KASPI.KZ
JOINT STOCK COMPANY

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

Kaspi.kz Joint Stock Company

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Kaspi.kz Joint Stock Company

Opinion

We have audited the consolidated financial statements of Kaspi.kz Joint Stock Company and its subsidiaries ("the Group"), which comprise the consolidated statements of financial position as at 31 December 2019, 2018 and 2017 and 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 each of 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 judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Kaspi.kz Joint Stock Company

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 Kaspi.kz Joint Stock Company and its subsidiaries ("the Group") as at 31 December 2019, 2018 and 2017 and the results of its operations, cash flows and changes in equity for the years then ended, 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.

These consolidated financial statements were approved by the Chairman of the Management Board and the Chief Accountant on 20 February 2020 and will be provided to the shareholders for approval in accordance with the requirements of the legislation of the Republic of Kazakhstan.

On behalf of the Management:

Mikheil Lomtadze **Chairman of the Management Board**	**Nailya Ualibekova** **Chief Accountant**

20 February 2020
Almaty, Kazakhstan

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Impairment of loans to customers under IFRS 9 Financial instruments ("IFRS 9") As disclosed in Note 13, loans to customers amounted to KZT 1,292,104 million, net of the related allowance for impairment losses of KZT 107,413 million as at 31 December 2019. The assessment of the significant increase in credit risk and measurement of expected credit losses require considerable judgment in analyzing all reasonable and supportable information at the reporting date. Key areas of judgement included: • The identification of loans with a significant increase in credit risk or credit impaired loans and allocation of loans to the appropriate stage of impairment; • Measuring the amount of expected credit losses by assessing the probability of a loan falling into default and amount of recoveries expected from defaulted loans, including the valuation of collateral to determine the loss given default for individually assessed impaired loans. Due to the significance of the loans' balances, magnitude of estimation uncertainties and the complexity of judgements applied by management in measuring expected credit losses, we identified impairment of loans as a key audit matter.	The audit procedures performed in this area, included: • Obtaining an understanding of the loan loss provisioning process, particularly over the capture of loans in terms of the stage allocation, measurement and recognition of allowances for expected credit losses. It included an assessment of design and implementation of relevant controls over the expected credit loss model, including model governance and mathematical accuracy; • Assessment of the provisioning methodology developed for calculation of impairment losses in accordance with the requirements outlined in IFRS 9; • Assessment of the reasonableness of management's assumptions and input data used in the model, including the staging of loans, the probability of a loan falling into default and assessment of any recoveries expected from defaulted loans with the involvement of our internal specialists against requirements of the accounting standards. We tested the underlying statistical data, represented by the principle balances, including overdue principle and interest and allocation of loans by days in arrears on a sample basis; • Independent assessment of collateral valuation used in calculation of impairment losses for individually assessed impaired loans by challenging assumptions around future cash flows, valuation of collateral held and realization period, as well as discount factors, by agreeing these key assumptions based on historical data, to supporting documents. • Consideration of the adequacy and completeness of the Group's disclosures in respect of credit risk, structure and quality of loan portfolio and impairment allowance in accordance with IFRS 9. 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 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 judgment 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 to 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 auditor's 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.

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

20 February 2020
Almaty, Kazakhstan

Consolidated Statements of Profit or Loss
For the Years Ended 31 December 2019, 2018 and 2017
(in millions of KZT, except for earnings per share which are in KZT)

	Notes	Year ended 31 December 2019	Year ended 31 December 2018	Year ended 31 December 2017
REVENUE	4,5,6	**513,914**	**375,331**	**275,753**
Interest Revenue		262,335	195,066	157,971
Fees & Commissions		163,876	140,259	106,841
Seller Fees		44,701	25,020	12,174
Transaction & Membership Revenue		53,666	19,255	5,748
Other gains(losses)		(10,664)	(4,269)	(6,981)
COST OF REVENUE	7	**(174,186)**	**(144,682)**	**(130,046)**
Interest Expense		(118,505)	(102,685)	(97,126)
Transaction Expenses		(14,125)	(6,709)	(3,288)
Operating Expenses		(41,556)	(35,288)	(29,632)
TOTAL NET REVENUE		**339,728**	**230,649**	**145,707**
TECHNOLOGY & PRODUCT DEVELOPMENT		(20,334)	(15,721)	(13,465)
SALES & MARKETING		(28,490)	(17,167)	(7,258)
GENERAL & ADMINISTRATIVE EXPENSES		(13,259)	(9,945)	(12,462)
PROVISION EXPENSE	8	(38,505)	(52,579)	(27,743)
OPERATING INCOME		**239,140**	**135,237**	**84,779**
INCOME TAX	9	(42,017)	(24,118)	(13,485)
NET INCOME		**197,123**	**111,119**	**71,294**
Attributable to:				
Shareholders of the Company		193,790	105,540	65,278
Non-controlling Interests		3,333	5,579	6,016
NET INCOME		**197,123**	**111,119**	**71,294**
Earnings per share				
Basic and diluted (KZT)	10	**1,027**	**676**	**311**

On behalf of the Management:

Mikheil Lomtadze
Chairman of the Management Board

Nailya Ualibekova
Chief Accountant

The notes on pages 11-72 form an integral part of these consolidated financial statements.

Kaspi.kz Joint Stock Company

Consolidated Statements of Other Comprehensive Income
For the Years Ended 31 December 2019, 2018 and 2017
(in millions of KZT)

	Year ended 31 December 2019	Year ended 31 December 2018	Year ended 31 December 2017
NET INCOME	**197,123**	**111,119**	**71,294**
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified subsequently to profit or loss:			
Movement in investment revaluation reserve for equity instruments at FVTOCI	(66)	(126)	-
Items that may be reclassified subsequently to profit or loss			
Movement in investment revaluation reserve for debt instruments at FVTOCI (2017: equity and debt instruments classified as investments available-for-sale):			
(Losses)gains arising during the period, net of tax KZT Nil	(1,886)	152	4,374
Reclassification of losses(gains) included in profit or loss, net of tax KZT Nil	(976)	8	(170)
Other comprehensive (loss)income for the year	(2,928)	34	4,204
TOTAL COMPREHENSIVE INCOME	**194,195**	**111,153**	**75,498**
Attributable to:			
Shareholders of the Company	190,955	105,572	69,240
Non-controlling Interests	3,240	5,581	6,258
TOTAL COMPREHENSIVE INCOME	**194,195**	**111,153**	**75,498**

On behalf of the Management:

Mikheil Lomtadze
Chairman of the Management Board

Nailya Ualibekova
Chief Accountant

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Kaspi.kz Joint Stock Company

Consolidated Statements of Financial Position
As at 31 December 2019, 2018 and 2017
(in millions of KZT)

	Notes	31 December 2019	31 December 2018	31 December 2017
ASSETS:				
Cash and cash equivalents	11	239,140	168,471	304,839
Mandatory cash balances with National Bank of the Republic of Kazakhstan		25,243	17,215	10,870
Due from banks		43,484	22,872	8,334
Investment securities and derivatives	12	474,581	366,631	212,535
Loans to customers	13	1,292,104	1,067,002	891,323
Property, equipment and intangible assets	14	60,985	36,688	32,175
Other assets	15	52,044	20,773	12,766
TOTAL ASSETS		**2,187,581**	**1,699,652**	**1,472,842**
LIABILITIES AND EQUITY				
LIABILITIES:				
Due to banks	16	3,000	49	63,200
Customer accounts	17	1,626,973	1,232,920	979,639
Debt securities issued	18	138,574	138,094	111,335
Insurance reserves		3,608	4,615	4,947
Other liabilities	19	42,018	20,453	29,290
Subordinated debt	20	77,786	89,603	93,579
TOTAL LIABILITIES		**1,891,959**	**1,485,734**	**1,281,990**
EQUITY:				
Share capital	21	95,825	54,857	130,144
Additional paid-in-capital		506	506	506
Revaluation reserve of financial assets		472	3,307	3,275
Retained earnings		195,232	142,822	47,207
Total equity attributable to Shareholders of the Company		292,035	201,492	181,132
Non-controlling interests		3,587	12,426	9,720
TOTAL EQUITY		**295,622**	**213,918**	**190,852**
TOTAL LIABILITIES AND EQUITY		**2,187,581**	**1,699,652**	**1,472,842**

On behalf of the Management:

Mikheil Lomtadze
Chairman of the Management Board

Nailya Ualibekova
Chief Accountant

The notes on pages 11-72 form an integral part of these consolidated financial statements.

Kaspi.kz Joint Stock Company

Consolidated Statements Of Changes in Equity
For the Years Ended 31 December 2019, 2018 and 2017
(in millions of KZT)

	Issued capital	Treasury shares	Additional paid-in-capital	Revaluation reserve of financial assets	Property revaluation reserve	Retained earnings	Total equity attributable to equity holders of the parent	Non-controlling interest	Total equity
Balance at 31 December 2016	**130,144**	**-**	**506**	**(687)**	**(48)**	**(2,863)**	**127,052**	**10,163**	**137,215**
Net Income	-	-	-	-	-	65,278	65,278	6,016	71,294
Other comprehensive income	-	-	-	3,962	-	-	3,962	242	4,204
Total comprehensive income	**-**	**-**	**-**	**3,962**	**-**	**65,278**	**69,240**	**6,258**	**75,498**
Release of property revaluation reserve	-	-	-	-	48	(46)	2	(2)	-
Dividends declared	-	-	-	-	-	(15,162)	(15,162)	-	(15,162)
Dividends declared by subsidiary Kaspi Bank JSC	-	-	-	-	-	-	-	(2,021)	(2,021)
Decrease in non-controlling interest due to buy-back by subsidiary Kaspi Bank JSC	-	-	-	-	-	-	-	(4,678)	(4,678)
Balance at 31 December 2017	**130,144**	**-**	**506**	**3,275**	**-**	**47,207**	**181,132**	**9,720**	**190,852**
Effect of IFRS 9 adoption on 1 January 2018	-	-	-	-	-	(9,925)	(9,925)	(146)	(10,071)
Balance at 1 January 2018 (as restated)	130,144	-	506	3,275	-	37,282	171,207	9,574	180,781
Net Income	-	-	-	-	-	105,540	105,540	5,579	111,119
Other comprehensive income	-	-	-	32	-	-	32	2	34
Total comprehensive income	**-**	**-**	**-**	**32**	**-**	**105,540**	**105,572**	**5,581**	**111,153**
Dividends declared by subsidiary Kaspi Bank JSC	-	-	-	-	-	-	-	(2,729)	(2,729)
Purchase of treasury shares	-	(75,287)	-	-	-	-	(75,287)	-	(75,287)
Balance at 31 December 2018	**130,144**	**(75,287)**	**506**	**3,307**	**-**	**142,822**	**201,492**	**12,426**	**213,918**
Net Income	-	-	-	-	-	193,790	193,790	3,333	197,123
Other comprehensive loss	-	-	-	(2,835)	-	-	(2,835)	(93)	(2,928)
Total comprehensive (loss)/income	**-**	**-**	**-**	**(2,835)**	**-**	**193,790**	**190,955**	**3,240**	**194,195**
Dividends declared	-	-	-	-	-	(97,697)	(97,697)	-	(97,697)
Dividends declared by subsidiary Kaspi Bank JSC	-	-	-	-	-	-	-	(3,053)	(3,053)
Change in non-controlling interest due to exchange of treasury shares with Kaspi Bank JSC subsidiary shares (Note 1)	-	40,968	-	-	-	(31,942)	9,026	(9,026)	-
Transaction for entities under common control (Note 1)	-	-	-	-	-	(11,741)	(11,741)	-	(11,741)
Balance at 31 December 2019	**130,144**	**(34,319)**	**506**	**472**	**-**	**195,232**	**292,035**	**3,587**	**295,622**

On behalf of the Management:

Mikheil Lomtadze
Chairman of the Management Board

Nailya Ualibekova
Chief Accountant

The notes on pages 11-72 form an integral part of these consolidated financial statements.

Kaspi.kz Joint Stock Company

Consolidated Statements of Cash Flows
For the Years Ended 31 December 2019, 2018 and 2017
(in millions of KZT)

	Year ended 31 December 2019	Year ended 31 December 2018	Year ended 31 December 2017
CASH FLOWS FROM OPERATING ACTIVITIES:			
Interest received	237,198	182,349	132,706
Interest paid	(112,661)	(101,409)	(95,315)
Expenses paid on obligatory insurance of individual deposits	(4,391)	(3,215)	(2,832)
Fee & commission received	238,867	176,337	123,747
Fee & commission paid	(37,599)	(13,141)	(6,267)
Other income received	8,010	3,414	2,119
Other expenses paid	(71,963)	(63,491)	(53,241)
Cash flows from operating activities before changes in operating assets and liabilities	257,461	180,844	100,917
Changes in operating assets and liabilities			
(Increase)decrease in operating assets:			
Mandatory cash balances with NBRK	(8,028)	(6,345)	(3,186)
Financial assets at fair value through profit or loss	(6,460)	(1,482)	60,812
Due from banks	(20,657)	(13,147)	(6,625)
Loans to customers	(301,018)	(242,319)	(198,286)
Other assets	(4,174)	(2,425)	(4,058)
Increase(decrease) in operating liabilities:			
Due to banks	2,951	(62,858)	23,028
Customer accounts	417,295	211,058	165,012
Financial liabilities at FVTPL	8,838	(1,312)	1,312
Other liabilities	(8,227)	(4,289)	11,033
Net cash inflow from operating activities before income tax	**337,981**	**57,725**	**149,959**
Income tax paid	(41,634)	(22,068)	(8,370)
Net cash inflow from operating activities	**296,347**	**35,657**	**141,589**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, equipment and intangible assets	(16,932)	(10,991)	(5,241)
Proceeds on sale of property and equipment	556	436	681
Proceeds on sale of financial assets at FVTOCI (2017: investments available-for-sale)	296,318	149,691	186,077
Purchase of financial assets at FVTOCI (2017: investments available-for-sale)	(381,067)	(268,422)	(155,269)
Net cash outflow on transaction under common control	(11,730)	-	-
Net cash (outflow)inflow from investing activities	**(112,855)**	**(129,286)**	**26,248**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of debt securities issued	-	(12,715)	-
Issue of debt securities issued	-	38,108	-
Repayment of subordinated debt	(11,368)	(3,924)	(10)
Dividends paid	(97,697)	-	(15,156)
Dividends paid by subsidiary to non-controlling interest	(3,175)	(3,261)	(589)
Purchase of non-controlling interest by subsidiaries	-	-	(4,679)
Purchase of treasury shares	-	(75,287)	-
Net cash outflow from financing activities	**(112,240)**	**(57,079)**	**(20,434)**
Effect of changes in foreign exchange rate on cash and cash equivalents	(583)	14,340	47
NET INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS	70,669	(136,368)	147,450
CASH AND CASH EQUIVALENTS, beginning of period	168,471	304,839	157,389
CASH AND CASH EQUIVALENTS, end of period	**239,140**	**168,471**	**304,839**

On behalf of the Management:

Mikheil Lomtadze
Chairman of the Management Board

Nailya Ualibekova
Chief Accountant

The notes on pages 11-72 form an integral part of these consolidated financial statements.

1. Corporate information

Overview

Kaspi.kz is the Payments, Marketplace and Fintech Ecosystem in Kazakhstan. Mobile App is at the core of the Kaspi.kz Ecosystem.

Our Mobile App serves as a single gateway to all our products and services. Through the Kaspi.kz Mobile App we provide a growing range of innovative, interconnected, technologically advanced products that change the way our customers pay, shop and manage their personal finance.

Kaspi.kz operates its Ecosystem with the mission of improving people's lives by developing innovative products and services that address their everyday needs. We are executing our strategy and growing our business by leveraging advanced technology and proprietary big data analytics as well as by designing a seamless customer experience.

Our Ecosystem serves both consumers and merchants and enables all participants to interact with each other. The growth and development of one service contributes to the growth and development of other services creating a powerful network effect, with each participant deriving greater value than if they were to use a standalone service.

Kaspi.kz Segments

The Kaspi.kz Ecosystem is comprised of the following three market leading platforms centred around our customers' everyday needs:

- *Payments Platform* connects our customers, which consist of both consumers and merchants, to facilitate cashless, digital payment transactions. We offer our customers a technology platform to both pay and receive payments for goods and services, as well as to transfer and withdraw money.

We enable consumers to transact with merchants and amongst themselves using a variety of services, including Kaspi Gold card, any bank card or e-Wallet. Our Kaspi.kz Mobile App and Kaspi QR technology enable us to build a proprietary payment network that provides end-to-end payment functionality directly from our Kaspi.kz Mobile App to a merchant, without the need for a card and third-party payment network.

Through the Payments Platform, we generate transaction fees from customers and merchants, card interchange fees, annual fees from customers, as well as interest revenue from interest-free cash balances.

- *Marketplace Platform* connects merchants and consumers enabling merchants to increase their sales and enabling consumers to buy a broad selection of products and services from a variety of merchants.

We help merchants increase their sales by linking them to our technology, payment options, including consumer finance products, marketing and brand. Fulfilment options include in-store pick up, delivery by merchants and delivery powered by Kaspi.kz.

Through the Marketplace Platform, we generate seller fees from merchants.

- *Fintech Platform* enables customers to manage their personal finance online and access consumer finance and deposit products primarily through the Kaspi.kz Mobile App. Our consumer finance products are also strategically designed around the product and merchant selection on our Marketplace Platform, which means that customers are able to select goods and merchants first, and then seamlessly access available solutions to finance their purchases.

Through the Fintech Platform we generate interest, fee revenue and membership fees from customers who are members of the Kaspi Red Shopping Club.

Information about the group of companies

Kaspi.kz Joint Stock Company was incorporated in the Republic of Kazakhstan on 16 October 2008 and registered as a Legal Company Asian Advisers Limited Liability Partnership. On 24 October 2012, the Group was re-registered due to a change in the composition of participants. On 15 October 2014, the Group changed its status from Limited Liability Partnership to Kaspi Joint Stock Company. By resolution of the board of the National Bank of the Republic of Kazakhstan ("NBRK") #166 dated 16 September 2015, Kaspi.kz Joint Stock Company was granted the status of a bank holding Group of Kaspi Bank Joint Stock Company. The registered address of the Group is 154A, Nauryzbai Batyr street, Almaty, 050013, the Republic of Kazakhstan.

In February 2019, the Company acquired 100% share of Kaspi Office LLP (former – Bona Trade LLP) for KZT 258 thousand. This transaction was accounted as an asset acquisition as the Group didn't acquire any significant employees, processes or activities that would constitute a "business" in addition to the real estate and other insignificant assets acquired. Substantially all of the consideration paid has been allocated to the cost of real estate acquired and liabilities assumed.

In September 2019, the Company acquired three leading classified platforms (Turbo.az (a car marketplace), Tap.az (a used and new items marketplace) and Bina.az (a real estate marketplace)) in the Republic of Azerbaijan. The Company purchased 100% of shares in Digital Classifieds OÜ, an Estonian company (refer as Digital Classifieds thereafter), holding these platforms, from Blue Ocean Partners Ltd, its related party. Based on the accounting policy, the assets and liabilities acquired from business combinations under common control are recognized at the carrying amounts in the consolidated financial statements. The difference between consideration transferred and carrying amount of net assets acquired is added to or substracted from Equity reserves. The acquisition of Digital Classifieds OÜ was accounted as business combination under common control and the difference between the net assets acquired (KZT 247 million) and consideration paid (KZT 11,988 million) was substracted from Equity reserves in the amount of KZT 11,741 million.

In June 2019, Kaspi.kz acquired 4.55% of Kaspi Bank JSC shares through a share exchange of Kaspi.kz JSC repurchased shares for shares of Kaspi Bank JSC.

(in millions of KZT)

Kaspi.kz Joint Stock Company is the parent Group of the following directly and indirectly held subsidiaries:

Subsidiary	Type of operation	Country of operation	Ownership as at 31 December 2019	Ownership as at 31 December 2018	Ownership as at 31 December 2017
Kaspi Group JSC	Holding Company	Kazakhstan	Directly (100%)	Directly (100%)	Directly (100%)
Kaspi Magazin LLP	E-commerce	Kazakhstan	Directly (100%)	Directly (100%)	Directly (100%)
Kaspi Bank JSC	Banking	Kazakhstan	Indirectly (98.95%)	Indirectly (94.40%)	Indirectly (94.07%)
Kaspi Insurance JSC	Insurance	Kazakhstan	Indirectly (98.95%)	Indirectly (94.40%)	Indirectly (94.07%)
ARK Balance LLP	Distressed asset management	Kazakhstan	Indirectly (98.95%)	Indirectly (94.40%)	Indirectly (94.07%)
Kaspi Office LLP	Real estate	Kazakhstan	Directly (100%)	-	-
Digital Classifieds OÜ	E-commerce	Azerbaijan	Directly (100%)	-	-

As at 31 December 2019, 2018 and 2017, the shareholders' structure of shares was as follows:

	31 December 2019 %	31 December 2018 %	31 December 2017 %
Ultimate shareholders:			
Baring Vostok Funds	35.23	35.11	38.57
Kim Vyacheslav	31.77	33.27	21.45
Mikheil Lomtadze	29.00	31.62	9.98
Goldman Sachs	4.00	-	-
Satybaldyuly Kairat	-	-	30.00
Total	**100.00**	**100.00**	**100.00**

These consolidated financial statements were approved by the Chairman of the Management Board and the Chief Accountant on 20 February 2020 and will be provided to the shareholders for approval in accordance with the requirements of the legislation of the Republic of Kazakhstan.

(in millions of KZT)

2. Basis of presentation

Foreign currency translation

In preparing the financial statements of each individual entity, monetary assets and liabilities denominated in currencies other than the entity's functional currency (foreign currencies) are translated at the appropriate spot rates or exchange rates prevailing at the reporting date. Transactions in foreign currencies are initially recorded at their spot rates at the date of the transaction.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates 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 is determined.

Rates of exchange

The exchange rates at the period-end used by the Group in the preparation of the consolidated financial information are as follows:

	31 December 2019	31 December 2018	31 December 2017
KZT/USD	382.59	384.20	332.33
KZT/EUR	429.00	439.37	398.23

Going concern

These consolidated financial statements have been prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future.

3. Significant accounting policies

Basis of accounting

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS").

The Group and its subsidiaries maintain their accounting records in accordance with IFRS. The financial statements have been prepared on the historical cost basis, except for the revaluation of certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. The Group presents its statement of financial position in order of liquidity.

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense is not offset in the consolidated statement of profit and loss unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Kaspi.kz Joint Stock Company ("the Company") and entities controlled by the Company (its subsidiaries). Control is achieved when the Company 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 Company 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 Company 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 Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary.

Non-controlling interests

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

Leases

Effective from 1 January 2019, IFRS 16, *Leases* ("IFRS 16") has replaced IAS 17, *Leases* ("IAS 17"). The Group has applied new standard on a modified retrospective basis without restating prior periods. The new standard introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted under IAS 17.

The Group as lessee

The Group as lessee recognizes a right-of-use asset and a corresponding liability to pay future rentals on the consolidated statement of financial position. The asset will be amortised over the shorter of the length of the lease and the useful economic life, subject to review for impairment, and the liability is measured at the present value of future lease payments discounted at the applicable incremental borrowing rate.

The Group recognises lease payments for short-term leases or leases in which the base asset has a low value as an expense during the lease period. In a long-term lease, assets are recognised at the lease start date as right-of-use and a lease liability.

A right-of-use asset is recognised in accounting at initial value – the initial measurement of lease liabilities and lease payments as at the lease start date or before that date less lease facilitating payments received and any initial direct lease costs.

On 1 January 2019 there was no material impact on the Group's consolidated statement of financial position on implementation of IFRS 16.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash balances with NBRK, reverse repurchase agreements and unrestricted balances on correspondent accounts and deposits with other banks with original maturities within three months and are free from contractual encumbrances. Cash and cash equivalents are measured at amortised cost.

Mandatory cash balances with NBRK

Mandatory cash balances with NBRK represent funds in correspondent accounts with the NBRK 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.

Due from banks

In the normal course of business, the Group maintains advances and deposits for various periods of time with other banks. Due from banks initially are recognized at fair value. Due from banks are subsequently measured at amortized cost using the effective interest method, and are carried net of allowance for impairment losses.

Property, equipment and intangible assets

Property, equipment and intangible assets, except land and buildings, are carried at historical cost less accumulated depreciation and any recognised impairment loss, if any. Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use.

Depreciation of property, equipment and amortization of intangible assets is charged on the carrying value of property, equipment and intangible assets and is designed to write off assets over their useful economic lives. Depreciation has been calculated on a straight-line basis at 2% per annum for buildings and construction and 10-33.3% for furniture and computers and intangible assets.

Leasehold improvements are amortized over the shorter of the life of the related leased asset or the lease term. Expenses related to repairs and renewals are charged when incurred and included in operating expenses in the consolidated statement of profit or loss, unless they qualify for capitalization.

Buildings and constructions held for use in the 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 defined on the basis of market data by qualified independent appraisers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of the reporting period.

Any revaluation increase arising on the revaluation of property is recognised and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to the consolidated profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such land and buildings is recognised in the consolidated profit or loss 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 is recognised in profit or loss. Depreciation of property revaluation reserve is transferred from property revaluation reserve to retained earnings on an annual basis. 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.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is carried at historical cost net of accumulated depreciation and recognized impairment loss. Depreciation is calculated on a straight-line basis over the useful life of the assets.

The expenses associated with the registration of ownership, maintenance and valuation of investment property are included in the cost of sales.

The depreciation expense and payment of taxes associated with ownership of investment property are included in general and administrative expenses. Investment property is disclosed within other non-financial assets in the consolidated financial statements (Note 15).

Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the consolidated statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated statements of financial position and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, 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 tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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 the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred income tax assets and deferred income tax liabilities are offset and reported net on the consolidated statement of financial position if:

- The Group has a legally enforceable right to set off current income tax assets against current income tax liabilities; and
- Deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

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.

Operating taxes

The Republic of Kazakhstan also has various other taxes, which are assessed on the Group's activities. These taxes are included as a component of operating expenses in the consolidated statement of profit or loss.

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that the Group will be required to settle the obligation and a reliable estimate can be made 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 (where 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. The expense relating to a provision is presented in the Consolidated Statement of Profit or Loss net of any reimbursement.

Contingencies

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

Financial instruments

In 2018, the Group has applied IFRS 9 (as revised in July 2014) and the related consequential amendments to other IFRS that are effective for an annual period that begins on or after 1 January 2018. According to the transition provisions of IFRS 9, the Group elected not to restate comparatives. Differences arising from the adoption of IFRS 9 have been recognized directly in retained earnings as of 1 January 2018 and details of new IFRS 9 requirements are described in each relevant accounting policy.

The Group recognizes financial assets and liabilities on its consolidated statement of financial position when it becomes a party to the contractual obligation of the instrument. Regular way purchases and sales of financial assets and liabilities are recognised using settlement date accounting.

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.

Financial assets

In 2017, financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' ("FVTPL"), 'held-to-maturity' investments ("HTM"), 'available-for-sale' ("AFS") financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

From 1 January 2018 due to the adoption of IFRS 9, all recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently 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.

Under IFRS 9, all debt financial assets that do not meet a "solely payment of principal and interest" ("SPPI") criterion, are classified at initial recognition as fair value through profit or loss ("FVTPL"). Under this criterion, debt instruments that do not correspond to a "basic lending arrangement", are measured at FVTPL. For debt financial assets that meet the SPPI criterion, classification at initial recognition is determined based on the business model under which these instruments are managed:

- Financial assets, other than equity investments, that are managed on a "hold to collect" basis are measured at amortised cost;
- Financial assets, other than equity investments, that are managed on a "hold to collect and for sale" basis are measured at fair value through other comprehensive income ("FVTOCI");
- Financial assets, including equity investments, that are managed on another basis, including trading financial assets, will be measured at FVTPL.

Equity financial assets are required to be classified at initial recognition as FVTPL unless an irrevocable designation is made to classify an instrument as FVTOCI. For equity investments classified as FVTOCI, all realised and unrealised gains and losses, except for dividend income, are recognised in other comprehensive income with no subsequent reclassification to profit and loss.

Financial assets, other than equity investments, that are measured subsequently at amortised cost or at FVTOCI are subject to impairment.

After initial measurement, amortised cost financial assets are measured using the effective interest rate method, less any impairment losses. The fair value of FVTPL and AFS/FVTOCI financial assets is determined under IFRS 13, *Fair Value Measurement* ("IFRS 13"). The fair value gains or losses for FVTPL are recognized in the statement of profit or loss and for AFS/FVTOCI are recognized in the other comprehensive income, until these instruments are disposed of. During 2017, unrealized gains/losses on equity investments were reclassified to the statement of profit or loss upon a sale. This treatment ceased with the adoption of IFRS 9 as described above.

During 2017, loans to customers, accounts receivable and other financial assets that have fixed or determinable payments that are not quoted in an active market (including balances with the NBRK, due from banks) are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate. These instruments continue to be accounted for at amortized cost after the adoption of IFRS 9.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period. These instruments are accounted for at fair value under IFRS 9. The Group has designated these investments as equity instruments at FVTOCI as the Group plans to hold them in the long term for strategic reasons.

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. All derivative financial instruments are classified as held for trading and measured at fair value through profit or loss and not designated for hedge accounting.

Impairment of financial assets prior to 1 January 2018

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. During the year ended 31 December 2017, financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as AFS, a significant (more than 25%) or prolonged (more than two quarters) decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of revaluation reserve of financial assets.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as default or delinquency in interest or principal payments
- Default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- Disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as loans and receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of loans and receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss through the use of an allowance account. When the financial assets are considered uncollectible, they are written off against the allowance account.

For financial assets measured at amortized cost, 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 through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognised.

If an AFS asset is impaired, a consolidated amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognised in the consolidated statements of profit or loss is transferred from equity to the consolidated statement of profit or loss.

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.

Impairment of financial assets since 1 January 2018

Expected credit loss ("ECL") measurement - definitions

ECL is a probability-weighted measurement of the present value of future cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of default occurring in a given time period used as weights). An ECL measurement is unbiased and should be determined by evaluating a range of possible outcomes.

An ECL measurement is based on four components used by the Group:

- *Exposure at Default ("EAD")* - an estimate of exposure at a future default date, taking into account expected changes in exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities.
- *Probability of Default ("PD")* - an estimate of the likelihood of default to occur over a given time period.
- *Loss Given Default ("LGD")* - an estimate of a loss arising on default. It is based on the difference between contractual cash flows due and those that the lender would expect to receive, including from any collateral. It usually expressed as a percentage of EAD.
- *Discount Rate* - a tool to discount an expected loss from the present value at the reporting date. The discount rate represents the effective interest rate ("EIR") for the financial instrument or an approximation thereof.

Default and credit-impaired assets

The financial asset is considered to be in default, or credit impaired, when it meets one or more of the following criteria:

For individually significant loans (except interbank exposures):

- the borrower is more than 60 days past due on its contractual payments (regulatory definition of default for individually significant loans);
- significant deterioration of the borrower's operating results;
- the bank has sold the borrower's debt with losses;
- the loan had experienced a forced restructuring due to deterioration in the borrower's creditworthiness;
- the misuse of borrowed funds;
- the borrower is deceased (retail loans);
- the borrower is insolvent (bankruptcy) for corporate customers;
- the borrower's debt was partially or fully written off due to a significant increase in credit risk.

For homogeneous loans:

- the borrower is more than 90 days past due on its contractual payments;
- the bank has sold the borrower's debt with losses;
- the loan had experienced a forced restructuring due to a deterioration in borrower creditworthiness;
- the borrower is deceased (retail loans);
- the borrower's debt was partially or fully written off due to a significant increase in credit risk.

For other financial assets, debt securities and due from banks:

- the counterparty or issuer rated at C or less;
- the counterparty or issuer is more than 30 days past due;
- the counterparty or issuer has significant deterioration of operating results.

Significant increase in credit risk ("SICR")

The SICR assessment is performed on an individual basis and on a portfolio basis. SICR for individually significant loans is assessed on an individual basis by monitoring the triggers stated below. The criteria used to identify a SICR are monitored and reviewed periodically for appropriateness by the Group 's risk department.

The Group considers a financial instrument to have experienced a SICR when one or more of the following quantitative, qualitative or subsidiary criteria have been met:

For individually significant loans:

- Increase in lifetime probability of default over defined thresholds;
- The number of days past due is higher than 31 days but lower than 60;
- The increase in credit risk, expressed in the relative threshold based on internal ratings is significant. SICR is determined based on the comparison date and credit risk rating as of the reporting date for each financial asset individually.

For homogeneous loans:

- increase in lifetime probability of default over defined thresholds;
- The number of days past due is more than 31 but less than 90;
- External factors affect the solvency of individual groups of individuals (such as natural disasters, closure of the city-forming enterprise in the region, etc.).

For other financial assets, debt securities and due from banks:

- deterioration of the counterparty's or issuer's rating by 4 notches;
- deterioration of the counterparty's or issuer's rating up to CCC+;
- deterioration of operating results of the counterparty or issuer.

ECL measurement - description of estimation techniques

General principle

For financial assets that are not purchased or originated credit impaired ("POCI") assets ECLs are generally measured based on the risk of default over one of two different time periods, depending on whether the borrower's credit risk has increased significantly in a three-stage model for ECL measurement:

Stage 1: a group of financial instruments for which no significant increase in the credit risk level has been recorded since initial recognition and provisions for this group are created as 12-month ECL, and interest income is calculated based on the gross book value.

Stage 2: a group of financial instruments for which a significant increase in the credit risk level has been recorded since the initial recognition and provisions for which equal ECL for the instrument's lifetime, and interest income is calculated based on the gross carrying amount of the financial asset.

Stage 3: a group of credit-impaired financial instruments, for which provisions equal the ECL amount for the instrument's lifetime, and interest income is accrued based on the carrying amount of the asset, net of the loss allowance.

ECL for POCI financial assets is always measured on a lifetime basis (Stage 3), and at the reporting date, the Group only recognizes the cumulative changes in lifetime expected credit losses since initial recognition.

The Group performs individual assessments for credit-impaired loans.

The Group performs assessments on a portfolio basis for retail loans and loans issued to small and medium entities ("SMEs"). This approach incorporates aggregating the portfolio into homogeneous segments based on borrower-specific information, such as delinquency, historical data on losses and forward-looking macroeconomic information.

Macroeconomic overlay and macroeconomic scenarios

The Group incorporates forward looking information in its impairment calculations via macroeconomic models, which leads to a direct adjustment of default probabilities. Since the Group cannot predict the future realisation of these macroeconomic parameters, it uses three scenarios - a base scenario, an optimistic scenario and a pessimistic scenario. The latter two scenarios are linked to a weight of 23%. The base scenario has an attached weight of 54% in the calculation. For each scenario a set of values for the relevant macroeconomic variables is used as an input for the macroeconomic model, which subsequently is applied to adjust the relevant input parameter.

The List of Macro-Economic Indicators

- Real GDP growth;
- Unemployment.

ECL measurement - description of estimation techniques

Principles of individual assessment - ECL assessments on an individual basis are done by weighting the estimates of credit losses for different possible outcomes against the probabilities of each outcome. The Group defines three possible outcomes for each loan.

Principles of portfolio assessments - to assess the staging of exposure and to measure a loss allowance on a collective basis, the Group combines its exposures into segments on the basis of shared credit risk characteristics, so that exposure to risk within a group are homogeneous.

Examples of shared characteristics include product type and the amount of debt.

Two types of PDs are used to calculate ECLs: 12- month and lifetime PD:

- 12-month PDs - the estimated probability of a default occurring within the next 12 months (or over the remaining life of a financial instrument if less than 12 months). This parameter is used to calculate 12-month ECLs. An assessment of a 12-month PD is based on the latest available historical default data and adjusted for forward-looking information;
- Lifetime PDs - the estimated probability of a default occurring over the remaining life of a financial instrument. This parameter is used to calculate lifetime ECLs. An assessment of a lifetime PD is based on the latest available historic default data and adjusted for forward looking information.

To calculate Lifetime PD, the Group uses different statistical approaches depending on the segment and product type, such as the extrapolation of 12-month PDs based on migration matrixes, developing lifetime PD curves based on the historical default data, hazard rate approach or other.

LGD represents the Group's expectation of the extent of loss on a defaulted exposure and assessed on a collective basis based on the latest available recovery statistics.

For loans secured by real estate, cash and liquid securities, the Group calculates LGD based on specific collateral characteristics, such as projected collateral values, historical sales discounts and other factors.

Modification of loans to customers

The Group modifies loans to customers in temporary financial difficulty in order to allow a borrower to recover solvency. Modification of loans is provided in the form of short-term revision of loan terms and may include the reduction of interest rate, reduction of monthly payment amount, extension of the loan term, or a combination of these measures that do not lead to derecognition of the financial asset. After the recovery period, ordinary contractual terms are to be applied. The recovery period is agreed in the modification terms, but in most cases is set for 6 months.

Modification of loan is provided only once and to the borrowers with overdue less than 90 days on a modification date, where sufficient grounds exist to support its recoverability.

During the recovery period, such modified loans are classified to Stage 3, with corresponding increase in loss allowance. After the recovery period, such modified loans are allocated to the relevant impairment category, based on its days past due and impairment methodology.

Write off of loans to customers

Loans are written off against the allowance for impairment losses. Decision for the write off is taken by the Credit Committee and commonly at overdue more than one year. However write off of loans does not indicate that no other actions will be undertaken to collect the loans. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the consolidated statement of profit or loss in the period of recovery.

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognize a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecogntion of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of the transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Group retains control), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer.

The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities

Financial liabilities, such as due to banks, customer accounts, debt securities issued, subordinated debt and other financial liabilities are initially recognised at fair value. Subsequently amounts due are stated at amortized cost and any difference between carrying and redemption value is recognised in the consolidated statement of profit or loss over the period of the borrowings using the effective interest method as a component of interest expense.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled, or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the consolidated statement of profit or loss.

Recognition of income and expense

Recognition of interest income and expense

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income and expense are recognised on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument or, (where appropriate) a shorter period to the gross carrying amount.

Interest earned on assets at fair value is classified within interest income.

Revenue recognition prior to 1 January 2018

Fee & commission income and expense include fees other than those that are an integral part of effective interest rate. The fees included in this part of the Group's consolidated statement of profit or loss include among other things fees charged for servicing a loan. Fee & commission income and expenses with regards to services are accounted for as the services are received. These fees include seller fees, transaction and membership fees. Seller fees includes fees paid by merchants from shopping transaction originated during both online and in store shopping. The Group earns seller fees when transactions are completed on the Marketplace Platform and are generally determined as a percentage based on the value of merchandise and services being sold by merchants. The Group earns transaction and membership revenues when processing payments and engaging customers in Kaspi Ecosystem. This includes transaction fees paid by merchants when the Group enables various payment and purchase transactions. It also includes membership fees paid by customers and merchants for accessing various Kaspi Ecosystem services.

Revenue recognition since 1 January 2018

The Group recognized revenue from the following major sources:

Fees & commissions revenue mainly includes banking service fees and commissions. Banking service fees are recognized over a period in which the related service is provided, typically monthly, and include the following services of Kaspi Ecosystem, such as access to wide network of Kaspi ATMs with free cash withdrawals up to certain limits, 24-hour service line support, charge-free transfers between Kaspi clients' accounts and bill payments for services via kaspi.kz website and mobile application, SMS and mobile push notification services.

Seller fees includes fees paid by merchants from shopping transaction originated during both online and in store shopping. The Group earns seller fees when transactions are completed on the Marketplace Platform and are generally determined as a percentage based on the value of merchandise and services being sold by merchants. Seller fees are recognized when the services are rendered, which generally occurs upon delivery of the related products and services to the customer.

The Group earns transaction and membership revenues when processing payments/transactions and engaging customers in Kaspi Ecosystem. This includes transaction fees paid by merchants when the Group enables various payment and purchase transactions. Transaction fees charged to customers for processing services such as cash withdrawals over certain limits and P2P (peer to peer) money transfers to other banks' cards and wordlwide. Such fees are recognized when the associated service is satisfied, which normally occurs at the point in time the service is requested by client and provided by the Group.

Membership fee revenue is deferred and recognized over the terms of the applicable memberships, typically for one year, on a straight-line basis. Membership fees are paid on a monthly/quarterly basis or paid up front at the beginning of the applicable membership period by customers and merchants for accessing various Kaspi Ecosystem services. Generally, memberships are cancellable and non-refundable.

Share capital and share premium

Contributions to share capital are recognized at cost. Non-cash contributions are not included into the share capital until realized in cash.

Costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes.

Treasury shares repurchased from shareholders are recognized at cost of acquisition. When such repurchased treasury shares are further sold, any difference between their selling price and the cost of acquisition is charged to share capital (if positive) or to retained earnings (if negative). Where repurchased treasury shares are retired, the carrying value thereof is reduced by the amount paid by the Group at repurchase thereof, with the share capital respectively reduced by the par value of such retired shares restated, where applicable, for inflation, and the resulting difference is charged to retained earnings.

Dividends on ordinary shares are recognized in equity as a reduction in the period in which they are declared. Dividends that are declared after the reporting date are treated as a subsequent event under IAS 10, *Events after the Reporting Period* ("IAS 10") and disclosed accordingly.

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, which comprises changes in fair value of financial assets at fair value through other comprehensive income investments (2017: investments available for sale) and allowance for impairment losses for debt instruments measured at fair value through other comprehensive income.

Retirement and other benefit obligations

In accordance with the requirements of the Republic of Kazakhstan in which the Group operates, certain percentages of pension payments are withheld from total disbursements to staff to be transferred to pension fund, such that a portion of salary expense is withheld from the employee and instead paid to a pension fund on behalf of the employee. This expense is charged to the consolidated statement of profit or loss in the period in which the related salaries are earned. Upon retirement, all retirement benefit payments are made by the pension fund. The Group does not have any pension arrangements separate from the pension system of the Republic of Kazakhstan. In addition, the Group has no post-retirement benefits or other significant compensated benefits requiring accrual.

Areas of significant management judgment and sources of estimation uncertainty

The preparation of the Group's consolidated financial statements requires management to make estimates, judgments and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgments in applying accounting policies

The critical judgments, apart from those involving estimations (see below), that the Group management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements. Significant judgments have been made in the business model assessment, significant increase in credit risk, models and assumptions used which are discussed in Note 3 below.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Significant increase of credit risk

As explained in Note 2, 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. IFRS 9 does not define what constitutes a significant increase in credit risk. 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 26 for more details.

Incorporation of forward looking information

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 26 for more details, including analysis of the sensitivity of the reported ECL to changes in estimated forward looking information.

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 Note 26 for more details on ECL and Note 24 for more details on fair value measurement.

Impairment of loans and receivables under IAS 39

The Group regularly reviews its loans and receivables to assess for impairment. The Group's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Group considers accounting estimates related to the allowance for impairment of loans and receivables a key source of estimation uncertainty because (a) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (b) any significant difference between the Group's estimated losses and actual losses would require the Group to record provisions which could have a material impact on its consolidated financial statements in future periods.

The Group uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties (for individually significant loans) and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on past performance, past customer behavior, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Group uses management's judgment to adjust observable data for a group of loans or receivables to reflect current circumstances not reflected in historical data.

The allowances for impairment 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 the Republic of Kazakhstan and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

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 24 for more details on fair value measurement.

The Group considers that the accounting estimate related to 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 change from period to period because it requires management to make assumptions about interest rates, volatility, exchange rates, the credit rating of the counterparty, valuation adjustments and specific feature of the transactions and (ii) the impact that recognizing a change in the valuations would have on the assets reported on its consolidated statement of financial position as well as its profit or loss could be material.

Had the management used different assumptions regarding the interest rates, volatility, exchange rates, the credit rating of the counterparty and valuation adjustments, a larger or smaller change in the valuation of financial instruments where quoted market prices are not available, would have resulted that could have had a material impact on the Group's reported net income.

Application of new and revised International Financial Reporting Standards (IFRSs)

- 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.

New and revised IFRSs 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.

(in millions of KZT)

4. Revenue by Segments

The Group reports its business in three operating segments as described in Note 1 under Kaspi.kz Segments.

Revenue by segments for the years ended 31 December 2019, 2018 and 2017 is presented below:

	Year ended 31 December 2019	Year ended 31 December 2018	Year ended 31 December 2017
REVENUE	**513,914**	**375,331**	**275,753**
Marketplace	**45,002**	**25,020**	**12,174**
Seller fees	44,701	25,020	12,174
Other gains	301	-	-
Payments	**66,393**	**26,471**	**9,571**
Transaction and Membership Revenue	49,454	17,876	5,529
Interest revenue	16,939	8,595	4,042
FinTech	**402,519**	**323,840**	**254,008**
Interest Revenue	245,396	186,471	153,929
Fees & Commissions	163,876	140,259	106,841
Transaction & Membership Revenue	4,212	1,379	219
Other gains(losses)	(10,965)	(4,269)	(6,981)

Revenue classification and distribution among segments is performed in accordance with the following guidelines:

Marketplace revenue includes seller fees paid by merchants and other partners when a sale is closed within the Marketplace Platform.

It also includes revenue from the recently acquired Digital Classfieds in the Republic of Azerbaijan.

Payments revenue includes transaction fees originated from processing payments for regular household needs, payments for purchases both online and in-store, other debit card transactions, online money wire transfers within the Kaspi Ecosystem, both inside the country and globally, and transactions by SME and corporate customers. It also includes membership and annual fees paid by individual customers, SME and corporate customers for engagement in Kaspi Ecosystem. The Payments Platform segment also derives treasury revenue from cash balances.

(in millions of KZT)

Fintech revenue includes interest income from financing customers which is mainly originated online through the Mobile App or to finance purchases on the Marketplace Platform, third party merchant sites and third-party mobile apps.

It also includes banking fees and commissions, membership and other fees paid by customers of Kaspi Red Shopping Club, income/loss from foreign exchange revaluation, securities, interbank and derivatives, and fees/commissions from other banking services.

5. Segment Reporting

The Group reports its business in three operating segments as described in Note 1 to the consolidated financial statements of the Group. The Group decided to combine two platforms Consumer Financial Services Platform and e-Finance Platform into one platform Fintech. The reason for combination is that migration from offline to online & mobile operations is developing rapidly resulting in majority of transactions executed in online & mobile. The historical comparative information has been revised to conform to the current presentation.

The following tables present the summary of each segments' revenue, net revenue and net income for the years ended 31 December 2019, 2018 and 2017:

	Year ended 31 December 2019	Year ended 31 December 2018	Year ended 31 December 2017
REVENUE	**513,914**	**375,331**	**275,753**
Marketplace	45,002	25,020	12,174
Payments	66,393	26,471	9,571
FinTech	402,519	323,840	254,008
NET REVENUE	**339,728**	**230,649**	**145,707**
Marketplace	42,600	23,801	11,316
Payments	50,350	18,103	5,679
FinTech	246,778	188,745	128,712
NET INCOME	**197,123**	**111,119**	**71,294**
Marketplace	28,173	14,560	5,806
Payments	27,877	6,731	1,360
FinTech	141,073	89,828	64,128

Operating segments are reported in a manner consistent with internal reports, which are reviewed and used by management and board of directors (who are identified as Chief Operating Decision Makers, "CODM").

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in 2019, 2018 and 2017. Segment profit represents the net income earned by each segment. This is the measure reported to the CODM for the purposes of resource allocation and assessment of segment performance.

(in millions of KZT)

As at 31 December 2019, 2018 and 2017, no information on segment assets or liabilities is presented to the CODM.

For the years ended 31 December 2019, 2018 and 2017, 94%, 95% and 94% of revenues from external customers were attributable to customers from Kazakhstan, respectively.

As at 31 December 2019, 2018 and 2017, all non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts, respectively, were located in Kazakhstan.

6. Revenue

Revenue includes interest revenue, fees, commissions, seller fees, transaction & membership revenue and other gains(losses).

	Year ended 31 December 2019	Year ended 31 December 2018	Year ended 31 December 2017
REVENUE	**513,914**	**375,331**	**275,753**
Interest Revenue	262,335	195,066	157,971
Fees & Commissions	163,876	140,259	106,841
Seller Fees	44,701	25,020	12,174
Transaction & Membership Revenue	53,666	19,255	5,748
Other gains(losses)	(10,664)	(4,269)	(6,981)

Interest revenue includes interest originated on loans to customers, securities and deposits placed with banks.

Fees & commissions revenue mainly includes banking service fees and commissions.

Banking service fees are charged on a monthly basis, and include the following services of Kaspi Ecosystem: access to wide network of Kaspi ATMs with free cash withdrawals up to certain limits, 24-hour service line support, charge-free transfers between Kaspi clients' accounts and bill payments for services via Kaspi.kz website and mobile application, SMS and mobile push notification services.

Seller fees includes fees paid by merchants from shopping transactions originated during both online and in store shopping. The Group earns seller fees when transactions are completed on the Marketplace Platform and are generally determined as a percentage based on the value of merchandise and services being sold by merchants.

The Group earns transaction and membership revenues when processing payments and engaging customers in Kaspi Ecosystem. This includes transaction fees paid by merchants when the Group enables various payment and purchase transactions. It also includes membership fees paid by customers and merchants for accessing various Kaspi Ecosystem services.

(in millions of KZT)

Other gains(losses) is mainly due to net gains(losses) on foreign exchange operations and financial assets and liabilities at fair value through profit or loss. For the years ended 31 December 2019, 2018 and 2017, the net (loss)gain on financial assets and liabilities at fair value through profit or loss amounted to KZT (14,100) million, KZT 8,425 million and KZT (14,291) million, respectively. For the years ended 31 December 2019, 2018 and 2017, the net gain(loss) on foreign exchange operations amounted to KZT 7,447 million, KZT (12,040) million and KZT 7,436 million, respectively. It also includes an immaterial amount of revenue from recently acquired Digital Classifieds in the Republic of Azerbaijan.

7. Cost of revenue

Cost of revenue includes interest expense, transaction expenses and operating expenses which are directly attributable to the Group's everyday operating activities.

	Year ended 31 December 2019	Year ended 31 December 2018	Year ended 31 December 2017
COST OF REVENUE	**(174,186)**	**(144,682)**	**(130,046)**
Interest Expense	(118,505)	(102,685)	(97,126)
Transaction Expenses	(14,125)	(6,709)	(3,288)
Operating Expenses	(41,556)	(35,288)	(29,632)

Interest expense includes interest expense on customer accounts, mandatory insurance of retails deposits and debt securities, including subordinated debt.

Transaction expenses are mainly composed of the costs associated with accepting, processing and otherwise enabling payment transactions. Those costs include fees paid to payment processors, payment networks and various service providers.

Operating expenses include costs incurred to operate the retail network, 24-hour call support and communication with customers, product packaging, loan origination and risk assessment, customer deposit acquisition and other expenses which can be attributed to the Group's operating activities related to the origination and delivery of the products and services.

(in millions of KZT)

Employee benefits, depreciation and amortisation expenses and operating lease expenses for the years ended 31 December 2019, 2018 and 2017 are presented as follows:

	Year ended 31 December 2019			Year ended 31 December 2018			Year ended 31 December 2017		
	Employee benefits	Deprecia-tion & amortisa-tion	Opera-ting lease	Employee benefits	Deprecia-tion & amortisa-tion	Opera-ting lease	Employee benefits	Deprecia-tion & Amortisa-tion	Opera-ting lease
Cost of Revenue	(17,070)	(471)	(1,432)	(15,443)	(401)	(1,287)	(13,949)	(425)	(1,241)
Sales & Marketing	(310)	-	(23)	(351)	-	-	(294)	-	-
Technology & Product Development	(8,963)	(4,589)	(1,443)	(7,396)	(3,357)	(1,002)	(6,385)	(2,803)	(962)
General & Administrative expenses	(4,893)	(1,709)	(2,069)	(3,079)	(1,374)	(3,157)	(5,283)	(1,505)	(3,053)
Total	**(31,236)**	**(6,769)**	**(4,967)**	**(26,269)**	**(5,132)**	**(5,446)**	**(25,911)**	**(4,733)**	**(5,256)**

(in millions of KZT)

8. Provision expense

The movements in loss allowance were as follows:

	Loans to customers			Due from banks	Financial assets at fair value through other comprehensive income			Cash and cash equivalents	Other assets	Contin-gencies	
	Stage 1	Stage 2	Stage 3 and POCI	Stage 1	Stage 1	Stage 2	Stage 3	Stage 1	Stage 3	Stage 1	Total
Loss allowance for ECL as at 31 December 2018	**21,193**	**7,028**	**92,574**	**13**	**409**	**-**	**1,940**	**4**	**2,063**	**42**	**125,266**
Changes in provisions											
-Transfer to Stage 1	6,750	(771)	(5,979)	-	-	-	-	-	-	-	-
-Transfer to Stage 2	(236)	558	(322)	-	(100)	100	-	-	-	-	-
-Transfer to Stage 3	(2,689)	(5,086)	7,775	-	-	-	-	-	-	-	-
Net changes, resulting from changes in credit risk parameters	(7,642)	4,459	36,136	9	(9)	689	-	5	344	9	34,000
New assets issued or acquired	25,340	-	-	-	14	-	-	-	-	-	25,354
Repaid assets (except for write-off)	(10,733)	(953)	(7,213)	-	(10)	-	(1,940)	-	-	-	(20,849)
Write-off, net of recoveries	-	-	(53,301)	-	-	-	-	-	(29)	-	(53,330)
Foreign exchange difference		-	525	-	-	-	-	-	-	-	525
As at 31 December 2019	**31,983**	**5,235**	**70,195**	**22**	**304**	**789**	**-**	**9**	**2,378**	**51**	**110,966**

(in millions of KZT)

	Loans to customers			Due from banks	Financial assets at fair value through other comprehensive income		Cash and cash equivalents	Other assets	Contingencies	
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 1	Stage 3	Stage 1	Stage 3	Stage 1	Total
Loss allowance for ECL as at 1 January 2018	**11,154**	**3,351**	**88,009**	**3**	**209**	**-**	**15**	**1,741**	**17**	**104,499**
Changes in provisions										
-Transfer to Stage 1	244	(167)	(77)	-	-	-	-		-	-
-Transfer to Stage 2	(189)	209	(20)	-	-	-	-		-	-
-Transfer to Stage 3	(1,132)	(2,092)	3,224	-	-	-	-		-	-
Net changes, resulting from changes in credit risk parameters	812	6,641	55,314	-	146	1,940	(10)	228	-	65,071
New assets issued or acquired	16,022	-	-	7	54	-	-	-	25	16,108
Repaid assets (except for write-off)	(5,718)	(914)	(21,968)	-	-	-	-	-	-	(28,600)
Write-off, net of recoveries	-	-	(31,877)	-	-	-	-	83	-	(31,794)
Foreign exchange difference	-	-	(31)	3	-	-	(1)	11	-	(18)
As at 31 December 2018	**21,193**	**7,028**	**92,574**	**13**	**409**	**1,940**	**4**	**2,063**	**42**	**125,266**

(in millions of KZT)

	Loans to customers (Note 13)	Investments available-for-sale	Other assets	Total
31 December 2016	**83,509**	**65**	**1,406**	**84,980**
Provision expense	27,269	-	474	27,743
Write-off of assets	(48,015)	-	(184)	(48,199)
Foreign exchange difference	150	-	(99)	51
Recoveries of assets previously written off	27,235	-	144	27,379
31 December 2017	**90,148**	**65**	**1,741**	**91,954**

9. Income tax

The Group provides for taxes for the current period based on the tax accounts maintained and prepared in accordance with the tax regulations of the Republic of Kazakhstan and the Republic of Azerbaijan, where the Group and its subsidiaries operate and which may differ from IFRS.

The Group is subject to certain permanent tax differences due to non-tax deductibility of certain expenses and a tax free regime for certain income.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2019, 2018 and 2017 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Deferred income tax liabilities as at 31 December 2019, 2018 and 2017 comprise:

	31 December 2019	31 December 2018	31 December 2017
Vacation reserve and accrued bonuses	605	510	1,624
Property, equipment and intangible assets	(2,999)	(2,343)	(2,053)
Other	21	-	5
Net deferred tax liability	**(2,373)**	**(1,833)**	**(424)**

(in millions of KZT)

Relationships between tax expenses and accounting profit for the years ended 31 December 2019, 2018 and 2017 are explained as follows:

	Year ended 31 December 2019	Year ended 31 December 2018	Year ended 31 December 2017
Net income before income tax	**239,140**	**135,237**	**84,779**
Tax at the statutory tax rate of 20%	47,828	27,047	16,956
Non-taxable income	(6,273)	(4,367)	(3,909)
Non-deductible expense	462	1,438	438
Income tax expense	**42,017**	**24,118**	**13,485**
Current income tax expense	41,477	22,699	9,861
Deferred income tax expense	540	1,419	3,624
Income tax expense	**42,017**	**24,118**	**13,485**

During 2019, 2018 and 2017, non-taxable income was represented by interest income on governmental and other qualified securities in accordance with the tax legislation.

	31 December 2019	31 December 2018	31 December 2017
Net deferred tax (liability)/asset:			
At the beginning of the period	**(1,833)**	**(424)**	**3,190**
Change in deferred income tax balances recognized in equity	-	10	10
Change in deferred income tax balances recognized in profit or loss	(540)	(1,419)	(3,624)
At the end of the period	**(2,373)**	**(1,833)**	**(424)**

Tax, currency and customs legislations of the Republic of Kazakhstan 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 proceeding the year of review.

As at 31 December 2019, 2018 and 2017, 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.

(in millions of KZT)

10. Earnings per share

	31 December 2019	31 December 2018	31 December 2017
Net income attributable to the shareholders of the Company	193,790	105,540	65,278
Less: dividends on preference shares declared in respect of the period	-	-	(3,192)
Less: dividends on preferred shares that would be paid on full distribution of income	-	-	(13,071)
	193,790	**105,540**	**49,015**
Weighted average number of ordinary shares for basic and diluted earnings per share	188,748,808	156,133,699	157,500,000
Earnings per share – basic and diluted (KZT)	**1,027**	**676**	**311**

The 2017 weighted average shares used to compute basic and diluted EPS were retroactively restated to reflect the 1:105 split made in July 2018.

11. Cash and cash equivalents

	31 December 2019	31 December 2018	31 December 2017
Cash on hand	102,143	88,374	64,468
Current accounts with other banks	15,576	13,613	165,157
Short-term deposits with other banks	103,852	64,013	74,052
Reverse repurchase agreements	17,569	2,471	1,162
Total cash and cash equivalents	**239,140**	**168,471**	**304,839**

Cash on hand includes cash balances with ATMs and cash in transit. As at 31 December 2019, 2018 and 2017 fair value of collateral of reverse repurchase agreements, classified as cash and cash equivalents, amounted to KZT 22,079 million, KZT 3,336 million and KZT 1,709 million, respectively.

12. Investment securities and derivatives

Investment securities and derivatives comprise:

	31 December 2019	31 December 2018	31 December 2017
Total financial assets at fair value through OCI (2017: investments available-for-sale)	473,255	356,689	212,508
Total financial assets at fair value through profit or loss	1,326	9,942	27
Total investment securities and derivatives	**474,581**	**366,631**	**212,535**

(in millions of KZT)

Financial assets at fair value through OCI (2017: Investments available-for-sale) comprise:

	31 December 2019	31 December 2018	31 December 2017
Debt securities	472,943	356,311	212,256
Equity investments	312	378	252
Total financial assets at fair value through OCI (2017: investments available-for-sale)	**473,255**	**356,689**	**212,508**

As at 31 December 2019, 2018 and 2017, sovereign debt securities of KZT 391,467 million, KZT 311,604 million and KZT 176,266 million, respectively, were included in debt securities.

Financial assets at fair value through profit or loss comprise:

	31 December 2019	31 December 2018	31 December 2017
Financial assets at fair value through profit or loss:			
Derivative financial instruments	1,326	9,942	27
Total financial assets at fair value through profit or loss	**1,326**	**9,942**	**27**

As at 31 December 2019, financial assets at fair value through profit or loss included swap and spot instruments in the amount of KZT 6 million (2018: KZT 98 million, 2017: KZT 27 million) with notional amount of KZT 2,761 million (2018: KZT 63,408 million, 2017: KZT 22,198 million) and forwards in the amount of KZT 1,320 million (2018: KZT 9,844 million, 2017: KZT Nil) with notional amount of KZT 193,683 million (2018: KZT 135,513 million, 2017: KZT Nil).

As at 31 December 2019, financial liabilities at fair value through profit or loss included swap and spot instruments in the amount of KZT 21 million (2018: KZT Nil, 2017: KZT Nil) with notional amount of KZT 8,915 million (2018: KZT Nil, 2017: KZT Nil) and forwards in the amount of KZT 8,817 million (2018: KZT Nil, 2017: KZT 1,312 million) with notional amount of KZT 205,458 million (2018: KZT Nil, 2017: KZT 57,485 million).

13. Loans to customers

	31 December 2019	31 December 2018	31 December 2017
Fintech	1,399,517	1,187,797	981,471
Less: allowance for impairment losses (Note 8)	(107,413)	(120,795)	(90,148)
Total net loans to customers	**1,292,104**	**1,067,002**	**891,323**

As at 31 December 2019, 2018 and 2017, accrued interest of KZT 17,677 million, KZT 31,883 million and KZT 39,201 million, respectively, was included in loans to customers.

(in millions of KZT)

Loans with principal or accrued interest in arrears for more than 90 days are classified as "Non-performing loans" ("NPL"). Allowance for impairment to gross NPLs reflects the Group's ability to absorb potential losses from non-performing loans. Considering the ratio represents impairment loan loss allowances for the specific pool as a percentage of NPLs, the ratio can be more than 100%. With the adoption of IFRS 9, these loans were classified in stage 3. The following tables set forth the Group's outstanding NPLs as at the dates indicated:

	Gross NPLs	Allowance for impairment	Allowance for impairment to gross NPLs
Fintech	115,817	107,413	93%
Total non-performing loans to customers as at 31 December 2019	**115,817**	**107,413**	**93%**

	Gross NPLs	Allowance for impairment	Allowance for impairment to gross NPLs
Fintech	106,886	120,795	113%
Total non-performing loans to customers as at 31 December 2018	**106,886**	**120,795**	**113%**

	Gross NPLs	Allowance for impairment	Allowance for impairment to gross NPLs
Fintech	81,461	90,148	111%
Total non-performing loans to customers as at 31 December 2017	**81,461**	**90,148**	**111%**

Provision expense on loans to customers for the years ended 31 December 2019, 2018 and 2017:

	Year ended 31 December 2019	Year ended 31 December 2018	Year ended 31 December 2017
Provision expense on loans to customers:			
Fintech	(39,394)	(50,189)	(27,269)
Total provision expenses on loans to customers	**(39,394)**	**(50,189)**	**(27,269)**

As at 31 December 2019, 2018 and 2017, the Group did not provide loans, which individually exceeded 10% of the Group's equity.

(in millions of KZT)

14. Property, equipment and intangible assets

	Buildings and construction	Furniture and equipment	Intangible assets	Construction in progress	Total
At initial/revalued cost					
31 December 2016	**20,554**	**23,378**	**8,925**	**27**	**52,884**
Additions	750	2,072	2,260	-	5,082
Transferred to investment property	(852)	-	-	-	(852)
Disposals	(751)	(217)	(79)	(27)	(1,074)
31 December 2017	**19,701**	**25,233**	**11,106**	**-**	**56,040**
Additions	218	7,267	2,358	172	10,015
Disposals	(347)	(459)	(41)	-	(847)
31 December 2018	**19,572**	**32,041**	**13,423**	**172**	**65,208**
Additions	18,486	10,485	2,142	915	32,028
Disposals	(761)	(852)	(119)	-	(1,732)
31 December 2019	**37,297**	**41,674**	**15,446**	**1,087**	**95,504**
Accumulated depreciation and impairment					
31 December 2016	**5,233**	**10,938**	**3,324**	**-**	**19,495**
Acquisition of subsidiary	777	2,923	1,033	-	4,733
Charge for the year	(31)	-	-	-	(31)
Eliminated on disposals	(143)	(189)	-	-	(332)
31 December 2017	**5,836**	**13,672**	**4,357**	**-**	**23,865**
Charge for the year	618	3,187	1,327	-	5,132
Eliminated on disposals	(82)	(395)	-	-	(477)
31 December 2018	**6,372**	**16,464**	**5,684**	**-**	**28,520**
Charge for the year	1,378	4,114	1,676	-	7,168
Eliminated on disposals	(250)	(800)	(119)	-	(1,169)
31 December 2019	**7,500**	**19,778**	**7,241**	**-**	**34,519**
Net book value					
31 December 2019	**29,797**	**21,896**	**8,205**	**1,087**	**60,985**
31 December 2018	**13,200**	**15,577**	**7,739**	**172**	**36,688**
31 December 2017	**13,865**	**11,561**	**6,749**	**-**	**32,175**

As at 31 December 2019, 2018 and 2017, property and equipment included fully depreciated property and equipment of KZT 7,400 million, KZT 6,544 million and KZT 5,408 million, respectively.

The fair value of buildings and construction was determined based on the market comparable approach that reflects recent transaction prices for similar properties and was carried out by independent valuers not related to the Group. There has been no change to the valuation technique during the year. In measuring fair value of the Group's buildings and construction, the were measurements categorized into Level 3. During the years 2019, 2018 and 2017, there were no movements between Level 3 and other levels.

Items included in buildings and construction are stated at revalued amounts. As at 31 December 2019, 2018 and 2017, the net book value of those items, that would have been recognised had the assets been carried under the cost model totaled KZT 29,797 million, KZT 13,200 million and KZT 13,865 million, respectively.

In 2019, 2018 and 2017, management of the Group performed an analysis of the property market and concluded that there were no significant changes in the fair value since the latest property revaluation date.

(in millions of KZT)

15. Other assets

	31 December 2019	31 December 2018	31 December 2017
Other financial assets:			
Prepayments for customers online transactions	8,902	4,468	5,713
Receivables from VISA and Master Card transactions	1,810	2,893	1,937
Other	4,138	8,193	2,322
Total other financial assets	**14,850**	**15,554**	**9,972**
Less: allowance for impairment losses	(2,243)	(1,343)	(1,188)
Total net other financial assets	**12,607**	**14,211**	**8,784**
Other non-financial assets:			
Investment property	29,804	2,652	821
Other	9,768	4,630	3,714
Total other non-financial assets	**39,572**	**7,282**	**4,535**
Less: allowance for impairment losses	(135)	(720)	(553)
Total net other non-financial assets	**39,437**	**6,562**	**3,982**
Total other assets	**52,044**	**20,773**	**12,766**

Movements in allowances for impairment of other assets for the years ended 31 December 2019, 2018 and 2017 are disclosed in Note 8.

Investment property movement as at 31 December 2019, 2018 and 2017 is presented as follows:

	2019	2018	2017
Cost			
As at 1 January	2,722	852	513
Additions	27,926	1,870	579
Disposals	(470)	-	(240)
As at 31 December	**30,178**	**2,722**	**852**
Accumulated depreciation			
As at 1 January	(70)	(31)	(10)
Depreciation charge	(321)	(39)	(27)
Disposals	17	-	6
As at 31 December	**(374)**	**(70)**	**(31)**
Net book value	**29,804**	**2,652**	**821**

During the years ended 31 December 2019, 2018 and 2017, the Group foreclosed collateral it held as security for loans. As a result, the Group received investment property of KZT 27,926 million, KZT 1,870 million, and KZT 579 million, respectively.

As at 31 December 2019, 2018 and 2017, the fair value of investment property amounted to KZT 36,678 million, KZT 3,177 million and KZT 825 million, respectively.

(in millions of KZT)

16. Due to banks

	31 December 2019	31 December 2018	31 December 2017
Recorded at amortized cost:			
Repurchase agreements	3,000	49	23,044
Time deposits of banks and other financial institutions	-	-	40,156
Total due to banks	**3,000**	**49**	**63,200**

As at 31 December 2019, 2018 and 2017, accrued interest of KZT Nil, KZT Nil and KZT 294 million, respectively, was included in due to banks.

Fair value of collateral of repurchase agreements, which were classified as due to banks as at 31 December 2019, 2018 and 2017, amounted to KZT 3,092 million, KZT 51 million and KZT 23,744 million, respectively.

17. Customer accounts

	31 December 2019	31 December 2018	31 December 2017
Individuals			
Term deposits	1,298,772	1,025,099	828,734
Current accounts	242,206	124,971	50,806
Total due to individuals	**1,540,978**	**1,150,070**	**879,540**
Corporate customers			
Term deposits	44,118	41,684	71,857
Current accounts	41,877	41,166	28,242
Total due to corporate customers	**85,995**	**82,850**	**100,099**
Total customer accounts	**1,626,973**	**1,232,920**	**979,639**

As at 31 December 2019, 2018 and 2017, accrued interest of KZT 8,996 million, KZT 7,573 million and KZT 6,038 million, respectively, was included in customer accounts.

As at 31 December 2019, 2018 and 2017, customer accounts of KZT 13,109 million, KZT 7,997 million and KZT 6,418 million, respectively, were held as security against loans, letters of credit, guarantees issued by the Group and other transactions related to contingent obligations.

As at 31 December 2019, 2018 and 2017, customer accounts of KZT 97,195 million (6.0%), KZT 78,531 million (6.4%) and KZT 103,651 million (10.6%), respectively, were due to top twenty customers.

(in millions of KZT)

18. Debt securities issued

	Currency	Maturity date month/ year	Nominal interest rate %	31 December 2019	31 December 2018	31 December 2017
Second bond program – fourth issue	KZT	February 2018	8.00	-	-	10,285
Second bond program – fifth issue	KZT	June 2018	8.00	-	-	1,603
Third bond program – first issue	KZT	January 2025	9.90	51,042	51,041	51,040
Third bond program – second issue	KZT	January 2024	9.80	48,410	48,408	48,407
Third bond program – third issue	KZT	January 2023	9.70	39,122	38,645	-
Total debt securities issued				**138,574**	**138,094**	**111,335**

As at 31 December 2019, 2018 and 2017, accrued interest of KZT 5,620 million, KZT 5,620 million and KZT 4,318 million, respectively, was included in debt securities issued. All debt securities issued are recorded at amortised cost as at 31 December 2019, 2018 and 2017. The Group did not have any defaults or other breaches with respect to its debt securities during the years ended 31 December 2019, 2018 and 2017.

19. Other liabilities

	31 December 2019	31 December 2018	31 December 2017
Other financial liabilities:			
Payables for customers' online transactions	11,703	5,536	8,372
Derivative financial liabilities	8,838	-	1,312
Accrued expenses	1,918	1,255	1,162
Accrued dividends payable to non-controlling interest	1,028	900	1,432
Payables for Visa and Master Card transactions	482	3,004	6,544
Other	174	89	55
Total financial liabilities	**24,143**	**10,784**	**18,877**
Other non-financial liabilities:			
Prepayments	4,779	2,008	280
Accumulated employee benefits	1,733	1,268	6,895
Employee vacation reserves	1,338	1,315	1,250
Current income tax payable	1,084	1,618	965
Other taxes payable	2,191	784	176
Deferred tax liabilities	2,373	1,833	424
Other	4,377	843	423
Total non-financial liabilities	**17,875**	**9,669**	**10,413**
Total other liabilities	**42,018**	**20,453**	**29,290**

(in millions of KZT)

20. Subordinated debt

	Currency	Maturity date month/ year	Nominal interest rate, %	31 December 2019	31 December 2018	31 December 2017
First bond program – third issue	KZT	June 2018	2.5% plus inflation rate	-	-	3,912
First bond program – fourth issue	KZT	July 2019	2% plus inflation rate	-	6,221	6,273
First bond program – fifth issue	KZT	July 2019	2% plus inflation rate	-	5,563	5,499
Second bond program - first issue	KZT	July 2021	1% plus inflation rate	10,050	9,981	9,941
Second bond program – third issue	KZT	February 2023	2% plus inflation rate	5,466	5,569	5,686
Third bond program – fourth issue	KZT	June 2025	10.7	62,261	62,259	62,257
Debt component of preference shares	KZT	n/a	n/a	9	10	11
Total subordinated debt				**77,786**	**89,603**	**93,579**

Debt component of preference shares relates to subsidiary Kaspi Bank JSC, and is held by the non-controlling interest. As at 31 December 2019, 2018 and 2017, accrued interest of KZT 3,616 million, KZT 4,120 million and KZT 4,310 million, respectively, was included in subordinated debt. All subordinated debt are recorded at amortised cost as at 31 December 2019, 2018 and 2017. The above liabilities are subordinated to the claims of depositors and other creditors of the issuer in the event of liquidation. The Group did not have any defaults or other breaches with respect to its subordinated debt during the years ended 31 December 2019, 2018 and 2017.

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	138,094	-	-	480	138,574
Subordinated debt	89,603	(11,368)	-	(449)	77,786

			Non-cash changes		
	1 January 2018	Financing cash flows	Foreign exchange movement	Changes in amortised cost	31 December 2018
Debt securities issued	111,335	25,393	-	1,366	138,094
Subordinated debt	93,579	(3,924)	-	(52)	89,603

(in millions of KZT)

	1 January 2017	Financing cash flows	Non-cash changes: Foreign exchange movement	Non-cash changes: Changes in amortised cost	31 December 2017
Debt securities issued	111,330	-	-	5	111,335
Subordinated debt	93,905	(10)	-	(316)	93,579

21. Share capital

The table below provides a reconciliation of the change in the number of authorized shares, shares issued and fully paid, treasury shares and shares outstanding as at 31 December 2019, 2018 and 2017:

	Authorised shares	Issued and fully paid shares	Treasury shares	Shares outstanding
Ordinary shares				
1 January 2017	1,500,000	1,500,000	-	1,500,000
Movement	-	-	-	-
31 December 2017	**1,500,000**	**1,500,000**	**-**	**1,500,000**
Share split (1:105)	157,500,000	157,500,000	-	157,500,000
Purchase of treasury shares	-	-	16,320,000	(16,320,000)
Conversion of preference shares into ordinary shares (1:1)	52,500,000	42,000,000	-	42,000,000
31 December 2018	**210,000,000**	**199,500,000**	**16,320,000**	**183,180,000**
Movement	6,742,000	-	(8,625,000)	8,625,000
31 December 2019	**216,742,000**	**199,500,000**	**7,695,000**	**191,805,000**
Preference shares				
1 January 2017	500,000	400,000	-	400,000
Movement	-	-	-	-
31 December 2017	**500,000**	**400,000**	**-**	**400,000**
Share split (1:105)	52,500,000	42,000,000	-	42,000,000
Conversion of preference shares into ordinary shares (1:1)	(52,500,000)	(42,000,000)	-	(42,000,000)
31 December 2018	**-**	**-**	**-**	**-**
Movement	-	-	-	-
31 December 2019	**-**	**-**	**-**	**-**

On 9 July 2018, the Group completed a stock split of one pre-split ordinary and preference share for 105 post-split ordinary and preference shares, respectively.

During the year ended 31 December 2018, the Group repurchased 16,320,000 ordinary shares at a market price for the total amount of KZT 75,287 million.

In December 2018, the Group converted all preference shares into ordinary shares based on a ratio of 1-for-1.

(in millions of KZT)

The table below provides a reconciliation of the change in outstanding share capital fully paid as at 31 December 2019, 2018 and 2017:

	Preference shares	Ordinary shares	Total
Balance at 1 January 2017	27,400	102,744	130,144
Movements	-	-	-
31 December 2017	**27,400**	**102,744**	**130,144**
Purchase of treasury shares	-	(75,287)	(75,287)
Conversion of preference shares into ordinary shares (1:1)	(27,400)	27,400	-
31 December 2018	-	**54,857**	**54,857**
Movements	-	40,968	40,968
31 December 2019	-	**95,825**	**95,825**

All shares are KZT denominated. The Group has one class of ordinary shares which carry no right to fixed income. Share premium represents an excess of contributions received over the nominal value of shares issued and amounts received as a result of the resale of shares over their purchase price.

During the years ended 31 December 2019, 2018 and 2017, the Group declared dividends of KZT Nil, KZT 0.03 and KZT 7,980.03 per preference share, respectively.

During the years ended 31 December 2019, 2018 and 2017, the Group declared dividends ranging from KZT 170 to KZT 175, KZT Nil and KZT 7,980 per ordinary share, respectively.

22. Commitments and contingencies

In the normal course of business the Group is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. Guarantees issued included below represent financial guarantees, where payment is not probable as at the respective reporting date, and therefore have not been recorded in the consolidated statement of financial position.

The Group's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Group uses the same credit policy in undertaking contingent commitments as it does for on-balance operations.

As at 31 December 2019, 2018 and 2017, provision for losses on contingent liabilities amounted to KZT 51 million, KZT 42 million and KZT Nil, respectively.

(in millions of KZT)

As at 31 December 2019, 2018 and 2017, the Group's contingent liabilities and credit commitments comprised the following:

	31 December 2019	31 December 2018	31 December 2017
	Nominal amount	Nominal amount	Nominal amount
Commitments on loans and unused credit lines:			
Revocable loans	77,239	61,320	55,202
Irrevocable loans	83	-	-
Total commitments on loans and unused credit lines	77,322	61,320	55,202
Guarantees issued and similar commitments	1,428	1,409	1,793
Total contingent liabilities and credit commitments	**78,750**	**62,729**	**56,995**

As at 31 December 2019, 2018 and 2017, commitments on loans and unused credit lines represent the Group's revocable and irrevocable commitments to extend loans within unused credit line limits. Those commitments where the borrower has to apply each time it wants to draw the credit facility from unused credit lines and the Group may approve or deny the extension of the credit facility based on the borrower's financial performance, debt service and other credit risk characteristics are considered revocable. Those commitments where the Group is contractually obliged with no conditions to extend the loan are considered as irrevocable.

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 losses will be incurred and respectively no provision has been made in these consolidated financial statements.

Pensions and retirement plans

Employees of the Group receive pension benefits from pension funds in accordance with the laws and regulations of the Republic of Kazakhstan. As at 31 December 2019, 2018 and 2017, the Group was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

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, 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.

(in millions of KZT)

Management of the Group is monitoring developments in the current environment and taking measures it considered 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 future operations and financial position of the Group might be significant.

23. Transactions with related parties

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Group had the following transactions outstanding as at 31 December 2019, 2018 and 2017 with related parties:

	Year ended 31 December 2019		Year ended 31 December 2018		Year ended 31 December 2017	
	Transactions with related parties	Total category as per financial statements captions	Transactions with related parties	Total category as per financial statements captions	Transactions with related parties	Total category as per financial statements captions
Consolidated statement of financial position						
Loans to customers	-	1,399,517	1,529	1,187,797	1,396	981,471
- key management personnel of the Group	-		1,518		1,396	
- other related parties	-		11		-	
Allowance for losses on loans to customers	-	(107,413)	(1)	(120,795)	(181)	(90,148)
- key management personnel of the Group	-		-		(181)	
- other related parties	-		(1)		-	
Customer accounts	10,303	1,626,973	11,603	1,232,920	14,892	979,639
- key management personnel of the Group	1,018		4,103		1,384	
- other related parties	9,285		7,500		13,508	

(in millions of KZT)

Compensation to directors and other members of key management is presented as follows:

	Year ended 31 December 2019		Year ended 31 December 2018		Year ended 31 December 2017	
	Transactions with related parties	Total category as per financial statements caption	Transactions with related parties	Total category as per financial statements caption	Transactions with related parties	Total category as per financial statements caption
Compensation to key management personnel:						
Employee benefits	(900)	(31,236)	(5,177)	(26,269)	(3,034)	(25,911)

During the years ended 31 December 2019, 2018 and 2017, interest income from transactions with key management personnel amounted to KZT 104 million, KZT 122 million and KZT 104 million, respectively. During the years ended 31 December 2019, 2018 and 2017, interest expense from transactions with key management personnel amounted to KZT 69 million, KZT 233 million and KZT 169 million, respectively, and other related parties amounted to KZT 120 million, KZT 122 million and KZT 344 million, respectively. During the years ended 31 December 2019, 2018 and 2017, transaction costs attributable to loans to customers and paid to other related parties on a arm's length basis, amounted KZT 13,043 million, KZT 4,515 million and KZT 1,132 million, respectively.

24. Fair value of financial instruments

a. Fair value 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 the measurement date.

b. Fair value of the Group's financial assets and financial liabilities 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 period. 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).

(in millions of KZT)

Financial assets/ financial liabilities	Fair value as at 31 December 2019	Fair value as at 31 December 2018	Fair value as at 31 December 2017	Fair value hierarchy	Valuation technique(s) and key input(s)
Non-derivative financial assets at fair value through other comprehensive income (2017: investments available-for-sale)	442,002	353,201	212,283	Level 1	Quoted bid prices in an active market
Non-derivative financial assets at fair value through other comprehensive income (2017: investments available-for-sale)	31,183	310	155	Level 2	Qouted prices in markets that are not active or DCF method. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.
Non-derivative financial assets at fair value through other comprehensive income (2017: investments available-for-sale)	-	3,108	-	Level 2	DCF method. Discounted cash flows based on observable market yield for similar quoted debt instruments.
Unlisted Equity investments classified as financial assets at fair value through other comprehensive income	70	70	-	Level 3	Adjusted net assets based on most recent published financial statements of unlisted companies with discount for marketability and liquidity. Discount ratios varies from 10% to 30%.
Derivative financial assets (Note 12)	1,326	9,942	27	Level 2	DCF method. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.
Derivative financial liabilities (Note 12)	8,838	-	1,312	Level 2	DCF method. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.

As at 31 December 2017, AFS investments included equity shares of KZT 70 million, which did not have a quoted market price in an active market and thus were measured at cost.

(in millions of KZT)

The reconciliation of Level 3 fair value measurements of financial assets is presented as follows:

	Financial assets (Level 3)
At 31 December 2016	**75,414**
Total gain(losses):	
- in profit or loss	(3,941)
Settlements	(71,473)
At 31 December 2017	**-**
1 January 2018 (restated due to IFRS 9)	70
Purchases	-
Total gain(losses):	
- in profit or loss	-
Settlements	-
At 31 December 2018	**70**
1 January 2019	-
Purchases	-
Total gain(losses):	
- in profit or loss	-
Settlements	-
At 31 December 2019	**70**

There were no transfers between Level 1 and Level 2 in the period.

c. 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).

Except as detailed in the following table, management of the Group considers that the carrying amount of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

	31 December 2019		
	Carrying amount	Fair value	Fair value hierarchy
Due from banks	43,484	43,621	Level 2
Loans to customers	1,292,104	1,334,322	Level 3
Customer accounts	1,626,973	1,610,650	Level 2
Debt securities issued	138,574	137,651	Level 2
Subordinated debt	77,786	76,347	Level 2

	31 December 2018		
	Carrying amount	Fair value	Fair value hierarchy
Due from banks	22,872	22,500	Level 2
Loans to customers	1,067,002	1,090,414	Level 3
Customer accounts	1,232,920	1,205,660	Level 2
Debt securities issued	138,094	133,085	Level 1
Subordinated debt	89,603	83,320	Level 1,2*

(in millions of KZT)

	31 December 2017		
	Carrying amount	Fair value	Fair value hierarchy
Loans to customers	891,323	881,941	Level 3
Customer accounts	979,639	967,667	Level 2
Debt securities issued	111,335	106,283	Level 1
Subordinated debt	93,579	87,597	Level 1,2*

*As at 31 December 2018 and 2017, fair value of subordinated debt that was measured using Level 2 valuation technique amounted to KZT 81 million, KZT 11 million and KZT 11 million, respectively.

Loans to customers

Loans to individual customers are made at fixed rates. Fair value of fixed rate loans has been estimated by reference to the market rates available at the reporting date for loans with similar maturity profile.

Debt securities issued, subordinated debt

Debt securities issued and subordinated debt are valued using quoted prices.

Customer accounts

The estimated fair value of term deposits is determined by discounting contractual cash flows using interest rates currently offered for deposits with similar terms. For current accounts, the Group considers fair value to equal carrying value, which is equivalent to the amount payable on the balance sheet date.

Information about measurement hierarchy of property, equipment and intangible assets is disclosed in Note 14.

Due from banks

The estimated fair value of term due from banks is determined by discounting the contractual cash flows using interest rates currently offered for due from banks with similar terms.

Due to banks

The estimated fair value of term due to banks is determined by discounting the contractual cash flows using interest rates currently offered for due to banks with similar terms.

Assets and liabilities for which fair value approximates carrying value

For financial assets and liabilities that have a short term maturity (less than 3 months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a maturity.

(in millions of KZT)

25. Regulatory matters

The management of JSC Kaspi Bank (subsidiary of the Company) monitor capital adequacy ratio based on requirements of standardized approach of Basel Committee of Banking Supervision "Basel III: A global regulatory framework for more resilient banks and banking systems" (December 2010, updated in June 2011). The capital adequacy ratios calculated on the basis of JSC Kaspi Bank's consolidated financial statements under Basel III are presented in the following table:

	31 December 2019	31 December 2018	31 December 2017
Capital adequacy ratios:			
Tier 1 capital	17.6%	16.8%	13.9%
Total capital	22.4%	23.0%	20.9%

As at 31 December 2019, 2018 and 2017, JSC Kaspi Bank had complied with NBRK's capital requirements. The following table presents the Bank's capital adequacy ratios in accordance with the NBRK requirements:

	31 December 2019	31 December 2018	31 December 2017
Capital adequacy ratios:			
Tier 1 capital (k1.2)	11.4%	11.4%	11.0%
Total Capital (k.2)	14.5%	15.7%	16.5%

26. Risk management policy

The Group permanently advances it's risk management environment, to fit up-to-date challenges and risks the Group is exposed to. The Group is exposed to following types of risks: credit risk, liquidity risk, market risk.

Credit risk

The Group is exposed to credit risk, which is the risk that a customer will be unable to pay amounts in full when due. The Group's credit risk exposure arises primarily from our consumer finance business through the Fintech Platform. To manage credit risk during loan origination the Group centralized all processes related to decision making, verification and accounting through it's headquarters. The Group has developed an automated, centralised and big data-driven proprietary loan approval process that enables it to make instant credit decisions. The risk management block is responsible for maintaining scoring models and decision-making process. The quality of approved loans are monitored by risk management block on day-to-day basis with periodical validation of the models.

During the credit decision process, the Group uses proprietary risk algorithms and predictive scoring models for the evaluation of the risks of potential borrowers using statistical modelling based on (i) a wealth of proprietary internal data such as application, transactional, behavioural, shopping and payment history information, which is supplemented by (ii) external data such as data received from credit bureaus (LLC First Credit Bureau and LLC State Credit Bureau) and pension centre (the State Pension Payment Centre) with regard to each customer.

The additional proprietary data constantly accumulated around the Group's customers' activity within it's Ecosystem that enables it to continuously deepen it's credit decision process.

The risk management block, in terms of credit risk, consists of independent modelling, anti-fraud, monitoring and provisioning division.

Maximum Exposure

The Group's maximum exposure to credit risk varies significantly and is dependent on both individual risks and general market economy risks. For financial assets recorded on statement of financial position, the maximum exposure equals to a 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.

As at 31 December 2019, 2018 and 2017, the maximum exposure to credit risk after offset and collateral was equal to its carrying value of all financial assets except for loans to customers.

As at 31 December 2019, 2018 and 2017, the maximum exposure to credit risk after offset and collateral of loans to customers, was amounted to KZT 1,015,844 million, KZT 813,650 million and KZT 682,377 million, respectively.

Collateral held as security and other credit enhancements

The Group holds collateral or other credit enhancements to mitigate credit risk associated with financial assets. The main types of collateral obtained are as follows:

- For reverse repurchase transactions – securities;
- For commercial lending – charges over real estate properties and vehicles.

Although, the Group use collateral as credit enhancement to mitigate its exposure to credit risk, major part of its loan portfolio is represented by unsecured loans. Thus, as at 31 December 2019, 2018 and 2017, unsecured gross carrying amount of loans to customers amounted to KZT 1,094,746 million, KZT 877,837 million and KZT 705,790 million, respectively.

As at 31 December 2019, credit impaired loans with net carrying value of KZT 24,934 million were either fully or partially collateralized, reflecting the extent to which collateral and other credit enhancements mitigate credit risk.

(in millions of KZT)

Credit quality of financial assets

The tables below present information about the significant changes in the gross carrying amount of loans during the period that contributed to changes in the loss allowance during the year ended 31 December 2019:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loans at amortized cost				
Gross carrying amount as at 1 January 2019	**954,160**	**24,481**	**209,156**	**1,187,797**
Changes in the gross carrying amount				
- Transfer to Stage 1	16,507	(3,136)	(13,371)	-
- Transfer to Stage 2	(16,025)	16,854	(829)	-
- Transfer to Stage 3	(82,457)	(17,242)	99,699	-
New financial assets originated or purchased	1,004,893	-	-	1,004,893
Financial assets that have been repaid	(648,985)	(5,574)	(53,929)	(708,488)
Write-offs	-	-	(85,210)	(85,210)
Other changes	-	-	525	525
Gross carrying amount as at 31 December 2019	**1,228,093**	**15,383**	**156,041**	**1,399,517**

The Group uses an internal rating model to classify individually significant loans to customers in different risk categories:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loans to customers that individually assessed for impairment				
Grades: Low to fair risk	25,420	-	-	25,420
Grades: Monitoring	-	-	-	-
Grade: Impaired	-	-	27,965	27,965
Loans to customers that collectively assessed for impairment	1,202,673	15,383	128,076	1,346,132
Total gross carrying amount	**1,228,093**	**15,383**	**156,041**	**1,399,517**
Loss allowance	(31,983)	(5,235)	(70,195)	(107,413)
Carrying amount as at 31 December 2019	**1,196,110**	**10,148**	**85,846**	**1,292,104**

(in millions of KZT)

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loans at amortized cost				
Gross carrying amount as at 1 January 2018	**770,757**	**34,580**	**176,134**	**981,471**
Changes in the gross carrying amount				
- Transfer to Stage 1	1,603	(1,135)	(468)	-
- Transfer to Stage 2	(25,736)	25,791	(55)	-
- Transfer to Stage 3	(77,229)	(27,028)	104,257	-
New financial assets originated or purchased	776,056	-	-	776,056
Financial assets that have been repaid	(491,291)	(7,727)	(8,804)	(507,822)
Write-offs	-	-	(61,878)	(61,878)
Other changes	-	-	(30)	(30)
Gross carrying amount as at 31 December 2018	**954,160**	**24,481**	**209,156**	**1,187,797**

The Group uses an internal rating model to classify individually significant loans to customers in different risk categories:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI	Total
Loans to customers that individually assessed for impairment					
Grades: Low to fair risk	42,094	-	-	-	42,094
Grades: Monitoring	-	-	10,126		10,126
Grade: Impaired	-	-	70,518	13,785	84,303
Loans to customers that collectively assessed for impairment	912,066	24,481	114,727	-	1,051,274
Total gross carrying amount	**954,160**	**24,481**	**195,371**	**13,785**	**1,187,797**
Loss allowance	(21,193)	(7,028)	(81,611)	(10,963)	(120,795)
Carrying amount as at 31 December 2018	**932,967**	**17,453**	**113,760**	**2,822**	**1,067,002**

(in millions of KZT)

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Due from banks				
High grade (A- and higher)	15,010	-	-	15,010
Investment grade (BBB+ - BBB-)	27,272	-	-	27,272
Non-Investment grade (BB+ - B-)	1,224	-	-	1,224
Low grade (CCC+ and lower)	-	-	-	-
Total gross carrying amount	**43,506**	**-**	**-**	**43,506**
Loss allowance	(22)	-	-	(22)
Carrying amount as at 31 December 2019	**43,484**	**-**	**-**	**43,484**

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Due from banks				
High grade (A- and higher)	18,242	-	-	18,242
Investment grade (BBB+ - BBB-)	101	-	-	101
Non-Investment grade (BB+ - B-)	4,542	-	-	4,542
Low grade (CCC+ and lower)	-	-	-	-
Total gross carrying amount	**22,885**	**-**	**-**	**22,885**
Loss allowance	(13)	-	-	(13)
Carrying amount as at 31 December 2018	**22,872**	**-**	**-**	**22,872**

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Investment debt securities				
High grade (A- and higher)	1,772	-	-	1,772
Investment grade (BBB+ - BBB-)	438,969	-	-	438,969
Non-Investment grade (BB+ - B-)	30,218	-	-	30,218
Low grade (CCC+ and lower)	-	1,984	-	1,984
Carrying amount as at 31 December 2019	**470,959**	**1,984**	**-**	**472,943**

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Investment debt securities				
High grade (A- and higher)	1,799	- -	-	1,799
Investment grade (BBB+ - BBB-)	317,173	- -	-	317,173
Non-Investment grade (BB+ - B-)	34,231	-	3,108	37,339
Low grade (CCC+ and lower)	-	- -	-	-
Carrying amount as at 31 December 2018	**353,203**	**-**	**3,108**	**356,311**

(in millions of KZT)

Financial assets, other than loans to customers and other financial assets, are graded according to their external credit ratings issued by an international rating agencies, such as Standard and Poor's, Fitch and Moody's Investors Services. The highest possible rating is AAA.

	A- and higher	BBB+ to BBB-	BB+ to B-	CCC+ and lower	Not rated	Total
Gross carrying value:						
31 December 2019						
Cash and cash equivalents, net of cash on hand	50,672	67,987	448	-	17,899	137,006
Mandatory cash balances with NBRK	-	25,243	-	-	-	25,243
Due from banks	15,010	27,272	1,224	-	-	43,506
Investment securities and derivatives	3,092	438,975	30,530	1,984	-	474,581
31 December 2018						
Cash and cash equivalents, net of cash on hand	29,304	43,488	5,773	-	1,532	80,097
Mandatory cash balances with NBRK	-	17,215	-	-	-	17,215
Due from banks	18,242	101	4,542	-	-	22,885
Investment securities and derivatives	1,799	322,683	42,149	-	-	366,631

As at 1 January 2019 and 31 December 2019, all loan commitments and financial guarantee contracts of the Group are classified in Stage 1 (12-month ECL) and have "low to fair" risk grade.

Modified financial assets

As a result of the Group's forbearance activities financial assets might be modified. The following tables refer to modified financial assets where modification does not result in derecognition. Financial assets (with loss allowance based on lifetime ECL) modified during the years ended 31 December 2019 and 2018:

	2019
Gross carrying amount before modification	30,175
Net amortised cost before modification	18,434
Net modification gain(loss)	-
Net amortised cost after modification	18,434
Financial assets modified since initial recognition at a time when loss allowance was based on lifetime ECL	30,175
Gross carrying amount of financial assets for which loss allowance has changed in the period from lifetime to 12-month ECL cost after modification	13,371

(in millions of KZT)

	2018
Gross carrying amount before modification	17,595
Net amortised cost before modification	10,873
Net modification gain(loss)	-
Net amortised cost after modification	10,873
Financial assets modified since initial recognition at a time when loss allowance was based on lifetime ECL	17,595
Gross carrying amount of financial assets for which loss allowance has changed in the period from lifetime to 12-month ECL cost after modification	-

Macro sensitivity

The Group has performed a sensitivity analysis on how ECL on the main portfolios will change if the key assumptions used to calculate ECL change by 1 percentage point. For the purpose of ECL estimation the Group takes growth rate of real GDP at 3.20% and 3.65% for years 2020 and 2021, respectively as the baseline scenario, 4.96% and 5.41% for the years 2020 and 2021 respectively as upside scenario and 1.44% and 1.89% for the years 2020 and 2021 respectively as downside scenario. Change in baseline growth rate of real GDP by +/- 1 percentage point with respective correction of upside and downside scenarios lead to change in loss allowance amount by KZT -5,261/+5,263 million as at 31 December 2019, respectively.

Liquidity risk

The liquidity management framework of the Group mainly consists of following instruments:

- Assessment of sufficient level of high quality liquid assets
- Cash flow forecasting
- Diversification of funding
- Social media marketing
- Up-to-date contingent funding plan

The liquidity risk is managed considering specific aspects of Kazakhstan economy, in particular limited funding instruments and possible dollarization due to currency devaluation expectations.

The Group devote great significance to social media marketing, to support the brand of the Group and mitigate various risks such as liquidity and reputational risks. The division of social media marketing covers mass media, social networks, blogs and other sources of information, available to current or potential customers.

A major part of the Group's obligations consists of customer accounts of individuals, with nominal maturity under 2 years. However 98.7% of deposits in 2019 were rolled over, that ensures Group with reliable and long-term funding base. Average amount of individuals' customer accounts balance is KZT 851 thousand as at 31 December 2019, which is another indicator of diversification and stability of the funding base.

The Group retains significant amount of high quality liquid assets, that consists mainly from cash, deposits within NBRK, short-term and mid-term notes of NBRK and bonds of Ministry of Finance of the Republic of Kazakhstan.

Market risk

Price Risk

The Group's market risk arises from fluctuations in the value of financial instruments because of changes in market prices whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. The Group has established various limits on operations with securities, including instrument specific limits, in order to balance profit and risk in the securities portfolio. The Group's portfolio is predominantly comprised of Kazakhstan government debt securities.

Currency risk

The Group manages it's currency risk by keeping modest open currency position. The Group does issue loans to customers only in tenge, which protects the Group from hidden currency risk in case of currency devaluation.

Interest rate risk

Contractual maturities of assets and liabilities of the Group has modest gaps, which provides possibilities of instant reactions on changes of market interest rates. The Group has significant amounts of high quality liquid assets with short maturity which helps to minimize sensitivity to sharp increase of interest rate in case of liquidity shortfall on the market.

(in millions of KZT)

An analysis of the liquidity and interest rate risks is presented in the following table.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2019 Total
FINANCIAL ASSETS						
Interest bearing financial assets	367,293	354,332	780,720	325,911	113,489	1,941,745
Non-interest bearing financial assets	144,089	1,242	83	-	-	145,414
TOTAL FINANCIAL ASSETS	**511,382**	**355,574**	**780,803**	**325,911**	**113,489**	**2,087,159**
FINANCIAL LIABILITIES AND COMMITMENTS						
Total interest bearing financial liabilities	101,512	341,951	777,749	203,691	111,888	1,536,791
Non-interest bearing financial liabilities	336,230	3,145	3,148	-	-	342,523
Total financial liabilities	**437,742**	**345,096**	**780,897**	**203,691**	**111,888**	**1,879,314**
Guarantees issued and similar commitments	99	20	-	-	1,309	1,428
Total financial liabilities and commitments	**437,841**	**345,116**	**780,897**	**203,691**	**113,197**	**1,880,742**
Liquidity gap	73,541	10,458	(94)	122,220	292	
Cumulative liquidity gap	73,541	83,999	83,905	206,125	206,417	
Interest sensitivity gap	265,781	12,381	2,971	122,220	1,601	
Cumulative interest sensitivity gap	265,781	278,162	281,133	403,353	404,954	

As at 31 December 2019, 2018 and 2017, guarantee deposits in favour of international payments systems included in due from banks amounted to KZT 42,140 million, KZT 18,322 million and KZT 8,328 million, respectively.

(in millions of KZT)

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2018 Total
FINANCIAL ASSETS						
Interest bearing financial assets	399,366	224,207	465,647	264,844	141,271	1,495,335
Non-interest bearing financial assets	153,452	2,815	4,767	-	-	161,034
TOTAL FINANCIAL ASSETS	**552,818**	**227,022**	**470,414**	**264,844**	**141,271**	**1,656,369**
FINANCIAL LIABILITIES AND COMMITMENTS						
Total interest bearing financial liabilities	68,845	120,911	560,266	367,683	178,434	1,296,139
Non-interest bearing financial liabilities	175,305	5	-	-	-	175,310
Total financial liabilities	**244,150**	**120,916**	**560,266**	**367,683**	**178,434**	**1,471,449**
Guarantees issued and similar commitments	72	14	8	-	1,315	1,409
Total financial liabilities and commitments	**244,222**	**120,930**	**560,274**	**367,683**	**179,749**	**1,472,858**
Liquidity gap	308,596	106,092	(89,860)	(102,839)	(38,478)	
Cumulative liquidity gap	308,596	414,688	324,828	221,989	183,511	
Interest sensitivity gap	330,521	103,296	(94,619)	(102,839)	(37,163)	
Cumulative interest sensitivity gap	330,521	433,817	339,198	236,359	199,196	

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2017 Total
FINANCIAL ASSETS						
Interest bearing financial assets	219,171	201,277	385,654	248,195	125,532	1,179,829
Non-interest bearing financial assets	255,328	206	1,322	-	-	256,856
TOTAL FINANCIAL ASSETS	**474,499**	**201,483**	**386,976**	**248,195**	**125,532**	**1,436,685**
FINANCIAL LIABILITIES AND COMMITMENTS						
Total interest bearing financial liabilities	105,409	268,654	523,167	92,690	184,118	1,174,038
Non-interest bearing financial liabilities	87,637	511	4,444	-	-	92,592
Total financial liabilities	**193,046**	**269,165**	**527,611**	**92,690**	**184,118**	**1,266,630**
Guarantees issued and similar commitments	315	316	5	20	1,137	1,793
Total financial liabilities and commitments	**193,361**	**269,481**	**527,616**	**92,710**	**185,255**	**1,268,423**
Liquidity gap	281,138	(67,998)	(140,640)	155,485	(59,723)	
Cumulative liquidity gap	281,138	213,140	72,500	227,985	168,262	
Interest sensitivity gap	113,762	(67,377)	(137,513)	155,505	(58,586)	
Cumulative interest sensitivity gap	113,762	46,385	(91,128)	64,377	5,791	

(in millions of KZT)

The liquidity gap is negative only in long maturity periods if taken cumulatively. Nevertheless, based on prior experience, the Group considers it highly unlikely that all customer accounts seek repayment on maturity. Historically the majority of such deposits are rolled over.

Interest rate sensitivity analysis

The Group manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. The Risk Management Department conducts monitoring of the Group's current financial performance, estimates the Group's sensitivity to changes in fair value interest rates and its influence on the Group's profitability.

The sensitivity analysis includes interest rate risk, which has been determined based on "reasonably possible changes in the risk variable". The level of these changes is determined by management and is contained within the risk reports provided to key management personnel.

As at 31 December 2019, the impact on profit before income tax due to a +/-3% change in interest rate amounted -/+ KZT 465 million (2018: -/+ KZT 820 million, 2017: KZT -/+939 million). The impact on equity due to a +/-3% change in interest rate amounted KZT -7,035 million/KZT +7,756 million (2018: KZT -2,535 million/+2,800 million, 2017: KZT -7,626 million/+8,493 million).

Currency risk

The Group's exposure to foreign currency exchange rate risk is presented in the table below:

	Tenge	USD 1 USD = KZT 382.59	EUR EUR 1 = KZT 429.00	Other currency	31 December 2019 Total
Non-derivative financial assets					
Total non-derivative financial assets	**1,838,745**	**234,475**	**8,579**	**4,039**	**2,085,838**
Non-derivative financial liabilities					
Total non-derivative financial liabilities	**1,460,220**	**394,686**	**6,266**	**465**	**1,861,637**
NET POSITION ON NON-DERIVATIVE FINANCIAL INSTRUMENTS	**378,525**	**(160,211)**	**2,313**	**3,574**	
Derivative financial instruments					
Accounts payable on spot and derivative contracts	(182,631)	(9,081)	(38,610)	(3,489)	(233,811)
Accounts receivable on spot and derivative contracts	7,262	170,788	36,465	1	214,516
NET POSITION ON DERIVATIVE FINANCIAL INSTRUMENTS	**(175,369)**	**161,707**	**(2,145)**	**(3,488)**	**(19,295)**
NET POSITION	**203,156**	**1,496**	**168**	**86**	

(in millions of KZT)

	Tenge	USD 1 USD = KZT 384.20	EUR EUR 1 = KZT 439.37	Other currency	31 December 2018 Total
Non-derivative financial assets					
Total non-derivative financial assets	**1,483,196**	**148,488**	**8,809**	**5,968**	**1,646,461**
Non-derivative financial liabilities					
Total non-derivative financial liabilities	**1,135,626**	**329,436**	**6,008**	**379**	**1,471,449**
NET POSITION ON NON-DERIVATIVE FINANCIAL INSTRUMENTS	**347,570**	**(180,948)**	**2,801**	**5,589**	
Derivative financial instruments					
Accounts payable on spot and derivative contracts	(287,445)	(384)	(33,392)	(5,543)	(326,764)
Accounts receivable on spot and derivative contracts	141,885	168,357	33,392	-	343,634
NET POSITION ON DERIVATIVE FINANCIAL INSTRUMENTS	**(145,560)**	**167,973**	**-**	**(5,543)**	**16,870**
NET POSITION	**202,010**	**(12,975)**	**2,801**	**46**	

	Tenge	USD 1 USD = KZT 332.33	EUR EUR 1 = KZT 398.23	Other currency	31 December 2017 Total
Non-derivative financial assets					
Total non-derivative financial assets	**1,138,400**	**290,247**	**3,910**	**4,117**	**1,436,674**
Non-derivative financial liabilities					
Total non-derivative financial liabilities	**895,827**	**360,734**	**9,810**	**267**	**1,266,638**
NET POSITION ON NON-DERIVATIVE FINANCIAL INSTRUMENTS	**242,573**	**(70,487)**	**(5,900)**	**3,850**	
Derivative financial instruments					
Accounts payable on spot and derivative contracts	(80,090)	(2,426)	-	(3,827)	(86,343)
Accounts receivable on spot and derivative contracts	2,181	72,955	5,973	-	81,109
NET POSITION ON DERIVATIVE FINANCIAL INSTRUMENTS	**(77,909)**	**70,529**	**5,973**	**(3,827)**	
NET POSITION	**164,664**	**42**	**73**	**23**	

Currency risk sensitivity

The Group analysed sensitivity to an increase and decrease in the USD and EUR against the KZT. 25% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at 31 December 2019 for a 25% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower.

As at 31 December 2019, the impact on profit or loss and on equity due to +/-25% change in USD rate amounted to KZT +/-374 million (2018: KZT +/-3,244 million, 2017: KZT +/-11 million).

As at 31 December 2019, the impact on profit or loss and on equity due to +/-25% change in EUR rate amounted to KZT +/-42 million (2018: KZT +/-700 million, 2017: KZT +/-18 million).

27. Subsequent events

In the second half of 2019, Kaspi Bank JSC ("the Bank") was subject to an asset quality review (the "AQR") of the banking sector in Kazakhstan, that was conducted by the NBRK and included the top 14 banks. In February 2020, the results of the Bank's asset quality review were provided to the management and on the basis of these results, the management of the Group do not expect any material negative impact on the Bank's Net Income or Capital and its compliance with prudential capital adequacy ratios.