whether it is measured on an individual basis or a collective basis.

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk (Please also refer to Note 4). The definition of default under IFRS 9 as at 31 December 2018 did not change in comparison with the definition under IAS 39 as 31 December 2017.

For the details of supportable forward-looking information, please refer to Note 35 for more details.

Impairment of financial assets prior to 1 January 2018

As at 31 December 2017, the Group assessed whether a financial asset or a group of financial assets was impaired.

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Assets carried at amortised cost

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original EIR (i.e. the EIR computed at initial recognition). The carrying amount of the asset shall be reduced through the use of an allowance account. The amount of the impairment loss is recognised in the consolidated statement of profit or loss.

The factors the Group evaluates in determining the presence of objective evidence of an occurrence of an impairment loss include information on liquidity of the debtor or issuer, their solvency, business risks and financial risks, levels and tendencies of default on obligations on similar financial assets, national and local economic tendencies and conditions, and fair value of the security and guarantees. These and other factors individually or in the aggregate represent, to a great extent, an objective evidence of recognition of an impairment loss on the financial asset or group of financial assets.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure, less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

The allowances are based on the Group's own loss experience and management's judgment as to the level of losses that will likely be recognised from assets in each credit risk category by reference to the debt service capability and repayment history of the borrower.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the consolidated statement of profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Financial assets are written off against the allowance for impairment losses, where such items are determined to be uncollectible, including through repossession of collateral. The Group requires collateral to support credit-related financial instruments when deemed necessary. Collateral held may include deposits held with banks, government securities and other assets. When the borrowers do not repay as scheduled, the Group can take possession of the collateral pledged. Financial assets are written off after management has exercised all possibilities available to collect amounts due to the Group, and after the Group has sold all available collateral. The decision to write off bad debt against the allowance for impairment losses for all major, preferential, unsecured and insider assets are confirmed with a procedural document from judicial or notary bodies. This document certifies that at the time of the decision to write off the bad debt, the amount could not be repaid (or partially repaid) with the debtor's funds. Subsequent recoveries of amounts previously written off decrease the charge for impairment of financial assets in the consolidated statement of profit or loss.

Loans and receivables are assessed individually for impairment, except for insignificant loans and receivables that have been assessed collectively. Loans and receivables that have been assessed individually and found not to be impaired and all individually insignificant loans and receivables are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether impairment should be recognised due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes into account data from the loan portfolio (such as levels of arrears, loan utilisation, loan to collateral ratios, etc.), and judgments to the effect of concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

Available-for-sale investment securities

For listed and unlisted equity investments classified as available-for-sale ("AFS"), a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. If an AFS investment security is impaired, a consolidated amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the consolidated statement of profit or loss, is transferred from equity to the consolidated statement of profit or loss. In respect to AFS equity securities, impairment losses previously recognised in the consolidated statement of profit or loss are not reversed through the consolidated statement of profit or loss. Any increase in fair value subsequent to an impairment loss is recognised directly in other comprehensive income and is accumulated under the heading of revaluation reserve of AFS investment securities. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Repurchase and reverse repurchase agreements and securities lending

The Group enters into financial assets sale and purchase back agreements ("repos") and financial assets purchase and sale back agreements ("reverse repos") in the normal course of its business. Repos and reverse repos are utilised by the Group as an element of its treasury management.

Repos are treated as secured financing transactions. Securities sold under repos are retained in the consolidated statement of financial position and, in case the transferee has the right, by contract or custom, to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions.

Securities purchased under reverse repos are recorded as amounts due from credit institutions, amounts due customers or cash and cash equivalents as appropriate. The difference between the sale and repurchase prices is treated as interest and accrued over the life of the repo agreements using the effective interest method.

Securities lent to counterparties are retained in the consolidated statement of financial position. Securities borrowed are not recorded in the consolidated statement of financial position, unless these are sold to third parties, in which case the purchase and sale are recorded within net gain/(loss) on financial assets and liabilities at fair value through profit or loss in the consolidated statement of

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profit or loss. The obligation to return securities borrowed is recorded at fair value as a trading liability.

The Group enters into securities repurchase agreements and securities lending transactions under which it receives or transfers collateral in accordance with normal market practice. Under standard terms for repurchase transactions in Kazakhstan and other Commonwealth of Independent States ("CIS"), the recipient of collateral has the right to sell or repledge the collateral, subject to returning equivalent securities on settlement of the transaction.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for derecognition, the Group does not offset the transferred asset and the associated liability. Income and expense is not offset in the consolidated statement of profit or loss unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

Derivative financial instruments

The Group enters into a variety of derivative financial instruments some of which are held for trading while others are held to manage its exposure to interest rate risk; credit risk; and foreign exchange rate risk. Derivative held include foreign exchange forward contracts, interest rate swaps, cross currency interest rate swaps and credit default swaps.

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain/loss is recognized in profit or loss immediately.

A derivative with a positive fair value is recognized as a financial asset whereas a derivative with a negative fair value is recognized as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Derivatives embedded in financial liabilities or other non-financial asset host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

An embedded derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and is not expected to be realized or settled within 12 months. Other embedded derivatives are presented as current assets or current liabilities.

Forwards

Forward and futures contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Futures contracts are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements. The main differences in the risk associated with forward and futures contracts are credit risk and liquidity risk.

The Group has credit exposure to the counterparties of forward contracts. The credit risk related to future contracts is considered minimal because the cash margin requirements of the exchange help ensure that these contracts are always honored. Forward contracts are settled gross and are, therefore, considered to bear a higher liquidity risk than the futures contracts that are settled on a net basis. Both types of contracts result in market risk exposure.

Swaps

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index.

Interest rate swaps relate to contracts taken out by the Group with other financial institutions in which the bank either receives or pays a floating rate of interest in return for paying or receiving, respectively, a fixed rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

In a currency swap, the Group pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross-settled.

Credit default swaps are contractual agreements between two parties to make payments with respect to defined credit events, based on specified notional amounts. The Group purchases credit default swaps from monoline insurers and banks in order to mitigate the risk of default by the counterparty on the underlying security referenced by the swap.

Options

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period. The Group purchases and sells options through regulated exchanges and in the over-the-counter markets.

Options purchased by the Group provide the Group with the opportunity to purchase (call options) or sell (put options) the underlying asset at an agreed-upon value either on or before the expiration of the option. The Group is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value.

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Options written by the Group provide the purchaser the opportunity to purchase from or sell to the bank the underlying asset at an agreed-upon value either on or before the expiration of the option.

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and cross currency swaps. Further details of derivative financial instruments are disclosed (Note 7).

The Group's exposure under derivative contracts is closely monitored as part of the overall management of the Group's market, credit, and liquidity risks (Note 35).

Credit-impaired 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. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- The disappearance of an active market for a security because of financial difficulties; or
- The purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event instead; the combined effect of several events may have caused financial assets to become credit-impaired. The Group assesses whether debt instruments that are financial assets measured at amortised cost or FVTOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Group considers factors such as bond yields, credit ratings and the ability of the borrower to raise funding.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted, the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default includes unlikeliness to pay indicators and a back¬stop if amounts are overdue for 90 days or more. The decision to use cross-default is based on case-by-case assessment of client's facility conditions such as collateral and materiality of exposure.

Purchased or originated credit-impaired ("POCI") financial assets.

POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Group recognizes all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognized in profit or loss. A favorable change for such assets creates an impairment gain (recovery of credit loss expense).

Write off

Loans and debt securities are written off when the Group has no reasonable expectations of recovering the financial asset (either in its entirety or in a portion of it). This is the case when the Group 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. A write-off

constitutes a derecognition event. The Group may apply enforcement activities to financial assets written off. Recoveries resulting from the Group's enforcement activities will result in impairment gains. Where loans are secured, they are generally written off after receipt of any proceeds from the sale of collateral. When such net realizable value of collateral has been determined and no reasonable expectation of further recovery, write off may be earlier.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or a part of a group of similar financial assets) is derecognised where:

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

A financial asset is derecognised when it has been transferred and the transfer qualifies for derecognition. A transfer requires that the Group either: (a) transfers the contractual rights to receive the asset's cash flows; or (b) retains the right to the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Group reassesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been retained, the asset remains on the consolidated statement of

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financial position. If substantially all of the risks and rewards have been transferred, the asset is derecognised. If substantially all the risks and rewards have been neither retained nor transferred, the Group assesses whether or not it has retained control of the asset. If it has not retained control, the asset is derecognised. Where the Group has retained control of the asset, it continues to recognise the asset to the extent of its continuing involvement.

Modification and derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

When the Group exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that 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 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 is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognised in profit or loss as the modification gain or loss within other gains and losses.

Taxation

The current income tax expense is calculated in accordance with the regulations of Kazakhstan and other countries where the Group operates.

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

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the deferred tax is also charged or credited directly to other comprehensive income or equity.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax assets and deferred tax liabilities are offset and reported net in the consolidated statement of financial position if:

- The Group has a legally enforceable right to offset current income tax assets against current income tax liabilities; and
- Deferred income tax assets and deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Kazakhstan and other countries where the Group operates also have various operating taxes that are assessed on the Group's activities. These taxes are recorded as taxes other than income tax.

The Group records a provision for uncertain tax positions if it is probable that the Group will have to make a payment to tax authorities upon their examination of a tax position. This provision is measured at the Group's best estimate of the amount expected to be paid. Provisions are reversed to income in provision for (recovery of) income taxes in the period in which management determines they are no longer required or as determined by statute.

Property and equipment

Property and equipment are carried at cost less accumulated depreciation and any accumulated impairment, except for any buildings and construction which are carried at revalued amount, being the fair value at the date of the revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

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

	Years
Buildings and construction	20-100
Vehicles	5-7
Computers and banking equipment	5-10
Other	7-10

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Leasehold improvements are amortised over the life of the related leased asset. Expenses related to repairs and renewals are charged when incurred and included in operating expenses, unless they qualify for capitalisation.

The carrying amounts of property and equipment are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount. An impairment loss is recognised in the respective year and is included in operating expenses.

Buildings and construction held for use in supply of services, or for administrative purposes, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by professional independent appraisers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date.

Any revaluation increase arising on the revaluation of such buildings and construction is credited to the property revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the consolidated statement of profit or loss to the extent of the decrease previously charged. A decrease in the carrying amount arising on the revaluation of such buildings and construction is charged as an expense to the extent that it exceeds the balance, if any, held in the property revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings and construction is charged to the consolidated statement of profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the property revaluation reserve is transferred directly to retained earnings.

Construction in progress is carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such construction in progress is classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. The estimated useful life and amortisation method are reviewed at the end of each reporting year, with the effect of any changes in estimate being accounted for on a prospective basis. An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses. Intangible assets with indefinite useful lives are not subject to amortisation.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Amortisation is recognised on a straight-line basis over the following estimated useful lives:

	Years
Customer deposit intangibles	5
Software	10
Licensing agreements for the right to use the software	10
Other	10

Assets held for sale

Non-current assets and the liabilities directly associated with non-current assets are classified as held for sale ("disposal group") if it is highly probable that the net asset's carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification of an asset as held for sale.

Assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. If the fair value less costs to sell of an asset held for sale is lower than its carrying amount, an impairment loss is recognised in profit or loss. Any subsequent increase in an asset's fair value less costs to sell is recognised to the extent of the cumulative impairment loss that was previously recognised in profit or loss in relation to that specific asset.

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Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the year in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year in which the property is derecognised.

Commercial property

In certain circumstances, the Group may foreclose commercial properties as part of the settlement of loan agreements with customers. The Group intends to sell these properties in the normal course of business and therefore these are initially measured at fair value including transaction costs and subsequently measured at the lower of cost or net realisable value. Estimates of net realisable value are based on the most reliable evidence available at the time the estimates are made, of the amount the commercial property is expected to be realised for. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the year to the extent that such events confirm conditions existing at the end of the year.

Amounts due to customers and credit institutions

Amounts due to customers and credit institutions are initially recognised at the fair value of the consideration received, less directly attributable transaction costs. Subsequently, amounts due are stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the consolidated statement of profit or loss over the period of the borrowings using the effective interest method. If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in the consolidated statement of profit or loss.

Debt securities issued

Debt securities issued represent bonds issued by the Group, which are accounted for according to the same principles used for amounts due to customers and credit institutions. Any difference between proceeds received, net of debt issuance costs, and the redemption value is recognised in the consolidated statement of profit or loss over the period of the borrowings using the effective interest method.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Retirement and other benefit obligations

The Group does not have any pension arrangements separate from the state pension system of Kazakhstan and other countries where the Group operates, which requires current withholdings by the employer calculated as a percentage from current gross salary payments; such expense is charged in the year the related salaries are earned and included in operating expenses in the consolidated statement of profit or loss. The Group contributes social tax to the budget of Kazakhstan and other countries where the Group operates for its employees. In addition, the Group has no post-retirement benefits.

Equity

The Group classifies a financial instrument that it issues as a financial asset, financial liability or an equity instrument in accordance with the substance of the contractual arrangement. An instrument is classified as a liability if it is a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities on potentially unfavourable terms. An instrument is classified as equity if it evidences a residual interest in the assets of the Group, after the deduction of liabilities.

The components of a compound financial instrument issued by the Group are classified and accounted for separately as financial assets, financial liabilities or equity instruments as appropriate.

Share capital

External costs directly attributable to the issue of new shares, other than in a business combination, are shown as a deduction from the proceeds in equity. Prior to 13 May 2003, any excess of the fair value

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of consideration received over the nominal value of shares issued was recognised as share premium reserve. Effective 13 May 2003, upon a change in the law concerning "Joint Stock Companies", the nominal amount concept was restricted to placement of shares only between the founders of an entity. For all other investors, share capital is recorded at placement value being the consideration received by an entity for its shares.

Treasury shares

When the Group acquires its own share capital, the amount of the consideration paid, including directly attributable costs, net of any related tax benefit, is recognised as a change in equity. Shares repurchased by the Group are cancelled. Repurchased shares are classified as treasury shares and are held at cost. These shares are treated as a deduction from the issued and weighted average number of shares, and the cost price of the shares is presented as a deduction from total equity. Dividends on shares purchased by the Group's subsidiaries are eliminated upon consolidation.

Dividends

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

Equity reserves

The reserves recorded in equity (other comprehensive income) on the Group's consolidated statement of financial position include:

- Revaluation reserve of financial assets at fair value through other comprehensive income which comprises changes in fair value of financial assets at fair value through other comprehensive income and allowances for expected credit losses on debt financial assets at fair value through other comprehensive income;
- Cumulative translation reserve which is used to record foreign exchange differences arising from the translation of the net investment in foreign operations;
- Property revaluation reserve, which comprises revaluation reserve of land and buildings.

Contingencies

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

Contingent liabilities acquired in a business combination

Contingent liabilities acquired in a business combination are initially measured at fair value at the acquisition date. At the end of subsequent reporting years, such contingent liabilities are measured at the higher of the amount that would be recognised in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and the amount initially recognised less cumulative amortisation recognised in accordance with IFRS 15 "Revenue from Contracts with Customers" ("IFRS 15").

Recognition of income and expense

Interest income and expense for all financial instruments, except for financial assets measured or designated at fair value through profit or loss are recognized in 'Net interest income' as 'Interest income calculated using the effective interest method' and 'Interest expense' in the profit or loss account using the effective interest method.

Interest income on financial instruments measured at fair value through profit or loss is included in 'Other interest income' in the consolidated statement of profit or loss.

The EIR is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The calculation of the EIR includes all fees and points paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts. For financial assets at FVTPL transaction costs are recognized in profit or loss at initial recognition.

The interest income/interest expense is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. at the amortised cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortised cost of financial liabilities. For credit-impaired financial assets, the interest income is calculated by applying the EIR to the amortised cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses). For financial assets POCI the EIR reflects the expected credit losses in determining the future cash flows expected to be received from the financial asset.

Loan origination fees for loans issued to customers are (together with related direct costs) recognised as an adjustment to the effective yield of the loans. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognised as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognised in profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognised in profit or loss on expiry.

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Fee and commission income

Fee and commission income is recognised to reflect the transfer of services to customers at an amount that reflects the consideration that is expected to be received in exchange for such services. The Group identifies the performance obligation, i.e. the services agreed with the customer, and the consideration, and recognises income in line with the transfer of services, the performance obligation, agreed with the customer.

For each performance obligation identified, the Group determines at contract inception whether it satisfies the performance obligation over time or at a point in time, and whether the consideration is fixed or variable, including whether consideration is constrained by, for instance, external factors outside the Group's influence. The consideration is subsequently allocated to the identified performance obligation.

Fee and commission income from maintenance of customer accounts and cash operations include fees earned from deposit products in lieu of compensating balances, service charges for transactions performed upon depositors' request, as well as fees earned from performing cash management activities. Service charges on deposit products are recognized over the period in which the related service is provided, typically monthly. Service fees are recognized at a point in time upon completion of the requested service transaction. Fees on cash management products are recognized over time as services are provided.

Payment card maintenance fee and commission income include interchange income from credit and debit card transactions and are recognized at a point in time upon settlement by the associated network. Interchange rates are generally set by the associated network based on purchase volume and other factors. Other card-related fees are recognized at a point in time upon completion of the transaction.

Other banking fees include fees for various transactional banking activities such as bank transfers, letters of credit fees and other transactional services. These fees are recognized in a manner that reflects the timing of when transactions occur and as services are provided. Letter of credit fees primarily includes fees received related to letter of credit agreements and are generally recognized upon execution of the contract.

For the years ended 31 December 2019 and 2018, fee and commission income transactions were recognised according to IFRS 15 "Revenue from Contracts with Customers", whereas for the year ended 31 December 2017 according to IAS 18 "Revenue".

The adoption of IFRS 15 has not had any material impact on the disclosures or on the amounts reported in the consolidated financial statements.

Foreign currency translation

The consolidated financial statements are presented in KZT, which is the functional currency of the Bank and each of its subsidiaries, except for foreign subsidiaries. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the currency rate of exchange as quoted by KASE as at the reporting date. Gains and losses resulting from the translation of foreign currency transactions into functional currency are recognised in the consolidated statement of profit or loss as net foreign exchange gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

As at the reporting date, the assets and liabilities of overseas subsidiaries are translated into the Group's presentation currency at the exchange rates as at the consolidated statement of financial position date, and their statements of profit or loss are translated at the average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity. On disposal of a foreign subsidiary, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated statement of profit or loss.

Differences between the contractual exchange rate of a transaction in a foreign currency and the market exchange rate on the date of the transaction are included in net foreign exchange gain or loss. The market exchange rate at 31 December 2019 was – KZT 382.59 to USD 1 (at 31 December 2018 – KZT 384.20; at 31 December 2017 – KZT 332.33).

Insurance

Insurance contracts are those contracts which transfer significant insurance risk from another party by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. The Group utilises accounting policies determined by NBRK for insurance companies of Kazakhstan.

In accordance with the Kazakhstan regulations, when insurance contracts contain a discretionary participation feature with no guaranteed element, such additional payments to the insured are contingent on a decision reached at the annual general shareholders' meeting and should be presented as an allocation of retained earnings and not as an expense.

The Group offers various insurance products in property and casualty, liability, personal, and life insurance.

Underwriting income

Underwriting income includes net written insurance premiums and commissions earned on ceded reinsurance, reduced by the net change in the unearned premium reserve.

Upon inception of a contract, premiums are recorded as written and are earned on a pro rata basis over the term of the related policy coverage. The unearned insurance premium reserve represents the portion of the premiums written relating to the unexpired terms of coverage and is included within insurance liabilities in the consolidated statement of financial position.

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Losses and loss adjustments are charged to the consolidated statement of profit or loss as incurred through the reassessment of the reserve for claims and loss adjustment expenses, and included within insurance claims incurred, net of reinsurance in the consolidated statement of profit or loss.

Commissions earned on ceded reinsurance contracts are recorded as income at the date the reinsurance contract is written and deemed enforceable.

Policy acquisition costs, comprising commissions paid to insurance agents and brokers, which vary with and are directly related to the production of new business, are capitalised and recorded in the accompanying consolidated statement of financial position within insurance assets. The asset related to deferred acquisition costs is subsequently amortised over the period in which the related written premiums are earned and is reviewed for impairment in circumstances where its carrying amount may not be recoverable. If the asset is greater than the recoverable amount, it is written down immediately. All other costs are recognised as expenses when incurred.

Reserve for insurance losses and loss adjustment expenses

The reserve for insurance losses and loss adjustment expenses is included in insurance liabilities in the consolidated statement of financial position and is based on the estimated amount payable on claims reported prior to the reporting date, which have not yet been settled, and an estimate of incurred but not reported claims relating to the reporting year.

The incurred but not reported reserve ("IBNR") for motor, hull and liability insurance is actuarially determined and is based upon statistical claim data for the year typical for loss development of the classes and sub-classes of business and the Group's previous experience.

Due to the lack of historical the Group specific data and comparable industry data for other lines of business, the reserve for IBNR claims is determined by applying current government guidance as provided by NBRK. Under this guidance, the IBNR reserve is calculated in an amount of 5% of the insurance premiums written during the last twelve months preceding the settlement date in this class of insurance.

The methods for determining such estimates and establishing the resulting reserves are continuously reviewed and updated. Resulting adjustments are reflected in the consolidated statement of profit or loss in the year in which they are determined.

Reinsurance

In the ordinary course of business, the Group cedes reinsurance risk to reinsurers. Such reinsurance arrangements provide for greater diversification of risks, allow management to control exposure to potential losses arising from insured risks and provide additional capacity for growth.

Reinsurance assets include balances due from reinsurance companies for paid and unpaid losses and loss adjustment expenses, and ceded unearned premiums. Amounts receivable from re-insurers are estimated in a manner consistent with the claim liability associated with the reinsured policy.

Payables to reinsurers for ceded premium are recorded gross when due, unless a right of offset exists against commission receivable from the reinsurer and are included in the consolidated statement of financial position within insurance assets.

Reinsurance contracts are assessed to ensure that underwriting risk, defined as the reasonable possibility of significant loss, and timing risk, defined as the reasonable possibility of a significant variation in the timing of cash flows, are both transferred by the Group to the re-insurer.

The Group regularly assesses its reinsurance assets for impairment. A reinsurance asset is impaired if there is objective evidence that the Group may not receive all amounts due to it under the terms of the contract and that event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Financial guarantee contracts and letters of credit issued

Financial guarantee contracts and letters of credit issued by the Group are credit insurance that provides for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make a payment when due under the original or modified terms of a debt instrument. Such financial guarantee contracts and letters of credit issued are initially recognised at fair value. Subsequently, they are measured at the higher of (a) the amount recognised as a provision and (b) the amount initially recognised less, where appropriate, cumulative amortisation of initial premium revenue received over the financial guarantee contracts or letters of credit issued.

New and amended IFRS Standards that are effective for the current year

In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in these consolidated financial statements:

- IFRS 16 Leases;
- Amendments to IFRS 9 Prepayment Features with Negative Compensation;
- Amendments to IAS 28 Long-term Interest in Associates and Joint Ventures;
- Amendments to IFRSs Annual Improvements to IFRS Standards 2015-2017 Cycle;
- IFRIC 23 Uncertainty over Income Tax Treatments.

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Impact of initial application of IFRS 16 Leases

In the current year, the Group has applied IFRS 16 (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019.

The Group has initially adopted IFRS 16 "Leases" from 1 January 2019. IFRS 16 introduces a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised a right-of-use asset representing its rights to use underlying assets and liabilities representing its obligations to make lease payments. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17 "Leases" ("IAS 17"). Accordingly, there are no changes to the Groups accounting policy for lessor accounting.

The Group has applied IFRS 16 using the modified retrospective approach, which means the adoption from 1 January 2019, with no restatement of comparative periods - i.e. comparative period is presented as previously reported under IAS 17 and related interpretations. The details of the changes in the accounting policies, nature and the impact that is relevant to the Group's operations are described below.

Impact of the new definition of a lease

The Group made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those contracts entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. This is in contrast to the focus on "risks and rewards" in IAS 17 and IFRIC 4. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- the right to obtain substantially all of the economic benefits from the use of an identified asset; and;
- the right to direct the use of that asset.

The Group applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2019, (whether it is a lessor or a lessee in the lease contract).

In preparation for the first-time application of IFRS 16, the Group has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the Group.

Impact on lessee accounting

Operating leases

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet.

On initial application of IFRS 16, for all leases (except as noted below), the Group:

a) Recognises right of use assets and lease liabilities in the consolidated statement of financial position within "Property and equipment" and "Other liabilities", respectively. The lease liabilities were at transition initially measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application - 1 January 2019. The right-of-use assets were initially recognised at the value of the corresponding lease liability, as the Group uses the simplified approach for contracts previously classified as operating lease;

b) Recognises depreciation of right of use assets as depreciation expense within "Operating expenses" and interest on lease liabilities within "Interest expense" in the consolidated statement of profit or loss;

c) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated cash flow statement.

Under IFRS 16, right of use assets are tested for impairment in accordance with IAS 36 "Impairment of Assets". This replaced the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low value assets (such as personal computers and office furniture), the Group has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

Lease incentives (e.g. rent-free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses generally on a straight-line basis.

Finance leases

The main differences between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Group recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. This change did not have a material effect on the Group's consolidated financial statements.

Impact on lessor accounting

Where the Group acts as a lessor, the requirements remain largely unchanged and the distinction between finance and operating leases is maintained. The accounting policies applicable to the Group as a lessor are not different from those under IAS 17. However, IFRS 16 changes and expands the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets.

The management of the Group does not expect that the application of these changes will have an impact on the consolidated financial statements of the Group.

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Summary of impact upon adoption of IFRS 16

As at 1 January 2019, an assessment indicates that the Group recognised a right of use asset of KZT 3,077 million and presented as part of "Property and equipment" and a corresponding lease liability of KZT 3,077 million and presented as part of "Other liabilities" in respect of all these leases. In the consolidated statement of profit or loss, expenses related to leases are presented as depreciation expenses within "Operating expenses" and interest expenses within "Interest expense".

Based on an analysis of the Group's finance leases as at 1 January 2019 and on the basis of the facts and circumstances that exist at that date, the management of the Group has assessed that the change did not have a significant impact on the amounts recognised in the Group's consolidated financial statements.

Amendments to IFRS 9 Prepayment Features with Negative Compensation.

The Group has adopted the amendments to IFRS 9 for the first time in the current year. The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, financial assets with prepayment features with negative compensation do not automatically fail SPPI.

Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures.

The Group has adopted the amendments to IAS 28 for the first time in the current year. The amendment clarifies that IFRS 9, including its impairment requirements, applies to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. The Group applies IFRS 9 to such long-term interests before it applies IAS 28. In applying IFRS 9, the Group does not take account of any adjustments to the carrying amount of long-term interests required by IAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

Annual Improvements to IFRS Standards 2015–2017 Cycle Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs.

The Group has adopted the amendments included in the Annual Improvements to IFRS Standards 2015–2017 Cycle for the first time in the current year. The Annual Improvements include amendments to four Standards:

IAS 12 Income Taxes

The amendments clarify that the Group should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the Group originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

IAS 23 Borrowing Costs

The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

IFRS 3 Business Combinations

The amendments clarify that when the Group obtains control of a business that is a joint operation, the Group applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be remeasured includes any unrecognised assets, liabilities and goodwill relating to the joint operation.

IFRS 11 Joint Arrangements

The amendments clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the Group does not remeasure its PHI in the joint operation.

IFRIC 23 Uncertainty over Income Tax Treatments.

The Group has adopted IFRIC 23 for the first time in the current year. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires the Group to:

- determine whether uncertain tax positions are assessed separately or as a group; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
- If yes, the Group should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
- If no, the Group should reflect the effect of uncertainty in determining its accounting tax position using either the most likely amount or the expected value method

The implementation of IFRIC 23 had no significant impact on the consolidated financial statements of the Group.

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New and revised IFRS Standards in issue but not yet effective

The Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

- IFRS 17 Insurance Contracts;
- IFRS 10 Consolidated Financial Statements and IAS 28 (amendments) - Sale or Contribution of Assets between an Investor and its Associate or joint Venture;
- Amendments to IFRS 3;
- Amendments to IAS 1 and IAS 8;
- Conceptual Framework.

The management do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods, except as noted below:

IFRS 17 Insurance Contracts

The new Standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts.

The Standard outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach.

The general model will use current assumptions to estimate the amount, timing and uncertainty of future cash flows and it will explicitly measure the cost of that uncertainty, it takes into account market interest rates and the impact of policyholders' options and guarantees.

The Standard is effective for annual reporting periods beginning on or after 1 January 2021. However, IASB is currently considering deferral of the effective date be by one year to 1 January 2022. It is applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied.

For the purpose of the transition requirements, the date of initial application is the start if the annual reporting period in which the entity first applies the Standard, and the transition date is the beginning of the period immediately preceding the date of initial application.

The standard may have an impact on the consolidated financial statements due to the new accounting principles for calculating insurance liabilities. However, the management of the Group has not completed its assessment of the impact on the Group's consolidated financial statements.

IFRS 10 Consolidated Financial Statements and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the board; however, earlier application of the amendments is permitted.

The management of the Group do not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements.

Amendments to IFRS 3 Definition of a business

The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

Additional guidance is provided that helps to determine whether a substantive process has been acquired.

The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets.

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2020, with early application permitted.

The management of the Group does not expect that the application of these amendments will have an impact on the consolidated financial statements of the Group.

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Amendments to IAS 1 and IAS 8 Definition of material

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition.

The threshold for materiality influencing users has been changed from "could influence" to "could reasonably be expected to influence".

The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term 'material' to ensure consistency.

The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application permitted.

The management of the Group does not expect that the application of these changes will have an impact on the consolidated financial statements of the Group.

Amendments to References to the Conceptual Framework in IFRS Standards

Together with the revised Conceptual Framework, which became effective upon publication on 29 March 2018, the IASB has also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.

Not all amendments, however, update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASC Framework adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised Framework of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised Conceptual Framework.

The amendments, where they actually are updates, are effective for annual periods beginning on or after 1 January 2020, with early application permitted.

The management of the Group do not anticipate that the application of the amendments in the future will have a significant impact on the Group's consolidated financial statements.

4. Significant accounting estimates

The preparation of the Group's consolidated financial statements requires management to make estimates and judgments that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of income and expenses during the reporting year. Management evaluates its estimates and judgements on an ongoing basis. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The following estimates and judgments are considered important to the portrayal of the Group's financial condition.

Business model assessment

Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated.

The Group monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognized prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

Significant increase of credit risk

As explained in Note 3, ECL are measured as an allowance equal to 12-month ECL for Stage 1 assets, or lifetime ECL assets for Stage 2 or Stage 3 assets. An asset moves to Stage 2 when its credit risk has increased significantly since initial recognition. In assessing whether the credit risk of an asset has significantly increased, the Group takes into account qualitative and quantitative reasonable and supportable forward-looking information (Refer to Note 35 for more details).

Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and determining the forward-looking information relevant to each scenario

For treasury operations, the Bank calculates ECL on a financial asset based not only on the current estimates of the credit quality of the counterparty/issuer at the reporting date, but also taking into account possible deterioration of the financial condition due to the adverse macroeconomic factors of the counterparty's/issuer's environment in the future. In particular, the level of ECL for treasury

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operations is affected by the rating outlook (positive, stable, negative) assigned by international rating agencies, which affects the probability of default ("PD").

For bank loans, the calculation of ECL takes into account the possible estimated effects of changes in macroeconomic parameters on forecasted cash flows, migration of collective loans and collateral coverage.

When measuring ECL the Group uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. Refer to Note 35 for more details.

The key inputs used for measuring ECL are:

- Probability of default (PD);
- Loss given default (LGD); and
- Exposure at default (EAD).

Probability of default

PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

PD for treasury operations is determined according to the Default Study from international rating agencies (S&P, Fitch, Moody's), which publish tabular data with the values of the probabilities of default. The probabilities of default are maintained up to date and are updated on a periodic basis as the default statistics are updated.

PD for individually assessed loans of corporate, small and medium businesses is estimated using an internal rating model based on the quantitative and qualitative characteristics of the borrower. The calculation of PD on loans assessed on a collective basis is carried out on the basis of historical data using the migration matrices and roll-rates.

Loss Given Default

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

LGD for treasury operations is determined according to the Default Study data from international rating agencies (S&P, Fitch, Moody's) and depends on the type of debt on the financial asset: senior secured/unsecured, subordinated, sovereign. In addition, LGD may be adjusted if collateral is provided for the asset, as well as if there are indications of impairment for the financial asset (Stage 2 or Stage 3).

LGD for collectively assessed loans is calculated based on an estimate of the recoverability of debt in case of the pledged collateral sale with a discount period that corresponds to the pledged collateral implementation terms.

Exposure at Default

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities. The Group's modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortization profiles, early repayment or overpayment, changes in utilization of undrawn commitments and credit mitigation actions taken before default. The Group uses EAD models that reflect the characteristics of the portfolios.

Establishing groups of assets with similar credit risk characteristics

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. Refer to Note 35 for details of the 5 characteristics considered in this judgement. The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets.

This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

Models and assumptions used

The Group uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See Notes 23 and 35 for more details on allowances for ECL and Note 38 for more details on fair value measurement.

The allowances for ECL of financial assets in the consolidated financial statements have been determined on the basis of existing economic and political conditions. The Group is not in a position to predict what changes in conditions will take place in Kazakhstan and in other countries it operates in and what effect such changes might have on the adequacy of the allowances for ECL of financial assets in future years.

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The carrying amount of the allowance for ECL of loans to customers as at 31 December 2019 is KZT 408,718 million (31 December 2018 is KZT 409,793 million, 31 December 2017: KZT 317,161 million).

Fair value measurement and valuation process

In estimating the fair value of a financial asset or a liability, the Group uses market-observable data to the extent it is available. Where such Level 1 inputs are not available, the Group uses valuation models to determine the fair value of its financial instruments. Refer to Note 38 for more details on fair value measurement.

Property and equipment carried at revalued amounts

Buildings and construction are measured at revalued amounts. The latest appraisal was in June 2018. Details of the valuation techniques used are set out in Note 14.

Taxation

Kazakhstan tax, currency and customs legislations are subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and state authorities. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review.

Management has concluded that all deferred tax assets are properly recognized, as it is probable that sufficient future taxable income will exist to fully utilize the assets.

As at 31 December 2019, management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained. Significant additional actual taxes, penalties and interest may be assessed following any challenges by the relevant authorities, which could have a material impact on the Group's reported net income.

Claims liability and reserves arising from insurance contracts

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of IBNR claims at the reporting date. For certain lines of business, IBNR claims form the majority of insurance liabilities in the consolidated statement of financial position. It can take a significant period of time before the ultimate claims cost can be established with certainty. For hull, property, accident and liability insurance, the Group actuarially determines the liability using past claims settlement trends to predict future claims settlement amounts. In estimating the cost of reported and IBNR claims for certain other lines of business, management applies current government guidance, as provided by NBRK, due to the absence of sufficient historical data. Under this guidance, the IBNR reserve is calculated using the expected loss ratio for each line of business, less the cumulative losses actually reported. General insurance claims provisions are not discounted for the time value of money.

The gross reserves for claims and the related receivables for reinsurance recoveries are based on information available to management and the ultimate amounts may vary as a result of subsequent information and events and may result in adjustments to the amounts recovered. Actual claims experience may differ from the historical pattern on which the estimate is based and the cost of settling individual claims may differ from costs previously estimated. Any adjustments to the amount of reserves will be reflected in the consolidated financial statements in the year in which the necessary adjustments become known and estimable.

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5. Cash and cash equivalents

Cash and cash equivalents comprise:

	31 December 2019	31 December 2018	31 December 2017
Cash on hand	180,553	196,266	190,396
Correspondent accounts with Organization for Economic Co-operation and Development countries (the "OECD") based banks	155,818	120,096	214,596
Short-term deposits with OECD based banks	595,229	248,038	150,656
Overnight deposits with OECD based banks	15,731	2,396	36,584
Correspondent accounts with NBRK	418,688	935,757	699,256
Short-term deposits with NBRK	191,337	153,975	61,378
Short-term deposits with Kazakhstan banks (incl. loans under reverse repurchase agreements)	58,331	65,036	373,956
Correspondent accounts with non-OECD based banks	18,341	10,745	20,439
Short-term deposits with non-OECD based banks	26,459	22,657	33,233
Overnight deposits with non-OECD based banks	3,850	172	54
	1,664,337	1,755,138	1,780,548
Cash and cash equivalents of JSC Altyn Bank	-	-	142,736
TOTAL PER CONSOLIDATED STATEMENT OF CASH FLOWS	1,664,337	1,755,138	1,923,284

As at 31 December 2019 and 31 December 2018, cash and cash equivalents allowance for expected credit losses comprised KZT 20 million and KZT 9 million, respectively (Note 23).

Interest rates and currencies in which interest earning cash and cash equivalents are denominated are as follows:

	31 December 2019		31 December 2018		31 December 2017	
	KZT	Foreign currencies	KZT	Foreign currencies	KZT	Foreign currencies
Short-term deposits with OECD based banks	-	1.0%-2.5%	-	2.0%-2.8%	-	0.8%-1.8%
Overnight deposits with OECD based banks	-	1.3%	-	1.5%	-	1.4%-1.5%
Short-term deposits with NBRK	-	0.5%	8.3%	6.8%-7.7%	9.3%	-
Short-term deposits with Kazakhstan banks	8.8%-12.8%	1.5%-3.9%	8.3%-13.5%	3.0%-10.0%	9.0%-12.3%	-
Short-term deposits with non-OECD based banks	-	4.1%-9.0%	-	0.2%-7.5%	-	1.7%
Overnight deposits with non-OECD based banks	7.0%	2.0%-9.2%	7.0%	-	-	1.7%-1.8%

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Fair value of assets pledged and carrying amounts of loans under reverse repurchase agreements as at 31 December 2019, 2018 and 2017 are as follows:

	31 December 2019		31 December 2018		31 December 2017	
	Carrying amount of loans	Fair value of collateral	Carrying amount of loans	Fair value of collateral	Carrying amount of loans	Fair value of collateral
Eurobonds of the Russian Federation	18,625	18,929	-	-	-	-
Notes of NBRK	15,425	15,901	19,816	20,422	132,879	132,791
Bonds of Kazakhstan corporations	10,008	10,930	-	-	-	-
Treasury bills of the Ministry of Finance of Kazakhstan	8,192	8,514	19,154	19,695	228,642	228,516
Bonds of international financial organizations	5,056	5,618	101	102	-	-
Treasury bills of the Kyrgyz Republic	885	910	-	-	-	-
Equity securities	140	186	4,503	7,240	11,122	11,080
Treasury bills of the Ministry of the Finance of Russian Federation	-	-	21,462	22,755	-	-
	58,331	60,988	65,036	70,214	372,643	372,387

As at 31 December 2019, 2018 and 2017, maturities of loans under reverse repurchase agreements are less than one month.

6. Obligatory reserves

Obligatory reserves comprise:

	31 December 2019	31 December 2018	31 December 2017
Cash and due from banks allocated to obligatory reserves	141,006	115,741	111,039
	141,006	115,741	111,039

The obligatory reserves represent the minimum reserve deposits and cash on hand balances required by the National Banks of the Republic of Kazakhstan, Kyrgyzstan, Georgia, Tajikistan, Uzbekistan and Central Bank of the Russian Federation and used for calculation of the minimum reserve requirements. As at 31 December 2019, obligatory reserves of the Bank's subsidiaries – OJSC Halyk Bank Kyrgyzstan, JSC Halyk Bank Georgia, JSC Commercial Bank Moskommertsbank, JSCB Tenge Bank and CJSC Halyk Bank Tajikistan comprised KZT 7,973 million (31 December 2018 – KZT 9,885 million, 31 December 2017 – KZT 48,196 million).

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7. Financial assets and liabilities at fair value through profit or loss

Financial assets at fair value through profit or loss comprise:

	31 December 2019	31 December 2018	31 December 2017
Financial assets held for trading:			
Corporate bonds	89,587	29,987	21,212
Equity securities of Kazakhstan corporations	20,866	14,800	14,478
Bonds of JSC Development Bank of Kazakhstan	14,843	6,491	5,252
Treasury bills of the USA	14,088	-	-
Bonds of foreign organizations	11,403	6,293	5,126
Treasury bills of the Ministry of Finance of Kazakhstan	9,569	11,759	44,171
Bonds of Kazakhstan banks	9,523	11,453	5,547
Equity securities of foreign organizations	8,634	3,738	675
Derivative financial instruments	5,088	97,853	39,723
Notes of NBRK	1,430	4,462	8,310
Equity securities of Kazakhstan banks	-	-	482
	185,031	186,836	144,976

Financial liabilities at fair value through profit or loss comprise:

	31 December 2019	31 December 2018	31 December 2017
Financial liabilities held for trading:			
Derivative financial instruments	20,444	7,022	5,831

Interest rates on financial assets at fair value through profit or loss are presented in the table below. Interest rates in the table below are calculated as weighted average of the effective interest rates for the respective financial assets:

	31 December 2019	31 December 2018	31 December 2017
Corporate bonds	10.7%	11.2%	8.6%
Bonds of JSC Development Bank of Kazakhstan	9.1%	9.2%	7.1%
Treasury bills of the USA	1.9%	-	-
Bonds of foreign organizations	8.9%	7.9%	7.0%
Treasury bills of the Ministry of Finance of Kazakhstan	9.1%	7.7%	5.6%
Bonds of Kazakhstan banks	11.5%	10.8%	11.1%
Notes of NBRK	9.4%	7.3%	10.3%

Derivative financial instruments comprise:

	31 December 2019			31 December 2018			31 December 2017		
	Notional amount	Fair value		Notional amount	Fair value		Notional amount	Fair value	
		Asset	Liability		Asset	Liability		Asset	Liability
Foreign currency contracts									
Swaps	947,346	4,642	19,983	1,221,331	97,709	6,998	1,172,217	39,671	5,828
Spots	29,903	446	461	27,266	144	16	10,309	23	3
Forwards	2,383	-	-	326	-	8	4,085	29	-
		5,088	20,444		97,853	7,022		39,723	5,831

On 3 July 2019, the Bank and NBRK closed a one-year cross-currency swap deal and at the same time concluded another one-year cross-currency swap deal for the notional amount of KZT 378,066 million. The purpose of the deal is the placement of excess foreign currency liquidity.

As at 31 December 2019, 2018 and 2017, the Group used quoted market prices from independent information sources for all of its financial assets at fair value through profit or loss, except for derivative financial instruments, which are valued using valuation models based on observable and unobservable market data.

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8. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	31 December 2019	31 December 2018	31 December 2017
Term deposits	26,186	37,365	59,711
Loans to credit institutions	13,733	8,390	18,719
Deposit pledged as collateral for derivative financial instruments	13,409	9,512	9,306
	53,328	55,267	87,736
Less - Allowance for expected credit losses (Note 23)/(2017: Allowance for impairment)	(167)	(232)	-
	53,161	55,035	87,736

Interest rates and maturities of amounts due from credit institutions are as follows:

	31 December 2019		31 December 2018		31 December 2017	
	Interest rate,%	Maturity, year	Interest rate, %	Maturity, year	Interest rate, %	Maturity, year
Term deposits	0.1%-14.0%	2020-2023	2.7%-14.0%	2023	0.4%-15.0%	2018
Loans to credit institutions	1.5%-6.2%	2020	2.0%-7.5%	2019	8.5%-16.0%	2018
Deposit pledged as collateral for derivative financial instruments	0.2%-3.0%	2046	0.2%-3.0%	2046	1.1%-1.8%	2046

9. Financial assets at fair value through other comprehensive income (IAS 39 – Available-for-sale investment securities)

Debt securities comprise:

	31 December 2019	31 December 2018	31 December 2017
Notes of NBRK	466,821	756,652	459,895
Treasury bills of the Ministry of Finance of Kazakhstan*	431,344	408,508	1,366,494
Treasury bills of the USA	342,889	249,142	264,821
Corporate bonds	199,517	202,923	280,106
Bonds of foreign organisations	96,701	44,283	82,935
Bonds of JSC Development Bank of Kazakhstan	78,904	75,190	66,792
Treasury bills of Hungary	9,061	8,757	7,987
Bonds of Kazakhstan banks	3,169	18,023	25,017
Treasury bills of Georgia	-	-	2,156
Treasury bills of the Kyrgyz Republic	-	-	1,710
Notes of National Bank of Kyrgyz Republic	-	-	1,400
Treasury bills of the Russian Federation	-	-	909
	1,628,406	1,763,478	2,560,222

Equity securities comprise:

	31 December 2019	31 December 2018	31 December 2017
Equity securities of Kazakhstan corporations	2,515	2,455	3,407
Equity securities of foreign corporations	-	-	1,756
Equity securities of Kazakhstan banks	-	-	40
	2,515	2,455	5,203
Total financial assets at fair value through other comprehensive income	1,630,921	1,765,933	2,565,425

* Certain financial assets (Treasury bills of the Ministry of Finance of Kazakhstan) that were classified as available-for-sale investment securities as at 31 December 2017 were reclassified to debt securities at amortised cost under IFRS 9, due to that the Group hold them for long-term investment purposes, the "hold to collect" business model.

As at 31 December 2019 and 31 December 2018, the allowance for expected credit losses on financial assets at fair value through other comprehensive income comprised KZT 1,658 million and KZT 2,576 million, respectively (Note 23).

As at 31 December 2019, 2018 and 2017, financial assets at fair value through other comprehensive income included treasury bills of the Ministry of Finance of Kazakhstan at fair value of KZT 108,203 million, KZT 4,714 million, and KZT 92,719 million, respectively, pledged under repurchase agreements with the other banks (see Note 21). All repurchase agreements as at 31 December 2019, 2018 and 2017 mature before 22 January 2020, 8 January 2019, and 3 January 2018, respectively.

Interest rates and maturities of financial assets at fair value through other comprehensive income are presented in the table below. Interest rates in the table below are calculated as weighted average of the effective interest rates for the respective securities.

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	31 December 2019		31 December 2018		31 December 2017	
	Interest rate, %	Maturity, year	Interest rate, %	Maturity, year	Interest rate, %	Maturity, year
Notes of NBRK	9.2%	2020	8.7%	2019	10.0%	2018
Treasury bills of the Ministry of Finance of Kazakhstan	4.8%	2020-2045	6.0%	2019-2045	7.0%	2018-2045
Treasury bills of the USA	2.1%	2020	1.8%	2019	1.0%	2018
Corporate bonds	8.5%	2020-2047	7.9%	2019-2047	7.0%	2018-2047
Bonds of foreign organisations	5.9%	2020-2036	5.5%	2019-2047	8.0%	2018-2046
Bonds of JSC Development Bank of Kazakhstan	5.7%	2022-2032	6.1%	2020-2032	5.7%	2020-2032
Treasury bills of Hungary	3.2%	2023	3.2%	2023	3.2%	2023
Bonds of Kazakhstan banks	10.9%	2020-2023	9.8%	2019-2024	11.3%	2018-2024
Treasury bills of Georgia	-	-	-	-	10.8%	2019-2025
Treasury bills of the Kyrgyz Republic	-	-	-	-	6.1%	2018-2021
Notes of National Bank of Kyrgyz Republic	-	-	-	-	2.8%	2018
Treasury bills of the Russian Federation	-	-	-	-	8.1%	2021

10. Debt securities at amortised cost,net of allowance for expected credit losses

Debt securities at amortised cost, net of allowances for expected credit losses comprise:

	31 December 2019	31 December 2018
Treasury bills of the Ministry of Finance of Kazakhstan	1,044,902	1,044,939
Corporate bonds	156,685	1,082
Treasury bills of the Kyrgyz Republic	4,667	2,847
Notes of National Bank of Tajikistan	1,971	1,119
Bonds of foreign organizations	1,946	2,640
Notes of National Bank of Georgia	1,906	2,434
Notes of National Bank of Kyrgyz Republic	904	-
Treasury bills of the Russian Federation	-	846
	1,212,981	1,055,907

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Certain financial assets (Treasury bills of the Ministry of Finance of Kazakhstan) that were classified as available-for-sale investment securities as at 31 December 2017 were reclassified to debt securities at amortised cost under IFRS 9, due to a decision that the Group hold them for long-term investment purposes, under the "hold to collect" business model.

On 20 September 2019, the Group acquired "Astana LRT" LLP's bonds in the amount of USD 400 million. The coupon rate of 3.25% corresponds to market conditions. Despite the financial difficulty of the issuer, the underlying project is of strategic significance to the city of Nur-Sultan and has full government support for completion, which is evidenced by the fact that the repayment of bonds is guaranteed in full by the Ministry of Finance of the Republic of Kazakhstan. As such, the Group has concluded that these are not originated credit-impaired assets.

As at 31 December 2019 and 31 December 2018, the allowance for expected credit losses on debt securities at amortised cost comprised KZT 562 million and KZT 441 million, respectively (Note 23).

Interest rates and maturities of debt securities at amortised cost, net of allowance for expected credit losses are presented in the table below. Interest rates in the table below are calculated as weighted average of the effective interest rates for the respective securities.

	31 December 2019		31 December 2018	
	Interest rate, %	Maturity, year	Interest rate, %	Maturity, year
Treasury bills of the Ministry of Finance of Kazakhstan	9.3%	2022-2027	9.3%	2022-2027
Corporate bonds	7.0%	2022-2024	9.7%	2022
Treasury bills of the Kyrgyz Republic	4.9%	2020-2021	5.6%	2019-2021
Notes of National Bank of Tajikistan	13.5%	2020	14.2%	2019
Bonds of foreign organizations	9.1%	2020-2026	9.2%	2020-2026
Notes of National Bank of Georgia	10.6%	2020-2025	10.7%	2019-2025
Notes of National Bank of Kyrgyz Republic	5.2%	2020	-	-
Treasury bills of the Russian Federation	-	-	7.8%	2021

11. Loans to customers

Loans to customers comprise:

	31 December 2019	31 December 2018	31 December 2017
Originated loans to customers	4,143,692	3,869,005	3,547,621
Overdrafts	17,471	21,867	20,642
	4,161,163	3,890,872	3,568,263
Stage 1	3,338,205	2,984,812	n/a
Stage 2	159,120	142,664	n/a
Stage 3	586,025	671,406	n/a
Purchased or originated credit-impaired assets ("POCI")	77,813	91,990	n/a
Total	4,161,163	3,890,872	n/a
Less – Allowance for expected credit losses (Note 23)/(2017: Allowance for loan impairment losses)	(408,718)	(409,793)	(317,161)
Loans to customers	3,752,445	3,481,079	3,251,102

The weighted average interest rate on loans to customers is calculated as interest income on loans to customers divided by monthly average balances of loans to customers. As at 31 December 2019, average interest rate on loans was 12.8% (for the year ended 31 December 2018 –13.3%, 31 December 2017 – 13.0%).

As at 31 December 2019, the Group's loan concentration to the ten largest borrowers was KZT 775,224 million, which comprised 19% of the Group's total gross loan portfolio(as at 31 December 2018 – KZT 703,598 million, 19%, as at 31 December 2017 – KZT 617,144 million, 17%) and 66% of the Group's total equity (as at 31 December 2018 – 66%; as at 31 December 2017 – 66%).

As at 31 December 2019, the allowance for expected credit losses created against these loans was KZT 58,782 million (as at 31 December 2018 – KZT 42,044 million, as at 31 December 2017 – KZT 56,807 million).

The table below summarizes the amount of loans secured by type of collateral, rather than the fair value of the collateral itself:

	31 December 2019	31 December 2018	31 December 2017
Loans collateralised by pledge of real estate or rights thereon	1,594,776	1,603,065	819,512
Loans collateralised by guarantees	875,201	702,445	1,246,368
Consumer loans issued within he framework of payroll projects*	638,485	506,163	446,823

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	31 December 2019	31 December 2018	31 December 2017
Loans collateralised by cash	219,611	360,071	302,871
Loans collateralised by pledge of corporate shares	166,694	167,676	108,995
Loans collateralised by pledge of vehicles	72,266	43,701	29,956
Loans collateralised by mixed types of collateral	62,149	63,259	63,607
Loans collateralised by pledge of inventories	39,357	33,662	92,997
Loans collateralised by pledge of equipment	10,348	15,598	36,643
Loans collateralised by pledge of agricultural products	7,463	7,359	7,413
Unsecured loans	474,813	387,873	413,078
	4,161,163	3,890,872	3,568,263
Less – Allowance for expected credit losses (Note 23)/(2017: Allowance for loan impairment losses)	(408,718)	(409,793)	(317,161)
Loans to customers	3,752,445	3,481,079	3,251,102

*These loans are collateralised by cash to be received in the future from the employees of companies within the framework of salary projects.

Loans are granted to the following sectors:

	31 December 2019	%	31 December 2018	%	31 December 2017	%
Retail loans:						
- consumer loans	810,438	19%	715,362	18%	679,674	16%
- mortgage loans	256,053	6%	273,469	7%	265,454	11%
	1,066,491		988,831		945,128	
Services	567,589	14%	650,353	17%	527,618	15%
Wholesale trade	427,760	10%	406,567	12%	376,064	11%
Real estate	293,923	7%	321,306	8%	174,221	5%
Retail trade	271,342	7%	218,503	6%	185,733	5%
Oil and gas	207,410	5%	153,837	3%	73,620	2%
Construction	190,814	5%	221,797	6%	282,412	8%
Metallurgy	172,245	4%	188,411	5%	153,761	4%
Mining	169,167	4%	73,017	2%	63,555	2%
Transportation	166,824	4%	151,569	3%	131,843	4%
Agriculture	139,110	3%	129,864	3%	150,186	4%
Communication	91,678	2%	40,080	1%	49,731	1%
Financial services	90,871	2%	62,124	2%	83,193	2%
Energy	67,655	2%	70,483	2%	95,838	3%
Food industry	65,799	2%	47,053	1%	78,417	2%
Machinery	44,199	1%	33,990	1%	33,377	1%
Hotel industry	41,879	1%	32,845	1%	63,241	2%
Chemical industry	30,312	1%	30,603	1%	38,036	1%
Light industry	19,204	0%	12,994	0%	17,255	0%
Other	36,891	1%	56,645	2%	45,034	1%
	4,161,163	100%	3,890,872	100%	3,568,263	100%

As at 31 December 2019, accrued interest on loans comprised KZT 165,444 million (31 December 2018 – KZT 200,539 million, 31 December 2017 – KZT 145,535 million).

During the years ended 31 December 2019, 2018 and 2017, the Group received financial and non-financial assets by taking possession of collateral it held as security. As at 31 December 2019, 2018 and 2017, such assets of KZT 36,304 million, KZT 46,355 million, and KZT 142,833 million, respectively, are included in assets held for sale.

As at 31 December 2019, 2018 and 2017, loans to customers included loans of KZT 351,440 million, KZT 417,619 million, and KZT 340,445 million, respectively, which terms were renegotiated. Otherwise, these loans would be past due or impaired.

12. Investment property

	2019	2018	2017
As at 1 January	58,868	37,517	30,146
Additions	13,843	20,508	6,543
Disposals	(25,769)	(4,955)	(2,411)
Transferred (to)/from non-current assets held for sale	(231)	6,378	475
Transferred (to)/from property and equipment	(529)	-	564
Gain/(loss) on revaluation of investment property	135	(419)	70

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	2019	2018	2017
Capitalised expenses	-	-	43
Acquisitions through business combination	-	-	2,044
Translation differences	241	(161)	43
As at 31 December	46,558	58,868	37,517

During the years ended 31 December 2019, 2018 and 2017, the Group foreclosed collateral it held as a security for loans to customers. As a result, the Group received investment property of KZT 13,843 million, KZT 20,508 million, and KZT 6,543 million, respectively.

As at 31 December 2019, 2018 and 2017, there was no investment property that was pledged as collateral for liabilities.

Investment property rental income is included in other income in the consolidated statement of profit or loss. For the years ended 31 December 2019, 2018 and 2017, investment property rental income earned was KZT 2,929 million, KZT 2,508 million, and KZT 1,760 million, respectively.

Operating expenses arising from the investment property that generated rental income during the years ended 31 December 2019, 2018 and 2017 were KZT 1,623 million, KZT 1,416 million, and KZT 671 million, respectively.

Investment property owned by the Group was revalued by independent appraisers as at 31 December 2019, 2018 and 2017. The fair value of the investment property was estimated based on the income approach and the comparative approach. When estimating the fair value of the properties, their current use is considered the best use and the most effective. There has been no change to the valuation technique during the year. This revaluation resulted in recognition of a revaluation gain in the consolidated statement of profit or loss for the years ended 31 December 2019 and 31 December 2017 – KZT 135 million and KZT 70 million, respectively; and loss in the consolidated statement of profit or loss for the year ended 31 December 2018 - KZT 419 million.

As at 31 December 2019, 2018 and 2017, the fair value measurements of the Group's investment property of KZT 46,558 million, KZT 58,868 million, and KZT 37,517 million, respectively, are categorised into Level 3 (description of measurement hierarchy is disclosed in Note 38).

13. Commercial property

	2019	2018	2017
As at 1 January	70,318	48,774	10,202
Additions	69,722	52,717	-
Acquisitions through business combination	-	-	41,963
Sale of property	(26,597)	(39,745)	(2,232)
Capitalised expenses	327	1,577	830
Transfers to original investors	(389)	(96)	(1,989)
Translation differences	-	7,091	-
As at 31 December	113,381	70,318	48,774

During the years ended 31 December 2019 and 2018, the Group foreclosed collateral it held as a security for loans to customers. As a result, the Group received commercial property of KZT 69,722 million and KZT 52,717 million, respectively.

14. Property and equipment

The movements in property and equipment are as follows:

	Buildings and construction	Vehicles	Computers and banking equipment	Construction in progress	Other	Right-of-use assets	Total
Revalued/initial cost:							
31 December 2018	105,951	3,520	26,090	63	20,691	-	156,315
Additions	1,334	760	6,859	775	2,469	3,183	15,380
Recognition of right-of-use asset on adoption on IFRS 16 (Note 3)	-	-	-	-	-	3,077	3,077
Disposals	(2,986)	(478)	(1,889)	(66)	(518)	(743)	(6,680)
Transferred from investment property	529	-	-	-	-	-	529
Reclassified as held for sale	(1,485)	-	-	(408)	(262)	-	(2,155)
Transfers*	-	-	336	-	(336)	-	-
Translation differences	(111)	2	52	-	68	-	11
31 December 2019	103,232	3,804	31,448	364	22,112	5,517	166,477

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	Buildings and construction	Vehicles	Computers and banking equipment	Construction in progress	Other	Right-of-use assets	Total
Accumulated depreciation:							
31 December 2018	881	1,598	13,931	-	8,918	-	25,328
Charge	1,896	444	4,103	-	1,668	1,162	9,273
Disposals	(272)	(406)	(1,756)	-	(488)	(112)	(3,034)
Transfers*	-	-	44	-	(44)	-	-
Translation differences	18	(1)	(8)	-	34	5	48
31 December 2019	2,523	1,635	16,314	-	10,088	1,055	31,615
Net book value:							
31 December 2019	100,709	2,169	15,134	364	12,024	4,462	134,862

	Buildings and construction	Vehicles	Computers and banking equipment	Construction in progress	Other	Total
Revalued/initial cost:						
31 December 2017	112,393	2,994	26,746	118	17,119	159,370
Additions	1,348	833	3,223	474	1,777	7,655
Revaluation	(5,424)	-	(47)	-	(106)	(5,577)
Disposals	(2,855)	(321)	(1,557)	(207)	(731)	(5,671)
Transfers*	93	-	(2,386)	(322)	2,615	-
Translation differences	396	14	111	-	17	538
31 December 2018	105,951	3,520	26,090	63	20,691	156,315
Accumulated depreciation:						
31 December 2017	1,766	1,554	12,137	-	6,229	21,686
Charge	1,583	352	4,261	-	1,817	8,013
Disposals	(97)	(316)	(1,434)	-	(266)	(2,113)
Write-off at revaluation	(2,384)	-	-	-	-	(2,384)
Transfers*	(28)	-	(1,110)		1,138	-
Translation differences	41	8	77	-	-	126
31 December 2018	881	1,598	13,931	-	8,918	25,328
Net book value:						
31 December 2018	105,070	1,922	12,159	63	11,773	130,987

	Buildings and construction	Vehicles	Computers and banking equipment	Construction in progress	Other	Total
Revalued/initial cost:						
31 December 2016	77,854	2,754	24,773	1	16,694	122,076
Additions	777	483	1,607	394	2,454	5,715
Disposals	(550)	(619)	(8,032)	(277)	(2,282)	(11,760)
Write-off at revaluation	-	-	(5)	-	(1)	(6)
Transferred to investment property	(564)	-	-	-	-	(564)
Reclassified as held for sale	(3,239)	(102)	(609)	-	(960)	(4,910)
Acquisition through business combination	38,052	441	8,489	-	2,027	49,009
Impairment	(88)	-	(3)	-	(70)	(161)
Transfers*	-	32	493	-	(807)	(282)
Translation differences	151	5	33	-	64	253
31 December 2017	112,393	2,994	26,746	118	17,119	159,370
Accumulated depreciation:						
31 December 2016	484	1,645	17,041	-	8,009	27,179
Charge	1,304	359	2,987	-	1,488	6,138
Disposals	(7)	(432)	(7,958)	-	(2,137)	(10,534)
Write-off at revaluation	-	-	(5)	-	(1)	(6)
Reclassified as held for sale	(35)	(51)	(389)	-	(500)	(975)
Transfers*	-	29	431	-	(677)	(217)
Translation differences	20	4	30	-	47	101
31 December 2017	1,766	1,554	12,137	-	6,229	21,686
Net book value:						
31 December 2017	110,627	1,440	14,609	118	10,890	137,684

*Transfers to/from Other assets.

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The Group's revaluation policy requires the entire asset class of buildings and construction to be revalued every three years. In the event of significant changes in specific market or property indicators, the Group may opt to perform revaluations more regularly.

The Group had its buildings and properties revalued during 2018 by independent appraisers. The independent appraisers used three approaches to identify the fair value of the property and equipment - the income approach with the income capitalisation method, the comparative approach, using market information to identify the fair value of buildings and structures under active market conditions, and the cost approach when no active market existed for items subject to revaluation.

As at 31 December 2019, the fair value measurements of the Group's buildings and construction, are categorised into Level 2 and Level 3, in the amount of KZT 88,695 million and KZT 12,151 million, respectively (31 December 2018: KZT 92,427 million and KZT 12,643 million, respectively, 31 December 2017: KZT 75,562 million and KZT 35,065 million, respectively). A description of the measurement hierarchy is disclosed in Note 38.

As at 31 December 2019, the total fair value of buildings and construction was KZT 100,846 million. As at 31 December 2019, the carrying amount of property and equipment that would have been recognised had the assets been carried under the cost model is KZT 97,881 million.

15. Intangible assets

The movements in intangible assets are as follows:

	Software	Licensing agreements for the right to use the software	Customer deposit intangibles	Other intangible assets	Total
Cost:					
31 December 2016	13,119	5,403	2,226	161	20,909
Additions	1,191	234	-	1,054	2,479
Disposals	(26)	(159)	-	(58)	(243)
Transfers	815	(19)	-	(796)	-
Reclassified as held for sale	(2,530)	-	(2,226)	-	(4,756)
Acquisition through business combination	1,402	1,033	-	764	3,199
Translation differences	28	4	-	2	34
31 December 2017	13,999	6,496	-	1,127	21,622
Additions	1,687	1,314	-	29	3,030
Disposals	(3,643)	(711)	-	-	(4,354)
Transfers	80	(80)	-	-	-
Translation differences	147	23	-	14	184
31 December 2018	12,270	7,042	-	1,170	20,482
Additions	2,743	430	-	424	3,597
Disposals	(806)	(49)	-	(40)	(895)
Translation differences	(46)	88	-	(1)	41
31 December 2019	14,161	7,511	-	1,553	23,225
Accumulated amortisation:					
31 December 2016	8,527	2,261	931	11	11,730
Charge	3,313	180	-	61	3,554
Disposals	(25)	(41)	-	-	(66)
Reclassified as held for sale	(933)	-	(931)	-	(1,864)
Translation differences	18	(1)	-	-	17
31 December 2017	10,900	2,399	-	72	13,371
Charge	2,618	276	-	22	2,916
Disposals	(3,625)	(653)	-	(23)	(4,301)
Transfers	3	(3)	-	-	-
Translation differences	56	5	-	-	61
31 December 2018	9,952	2,024	-	71	12,047
Charge	1,616	583	-	124	2,323
Disposals	(804)	(46)	-	(32)	(882)
Translation differences	(15)	31	-	-	16
31 December 2019	10,749	2,592	-	163	13,504
Net book value:					
31 December 2017	3,099	4,097	-	1,055	8,251
31 December 2018	2,318	5,018	-	1,099	8,435
31 December 2019	3,412	4,919	-	1,390	9,721

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16. Investments in associate

Significant associate of the Group accounted for using the equity method as at reporting date is set out below:

		Proportion of ownership interest and voting rights held by the Group	
Name	Principal activity	Place of incorporation and principal place of business	31 December 2019 and 2018
JSC Altyn Bank	Bank	Kazakhstan	40%

Summarised financial information in respect of the Group's investment in associate is set out below.

	31 December 2019	31 December 2018
Total assets	523,956	443,036
Total liabilities	467,199	402,018
Net assets	56,757	41,018

	31 December 2019	From 24 April 2018 until 31 December 2018
Interest income	34,075	19,055
Net profit	14,356	7,248
Other comprehensive income/(loss) for the period	1,382	(419)
Total comprehensive income for the period	15,738	6,559
Dividends received from associate during the period	-	-

Reconciliation of the above summarised financial information to the carrying amount of the interest in JSC Altyn Bank recognised in the consolidated financial statements:

	31 December
Acquisition cost	17,705
The Group's share of the associate's profit	2,899
Share of other comprehensive loss of associate	(167)
Dividend received from associate	-
Carrying amount of the Group's interest in JSC Altyn Bank - 2018:	20,437
The Group's share of the associate's profit	5,742
Share of other comprehensive income of associate	553
Dividend received from associate	-
Carrying amount of the Group's interest in JSC Altyn Bank - 2019:	26,732

17. Assets classified as held for sale

After the default of some counterparties on loans to customers, the Group recognised the property pledged as collateral for those loans as assets held for sale at fair value. The assets have been subsequently measured at the lower of fair value less disposal costs or the carrying value, as the Group's management of the appropriate level committed to a plan to sell the assets and an active programme to locate a buyer and complete the plan was initiated.

Assets held for sale comprised the following:

	31 December 2019	31 December 2018	31 December 2017
Land plots	23,613	21,429	114,267
Real estate	22,139	34,541	43,290
Movable property	14	159	3,403
Assets classified as held for sale related to JSC Altyn Bank	-	-	391,445
Total assets classified as held for sale	45,766	56,129	552,405
Liabilities directly associated with assets classified as held for sale	-	-	334,627

In June 2018, the Group performed an independent valuation of its assets held for sale and based on the results recognised an impairment loss of KZT 23,240 million.

In October 2017, the Group performed an independent valuation of its assets held for sale and based on the results recognised an impairment loss of KZT 4,978 million.

Despite the Group actively marketing these assets for sale, the majority have not been sold within a short timeframe. However, the management remains committed to the sale of these assets. As the assets are carried at a price not exceeding the current fair value less costs to sell, they continued to be classified as held for sale at the end of 2019, 2018 and 2017.

The fair value of the Group's non-current assets held for sale was determined by independent appraisers. Income approach, comparative approach and cost-based approach were used to estimate the fair value of those non-current assets. To estimate the fair value of the properties, the highest and best use of the properties is their current use. There has been no change to the valuation technique during the year.

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Details of the Group's assets held for sale and information about the fair value hierarchy as at 31 December 2019, 2018 and 2017 are as follows:

	Level 2	Level 3
31 December 2017		
Land plots	-	114,267
Real estate	23,657	19,633
Movable property	-	3,403
31 December 2018		
Land plots	-	21,429
Real estate	14,516	20,025
Movable property	-	159
31 December 2019		
Land plots	-	23,613
Real estate	12,806	9,333
Movable property	-	14

18. Insurance assets and liabilities

Insurance assets comprised the following:

	31 December 2019	31 December 2018	31 December 2017
Unearned reinsurance premium	19,818	17,224	17,893
Reinsurers' share of provisions	42,234	34,270	8,987
	62,052	51,494	26,880
Premiums receivable	19,957	14,157	13,282
Insurance assets	82,009	65,651	40,162

Insurance liabilities comprised the following:

	31 December 2019	31 December 2018	31 December 2017
Reserves for insurance claims	173,052	134,802	99,597
Gross unearned insurance premium reserve	36,349	32,952	29,172
	209,401	167,754	128,769
Payables to reinsurers and agents	14,301	14,687	10,774
Insurance liabilities	223,702	182,441	139,543

Insurance risk

The Group establishes underwriting guidelines and limits, which stipulate the approval process for risks and their limits. These limits are being continuously monitored. The Group's direct insurance business is spread throughout the Republic of Kazakhstan. The Group's reinsurance portfolio is diversified in terms of geographical spread and in terms of lines of business.

Claims management risk

The risk that claims are handled or paid inappropriately is managed using a range of IT system controls and manual processes conducted by experienced staff. These, together with a range of detailed policies and procedures, ensure that all claims are handled in a timely, appropriate and accurate manner.

Reinsurance risk

Reinsurance is used to protect against the impact of major catastrophic events or unforeseen volumes of, or adverse trends in, large individual claims and to transfer risk that is outside the Group's current risk appetite.

Reinsurance of risk above the Group's appetite is only effective if the reinsurance premium is economic and the counterparty is financially secure.

The Group evaluates the financial strengths of its reinsurers and monitors the concentration of credit risks arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimise its exposure to significant losses from reinsurer insolvencies.

Reserving risk

There is a risk that reserves are assessed incorrectly and there are not enough funds to pay or handle claims as they fall due. To estimate insurance and reinsurance liabilities, the Group uses actuarial methods and assumptions set by the NBRK.

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Credit risk in respect to insurance

The Group is exposed to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one debtor, or groups of debtors and geographical segments. Limits on the level of credit risk by a debtor and reinsurer are approved by the NBRK on a regular basis. Such risks are monitored continuously and are subject to an annual or more frequent reassessment.

The movements on claims reserves for the years ended 31 December 2019, 2018 and 2017, were as follows:

	2019	2018	2017
Reserves for claims, beginning of the year	134,802	99,597	33,731
Reserves for claims, reinsurance share, beginning of the year	(34,270)	(8,987)	(2,294)
Net reserves for claims, beginning of the year	100,532	90,610	31,437
Plus claims incurred	84,637	59,986	48,615
Less claims paid	(54,351)	(50,064)	(27,282)
Plus acquisition of reserves through business combination	-	-	37,840
Net reserves for claims, end of the year	130,818	100,532	90,610
Reserves for claims, reinsurance share, end of the year	42,234	34,270	8,987
Reserves for claims, end of the year	173,052	134,802	99,597

The movements on unearned insurance premium reserve for the years ended 31 December 2019, 2018 and 2017, were as follows:

	2019	2018	2017
Gross unearned insurance premium reserve, beginning of the year	32,952	29,172	23,120
Unearned insurance premium reserve, reinsurance share, beginning of the year	(17,224)	(17,893)	(15,519)
Net unearned insurance premium reserve, beginning of the year	15,728	11,279	7,601
Change in unearned insurance premium reserve	3,397	3,780	6,052
Change in unearned insurance premium reserve, reinsurance share	(2,594)	669	(2,374)
Net change in unearned insurance premium reserve	803	4,449	3,678
Net unearned insurance premium reserve, end of the year	16,531	15,728	11,279
Unearned insurance premium reserve, reinsurance share, end of the year	19,818	17,224	17,893
Gross unearned insurance premium reserve, end of the year	36,349	32,952	29,172

19. Other assets

Other assets comprise:

	31 December 2019	31 December 2018	31 December 2017
Other financial assets:			
Debtors on banking activities	70,541	61,321	33,084
Debtors on non-banking activities	29,006	12,380	13,037
Finance lease receivables	21,514	13,193	-
Accrued commission income	5,168	5,116	4,895
Other	71	33	363
	126,300	92,043	51,379
Less – Allowance for expected credit losses (Note 23)/(2017: Allowance for impairment)	(23,876)	(16,325)	(5,921)
	102,424	75,718	45,458
Other non-financial assets:			
Advances for taxes other than income tax	6,256	3,164	3,767
Prepayments for investment property	5,813	6,317	11,816
Inventory	2,268	2,332	1,335
Prepayments for property and equipment	1,286	193	1,679
Other investments	884	683	453
Other	2,682	2,741	3,621
	19,189	15,430	22,671
	121,613	91,148	68,129

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20. Amounts due to customers

Amounts due to customers include the following:

	31 December 2019	31 December 2018	31 December 2017
Recorded at amortised cost:			
Term deposits:			
Individuals	2,743,019	2,918,070	2,691,886
Legal entities	1,441,930	1,374,592	1,705,971
	4,184,949	4,292,662	4,397,857
Current accounts:			
Legal entities	1,713,267	1,756,748	1,321,530
Individuals	508,197	477,520	412,363
	2,221,464	2,234,268	1,733,893
	6,406,413	6,526,930	6,131,750

As at 31 December 2019, the Group's ten largest groups of related customers accounted for approximately 27% of the total amounts due to customers (31 December 2018 – 27%;

31 December 2017 – 32%), where each group of related customers represents customers related to each other within that group.

As at 31 December 2019, amounts due to customers included amounts held as collateral of KZT 72,779 million (31 December 2018 – KZT 67,515 million, 31 December 2017 – KZT 83,501 million).

Management believes that in the event of withdrawal of funds, the Group would be given sufficient notice so as to realise its liquid assets to enable repayment.

	31 December 2019	%	31 December 2018	%	31 December 2017	%
Individuals and entrepreneurs	3,251,216	51%	3,395,590	52%	3,104,249	51%
Oil and gas	581,486	9%	669,608	10%	712,840	12%
Other consumer services	423,489	7%	322,783	5%	208,610	4%
Financial sector	420,979	7%	425,352	7%	90,204	2%
Wholesale trade	345,563	5%	254,518	4%	199,766	3%
Construction	234,289	4%	275,939	4%	138,326	2%
Transportation	215,466	3%	179,522	3%	125,828	2%
Healthcare and social services	211,418	3%	211,571	3%	129,962	2%
Government	171,331	3%	101,789	2%	489,422	8%
Insurance and pension funds activity	76,594	1%	88,377	1%	17,779	0%
Metallurgy	70,805	1%	67,572	1%	358,939	6%
Communication	61,178	1%	55,201	1%	81,260	1%
Education	44,694	0%	47,449	1%	86,508	1%
Energy	40,753	1%	64,731	1%	44,568	1%
Other	257,152	4%	366,928	6%	343,489	6%
	6,406,413	100%	6,526,930	100%	6,131,750	100%

21. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	31 December 2019	31 December 2018	31 December 2017
Recorded at amortised cost:			
Loans and deposits from Kazakhstan banks (incl. loans under repurchase agreements)	127,237	10,964	105,166
Loans from JSC Entrepreneurship Development Fund DAMU	91,001	86,390	79,971
Loans from JSC Development Bank of Kazakhstan	45,245	38,491	37,434
Loans and deposits from OECD based banks	18,946	295	383
Correspondent accounts	14,917	23,990	23,953
Loans and deposits from non-OECD based banks	6,005	2,329	2,227
Loans from other financial institutions	2,417	2,813	2,148
Loans from JSC National Managing Holding KazAgro	197	3,107	3,869
	305,965	168,379	255,151

As at 31 December 2019, loans from JSC Entrepreneurship Development Fund DAMU ("DAMU") included long-term loans of KZT 90,558 million at a 1.0%-4.5% interest rate maturing in 2021-2035 with an early recall option (31 December 2018 – KZT 85,956 million, 31 December 2017 – KZT 79,556 million). These loans were received in accordance with the Government program ("the Program") to finance small and medium enterprises ("SME") operating in certain industries. According to the

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loan agreements between DAMU and the Group, the Group is responsible to extend loans to SME borrowers, eligible to participate in the Program, up to 10 years at a 6.0% interest rate.

As at 31 December 2019, loans from JSC Development Bank of Kazakhstan ("DBK") included long-term loans of KZT 30,921 million (31 December 2018 – KZT 31,171 million, 31 December 2017 – KZT 32,012 million) at a 2.0% interest rate maturing in 2029-2037, to finance corporate enterprises operating in manufacturing industries, as well as a long-term loan of KZT 14,175 million (31 December 2018 – KZT 7,175 million, 31 December 2017 – KZT 5,300 million) at a 1.0% interest rate maturing in 2035, to finance the purchase of cars by the Group's retail customers. According to the loan agreement between DBK and the Group, the Group is responsible to extend loans to corporate borrowers, eligible to participate in the Program, up to 10 years at a 6.0% interest rate, and to retail borrowers – up to 5 years at a 4.0% interest rate.

As at 31 December 2019, loans from JSC National Managing Holding KazAgro ("KazAgro") included a long-term loan of KZT 197 million at a 3.0% interest rate maturing in 2022 (31 December 2018 – KZT 3,103 million, 31 December 2017 – KZT 3,865 million). The loan was received for restructuring/refinancing of loan/leasing debts of the Bank's borrowers operating in the agricultural sector, originating before 1 January 2014 in connection with working capital loans, loans for the purchase of fixed assets, loans for construction-and-assembling works and loans for leasing of agriculture and technology equipment. Restructuring/refinancing of loan/leasing obligations is provided at an interest rate of 6.0% - 7.0% for the period not later than 31 December 2022.

The management of the Group believes that there are no other similar financial instruments and due to their specific nature, the loans from DAMU, KazAgro and DBK represent separate segments in corporate, SME and retail lending. As a result, the loans from DAMU, KazAgro and DBK were received in an orderly transaction and as such have been recorded at fair value at the recognition date, which was determined to be the cash consideration transferred to the customers.

Interest rates and maturities of amounts due to credit institutions are as follows:

	31 December 2019		31 December 2018		31 December 2017	
	Interest rate, %	Maturity, year	Interest rate, %	Maturity, Year	Interest rate, %	Maturity, year
Loans and deposits from Kazakhstan banks (incl. loans under repurchase agreements)	9.0%-10.0%	2020	8.0%-9.0%	2019	1.0%-9.5%	2018
Loans from JSC Entrepreneurship Development Fund DAMU	1.0%-4.5%	2021-2035	1.0%-5.5%	2019-2035	1.0%-4.5%	2018-2035
Loans from JSC Development Bank of Kazakhstan	1.0%-2.0%	2029-2037	1.0%-7.9%	2019-2037	1.0%-7.9%	2019-2035
Loans and deposits from OECD based banks	3.6%	2020	4.2%	2019	3.1%	2018
Loans and deposits from non-OECD based banks	1.0%-8.0%	2020-2024	1.0%-8.0%	2019-2023	1.0%-9.5%	2018-2022
Loans from other financial institutions	4.0%-10.0%	2023-2026	4.0%-10.0%	2023-2026	10.0%	2023
Loans from JSC National Managing Holding KazAgro	3.0%	2022	3.0%	2022	3.0%	2022

The fair value of assets pledged (Note 9) and the carrying value of loans included in loans and deposits from Kazakhstan banks under repurchase agreements as at 31 December 2019, 2018 and 2017, are as follows:

	31 December 2019		31 December 2018		31 December 2017	
	Fair value of collateral	Carrying amount of loans	Fair value of collateral	Carrying amount of loans	Fair value of collateral	Carrying amount of loans
Treasury bills of the Ministry of Finance of Kazakhstan	108,203	105,524	465	442	92,719	90,046
NBRK Notes	-	-	4,249	4,124	-	-
	108,203	105,524	4,714	4,566	92,719	90,046

Details of transferred financial assets that are not derecognised in their entirety as at 31 December 2019, 2018 and 2017 are disclosed below.

Loans under repurchase agreements are used by the Group to provide current cash flows in KZT within the Group's operating activities. The Group regularly uses this type of instrument to attract short-term liquidity and plans to continue raising funds through loans under repurchase agreements when necessary.

The Group has determined that it retains substantially all the risks and rewards of these securities, which include credit risk and market risk, and therefore it has not derecognised them. In addition, it recognises a financial liability for cash received as collateral.

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	Financial assets at fair value through other comprehensive income
	(Note 9)
As at 31 December 2019:	
Carrying amount of transferred assets	108,203
Carrying amount of associated liabilities	105,524
As at 31 December 2018:	
Carrying amount of transferred assets	4,714
Carrying amount of associated liabilities	4,566
As at 31 December 2017:	
Carrying amount of transferred assets	92,719
Carrying amount of associated liabilities	90,046

In accordance with the contractual terms of the loans from certain OECD based banks, the Group is required to maintain certain financial ratios, particularly with regard to capital adequacy. Certain of the Group's outstanding financing agreements include covenants restricting the Group's ability to create security interests over its assets. Should the Group default under these covenants, this could result in cross-accelerations and cross-defaults under the terms of the Group's other financing arrangements.

The Group's management believes that as at 31 December 2019, 2018 and 2017, the Group was in compliance with the covenants of the agreements the Group has with the trustees and holders of the notes.

22. Debt securities issued

Debt securities issued comprise:

	31 December 2019	31 December 2018	31 December 2017
Recorded at amortised cost:			
Subordinated debt securities issued:			
KZT denominated bonds, fixed rate	81,463	79,241	77,330
KZT denominated bonds, indexed to inflation	-	3,492	12,976
USD denominated bonds, floating rate	-	-	18,776
Total subordinated debt securities outstanding	81,463	82,733	109,082
Unsubordinated debt securities issued:			
USD denominated bonds	422,786	428,549	464,435
KZT denominated bonds	330,197	389,509	388,526
RUB denominated bonds	-	-	353
Total unsubordinated debt securities outstanding	752,983	818,058	853,314
Total debt securities outstanding	834,446	900,791	962,396

On 14 November 2018, the Group repaid subordinated bonds issued in November 2008 with an initial placement amount of KZT 10,000 million. The repayment was made out of the Group's own funds.

On 1 March 2019, the Group made a partial prepayment on its USD 750,000,000 Eurobond issue bearing 5.5% coupon rate due 2022. The partial prepayment was made for USD 200,000,000 together with the interest accrued, but unpaid.

In April 2019, the Group placed senior unsecured coupon bonds through the Astana International Financial Center with a nominal value of USD 180,500,000 for a period of 36 months and at a rate of 3% per annum.

On 26 April 2019, the Group redeemed subordinated bonds issued in April 2009, with an initial placement amount of KZT 3,530 million. The repayment was made from the Group's own funds.

On 14 November 2019, the Group redeemed coupon bonds issued in November 2014 with an initial placement amount of KZT 59,889 million. The repayment was made from the Group's own funds.

The coupon rates and maturities of these debt securities issued are as follows:

	31 December 2019		31 December 2018		31 December 2017	
	Coupon rate, %	Maturity, year	Coupon rate, %	Maturity, year	Coupon rate, %	Maturity, year
Subordinated debt securities issued:						
KZT denominated bonds, fixed rate	9.5%	2025	9.5%	2025	9.5%	2025
KZT denominated bonds, indexed to inflation	-	-	1%+Inflation rate	2019	1%+Inflation rate	2018-2019
USD denominated bonds, floating rate	-	-	-	-	Libor+6.2%	perpetual
Unsubordinated debt securities issued:						
USD denominated bonds	3.0%-7.3%	2021-2022	5.5%-12.0%	2021-2022	5.5%-8.5%	2018-2022

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	31 December 2019		31 December 2018		31 December 2017	
	Coupon rate, %	Maturity, year	Coupon rate, %	Maturity, year	Coupon rate, %	Maturity, year
KZT denominated bonds	7.5%-8.8%	2022-2025	7.5%-8.8%	2019-2025	7.5%-8.8%	2019-2025
RUB denominated bonds	-	-	-	-	5.5%-12.0%	2019

As at 31 December 2019, accrued interest on debt securities issued was KZT 20,374 million (as at 31 December 2018 – KZT 20,624 million, as at 31 December 2017 – KZT 10,754 million).

Subordinated securities are unsecured obligations of the Group and are subordinated in right of payments to all present and future senior indebtedness and certain other obligations of the Group. Coupon payments on debt securities issued are payable on a semi-annual and an annual basis.

In accordance with the terms of the USD denominated bonds, the Group is required to maintain certain financial covenants, particularly with regard to its capital adequacy, limitations on transactions at less than fair market value and payment of dividends. Furthermore, the terms of the USD denominated bonds include covenants restricting the Group's ability to create security interests over its assets. Should the Group default under these covenants, this could result in cross-accelerations and cross-defaults under the terms of the Group's other financing arrangements. The Group's management believes that as at 31 December 2019, 2018 and 2017, the Group was in compliance with the covenants of the agreements the Group has with trustees and holders of the notes.

Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

			Non-cash changes		
	1 January 2019	Financing cash flows	Foreign exchange movement	Changes in amortised cost	31 December 2019
Debt securities issued	900,791	(82,261)	(1,573)	17,489	834,446

			Non-cash changes		
	1 January 2018	Financing cash flows	Foreign exchange movement	Changes in amortised cost	31 December 2018
Debt securities issued	962,396	(167,463)	77,462	28,396	900,791

			Non-cash changes			
	1 January 2017	Financing cash flows	Acquisition of subsidiary	Foreign exchange movement	Changes in amortised cost	31 December 2017
Debt securities issued	584,933	(197,892)	579,662	(2,671)	(1,636)	962,396

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23. Allowances for expected credit losses

The movements in accumulated allowances for expected credit losses of financial assets were as follows:

	Loans to customers (Note 11)				Other assets (Note 19)			Financial assets at fair value through other comprehensive income* (Note 9,10)			Cash and cash equivalents (Note 5)	Amounts due from credit institu-tions (Note 8)	
	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 1	TOTAL
1 January 2019	(43,516)	(28,716)	(322,917)	(14,644)	(1,046)	(1,696)	(13,583)	(1,101)	(21)	(1,881)	(9)	(232)	(429,362)
Transfer to Stage 1	(13,930)	7,727	6,203	-	-	-	-	-	-	-	-	-	-
Transfer to Stage 2	9,109	(23,780)	14,671	-	-	-	-	-	-	-	-	-	-
Transfer to Stage 3	49,988	4,163	(54,151)	-	-	-	-	-	-	-	-	-	-
Changes in models/ risk parameters**	17,469	(7,252)	(13,953)	(3,894)	51	(806)	(1,312)	35	21	(20)	(12)	69	(9,604)
New originations or purchases of financial assets**	(68,134)	-	-	-	-	-	-	(338)	-	-	-	-	(68,472)
Derecognition of financial assets**	12,299	1,663	31,512	2,340	-	-	-	208	-	-	-	-	48,022
Recoveries of allowances on previously written-off assets	-	-	(11,457)	(9,874)	-	-	(7,857)	-	-	-	-	-	(29,188)
Write-offs	-	-	41,867	1,687	187	-	2,537	-	-	866	-	-	47,144
Foreign exchange differences and other movements	410	398	5,391	603	(1)	-	(350)	11	-	-	1	(4)	6,459
31 December 2019	(36,305)	(45,797)	(302,834)	(23,782)	(809)	(2,502)	(20,565)	(1,185)	-	(1,035)	(20)	(167)	(435,001)
Total				(408,718)			(23,876)			(2,220)	(20)	(167)	(435,001)

	Loans to customers (Note 11)				Other assets (Note 19)			Financial assets at fair value through other comprehensive income* (Note 9,10)			Cash and cash equivalents (Note 5)	Amounts due from credit institu-tions (Note 8)	
	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 1	TOTAL
1 January 2018	(34,207)	(31,973)	(210,834)	(78,155)	(952)	(3,056)	(3,738)	(1,223)	(4)	(1,480)	(10)	(334)	(365,966)
Transfer to Stage 1	(10,909)	6,718	4,191	-	(2)	2	-	(4)	4	-	-	-	-
Transfer to Stage 2	1,522	(1,602)	80	-	25	(132)	107	8	(8)	-	-	-	-
Transfer to Stage 3	4,800	4,333	(9,133)	-	-	376	(376)	-	-	-	-	-	-
Changes in models/ risk parameters**	9,567	(6,713)	(178,625)	27,305	(224)	281	(14,600)	636	(12)	1	2	151	(162,231)
New originations or purchases of financial assets**	(21,302)	-	-	-	-	-	-	(338)	-	-	-	-	(21,640)

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	Loans to customers (Note 11)				Other assets (Note 19)			Financial assets at fair value through other comprehensive income* (Note 9,10)			Cash and cash equivalents (Note 5)	Amounts due from credit institu-tions (Note 8)	
Derecognition of financial assets**	8,103	2,491	103,151	38,120	-	-	-	11	-	-	-	-	151,876
Recoveries of allowances on previously written-off assets	-	-	(108,298)	(2,570)	-	-	-	-	-	-	-	-	(110,868)
Write-offs	-	-	104,690	7,068	9	-	3,866	17	-	355	-	-	116,005
Foreign exchange differences and other movements	(1,090)	(1,970)	(28,139)	(6,412)	98	833	1,158	(208)	(1)	(757)	(1)	(49)	(36,538)
31 December 2018	(43,516)	(28,716)	(322,917)	(14,644)	(1,046)	(1,696)	(13,583)	(1,101)	(21)	(1,881)	(9)	(232)	(429,362)
Total				(409,793)			(16,325)			(3,003)	(9)	(232)	(429,362)

*Including debt securities at amortised cost (Note 10).

** FS line "Credit loss expense" in the consolidated statement of profit or loss is comprised from "Changes in models/ risk parameters", "New originations or purchases of financial assets" and "Derecognition of financial assets".

	Loans to customers (Note 11)	Amounts due from credit institutions (Note 8)	Available-for-sale investment securities (Note 9)	Other assets (Note 19)	Total
31 December 2016	(284,752)	-	(3,884)	(4,516)	(293,152)
Additional provisions recognised	(334,456)	(200)	(495)	(14,250)	(349,401)
Recoveries of provisions	269,246	99	1,636	11,118	282,099
Write-offs	37,215	101	388	2,064	39,768
Disposal of a subsidiary	2,603	-	-	7	2,610
Foreign exchange differences	(7,017)	-	(98)	(344)	(7,459)
31 December 2017	(317,161)	-	(2,453)	(5,921)	(325,535)

During the years ended 31 December 2019, 2018 and 2017, the Group has written-off loans of KZT 43,554 million, KZT 111,758 million, and KZT 37,215 million, respectively, without this being considered as forgiveness of the loan, therefore, for tax purposes, such write-offs are not subject to corporate income tax.

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Provision represents provisions against letters of credit and guarantees issued.
The movements in provisions were as follows:

	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
At the beginning of the period	(152)	(1,061)	(1,333)	(2,546)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	38	(38)	-
(Additional provisions recognized)/recoveries	(208)	194	(1,294)	(1,308)
Foreign exchange differences	(5)	(9)	(56)	(70)
At the end of the year	(365)	(838)	(2,721)	(3,924)

	31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
At the beginning of the period	(129)	(13,539)	(4,783)	(18,451)
Transfer to Stage 1	(400)	397	3	-
Transfer to Stage 2	-	(629)	629	-
Transfer to Stage 3	-	11,598	(11,598)	-
Recoveries	380	1,121	14,450	15,951
Foreign exchange differences	(3)	(9)	(34)	(46)
At the end of the year	(152)	(1,061)	(1,333)	(2,546)

	2017
At the beginning of the year	(987)
Provisions	(2,810)
Recoveries of provisions	4,547
Acquisition of a subsidiary	(17,336)
Disposal of a subsidiary	501
Write-offs	50
Foreign exchange differences	(63)
At the end of the year	(16,098)

24. Taxation

The Bank and its subsidiaries, other than OJSC Halyk Bank Kyrgyzstan, JSC Halyk Bank Georgia, CJSC Halyk Bank Tajikistan, JSCB Tenge Bank and JSC Commercial Bank Moskommertsbank, are subject to taxation in Kazakhstan. JSC Commercial Bank Moskommertsbank is subject to income tax in the Russian Federation. OJSC Halyk Bank Kyrgyzstan is subject to income tax in the Republic of Kyrgyzstan. JSC Halyk Bank Georgia is subject to income tax in Georgia. CJSC Halyk Bank Tajikistan is subject to income tax in the Republic of Tajikistan. JSCB Tenge Bank is subject to income tax in the Republic of Uzbekistan.

The income tax expense comprises:

	Year ended 31 December 2019	Year ended 31 December 2018	Year ended 31 December 2017
Current tax charge	56,466	24,881	38,817
Deferred income tax (benefit)/expense relating to origination and reversal of temporary differences	(20,492)	57,593	(13,219)
Income tax expense	35,974	82,474	25,598

Deferred income tax (benefit)/expense relating to temporary differences is as follows:

	Year ended 31 December 2019	Year ended 31 December 2018	Year ended 31 December 2017
Fair value of derivatives and financial assets at fair value through other comprehensive income	(19,330)	17,708	(14,608)
Property and equipment, accrued depreciation	240	(2,984)	1,676
Loans to customers, allowance for expected credit losses/allowance for impairment	(37)	(3,513)	(258)
Unused tax losses of the prior year recognised in the current year (2018: due to the legal merger)	-	45,271	-
Deferred tax related to acquisition through business combination	-	-	1,638
Other	(1,365)	1,111	(1,667)
Deferred income tax (benefit)/expense	(20,492)	57,593	(13,219)

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The tax rate for Kazakhstan companies was 20% during the years ended 31 December 2019, 2018 and 2017. Income on state and other qualifying securities is tax exempt.

The tax rates in the Russian Federation, the Republic of Kyrgyzstan, Georgia, the Republic of Tajikistan and the Republic of Uzbekistan are 20%, 10%, 15%, 23% and 20% respectively.

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on the Kazakhstan statutory rate of 20% with the reported income tax expense is as follows:

	Year ended 31 December 2019	Year ended 31 December 2018	Year ended 31 December 2017
Income before income tax expense	370,485	325,931	189,185
Statutory tax rate	20%	20%	20%
Income tax expense at the statutory rate	74,097	65,186	37,837
Tax-exempt interest income and other related income on state and other qualifying securities	(40,956)	(39,238)	(14,233)
Income of subsidiaries taxed at different rates	(174)	(117)	(299)
Non-deductible expenditures:			
- derecognition of unused tax losses*	-	45,271	-
- bonuses	3,193	2,294	-
- other provisions	331	1,334	609
- general and administrative expenses	614	298	202
- charity	-	-	328
Disposal of a subsidiary	-	2,856	-
Other	(1,131)	4,590	1,154
Income tax expense	35,974	82,474	25,598

Deferred tax assets and liabilities comprise:

	31 December 2019	31 December 2018	31 December 2017
Tax effect of deductible temporary differences:			
Bonuses accrued	3,083	2,908	3,246
Fair value of derivatives	3,424	2,781	1,334
Vacation pay accrual	609	554	474
Tax loss carry forward*	-	-	45,491
Other	67	97	2,439
Deferred tax asset	7,183	6,340	52,984
Tax effect of taxable temporary differences:			
Fair value adjustment on customer accounts	(42,191)	(42,951)	(43,633)
Property and equipment, accrued depreciation	(9,997)	(9,756)	(12,740)
Allowance for loans to customers	(370)	(406)	(3,920)
Fair value of derivatives and financial assets at fair value through other comprehensive income	-	(19,089)	(744)
Other	2	(3)	(219)
Deferred tax liability	(52,556)	(72,205)	(61,256)
Net deferred tax liability	(45,373)	(65,865)	(8,272)

*On 20 April 2018, at the Annual General Meeting of Shareholders of KKB and at the Joint General Meeting of Shareholders of the Bank and KKB, it was decided to carry out a voluntary reorganization of KKB in the form of a merger with the Bank. In June 2018, National Bank of the Republic of Kazakhstan, in its capacity as regulator of the banking system of Kazakhstan, granted its permission on the reorganization. In accordance with Kazakh tax legislation, in the event of a merger, tax losses incurred resulting from the creation of loan provisions cannot be transferred between legal entities. As a result, the deferred tax asset recognized by KKB, in relation to tax losses, cannot be transferred to the Bank, and therefore Bank has derecognized these deferred tax assets as at 31 December 2018.

Current income tax assets and liabilities comprise:

	31 December 2019	31 December 2018	31 December 2017
Current income tax refund receivable	1,704	34,478	15,320
Current income tax payable	(10,029)	(126)	(2,720)
Current income tax (liability)/asset	(8,325)	34,352	12,600

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The Group has offset deferred tax assets and liabilities on the consolidated statement of financial position where a right of offset existed. The amounts presented after offset comprise:

	31 December 2019	31 December 2018	31 December 2017
Deferred tax asset	197	323	517
Deferred tax liability	(45,570)	(66,188)	(8,789)
Net deferred tax liability	(45,373)	(65,865)	(8,272)

Kazakhstan and other countries where the Group operates currently have a number of laws related to various taxes imposed by both state and regional government authorities. Applicable taxes include value added tax, income tax, social taxes, and others. Implemented regulations are often unclear or nonexistent and few precedents have been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organisations; thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (for example, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges. These facts create substantially more significant tax risks in Kazakhstan than typically found in countries with more developed tax systems.

Commercial legislation of the countries where the Group operates, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a particular treatment, based on management's judgment of the Group's business activities, was to be challenged by the tax authorities, the Group may be assessed additional taxes, penalties and interest.

Such uncertainty may relate to the valuation of financial instruments and the market pricing of deals. Additionally, such uncertainty may relate to the valuation of temporary differences on the provision and recovery of the provision for impairment losses on loans to customers and receivables, as an underestimation of the taxable profit.

In Kazakhstan, tax years remain open for review by the tax authorities for five years. However, tax authorities may perform additional reviews, if considered necessary. In accordance with judicial rulings, the period of review can be altered, if the court acknowledges the fact of interdiction to conducting the tax review by the tax authorities.

Management believes that the Group is in compliance with the tax laws affecting its operations; however, the risk that relevant authorities could take differing positions with regard to interpretive issues remains.

Movements in net deferred tax liability:

	2019	2018	2017
Net deferred tax liability at the beginning of the year	65,865	8,272	22,350
Deferred tax (benefit)/expense	(20,510)	57,537	(13,441)
Deferred tax related to acquisition through business combination	-	-	(1,416)
Deferred tax related to disposal of a subsidiary	-	-	557
Credited to other comprehensive income at the date of property and equipment revaluation	18	56	222
Net deferred tax liability at the end of the year	45,373	65,865	8,272

25. Other liabilities

Other liabilities comprise:

	31 December 2019	31 December 2018	31 December 2017
Liabilities on other payments	26,167	952	-
Salary, bonuses and vacation accrual	19,243	17,256	18,240
Other prepayments received	8,144	3,767	2,369
Taxes payable other than income tax	5,394	5,218	4,088
Advances received related to commercial property	5,252	2,958	9,589
Lease liabilities	4,871	-	-
Creditors on non-banking activities	4,421	3,942	5,250
Payable for general and administrative expenses	2,083	1,183	1,994
Creditors on bank activities	1,266	1,617	7,539
Settlements on card transactions	-	1,119	4,318
Liabilities on preferred shares*	-	-	12,149
Others	201	943	883
Total other liabilities	77,042	38,955	66,419

* On 20 March 2018, KKB completed the exchange of its preferred shares to common shares under the conditions, procedures and terms approved by the Extraordinary General Shareholders' Meeting of KKB on 16 February 2018 inclusive of the partial buyback of shares upon the shareholders' request. A gain for KZT 592 million was recognized and included to the "Other income" line item in the consolidated statement of profit or loss.

Liability arising from continuing involvement represents obligations to JSC Mortgage Organization "Baspana" ("Operator") related to the state mortgage program "7-20-25" and other programs. In accordance with the conditions of this program, the Bank provides mortgage loans to borrowers

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and transfers rights of claim on loans to the Program Operator. In accordance with the program and trust management agreement, the Bank carries out trust management of transferred mortgage loans. The Bank is obliged to repurchase the rights of claims on transferred mortgage loans, when the loan principal amount and interest has an overdue of 90 days. Reverse repurchase is performed at the loan nominal value.

The Bank has determined that it neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset transferred; however, the Bank has determined that it retains control over the assets transferred and continues recognizing thereof to the extent of continuing involvement in the assets transferred. The extent of the Bank's continuing involvement is limited to maximum amount of the consideration received, that the Bank has to return as the Bank's continuing involvement takes a form of the guarantee on the asset transferred. As the Bank continues to recognize the asset to the extent of its continuing involvement in loans to customers, the Bank also recognizes the associated liability. As at 31 December 2019 and 2018, principal amount of these loans were KZT 26,167 million and KZT 952 million, respectively.

26. Equity

The number of shares authorised, issued and fully paid as at 31 December 2019, 2018 and 2017, were as follows:

	Share capital authorised	Share capital authorised and not issued	Fully paid and issued share capital	Share capital repurchased	Outstanding shares
31 December 2019: Common	25,000,000,000	(11,552,455,218)	13,447,544,782	(1,790,959,592)	11,656,585,190
31 December 2018: Common	25,000,000,000	(11,552,455,218)	13,447,544,782	(1,767,788,353)	11,679,756,429
31 December 2017: Common	25,000,000,000	(12,311,142,941)	12,688,857,059	(1,695,040,240)	10,993,816,819

All shares are KZT denominated. Movements of shares outstanding are as follows:

	Number of shares	Nominal (placement) amount
	Common	Common
31 December 2016	10,993,619,331	40,574
Purchase of treasury shares	(4,925,498)	(1,675)
Sale of treasury shares	5,122,986	562
31 December 2017	10,993,816,819	39,461
Issue of common shares	758,687,723	65,332
Purchases of treasury shares	(12,486,522)	(935)
Sale of treasury shares	6,721,311	1,119
Purchases of treasury shares due to the legal merger	(66,982,902)	(7,391)
31 December 2018	11,679,756,429	97,586
Purchases of treasury shares	(46,726,224)	(16,304)
Sale of treasury shares	23,554,985	13,111
31 December 2019	11,656,585,190	94,393

Common shares

As at 31 December 2019, 2018 and 2017, share capital comprised KZT 209,027 million, KZT 209,027 million and KZT 143,695 million, respectively. As at 31 December 2019, the Group held 1,790,959,592 shares of the Group's common shares as treasury shares for KZT 114,634 million (31 December 2018 – 1,767,788,353 for KZT 111,441 million, 31 December 2017 – 1,695,040,240 for KZT 104,234 million).

Each common share outstanding is entitled to one vote and dividends. Treasury shares are not entitled to any vote or dividends.

Dividends paid for the previous financial years were as follows:

	Paid in 2019 for the year ended 31 December 2018	Paid in 2018 for the year ended 31 December 2017	Paid in 2017 for the year ended 31 December 2016
Dividend paid per one common share	10.78	6.31	n/a

Share premium reserve

Share premium reserve represents an excess of contributions received over the nominal value of shares issued.

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27. Financial commitments and contingencies

The Group's financial commitments and contingencies comprise the following:

	31 December 2019	31 December 2018	31 December 2017
Guarantees issued	408,027	415,531	300,565
Commercial letters of credit	68,312	66,502	70,454
Commitments to extend credit	53,151	49,022	59,056
Financial commitments and contingencies	529,490	531,055	430,075
Less: cash collateral against letters of credit	(33,453)	(31,015)	(50,144)
Less: provisions (Note 23)	(3,924)	(2,546)	(16,098)
Financial commitments and contingencies, net	492,113	497,494	363,833

Guarantees issued represent bank guarantees issued by the Group by order of its clients, and which are in effect as at the reporting date. As at 31 December 2019, uncovered guarantees issued for the ten largest groups of customers/groups of customers accounted for 59% of the Group's total financial guarantees (31 December 2018 – 67%; 31 December 2017 – 46%) and represented 18% of the Group's total equity (31 December 2018 – 26%; 31 December 2017 – 15%).

Commercial letters of credit represent letters of credit issued by the Group by order of its clients, and under which, as at the reporting date, the payment has not yet been made. As at 31 December 2019, the ten largest unsecured letters of credit accounted for 52% of the Group's total commercial letters of credit (31 December 2018 – 55%; 31 December 2017 – 44%) and represented 3% of the Group's total equity (31 December 2018 – 3%; 31 December 2017 – 3%).

The Group requires collateral to support credit-related financial instruments, when it is deemed necessary. The Group typically requires collateral support unless it is determined to be not necessary through a review of the credit risk of the borrower or an analysis of other deposit accounts held by the Group. Collateral held varies, but may include deposits held with banks, government securities and other assets.

Capital commitments

As at 31 December 2019, the Group had capital expenditures commitments in respect of construction in progress for KZT 38 million (31 December 2018 – KZT 736 million; 31 December 2017 – KZT 2,480 million).

Operating lease commitments

There were no material operating lease commitments under irrevocable operating leases outstanding as at 31 December 2019, 2018 and 2017.

28. Net interest income

	Year ended 31 December 2019	Year ended 31 December 2018	Year ended 31 December 2017
Interest income:			
Loans to customers	449,120	433,270	343,796
Financial assets at fair value through other comprehensive income (IAS 39 – Available-for-sale investment securities)	109,171	103,383	129,637
Debt securities at amortised cost, net of allowance for expected credit losses	94,951	94,336	-
Amounts due from credit institutions and cash and cash equivalents	37,890	36,535	24,164
Other financial assets	10,218	8,175	-
Financial assets at fair value through profit or loss	8,954	6,342	8,731
Total interest income	710,304	682,041	506,328
Interest expense:			
Amounts due to customers	(216,588)	(246,223)	(191,715)
Debt securities issued	(82,800)	(84,126)	(61,729)
Other interest expense	(7,784)	-	-
Amounts due to credit institutions	(4,760)	(3,423)	(4,361)
Other financial liabilities	(394)	-	-
Total interest expense	(312,326)	(333,772)	(257,805)
Net interest income before credit loss expense	397,978	348,269	248,523

The total interest income calculated using the EIR method for financial assets at FVTOCI is KZT 109,171 million during the year 2019 (year 2018: KZT 103,383 million; year 2017: KZT 129,637 million) and for financial assets measured at amortised cost is KZT 592,179 million during the year 2019 (year 2018: KZT 572,316 million; year 2017: KZT 367,960 million). The total interest expense calculated using the EIR method for financial liabilities measured at amortised cost is KZT 312,326 million during the year 2019 (year 2018: KZT 333,772 million; year 2017: KZT 257,805 million).

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29. Fees and commissions

Fee and commission income is derived from the following sources:

	Year ended 31 December 2019	Year ended 31 December 2018	Year ended 31 December 2017
Plastic card operations	63,147	53,866	34,845
Bank transfers - settlements	15,878	16,456	14,395
Cash operations	11,335	12,010	11,194
Letters of credit and guarantees issued	9,718	7,019	5,406
Servicing customers' pension payments	8,131	8,037	7,776
Bank transfers – salary projects	6,925	7,200	7,261
Maintenance of customer accounts	3,310	4,049	3,006
Other	4,812	4,604	3,757
	123,256	113,241	87,640

Fee and commission expense is derived from the following sources:

	Year ended 31 December 2019	Year ended 31 December 2018	Year ended 31 December 2017
Payment cards	(37,231)	(22,512)	(12,376)
Deposit insurance	(12,121)	(12,293)	(10,729)
Bank transfers	(1,327)	(1,219)	(1,256)
Foreign currency operations	(1,106)	(1,074)	(803)
Commission paid to collectors	(314)	(482)	(342)
Other	(2,547)	(1,426)	(1,226)
	(54,646)	(39,006)	(26,732)

Detailed amounts of "Fee and commission income" and "Fee and commission expense" for the years ended 31 December 2018 and 2017 have been reclassified for consistency with the current year presentation.

The Group changed the presentation of fee and commission income for the year ended 31 December 2019, i.e. commission income on "Payment card maintenance" was changed to commission income on "Plastic cards operations". Therefore, fee and commission income and expense for the years ended 31 December 2018 and 2017, were changed respectively, within the detailed lines in the note above. The management of the Group believes that the current presentation reflects appropriately the sources of commission income.

This reclassification had no effect on the Group's reported net fee and commission income in the consolidated financial statements for the years ended 31 December 2018 and 2017.

30. Net (loss)/gain on financial assets and liabilities at fair value through profit or loss

Net (loss)/gain on financial assets and liabilities at fair value through profit or loss comprises:

	Year ended 31 December 2019	Year ended 31 December 2018	Year ended 31 December 2017
Net (loss)/gain on operations with financial assets and liabilities classified as held for trading:			
Unrealised net (loss)/gain on derivative and trading operations*	(18,580)	96,346	19,468
Realised net (loss)/gain on derivative operations	(1,415)	12,655	793
Realised net gain on trading operations	1,261	5,157	11,162
Total net (loss)/gain on operations with financial assets and liabilities classified as held for trading	(18,734)	114,158	31,423

*The unrealised gain on derivative and trading operations in 2018 refers mainly to swap agreements with NBRK, for which the fair value increased significantly due to the depreciation of the USD to KZT exchange rate.

31. Net foreign exchange gain/(loss)

Net foreign exchange gain/(loss) comprises:

	Year ended 31 December 2019	Year ended 31 December 2018	Year ended 31 December 2017
Dealing, net	37,212	32,985	26,055
Translation differences, net	8,167	(97,562)	(31,004)
Total net foreign exchange gain/(loss)	45,379	(64,577)	(4,949)

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32. Insurance underwriting income and expenses

Insurance underwriting income and expenses comprises:

	Year ended 31 December 2019	Year ended 31 December 2018	Year ended 31 December 2017
Insurance premiums written, gross	132,329	108,789	76,212
Ceded reinsurance share	(37,173)	(37,407)	(24,339)
Change in unearned insurance premiums, net	(2,173)	(4,067)	3,235
Total insurance underwriting income	92,983	67,315	55,108
Commissions to agents	(38,243)	(28,206)	(17,713)
Insurance reserves	(24,201)	(13,304)	(14,156)
Insurance payments	(22,193)	(18,476)	(16,746)
Total insurance claims incurred, net of reinsurance	(84,637)	(59,986)	(48,615)
Net insurance income	8,346	7,329	6,493

33. Operating expenses

Operating expenses comprises:

	Year ended 31 December 2019	Year ended 31 December 2018	Year ended 31 December 2017
Salaries and other employee benefits	79,231	77,563	51,124
Depreciation and amortisation expenses	11,596	10,929	9,692
Taxes other than income tax	7,786	8,432	7,038
Information services	4,515	5,584	3,314
Security	4,459	4,214	3,662
Insurance agents fees	4,288	1,670	1,888
Utilities	4,248	3,549	2,876
Communication	4,243	3,982	2,829
Advertisement and loyalty programm	4,157	1,683	1,481
Repair and maintenance	3,875	4,702	3,451
Rent	3,476	5,064	3,512
Charity	2,004	1,011	1,643
Stationery and office supplies	1,555	1,792	1,249
Professional services	1,495	1,521	4,895
Business trip expenses	1,324	1,104	958
Transportation	766	853	696
Social events	254	208	142
Hospitality expenses	254	140	81
Other	2,700	3,222	5,266
	142,226	137,223	105,797

34. Earnings per share

Basic and diluted earnings per share are calculated by dividing the net income for the year attributable to equity holders of the parent by the weighted average number of participating shares outstanding during the year.

According to Kazakhstan legislation on Joint Stock Companies, dividend payments on common shares may not exceed dividend payments on preferred shares for the same year. Therefore, net profit for the year is allocated to the ordinary shares and the preferred shares in accordance with their legal and contractual dividend rights to participate in undistributed earnings.

The following table presents basic and diluted earnings per share:

	Year ended 31 December 2019	Year ended 31 December 2018	Year ended 31 December 2017
Basic and diluted earnings per share			
Net profit for the year attributable to equity holders of the parent	334,511	254,238	173,362
Earnings attributable to common shareholders	334,511	254,238	173,362
Earnings for the year from continuing operations	334,511	244,264	163,587
Earnings for the year from discontinuing operations	-	9,974	9,876

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	Year ended 31 December 2019	Year ended 31 December 2018	Year ended 31 December 2017
Weighted average number of common shares for the purposes of basic earnings per share	11,678,815,976	11,173,948,398	10,994,491,507
Basic and diluted earnings per share (in Tenge)	28.64	22.75	15.77
Basic and diluted earnings per share from continuing operations (in Tenge)	28.64	21.86	14.88
Basic and diluted earnings per share from discontinued operations (in Tenge)	-	0.89	0.90

As required by KASE rules for listed companies, the book value of one common share as at 31 December 2019, 2018 and 2017 is disclosed as follows:

	31 December 2019		
Class of shares	Outstanding shares	Equity (as calculated per KASE rules)	Book value of one share,in KZT
Common	11,656,585,190	1,297,502	111.31
		1,297,502	

	31 December 2018		
Class of shares	Outstanding shares	Equity (as calculated per KASE rules)	Book value of one share, in KZT
Common	11,679,756,429	1,057,211	90.52
		1,057,211	

	31 December 2017		
Class of shares	Outstanding shares	Equity (as calculated per KASE rules)	Book value of one share, in KZT
Common	10,993,816,819	926,206	84.25
		926,206	

Equity attributable to common shares is calculated as the difference between the total equity and total net book value of intangible assets.

The management of the Group believes that it fully complies with the requirement of KASE as at the reporting dates.

35. Financial risk management

Risk management is fundamental to the Group's banking business and is an essential element of the Group's operations. The main risks inherent to the Group's operations are those related to:

- Credit risk;
- Liquidity risk; and
- Market risk.

The Group recognises that it is essential to have efficient and effective risk management processes in place. To enable this, the Group has established a risk management framework, whose main purpose is to protect the Group from risk and allow it to achieve its performance objectives. Through the risk management framework, the Group manages the following risks:

Credit risk

Credit risk is the risk of loss arising for the Group when a counterparty is unable to meet its contractual obligations on time or in full.

The risk management division plays an important role in managing and controlling the credit risk. This division is responsible for credit risk identification, evaluation and implementation of control and monitoring measures. The risk management division directly participates in credit decision- making processes and the consideration of internal rules, regulations and loan programs. In addition, the division provides independent recommendations concerning credit exposure minimisation measures, controls limits and monitors credit risks, provides relevant reporting to management and ensures compliance of the credit process with external laws/regulations as well as internal requirements and procedures.

The Group structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower/counterparty, or groups of borrowers, and to industry (and geographical) segments. Limits on the level of credit risk concentration by industry sector are approved and controlled by the Assets and Liabilities Management Committee ("ALMC"). Limits on credit risk exposure with respect to credit programmes (SME and retail) are approved by the Management Board. The exposure to any one borrower, including banks and brokers, covers on and off-balance sheet exposures, which are reviewed by the Credit Committees and the ALMC. Actual exposures against limits are monitored daily.

The risk that the counterparty will not meet its obligations is restricted by the limits covering on and off-balance sheet exposure.

Commitments to extend credit represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk for off-balance sheet financial instruments is defined as a probability of losses due to the inability of a counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments since most commitments to extend credit are contingent upon

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counterparties maintaining specific credit standards. The Group applies the same credit policy to the contingent liabilities as it does to the financial instruments recorded in the consolidated statement of financial position (i.e. the policy based on the procedures for approving the grant of loans, using limits to mitigate the risk, and current monitoring). The Group monitors the term to maturity of off-balance sheet contingencies, as longer term commitments generally have a greater degree of credit risk than shorter term commitments.

Structure and authorities of credit committees

Credit committees, the ALMC, the Management Board and the Board of Directors are credit authorities responsible for the implementation of the Bank's Credit Policy and credit decision making process.

Head Office Credit Committee ("CC")

The primary goal of the CC is the implementation of the Bank's Credit Policy in terms of credit operations and credit applications from corporate customers.

Branch Credit Committee and Branch Network Credit Committee ("BCC", "BNCC")

The primary goal of the BCC and the BNCC is the implementation of the Bank's Credit Policy in terms of granting financial instruments via branches to SME customers.

Delegated credit authority limits for the BCC and the BNCC are established by the Management Board. The BCC makes credit decisions within its limits. If the loan application exceeds the relevant credit limit or the authorities of the BCC, the final decision has to be taken by the BNCC. The procedure of the decision-making by the BNCC involves consideration of a package of documents, including complex analysis and assessments of the potential borrowers conducted by the Bank's experts.

Retail Branch Credit Committee of the Head Office ("RCCHO") and Decision Making Center ("DMC")

The primary goal of the RCCHO and the DMC, which are credit authorities, is the implementation of the Bank's Credit Policy in terms of granting retail financial instruments via branches.

The DMC is comprised of credit underwriters with delegated credit authorities based on a four eyes principle. The DMC makes credit decisions within their authorities and limits established by the Management Board and the RCCHO. The RCCHO is authorised to consider loan applications that exceed relevant credit limits or the authorities of the DMC, as well as other matters within the authorities established by the Management Board.

Along with the process of decision making via the credit decision authorities mentioned above, there is an automated approach of decision-making process for potential borrowers whose income can be confirmed by the Independent Government body. This approach takes into account the risk profile of the potential borrower and allows minimising the credit risk exposure in the decision making process.

Decision Making Center for Small Business ("DMC for SB")

The DMC for SB was established in 2018, the main task of which is to consider loan applications in the small business sector in an amount not exceeding KZT 75 million.

The DMC for SB consists of credit underwriters with delegated decision-making powers based on the four-eye principle. The Decision Making Center takes decisions within the framework of the authority approved by the Board of the Bank and the limits approved by the BNCC.

Problem loans committee of the Head Office, branches

The primary goal of the problem loans committee of the Head Office, branches is the implementation of the Bank's Credit Policy in terms of management, servicing and maintaining the repayment of the problem loans.

Authorised credit authorities of the Bank's subsidiaries

Consideration and approval of the loan applications in the subsidiaries are performed by the authorised credit authorities in accordance with the internal rules and regulations of the subsidiary. Loan applications exceeding the established limits and authorities have to be approved by the Board of Directors of the subsidiaries with the preliminary consideration by the relevant credit committee, according to the Bank's internal rules and regulations.

ALMC

The primary goal of the ALMC is profit maximisation and to limit the risks of banking activities related to raising and allocating funds and the establishment of a medium-term policy for the management of assets and liabilities. The main tasks of the ALMC are: liquidity management, interest rate risk management, price risk and other banking risk management.

The ALMC is also responsible for establishing country and counterparty-bank limits. The ALMC reports to the Board of Directors.

The Management Board

For loan applications exceeding the authorities of the Head Office Credit Committee, the BNCC and the RCCHO, or exceeding the relevant limits of the BNCC and the RCCHO, have to be considered by the Management Board.

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The Board of Directors

If the loan application exceeds 5% of the Bank's equity capital or the potential borrower is a related party, such applications have to be considered by the Board of Directors.

Maximum Exposure

The Group's maximum exposure to credit risk varies significantly and is dependent on both individual risks and general market risks.

The following table presents the maximum exposure to credit risk of financial assets and contingent liabilities. For financial assets, the maximum exposure equals the carrying value of those assets prior to any offset or collateral. For financial guarantees and other contingent liabilities, the maximum exposure to credit risk is the maximum amount the Group would have to pay if the guarantee was called on, or in the case of commitments, if the loan amount was called on (Note 27). The collateral pledged is represented by the carrying amount of a financial instrument for which the collateral was received as security.

	31 December 2019	
	Maximum exposure and net exposure after offset	Collateral pledged
Cash equivalents*	1,483,784	58,331
Obligatory reserves	141,006	-
Financial assets at fair value through profit or loss (less equity securities)	155,531	-
Amounts due from credit institutions	53,161	-
Financial assets at fair value through other comprehensive income (less equity securities)	1,628,406	-
Debt securities at amortised cost, net of allowance for expected credit losses	1,212,981	-
Loans to customers	3,752,445	3,277,632
Other financial assets	102,424	-
Commitments and contingencies	525,566	33,453

	31 December 2018	
	Maximum exposure and net exposure after offset	Collateral pledged
Cash equivalents*	1,558,872	65,036
Obligatory reserves	115,741	-
Financial assets at fair value through profit or loss (less equity securities)	168,298	-
Amounts due from credit institutions	55,035	-
Financial assets at fair value through other comprehensive income (less equity securities)	1,763,478	-
Debt securities at amortised cost, net of allowance for expected credit losses	1,055,907	-
Loans to customers	3,481,079	2,154,902
Other financial assets	75,718	-
Commitments and contingencies	528,509	31,015

	31 December 2017	
	Maximum exposure and net exposure after offset	Collateral Pledged
Cash equivalents*	1,590,152	372,643
Obligatory reserves	111,039	-
Financial assets at fair value through profit or loss (less equity securities)	129,341	-
Amounts due from credit institutions	87,736	-
Available-for-sale securities (less equity securities)	2,560,222	-
Loans to customers	3,251,102	2,838,024
Other financial assets	45,458	-
Commitments and contingencies	413,977	50,144

*Amount represents the short-term loans and deposits with original maturities of not more than 90 days, which are included within cash and cash equivalents in the statement of financial position.

As at 31 December 2019, 2018 and 2017 there is no any difference between maximum exposure and net exposure after offset.

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Significant increase in credit risk

As explained in Note 4 the Group monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

The Group uses credit risk grades as a primary input into the determination of the term structure of the PD for exposures. The Group collects performance and default information about its credit risk exposures analyzed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. The information used is both internal and external depending on the portfolio assessed. The Group uses different criteria to determine whether credit risk has increased significantly per portfolio of assets. The criteria used are both quantitative changes in PDs as well as qualitative.

For treasury operations (interbank transactions, securities, reverse repurchase agreements), a significant increase in credit risk is determined individually for each financial asset on the basis of quantitative indicators (rating downgrades by 3 or more steps since initial recognition, overdue by 1 day or more since initial recognition) and qualitative indicators (negative information relating to the issuer/counterparty, including deterioration of financial condition, change of shareholders, the realization of the risk of loss of reputation, the systematic violation of prudential standards) since initial recognition.

For bank loans assessed on a collective basis, a significant increase in credit risk is determined on the basis of increase in lifetime probability of default since initial recognition over defined thresholds for segmented homogeneous portfolios and for loans with an overdue more than 30 days since initial recognition, for loans assessed on an individual basis - additionally in case of the decrease of internal credit rating and increase in lifetime PD on 10 percentage points in accordance with the internal rating model (the presence of restructuring during deterioration of the financial position for classification to Stage 3), expert opinions of the Bank's specialists based on the changes in the qualitative and quantitative indicators of the borrower, a significant deterioration of collateral and other objective evidence of significant financial difficulties since initial recognition.

Stage 3 is determined for loans that are assessed on a collective basis with an overdue of over 60-90 days, for loans assessed on an individual basis - over 60 days past due, restructuring related to the deterioration of financial condition, deterioration of the internal credit rating and expert opinion of the Bank's specialists.

The Group considers that certain financial instruments with low credit risk at the reporting date have not experienced a significant increase in credit risk. The Group applies this policy to financial instruments issued to sovereign and financial institutions only. The Group considers a financial instrument to have low credit risk when their external credit risk rating is equivalent to definition of 'investment grade' by international rating agencies.

The Group has monitoring procedures in place to make sure that the criteria used to identify significant increases in credit are effective, meaning that significant increase in credit risk is identified before the exposure is defaulted or when the asset becomes 30 days past due.

Incorporation of forward-looking information

The Group uses forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of ECL.

The incorporation of forward-looking elements reflects the expectations of the Group and involves the creation of two scenarios ("base case" and "downside" scenarios), including an assessment of the probability for each scenario. The purpose of using multiple scenarios is to model the non-linear impact of assumptions about macroeconomic factors on the expected credit losses. The "base case" scenario enters with a probability of 75% and the "downside" scenario with a probability of 25%.

Development of forecasting was carried out by JSC Halyk Finance using internal and external information for creating "base case" and "downside" scenarios of future forecasting of relevant economic variables along with a representative range of other possible forecast scenarios. The external information used includes economic data and forecasts published by governmental bodies and monetary authorities.

The Group applies probabilities to the forecast scenarios identified. The base case scenario is the single most-likely outcome and consists of information used by the Group for strategic planning and budgeting. The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using a statistical analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

In relation to the sensitivity, within the implementation of specified stress factors, the results of the stress testing demonstrate the deterioration of the Group's financial indicators (growth of allowances for expected credit losses, decrease of net profit and outflow of amounts due to customers).

At the same time, given that, the Group has a sufficient amount of equity and liquid assets, significant deterioration in the financial position of the Group and violation of regulatory requirements and norms are not predicted.

In general, a worsening of forecasted macroeconomic variables for each scenario or an increase in the probability of the "downside" scenario occurring will both increase the number of loans migrating from Stage 1 to Stage 2 and increase the estimated allowances for expected credit losses. In contrast, an improvement in the outlook on forecasted macroeconomic variables or an increase in the probability of the "base case" scenario occurring will have a positive impact. It is not possible to meaningfully isolate the impact of changes in the various macroeconomic variables for a particular scenario due to the interrelationship between the variables as well as the interrelationship between the level of pessimism inherent in a particular scenario and its probability of occurring.

The table below summarizes the principal macroeconomic indicators included in economic scenarios as at 31 December 2019 and 2018 for Kazakhstan, which is the country where the Group operates and therefore is the country that has a material impact in ECLs.

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	31 December 2019		31 December 2018	
List of macro variables used	Definition	Range	Definition	Range
Real GDP growth	% change	Between 2.4% and 3.6%	% change	Between 1.0% and 3.3%
Inflation	Inflation %	Between 5.8% and 10.4%	Inflation %	Between 6.5% and 9.0%
Oil price (USD/bbl)	Price per barrel	Between USD 45 and USD 55	Price per barrel	Between USD 45 and USD 60

Financial assets are graded according to the current credit rating they have been issued by an international rating agency or in accordance with the Group's internal rating system. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classified as speculative grade.

The following table details the credit ratings of financial assets held by the Group (except for loans to customers, which are disclosed in details below), before any allowances for expected credit losses:

	AA	AA-	A	BBB	<BBB	Not Rated	31 December 2019 Total
Cash equivalents*	333,315	150,360	192,281	746,969	52,473	8,406	1,483,804
Obligatory reserves	-	-	-	133,033	7,973	-	141,006
Financial assets at fair value through profit or loss	8,360	332	1,167	19,616	114,002	41,554	185,031
Amounts due from credit institutions	2,557	6,700	5,151	9,009	16,741	13,170	53,328
Financial assets at fair value through other comprehensive income	342,889	15,289	47,820	1,073,913	111,244	39,766	1,630,921
Debt securities at amortised cost	-	-	-	1,046,755	13,752	153,036	1,213,543
Other financial assets	-	-	-	-	-	126,300	126,300
Commitments and contingencies	-	-	-	-	-	529,490	529,490
	AA	AA-	A	BBB	<BBB	Not Rated	31 December 2018 Total
Cash equivalents*	154,798	78,873	18,155	1,225,899	49,562	31,594	1,558,881
Obligatory reserves	-	-	-	105,856	9,885	-	115,741
Financial assets at fair value through profit or loss	1,067	2,395	-	111,470	49,674	22,230	186,836
Amounts due from credit institutions	-	10,200	50	3,344	35,828	5,845	55,267
Financial assets at fair value through other comprehensive income	258,777	-	-	1,286,964	185,272	34,920	1,765,933
Debt securities at amortised cost	-	-	-	1,045,358	-	10,990	1,056,348
Other financial assets	-	-	-	-	-	92,043	92,043
Commitments and contingencies	-	-	-	-	-	531,055	531,055
	AA	AA-	A	BBB	<BBB	Not Rated	31 December 2017 Total
Cash equivalents*	110,970	76,897	162,142	1,110,837	87,307	41,999	1,590,152
Obligatory reserves	-	-	-	101,881	9,158	-	111,039
Financial assets at fair value through profit or loss	1	-	113	95,570	46,797	2,495	144,976
Amounts due from credit institutions	440	211	14,616	12,029	57,379	3,061	87,736
Available-for-sale investment securities	324,164	-	-	2,035,381	187,232	21,101	2,567,878
Other financial assets	-	-	-	-	-	51,379	51,379
Commitments and contingencies	-	-	-	-	-	430,075	430,075

*Amount represents the short-term loans and deposits with original maturities of not more than 90 days, which are included within cash and cash equivalents in the statement of financial position.

The banking industry is generally exposed to credit risk through its financial assets and contingent liabilities. Credit risk exposure of the Group is concentrated within the Republic of Kazakhstan. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group's risk management policy are not breached.

Loans to customers are classified based on internal assessments and other analytical procedures. The respective business units classify loans according to their risk and the exposure that they potentially present to the Group, and this classification is verified by the risk management function.

The Bank and its subsidiaries are using an internal rating model to classify loans in different risk categories. After the occurrence of an impairment event, the model assists in estimating the allowances for expected credit losses for loan loss based on a borrowers' financial performance, credit history, quality of accounts receivable, liquidity of the borrower, market risks relating to the borrower, industry of the borrower and other factors. Periodically, the required information is inputted into the model by credit analysts. Information input into the system and the estimate of the allowance for loan loss is verified by the risk management department.

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The following classifications are used by the rating model:

- Rating score 1 - superior loan rating, minimal credit risk;
- Rating score 2 - very high quality of loan, very low credit risk;
- Rating score 3 - high quality of loan, low credit risk;
- Rating score 4 - satisfactory quality of loan, insignificant risk;
- Rating score 5 - credit risk can increase at economic variation;
- Rating score 6 - high risk at economic variation;
- Rating score 7 - high risk of default, paying capacity of the borrower depends on favorable economic circumstances;
- Rating score 8 - 10 - very high risk of default/default.

Pools of homogeneous loans – loans to customers are included in groups of loans with similar credit risk characteristics (i.e. the characteristics include sector of the economy, borrower activities, type of loan program, level of defaults, internal ratings and other factors). Pools of homogeneous loans include assets that have been assessed collectively.

An analysis of the Group's credit risk exposure per class of financial asset, internal rating and "stage" without taking into account the effects of any collateral or other credit enhancements is provided in the following table. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

	31 December 2019				
	Stage 1	Stage 2	Stage 3		
Rating score	12-month ECL	Lifetime ECL	Lifetime ECL	POCI	Total
1-3	-	-	-	-	-
4	298,985	-	-	-	298,985
5	990,784	12,513	-	-	1,003,297
6	580,210	65,042	27,787	14,572	687,611
7	39,419	61,792	132,131	1,626	234,968
8-10	-	-	139,635	49,548	189,183
Loans to corporate customers that are individually assessed for impairment	1,909,398	139,347	299,553	65,746	2,414,044
Loans to SME customers and retail business that are individually assessed for impairment	330,989	9,018	72,304	11,344	423,655
Loans to customers that are collectively assessed for impairment	1,097,818	10,755	214,168	723	1,323,464
	3,338,205	159,120	586,025	77,813	4,161,163
Less – Allowance for expected credit losses (Note 23)	(36,305)	(45,797)	(302,834)	(23,782)	(408,718)
Loans to customers	3,301,900	113,323	283,191	54,031	3,752,445

	31 December 2018				
	Stage 1	Stage 2	Stage 3		
Rating score	12-month ECL	Lifetime ECL	Lifetime ECL	POCI	Total
1-3	-	-	-	-	-
4	185,482	-	-	-	185,482
5	793,568	8,898	469	-	802,935
6	550,901	22,726	7,171	14,391	595,189
7	231,398	70,653	156,687	6,633	465,371
8-10	-	-	132,233	55,339	187,572
Loans to corporate customers that are individually assessed for impairment	1,761,349	102,277	296,560	76,363	2,236,549
Loans to SME customers and retail business that are individually assessed for impairment	409,942	13,741	141,645	15,627	580,955
Loans to customers that are collectively assessed for impairment	813,521	26,646	233,201	-	1,073,368
	2,984,812	142,664	671,406	91,990	3,890,872
Less – Allowance for expected credit losses (Note 23)	(43,516)	(28,716)	(322,917)	(14,644)	(409,793)
Loans to customers	2,941,296	113,948	348,489	77,346	3,481,079

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Rating score	31 December 2017
1-3	-
4	118,566
5	538,343
6	533,758
7	412,326
8-10	172,698
Loans to corporate customers that are individually assessed for impairment	1,775,691
Loans to SME customers and retail business that are individually assessed for impairment	176,503
Loans to customers that are collectively assessed for impairment	812,048
	2,764,241
Less – Allowance for loan impairment losses	(277,491)
Loans to customers	2,486,750

	31 December 2017
Collectively assessed unimpaired loans	421,045
BBB-, BBB	36,746
BB+, BB, BB-	21,649
B+, B, B-	7,908
C	1,204
Unimpaired loans to customers of KKB (less allowances)	488,552
Impaired loans to customers of KKB (less allowances)	275,800
Total loans to customers of KKB (less allowances)	764,352

As at 31 December 2017, allowances for impairment losses on KKB loans comprised KZT 39,670 million, including KZT 23,095 million related to collectively assessed loans.

Analysis by credit quality of loans to retail business and SME customers that are collectively and individually assessed for impairment as at 31 December 2019 and 31 December 2018 is as follows:

As at 31 December 2019	Gross loans	Allowances for expected credit losses	Net loans
Loans to retail business			
Not past due	898,387	(30,108)	868,279
Overdue:			
up to 30 days	23,525	(3,714)	19,811
31 to 60 days	4,443	(1,167)	3,276
61 to 90 days	9,153	(3,361)	5,792
91 to 180 days	10,278	(5,541)	4,737
over 180 days	96,746	(58,338)	38,408
Loans to retail business that are collectively and individually assessed for impairment	1,042,532	(102,229)	940,303
Loans to SME customers			
Not past due	552,663	(14,507)	538,156
Overdue:			
up to 30 days	8,587	(997)	7,590
31 to 60 days	3,476	(465)	3,011
61 to 90 days	1,762	(147)	1,615
91 to 180 days	5,739	(3,634)	2,105
over 180 days	69,664	(39,323)	30,341
Loans to SME customers that are collectively and individually assessed for impairment	641,891	(59,073)	582,818
Loans to SME customers and retail business that are collectively and individually assessed for impairment	1,684,423	(161,302)	1,523,121
Loans to corporate customers that are collectively and individually assessed for impairment	2,452,781	(241,518)	2,211,263
Loans related to card transactions	23,959	(5,898)	18,061
Loans to customers	4,161,163	(408,718)	3,752,445

As at 31 December 2018	Gross loans	Allowances for expected credit losses	Net loans
Loans to retail business			
Not past due	751,122	(30,601)	720,521
Overdue:			

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As at 31 December 2018	Gross loans	Allowances for expected credit losses	Net loans
up to 30 days	36,283	(5,343)	30,940
31 to 60 days	8,484	(2,926)	5,558
61 to 90 days	5,464	(2,291)	3,173
91 to 180 days	23,125	(10,555)	12,570
over 180 days	132,754	(80,111)	52,643
Loans to retail business that are collectively and individually assessed for impairment	957,232	(131,827)	825,405
Loans to SME customers			
Not past due	510,454	(9,299)	501,155
Overdue:			
up to 30 days	12,594	(379)	12,215
31 to 60 days	8,112	(2,881)	5,231
61 to 90 days	10,206	(3,878)	6,328
91 to 180 days	6,348	(1,753)	4,595
over 180 days	87,500	(51,095)	36,405
Loans to SME customers that are collectively and individually assessed for impairment	635,214	(69,285)	565,929
Loans to SME customers and retail business that are collectively and individually assessed for impairment	1,592,446	(201,112)	1,391,334
Loans to corporate customers that are collectively and individually assessed for impairment	2,271,567	(203,451)	2,068,116
Loans related to card transactions	26,859	(5,230)	21,629
Loans to customers	3,890,872	(409,793)	3,481,079

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The following table details the carrying value of assets that are impaired and for those that are past due but not impaired:

	Financial assets that have been individually assessed for impairment				Financial assets that have been collectively assessed for impairment		31 December 2019 Total
	Unimpaired financial assets		Impaired financial assets				
	Gross carrying amount of assets	Amount of allowance for expected credit losses	Gross carrying amount of assets	Amount of allowance for expected credit losses	Gross carrying amount of assets	Amount of allowance for expected credit losses	
Amounts due from credit institutions	44,005	(166)	9,323	(1)	-	-	53,161
Financial assets at fair value through other comprehensive income	1,631,244	(990)	1,335	(668)	-	-	1,630,921
Debt securities at amortised cost	1,205,377	(554)	6,258	(6)	1,908	(2)	1,212,981
Loans to customers	2,386,392	(52,096)	451,307	(235,340)	1,323,464	(121,282)	3,752,445
Other financial assets	-	-	107,975	(20,566)	18,325	(3,310)	102,424

	Financial assets that have been individually assessed for impairment				Financial assets that have been collectively assessed for impairment		31 December 2018 Total
	Unimpaired financial assets		Impaired financial assets				
	Gross carrying amount of assets	Amount of allowance for expected credit losses	Gross carrying amount of assets	Amount of allowance for expected credit losses	Gross carrying amount of assets	Amount of allowance for expected credit losses	
Amounts due from credit institutions	55,267	(232)	-	-	-	-	55,035
Financial assets at fair value through other comprehensive income	1,766,045	(2,559)	2,464	(17)	-	-	1,765,933
Debt securities at amortised cost	1,048,211	(426)	5,699	(12)	2,438	(3)	1,055,907
Loans to customers	2,189,196	(34,406)	444,918	(192,023)	1,256,758	(183,364)	3,481,079
Other financial assets	-	-	46,729	(16,325)	45,314	-	75,718

	Financial assets that have been individually assessed for impairment				Financial assets that have been collectively assessed for impairment		31 December 2017 Total
	Unimpaired financial assets		Impaired financial assets				
	Gross carrying amount of assets	Amount of allowance for impairment losses	Gross carrying amount of assets	Amount of allowance for impairment losses	Gross carrying amount of assets	Amount of allowance for impairment losses	
Amounts due from credit institutions	87,736	-	-	-	-	-	87,736
Available-for-sale investment securities	2,565,425	-	2,453	(2,453)	-	-	2,565,425
Loans to customers	1,731,919	(16,444)	645,542	(193,106)	1,190,802	(107,611)	3,251,102
Other financial assets	45,458	-	5,921	(5,921)	-	-	45,458

As at 31 December 2019, the carrying amount of unimpaired overdue loans was KZT 23,463 million (31 December 2018 – 35,640, 31 December 2017 – KZT 6,165 million). Maturities of these overdue loans are not greater than 90 days.

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Liquidity risk

Liquidity risk is the risk resulting from the inability of the Group to provide funds for repayment of its obligations in due time. The Group's liquidity risk arises when terms of assets on active operations and maturity dates of obligations do not match.

Short-term liquidity needs are managed by the Group's treasury function collecting daily cash inflow/outflow forecasts. Long-term liquidity management is performed by the ALMC by analysing longer term liquidity positions and making decisions on managing significant gaps through various available means.

In order to manage liquidity risk, the Group analyses the financial assets and liabilities, and obligatory reserves taking into account payment schedules for loans issued to customers. The following tables provide an analysis of financial assets and liabilities grouped on the basis of the remaining period from the reporting date to the earliest of the contractual maturity date or available maturity date, except for financial assets at fair value through profit or loss in the form of securities which are included in the column "Less than 1 month" as they are available to meet the Group's short-term liquidity needs.

	31 December 2019					
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
FINANCIAL ASSETS:						
Cash and cash equivalents	1,660,923	3,414	-	-	-	1,664,337
Obligatory reserves	88,664	8,084	39,259	3,990	1,009	141,006
Financial assets at fair value through profit or loss	67,151	124	18,798	43,555	55,403	185,031
Amounts due from credit institutions	26,543	266	21,346	4,729	277	53,161
Financial assets at fair value through other comprehensive income	90,815	218,030	659,083	356,391	306,602	1,630,921
Debt securities at amortised cost, net of allowance for expected credit losses	13,668	2,375	38,939	657,225	500,774	1,212,981
Loans to customers*	261,581	383,551	2,042,671	975,196	89,446	3,752,445

	31 December 2019					
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Other financial assets	14,901	3,314	44,528	24,238	15,443	102,424
	2,224,246	619,158	2,864,624	2,065,324	968,954	8,742,306
FINANCIAL LIABILITIES:						
Amounts due to customers	3,033,841	382,085	2,030,783	553,693	406,011	6,406,413
Amounts due to credit institutions	167,723	183	1,810	15,817	120,432	305,965
Financial liabilities at fair value through profit or loss	20,218	-	-	226	-	20,444
Debt securities issued	13,481	3,785	3,108	607,153	206,919	834,446
Other financial liabilities	33,710	1,687	487	3,125	-	39,009
	3,268,973	387,740	2,036,188	1,180,014	733,362	7,606,277
Net position	(1,044,727)	231,418	828,436	885,310	235,592	
Accumulated gap	(1,044,727)	(813,309)	15,127	900,437	1,136,029	

	31 December 2018					
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
FINANCIAL ASSETS:						
Cash and cash equivalents	1,755,138	-	-	-	-	1,755,138
Obligatory reserves	72,066	7,396	21,505	11,296	3,478	115,741
Financial assets at fair value through profit or loss	89,418	-	91,252	6,166	-	186,836
Amounts due from credit institutions	21,195	4,187	26,766	2,398	489	55,035
Financial assets at fair value through other comprehensive income	678,181	270,338	173,678	313,840	329,896	1,765,933
Debt securities at amortised cost, net of allowance for expected credit losses	11,814	1,298	36,170	504,704	501,921	1,055,907
Loans to customers*	243,746	355,008	2,026,943	677,369	178,013	3,481,079
Other financial assets	40,610	4,244	1,324	15,250	14,290	75,718

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	31 December 2018					
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
	2,912,168	642,471	2,377,638	1,531,023	1,028,087	8,491,387
FINANCIAL LIABILITIES:						
Amounts due to customers	3,889,116	376,688	1,419,536	589,345	252,245	6,526,930
Amounts due to credit institutions	35,645	372	3,913	15,196	113,253	168,379
Financial liabilities at fair value through profit or loss	2,473	16	4,330	203	-	7,022
Debt securities issued	13,751	3,785	66,768	493,465	323,022	900,791
Other financial liabilities	21,005	2,475	2,654	864	14	27,012
	3,961,990	383,336	1,497,201	1,099,073	688,534	7,630,134
Net position	(1,049,822)	259,135	880,437	431,950	339,553	
Accumulated gap	(1,049,822)	(790,687)	89,750	521,700	861,253	

	31 December 2017					
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
FINANCIAL ASSETS:						
Cash and cash equivalents	1,746,100	34,448	-	-	-	1,780,548
Obligatory reserves	67,863	7,264	25,913	4,372	5,627	111,039
Financial assets at fair value through profit or loss	88,026	165	37,695	9,040	10,050	144,976
Amounts due from credit institutions	41,090	26,417	14,838	3,056	2,335	87,736
Available-for-sale investment securities	370,578	166,677	347,918	639,530	1,040,722	2,565,425
Loans to customers*	297,204	276,167	1,911,598	598,089	168,044	3,251,102
Other financial assets	22,224	1,245	3,868	18,121	-	45,458
	2,633,085	512,383	2,341,830	1,272,208	1,226,778	7,986,284

	31 December 2017					
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
FINANCIAL LIABILITIES:						
Amounts due to customers	2,856,379	415,118	1,449,676	1,065,364	345,213	6,131,750
Amounts due to credit institutions	162,072	189	2,340	8,723	81,827	255,151
Financial liabilities at fair value through profit or loss	244	-	492	5,095	-	5,831
Debt securities issued	13,030	4,046	114,024	578,030	253,266	962,396
Other financial liabilities	31,529	3,034	3,370	260	12,180	50,373
	3,063,254	422,387	1,569,902	1,657,472	692,486	7,405,501
Net position	(430,169)	89,996	771,928	(385,264)	534,292	
Accumulated gap	(430,169)	(340,173)	431,755	46,491	580,783	

*Loans to customers in the column "3 months to 1 year" include loans with non-standard repayment schedule.

Assets and liabilities are recorded on the basis of their contractual maturity and payment schedules. The Group possesses a right to unilaterally call back part of long-term loans provided to customers for a ten-month period after proper notification would be issued by the Group.

A significant portion of the Group's liabilities are represented by customer term deposits, current accounts of corporate and retail customers and bonds.

Management believes that although a substantial portion of current accounts and customer deposits are on demand and mature in less than one month, diversification of these deposits by number and type of depositors, and the past experience of the Group, indicate that these deposits provide a long-term and stable source of funding for the Group. Therefore, an essential part of the Group's current accounts is considered to be stable resources for the purposes of liquidity analysis and management.

A further analysis of the liquidity risk is presented in the following tables in accordance with IFRS 7. The amounts disclosed in these tables do not correspond to the amounts recorded on the consolidated statement of financial position, as the presentation below includes a maturity analysis for financial liabilities and contingent liabilities based on the remaining contractual payments (including interest payments).

	31 December 2019					
FINANCIAL AND CONTINGENT LIABILITIES	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Amounts due to customers	3,034,894	385,011	2,083,036	622,705	470,520	6,596,166
Amounts due to credit institutions	167,908	184	1,820	18,117	152,115	340,144

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Debt securities issued	14,879	4,937	37,641	764,510	226,401	1,048,368
Other financial liabilities	33,710	1,687	487	3,125	-	39,009
Guarantees issued	408,027	-	-	-	-	408,027
Commercial letters of credit	68,312	-	-	-	-	68,312
Commitments to extend credit	53,151	-	-	-	-	53,151
	3,780,881	391,819	2,122,984	1,408,457	849,036	8,553,177
Derivative financial assets	583,536	-	364,096	29,617	-	977,249
Derivative financial liabilities	605,388	-	388,938	31,202	-	1,025,528

	31 December 2018					
FINANCIAL AND CONTINGENT LIABILITIES	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Amounts due to customers	3,891,254	380,202	1,468,256	630,267	368,142	6,738,121
Amounts due to credit institutions	36,383	442	4,157	21,268	147,161	209,411
Debt securities issued	28,655	8,722	116,457	720,380	337,567	1,211,781
Other financial liabilities	31,448	2,475	2,654	864	15	34,140
Guarantees issued	415,531	-	-	-	-	415,531
Commercial letters of credit	66,502	-	-	-	-	66,502
Commitments to extend credit	49,022	-	-	-	-	49,022
	4,508,351	391,841	1,591,524	1,372,779	852,885	8,717,380
Derivative financial assets	412,482	700	770,178	44,978	-	1,228,338
Derivative financial liabilities	414,520	716	683,459	38,812	-	1,137,507

	31 December 2017					
FINANCIAL AND CONTINGENT LIABILITIES	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Amounts due to customers	2,856,545	423,508	1,495,277	1,169,878	453,040	6,398,248
Amounts due to credit institutions	163,467	5,130	4,222	13,277	114,284	300,380
Debt securities issued	21,823	15,357	162,061	783,357	322,025	1,304,623
Other financial liabilities	31,529	3,034	3,370	260	12,180	50,373
Guarantees issued	300,565	-	-	-	-	300,565
Commercial letters of credit	70,454	-	-	-	-	70,454
Commitments to extend credit	59,056	-	-	-	-	59,056
	3,503,439	447,029	1,664,930	1,966,772	901,529	8,483,699
Derivative financial assets	1,147,769	-	-	38,877	-	1,186,646
Derivative financial liabilities	1,110,842	-	-	41,912	-	1,152,754

Market risk

Market risk is the risk that the Group's earnings or equity or its ability to meet business objectives will be adversely affected by changes in market variables, such as interest rates, foreign exchange rates, securities prices and other basic variables.

The Group is exposed to market risks, which include the following components:

- Risk of changes in interest rates (interest rate risk);
- Risk of changes in foreign exchange rates (currency risk);
- Risk of changes in securities prices (price risk).

The objective of market risk management is to optimise risk/return, minimise losses in case of adverse events and decrease deviation of factual financial results from expected financial results.

Market risk management includes security portfolio management and control of open positions on currencies, interest rates and derivatives. For these purposes, the ALMC fixes limits on security portfolios, open positions, stop-loss limits and other limitations. Market risk limits are subject to review on at least an annual basis and should be monitored continuously.

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Interest rate risk

The Group is exposed to interest rate risk. Interest rate risk is defined as the risk of interest income decreases, interest expense increases or a negative impact on equity resulting from adverse changes in market interest rates.

The Group determines two types of interest rate risk:

- Interest rate risk related to changes in fair values of securities portfolios, which are reflected through equity;
- Interest rate risk resulting from assets and liabilities maturity dates (dates of interest rate repricing) mismatch that are sensitive to interest rate changes (risk of interest rate changes).

The ALMC manages interest rate risks and market risks through the management of the Group's position on interest rates to reach positive interest margins.

The Group manages interest rates by determining the Group's exposure to the interest rate risk using the approach described by the Basel Committee on the principles for the management and supervision of interest rate risk. This approach identifies the Group's exposure to interest rate risk by testing the impact of a parallel movement in interest rates on assets and liabilities.

Sensitivity analysis of interest rate risk

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on "reasonably possible changes in the risk variable". The Group assesses the reasonably possible changes in interest rates in tenge and foreign currencies separately, in which financial assets and liabilities are denominated due to the different volatility of interest rates. Particularly, a scenario of interest rate changes in tenge takes into account the dynamics of market interest rates (loans/deposits, NBRK base rate etc.).

The impact on profit before tax is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate financial assets and liabilities held as at 31 December 2019, 2018 and 2017 and the effect of revaluing instruments with fixed rates accounted for at fair value. The management of the Group believes income tax not to have a substantial effect for the purpose of interest rate risk management.

The impact on income before tax based on asset and liability values as at 31 December 2019, 2018 and 2017 is as follows:

	31 December 2019		31 December 2018		31 December 2017	
	Interest rate KZT +2% CCY +2%	Interest rate KZT -2% CCY -2%	Interest rate KZT +2% CCY +2%	Interest rate KZT -2% CCY -2%	Interest rate KZT +2% CCY +2%	Interest rate KZT -2% CCY -2%
FINANCIAL ASSETS:						
Financial assets at fair value through profit or loss	(5,592)	5,616	(3,649)	3,636	(1,466)	1,466
KZT	(3,226)	3,226	3,361	(3,529)	(1,292)	1,292
CCY	(2,366)	2,390	(7,010)	7,165	(173)	173
Financial assets at fair value through other comprehensive income (2017: available-for-sale investment securities)	(65)	65	(206)	206	(140)	140
KZT	(65)	65	(21)	21	(58)	58
CCY	-	-	(185)	185	(82)	82
Amounts due from credit institutions	239	(239)	47	(47)	176	(176)
KZT	-	-	-	-	-	-
CCY	239	(239)	47	(47)	176	(176)
Loans to customers	1,217	(1,217)	1,273	(1,273)	2,196	(2,196)
KZT	-	-	-	-	-	-
CCY	1,217	(1,217)	1,273	(1,273)	2,196	(2,196)
FINANCIAL LIABILITIES:						
Amounts due to credit institutions	3	(3)	6	(6)	8	(8)
KZT	-	-	-	-	-	-
CCY	3	(3)	6	(6)	8	(8)
Net impact on income before tax	(4,074)	4,098	(2,541)	2,528	758	(758)

The impact on equity is the effect of the assumed changes in interest rates due to changes in retained earnings and the effect of revaluation of financial assets at fair value through other comprehensive income with fixed rates.

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The impact on equity based on asset and liability values as at 31 December 2019, 2018 and 2017 is as follows:

	31 December 2019		31 December 2018		31 December 2017	
	Interest rate KZT +2% CCY +2%	Interest rate KZT -2% CCY -2%	Interest rate KZT +2% CCY +2%	Interest rate KZT -2% CCY -2%	Interest rate KZT +2% CCY +2%	Interest rate KZT -2% CCY -2%
FINANCIAL ASSETS:						
Financial assets at fair value through profit or loss	(5,592)	5,616	(3,649)	3,636	(1,466)	1,466
KZT	(3,226)	3,226	3,361	(3,529)	(1,292)	1,292
CCY	(2,366)	2,390	(7,010)	7,165	(173)	173
Amounts due from credit institutions	239	(239)	47	(47)	176	(176)
KZT	-	-	-	-	-	-
CCY	239	(239)	47	(47)	176	(176)
Loans to customers	1,217	(1,217)	1,273	(1,273)	2,196	(2,196)
KZT	-	-	-	-	-	-
CCY	1,217	(1,217)	1,273	(1,273)	2,196	(2,196)
Financial assets at fair value through other comprehensive income (2017: available-for-sale investment securities)	(61,335)	61,335	(56,718)	56,718	(158,682)	158,682
KZT	(19,534)	19,534	(18,726)	18,726	(127,858)	127,858
CCY	(41,801)	41,801	(37,993)	37,993	(30,824)	30,824
FINANCIAL LIABILITIES:						
Amounts due to credit institutions	3	(3)	6	(6)	8	(8)
KZT	-	-	-	-	-	-
CCY	3	(3)	6	(6)	8	(8)
Net impact on equity	(65,409)	65,433	(59,053)	59,040	(144,244)	144,070

Currency Risk

The Group is exposed to currency risk. Currency risk arises from open positions in foreign currencies and adverse movements of market exchange rates that may have a negative impact on the financial performance of the Group.

The ALMC controls currency risk by management of the open currency position based on the estimations of KZT devaluation and other macroeconomic indicators, which gives the Group an opportunity to minimise losses from significant currency rate fluctuations of national and foreign currencies.

The treasury department performs daily monitoring of the Group's open currency positions, with the aim to comply with the requirements of the regulatory authority.

The Group is exposed to the effects of fluctuation in the prevailing foreign currency exchange rates (primarily USD) on its financial positions, results of operations and cash flows, which are monitored daily. The ALMC sets limits on the level of exposure by currencies within the authority approved by the Board of Directors. These limits also comply with the minimum requirements of the regulator authority.

The Group's principal cash flows are generated in KZT and USD. As a result, potential movements in the exchange rate between KZT and USD will affect the carrying value of the Group's USD denominated monetary assets and liabilities. Currency risk is assessed in relation to the consolidated statement of financial position and off-balance sheet positions. Currently, the Group's sensitivity to fluctuations in exchange rates is acceptable, due to the fact that the off- balance sheet items significantly neutralise the consolidated statement of financial position.

The Group's exposure to foreign currency exchange rate risk is as follows:

	31 December 2019						
	USD	EURO	RUR	Other	Total foreign currencies	KZT	Total
FINANCIAL ASSETS:							
Cash and cash equivalents	994,768	122,323	35,923	332,216	1,485,230	179,107	1,664,337
Obligatory reserves	81,791	5,128	1,748	2,677	91,344	49,662	141,006
Financial assets at fair value through profit or loss	35,268	1,923	32	2,409	39,632	145,399	185,031
Amounts due from credit institutions	22,256	8,681	5,479	-	36,416	16,745	53,161
Financial assets at fair value through other comprehensive income	760,141	34,905	4,828	-	799,874	831,047	1,630,921
Debt securities at amortised cost, net of allowance for expected credit losses	154,720	-	4,281	9,078	168,079	1,044,902	1,212,981
Loans to customers	991,248	17,487	27,000	33,551	1,069,286	2,683,159	3,752,445
Other financial assets	3,421	257	46	1,158	4,882	97,542	102,424

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	31 December 2019						
	USD	EURO	RUR	Other	Total foreign currencies	KZT	Total
	3,043,613	190,704	79,337	381,089	3,694,743	5,047,563	8,742,306
FINANCIAL LIABILITIES							
Amounts due to customers	3,187,135	136,227	56,665	47,624	3,427,651	2,978,762	6,406,413
Amounts due to credit institutions	30,350	1,500	367	2,363	34,580	271,385	305,965
Financial liabilities at fair value through profit or loss	-	-	662	-	662	19,782	20,444
Debt securities issued	422,786	-	-	-	422,786	411,660	834,446
Other financial liabilities	768	218	1,978	790	3,754	35,255	39,009
	3,641,039	137,945	59,672	50,777	3,889,433	3,716,844	7,606,277
Net position – on-balance	(597,426)	52,759	19,665	330,312	(194,690)	1,330,719	1,136,029
Net position – off-balance	627,245	(49,550)	(17,249)	(308,112)	252,334	(224,606)	
Net position	29,819	3,209	2,416	22,200	57,644	1,106,113	

	31 December 2018						
	USD	EURO	RUR	Other	Total foreign currencies	KZT	Total
FINANCIAL ASSETS:							
Cash and cash equivalents	1,031,248	136,251	35,083	216,857	1,419,439	335,699	1,755,138
Obligatory reserves	58,565	2,663	3,999	1,879	67,106	48,635	115,741
Financial assets at fair value through profit or loss	12,582	-	4,396	2,633	19,611	167,225	186,836
Amounts due from credit institutions	13,128	2,775	6,632	-	22,535	32,500	55,035
Financial assets at fair value through other comprehensive income	598,380	26,555	4,098	-	629,033	1,136,900	1,765,933
Debt securities at amortised cost, net of allowance for expected credit losses	375	-	4,567	6,026	10,968	1,044,939	1,055,907
Loans to customers	1,083,801	8,538	23,729	24,630	1,140,698	2,340,381	3,481,079
Other financial assets	7,371	805	502	763	9,441	66,277	75,718
	2,805,450	177,587	83,006	252,788	3,318,831	5,172,556	8,491,387
FINANCIAL LIABILITIES							
Amounts due to customers	3,388,503	131,505	66,443	32,970	3,619,421	2,907,509	6,526,930
Amounts due to credit institutions	26,892	1,628	555	1,101	30,176	138,203	168,379
Financial liabilities at fair value through profit or loss	-	-	209	-	209	6,813	7,022
Debt securities issued	405,537	-	352	-	405,889	494,902	900,791
Other financial liabilities	1,389	501	449	811	3,150	23,862	27,012
	3,822,321	133,634	68,008	34,882	4,058,845	3,571,289	7,630,134
Net position – on-balance	(1,016,871)	43,953	14,998	217,906	(740,014)	1,601,267	861,253
Net position – off-balance	1,058,084	(45,694)	(16,437)	(197,675)	798,278	(700,861)	
Net position	41,213	(1,741)	(1,439)	20,231	58,264	900,406	

	31 December 2017						
	USD	EURO	RUR	Other	Total foreign currencies	KZT	Total
FINANCIAL ASSETS:							
Cash and cash equivalents	1,109,425	46,437	45,162	61,609	1,262,633	517,915	1,780,548
Obligatory reserves	39,987	648	1,081	1,945	43,661	67,378	111,039
Financial assets at fair value through profit or loss	10,674	-	2,628	283	13,585	131,391	144,976
Amounts due from credit institutions	20,107	1,002	17,897	-	39,006	48,730	87,736
Available-for-sale investment securities	571,589	7,818	6,151	11,890	597,448	1,967,977	2,565,425
Loans to customers	888,479	40,131	22,775	14,149	965,534	2,285,568	3,251,102
Other financial assets	1,785	2,466	2,220	114	6,585	38,873	45,458
	2,642,046	98,502	97,914	89,990	2,928,452	5,057,832	7,986,284
FINANCIAL LIABILITIES							
Amounts due to customers	3,192,513	118,900	56,485	34,852	3,402,750	2,729,000	6,131,750
Amounts due to credit institutions	25,698	690	281	943	27,612	227,539	255,151

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Financial liabilities at fair value through profit or loss	-	-	213	-	213	5,618	5,831
Debt securities issued	483,213	-	353	-	483,566	478,830	962,396
Other financial liabilities	14,369	279	684	628	15,960	34,413	50,373
	3,715,793	119,869	58,016	36,423	3,930,101	3,475,400	7,405,501
Net position – on-balance	(1,073,747)	(21,367)	39,898	53,567	(1,001,649)	1,582,432	580,783
Net position – off-balance	1,103,118	21,258	(37,399)	(47,001)	1,039,976	(995,954)	
Net position	29,371	(109)	2,499	6,566	38,327	586,478	

Sensitivity analysis of currency risk

The table below indicates the currencies in which the Group had significant exposure at 31 December 2019, 2018 and 2017 and its forecasted cash flows. The analysis calculates the effect of a reasonable possible movement of the currency rate, with all other variables held constant on the consolidated statement of profit or loss. A negative amount in the table reflects a potential net reduction in the consolidated statement of profit or loss, while a positive amount reflects a net potential increase. Sensitivity of currency risk is assessed based on balance sheet and off-balance sheet open currency positions. The management of the Group believes income tax not to have a substantial effect for the purpose of currency risk management.

The impact on income before tax and equity, based on asset values was calculated using the currency rate fluctuation analysis. As at 31 December 2019, 2018 and 2017, the Management of the Group believes that 15% is the possible movement of the currency rate.

The impact on income before tax and equity, based on asset values as at 31 December 2019, 2018 and 2017 was calculated using the annual analysis of the exchange rate volatility based on historical data of the exchange rate dynamics over the last two years; see the details in the following table:

	31 December 2019		31 December 2018		31 December 2017	
	+15% KZT/USD	-15% KZT/USD	+15% KZT/USD	-15% KZT/USD	+15% KZT/USD	-15% KZT/USD
Impact on income before tax	4,473	(4,473)	6,182	(6,182)	4,406	(4,406)

	31 December 2019		31 December 2018		31 December 2017	
	+15% KZT/URO	-15% KZT/ EURO	+15% KZT/URO	-15% KZT/EURO	+15% KZT/URO	-15% KZT/EURO
Impact on income before tax	481	(481)	(261)	261	(16)	16

	31 December 2019		31 December 2018		31 December 2017	
	+15% KZT/RUR	-15% KZT/RUR	+15% KZT/RUR	-15% KZT/RUR	+15% KZT/RUR	-15% KZT/RUR
Impact on income before tax	362	(362)	(216)	216	375	(375)

The impact on equity is as follows:

	31 December 2019		31 December 2018		31 December 2017	
	+15% KZT/USD	-15% KZT/USD	+15% KZT/USD	-15% KZT/USD	+15% KZT/USD	-15% KZT/USD
Impact on equity	4,473	(4,473)	6,182	(6,182)	4,406	(4,406)

	31 December 2019		31 December 2018		31 December 2017	
	+15% KZT/URO	-15% KZT/EURO	+15% KZT/URO	-15% KZT/URO	+15% KZT/URO	-15% KZT/URO
Impact on equity	481	(481)	(261)	261	(16)	16

	31 December 2019		31 December 2018		31 December 2017	
	+15% KZT/RUR	-15% KZT/RUR	+15% KZT/RUR	-15% KZT/RUR	+15% KZT/RUR	-15% KZT/RUR
Impact on equity	362	(362)	(216)	216	375	(375)

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption, while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary at the time that any actual market movement occurs. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management

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actions could include selling investments, changing investment portfolio allocations and taking other protective actions. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value on the consolidated statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Group's view of possible near-term market changes that cannot be predicted with any certainty.

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, where those changes are caused by factors specific to the individual security, its issuer, or factors affecting all securities traded in the market. The Group is exposed to price risks of its products, which are subject to general and specific market fluctuations.

To limit price risk, the Group determines limits for maximum losses (stop-loss) on securities from the trade portfolio to minimise potential losses of the trade portfolio.

Price risk assessment is also performed on the basis of the Value At Risk ("VaR") method, through the establishment of Expected Shortfall ("ES") limits on the level of expected losses, which the Bank is able to undertake within one day in a situation when factual losses may exceed the level of VaR.

Calculation of VaR is based on the following parameters:

- Reporting period – 252 working days;
- Confidence interval – 95%;
- The method of measurement – historical simulation.

The Group estimates the price risk at 31 December 2019, 2018 and 2017 to be not material and therefore quantitative information is not disclosed.

36. Capital risk management

The Group's capital management objectives, which are a broader concept than the "equity" on the face of the consolidated statement of financial position, are as follows:

- To comply with the capital requirements set by the NBRK;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The required level of capital is determined during the annual budgeting process, taking into account the above objectives, and is approved by the Management Board and the Board of Directors. As of the current date the capital adequacy of the Group is calculated according to prudential norms set for banks by the Kazakhstan regulatory authority, applying Basel Committee principles and methods.

Currently, regulatory capital is represented by:

- Tier 1 capital, which is required to maintain the normal operating activity of the Group and absorb losses as they arise. It consists of Common Equity Tier 1 capital ("CET 1 capital") and Additional Tier 1 capital, which includes common shares issued by the Group, share premium, retained earnings, other accrued comprehensive income and disclosed reserves and regulatory adjustments (deductions);
- Tier 2 capital, which is required to absorb losses in case of the Group's liquidation. This part of capital consists of instruments issued by the Group and deductions.

Risk-weighted assets are split into five different groups, based on the risk level of the investment and its possible impairment, and weighted according to the nature of and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments made to reflect the more contingent nature of the potential losses.

The below table summarises the regulatory capital composition and capital adequacy ratios of the Group for the years ended 31 December 2019, 2018, and 2017. During these three years, individual entities within the Group and the Group complied with all of the externally imposed capital requirements to which they are subject.

	31 December 2019	31 December 2018	31 December 2017
Composition of regulatory capital			
CET 1			
Common shares, net of treasury shares	94,393	97,586	39,461
Share premium	3,867	1,839	1,839
Retained earnings of prior years	762,131	632,981	538,944
Net income for the current year	334,511	254,238	173,362
Accumulated disclosed reserves*	53,170	53,173	73,362
Non-controlling interest	6	6	72,441
Property and financial assets at fair value through other comprehensive income revaluation reserves	44,679	9,902	28,478
Less: goodwill and intangible assets	(12,806)	(11,520)	(11,336)
Less: cumulative translation reserve	(9,105)	(9,657)	(6,570)

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	31 December 2019	31 December 2018	31 December 2017
Common Equity Tier 1 (CET 1) Capital	1,270,846	1,028,548	909,981
Additional tier 1			
Tier 2			
Subordinated debt	81,463	82,733	109,082
Total qualifying for Tier 2 capital	81,463	82,733	109,082
Total regulatory capital	1,352,309	1,111,281	1,019,063
Risk weighted assets	6,163,775	5,549,906	5,395,725
CET 1 capital adequacy ratio	20.6%	18.5%	16.9%
Tier 1 capital adequacy ratio	20.6%	18.5%	16.9%
Total capital adequacy ratio	21.9%	19.9%	18.9%

*As at 31 December 2019, accumulated disclosed reserves comprised from KZT 53,170 million capital reserve

(31 December 2018: 53,173 million capital reserve; 31 December 2017: KZT 19,568 million dynamic reserve and KZT 53,794 million capital reserve).

Starting from 1 January 2017, prudential norms of the NBRK, which apply certain principles and methods prescribed by Basel III committee, set minimum CET 1 capital, Additional Tier 1 capital and total capital adequacy ratios at 9.5%, 10.5% and 12.0%, respectively.

As at 31 December 2019, 2018 and 2017, the Group had complied with NBRK's capital requirements.

37. Segment analysis

The Group is managed and reported on the basis of four main operating segments – corporate banking, SME banking, retail banking and investment banking. These segments are strategic business units that offer different products and services and are managed separately.

Retail banking represents private banking services to individuals, including private customer current accounts, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages, cash and foreign currency related services to individuals.

Corporate banking represents banking services to corporate clients and financial organisations including current accounts and correspondent accounts, deposits, custody, overdrafts, loans and other credit facilities, documentary operations, including guarantees and letters of credit, trade finance products, interbank operations, as well as cash services and foreign exchange transactions.

SME banking represents banking services to SME clients and individual entrepreneurs, including current accounts, deposits, overdrafts, loans and other credit facilities, documentary operations and guarantees, foreign exchange transactions and trade finance products.

Investment banking represents services on sale and purchase of securities on the market.

Unallocated amounts are account balances and classes of transactions which are not allocated to a particular segment, not initiated by any business function and relate to the current activity of the Group. Unallocated assets include fixed assets, intangible assets, non-current assets held for sale, cash on hand and other unallocated assets. Unallocated liabilities include deferred tax liabilities and other unallocated liabilities. Unallocated income includes other income from main and nonoperating activities and insurance income. Unallocated expenses include the allowances for expected credit losses on accounts receivable, operating overhead expenses, insurance expenses and income tax.

The segment information below is based on financial information used for performance evaluation by the Bank's Chairperson of the Management Board, the Group's chief operating decision maker, in accordance with IFRS 8. The Group's management reviews discrete financial information for each segment, including the evaluation of operating results, assets and liabilities.

There were no transactions between business segments during the years ended 31 December 2019, 2018 and 2017.

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Segment information for the main reportable business segments of the Group as at 31 December 2019, 2018 and 2017 and for the years then ended, is set out below:

	Retail banking	Corporate banking	SME banking	Investment banking	Unallocated	Total
As at 31 December 2019 and for the year then ended						
External revenues	275,784	276,271	108,966	221,252	139,572	1,021,845
Total revenues	275,784	276,271	108,966	221,252	139,572	1,021,845
Total revenues comprise:						
- Interest income	182,640	244,006	70,561	213,076	21	710,304
- Fee and commission income, including:	84,495	14,169	24,059	-	533	123,256
Payment cards operations	61,896	118	973	-	160	63,147
Bank transfers - settlements	5,264	3,272	7,279	-	63	15,878
Cash operations	1,503	1,666	8,137	-	29	11,335
Letters of credit and guarantees issued	3	7,831	1,845	-	39	9,718
Servicing customers' pension payments	8,128	-	3	-	-	8,131
Bank transfers – salary projects	6,925	-	-	-	-	6,925
Maintenance of customer accounts	337	132	2,841	-	-	3,310
Other	439	1,150	2,981	-	242	4,812
- Net gain from financial a realised gain from financial assets at fair value through other comprehensive income	-	-	-	8,138	-	8,138
- Net foreign exchange gain	8,649	18,096	14,346	38	4,250	45,379
- Share in profit of associate	-	-	-	-	5,742	5,742
- Insurance underwriting income and other income	-	-	-	-	129,026	129,026
Total revenues	275,784	276,271	108,966	221,252	139,572	1,021,845
- Interest expense	(132,067)	(78,111)	(19,062)	(82,800)	(286)	(312,326)
- Recovery of credit loss expense/(credit loss expense)	3,480	(25,171)	(7,436)	159	(1,086)	(30,054)
- Fee and commission expense	(48,538)	(3,290)	(560)	(165)	(2,093)	(54,646)
- Net (loss)/gain from financial assets and liabilities at fair value through profit or loss	-	(28,575)	-	9,841	-	(18,734)
- Operating expenses	(81,827)	(6,056)	(14,294)	(798)	(39,251)	(142,226)
- (Other credit loss expense)/recoveries of other credit loss expense	(45)	(1,517)	(155)	-	409	(1,308)
- Loss from impairment of non-financial assets	-	-	-	-	(7,429)	(7,429)
- Insurance claims incurred, net of reinsurance	-	-	-	-	(84,637)	(84,637)
Total expenses	(258,997)	(142,720)	(41,507)	(73,763)	(134,373)	(651,360)
Segment result	16,787	133,551	67,459	147,489	5,199	370,485
Income before income tax expense						370,485
Income tax expense					(35,974)	(35,974)
Net income						334,511
Total segment assets	966,284	3,912,525	595,918	3,021,001	739,030	9,234,758

Notes to the Consolidated Financial Statements For the years ended 31 December 2019, 2018 and 2017

(Millions of Kazakhstani Tenge)

	Retail banking	Corporate banking	SME banking	Investment banking	Unallocated	Total
As at 31 December 2019 and for the year then ended						
Total segment liabilities	3,295,854	2,689,734	874,569	834,881	232,497	7,927,535
Other segment items:						
Capital expenditures					(16,887)	(16,887)
Depreciation and amortisation					(11,596)	(11,596)
Investment in associate					26,732	26,732

	Retail banking	Corporate banking	SME banking	Investment banking	Unallocated	Total
As at 31 December 2018 and for the year then ended						
External revenues	255,977	371,897	85,068	211,456	95,400	1,019,798
Total revenues	255,977	371,897	85,068	211,456	95,400	1,019,798
Total revenues comprise:						
- Interest income	177,483	237,433	63,064	204,061	-	682,041
- Fee and commission income	78,150	10,559	21,389	114	3,029	113,241
- Net gain from financial assets and liabilities at fair value through profit or loss	-	108,684	-	4,853	621	114,158
- Net realised gain from financial assets at fair value through other comprehensive income	-	-	-	2,428	-	2,428

	Retail banking	Corporate banking	SME banking	Investment banking	Unallocated	Total
As at 31 December 2018 and for the year then ended						
- Recovery of other credit loss expense/ (other credit loss expense)	344	15,221	615	-	(229)	15,951
- Share in profit of associate	-	-	-	-	2,899	2,899
- Insurance underwriting income and other income	-	-	-	-	89,080	89,080
Total revenues	255,977	371,897	85,068	211,456	95,400	1,019,798
- Interest expense	(159,676)	(79,308)	(10,662)	(84,126)	-	(333,772)
- (Credit loss expense)/ recovery of credit loss expense	(28,400)	7,579	(5,422)	(10)	(5,742)	(31,995)
- Fee and commission expense	(32,231)	(2,450)	(2,610)	(98)	(1,617)	(39,006)
- Operating expenses	(73,595)	(7,530)	(19,124)	(974)	(36,000)	(137,223)
- Loss from impairment of non-financial assets	-	-	-	-	(27,308)	(27,308)
- Net foreign exchange gain/(loss)	11,845	(109,110)	14,055	2,094	16,539	(64,577)
- Insurance claims incurred, net of reinsurance	-	-	-	-	(59,986)	(59,986)
Total expenses	(282,057)	(190,819)	(23,763)	(83,114)	(114,114)	(693,867)
Segment result	(26,080)	181,078	61,305	128,342	(18,714)	325,931
Income before income tax expense						325,931
Income tax expense					(82,474)	(82,474)
Profit from discontinued operation						9,974
Net income						253,431
Total segment assets	852,537	3,886,875	570,144	2,910,825	738,643	8,959,024

Notes to the Consolidated Financial Statements For the years ended 31 December 2019, 2018 and 2017

(Millions of Kazakhstani Tenge)

	Retail banking	Corporate banking	SME banking	Investment banking	Unallocated	Total
As at 31 December 2018 and for the year then ended						
Total segment liabilities	3,342,535	2,409,386	907,574	900,790	333,093	7,893,378
Other segment items:						
Capital expenditures					(9,199)	(9,199)
Depreciation and amortisation					(10,929)	(10,929)
Investment in associate					20,437	20,437

	Retail banking	Corporate banking	SME banking	Investment banking	Unallocated	Total
As at 31 December 2017 and for the year then ended						
External revenues	202,012	208,150	61,304	151,708	83,744	706,918
Total revenues	202,012	208,150	61,304	151,708	83,744	706,918
Total revenues comprise:						
- Interest income	129,814	191,646	46,501	138,367	-	506,328
- Fee and commission income	62,404	9,140	13,533	-	2,563	87,640
- Net realised gain from available-for-sale investment securities	-	-	-	1,064	-	1,064
- Net gain from financial assets and liabilities at fair value through profit or loss	9,794	5,995	1,243	12,267	2,124	31,423
- Recovery of provisions	-	1,369	27	10	331	1,737

	Retail banking	Corporate banking	SME banking	Investment banking	Unallocated	Total
As at 31 December 2017 and for the year then ended						
- Insurance underwriting income and other income	-	-	-	-	78,726	78,726
Total revenues	202,012	208,150	61,304	151,708	83,744	706,918
- Interest expense	(116,689)	(71,830)	(7,558)	(61,728)	-	(257,805)
- (Credit loss expense)/ recovery of credit loss expense	(5,672)	(33,675)	(30,615)	10	2,650	(67,302)
- Fee and commission expense	(24,101)	(1,258)	(347)	(34)	(992)	(26,732)
- Operating expenses	(58,423)	(6,242)	(17,478)	(5,659)	(17,995)	(105,797)
- Impairment loss of assets held for sale	-	-	-	-	(6,533)	(6,553)
- Net foreign exchange gain/(loss)	7,975	(9,633)	9,937	(11,047)	(2,181)	(4,949)
- Insurance claims incurred, net of reinsurance	-	-	-	-	(48,615)	(48,615)
Total expenses	(196,910)	(122,638)	(46,061)	(78,458)	(73,666)	(517,733)
Segment result	5,102	85,512	15,243	73,250	10,078	189,185
Income before income tax expense						189,185
Income tax expense					(25,598)	(25,598)
Profit from discontinued operation						9,876
Net income						173,463
Total segment assets	860,802	4,023,358	528,025	2,786,877	658,719	8,857,781
Total segment liabilities	3,170,388	2,863,345	659,120	1,000,269	230,202	7,923,324
Other segment items:						

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(Millions of Kazakhstani Tenge)

	Retail banking	Corporate banking	SME banking	Investment banking	Unallocated	Total
As at 31 December 2017 and for the year then ended						
Capital expenditures					(13,862)	(13,862)
Depreciation and amortisation					(9,692)	(9,692)

Geographical information

Information for the main geographical areas of the Group is set out below as at 31 December 2019, 2018 and 2017 and for the years then ended.

	Kazakhstan	OECD	Non-OECD	Total
2019				
Total assets	7,730,579	1,268,411	235,768	9,234,758
External revenues	946,985	46,035	28,825	1,021,845
Capital expenditure	(16,887)	-	-	(16,887)
2018				
Total assets	8,060,035	686,565	212,424	8,959,024
External revenues	961,788	28,566	29,444	1,019,798
Capital expenditure	(9,199)	-	-	(9,199)
2017				
Total assets	7,833,566	768,199	256,016	8,857,781
External revenues	666,849	20,206	19,863	706,918
Capital expenditure	(13,862)	-	-	(13,862)

External revenues, assets and credit related commitments have generally been allocated based on the domicile of the counterparty. Cash on hand, property and equipment and capital expenditure have been allocated based on the country in which they are physically held.

38. Fair values of financial instruments

IFRS defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at a measurement date.

The fair values of the Group's financial assets and financial liabilities are measured at fair value on a recurring basis.

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting year. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

Financial assets and financial liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurements. Management's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy.

The Group considers that the accounting estimate related to the valuation of financial instruments where quoted markets prices are not available is a key source of estimation uncertainty because: (i) it is highly susceptible to changes from year to year, as it requires management to make assumptions about interest rates, volatility, exchange rates, the credit rating of the counterparty, valuation adjustments and specific features of transactions and (ii) the impact that recognising a change in the valuations would have on the assets reported on the consolidated statement of financial position, as well as, the related profit or loss reported on the consolidated statement of profit or loss, could be material.

Notes to the Consolidated Financial Statements For the years ended 31 December 2019, 2018 and 2017

(Millions of Kazakhstani Tenge)

The table below summarises the Group's financial assets and liabilities held at fair value by valuation methodology at 31 December 2019, 2018 and 2017:

Financial Assets/Liabilities	Fair value			Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	31 December 2019	31 December 2018	31 December 2017				
Non-derivative financial assets at fair value through profit or loss (Note 7)	98,337	88,825	105,253	Level 1	Quoted bid prices in an active market.	Not applicable	Not applicable
Non-derivative financial assets at fair value through profit or loss (Note 7)	81,462	-	-	Level 2	Quoted bid prices in a market that is not active.	Not applicable	Not applicable
Non-derivative financial assets at fair value through profit or loss (Note 7)	144	158	-	Level 2	Discounted cash flows. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period).	Not applicable	Not applicable
Derivative financial assets at fair value through profit or loss, excluding options (Note 7)	11	-	-	Level 1	Quoted bid prices in an active market.	Not applicable	Not applicable
Derivative financial assets at fair value through profit or loss, excluding options (Note 7)	730	2,582	147	Level 2	Discounted cash flows. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period).	Not applicable	Not applicable
Derivative financial assets at fair value through profit or loss, excluding options (Note 7)	4,347	95,271	39,576	Level 3	Future cash flows in USD discounted using the LIBOR rate obtained from available sources. Future cash flows in KZT discounted using the internal rate of return, which was calculated based on LIBOR and foreign exchange rates obtained from available sources. The difference between net present values of these discounted cash flows should be equal to nil at initial recognition.	KZT implied rate	The greater KZT implied rate – the smaller fair value
Total financial assets at fair value through profit or loss	185,031	186,836	144,976				
Derivative financial liabilities at fair value through profit or loss, excluding options (Note 7)	25	-	-	Level 1	Quoted bid prices in an active market.	Not applicable	Not applicable
Derivative financial liabilities at fair value through profit or loss, excluding options (Note 7)	20,419	7,022	5,339	Level 2	Discounted cash flows. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting year).	Not applicable	Not applicable
Derivative financial liabilities at fair value through profit or loss (Note 7)	-	-	492	Level 3	Future cash flows in USD discounted using LIBOR rate obtained from available sources. Future cash flows in KZT discounted using internal rate of return, which was calculated based on LIBOR and foreign exchange rates obtained from available sources. The difference between net present values of these discounted cash flows should be equal to zero at initial recognition.	KZT implied rate	The internal rate of return on KZT is calculated at the initial recognition of the instrument and is not subsequently recalculated

Notes to the Consolidated Financial Statements For the years ended 31 December 2019, 2018 and 2017

(Millions of Kazakhstani Tenge)

Financial Assets/Liabilities	Fair value			Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	31 December 2019	31 December 2018	31 December 2017				
Total financial liabilities at fair value through profit or loss	20,444	7,022	5,831				
Non-derivative available-for-sale investment securities (Note 9)	n/a	n/a	1,501,882	Level 1	Quoted bid prices in an active market.	Not applicable	Not applicable
Non-derivative available-for-sale investment securities (Note 9)	n/a	n/a	1,061,654	Level 2	Quoted bid prices in a market that is not active.	Not applicable	Not applicable
Non-derivative available-for-sale investment securities included in bonds of foreign organizations (Note 9)	n/a	n/a	1,871	Level 2	Discounted cash flows. Future cash flows discounted using LIBOR adjusted for credit risk of the issuer obtained from available sources.	Not applicable	Not applicable
Non-derivative available-for-sale investment securities – unquoted equity securities (Note 9)	n/a	n/a	18	Level 3	Valuation model based on internal rating model.	Percentage discount	The greater discount - the smaller fair value
Available-for-sale investment securities	n/a	n/a	2,565,425				
Non-derivative financial assets at fair value through other comprehensive income (Note 9)	804,075	1,763,715	n/a	Level 1	Quoted bid prices in an active market.	Not applicable	Not applicable
Non-derivative financial assets at fair value through other comprehensive income in bonds of foreign organisations (Note 9)	826,846	2,165	n/a	Level 2	Quoted bid prices in a market that is not active.	Not applicable	Not applicable
Non-derivative financial assets at fair value through other comprehensive income – unquoted equity securities (Note 9)	-	53	n/a	Level 3	Valuation model based on internal rating model.	Percentage discount	The greater discount - the smaller fair value
Financial assets at fair value through other comprehensive income	1,630,921	1,765,933	n/a				

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(Millions of Kazakhstani Tenge)

There were no transfers between Levels 1 and 2, nor between Levels 2 and 3, during the years ended 31 December 2019, 2018 and 2017.

	Derivative financial assets at fair value through profit or loss (Level 3)	Financial assets at fair value through other comprehensive income Unquoted equity securities (Level 3)	Derivative financial liabilities at fair value through profit or loss (Level 3)
31 December 2016	76,683	82	-
Additions on acquisition of a subsidiary	39,576	-	4,385
Gain/(loss) to profit or loss	3,651	(3)	1,529
Settlements*	(80,334)	(61)	(5,422)
31 December 2017	39,576	18	492
Additions on acquisition of a subsidiary	30,986	46	-
Gain to profit or loss	96,584	-	508
Settlements*	(71,875)	(11)	(1,000)
31 December 2018	95,271	53	-
Loss to profit or loss	(8,403)	-	-
Settlements*	(82,521)	-	-
31 December 2019	4,347	53	-

*As at 31 December 2019, 2018 and 2017, the settlements include interest and repayment of NBRK swaps.

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

The following methods and assumptions are used by the Group to estimate the fair value of financial instruments not carried at fair value.

Amounts due to and from credit institutions

For assets and liabilities maturing within one month, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For the assets and liabilities maturing in over one month, the fair value was estimated as the present value of the estimated future cash flows, discounted at the appropriate year-end market rates.

Loans to customers

The estimate was made by discounting the scheduled future cash flows of the individual loans through the estimated maturity using prevailing market rates as at the respective year-end.

Amounts due to customers

Interest rates charged to customers closely approximate market interest rates and accordingly, the carrying amounts approximate fair values.

Debt securities issued

Market values have been used to determine the fair value of debt securities traded on an active market. For other debt securities, the fair value was estimated as the present value of estimated future cash flows, discounted at the year-end market rates.

The following table sets out the carrying amount and fair values of financial assets and liabilities not carried at their fair values:

	31 December 2019		31 December 2018		31 December 2017	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets						
Amounts due from credit institutions	53,161	55,495	55,035	54,966	87,736	85,199
Loans to customers	3,752,445	3,725,629	3,481,079	3,474,191	3,251,102	3,396,385
Debt securities at amortised cost, net of allowance for expected credit losses	1,212,981	1,218,432	1,055,907	1,088,278	n/a	n/a
Financial liabilities						
Amounts due to customers	6,406,413	6,177,010	6,526,930	6,692,308	6,131,750	6,176,030
Amounts due to credit institutions	305,965	315,415	168,379	153,758	255,151	231,465
Debt securities issued	834,446	831,153	900,791	968,989	962,396	1,034,387

	31 December 2019			
	Level 1	Level 2	Level 3	Total fair value
Financial assets				
Amounts due from credit institutions	-	55,495	-	55,495
Loans to customers	-	-	3,725,629	3,725,629
Debt securities at amortised cost, net of allowance for expected credit losses	-	1,218,432	-	1,218,432
Financial liabilities				
Amounts due to customers	-	6,177,010	-	6,177,010
Amounts due to credit institutions	-	315,415	-	315,415
Debt securities issued	831,153	-	-	831,153

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(Millions of Kazakhstani Tenge)

	31 December 2018			
	Level 1	Level 2	Level 3	Total fair value
Financial assets				
Amounts due from credit institutions	-	54,966	-	54,966
Loans to customers	-	-	3,474,191	3,474,191
Debt securities at amortised cost, net of allowance for expected credit losses	-	1,088,278	-	1,088,278
Financial liabilities				
Amounts due to customers	-	6,692,308	-	6,692,308
Amounts due to credit institutions	-	153,758	-	153,758
Debt securities issued	968,989	-	-	968,989
	31 December 2017			
	Level 1	Level 2	Level 3	Total fair value
Financial assets				
Amounts due from credit institutions	-	85,199	-	85,199
Loans to customers	-	-	3,396,385	3,396,385
Financial liabilities				
Amounts due to customers	-	6,176,030	-	6,176,030
Amounts due to credit institutions	-	231,465	-	231,465
Debt securities issued	1,034,387	-	-	1,034,387

The carrying amounts of cash and cash equivalents, obligatory reserves, other financial assets and other financial liabilities approximates fair value due to the short-term nature of such financial instruments.

39. Related party transactions

Related parties or transactions with related parties are assessed in accordance with IAS 24 "Related Party Disclosures". Related parties may enter into transactions which unrelated parties might not. Terms, conditions and amounts of related party transactions are usually same as those between unrelated parties.

Considering each possible related party not only their legal status is taken into account but also the substance of the relationship between these parties.

As at 31 December 2019, 2018 and 2017, the Group had the following transactions outstanding with related parties:

	31 December 2019		31 December 2018		31 December 2017	
	Related party balances	Total category as per financial statements caption	Related party balances	Totalcategory as per financial statements caption	Related party balances	Total category as per financial statements caption
Loans to customers before allowance for expected credit losses	21	4,161,163	1,746	3,890,872	2,350	3,568,263
- entities with joint control or significant influence over the entity	-		1,640		2,193	
- key management personnel of the entity or its parent	6		86		115	
- other related parties	15		20		42	
Allowance for expected credit losses	(2)	(408,718)	(18)	(409,793)	(10)	(317,161)
- entities with joint control or significant influence over the entity	-		(16)		(10)	
- key management personnel of the entity and its parent	(1)		(1)		-	
- other related parties	(1)		(1)		-	
Amounts due to customers	377,204	6,406,413	252,136	6,526,930	156,137	6,131,750
- the parent	230,663		69,882		29,773	
- entities with joint control or significant influence over the entity	4,469		9,480		3,175	
- key management personnel of the entity or its parent	9,871		11,076		9,003	
- other related parties	132,201		161,698		114,186	

Notes to the Consolidated Financial Statements For the years ended 31 December 2019, 2018 and 2017

(Millions of Kazakhstani Tenge)

Included in the consolidated statement of profit or loss for the years ended 31 December 2019, 2018 and 2017, are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2019		Year ended 31 December 2018		Year ended 31 December 2017	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income calculated using effective interest method	53	701,350	318	675,699	156	497,597
- entities with joint control or significant influence over the entity	51		127		141	
- key management personnel of the entity or its parent	-		13		10	
- other related parties	2		178		5	
Other interest income	-	8,954	-	6,342	-	8,731
Interest expense	(4,226)	(312,326)	(4,217)	(333,772)	(3,518)	(257,805)
- the parent	(1,694)		(2,479)		(2,535)	
- entities with joint control or significant influence over the entity	(144)		(22)		(3)	
- key management personnel of the entity or its parent	(115)		(213)		(198)	
- other related parties	(2,273)		(1,503)		(782)	

	Year ended 31 December 2019		Year ended 31 December 2018		Year ended 31 December 2017	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Key management personnel compensation:	2,496	79,231	3,672	77,563	1,922	51,124
- Salaries and other employee benefits	2,496		3,672		1,922	

40. Subsequent events

On 19 February 2020, the Bank announced a consent solicitation in relation to the outstanding unsubordinated bonds, denominated in USD, related to the certain amendments to their terms and conditions in order to align them with the Bank's current dividend policy updated in June 2019.

On 25 February 2020, the Bank announced the convening of absentee general meetings of holders of the outstanding local unsubordinated bonds, denominated in KZT, in order to make certain amendments to their terms and conditions to align them with the Bank's current dividend policy updated in June 2019. The respective bondholders' meetings will be held on 18 March 2020.

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INFORMATION FOR SHAREHOLDERS

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Registered number
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Date of re-registration
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Eastern Kazakhstan regional branch
57a, Gorkiy St., Ust-Kamenogorsk, 070004

Tel: +7 7232 59 3538

Fax: +7 7232 59 3625

Zhambyl regional branch
145, Zhambyl Ave., Taraz, 080000

Tel: +7 7262 59 5999

Fax: +7 7262 45 2523

Zheskazgan regional branch
31A, Garyshkerler Ave., Zheskazgan, 100600

Tel: +7 7102 77 8484

Fax: +7 7102 77 8265

Western Kazakhstan regional branch
194/1, Nursultan Nazarbayev Ave., Uralsk, 090000

Tel: +7 7112 59 3920

Fax: +7 7112 59 3996

Karaganda regional branch
56, Tishbek Akhanov St., Karaganda, 100008

Tel: +7 7212 58 9222, 56 3677

Fax: +7 7212 56 3677

Kostanay regional branch
146, Tawelsizdik St., Kostanay, 110000

Tel: +7 7142 59 3388

Fax: +7 7142 54 0803

Kyzylorda regional branch
91a, Kulyash Baiseitova St., Kyzylorda, 20001

Tel: +7 7242 55 0001

Fax: +7 7242 55 0002

Mangistau regional branch
6, Microdistrict 9, Aktau, 130000

Tel: +7 7292 70 0101

Fax: +7 7292 42 9803

Pavlodar regional branch
1/1, Lermontov St., Pavlodar, 140008

Tel: +7 7182 59 3685

Fax: +7 7182 32 3760

Northern Kazakhstan regional branch
36, Konstitutsiya St., Petropavlovsk, 150008

Tel: +7 7152 59 5707

Fax: +7 7152 46 8320

Semey regional branch
109, Abaya Kunanbayeva St., Semey, 071400

Tel: +7 7222 55 8803

Fax: +7 7222 55 8805

Shymkent regional branch
3/10, Al-Farabi Sq., Shymkent, 160012

Tel: +7 7252 58 9779

Fax: +7 7252 53 0026

Taldykorgan regional branch
22/1, Karatal dist., Taldykorgan, 040000

Tel: +7 7282 30 5702

Fax: +7 7282 30 5708

Akmola regional branch
33, Nursultan Nazarbayev Ave., Kokshetau, 020000

Tel: +7 7162 59 5472

Fax: +7 7162 31 1857

Baikonyr regional branch
16, Gorky St., Baikonyr, 468320

Tel: +7 33622 7 4654

Fax: +7 33622 7 0233

Zhanaozen regional branch
15, Zhalyn Microdistrict, Zhanaozen, 359900

Tel/fax: +7 729 34 3 4237

Ekibastuz regional branch
49A, Baurzhan Momyshuly St., Ekibastuz, 141200

Tel: +7 7187 34 8980

Fax: +7 7187 34 0794

Temirtau regional branch
26A, Respublika Ave., Temirtau, 101403

Tel: + 7 7213 98 0439

Fax: +7 7213 90 8118

Balkhash regional branch
15a, Sashubaya Koshkarbayeva microregion, Balkhash

Fax: +7 71036 4 39 60

Turkestan regional branch
6, Aiteke bi St., Turkestan

Fax: +7 7253 34 14 61

Subsidiaries

Kazakhstan

Halyk Collection
109 "B", Abay Ave., Almaty

Tel: +7 727 357 29 27

Halyk Leasing
26/118, Masanchi St., Almaty

Tel: +7 727 239 87 98

Halyk Finance
109 "B", Abay Ave., Almaty

Tel: +7 727 357 31 77

Kazkommerts Securities
240 G, Nursultan Nazarbayev Pr., Almaty

Tel: +7 727 244 65 05

Kazteleport
109 "B", Abay Ave., Almaty

Tel/Fax: +7 727 392 58 92

Halyk Finservice
34, Al-Farabi Ave., Almaty

Halyk Life
109 "B", Abay Ave., Almaty

Tel: +7 727 244 62 22

Halyk Insurance Company
109 "B", Abay Ave., Almaty

Tel: +7 727 331 50 72

Halyk Project
109 "B", Abay Ave., Almaty

Tel: +7 727 259 65 78

KUSA Halyk
Community 41, bld. 23, Bukhar Zhyrau Blvd., Bostandyksy district, Almaty

Tel: +7 727 232 14 50

Halyk Aktiv
Community 293, bld. 77/3, Al-Farabi Pr., Bostandyksy district, Almaty

Tel: +7 727 311 51 66

Halyk Aktiv 1
Community 293, bld. 77/3, Al-Farabi Pr., Bostandyksy district, Almaty

Tel: +7 727 311 51 66

Georgia

Halyk Bank Georgia

74, Kostava St., Tbilisi

Tel: +995 32 224 07 07

Kyrgyzstan

Halyk Bank Kyrgyzstan
390, Frunze St., Bishkek, Kyrgyzstan

Tel: +996 312 614 128

Russia

Moskommertsbank
20/1, Malaya Ordynka St.,

Moscow 119017, Russia

Tel: +7 495 961 24 70

Tajikistan

Kazkommertsbank Tajikistan
SAS Business Centre

24 "A", Ayni Ave.,

Dushanbe 734012, Tajikistan

Tel: +992 (44) 601 4042

Uzbekistan

Tenge Bank
66, Parkentskaya St., Tashkent, 100007

Tel: +998 71 203 8899

Useful links

National Bank of the Republic of Kazakhstan
www.nationalbank.kz

Kazakhstan Stock Exchange (KASE)
www.kase.kz

Astana International Exchange
www.aix.kz

London Stock Exchange (LSE)
www.londonstockexchange.com

Financial Conduct Authority (FCA)
www.fca.org.uk

Prudential Regulation Authority (PRA)
http://www.bankofengland.co.uk/pra