First Heartland Jusan Bank Joint Stock Company

Separate Financial Statements

for 2021
with Independent Auditors' Report

Contents

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Independent Auditors' Report

To the Shareholders and Board of Directors of First Heartland Jusan Bank JSC

Opinion

We have audited the separate financial statements of First Heartland Jusan Bank JSC (the "Bank"), which comprise the separate statement of financial position as at 31 December 2021, the separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the unconsolidated financial position of the Bank as at 31 December 2021, and its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Separate Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the separate 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 separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><th colspan="2">Expected Credit Losses (ECL) on loans to customers measured at amortised cost</th></tr>
<tr><td colspan="2">Please refer to the Notes 3, 4, 6, 8 and 20 in the separate financial statements.</td></tr>
<tr><td>Key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>Loans to customers measured at amortised cost represent 27.4% of total assets and are stated net of allowance for expected credit losses ("ECL") that is estimated on a regular basis and is sensitive to assumptions used.

The Bank uses ECL valuation model, which requires management to apply professional judgement and to make assumptions related to the following key areas:
— timely identification of significant increase in credit risk and default events related to loans to customers (allocation between stages 1, 2 and 3) in accordance with IFRS 9 Financial Instruments;
— assessment of probability of default (PD) and loss given default (LGD);
— assessment of adjustment to account for forward-looking information.

Moreover, a majority of the loan portfolio relates to loans classified to Stage 3, or purchased or originated credit-impaired (POCI) loans, whose carrying amount is determined based on an estimate of future cash flows derived from of subjective assumptions including:
— measurement of the fair value of underlying real estate collateral; and
— expected realisation periods for such underlying collateral.

Due to the significant volume of loans to customers measured at amortised cost and the related estimation uncertainty in estimating of ECL allowance, this area is a key audit matter.</td><td>We analysed the key aspects of the Bank's methodology and policies related to the ECL estimate for compliance with the requirements of IFRS 9, with the involvement of our own financial risks management specialists.

To analyse the adequacy of professional judgement and assumptions made by the management in relation to the allowance for ECL estimate, we performed the following audit procedures:
— We tested the design and implementation of the controls used over allocation of loans to customers by the credit risk stages.
— For a sample of loans to customers, for which a potential changes in ECL estimate may have a significant impact on the separate financial statements, we tested whether stages are correctly assigned by the Bank by analysing financial and non-financial information, as well as assumptions and professional judgements, applied by the Bank.
— For a sample of stage 3 loans and POCI-loans for which ECL is assessed individually and which mostly comprise loans to legal entities, we critically assessed assumptions used by the Bank to forecast future cash flows, including estimated proceeds from realisable collateral and their timing based on our understanding and publicly available market information. We specifically focused on exposures which potentially may have the most significant impact on the financial statements.
— Regarding loans issued to customers and assigned to stages 1 and 2, for which ECL allowance is assessed collectively, we tested the design and implementation of the related PD and LGD models, as well as agreeing input data to supporting documents on a sample basis.
— We also analysed the overall adequacy of the adjustment to account for forward-looking information and compared it with our estimates taking into account the current and future economic situation and operating conditions of the respective categories of borrowers.</td></tr>
</table>

	— We also checked on a sample basis to what extent there were objective reasons for writing off loans to customers in 2021. We assessed the predictive capability of the Bank's models used for ECL assessment by comparing the estimates made as at 1 January 2021 with actual results for 2021. We also assessed whether the separate financial statements disclosures appropriately reflect the Bank's exposure to credit risk.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report of the Bank for 2021 but does not include the separate financial statements and our auditors' report thereon. The Annual Report of the Bank for 2021 year is expected to be made available to us after the date of this auditors' report.

Our opinion on the separate 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 separate 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 separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

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

In preparing the separate financial statements, management is responsible for assessing the Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate 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 separate financial statements.

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

- Identify and assess the risks of material misstatement of the separate 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 Bank'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 Bank'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 separate 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 Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

Assel Urdabayeva
Certified Auditor
of the Republic of Kazakhstan
Auditor's Qualification Certificate
No. МФ-0000096 of 27 August 2012

KPMG Audit LLC

State License to conduct audit # 0000021 dated 6 December 2006 issued by the Ministry of Finance of the Republic of Kazakhstan

Sergey Dementyev
General Director of KPMG Audit LLC
acting on the basis of its Charter

26 May 2022

(in millions of Kazakhstani tenge unless otherwise stated)

	Note	*2021*	*2020**
Interest income calculated using the effective interest method	7	103,719	90,396
Other interest income	7	1,988	3,579
Interest expense	7	(83,826)	(66,591)
Net interest income	7	**21,881**	**27,384**
Credit loss recovery/(expenses)	8	11,369	(24,178)
Net interest income/(expense) after credit loss recovery/ (expenses)		**33,250**	**3,206**
Fee and commission income	9	17,557	9,578
Fee and commission expense	9	(9,673)	(4,492)
Net fee and commission income		**7,884**	**5,086**
Net gains on financial instruments measured at fair value through profit or loss	10	2,376	12,380
Net losses on derecognition of investment securities measured at fair value through other comprehensive income		(89)	(3,318)
Gain on modification and initial recognition of the financial liabilities to government institutions	25, 26, 27	604	124,592
Net foreign exchange gain	11	14,694	12,475
Other income	12	2,422	938
Other operating income		**20,007**	**147,067**
Personnel expenses	13	(24,839)	(30,222)
Other general and administrative expenses	14	(23,227)	(15,561)
Impairment loss on investments in subsidiaries and other investments	22	(2,348)	(4,052)
Other (losses)/gains on (impairment)/recovery of provisions		(450)	976
Other expenses	12	(2,120)	–
Other operating expenses		**(52,984)**	**(48,859)**
Profit before corporate income tax expense		**8,157**	**106,500**
Corporate income tax benefit/(expense)	15	1,917	(23,764)
Profit for the year		**10,074**	**82,736**

* *Some amounts presented in this column do not match the amounts presented in the separate financial statements for 2020 as they reflect the reclassifications made. For more details, see Note 2.*

The accompanying explanatory notes set out on pages 15 to 115 form an integral part of these separate financial statements.

(in millions of Kazakhstani tenge unless otherwise stated)

	Note	*2021*	*2020*
Profit for the year		**10,074**	**82,736**
Other comprehensive income			
Other comprehensive (loss)/income that may be reclassified subsequently to profit or loss:			
Net change in fair value of debt instruments at fair value through other comprehensive income	30	(1,961)	(320)
Change in allowance for expected credit losses of debt instruments at fair value through other comprehensive income	8	107	4
Amount reclassified to profit or loss as a result of disposal of securities at fair value through other comprehensive income	30	89	3,318
Total other comprehensive (loss)/income items that are or may be reclassified subsequently to profit or loss		*(1,765)*	*3,002*
Other comprehensive income that will not be reclassified subsequently to profit or loss:			
Gains on equity instruments at fair value through other comprehensive income	30	8,211	–
Revaluation reserve for property and equipment, net of income tax (2021: nil, 2020: *KZT 3 million, Note 15)*	30	–	13
Total other comprehensive income items that will not be reclassified subsequently to profit or loss		*8,211*	*13*
Other comprehensive income for the year		**6,446**	**3,015**
Total comprehensive income for the year		**16,520**	**85,751**
Earnings per share			
Basic and diluted earnings per share, KZT	30	287.84	1,948.72

Signed and authorised for issue on behalf of the Management Board of the Bank:

Nurdaulet Galymovich Aidossov
Chairman of the Management Board

Nikara Miratovna Salikhova
Chief Accountant

26 May 2022

The accompanying explanatory notes set out on pages 15 to 115 form an integral part of these separate financial statements.

(in millions of Kazakhstani tenge)

	Note	*31 December 2021*	*31 December 2020*
Assets			
Cash and cash equivalents	16	921,002	726,270
Derivative financial instruments	17	8,858	12,099
Amounts due from banks and other financial institutions	18	31,460	29,580
Trading securities		188	169
Investment securities	19	514,375	294,327
Loans to customers	20	731,098	244,064
Promissory notes from the Ministry of Finance of the Republic of Kazakhstan		104,159	103,114
Current corporate income tax asset		572	456
Property, equipment and intangible assets	21	68,543	47,462
Non-current assets held for sale		92	2,845
Investments in subsidiaries	22	143,924	200,969
Other assets	23	78,703	17,792
Total assets		**2,602,974**	**1,679,147**
Liabilities			
Amounts due to banks and other financial institutions	24	31,518	9,337
Amounts payable under repurchase agreements		2,170	–
Amounts due to customers	25	1,507,607	967,098
Debt securities issued	26	244,465	108,424
Subordinated debts	27	189,177	123,622
Liabilities to the mortgage organisation	28	12,085	4,416
Lease liabilities		3,080	2,498
Deferred corporate income tax liabilities	15	148,091	96,872
Other liabilities	29	22,214	20,239
Total liabilities		**2,160,407**	**1,332,506**
Equity	30		
Share capital		258,201	258,201
Treasury shares		(2,638)	–
Additional paid-in capital		686	365
Revaluation reserve for property and equipment		1,744	1,818
Fair value reserve		10,321	3,875
Other reserves		2,847	–
Retained earnings		171,406	82,382
Total equity		**442,567**	**346,641**
Total equity and liabilities		**2,602,974**	**1,679,147**

The accompanying explanatory notes set out on pages 15 to 115 form an integral part of these separate financial statements.

(in millions of Kazakhstani tenge)

	Note	*2021*	*2020**
Cash flows from operating activities			
Interest received	7	94,761	91,026
Interest paid	7	(62,669)	(48,069)
Fee and commission received		16,508	8,918
Fee and commission paid		(9,674)	(4,503)
Realised gains on financial instruments measured at fair value through profit or loss	10	4,312	7,121
Realised foreign exchange gains	11	6,793	5,308
Personnel and other general and administrative expenses paid		(45,727)	(31,044)
Other operating income received		1,608	797
Cash flows from operating activities before changes in operating assets and liabilities		**5,912**	**29,554**
Net decrease/(increase) in operating assets			
Derivative financial instruments		12,704	–
Amounts due from banks and other financial institutions		34,821	(29,098)
Trading securities		–	200
Loans to customers		(112,015)	9,601
Other assets		(1,669)	5,120
Net (decrease)/increase in operating liabilities			
Amounts due to banks and other financial institutions		(9,344)	(1,598)
Amounts payable under repurchase agreements		2,170	(4,987)
Amounts due to customers		(24,375)	274,324
Liabilities to the mortgage organization		(1,896)	(152)
Other liabilities		42	34
Net cash flows (used in)/from operating activities before corporate income tax paid		**(93,650)**	**282,998**
Corporate income tax paid		–	–
Net cash flows (used in)/from operating activities		**(93,650)**	**282,998**
Cash flows from investing activities			
Cash and cash equivalents acquired due to business combination	5	648,032	–
Purchase of investment securities measured at fair value through other comprehensive income		(1,417,776)	(829,564)
Sale and repayment of investment securities measured at fair value through other comprehensive income		1,396,496	911,774
Purchase of investment securities measured at amortised cost		(1,040,816)	(580,264)
Repayment of investment securities measured at amortised cost		852,150	800,447

The accompanying explanatory notes set out on pages 15 to 115 form an integral part of these separate financial statements.

(in millions of Kazakhstani tenge)

	Note	*2021*	*2020**
Cash flows from investing activities (continued)			
Increase in investments in subsidiaries	1, 22	(37,098)	(126,701)
Proceeds from sale of subsidiary	22	13,732	–
Proceeds from decrease of share in investment in subsidiary	22	423	–
Acquisition of the subsidiary	1	–	(41,661)
Proceeds from sale of property, equipment and intangible assets		8,480	321
Acquisition of property, equipment and intangible assets		(8,141)	(2,743)
Proceeds from disposal of non-current assets held for sale		121	93
Promissory notes from the Ministry of Finance of the Republic of Kazakhstan		–	(22,690)
Net cash flows from investing activities		**415,603**	**109,012**
Cash flows from financing activities			
Repayment of subordinated debts	27	(18,019)	(5,900)
Proceeds from subordinated debt	27	–	120,758
Dividends paid to the Bank's shareholder	30	(113,851)	(113,440)
Repurchase of treasury shares	30	(6,682)	–
Proceeds from issue of share capital	30	–	41,661
Repayment of lease liabilities		(335)	(1,430)
Net cash (used in)/from financing activities		**(138,887)**	**41,649**
Effect of exchange rates changes on cash and cash equivalents		11,605	23,399
Effect of changes in expected credit losses on cash and cash equivalents	8	61	(7)
Net increase in cash and cash equivalents		**194,732**	**457,051**
Cash and cash equivalents at the beginning of the reporting year		726,270	269,219
Cash and cash equivalents at the end of the reporting year	16	**921,002**	**726,270**
Non-cash transactions			
Repossessed collateral for loans to customers		21,465	6,469

* *Some amounts presented in this column do not match the amounts presented in the separate financial statements for 2020 as they reflect the reclassifications made. For more details, see Note 2.*

The accompanying explanatory notes set out on pages 15 to 115 form an integral part of these separate financial statements.

(in millions of Kazakhstani tenge)

		Attributable to equity holders of the Bank							
	Note	*Share capital*	*Treasury shares*	*Additional paid-in capital*	*Property and equipment revaluation reserve*	*Fair value reserve*	*Other reserves related to equity instruments*	*Retained earnings*	*Total equity*
Balance at 1 January 2021		**258,201**	**–**	**365**	**1,818**	**3,875**	**–**	**82,382**	**346,641**
Profit for the year		–	–	–	–	–	–	10,074	**10,074**
Other comprehensive income for the year	30	–	–	–	–	6,446	–	–	**6,446**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**6,446**	**–**	**10,074**	**16,520**
Transactions with owners recorded directly in equity									
Amortisation of property and equipment revaluation reserve	30	–	–	–	(74)	–	–	74	**–**
Repurchase of treasury shares	30	–	(6,682)	–	–	–	–	–	**(6,682)**
Other reserves transactions	3, 30	–	–	–	–	–	7,212	–	**7,212**
Share-based payments	3, 30	–	4,044	321	–	–	(4,365)	–	**–**
Effect of business combinations *(Note 5)*	5	–	–	–	–	–	–	192,727	**192,727**
Dividends paid to the Bank's shareholder	30	–	–	–	–	–	–	(113,851)	**(113,851)**
Balance at 31 December 2021		**258,201**	**(2,638)**	**686**	**1,744**	**10,321**	**2,847**	**171,406**	**442,567**

The accompanying explanatory notes set out on pages 15 to 115 form an integral part of these separate financial statements.

(in millions of Kazakhstani tenge)

		Attributable to equity holders of the Bank					
	Note	*Share capital*	*Additional paid-in capital*	*Property and equipment revaluation reserve*	*Fair value reserve*	*Retained earnings*	*Total equity*
Balance at 1 January 2020		**216,540**	**365**	**2,373**	**873**	**119,666**	**339,817**
Profit for the year		–	–	–	–	82,736	**82,736**
Other comprehensive income for the year	21, 30	–	–	13	3,002	–	**3,015**
Total comprehensive income for the year		–	–	**13**	**3,002**	**82,736**	**85,751**
Transactions with owners recorded directly in equity							
Amortisation of property and equipment revaluation reserve	30	–	–	(568)	–	568	**–**
Increase in share capital by acquisition of controlling interest in the subsidiary	1	41,661	–	–	–	(7,148)	**34,513**
Dividends paid to the Bank's shareholder	30	–	–	–	–	(113,440)	**(113,440)**
Balance at 31 December 2020		**258,201**	**365**	**1,818**	**3,875**	**82,382**	**346,641**

The accompanying explanatory notes set out on pages 15 to 115 form an integral part of these separate financial statements.

1. General information

Organisational structure and operations

First Heartland Jusan Bank Joint Stock Company (former Tsesnabank JSC) (the "Bank") was registered in the Republic of Kazakhstan as Tsesnabank Open Joint Stock Company on 17 January 1992 under the laws of the Republic of Kazakhstan. Due to a change in legislation introduced in 2003, the Bank was re-registered as a joint stock company (JSC) on 26 December 2003.

On 6 February 2019, First Heartland Securities JSC, an investment arm of the financial holding company owned by Nazarbayev Fund Private Fund and the group of autonomous education organisations Nazarbayev University and Nazarbayev Intellectual Schools, purchased 99.80% of ordinary shares of the Tsesnabank JSC.

On 26 April 2019, the First Heartland Securities JSC rebranded the Bank. After the rebranding the Bank was named First Heartland Jusan Bank JSC with the retail brand called "Jusan Bank".

On 2 September 2019, based on the results of the general meeting of shareholders held in June 2019, the Bank underwent a voluntary reorganisation in the form of a merger of First Heartland Bank JSC and First Heartland Jusan Bank JSC, in accordance with the procedure and on terms stipulated by the legislation of the Republic of Kazakhstan.

On 16 March 2021, the general meeting of shareholders made a decision to change the Bank's trade name, First Heartland Jýsan Bank, for "First Heartland Jusan Bank", with the retail brand called "Jusan Bank".

On 28 May 2021 the Republic State Institution "Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market" (the "ARDFM") decided to issue a permission to the Bank for voluntary reorganisation in the form of a merger of its subsidiary ATFBank JSC (*Note 5*).

The Bank carries on its activity based on the general licence No.1.2.35/225/37 to conduct banking and other operations and engage in activities on securities market, granted on 29 August 2019 by the National Bank of the Republic of Kazakhstan (the "NBRK"). On 3 February 2020, the Bank's licence No.1.2.35/225/37 to conduct banking and other operations and engage in activities on securities market was re-issued due to changes in the legislation. On 7 April 2021, the Bank's licence No.1.2.35/225/37 to conduct banking and other operations and engage in activities on securities market was re-issued due to changes of the name and re-registration procedure.

The principal activities of the Bank include commercial banking, lending and issuing guarantees, attracting deposits, opening and maintaining customer accounts, cash and settlement services, securities and foreign exchange transactions. The Bank's issued securities are listed on the Kazakhstan Stock Exchange ("KSE") and the Astana International Exchange ("AIX").

The Bank is a member of the Kazakhstan Deposit Insurance Fund (the "KDIF"). The main purpose of the KDIF is to protect the interests of depositors in the event of forced liquidation of a member bank of the fund. As at 31 December 2021 and 2020, the maximum amount of insurance coverage for saving deposits in national currency is KZT 15 million, for cards, accounts and other deposits in national currency - up to KZT 10 million and in foreign currency - up to KZT 5 million.

As at 31 December 2021, the Bank has 20 branches and 127 sub-branches (31 December 2020: 20 branches and 81 sub-branches) through which it operates in the Republic of Kazakhstan.

The Bank's head office is registered at: 242 Nazarbayev Avenue, Medeusky District, Almaty, Republic of Kazakhstan.

The majority of the Bank's assets and liabilities are located in the Republic of Kazakhstan.

(in millions of Kazakhstani tenge unless otherwise stated)

1. General information, continued

Organisational structure and operations, continued

Information on the Bank's subsidiaries as at 31 December 2021 and 2020 is presented below:

			Ownership interest, %	
Name	***Country of registration***	***Principal activity***	***31 December 2021***	***31 December 2020***
First Heartland Capital JSC	the Republic of Kazakhstan	Investment portfolio management	100.00	100.00
Jusan Development LLP	the Republic of Kazakhstan	Doubtful and bad assets management	100.00	100.00
OMAD YUG LLP	the Republic of Kazakhstan	Doubtful and bad assets management	100.00	100.00
Jusan Inkassatsiya LLP (formerly Tobet Group LLP)**	the Republic of Kazakhstan	Cash collection services	100.00	–
Jusan Property LLP (formerly ATFProject LLP)**	the Republic of Kazakhstan	Doubtful and bad assets management	100.00	–
Insurance Company Jusan Garant JSC	the Republic of Kazakhstan	Insurance activity	100.00	100.00
Optima Bank OJSC**	the Kyrgyz Republic	Banking	97.10	–
First Heartland Jusan Invest JSC	the Republic of Kazakhstan	Brokerage and dealing activity	95.00	100.00
Kvant Mobile Bank PJSC (formerly Plus Bank PJSC)	the Russian Federation	Banking	–	100.00
ATFBank JSC*	the Republic of Kazakhstan	Banking	–	99.88

Jusan Development LLP

On 17 May 2021, the Bank's subsidiary Jýsan Development LLP received a certificate of state re-registration of the legal entity, with a change in the company name to Jusan Development LLP.

Insurance Company Jusan Garant JSC

On 9 June 2021, the Bank's subsidiary Insurance Company Jýsan Garant Joint Stock Company received a certificate of state re-registration of the legal entity, with a change in the company name to Insurance Company Jusan Garant Joint Stock Company ("IC Jusan Garant JSC") (*Note 22*).

First Heartland Jusan Invest JSC

On 31 May 2021, the Bank's subsidiary First Heartland Jýsan Invest Joint Stock Company received a certificate of state re-registration of the legal entity, with a change in the company name to First Heartland Jusan Invest Joint Stock Company ("IC Jusan Garant JSC" (*Note 22*).

Public Joint Stock Company Kvant Mobile Bank

On 12 February 2021, the Bank decided to change the name of its subsidiary bank "Plus Bank PJSC" and approved a new name "Public Joint Stock Company Kvant Mobile Bank" (hereinafter – "Kvant Mobile Bank" PJSC). These changes were registered on 22 March 2021 according to the procedure prescribed by the law.

In accordance with the decision of the Board of Directors of the Bank dated 12 August 2021, the Bank concluded a sale and purchase agreement with Pioneer Capital Invest LLP, a party related of the Bank by special relations, to sell 100.00% of ordinary and preferred shares of Kvant Mobile Bank PJSC *(Note 22).*

(in millions of Kazakhstani tenge unless otherwise stated)

1. General information, continued

Organisational structure and operations, continued

ATFBank JSC (Subsidiary Bank of Jusan Bank JSC)

On 4 November 2020 the Bank and a shareholder of ATFBank JSC – Mr. G.Sh. Yessenov reached a preliminary agreement on purchase of ATFBank's shares by the Bank. On 20 November 2020, as part of the signed agreement, the parties concluded a sale and purchase agreement on sale of ATFBank's shares. On 29 December 2020, the Bank acquired 99.88% of voting shares of ATFBank JSC upon approval by the ARDFM.

The Bank acquired 81,763,048 voting shares of ATFBank JSC through additional issue of 33,001,596 ordinary shares at an offering price of KZT 1,262.39 per share, for a total amount of KZT 41,661 million *(Note 30)*.

The fair value of the consideration paid in the form of 19.96% of the Bank's ordinary shares, given the restrictive conditions for payment of dividends, to a new shareholder of the Bank amounted to KZT 34,513 million. Difference between the fair value of consideration paid and nominal value of ordinary shares purchased by a new shareholder amounted to KZT 7,148 million and was recognised in the separate statements of changes in equity.

On 29 December 2020 the Bank increased capitalisation of ATFBank JSC by KZT 97,000 million, thus creating a sufficient level of equity of ATFBank JSC in accordance with the requirements of the regulatory authority.

On 1 February 2021, pursuant to a decision of the Board of Directors of the Bank, the right of demand of the Bank to other shareholders of ATFBank JSC to sell ATFBank's voting shares, was exercised. On 9 February 2021, 106,269 ordinary shares were repurchased from minority shareholders of ATFBank JSC at a price of KZT 922.53 per ordinary share for the total amount of KZT 98 million. Thus, the ratio of number of ordinary shares of ATFBank JSC owned by the Bank to the total number of voting common shares of ATFBank JSC was 100.0%.

On 11 March 2021, ATFBank JSC received a certificate of re-registration of the name to ATFBank JSC Subsidiary Bank of First Heartland Jusan Bank Joint Stock Company (hereinafter - "ATFBank JSC").

* A decision on merger of ATFBank JSC and the Bank was made at the joint General Meeting of Shareholders of the Bank and ATFBank JSC on 16 March 2021. On 28 May 2021, the ARDFM decided to issue a permission to the Bank for voluntary reorganisation by merger of ATFBank JSC and the Bank, which was carried out on 3 September 2021. As at the acquisition date, both legal entities are under common control of one ultimate shareholder, therefore the merger of ATFBank JSC and the Bank is recognised as a business combination under common control *(Note 5).*

As part of the merger of ATFBank JSC and the Bank, the Bank received the rights, obligations and property of ATFBank JSC, including investments of ATFBank JSC in the subsidiaries Optima Bank OJSC (97.1%), Tobet Group LLP (100.0%) and ATFProject LLP (100.0%).

Effective from the date of signing of the act of transfer dated 3 September 2021 *(Note 5)*, these entities are subsidiaries of the Bank and are included in investments in the Bank's subsidiaries as at 31 December 2021, and are also included in the consolidated financial statements of the Bank and its subsidiaries (hereinafter - the "Group").

** As at 31 December 2020, Optima Bank OJSC, Tobet Group LLP and ATF Project LLP were direct subsidiaries of ATFBank JSC.

On 1 September 2021, based on the decision of the sole participant Tobet Group LLP, the judicial authorities of the Republic of Kazakhstan re-registered the company name of the subsidiary to Jusan Inkassatsiya LLP.

On 8 November 2021, the Bank's subsidiary ATFProject LLP received a certificate of state re-registration of the legal entity, with a change in the company name to Jusan Property LLP.

(in millions of Kazakhstani tenge unless otherwise stated)

1. General information, continued

Shareholders

As at 31 December 2021 and 2020, the following shareholders owned more than 5% of the outstanding shares of the Bank:

Shareholders	*31 December 2021, %*	*31 December 2020, %*
First Heartland Securities JSC	78.73	80.04
Galymzhan Shakhmardanovich Yessenov	20.11	19.96
Other shareholders	1.16	–
Total	**100.00**	**100.00**

As at 31 December 2021, the major shareholders of the Bank are the Kazakhstan brokerage company First Heartland Securities JSC that owns 78.73% of outstanding ordinary shares and Mr. Galymzhan Shakhmardanovich Yessenov, who owns 20.11% of the outstanding ordinary shares (31 December 2020: 80.04% of ordinary shares and 19.96% of ordinary shares, respectively).

As at 31 December 2021, the ultimate controlling party of the Bank and its subsidiaries is NU Generation Foundation, Inc., a non-profit organisation which had been set up solely with a view to ensuring the financing activities of the autonomous education institutions Nazarbayev University and Nazarbayev Intellectual Schools and their associates.

As at 31 December 2020, Pioneer Capital Invest LLP exercises its voting rights on the shares of Jusan Technologies Ltd, the parent company of First Heartland Securities JSC, in the sole interests of, and solely with a view to ensuring the financing activities of, the autonomous education institutions Nazarbayev University and Nazarbayev Intellectual Schools and their associates. As at 31 December 2020, "Nazarbayev Fund" Private Fund owns 67.53% interest in Pioneer Capital Invest LLP.

The separate financial statements of the Bank for 2021 were authorised for issue by the Management Board of the Bank on 26 May 2022.

Kazakhstan business environment

The Bank's operations are primarily located in Kazakhstan. Consequently, the Bank is exposed to the economic and financial markets of Kazakhstan which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Kazakhstan.

The volatility in the global price of oil and the COVID-19 coronavirus pandemic have also increased the level of uncertainty in the business environment.

The recent political tensions between Ukraine and the Russian Federation has further increased the level of economic uncertainty in Kazakhstan *(Note 38)*.

The separate financial statements reflect management's assessment of the impact of the Republic of Kazakhstan business environment on the operations and the financial position of the Bank. The future business environment may differ from management's assessment.

General

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

These separate financial statements present information about the Bank as an individual entity. The consolidated financial statements of the Group for the year ended 31 December 2021 is available for interested users at the Bank's registered office.

Basis of measurement

The separate financial statements are prepared on the historical cost basis except as stated in the section Significant accounting policies. Derivative financial instruments, trading securities, investment securities at fair value through other comprehensive income, loans to customers at fair value through profit or loss, acquired right of claim to the Ministry of Finance of the Republic of Kazakhstan (the "MFRK") on promissory note at fair value through other comprehensive income and land and buildings (classified as property and equipment) were measured at fair value.

(in millions of Kazakhstani tenge unless otherwise stated)

2. Basis of preparation

Functional and presentation currency of the separate financial statements

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

The Kazakhstan tenge is also the presentation currency for the purposes of these separate financial statements.

Financial information presented in KZT is rounded to the nearest million, unless otherwise stated.

Reclassification

The following reclassifications were made in the separate statement of profit or loss and other comprehensive income for 2020 and in the separate statement of cash flows for 2020 to conform to changes in presentation in 2021:

	For the year ended 31 December 2020		
Separate statement of profit or loss and other comprehensive income	***As previously reported***	***Effect of reclassifications***	***As reclassified***
Other general and administrative expenses	(15,714)	153	**(15,561)**
Property and equipment revaluation expenses	(43)	43	**–**
Other income	1,134	(196)	**938**

	For the year ended 31 December 2020		
Separate statement of cash flows	***As previously reported***	***Effect of reclassifications***	***As reclassified***
Cash flows from operating activities			
Interest paid	(48,221)	152	**(48,069)**
Liabilities to the mortgage organization	–	(152)	**(152)**

The above reclassifications had no impact on the separate statement of financial position of the Bank as at 31 December 2020.

3. Significant accounting policies

Changes in accounting policy

Accounting principles applied in preparation of the separate financial statements are consistent with those applied in preparation of the Bank's separate financial statements for 2020, except for application of new standards which became effective on 1 January 2021. The nature and impact of these changes are considered below. The Bank has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 ('IBOR Reform – Phase 2')

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest;
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued;
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

These amendments had no impact on the separate financial statements of the Bank.

3. Significant accounting policies, continued

Changes in accounting policy, continued

Amendments to IFRS 16 Leases – COVID-19 related rent concession beyond 30 June 2021

On 28 May 2020, the Board issued Covid-19-Related Rent Concessions, which amended IFRS 16 Leases. This amendment provides an exemption for lessees from the requirements of IFRS 16 in terms of accounting for lease modifications in case of rent concessions that arise as a direct consequence of the COVID-19 pandemic. As a practical expedient the lessee may elect not to analyse whether the rent reliefs granted by the lessor in the context of COVID-19 pandemic should be accounted for as changes to leases. The lessee making such a decision should account for any change in lease payments due to a rent relief related to the COVID-19 pandemic in the same way as if the change would have been accounted for under IFRS 16 had it not been the lease modifications.

The amendment was expected to be applied until 30 June 2021, but due to the continuing impact of the COVID-19 pandemic, on 31 March 2021, the IASB decided to extend the application of this practical expedient until 30 June 2022.

The new amendment applies to annual reporting periods beginning on or after 1 April 2021. The Bank was not provided any rent concessions related to COVID-19 pandemic, but plans to apply the practical expedient, if necessary, during the acceptable period.

Business combination under common control

A business combination involving entities or businesses under common control is ‘a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination’, and that control is not transitory’. This will include transactions such as the transfer of subsidiaries or businesses between entities within a group.

In a business combination involving entities or businesses under common control, the assets and liabilities of the entity acquired under common control are recognised in the host (i.e. the Bank) financial statements at their carrying amounts as at the date of transfer. The host (i.e. the Bank) is taken to be the highest level reporting entity over which financial information of the acquired entity was consolidated. Any difference between the carrying amount of net assets and the consideration paid is recognised in equity in the financial statements of the Bank.

Accounting for investments in subsidiaries and associates

Subsidiaries are investees controlled by the Bank. The Bank controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Investments in subsidiaries are accounted for in the Bank’s separate financial statements at cost.

Loss of control

Upon loss of control of a subsidiary, the Bank derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Bank retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an investment in an associate (an equity-accounted investee) or as a financial asset at fair value through other comprehensive income depending on the level of influence retained.

Impairment of investments in subsidiaries

The Bank assesses at each reporting date whether there is any indication that investments in subsidiaries may be impaired. If any indication exists, or when annual impairment testing for investment is required, the Bank estimates the investment’s recoverable amount. The recoverable amount of investment is the higher of an asset’s fair value less costs to sell and its value in use.

3. Significant accounting policies, continued

Accounting for investments in subsidiaries and associates, continued

Impairment of investments in subsidiaries, continued

Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate, which, in the opinion of management, reflects current market assessments of the time value of money and the risks specific to the assets. In determining fair value less costs of disposal, recent market transactions are taken into account. In their absence the relevant valuation model is applied. These calculations are corroborated by valuation multiples, quoted prices for publicly traded shares or other available fair value indicators. The Bank estimates the impairment amount based on detailed budgets and forecast calculations which are prepared separately for each of the cash generating units to which individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. A long-term growth rate is determined and applied to future cash flows expected after the fifth year.

Impairment losses on investments in subsidiaries are recognised in the separate statement of profit or loss and other comprehensive income in the ‘Impairment losses on investments in subsidiaries’ line item. An assessment is made by the Bank at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Bank estimates the recoverable amount of investments. A previously recognised impairment loss is reversed only if there has been a change in the assumption used to determine the investments’ recoverable amount since when the last impairment loss was recognised. Any impairment loss is only reversed to the extent that the investment’s carrying amount does not exceed its recoverable amount and also does not exceed the carrying amount that would have been determined, if no impairment loss had been recognised. Such reversal is recognised in the separate statement of profit or loss and other comprehensive income.

Foreign currency translation

Transactions in foreign currencies are translated to the respective functional currency the Bank at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to tenge at the exchange rate at that date. The foreign currency gain or loss on monetary items is recognised in the consolidated statement of profit or loss and other comprehensive income as ‘net foreign exchange gains/ losses - revaluation of foreign currency items.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to tenge at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences are recognised in profit or loss, except for foreign currency differences arising from the translation of equity instruments designated as at fair value through other comprehensive income, that are recognised in other comprehensive income.

As at 31 December 2021, the official exchange rate used for translation of foreign currency balances was KZT 431.80 for 1 USD (31 December 2020: KZT 420.91 for 1 USD).

Measurement of fair value

The Bank measures financial instruments classified as at fair value through profit and loss and fair value through other comprehensive income, and some of non-financial assets such as land and buildings at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

3. Significant accounting policies, continued

Measurement of fair value, continued

The principal or the most advantageous market must be accessible to the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 − quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2 − valuation models, in which significant assessment of fair value are based on inputs related to the lowest level of hierarchy and are observable in the market either directly or indirectly.
- Level 3 − valuation models, in which significant assessment of fair value are based on inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Revenue and expense recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest income and expense

The Bank calculates interest income on debt financial assets measured at amortised cost or at fair value through other comprehensive income by applying the effective interest rate to the gross carrying amount of financial assets other than credit-impaired assets. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

The calculation takes into account all contractual terms of the financial instrument (for example, prepayment option) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

When a financial asset becomes credit-impaired, the Bank calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets is cured and no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

For purchased or originated credit-impaired ("POCI") financial assets, the Bank calculates interest income by calculating the credit risk-adjusted effective interest rate and applying that rate to the amortised cost of the asset. The credit risk-adjusted effective interest rate is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI assets.

Interest income on all financial assets measured at fair value through profit or loss is recognised using the contractual interest rate in 'Other interest income' in the separate statement of profit or loss and other comprehensive income.

(in millions of Kazakhstani tenge unless otherwise stated)

3. Significant accounting policies, continued

Revenue and expense recognition, continued

Fee and commission income and expense

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

Fees and commissions for financial services, that are not integral to the effective interest rate on the appropriate financial instrument, is recognised depending on the type of the service either at the point in time or as the Bank satisfies its performance obligation under the contract:

- fees and commissions for transfer operations, cash operations and foreign exchange is charged for execution of customers' payment orders in accordance with the tariffs depending on the type of transaction and is recognised as income at the time when transaction is performed;
- commission fee on guarantees and letters of credit issued is paid in advance and is recognised as income over the life of the relevant guarantee or letter of credit.
- client account maintenance fees are recognised over time as the services are provided.

If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

A contract with a customer that results in a recognised financial instrument in the Bank's separate financial statements may be partially in the scope of IFRS 9 *Financial Instruments* and partially in the scope of IFRS 15 *Revenue*. If this is the case, then the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

Segment reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses related to transactions with other components of the same Bank); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Bank's operations are highly integrated and constitute one operating business segment for the purposes of IFRS 8 *Operating Segments*.

Financial assets and liabilities

Initial recognition

Date of recognition

All regular way purchases and sales of financial assets and liabilities are recognised on the trade date, i.e. the date that the Bank commits to purchase the asset or liability. Regular way purchases or sales of financial assets and liabilities that require delivery of assets and liabilities within the period generally established by regulation or convention in the marketplace.

Initial measurement

The classification of financial assets at initial recognition depends on the contractual terms and business model used for managing instruments. Financial instruments are initially measured at their fair value, including transaction costs, except when financial assets and financial liabilities measured at fair value through profit or loss.

Measurement categories of financial assets and liabilities

The Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

3. Significant accounting policies, continued

Financial assets and liabilities, continued

Initial measurement, continued

Measurement categories of financial assets and liabilities, continued

- amortised cost;
- fair value through other comprehensive income (FVOCI);
- fair value through profit or loss (FVTPL).

The Bank classifies and measures its derivative and trading portfolio at fair value through profit or loss. The Bank may designate financial instruments at fair value through profit or loss, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at fair value through profit or loss when they are instruments held for trading and derivative instruments, or the Bank may designate a financial liability to be measured at fair value.

Amounts due from banks and other financial institutions, loans to customers, and investment securities at amortised cost

The Bank measures amounts due from banks and other financial institutions, loans to customers, and other financial investments at amortised cost, only when both of the following conditions are met:

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

These criteria are detailed below.

Business model assessment

The Bank makes an assessment of the objective of the business model at the level that best reflects how groups of financial assets are managed to achieve its business objective.

The Bank makes an assessment of the objective of the business model not at the level of individual instruments but at a higher level of aggregated portfolios, considering the observable factors, such as:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the business model is evaluated (and the financial assets held within that business model) and how this information is communicated to key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held within that business model but considers such information when assessing newly originated or newly purchased financial assets.

(in millions of Kazakhstani tenge unless otherwise stated)

3. Significant accounting policies, continued

Financial assets and liabilities, continued

Initial measurement, continued

"Solely payments of principal and interest on the principal amount outstanding" test (SPPI test)

As a second step of its classification process, the Bank assesses the contractual terms of the financial asset to identify whether contractual cash flows are solely payments of principal and interest (so called SPPI test).

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium / discount).

The most significant elements of interest under lending arrangement are typically the consideration for the time value of money and credit risk. For SPPI testing, the Bank applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

By contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Debt securities and promissory notes measured at FVOCI

The Bank measures debt securities and promissory notes at FVOCI, if both of the following conditions are met:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;
- contractual terms of the financial assets comply with the SPPI test criteria.

Debt securities and promissory notes at FVOCI are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

Expected credit losses ("ECL") on debt securities and promissory notes at FVOCI will not decrease the carrying amount of these financial assets in the statement of financial position that continue to be measured at fair value. Instead, the amount equal to the allowance for expected credit losses that would be created when measuring the asset at amortised cost is recognized in OCI as the cumulative amount of the impairment, with the recognition of corresponding amounts in profit or loss. The cumulative amount of losses recognised in OCI is reclassified to profit or loss when the asset is derecognised.

Equity instruments at FVOCI

Upon initial recognition, the Bank occasionally elects to irrevocably designate some of its equity investments as measured at FVOCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never reclassified to profit or loss. Dividends are recognised in profit or loss as other income when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment. Upon disposal of such instruments, accumulated revaluation reserve is transferred to retained earnings.

3. Significant accounting policies, continued

Financial assets and liabilities, continued

Initial measurement, continued

Financial guarantees, letters of credit and credit related commitments

Bank issues financial guarantees, letters of credit and credit related commitments.

Financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the greater of the amount initially recognised less cumulative amortisation recognised in the statement of profit and loss, and ECL allowance.

Credit related commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan on pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

The Bank occasionally issues commitments to provide loans at below-market interest rates. Such commitments are initially recognised at fair value and subsequently measured at the greater of an ECL allowance and the amount initially recognised less cumulative income, where appropriate.

Performance guarantees

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Performance guarantees do not transfer credit risk. The risk under performance guarantee contracts is the potential failure of another party to perform the contractual obligation. Therefore, performance guarantees are not considered financial instruments and thus do not fall in the scope of IFRS 9.

Reclassification of financial assets and financial liabilities

The Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances when the Bank changes the business model for managing financial assets. Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets and liabilities in 2021 and 2020.

Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted discretionary balances held with the NBRK and other banks and financial institutions, and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, not pledged under any agreements, and are used by the Bank in the management of short-term commitments. Cash and cash equivalents are recognised at amortised cost in the separate statement of financial position.

Repurchase and reverse repurchase agreements and securities lending

Securities sold under sale and repurchase ("repo") are accounted for as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position, and if the transferee has the contractual or constructive right to sell or repledge them, are reclassified as investment securities pledged under sale and repurchase agreements. The corresponding liabilities are recorded as accounts payable under repurchase agreements. Securities purchased under agreements to resell ("reverse repo") are recorded as accounts receivable under reverse repurchase agreements. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective interest rate method.

Securities pledged under repo agreements are retained in the statement of financial position. Securities borrowed are recorded in the statement of financial position only if these are sold to third parties, in which case the purchase and sale transaction is recorded within gains less losses from trading securities in the statement of income. The obligation to return them is recorded as a trading liability and measured at fair value.

3. Significant accounting policies, continued

Financial assets and liabilities, continued

Initial measurement, continued

Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments, including futures, forwards, swaps and options) on currency markets and capital markets. Such financial instruments are held for trading and are initially recorded at fair value. The fair values are measured based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors.

Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses from operations with these instruments are included in the statement of profit or loss and other comprehensive income as 'Net gains or losses on financial instruments at fair value through profit or loss'.

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

Financial assets are classified based on the business model and SPPI assessments.

Borrowings

Issued separate financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments.

Such instruments include loans from a state-owned company, amounts due to banks and other financial institutions, amounts due to customers, debt securities issued, subordinated debts and other borrowed funds. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the profit or loss when liabilities are derecognised, as well as through the amortisation process.

If the Bank purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in profit or loss.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the separate statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends to realise the asset and settle the liability simultaneously. The Bank currently has a legally enforceable right to set off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the Bank and all counterparties.

Restructuring of loans

Where possible, the Bank seeks to restructure loans to customers rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

The Bank assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. Assessment of the Bank's financial assets is performed in a similar way. Assessment of the Bank's financial assets, other than loans to customers, is performed in a similar way.

3. Significant accounting policies, continued

Restructuring of loans, continued

The Bank derecognises a financial asset, e.g. a loan to a customer, if the related contractual terms are renegotiated to the extent that it in fact becomes a new loan, and records the difference as gains or losses arising from derecognition before impairment loss is recognised. Upon initial recognition the loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI. When assessing, whether the loan to customer should be derecognised, the Bank considers the following:

- change the currency of the financial asset;
- change of a counterparty (e.g. a borrower);
- change of terms of financial asset that lead to non-compliance with SPPI criterion (e.g. inclusion of conversion feature);
- combining and separating loan agreements.

If the modification does not imply a substantial change in cash flows, such modification does not result in a derecognition. Based on the changes in cash flows discounted at the original effective interest rate, the Bank recognises gains or losses from the modification that are recorded within interest income calculated using the effective interest rate method in the statement of profit or loss before impairment loss is recognised.

If the modification does not result in derecognition, the Bank also reassesses the significant increase in credit risk or the need to classify assets as credit-impaired. After the designation of an asset as credit-impaired as a result of modification, it remains within Stage 3 for a probation period of at least 12 months. To transfer a restructured loan from Stage 3, the following factors should be considered: a) gross carrying amount of all financial assets of the borrower reduced to the amount before it was allocated to Stage 3; b) no restructuring resulting from deterioration of the borrower's financial position was made; c) there is not any amounts outstanding past due more than 30 days; and d) there is not any other indication of impairment showed within twelve months.

Impairment

The Bank recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at fair value through profit and loss:

- financial assets that are debt instruments;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

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

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments for which credit risk has not increased significantly since initial recognition.

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

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

3. Significant accounting policies, continued

Impairment, continued

Measurement of expected credit losses

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

- *financial assets that are not credit-impaired at the reporting date*: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive);
- *financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows;
- *undrawn loan commitments*: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- *financial guarantee contracts*: the present value of expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Restructured financial assets

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

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

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

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- restructuring of a loan or advance on terms that the Bank would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that was renegotiated due to a deterioration in the borrower's condition was usually considered to be credit-impaired unless there was evidence that the risk of not receiving contractual cash flows had reduced significantly and there were no other indicators of impairment. In addition, retail loans that are overdue for 90 days or more are considered credit-impaired.

In making an assessment of whether an investment in sovereign debt (other financial assets) is credit-impaired, the Bank considers the following factors:

- the market's assessment of creditworthiness as reflected in the bond yields;
- the rating agencies' assessments of creditworthiness;
- the country's ability to access the capital markets for new debt issuance;

3. Significant accounting policies, continued

Impairment, continued

Restructured financial assets, continued

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

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised from the statement of financial position where:

- the rights to receive cash flows from the asset have expired;
- the Bank has transferred its right to receive cash flows from the asset, or has assumed an obligation to transfer the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and
- the Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value. The extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Write-off

Financial assets are written off in part or in full, only when the Bank does not expect to recover their value. If the amount to be written off is greater than the accumulated impairment allowance, the difference is at first recorded as the increase in the allowance that is subsequently applied to the gross carrying amount. All the subsequent reversals are recognised as credit loss expenses. The write-off relates to the derecognition event.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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 derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

3. Significant accounting policies, continued

Derecognition of financial assets and liabilities, continued

Government grants

Government grants are recognised when there is a reasonable assurance that they will be received and that the conditions associated with the grants will be complied with. If a government grant is issued to finance specific expenses, it is recognised as income on a systematic basis in the same periods in which costs, which the grant is to compensate, are expensed. Such grants are deducted from the appropriate expenses when such expenses are recognised in the separate financial statements.

Where the Bank receives grants in the form of non-monetary assets, an asset and a grant are measured at nominal value and are recognised in profit or loss in equal parts, in accordance with the pattern of consumption of the economic benefits embodied in the underlying asset over the estimated useful live thereof.

The benefit of a government loan at a below-market rate of interest, and benefit from issued and restructured debt securities and/or subordinated debt at low interest rates under the state programmes, is treated as a government grant. These financial liabilities are recognised and measured in accordance with IFRS 9 *Financial Instruments*. The benefit of the below-market rate of interest is measured as the difference between the initial carrying value of the loan measured in accordance with IFRS 9 and the proceeds received.

Property and equipment

Owned assets

Items of property and equipment except for land and buildings are stated in the separate financial statements at cost less accumulated depreciation and impairment losses.

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

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Following initial recognition at cost, land and buildings are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluation is performed with sufficient frequency to avoid significant differences between the fair value of a revalued asset and its carrying amount.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the derived amount is restated based on the revalued amount of the asset. Any revaluation surplus is credited to the revaluation reserve for property and equipment included in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised within profit or loss. In which case an increase in the asset is recognised in profit or loss. A revaluation deficit is recognised in profit or loss, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

An annual transfer from the revaluation reserve for property and equipment to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost. Upon disposal, the relevant amount included within revaluation reserve is transferred to retained earnings.

Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the first day of the month following the acquisition date or, in respect of internally constructed assets, on the first day of the month following the time an asset is completed and ready for use. Land, construction-in-progress and assets to be installed are not depreciated.

The estimated useful lives of items of property and equipment are as follows:

	Years
Buildings	25-100
Computers	5-10
Vehicles	7
Other	2-20

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Costs related to repairs and renewals are expensed as incurred and included in other operating expenses, unless they qualify for capitalisation.

3. Significant accounting policies, continued

Intangible assets

Acquired intangible assets are stated in the separate financial statements at cost less accumulated amortisation and impairment losses.

Licences, patents, trademarks and permits valid within 12 (twelve) months are accounted for by the Bank as deferred expenses.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful life ranges from 2 to 30 years.

Foreclosed assets

Foreclosed assets are measured at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Lease

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

i. *Bank as a lessee*

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

Unless the Bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment testing.

Lease liabilities

At the lease commencement date, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating a lease, if the lease term reflects the Bank exercising the option to terminate.

The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Bank uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

(in millions of Kazakhstani tenge unless otherwise stated)

3. Significant accounting policies, continued

Lease, continued

i. *Bank as a lessee, continued*

Short-term leases and low-value assets leases

The Bank applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). The Bank also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below USD 5,000). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

ii. *Operating lease −Bank as a lessor*

Leases in which the Bank does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over a lease term and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

iii. *Finance lease −Bank as a lessor*

The Bank recognises lease payment receivables in the amount equal to net investments in lease from commencement of the lease term. Finance income is calculated based on a pattern reflecting a constant periodic rate of return on the carrying amount of net investments. Initial direct costs are recorded within initial amount of lease payment receivables.

Non-current assets held for sale

The Bank classifies a non-current asset (or a disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current asset (or a disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (disposal group) and its sale must be highly probable.

High probability of sale implies the Bank management's positive intent to follow a plan to sell the non-current asset (or a disposal group). In this case, it is necessary to start the programme of active measures to search for a buyer and fulfil this plan. In addition, a non-current asset (or a disposal group) must have been actively marketed for a sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the non-current asset (or disposal group) as held for sale.

The Bank measures the assets (or a disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Bank recognises an impairment loss for any initial or subsequent write-down of the asset (or a disposal group) to fair value less costs to sell if events or changes in circumstance indicate that their carrying amount may be impaired.

Provisions

A provision is recognised in the separate statement of financial position when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the amount of such liability is significant, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(in millions of Kazakhstani tenge unless otherwise stated)

3. Significant accounting policies, continued

Pensions and other employee benefits liabilities

The Bank does not have any pension arrangements separate from the State pension system of Kazakhstan, which requires current withholdings by an employer calculated as a percentage from current gross salary payments. Such withholdings are expensed in the period in which the related salaries are earned and are included in 'Personnel expenses' in the separate statement of profit or loss and other comprehensive income. The Bank makes social tax contributions for its employees to the budget of the Republic of Kazakhstan. The Bank has no post-retirement benefit obligations or commitments to pay.

Equity

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares, other than on a business combination, are recognised as a deduction from equity net of any tax effects. Any excess of the fair value of consideration received over the par value of shares issued is recorded as additional paid-in capital.

Cumulative non-redeemable preference shares

The component of the cumulative non-redeemable preference shares that exhibits characteristics of a liability is recognised as a liability in the separate statement of financial position, net of transaction costs. The corresponding cumulative dividends on those shares are charged as interest expense in the separate statement of profit or loss and other comprehensive income. On issuance of the cumulative non-redeemable preference shares, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long-term liability on the amortised cost basis until extinguished on redemption.

Treasury shares

Where the Bank or its subsidiaries acquire the Bank's shares, their cost, including related transaction costs, net of corporate income tax, is deducted from equity as treasury shares and recorded as a deduction from equity in the separate financial statements.

Dividends

The ability of the Bank to declare and pay dividends is subject to the rules and regulations of Kazakh legislation.

Dividends are recognised as liabilities and deducted from equity at the reporting period only if they are declared before or on the reporting date. Dividends are disclosed in the financial statements when they are proposed before the reporting date or proposed or declared after the reporting date but before the separate financial statements are authorised for issue.

Share-based payment arrangements

Share-based payments include share options, share-based remuneration and cash-settled share-based remuneration granted to key management personnel in return for the services rendered. Such remuneration shall be accounted for in accordance with IFRS 2 *Share-based Payment*.

For equity-settled share-based payment transactions such as share options or share-based remuneration, IFRS 2 expressly requires that their fair value shall be measured at the date they were granted (*grant date*), and the expenses be recognised in the period in which employees rendered services to an entity.

During 2021, the Bank established a share-based payment programme (as one of the form of non-fixed remuneration package) that entitles certain members of key management personnel to be granted the Bank's shares, subject to a mandatory condition they would hold these shares for at least 3 (three) years without the obligation of the Bank to repurchase these shares during this period.

The aggregate value of the Bank's shares intended for non-fixed remuneration paid through the transfer of the Bank's shares to management employees and senior management, taking into account all shares previously transferred as non-fixed remuneration, may not exceed 5% of the total number of the Bank's voting shares as at the date of the decision on such non-fixed remuneration payment through the transfer of the Bank's shares.

(in millions of Kazakhstani tenge unless otherwise stated)

3. Significant accounting policies, continued

Share-based payment arrangements, continued

Share-based remuneration payments during 2021 (2020: no payments) are as follows:

	Number of ordinary shares	*Fair value per ordinary share, KZT*	***Total KZT million***
At 1 January 2021	–	–	–
Granted during the year	3,141,054	2,296.17	**7,212**
Exercised during the year (payment)	1,901,165	2,296.17	**4,365**
Forfeited during the year	–	–	–
Expired during the year	–	–	–
At 31 December 2021	**1,239,889**	**2,296.17**	**2,847**

The fair value of one ordinary share in KZT at grant date was determined as follows:

	2021
The fair value of equity at grant date, KZT million	379,599
Total number of ordinary shares issued at grant date	165,318,620
Fair value per ordinary share, in KZT	**2,296.17**

The Bank does not subsequently remeasure shares granted as remuneration to management employees and senior management.

It is expected that share-based remuneration option totalling 413,297 shares will be exercised in 2022.

All share options, that are to be subsequently exercised, will be granted from the equity-instrument reserves previously established by the Bank.

Information about critical judgements and estimates made to estimate the fair value of equity at grant date is included in Note 4.

Taxation

Corporate income tax expense comprises current and deferred corporate income tax and deferred taxes. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

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

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

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

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

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

(in millions of Kazakhstani tenge unless otherwise stated)

3. Significant accounting policies, continued

Taxation, continued

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In determining the amount of current and deferred tax the Bank takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Bank that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Bank to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

Standards issued but not yet effective

The following new standards, amendments to standards, and interpretations are not yet effective as at the date of publication of these separate financial statements. The Bank plans to adopt these pronouncements when they become effective, if applicable.

- *IFRS 17 Insurance Contracts.*

  Currently, the Bank is assessing the impact of adoption of IFRS 17 on its financial statements.

- *Classification of Liabilities as Current or Non-current (Amendments to IAS 1).*

  The amendments are effective for annual reporting periods beginning on or after 1 January 2023, and are applied retrospectively. Currently, the Bank is assessing the impact of these amendments on existing classification of liabilities, and whether modification of contractual terms of loan agreements might be required.

- *Reference to Conceptual Framework (Amendments to IFRS 3)*

  These amendments are effective for annual reporting periods beginning on or after 1 January 2022, and are applied retrospectively. These amendments are not expected to have a significant effect on the financial statements of the Bank.

- *Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).*

  The amendments are effective for annual reporting periods beginning on or after 1 January 2022, and are applied retrospectively only to items of property, plant and equipment that became capable of operating on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments.

  These amendments are not expected to have a significant effect on the financial statements of the Bank.

- *Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)*

  The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Bank will apply the amendments to contracts for which the Bank has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the Bank first applies the amendments.

- *IFRS 1 — First-time Adoption of International Financial Reporting Standards - A Subsidiary that Becomes a First-time Adopter of International Financial Reporting Standards*

  The amendments are effective for annual reporting periods beginning on or after 1 January 2022, with early adoption permitted.

- *IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities.*

  These amendments are not expected to have a significant effect on the Bank's financial statements.

- *Definition of Accounting Estimates (Amendments to IAS 8).*

  These amendments are not expected to have a significant effect on the financial statements of the Bank.

3. Significant accounting policies, continued

Standards issued but not yet effective, continued

Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2).

Amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023, with early adoption permitted. As amendments to *IFRS Practice Statement 2* contain non-mandatory practical guidance on applying the concept of materiality to accounting policy information, no mandatory effective date is fixed for these amendments.

The Bank is assessing the impact of these amendments on the disclosure of the Bank's accounting policy information.

4. Significant accounting judgements and estimates

Estimation uncertainty

The preparation of separate financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the separate statement of financial position cannot be derived from prices in active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. Inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Based on the entire information available as at 31 December 2021, when measuring fair value of financial instruments, the Bank stated the remeasured expected future cash flows (*Note 37*).

For loans to customers measured at fair value and impaired upon initial recognition the Bank changed upward the discount rate for expected cash flows as such events as the COVID-19 pandemic make expected cash flows more burdensome occur than it could have been reasonably anticipated upon initial recognition. When making such adjustment, the Bank assessed potential economic downturn and recovery period given the ongoing COVID-19 pandemic.

Fair value of debt securities issued and subordinated bonds

During 2021, the Bank issued no additional debt securities and subordinated bonds. During 2021, the Bank did not amend the prospectuses of the Bank's securities and subordinated bond issue.

The fair value of KZT-denominated issued debt securities and subordinated bonds as at 31 December 2021 (*Note 37*) was determined using the market interest rates ranging from 12.47% to 16.04% per annum, and of USD-denominated - at 3.45% per annum.

During 2020, the Bank made amendments to the prospectuses of the Bank debt securities and subordinated bonds issue in terms of maturities and nominal interest rate per annum. The Bank management considered the change in maturities and interest rate for debt securities to be a significant modification of their terms, and therefore, derecognised current liabilities and recognised new liabilities. The fair value of new liabilities of the Bank was measured by discounting contractual future cash flows at the market interest rates in the range from 12.5% to 14.6% per annum.

In December 2020, the Bank additionally placed subordinated bonds with total nominal value of KZT 100,000 million, bearing a coupon rate of 9.0% per annum and maturing in 2025. On initial recognition the Bank measured fair value of such subordinated bonds by discounting contractual future cash flows at the market interest rate of 13.8% per annum.

Management of the Bank estimated the market rates using observable inputs, where possible, and has to make certain assessments for individual companies.

Classification of loans to customers

As part of its classification process, the Bank assesses the contractual terms of the financial asset to identify whether contractual cash flows are solely payments of principal and interest.

4. Significant accounting judgements and estimates, continued

Estimation uncertainty, continued

Classification of loans to customers, continued

To make this assessment, the Bank applies judgment and considers relevant factors such as asset performance and project risk related to loans, non- or limited-recourse characteristics, the extent of equity participation by the borrower, and the extent of other credit enhancements. Contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

Impairment losses on financial assets

Measurement of losses for all categories of financial assets requires management to make judgement, in particular, when measuring expected credit losses and determining whether there has been a significant increase in credit risk, management has to assess the amount and timing of future cash flows and collateral values. These estimates are driven by a number of factors, changes in which can result in different levels of estimated impairment allowances. Moreover, large-scale business interruptions may result in liquidity problems for certain entities and customers. Deterioration of credit quality of loan portfolios and trade receivables (among other things) as a result of COVID-19 pandemic may have a significant impact on ECL measurement by the Bank. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies.

Elements of the ECL measurement models that are considered to be the accounting judgements and estimates include:

- the internal credit grading model, which is used by the Bank to estimate the probability of default ("PD");
- the criteria used by the Bank, including qualitative assessments, for assessing if there has been a significant increase in credit risk as a result of which the impairment allowance for financial assets has to be measured in the amount equal to lifetime ECL;
- grouping of financial assets, including various formulas and selection of inputs;
- determination of relationship between macroeconomic scenarios and economic inputs such as unemployment levels and collateral values, and the resulting effect on PD, exposures at default ("EAD") and losses given default ("LGD");
- selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

Management of the Bank monitors collateral on a regular basis. Management uses its judgments based on experience or independent estimates to adjust the value of collateral to reflect current market conditions.

The Bank remeasured expected credit losses having updated macro-economic adjustments models to reflect current economic conditions. ECL on loans to customers estimated individually have also been recalculated based on the latest information on impact of current conditions on operations of the Bank's customers.

Based on entire information available as at 31 December 2021, when calculating ECL, the Bank stated the remeasured expected future cash flows.

The loss allowance for expected credit losses for loans to customers recognised in the separate statement of financial position as at 31 December 2021 was KZT 244,655 million (31 December 2020: KZT 419,014 million). Details are disclosed in *Note 20*.

Impairment of investments in subsidiaries

Management of the Bank assesses whether there is any indicators of impairment of investments in subsidiaries at each reporting date in accordance with the Bank's Methodology of Assessing Investments in Subsidiaries for Impairment. Management uses its judgments or independent estimates for calculation of recoverable amount of investment which is the higher of an asset's fair value less costs to sell and its value in use. The amount of impairment allowance recognised in the separate statement of financial position as at 31 December 2021 was KZT 18,604 million (31 December 2020: KZT 54,678 million). Details are disclosed in *Note 22*.

(in millions of Kazakhstani tenge unless otherwise stated)

4. Significant accounting judgements and estimates, continued

Estimation uncertainty, continued

Accounting for the acquisition of a subsidiary, ATFBank JSC, including judgments in accounting for the recognition of gain in the form of one-off financial support from government institutions and an estimate of the fair value of the consideration paid

In 2020, the Bank's management recognised the investment in subsidiary ATFBank JSC at cost which is equal to the fair value of the consideration paid. The Bank's management made judgment in selecting accounting policies for the one-time recognition of gain on modification and initial recognition of financial liabilities to government institutions in the separate statement of profit or loss and other comprehensive income in 2020, despite the fact that this gain was received within a single a framework agreement on the acquisition of a subsidiary.

Measurement of fair value of consideration paid for acquisition of controlling interest in ATF Bank JSC required selection of the most suitable valuation model based on the terms and conditions of a sale agreement of ordinary shares as well as a framework agreement. To measure fair value of the consideration paid, the Bank applies the dividend discount model using the Capital Asset Pricing Model or CAPM. Information on assumptions and models used for measurement of fair value of the consideration is disclosed below.

Taking into consideration the restrictive conditions for payment of dividends to a new shareholder of the Bank, fair value of consideration paid in the form of 19.96% of ordinary shares of the Bank amounted to KZT 34,513 million (*Note 1*). The difference between fair value of consideration paid and nominal value of ordinary shares redeemed by the new shareholder amounted to KZT 7,148 million and was recognised in the separate statement of changes in equity for 2020 as an increase in share capital through the acquisition of a controlling interest in the subsidiary.

The fair value of consideration paid was determined using an income approach and based on the following assumptions:

- a conditional dividend method (CDM) has been used as part of the income approach
- a forecast period is 7 years (up to 2027, given the pre-terminal period)
- A terminal value was calculated using the Gordon growth model.
- A discount rate was estimated on the basis of CAPM model and amounted to 17.0% per annum.

Determining the lease term of contracts with renewal options

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Bank has the option, under some of its leases to lease the assets for additional terms. The Bank applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that provide an economic incentive for it to exercise the renewal. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

Share-based payment arrangements

Measurement of the fair value of share-based payment transactions requires selecting the most appropriate valuation model based on the grant date and conditions and the determination of the most appropriate inputs for the valuation model. To measure the fair value of equity at the grant date, the Bank applied the income approach and used the following assumptions:

- A conditional dividend method (CDM) has been used as part of the income approach.
- A forecast period is 7 years (up to 2027, given the pre-terminal period).
- A forecast currency is the Kazakhstani tenge.
- A terminal value was calculated using the Gordon growth model.

(in millions of Kazakhstani tenge unless otherwise stated)

4. Significant accounting judgements and estimates, continued

Estimation uncertainty, continued

Share-based payment arrangements, continued

- A discount rate was estimated based on the CAPM model (16.94%) for the Bank as at 31 March 2021.
- A long-term growth rate (3.4%) was projected at the inflation rate in the Republic of Kazakhstan.
- Capital adequacy ratios were applied as follows: a basic capital adequacy ratio (k1) of 9.5%, a Tier 1 capital adequacy ratio (k1-2) - 10.5% and an equity adequacy ratio (k2) - 12.0%.
- An additional buffer of 0.5% for minimum capital requirements defined by statutory regulation was used, based on the Bank's market practice in capital adequacy management.

Taxation

The Republic of Kazakhstan currently has a single Tax Code that regulates main taxation matters. The existing taxes include value added tax, corporate income tax, social and other taxes. Implementing regulations are often unclear or a non-existent or insignificant number of precedents has been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organisations; thus creating uncertainties and areas of conflict.

Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges. These facts create tax risks in Kazakhstan substantially more significant than typically found in countries with more developed tax system.

Management believes that as at 31 December 2021 and 2020 the Bank is in compliance with the tax laws of the Republic of Kazakhstan regulating its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretive tax issues.

5. Business combination

Merger of ATFBank JSC

On 16 March 2021, at a joint general shareholders meeting of the Bank and ATFBank JSC, a decision was taken for the Bank to merge with ATFBank JSC.

On 28 May 2021, the Agency of the RK for Regulation and Development of the Financial Market (the “ARDFM”) issued a permit to the Bank for voluntary reorganisation through merger of ATFBank JSC by the Bank, which was completed on 3 September 2021 (*Note 1*).

As at the acquisition date both legal entities were under common control of one ultimate shareholder, the merger with ATFBank JSC is therefore recognised as a business combination under common control. As a result, the assets and liabilities of ATFBank JSC were recognised at their carrying amounts at the merger date.

The following table summarises the recognised amounts of assets acquired and liabilities assumed in business combination with ATFBank JSC at the merger date:

(in millions of Kazakhstani tenge unless otherwise stated)

5. Business combination, continued

Merger of ATFBank JSC, continued

The carrying value of ATFBank JSC at the date of merger with First Heartland Jusan Bank JSC	***3 September 2021***
Assets	
Cash and cash equivalents	648,032
Derivative financial instruments	3,666
Amounts due from banks and other financial institutions	36,046
Loans to customers	381,761
Property and equipment and intangible assets	25,706
Investments in subsidiaries	39,347
Other assets	44,941
Total assets	**1,179,499**
Liabilities	
Current accounts and deposits from customers	549,730
Due to banks and other financial institutions	31,396
Debt securities issued	123,864
Subordinated debt	77,652
Liabilities to Kazakhstan Sustainability Fund JSC	9,565
Lease liabilities	620
Deferred corporate income tax liabilities	53,136
Other liabilities	9,198
Total liabilities	**855,161**
Net assets	**324,338**

Total net assets of ATFBank JSC at the date of the merger amounted to KZT 324,338 million. The difference of KZT 192,727 million between the net assets of ATFBank JSC as of the merger date and the Bank's investments in ATFBank JSC was recognised in the separate statement of changes in equity as an effect of the merger of the subsidiary ATFBank JSC by the Bank.

6. Analysis of credit risks

For information on the Bank's financial risk management policy, see *Note 31.* The related accounting policies are set out in *Note 3*.

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and informed credit assessment and including forward-looking information.

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

- quantitative test based on movement in PD (depending on the related group of risk of the financial instrument the movement of 100-200% increase in PD results in significant increase in credit risk);
- qualitative indicators; and
- backstop of 30 days past due.

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

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

6. Analysis of credit risks, continued

Significant increase in credit risk, continued

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

<u>Corporate exposure</u>

- Information obtained during periodic review of customer files – e.g. financial statements, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes;
- Data from credit reference agencies, press articles, changes in external credit ratings
- Quoted bond and credit default swap (CDS) prices for the issuer where available;
- Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities.
- Payment record – this includes overdue status as well as a range of variables about payment ratios
- Utilisation of the granted limit;
- Requests for and granting of forbearance;
- Existing and forecast changes in business, financial and economic conditions.

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading.

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

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For majority of exposures, a key driver would be GDP forecast growth and inflation.

The Bank uses expert judgment in assessment of forward-looking information. This assessment is based also on external information (incorporation of forward-looking information is described below). The Bank then uses these forecasts to adjust its estimates of PDs.

Determining whether credit risk has increased significantly

The Bank assesses whether credit risk has increased significantly since initial recognition at each reporting period. The criteria for determining whether credit risk has increased significantly vary depending on different types of lending, in particular between corporate and retail, as well as by portfolio and include both quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

Credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank's quantitative modelling, it is determined that there are the objective factors resulting in deterioration of financial and economic position of the counterparty. When determining whether credit risk has increased significantly, remaining lifetime ECLs are adjusted for changes in maturity.

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

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due, with the exception of placements with banks and investment securities, for which significant increase in credit risk occurs, if it is past due more than 7 days. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

6. Analysis of credit risks, continued

Determining whether credit risk has increased significantly, continued

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases the Bank determines a probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently.

When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes history of up-to-date payment performance against the modified contractual terms.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement (Stage 1) to credit-impaired (Stage 3); and
- there is no unwarranted volatility in loss allowance from transfers between 12-month ECL (Stage 1) and lifetime ECL measurements (Stage 2).

Definition of default

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

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Bank, with the exception of placements with banks and investment securities, which are considered to be in default if past due more than 7 days. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or
- debt has been restructured due to deterioration of financial status of any of the significant loan liabilities of the borrower, or
- it is probable that the borrower goes bankrupt.

In assessing whether a borrower is in default, the Bank considers indicators that are:

- qualitative – e.g. breaches of covenant;
- quantitative – e.g. overdue status and non-payment on another obligation of the same borrower to the Bank; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL. To assess forward-looking information, the Bank uses external information.

Incorporation of forward-looking information

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The key driver is inflation and GDP forecasts.

Predicted relationships between the key indicator and default and loss rates on various portfolios of financial assets have been developed based on the analysis of historical data for the last 5 (five) years.

(in millions of Kazakhstani tenge unless otherwise stated)

6. Analysis of credit risks, continued

Modified financial assets

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

When modification results in derecognition, a new originated loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at the recognition date).

The Bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy.

For financial assets modified as part of the Bank's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect interest and principal and the Bank's previous experience of similar forbearance action.

As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

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

Measurement of expected credit losses (ECL)

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

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

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD. ECL for exposures in Stage 2 and Stage 3 is calculated by multiplying lifetime PD by LGD and EAD.

For financial assets, which are individually credit-impaired, the amount of allowances is measured for the remaining lending period as a difference between the gross carrying amount of assets and present value of future cash flows.

The Bank generally estimates these parameters based on statistics models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These estimates are based on internally compiled data comprising both quantitative and qualitative factors. Where possible, the Bank uses market inputs for assessment of PD of large counteragents - legal entities. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

The Bank estimates LGD parameters based on the history of recovery rates of operating activities and sale of collateral, which are based on statistical data and judgements on defaulted borrowers.

The LGD models consider the structure, collateral, and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, loan-to-value (LTV) ratios are likely to be a key parameter in determining LGD. LGDs are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default.

(in millions of Kazakhstani tenge unless otherwise stated)

6. Analysis of credit risks, continued

Measurement of ECL, continued

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include instrument type; credit risk gradings, collateral type, LTV ratio for retail mortgages, date of initial recognition, remaining term to maturity, industry, and geographic location of the borrower.

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

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

The portfolios as at 31 December 2021 for which external benchmark information represents a significant input into measurement of ECL are as follows.

		External benchmarks used	
Item	***At 31 December 2021***	***PD***	***LGD***
Cash and cash equivalents	844,450	Moody's default study	100% 0%– if the Government acts as a counterparty
Amounts due from banks and other financial institutions	31,460	Moody's default study	100% 0%– if the Government acts as a counterparty
Investment securities	484,884	Moody's default study	Moody's recovery studies
Acquired right of claim on promissory note to the MFRK	104,159	Moody's default study	0%

The portfolios as at 31 December 2020 for which external benchmark information represents a significant input into measurement of ECL are as follows.

		External benchmarks used	
Item	***At 31 December 2020***	***PD***	***LGD***
Cash and cash equivalents	671,429	Moody's default study	100% 0%– if the Government acts as a counterparty
Amounts due from banks and other financial institutions	29,580	Moody's default study	100% 0%– if the Government acts as a counterparty
Investment securities	294,316	Moody's default study	Moody's recovery studies
Acquired right of claim on promissory note to the MFRK	103,114	Moody's default study	0%

Credit quality analysis

The following table provides information on the credit quality of financial assets measured at amortised cost, debt instruments measured at fair value through other comprehensive income as at 31 December 2021 and 2020. Unless specially indicated, for financial assets, the amounts in the table represent gross carrying amounts.

	31 December 2021	
	Stage 1	***Total***
Investment securities measured at FVOCI		
- rated from BBB- to BBB+	276,886	276,886
Total	**276,886**	**276,886**
Expected credit losses (for reference only)	(117)	**(117)**
Total gross carrying amount of investment securities measured at FVOCI	**276,994**	**276,994**

(in millions of Kazakhstani tenge unless otherwise stated)

6. Analysis of credit risks, continued

Credit quality analysis, continued

	31 December 2020	
	Stage 1	***Total***
Investment securities measured at FVOCI		
- rated from BBB- to BBB+	274,977	**274,977**
Total	**274,977**	**274,977**
Expected credit losses (for reference only)	(10)	**(10)**
Total gross carrying amount of investment securities measured at FVOCI	**275,313**	**275,313**

	31 December 2021		
	Stage 1	***Stage 3***	***Total***
Investment securities measured at amortised cost			
- rated from BBB- to BBB+	207,998	–	**207,998**
	207,998	**–**	**207,998**
Expected credit losses	–	–	**–**
Total	**207,998**	**–**	**207,998**

	31 December 2020		
	Stage 1	***Stage 3***	***Total***
Investment securities measured at amortised cost			
- rated from BBB- to BBB+	18,703	–	**18,703**
- rated from BB- to BB+	636	–	**636**
-not rated	–	1,883	**1,883**
	19,339	**1,883**	**21,222**
Expected credit losses	–	(1,883)	**(1,883)**
Total	**19,339**	**–**	**19,339**

	31 December 2021	
	Stage 1	***Total***
Acquired right of claim on promissory note to the MFRK		
- rated from BBB- to BBB+	104,159	**104,159**
Total	**104,159**	**104,159**

	31 December 2020	
	Stage 1	***Total***
Acquired right of claim on promissory note to the MFRK		
- rated from BBB- to BBB+	103,114	**103,114**
Total	**103,114**	**103,114**

(in millions of Kazakhstani tenge unless otherwise stated)

6. Analysis of credit risks, continued

Credit quality analysis, continued

The following table provides information on the credit quality of loans to customers measured at amortised cost, based on internal credit risk grades, as at 31 December 2021.

	31 December 2021				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Loans to corporate customers at amortised cost					
- rated from A- to A+	30	–	–	–	**30**
- rated from BBB- to BBB+	18,049	–	–	–	**18,049**
- rated from BB- to BB+	96,515	5,772	–	–	**102,287**
- rated from B- to B+	82,683	11,905	–	–	**94,588**
- rated from CCC- to CCC+	7,181	9,043	–	–	**16,224**
- not rated	126,170	8,937	4,829	19,447	**159,383**
- defaulted	–	–	44,029	250,688	**294,717**
	330,628	**35,657**	**48,858**	**270,135**	**685,278**
Expected credit losses	(1,212)	(431)	(23,651)	(198,503)	**(223,797)**
Loans to corporate customers	**329,416**	**35,226**	**25,207**	**71,632**	**461,481**
ECL allowance in relation to loans to customers before ECL allowance, %	0.4	1.2	48.4	73.5	32.7

The following table provides information on the credit quality of loans to customers measured at amortised cost as at 31 December 2020.

	31 December 2020				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Loans to customers at amortised cost					
- rated from BBB- to BBB+	763	586	–	–	**1,349**
- rated from BB- to BB+	9,759	–	–	–	**9,759**
- rated from B- to B+	16,357	398	–	–	**16,755**
- rated from CCC- to CCC+	3,680	2,260	–	–	**5,940**
- not rated	24,743	12,339	6,571	–	**43,653**
- defaulted	–	–	231,735	272,651	**504,386**
	55,302	**15,583**	**238,306**	**272,651**	**581,842**
Expected credit losses	(147)	(94)	(177,928)	(225,856)	**(404,025)**
Loans to corporate customers	**55,155**	**15,489**	**60,378**	**46,795**	**177,817**
ECL allowance in relation to loans to customers before ECL allowance, %	0.3	0.6	74.7	82.8	69.4

(in millions of Kazakhstani tenge unless otherwise stated)

6. Analysis of credit risks, continued

Credit quality analysis, continued

The following table provides information on the credit quality of loans to corporate and retail customers measured at amortised cost as at 31 December 2021.

	31 December 2021				
	Stage 1	***Stage 2***	***Stage 3***	***POCI***	***Total***
Loans to customers at amortised cost					
Not overdue	327,787	34,608	12,069	188,951	**563,415**
Overdue less than 30 days	2,833	136	3,873	1,155	**7,997**
Overdue 30-89 days	8	913	1,442	245	**2,608**
Overdue 90-179 days	–	–	542	15,873	**16,415**
Overdue 180-360 days	–	–	7,020	13,700	**20,720**
Overdue more than 360 days	–	–	23,912	50,211	**74,123**
	330,628	**35,657**	**48,858**	**270,135**	**685,278**
Expected credit losses	(1,212)	(431)	(23,651)	(198,503)	**(223,797)**
Loans to corporate customers	**329,416**	**35,226**	**25,207**	**71,632**	**461,481**

	31 December 2021				
	Stage 1	***Stage 2***	***Stage 3***	***POCI***	***Total***
Loans to retail customers at amortised cost					
Not overdue	236,819	205	1,202	4,802	**243,028**
Overdue less than 30 days	5,630	45	264	774	**6,713**
Overdue 30-89 days	528	2,064	432	508	**3,532**
Overdue 90-179 days	–	56	3,317	454	**3,827**
Overdue 180-360 days	–	–	4,357	763	**5,120**
Overdue more than 360 days	–	–	5,298	5,047	**10,345**
	242,977	**2,370**	**14,870**	**12,348**	**272,565**
Expected credit losses	(8,236)	(809)	(7,380)	(4,433)	**(20,858)**
Loans to retail customers	**234,741**	**1,561**	**7,490**	**7,915**	**251,707**

The following table provides information on the credit quality of other financial assets measured at amortised cost as at 31 December 2021.

	31 December 2021				
	Stage 1	***Stage 2***	***Stage 3***	***POCI***	***Total***
Other financial assets measured at amortised cost					
Not overdue	20,983	–	–	–	**20,983**
Overdue less than 30 days	783	–	–	–	**783**
Overdue more than 360 days	–	–	2,006	–	**2,006**
	21,766	**–**	**2,006**	**–**	**23,772**
Expected credit losses	(4,317)	–	(1,903)	–	**(6,220)**
Other financial assets measured at amortised cost	**17,449**	**–**	**103**	**–**	**17,552**

(in millions of Kazakhstani tenge unless otherwise stated)

6. Analysis of credit risks, continued

Credit quality analysis, continued

The following table provides information on the credit quality of loans to corporate and retail customers measured at amortised cost as at 31 December 2020.

	31 December 2020				
	Stage 1	***Stage 2***	***Stage 3***	***POCI***	***Total***
Loans to customers at amortised cost					
Not overdue	55,234	14,673	110,241	53,004	**233,152**
Overdue less than 30 days	68	841	17,379	–	**18,288**
Overdue 30-89 days	–	69	688	5,207	**5,964**
Overdue 90-179 days	–	–	27	22,919	**22,946**
Overdue 180-360 days	–	–	20,167	42,515	**62,682**
Overdue more than 360 days	–	–	89,804	149,006	**238,810**
	55,302	**15,583**	**238,306**	**272,651**	**581,842**
Expected credit losses	(147)	(94)	(177,928)	(225,856)	**(404,025)**
Loans to corporate customers	**55,155**	**15,489**	**60,378**	**46,795**	**177,817**

	31 December 2020			
	Stage 1	***Stage 2***	***Stage 3***	***Total***
Loans to retail customers at amortised cost				
Not overdue	34,429	412	590	**35,431**
Overdue less than 30 days	609	69	87	**765**
Overdue 30-89 days	–	452	97	**549**
Overdue 90-179 days	–	–	731	**731**
Overdue 180-360 days	–	–	943	**943**
Overdue more than 360 days	46	–	17,763	**17,809**
	35,084	**933**	**20,211**	**56,228**
Expected credit losses	(575)	(123)	(14,291)	**(14,989)**
Loans to retail customers	**34,509**	**810**	**5,920**	**41,239**

The following table provides information on the credit quality of other financial assets measured at amortised cost as at 31 December 2020.

	31 December 2020			
	Stage 1	***Stage 2***	***Stage 3***	***Total***
Other financial assets measured at amortised cost				
Not overdue	5,439	–	4,590	**10,029**
Overdue less than 30 days	407	–	–	**407**
Overdue 180-360 days	–	–	859	**859**
Overdue more than 360 days	–	–	3,034	**3,034**
	5,846	**–**	**8,483**	**14,329**
Expected credit losses	–	–	(4,171)	**(4,171)**
Other financial assets measured at amortised cost	**5,846**	**–**	**4,312**	**10,158**

(in millions of Kazakhstani tenge unless otherwise stated)

7. Net interest income

Net interest income comprises the following:

	2021	*2020*
Interest income calculated using the effective interest method		
Cash and cash equivalents	16,990	10,412
Amounts due from banks and other financial institutions	195	213
Investment securities measured at FVOCI	23,379	33,550
Investment securities measured at amortised cost	7,558	6,089
Loans to customers at amortised cost	51,390	36,521
Acquired right of claim on promissory note to the MFRK	3,892	3,564
Other financial assets	315	47
	103,719	**90,396**
Other interest income		
Trading securities	22	29
Loans to customers measured at FVTPL	1,966	3,550
	1,988	**3,579**
Total interest income	**105,707**	**93,975**
Interest expense		
Due to banks and other financial institutions	(1,112)	(842)
Amounts payable under repurchase agreements	(145)	(2,199)
Amounts due to customers	(45,052)	(36,593)
Debt securities issued	(17,132)	(16,218)
Subordinated debt	(19,645)	(10,260)
Liabilities to the mortgage organisation	(312)	(91)
Lease liabilities	(428)	(388)
Total interest expense	**(83,826)**	**(66,591)**
Net interest income	**21,881**	**27,384**

Interest income calculated using the effective interest rate method for 2021 comprises an interest of KZT 13,296 million on overdue loans to customers (2020: KZT 17,343 million).

Interest income receipts comprise the following:

	2021	*2020*
Cash and cash equivalents	16,990	10,412
Trading securities	13	23
Amounts due from banks and other financial institutions	194	208
Investment securities	29,437	40,132
Loans to customers	44,170	36,740
Acquired right of claim on promissory note to the MFRK	3,957	3,511
Total	**94,761**	**91,026**

Interest expense payments comprise the following:

	2021	*2020*
Due to banks and other financial institutions	(984)	(201)
Amounts payable under repurchase agreements	(145)	(2,199)
Amounts due to customers	(42,461)	(36,392)
Debt securities issued *(Note 26)*	(4,955)	(1,555)
Subordinated debt (*Note 27*)	(13,723)	(7,627)
Liabilities to the mortgage organisation	(401)	(95)
Total	**(62,669)**	**(48,069)**

(in millions of Kazakhstani tenge unless otherwise stated)

8. Credit loss recovery/(expenses)

Credit loss income and expenses on financial instruments recognised in profit or loss for 2021 and 2020 comprise the following:

	Note	*2021*	*2020*
Cash and cash equivalents		61	(7)
Amounts due from banks and other financial institutions	18	21	(32)
Investment securities	19	(107)	(4)
Loans to customers	20	11,863	(24,624)
Financial guarantees		36	(45)
Letters of credit		(1)	5
Other financial assets	23	(504)	529
Credit loss income/(expenses)		**11,369**	**(24,178)**

9. Fee and commission income and expense

Fee and commission income and expense comprise the following:

	2021	*2020*
Transfer operations	8,571	4,273
Client card account maintenance fees	3,581	1,420
Cash operations	2,039	1,578
Agency services	1,123	104
Guarantees and letters of credit	783	667
Settlement	742	455
Foreign exchange	280	343
Internet banking	176	228
Safe deposit transaction services	122	102
Other fee and commission income	140	408
Fee and commission income	**17,557**	**9,578**
Client card account maintenance fees	(8,402)	(3,248)
Transfer operations	(432)	(217)
Foreign exchange	(288)	(372)
Correspondent accounts maintenance	(174)	(371)
Brokers' services	(151)	(164)
Guarantees and letters of credit	(9)	(38)
Other fee and commission expense	(217)	(82)
Fee and commission expense	**(9,673)**	**(4,492)**
Net fee and commission income	**7,884**	**5,086**

The Bank recognises fee and commission income in accordance with IFRS 15 *Revenue from Contracts with Customers* based on the objective, for which the amount of fee and commission is determined, and according to the adopted accounting policy for the appropriate financial instrument (*Note 3*).

Contract assets and contract liabilities

The following table provides information about receivables from contracts with customers.

	31 December 2021	*31 December 2020*
Fee and commission receivable (*Note 23*)	1,849	800

As of 31 December 2021 and 2020, there are no performance obligations with an original expected duration of one year or less as required by IFRS 15.

Performance obligations and revenue recognition policy

Revenue is measured based on the consideration specified in a contract with a customer. The Bank recognises revenue when it transfers control over a good or service to a customer. Below there is information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies for significant types of services (fee and commission for transfer operations).

(in millions of Kazakhstani tenge unless otherwise stated)

9 Fee and commission income and expenses, continued

Performance obligations and revenue recognition policy, continued

Fee and commission income for payment card maintenance comprises interchange fee from transactions with credit and debit cards carried out in trade and service enterprises, and is recognised upon receipt of compensation from payment systems. Other payment card fees are recognised at the time of transaction completion.

Money transfer services include:

- accepting, processing and paying out the domestic money transfer (within Kazakhstan) without opening current and card account;

- accepting, processing and paying out the international money transfer (abroad) without opening current and card account.

Money transfer services are provided on a prepayment basis.

Revenue is recognised over time as the services are provided.

10. Net gain on financial instruments at fair value through profit or loss

Net gain on financial instruments measured at fair value through profit or loss comprises the following:

	2021	*2020*
Net realised gain on foreign currency derivative financial instruments (*Note 17*)	4,312	7,119
Net loss on change in fair value of loans to customers at fair value through profit or loss	(7,744)	(6,870)
Net unrealised gain on currency derivative financial instruments (*Note 17*)	5,797	12,129
Gain on change in fair value of trading securities	11	–
Net realised gain on trading securities	–	2
Total	**2,376**	**12,380**

Net realised gain on foreign currency financial instruments for 2021 comprises gain on foreign currency swaps of KZT 1,983 million (2020: loss of KZT 345 million) and gain on foreign currency swaps of KZT 2,329 million (2020: KZT 7,464 million).

11. Net foreign exchange gain

Net foreign exchange gain is as follows:

	2021	*2020*
Revaluation of foreign currency items, net	7,901	7,167
Gain on spot transactions	6,793	5,308
Total	**14,694**	**12,475**

12. Other income and expenses

Other income comprises the following:

	2021	*2020*
Income from sale of non-current assets held for sale	916	492
Income from sale of inventories	379	10
Income from sale of shares of the subsidiary (*Note 22*)	112	–
Other income	1,015	436
Total	**2,422**	**938**

(in millions of Kazakhstani tenge unless otherwise stated)

12. Other income and expenses, continued

Other expenses comprise the following:

	2021	*2020*
Loss on change in net realisable value of foreclosed collateral	(2,118)	–
Other expenses	(2)	–
Total	**(2,120)**	–

As at 31 December 2021, the Bank recognised loss on change in net realisable value of foreclosed collateral of KZT 1,996 million included in other expenses due to the fact that the pledged property was damaged following a fire (2020: none).

13. Personnel expenses

Personnel expenses are as follows:

	2021	*2020*
Employee compensation	(22,628)	(28,272)
Social contributions and payroll related taxes	(2,211)	(1,950)
Total	**(24,839)**	**(30,222)**

14. Other general and administrative expenses

Other general administrative expenses are aa follows:

	2021	*2020*
Depreciation and amortisation (*Note 21*)	(4,788)	(3,696)
Repair and maintenance	(4,466)	(2,605)
Taxes other than corporate income tax	(2,221)	(1,508)
Guaranteed deposit insurance expenses	(2,079)	(2,040)
Marketing and advertising services	(1,559)	(760)
Communications and information services	(1,079)	(747)
Security	(890)	(733)
Lease (*Note 34*)	(732)	(529)
Professional services	(677)	(1,030)
Expenses on impairment of property, equipment and intangible assets (*Note 21*)	(666)	(43)
Business travel expenses	(519)	(91)
Cash collection expenses	(411)	(268)
Transportation expenses	(244)	(198)
Stationery and office equipment supplies	(211)	(117)
Postal and courier services	(131)	(93)
Recruitment and training	(79)	(21)
Representation expenses	(17)	(15)
Fines and penalties	(14)	(10)
Insurance	(9)	(13)
Other	(2,435)	(1,044)
Total	**(23,227)**	**(15,561)**

15. Corporate income tax benefit/(expense)

Corporate income tax expense is as follows:

	2021	*2020*
Current corporate income tax expense	–	–
Decrease/(increase) in deferred corporate income tax expense - origination and decrease of temporary differences	1,917	(23,764)
Total corporate income tax benefit/(expense)	**1,917**	**(23,764)**

The Bank income is subject to taxation only in the Republic of Kazakhstan. Under the tax legislation, the applicable corporate income tax rate was 20.0% in 2021 and 2020.

(in millions of Kazakhstani tenge unless otherwise stated)

15. Corporate income tax benefit/(expense), continued

Below is a reconciliation of corporate income tax expenses calculated using a statutory tax rate with corporate income tax expenses recognised in the separate financial statements for 2021 and 2020:

	2021	*Rate, %*	*2020*	*Rate, %*
Profit before corporate income tax expense	**8,157**		**106,500**	
Theoretical corporate income tax expense at the statutory rate	**(1,631)**	**20.0**	**(21,300)**	**20.0**
Non-deductible expenses				
Non-taxable expenses from revaluation of the fair value of financial assets	(1,569)	19.2	(1,903)	1.8
Non-deductible impairment losses	(1,500)	18.4	(476)	0.4
Non-deductible interest expenses	(28)	0.3	(844)	0.8
Provision for tax losses carried forward	–	–	(7,930)	7.4
Other non-deductible expenses	–	–	(292)	0.3
Non-taxable income				
Preferential income on government securities included in the official list at the KASE	6,189	(75.9)	7,888	(7.4)
Non-deductible interest income	456	(5.6)	–	–
Adjustment for tax losses carried forward	–	–	1,093	(1.0)
Total	**1,917**	**(23.5)**	**(23,764)**	**22.3**

Deferred tax assets and liabilities

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to deferred tax liabilities as at 31 December 2021 and 2020. Deferred tax assets in respect of tax losses carried forward are recognised in these separate financial statements. Future tax benefits will only be realised if profits will be available against which unused tax losses can be utilised and there are no changes to the law and regulations that adversely affect the Bank's ability to claim deductions in future periods.

The deductible temporary differences do not expire under current tax legislation. Period of use of tax loss carried forward expires in 10 years.

Deferred tax assets were recognised in full in respect of tax losses for 2017-2019. Tax losses expire in 2027-2029. Total profit before corporate income tax expenses for 2021 amounted to KZT 8,158 million (2020: KZT 106,500 million).

Deferred tax assets and liabilities as at 31 December 2021 as well as their movement during the year are as follows:

	1 January 2021	*Recognised in profit or loss*	*Recognised in equity (Note 5)*	*31 December 2021*
Tax effect of deductible temporary differences				
Tax losses carry forwards	33,286	(2,523	–	**30,763**
Loans to customers	13,859	146	–	**14,005**
Right-of-use assets	511	105	–	**616**
Other liabilities	3,230	(1,754	841	**2,317**
Deferred tax assets	**50,886**	**(4,026**	**841**	**47,701**
Tax effect of taxable temporary differences				
Debt securities issued	(102,036)	1,389	(1,360)	**(102,007)**
Subordinated debts	(26,525)	1,857	(45,301)	**(69,969)**
Provision for tax losses carried forward	(10,632)	570	(570)	**(10,632)**
Amounts due to banks and other financial institutions	(4,417)	41	(5,154)	**(9,530)**
Derivative financial instruments	(2,376)	609	–	**(1,767)**
Property, equipment and intangible assets	(1,323)	1,579	(1,592)	**(1,336)**
Lease liability	(449)	(102	–	**(551)**
Deferred tax liabilities	**(147,758)**	**5,943**	**(53,977)**	**(195,792)**
Total deferred corporate income tax liabilities, net	**(96,872)**	**1,917**	**(53,136)**	**(148,091)**

(in millions of Kazakhstani tenge unless otherwise stated)

15. Corporate income tax benefit/(expense), continued

Deferred tax assets and liabilities as at 31 December 2020 as well as their movement during the year are as follows:

	1 January 2020	*Recognised in profit or loss*	*Recognised in equity (Note 21)*	*31 December 2020*
Tax effect of deductible temporary differences				
Tax losses carry forwards	40,850	(7,564)	–	**33,286**
Loans to customers	255	13,604	–	**13,859**
Lease liability	708	(197)	–	**511**
Amounts due to banks and other financial institutions	28	(28)	–	–
Amounts due to customers	10	(10)	–	–
Other liabilities	644	2,586	–	**3,230**
Deferred tax assets	**42,495**	**8,391**	**–**	**50,886**
Tax effect of taxable temporary differences				
Debt securities issued	(94,634)	(7,402)	–	**(102,036)**
Amounts due to banks and other financial institutions	(4,550)	133	–	**(4,417)**
Subordinated debts	(12,241)	(14,284)	–	**(26,525)**
Provision for tax losses carried forward	(2,702)	(7,930)	–	**(10,632)**
Derivative financial instruments	–	(2,376)	–	**(2,376)**
Property, equipment and intangible assets	(778)	(542)	(3)	**(1,323)**
Right-of-use assets	(695)	246	–	**(449)**
Deferred tax liabilities	**(115,600)**	**(32,155)**	**(3)**	**(147,758)**
Total deferred corporate income tax liabilities, net	**(73,105)**	**(23,764)**	**(3)**	**(96,872)**

16. Cash and cash equivalents

Cash and cash equivalents consist of the following:

	31 December 2021	*31 December 2020*
Cash on hand	76,059	54,800
Balances on current accounts with NBRK rated BBB-	82,521	26,848
Balances on current bank accounts with other banks:		
- rated from AA- to AA+	4	–
- rated A- to A+	7,171	1,829
- rated from BBB- to BBB+	17,741	6,783
- rated from BB- to BB+	5,340	3,677
- rated B- to B+	205	77
- not rated	6,033	1,349
Precious metals	493	41
Term deposits with NBRK rated BBB-	636,238	569,146
Term deposits with other banks:		
- rated from AA- to AA+	37,610	19,209
rated from BBB- to BBB+	–	4,213
rated from BB- to BB+	2,402	–
- rated B- to B+	–	502
Accounts receivable under reverse repurchase agreements	49,206	37,808
Gross cash and cash equivalents	**921,023**	**726,282**
Impairment allowance	(21)	(12)
Total	**921,002**	**726,270**

The credit ratings are presented by reference to the credit ratings of Standard and Poor's credit rating agency or analogues of similar international agencies. None of cash and cash equivalents are impaired or past due. All cash and cash equivalents are categorised into Stage 1 of the credit risk grading.

As at 31 December 2021, the Bank concluded reverse repurchase agreements with contractual maturity of up to 90 days at Kazakhstan Stock Exchange (the "KASE"). The subject-matter of the said agreements were securities of the Ministry of Finance of the Republic of Kazakhstan, Kazakhstan Sustainability Fund JSC (KSF JSC) and NBRK with fair value of KZT 50,778 million at 31 December 2021 (31 December 2020: securities of the Ministry of Finance of the Republic of Kazakhstan, Department of Treasury of the USA, KSF JSC, Halyk Savings Bank of Kazakhstan JSC and Kcell JSC with fair value of KZT 37,363 million).

(in millions of Kazakhstani tenge unless otherwise stated)

16. Cash and cash equivalents, continued

Minimum reserve requirements

As at 31 December 2021 and 31 December 2020 minimum reserve requirements are calculated in accordance with regulations issued by NBRK. To meet the requirements the Bank places cash in reserve assets, which should be maintained at the level not less than average of cash on hand in the national currency and balances on current account with the NBRK in the national currency for a 4-week period, calculated as certain minimum level of residents' and non-residents' customer deposits and current accounts balances as well as other Bank's liabilities.

As at 31 December 2021 the minimum reserve requirements amounted to KZT 30,418 million (31 December 2020: KZT 17,279 million), and the reserve asset is KZT 48,989 million (31 December 2020: KZT 26,663 million).

Concentration of cash and cash equivalents

As at 31 December 2021 and 2020, the Bank held accounts and term deposits with NBRK, whose balances exceed 10% of the Bank's equity as at the reporting date. The gross value of these balances as of 31 December 2021 was KZT 718,759 million (31 December 2020: KZT 595,994 million).

17. Derivative financial instruments

Foreign currency contracts

The Bank enters into derivative transactions. The table below shows the fair values of derivatives carried as assets or liabilities, and its notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, base rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	31 December 2021		*31 December 2020*	
	Notional amount	*Fair value of asset*	*Notional amount*	*Fair value of asset*
Foreign currency contracts				
Forwards - foreign contracts with related party	306,823	8,847	168,645	11,987
Currency swaps – domestic contracts	–	–	25,281	26
Currency swaps – foreign contracts	2,935	11	166,992	86
Total	**309,758**	**8,858**	**360,918**	**12,099**

Foreign contracts in the table above stand for contracts concluded with the RK non-resident entities, while domestic contracts mean contracts concluded with the RK resident entities.

Forwards

A forward contract is a contract to buy or sell a certain financial instrument at a specified price on a specified future date. Forwards are the specialised contracts traded in an OTC market.

As at 31 December 2021, the Bank has forward contracts with a related party to sell USD 670 million and buy KZT 306,823 million maturing in March 2022 and May 2022.

As at 31 December 2020, the Bank had forward contracts with a related party to sell USD 361 million and buy KZT 168,645 million that were terminated ahead of schedule in September 2021.

Swaps

Swaps are contractual agreements between two parties to exchange amounts corresponding to changes in the exchange rate based on the notional amounts.

In 2021, net profit on operations with foreign currency derivatives amounted to KZT 10,109 million (2020: KZT 19,248 million) (*Note 10*).

(in millions of Kazakhstani tenge unless otherwise stated)

18. Due from banks and other financial institutions

Due from banks and other financial institutions

	31 December 2021	*31 December 2020*
Restricted cash with NBRK rated BBB-	4,093	12,205
Loans and deposits with other banks and financial institutions		
- rated from A- to A+	3,432	3,345
- rated BBB- to BBB+	13,566	6,320
- rated from BB- to BB+	454	478
- rated B- to B+	563	869
- not rated	9,374	6,397
- defaulted	–	48
Due from banks and other financial institutions, gross	**31,482**	**29,662**
Allowance for expected credit losses	(22)	(82)
Total	**31,460**	**29,580**

The credit ratings are presented by reference to the credit ratings of Standard and Poor's credit rating agency or analogues of similar international agencies. At 31 December 2021, all due from banks and other financial institutions were categorised into Stage 1 of the credit risk grading (31 December 2020: into Stage 1, except for defaulted balances on deposits with other banks that were categorised into Stage 3 for ECL purposes).

Restricted cash with NBRK

In March 2020, under conditions of a state of emergency introduced in the Republic of Kazakhstan because of COVID-19 pandemic, the Management Board of the NBRK approved the Programme for Preferential Lending to Small and Medium-Sized Businesses (hereinafter the "Programme") by its Resolution No.39 dated 19 March 2020. According to the amendments made on 27 October 2020, the large businesses affected by introduction of a state of emergency were also included in the Programme. The operator of the Programme is Kazakhstan Sustainability Fund JSC ("KSF"). The funds received are placed on the Bank's special account opened with the NBRK, according to the terms for the placement of the KSF's contribution under the Programme, until they are fully utilised. Under the terms of the Programme, those funds that are not used by the Bank to finance business entities within the specified period should be returned to KSF JSC.

As at 31 December 2020, restricted cash with the NBRK in the total amount of KZT 12,205 million received from KSF JSC represent an undisbursed amount as part of the Programme (*Note 25*) (31 December 2021: none).

As at 31 December 2021, restricted cash on the current accounts with the NBRK include funds provided by Damu Entrepreneurship Development Fund JSC ("Damu") and Development Bank of Kazakhstan JSC ("DBK") for the total amount of KZT 4,093 million. The funds may be granted as loans to the small, medium-sized and large businesses operating in the manufacturing industry, on special preferential terms, only after the approval by Damu and DBK.

Due from banks and other financial institutions (not rated)

As at 31 December 2021, loans and deposits with other banks (not rated) comprise security deposits and a margin with KASE for the total amount of KZT 4,363 million (31 December 2020: KZT 4,253 million), deposits in Visa International and UnionPay International in the amount of KZT 4,968 million and KZT 43 million, respectively (31 December 2020: deposits in Visa International S.A. and UnionPay International in the amount of KZT 2,105 million and KZT 21 million, respectively, and a loan of KZT 18 million from Orienbank OJSC).

The table below provides an analysis of the changes in allowance for ECL for 2021:

	2021		
	Stage 1	*Stage 3*	*Total*
Balance at 1 January	(34)	(48)	**(82)**
Net reversal (*Note 8*)	21	–	**21**
Increase from business combination	(9)	–	**(9)**
Write-offs	–	48	**48**
Balance at 31 December	**(22)**	**–**	**(22)**

(in millions of Kazakhstani tenge unless otherwise stated)

18. Due from banks and other financial institutions, continued

The table below provides an analysis of the changes in allowance for ECL for 2020:

	2020		
	Stage 1	*Stage 3*	*Total*
Balance at 1 January	(2)	(48)	**(50)**
Net charge (*Note 8*)	(32)	–	**(32)**
Balance at 31 December	**(34)**	**(48)**	**(82)**

Concentration of amounts due from banks and other financial institutions

As at 31 December 2021, the Bank has funds with Commercial Bank of Qatar, Visa International, KASE and Mastercard International and whose balance exceeds 10% of total amounts due from banks and other financial institutions. The gross value of these balances as at 31 December 2021 is KZT 23,562 million (31 December 2020: balances with KASE, Commercial Bank of Qatar, Mastercard International and Visa International, in the total amount of KZT 16,023 million).

The Bank has no amounts due from banks and other financial institutions, whose balances exceed 10% of the Bank's equity as at the reporting date (31 December 2020: none).

19. Investment securities

Investment securities comprise:

	31 December 2021	*31 December 2020*
Investment securities measured at fair value through other comprehensive income	306,377	274,988
Investment securities measured at amortised cost	207,998	19,339
Total	**514,375**	**294,327**

Investment securities measured at fair value through other comprehensive income include:

	31 December 2021	*31 December 2020*
Debt securities		
Government bonds		
Notes of NBRK	255,542	257,340
- bonds of SWF Fund "Samruk-Kazyna" JSC	21,344	–
- bonds of KSF JSC	–	12,834
- bonds of MFRK	–	4,803
Total government bonds	**276,886**	**274,977**
Equity securities		
Corporate shares		
- corporate shares of Kcell JSC	29,491	–
- unquoted shares	–	11
Total corporate shares	**29,491**	**11**
Total	**306,377**	**274,988**

These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities.

All balances of investment securities measured at fair value through other comprehensive income are allocated to Stage 1 for ECL purposes (*Note 6*). Net charge of ECL allowance for 2021 amounted to KZT 107 million (2020: KZT 4 million) (*Note 8*).

(in millions of Kazakhstani tenge unless otherwise stated)

19. Investment securities, continued

Debt investment securities measured at amortised cost include:

	31 December 2021	*31 December 2020*
Debt securities		
-Government bonds		
Notes of NBRK	180,685	–
- Eurobonds of MFRK	19,086	18,685
- Bonds of KSF JSC	8,208	–
- Bonds of MFRK	19	18
Total government bonds	**207,998**	**18,703**
Corporate bonds		
- rated from BB- to BB+	–	636
- not rated	–	1,883
	–	**2,519**
Allowance for expected credit losses	–	(1,883)
Total corporate bonds	**–**	**636**
Total	**207,998**	**19,339**

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

As at 31 December 2021 the Bank has accounts payable under repo agreements concluded at KASE, which are secured by coupon Eurobonds of MFRK with fair value of KZT 2,170 million (31 December 2020: none). All transactions were closed during next reporting month.

Corporate bonds are interest-bearing securities issued by an international financial organisation, local companies and banks. These securities are freely tradable at KASE - except for the bonds of Astana-Nedvizhimost JSC that were excluded from trading at KASE in July 2011. As at 31 December 2020, allowance for expected credit losses on the bonds of Astana-Nedvizhimost JSC was 100% of their gross carrying amount. As at 31 December 2021, balances of Astana-Nedvizhimost JSC were written off against previously established provisions.

As at 31 December 2021 all government bond balances are categorised into Stage 1 of credit risk grading *(Note 6)*.

20. Loans to customers

Loans to customers comprise the following items:

	31 December 2021	*31 December 2020*
Loans to customers measured at amortised cost	957,843	638,070
Allowance for expected credit losses	(244,655)	(419,014)
Loans to customers measured at amortised cost, net of allowance for expected credit losses	**713,188**	**219,056**
Loans to customers measured at fair value through profit or loss	17,910	25,008
Total	**731,098**	**244,064**

Loans to customers measured at fair value through profit or loss

Loans to customers measured at fair value through profit or loss comprise predominantly the loans for project financing without recourse due to economic reasons or under contract, as well as loans with embedded derivatives the terms and conditions of which do not comply with the framework loan agreement. Information on measurement of fair value of loans to customers measured at fair value through profit or loss is disclosed in *Note 37*.

Loans to customers measured at fair value through profit or loss as at 31 December 2021 and 2020 comprise the following items:

(in millions of Kazakhstani tenge unless otherwise stated)

20. Loans to customers, continued

Loans to customers measured at fair value through profit or loss, continued

	31 December 2021	*31 December 2020*
Loans to large corporates	718	1,221
Loans to small and medium-size businesses	17,192	23,787
Loans to customers measured at FVTPL	**17,910**	**25,008**

Loans to customers measured at amortised cost

Loans to customers measured at amortised cost as at 31 December 2021 comprise the following items:

	31 December 2021				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Loans to corporate customers					
Loans to large corporates	115,387	8,648	6,401	91,582	**222,018**
Loans to small and medium-size businesses	215,241	27,009	42,457	178,553	**463,260**
Total loans to corporate customers	**330,628**	**35,657**	**48,858**	**270,135**	**685,278**
Loans to retail customers					
Express loans	179,861	1,735	10,002	2,273	**193,871**
Mortgage loans	40,341	314	2,638	3,065	**46,358**
Consumer loans	20,335	290	1,657	6,994	**29,276**
Credit cards	1,303	31	397	–	**1,731**
Car loans	1,137	–	176	16	**1,329**
Total loans to retail customers	**242,977**	**2,370**	**14,870**	**12,348**	**272,565**
Gross loans to customers	**573,605**	**38,027**	**63,728**	**282,483**	**957,843**
Allowance for expected credit losses	(9,446)	(1,241)	(31,069)	(202,899)	**(244,655)**
Net loans to customers	**564,159**	**36,786**	**32,659**	**79,584**	**713,188**

Loans to customers measured at amortised cost as at 31 December 2020 comprise the following items:

	31 December 2020				
	Stage 1	*Stage 2*	*Stage 3*	*POCI**	*Total*
Loans to corporate customers					
Loans to large corporates	4,448	1,172	20,933	114,632	**141,185**
Loans to small and medium-size businesses	50,854	14,411	217,373	158,019	**440,657**
Total loans to corporate customers	**55,302**	**15,583**	**238,306**	**272,651**	**581,842**
Loans to retail customers					
Mortgage loans	16,810	547	4,798	–	**22,155**
Car loans	13,637	227	2,093	–	**15,957**
Express loans	186	7	11,264	–	**11,457**
Consumer loans	4,167	139	2,039	–	**6,345**
Credit cards	284	13	17	–	**314**
Total loans to retail customers	**35,084**	**933**	**20,211**	**–**	**56,228**
Gross loans to customers	**90,386**	**16,516**	**258,517**	**272,651**	**638,070**
Allowance for expected credit losses	(722)	(217)	(192,219)	(225,856)	**(419,014)**
Net loans to customers	**89,664**	**16,299**	**66,298**	**46,795**	**219,056**

* *Credit-impaired POCI loans to customers purchased or originated*

* In 2019 the Bank reclassified certain previously existing loans to customers to POCI loans. This resulted in derecognition of the previously recognised instruments and recognition of new POCI loans.

(in millions of Kazakhstani tenge unless otherwise stated)

20. Loans to customers, continued

Loans to customers measured at amortised cost, continued

However, due to the limitations of the automated banking information system, the related financial statement disclosures reflect the historic gross value of the existing loan contracts, prior to their derecognition, together with a related allowance for expected credit losses. The additional gross disclosure of the historic loan amount does not affect the carrying amount of the newly recognised POCI loans in the separate statement of financial position.

In accordance with IFRS 9 gross carrying amount of POCI loans to corporate customers recognised in the separate statement of financial position of the Bank as at 31 December 2021 amounted to KZT 101,803 million (31 December 2020: KZT 75,889 million) and the related ECL allowance balance amounted to KZT 22,256 million (31 December 2020: KZT 29,094 million).

Impairment allowance for loans to customers measured at amortised cost

Below is an analysis of changes in gross carrying amount and corresponding ECL allowance for loans to corporate customers for the year ended 31 December 2021:

	2021				
Loans to corporate customers	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
Gross carrying amount at 1 January	**55,302**	**15,583**	**238,306**	**272,651**	**581,842**
New assets originated or purchased	256,102	4,864	–	68,589	**329,555**
Acquisition as a result of business combination (*Note 5)*	152,292	63,212	4,223	110,331	**330,058**
Assets that have been derecognised or repaid (except for write-offs)	(137,452)	(45,769)	(110,133)	(35,665)	**(329,019)**
Transfers to Stage 1	4,274	(2,852)	(1,422)	–	**–**
Transfers to Stage 2	(500)	500	–	–	**–**
Transfers to Stage 3	(994)	(45)	1,039	–	**–**
Net change in interest accrued	1,517	144	(4,322)	9,481	**6,820**
Write-offs	–	–	(85,266)	(161,402)	**(246,668)**
Recovery	–	–	5,235	4,909	**10,144**
Effect of movements in foreign exchange rates	87	20	1,198	1,241	**2,546**
Gross carrying amount at 31 December	**330,628**	**35,657**	**48,858**	**270,135**	**685,278**

Loans to corporate customers	***Stage 1***	***Stage 2***	***2021 Stage 3***	***POCI***	***Total***
ECL balance at 1 January	**(147)**	**(94)**	**(177,928)**	**(225,856)**	**(404,025)**
New assets originated or purchased	(1,099)	(106)	–	(59,746)	**(60,951)**
Acquisition as a result of business combination (*Note 5)*	(822)	(2,658)	(1,278)	(74,403)	**(79,161)**
Assets that have been derecognised or repaid (except for write-offs)	561	1,096	66,986	2,573	**71,216**
Transfers to Stage 1	(927)	629	298	–	**–**
Transfers to Stage 2	3	(3)	–	–	**–**
Transfers to Stage 3	(189)	(109)	298	–	**–**
Net change in loss allowance	1,409	816	4,318	2,786	**9,329**
Unwinding of discount	–	–	4,359	(168)	**4,191**
Write-offs	–	–	85,266	161,402	**246,668**
Recovery	–	–	(5,235)	(4,909)	**(10,144)**
Effect of movements in foreign exchange rates	(1)	(2)	(735)	(182)	**(920)**
ECL balance at 31 January	**(1,212)**	**(431)**	**(23,651)**	**(198,503)**	**(223,797)**

(in millions of Kazakhstani tenge unless otherwise stated)

20. Loans to customers, continued

Impairment allowance for loans to customers measured at amortised cost, continued

Below is an analysis of changes in gross carrying amount and corresponding ECL allowance for loans to retail customers for the year ended 31 December 2021:

			2021		
Loans to retail customers	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
Gross carrying amount at 1 January	**35,084**	**933**	**20,211**	**–**	**56,228**
New assets originated or purchased	123,775	941	–	1,669	**126,385**
Acquisitions as a result of business combination (*Note 5*)	119,901	2,341	10,933	12,357	**145,532**
Assets that have been derecognised or repaid (except for write-offs)	(35,458)	(444)	(4,145)	(646)	**(40,693)**
Transfers to Stage 1	4,971	(1,240)	(3,731)	–	–
Transfers to Stage 2	(1,251)	1,321	(70)	–	–
Transfers to Stage 3	(4,145)	(1,492)	5,637	–	–
Net change in interest accrued	100	10	102	(1,012)	**(800)**
Write-offs	–	–	(14,058)	–	**(14,058)**
Effect of movements in foreign exchange rates	–	–	(9)	(20)	**(29)**
Gross carrying amount at 31 December	**242,977**	**2,370**	**14,870**	**12,348**	**272,565**

			2021		
Loans to retail customers	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
ECL balance at 1 January	**(575)**	**(123)**	**(14,291)**	**–**	**(14,989)**
New assets originated or purchased	(6,595)	(403)	–	(989)	**(7,987)**
Acquisitions as a result of business combination *(Note 5)*	(3,921)	(646)	(4,828)	(5,273)	**(14,668)**
Assets that have been derecognised or repaid (except for write-offs)	2,693	40	119	646	**3,498**
Transfers to Stage 1	(1,103)	181	922	–	**–**
Transfers to Stage 2	68	(88)	20	–	**–**
Transfers to Stage 3	1,626	531	(2,157)	–	**–**
Net remeasurement of loss allowance	(429)	(301)	(2,766)	254	**(3,242)**
Unwinding of discount	–	–	1,534	909	**2,443**
Write-offs	–	–	14,058	–	**14,058**
Effect of movements in foreign exchange rates	–	–	9	20	**29**
ECL balance at 31 January	**(8,236)**	**(809)**	**(7,380)**	**(4,433)**	**(20,858)**

During 2021 the Bank wrote off the loans of KZT 99,324 million which resulted in decrease in the ECL allowance for loans categorised into Stage 3 in the same amount (2020: KZT 35,016 million).

(in millions of Kazakhstani tenge unless otherwise stated)

20. Loans to customers, continued

Impairment allowance for loans to customers measured at amortised cost, continued

Below is an analysis of changes in gross carrying amount and corresponding ECL allowance for loans to corporate customers measured at amortised cost for the year ended 31 December 2020:

	2020				
Loans to corporate customers	***Stage 1***	***Stage 2***	***Stage 3***	***POCI****	***Total***
Gross carrying amount at 1 January	62,515	4,070	320,694	302,181	**689,460**
New assets originated or purchased	88,630	451	–	47,451	**136,532**
Assets that have been derecognised or repaid (except for write-offs)	(69,589)	(11,159)	(72,225)	(2,512)	**(155,485)**
Transfers to Stage 1	4,688	(4,688)	–	–	**–**
Transfers to Stage 2	(30,939)	30,939	–	–	**–**
Transfers to Stage 3	(216)	(4,480)	4,696	–	**–**
Net change in interest accrued	156	71	2,802	2,173	**5,202**
Write-offs	–	–	(34,055)	(84,597)	**(118,652)**
Effect of movements in foreign exchange rates	57	379	16,394	7,955	**24,785**
Gross carrying amount at 31 December	**55,302**	**15,583**	**238,306**	**272,651**	**581,842**

	2020				
Loans to corporate customers	***Stage 1***	***Stage 2***	***Stage 3***	***POCI****	***Total***
ECL balance at 1 January	(403)	(134)	(232,530)	(242,657)	**(475,724)**
New assets originated or purchased	(496)	(4)	–	(38,702)	**(39,202)**
Assets that have been derecognised or repaid (except for write-offs)	162	59	42,023	900	**43,144**
Transfers to Stage 1	(105)	105	–	–	–
Transfers to Stage 2	247	(247)	–	–	–
Transfers to Stage 3	–	1,821	(1,821)	–	–
Net remeasurement of loss allowance	448	(1,693)	(6,785)	(19,183)	**(27,213)**
Unwinding of discount	–	–	(51)	181	**130**
Write-offs	–	–	34,055	84,597	**118,652**
Effect of movements in foreign exchange rates	–	(1)	(12,819)	(10,992)	**(23,812)**
ECL balance at 31 January	**(147)**	**(94)**	**(177,928)**	**(225,856)**	**(404,025)**

* In 2019 the Bank reclassified certain previously existing loans to customers to POCI loans. This resulted in the derecognition of the previously recognised instruments, and recognition of new POCI loans.

However, due to the limitations of the automated banking information system, the related financial statement disclosures reflect the historic gross value of the existing loan contracts, prior to their derecognition, together with a related allowance for expected credit losses. The additional gross disclosure of the historic loan amount does not affect the carrying amount of the newly recognised POCI loans in the separate statement of financial position.

(in millions of Kazakhstani tenge unless otherwise stated)

20. Loans to customers, continued

Impairment allowance for loans to customers measured at amortised cost, continued

Below is an analysis of changes in gross carrying amount and corresponding ECL allowance for loans to corporate customers measured at amortised cost for the year ended 31 December 2020:

	2020			
Loans to retail customers	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying amount at 1 January	37,142	430	21,163	**58,735**
New assets originated or purchased	14,804	320	522	**15,646**
Assets that have been derecognised or repaid (except for write-offs)	(10,702)	(157)	(2,216)	**(13,075)**
Transfers to Stage 1	675	(59)	(616)	–
Transfers to Stage 2	(580)	675	(95)	–
Transfers to Stage 3	(1,464)	(236)	1,700	–
Net change in interest accrued	(4,715)	11	707	**(3,997)**
Write-offs	(97)	(58)	(961)	**(1,116)**
Effect of movements in foreign exchange rates	21	7	7	**35**
Gross carrying amount at 31 December	**35,084**	**933**	**20,211**	**56,228**

	2020			
Loans to retail customers	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL balance at 1 January	(253)	(73)	(14,339)	**(14,665)**
New assets originated or purchased	(377)	(57)	(298)	**(732)**
Assets that have been derecognised or repaid (except for write-offs)	175	24	738	**937**
Transfers to Stage 1	(187)	–	187	–
Transfers to Stage 2	3	(29)	26	–
Transfers to Stage 3	35	69	(104)	–
Effect on ECL as at the end of the period resulting from transfers from one Stage to another Stage during the period	(50)	(112)	(1,396)	**(1,558)**
Write-offs	97	58	961	**1,116**
Effect of movements in foreign exchange rates	(18)	(3)	(66)	**(87)**
ECL balance at 31 January	**(575)**	**(123)**	**(14,291)**	**(14,989)**

Modified and restructured loans

The Bank derecognises a financial asset, e.g. a loan to a customer, if the related contractual terms are renegotiated to the extent that it in fact becomes a new loan, and records the difference as gains or losses arising from derecognition before impairment loss is recognised. Upon initial recognition the loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

If the modification does not imply a substantial change in cash flows, such modification does not result in a derecognition. Based on changes in cash flows discounted at the initial effective interest rate, the Bank recognises profit or loss from modification before impairment loss is recognised.

During 2021 and 2020 the Bank changed the terms of certain loans for retail business; the Bank provided, among other things, the repayment holiday (deferral of payments) as part of implementation of measures introduced by the government due to implications of COVID-19 pandemic. This concession has not resulted in change of future cash flows on loans, for which a deferral was provided.

(in millions of Kazakhstani tenge unless otherwise stated)

20. Loans to customers, continued

Credit quality of loans to customers

The following table provides information on the credit quality of loans to customers measured at amortised cost as at 31 December 2021:

Loans to customers	*Loans to large corporates*	*Loans to small and medium-size businesses*	*Express loans*	*Mortgage loans*	*Consumer loans*	*Credit cards*	*Car loans*	*Total*
- not overdue	205,790	357,625	176,567	41,446	22,623	1,272	1,120	**806,443**
- overdue less than 30 days	1,789	6,208	4,472	1,026	1,161	39	15	**14,710**
- overdue 30-89 days	559	2,049	2,081	764	636	32	19	**6,140**
- overdue 90-179 days	–	16,415	2,239	790	436	360	2	**20,242**
- overdue more than 180 days and less than 1 year	266	20,454	3,983	615	482	25	15	**25,840**
- overdue more than 1 year	13,614	60,509	4,529	1,717	3,938	3	158	**84,468**
Total gross loans to customers	**222,018**	**463,260**	**193,871**	**46,358**	**29,276**	**1,731**	**1,329**	**957,843**
Allowance for expected credit losses	(82,255)	(141,542)	(16,730)	(942)	(2,770)	(310)	(106)	**(244,655)**
Total loans to customers, net of ECL allowance	**139,763**	**321,718**	**177,141**	**45,416**	**26,506**	**1,421**	**1,223**	**713,188**

The following table provides information on the credit quality of loans to customers measured at amortised cost as at 31 December 2020:

Loans to customers	*Loans to large corporates*	*Loans to small and medium-size businesses*	*Express loans*	*Mortgage loans*	*Consumer loans*	*Credit cards*	*Car loans*	*Total*
- not overdue	37,016	196,136	13,485	17,393	4,087	278	188	**268,583**
- overdue less than 30 days	–	18,288	223	301	221	16	4	**19,053**
- overdue 30-89 days	–	5,964	235	192	110	3	9	**6,513**
- overdue 90-179 days	–	22,946	519	126	78	3	5	**23,677**
- overdue more than 180 days and less than 1 year	20,770	41,912	480	275	162	2	24	**63,625**
- overdue more than 1 year	83,399	155,411	1,015	3,868	1,687	12	11,227	**256,619**
Total loans to customers, net of ECL allowance	**141,185**	**440,657**	**15,957**	**22,155**	**6,345**	**314**	**11,457**	**638,070**
Allowance for expected credit losses	(111,971)	(292,054)	(2,265)	(2,826)	(808)	(33)	(9,057)	**(419,014)**
Total loans to customers, net of ECL allowance	**29,214**	**148,603**	**13,692**	**19,329**	**5,537**	**281**	**2,400**	**219,056**

20. Loans to customers, continued

Key assumptions and judgments used in estimation of expected credit losses

Loans to corporate customers

In determining the loss allowance for expected credit losses on loans to corporate customers, management makes the following key assumptions:

- a discount of between 20.0% and 80.0% to the originally appraised value if the property pledged is sold;
- exclusion from collateral value of unstable collaterals;
- a delay from 36 months up to 60 months in obtaining proceeds from the foreclosure of collateral;
- PD for loans referred to as Stage 1 in terms of credit quality was 0.08-20.57%, referred to as Stage 2 in terms of credit quality - 0.38% to 67.73%, depending on the borrower's internal rating;
- LGD for loans referred to as Stages 1 and 2 was 0 - 54.59%.

Changes in the above estimates may impact a loss allowance for expected credit losses. For example, to the extent that the discount to the originally appraised value of collateral on sale differs by plus/minus ten percent, loss allowance for expected credit losses on loans to corporate customers measured at amortised cost as at 31 December 2021 would be KZT 10,396 million lower and KZT 8,977 million higher, respectively (31 December 2020: KZT 10,864 million lower/higher). To the extent that the delay in obtaining proceeds from the foreclosure of collateral differs by plus/minus one year, loss allowance for expected credit losses on loans to corporate customers measured at amortised cost as at 31 December 2021 would be KZT 10,214 million lower and KZT 13,323 million higher, respectively (31 December 2020: KZT 13,328 million lower and KZT 15,187 million higher, respectively).

Loans to retail customers

The Bank estimates loss allowance for expected credit losses for loans to retail customers based on its past historical loss experience on each type of loan. The significant assumptions used by management in determining the loss allowance for expected credit losses for loans to retail customers include:

- migration rates are constant and can be estimated based on the migration model built using Markov chain, given the impact of macroeconomic information; a 12-month PD for groups of products referred to as Stage 1 in terms of credit quality was 3.65% - 50.36%; lifetime PD referred to as Stage 2 in terms of credit quality was 66.23% - 93.54%, depending on the group of products of homogeneous retail portfolio;
- Recovery rates for uncollateralised loans are estimated based on a sample of contracts defaulted not more than 3 years; recovery rates for products of homogeneous portfolio referred to as Stage 1 and Stage 2 for the first year was 34.86% for the second year - 18.67% and for the third year - 8.24%.
- A discount of between 30.0% and 70.0% to the annually appraised value if the property pledged is sold.
- An average period of 24 months for sale of foreclosed collateral.

Changes in the above estimates may impact a loss allowance for expected credit losses. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus three percent, ECL allowance for loans to retail customers as at 31 December 2021 would be KZT 8,197 million lower/higher (31 December 2020: KZT 1,653 million lower/higher).

Loan maturities

The maturities of the loans to customers as at the reporting date are presented in *Note 31* and show the contractual maturities of the loans.

(in millions of Kazakhstani tenge unless otherwise stated)

20. Loans to customers, continued

Analysis of collateral and other credit enhancements

Loans to corporate customers

The following table provides information on collateral and other credit enhancements securing loans to corporate customers, net of ECL allowance, by types of collateral.

	31 December 2021			
	Carrying amount of loans to customers	*Fair value of collateral - for collateral assessed as of reporting date*	*Fair value of collateral - for collateral assessed as of loan inception date*	*Fair value of collateral not determined*
Stage 1				
Cash and deposits	7,370	7,370	–	–
Real estate	161,281	63,621	97,660	–
Movable property	4,839	4,231	608	–
Vehicles	35,188	32,490	2,698	–
Equipment	2,834	850	1,984	–
Guarantees	27,989	–	–	27,989
No collateral or other credit enhancement	89,915	–	–	89,915
Total Stage 1 loans	**329,416**	**108,562**	**102,950**	**117,904**
Stage 2				
Cash and deposits	103	103	–	–
Real estate	23,179	15,094	8,085	–
Movable property	6,670	6,273	397	–
Vehicles	1,650	888	762	–
Equipment	999	810	189	–
Guarantees	1,121	–	–	1,121
No collateral or other credit enhancement	1,504	–	–	1,504
Total Stage 2 loans	**35,226**	**23,168**	**9,433**	**2,625**
Stage 3				
Cash and deposits	6	6	–	–
Real estate	23,640	13,388	10,252	–
Movable property	594	–	594	–
Vehicles	115	–	115	–
Equipment	246	3	243	–
Guarantees	34	–	–	34
No collateral or other credit enhancement	572	–	–	572
Total Stage 3 loans	**25,207**	**13,397**	**11,204**	**606**
POCI				
Cash and deposits	11	11	–	–
Real estate	71,442	59,554	11,888	–
Movable property	39	–	39	–
Vehicles	91	–	91	–
Equipment	9	–	9	–
Guarantees	40	–	–	40
Total POCI-loans	**71,632**	**59,565**	**12,027**	**40**
Loans to customers measured at FVTPL				
Cash and deposits	1	1	–	–
Real estate	17,645	16,416	1,229	–
Equipment	264	264	–	–
Total loans to customers measured at FVTPL	**17,910**	**16,681**	**1,229**	**–**
Total loans to corporate customers	**479,391**	**221,373**	**136,843**	**121,175**

(in millions of Kazakhstani tenge unless otherwise stated)

20. Loans to customers, continued

Analysis of collateral and other credit enhancements, continued

Loans to corporate customers, continued

	31 December 2020			
	Carrying amount of loans to customers	***Fair value of collateral - for collateral assessed as of reporting date***	***Fair value of collateral - for collateral assessed as of loan inception date***	***Fair value of collateral not determined***
Stage 1				
Cash and deposits	3,299	3,299	–	–
Real estate	33,774	13,793	19,981	–
Movable property	6,680	6,458	222	–
Vehicles	436	263	173	–
Equipment	543	255	288	–
Guarantees	9,698	–	–	9,698
No collateral or other credit enhancement	725	–	–	725
Total Stage 1 loans	**55,155**	**24,068**	**20,664**	**10,423**
Stage 2				
Cash and deposits	12	12	–	–
Real estate	14,879	4,642	10,237	–
Movable property	8	–	8	–
Vehicles	129	–	129	–
Equipment	17	–	17	–
Guarantees	398	–	–	398
No collateral or other credit enhancement	46	–	–	46
Total Stage 2 loans	**15,489**	**4,654**	**10,391**	**444**
Stage 3				
Cash and deposits	5	5	–	–
Securities	468	468	–	–
Real estate	53,806	48,519	5,287	–
Movable property	4,127	4,118	9	–
Vehicles	324	–	324	–
Equipment	1,225	1,171	54	–
Guarantees	309	–	–	309
No collateral or other credit enhancement	114	–	–	114
Total Stage 3 loans	**60,378**	**54,281**	**5,674**	**423**
Cash and deposits	5	5	–	–
Securities	86	86	–	–
Real estate	45,445	45,154	291	–
Movable property	437	437	–	–
Equipment	530	530	–	–
Guarantees	292	–	–	292
Total POCI-loans	**46,795**	**46,212**	**291**	**292**
Loans to customers measured at FVTPL				
Cash and deposits	1	1	–	–
Real estate	24,893	22,903	1,990	–
Equipment	114	114	–	–
Total loans to customers measured at FVTPL	**25,008**	**23,018**	**1,990**	**–**
Total loans to corporate customers	**202,825**	**152,233**	**39,010**	**11,582**

The tables above exclude overcollateralisation.

(in millions of Kazakhstani tenge unless otherwise stated)

20. Loans to customers, continued

Analysis of collateral and other credit enhancements, continued

Loans to corporate customers, continued

At the end of 2020, in accordance with the action plan following the results of the quality assessment of the Bank's assets, the Rules on Working with Security of the Borrowers' Obligations and Methods of Assessment of Collaterals and the Bank's Property were agreed on with the Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market, which came into force since 30 December 2020.

The amount stated in 'No collateral or other credit enhancement' item comprises unsecured loans and part of loans not fully secured.

For loans secured by multiple types of collateral, collateral that is most relevant for assessment of allowance for expected credit losses is disclosed. Sureties received from individuals, such as shareholders of SME borrowers and corporate guarantees received from local companies not rated, are not considered for the assessment of allowance for expected credit losses' purposes.

Loans to retail customers

Mortgage loans are secured by the underlying housing real estate. The Bank's policy is to issue retail loans with a loan-to-value ratio of maximum 80%. Car loans are secured by the underlying cars. The Bank's policy is to issue car loans with a loan-to-value ratio of a maximum of 80%. Consumer loans are generally secured by underlying properties and in certain cases by assets, including vehicles, cash deposits and guarantees.

The following tables provides information on collateral and other credit enhancements securing loans to retail customers at Stage 3 (net of loss allowance for expected credit losses) and POCI-loans by types of collateral.

At 31 December 2021	*Carrying amount of loans to customers*	*Fair value of collateral - for collateral assessed as of reporting date*	*Fair value of collateral - for collateral assessed as of loan inception date*	*Fair value of collateral not determined*
Stage 3				
Cash and deposits	13	13	–	–
Real estate	3,417	–	3,417	–
Movable property	9	–	9	–
Vehicles	58	–	58	–
Guarantees	9	–	–	9
No collateral or other credit enhancement	3,984	–	–	3,984
Total Stage 3 loans	**7,490**	**13**	**3,484**	**3,993**
POCI				
Cash and deposits	19	19	–	–
Real estate	6,060	–	6,060	–
Movable property	57	–	57	–
Vehicles	20	–	20	–
Guarantees	51	–	–	51
No collateral or other credit enhancement	1,708	–	–	1,708
Total POCI-loans	**7,915**	**19**	**6,137**	**1,759**
Total loans to retail customers	**251,707**	**375**	**63,228**	**188,104**

(in millions of Kazakhstani tenge unless otherwise stated)

20. Loans to customers, continued

As at 31 December 2020	*Carrying amount of loans to customers*	*Fair value of collateral - for collateral assessed as of reporting date*	*Fair value of collateral - for collateral assessed as of loan inception date*	*Fair value of collateral not determined*
Stage 3				
Real estate	3,248	–	3,248	–
Vehicles	2,086	–	2,086	–
Cash and deposits	3	3	–	–
Movable property	1	–	1	–
Guarantees	12	–	–	12
No collateral or other credit enhancement	570	–	–	570
Total Stage 3 loans	**5,920**	**3**	**5,335**	**582**
Total loans to retail customers	**41,239**	**385**	**26,530**	**14,324**

Industry analysis of the loan portfolio

Loans to customers were issued to customers located within the Republic of Kazakhstan, who operate in the following economic sectors:

	31 December 2021	*31 December 2020*
Loans to corporate customers		
Services	194,747	146,713
Construction	175,224	139,797
Production	104,693	119,085
Trade	95,105	112,644
Finance and insurance	59,817	28,757
Transport	31,862	27,358
Agriculture	9,594	5,761
Education	7,482	1,505
Other	6,754	222
	685,278	**581,842**
Loans to retail customers		
Express loans	193,871	15,957
Mortgage loans	46,358	22,155
Consumer loans	29,276	6,345
Credit cards	1,731	314
Car loans	1,329	11,457
	272,565	**56,228**
	957,843	**638,070**
Allowance for expected credit losses	(244,655)	(419,014)
Total loans to customers measured at amortised cost	**713,188**	**219,056**

	31 December 2021	*31 December 2020*
Loans to corporate customers		
Construction	12,052	15,769
Services	3,055	4,271
Production	1,316	2,958
Trade	993	1,394
Transport	482	542
Agriculture	12	74
Total loans to customers measured at FVTPL	**17,910**	**25,008**

Significant credit exposures

As at 31 December 2021 the Bank had one borrower whose loan balance exceeded 10% of equity, for the total amount of KZT 87,269 million (31 December 2020: none).

(in millions of Kazakhstani tenge unless otherwise stated)

21. Property, equipment and intangible assets

Movements of property, equipment and intangible assets for 2021 are as follows:

	Note	*Land plots and buildings*	*Computers*	*Vehicles*	*Construction in progress*	*Other*	*Intangible assets*	*Right-of-use assets*	*Total*
Cost									
At 1 January 2021		35,699	8,310	467	542	11,753	7,085	3,528	**67,384**
Additions		419	1,889	141	–	4,230	1,963	1,512	**10,154**
Acquisitions as a result of business combination	5	24,324	3,614	127	–	4,716	3,964	1,109	**37,854**
Disposals and write-offs		(8,191)	(1,256)	(81)	(1)	(2,489)	(893)	(1,568)	**(14,479)**
Transfer between categories		72	(1,354)	–	–	1,284	(2)	–	**–**
Impairment	14	–	–	(34)	–	–	(641)	–	**(675)**
At 31 December 2021		**52,323**	**11,203**	**620**	**541**	**19,494**	**11,476**	**4,581**	**100,238**
Depreciation and amortisation									
At 1 January 2021		(384)	(6,350)	(361)	–	(7,227)	(4,318)	(1,282)	**(19,922)**
Depreciation charge	14	(541)	(903)	(39)	–	(1,457)	(862)	(986)	**(4,788)**
Acquisitions as a result of business combination	5	(2,663)	(2,423)	(105)	–	(3,155)	(3,210)	(592)	**(12,148)**
Disposals and write-offs		97	1,252	65	–	1,906	802	1,032	**5,154**
Transfer between categories		(43)	1,338	–	–	(1,297)	2	–	**–**
Impairment	14	–	–	9	–	–	–	–	**9**
At 31 December 2021		**(3,534)**	**(7,086)**	**(431)**	–	**(11,230)**	**(7,586)**	**(1,828)**	**(31,695)**
Carrying amount									
At 31 December 2021		**48,789**	**4,117**	**189**	**541**	**8,264**	**3,890**	**2,753**	**68,543**

As at 31 December 2021, the cost of fully depreciated property and equipment used by the Bank amounted to KZT 15,082 thousand (31 December 2020: KZT 9,603 million).

The fair values of the land plots and buildings are categorised into Level 3 of the fair value hierarchy.

(in millions of Kazakhstani tenge unless otherwise stated)

21. Property, equipment and intangible assets, continued

Movements of property, equipment and intangible assets for 2020 are as follows:

	Note	*Land plots and buildings*	*Computers*	*Vehicles*	*Construction in progress*	*Other*	*Intangible assets*	*Right-of-use assets*	*Total*
Cost									
At 1 January 2020		34,811	7,875	690	660	11,448	6,454	4,177	**66,115**
Additions		2,891	510	7	34	716	699	382	**5,239**
Disposals and write-offs		(2,060)	(120)	(230)	(39)	(395)	(68)	(1,031)	**(3,943)**
Transfer between categories		84	45	–	(113)	(16)	–	–	**–**
Effect of revaluation		(27)	–	–	–	–	–	–	**(27)**
At 31 December 2020		**35,699**	**8,310**	**467**	**542**	**11,753**	**7,085**	**3,528**	**67,384**
Depreciation and amortisation									
At 1 January 2020		(42)	(5,810)	(484)	–	(6,513)	(3,669)	(705)	**(17,223)**
Depreciation charge	14	(393)	(660)	(77)	–	(1,073)	(717)	(776)	**(3,696)**
Disposals and write-offs		52	120	200	–	358	68	199	**997**
Effect of revaluation		(1)	–	–	–	1	–	–	**–**
At 31 December 2020		**(384)**	**(6,350)**	**(361)**	**–**	**(7,227)**	**(4,318)**	**(1,282)**	**(19,922)**
Carrying amount									
At 31 December 2020		**35,315**	**1,960**	**106**	**542**	**4,526**	**2,767**	**2,246**	**47,462**

There are no capitalised borrowing costs related to the acquisition or construction of items of property and equipment during 2021 and 2020. The Bank has no property, equipment and intangible assets pledged as collateral.

The Bank measures fair value of land plots and buildings every three years due to accounting for land plots and buildings at their fair value in accordance with the Bank's accounting policy.

At 31 December 2019, the Bank performed valuation of fair value of plots and buildings in accordance with the requirements of IFRS 13. The valuation resulted in an increase in the carrying amount of land and buildings by KZT 2,966 million recognised in the Bank's equity.

(in millions of Kazakhstani tenge unless otherwise stated)

22. Investments in subsidiaries

Investments in the Bank's subsidiaries as at 31 December 2021 and 31 December 2020 include the following items:

			31 December 2021		*31 December 2020*	
Name	***Country of registration***	***Principal activities***	***Equity share, %***	***Carrying amount***	***Equity share, %***	***Carrying amount***
First Heartland Jusan Invest JSC	the Republic of Kazakhstan	Broker and dealer services	95.00	40,006	100.00	3,006
First Heartland Capital JSC	the Republic of Kazakhstan	Investment portfolio management	100.00	29,976	100.00	29,976
Jusan Development LLP	the Republic of Kazakhstan	Doubtful and bad assets management	100.00	24,327	100.00	13,091
Optima Bank OJSC (*Note 1)*	the Kyrgyz Republic	Banking	97.10	23,790	–	–
Jusan Property LLP (Former ATFProject LLP) (*Note 1)*	the Republic of Kazakhstan	Doubtful and bad assets management	100.00	15,107	–	–
SK Jusan Garant JSC	the Republic of Kazakhstan	Insurance activity	100.00	7,739	100.00	8,050
OMAD Yug LLP	the Republic of Kazakhstan	Doubtful and bad assets management	100.00	2,872	100.00	2,848
Jusan Inkassatsiya LLP (former Tobet Group LLP) *(Note 1*)	the Republic of Kazakhstan	Collection services	100.00	107	–	–
ATFBank JSC (*Notes 1 and 5*)	the Republic of Kazakhstan	Banking	–	–	99.88	131,513
Kvant Mobile Bank PJSC (former Plus Bank PJSC)	the Russian Federation	Banking	–	–	100.00	12,485
Total				**143,924**		**200,969**

First Heartland Jusan Invest JSC (hereinafter Jusan Invest JSC)

On 27 June 2021, based on the decision of the Board of Directors of Jusan Invest JSC, 157,896 non-placed ordinary shares of Jusan Invest JSC were placed within the number of authorised shares, at a price of KZT 27 per ordinary share. The purpose of placement is to make an incentive payment to key management personnel.

According to the decision of the Board of Directors of the Bank dated 1 October 2021, based on the right of first refusal as a shareholder of Jusan Invest JSC, the Bank acquired 15,937,691 ordinary shares of Jusan Invest JSC at a price of KZT 2,321.54 per ordinary share, for a total amount of KZT 37,000 million. Thus, as at 31 December 2021, the Bank's share of ownership as a result of buyout of ordinary shares of Jusan Invest JSC was 95.0% (31 December 2020: 100.0%).

According to the decision of the Board of Directors of Jusan Invest JSC dated 5 October 2021, 838,824 unplaced ordinary shares were placed at a price pf KZT 10 per one ordinary share. The purpose of placement is to make an incentive payment to key management personnel.

Jusan Development LLP

During 2021 the Bank increased investments in the charter capital of Jusan Development LLP in the form of transfer of property for a total amount of KZT 12,426 million and withdrew investments as part of the early repayment of loans of KZT 1,190 million issued to Jusan Development LLP.

(in millions of Kazakhstani tenge unless otherwise stated)

22. Investments in subsidiaries, continued

Jusan Garant Insurance Company JSC

In accordance with the decision of the Board of Directors of the Bank of 7 December 2021, the Bank entered into an agreement on purchase and sale of shares with Jusan Garant Insurance Company JSC, under which Jusan Garant Insurance Company JSC redeemed from the Bank 2,800 ordinary shares at a price of KZT 151,078.08 per one ordinary share.

The total amount that the Bank received for the redeemed shares, is KZT 423 million. The carrying amount of these shares is KZT 311 million; income from sale of shares of KZT 112 million was recognised in other income (*Note 12*).

Kvant Mobile Bank PJSC

On 7 September 2021, the Bank lost control over Kvant Mobile Bank PJSC as a result of sale of 100% of shares in Pioneer Capital Invest LLP, a company related party of the Bank, on the terms and conditions established by the agreement on purchase and sale of shares dated 31 August 2021, at net book value of investment in subsidiary at disposal date. The total value (or market value) of the transaction with shares of Kvant Mobile Bank PJSC was RUB 2,359 million or RUB 12.21 per share.

The total cash consideration received by the Bank for sale of shares was KZT 13,732 million.

On 31 March 2021, the Board of Directors of the Bank approved by its decision the signing of a subordinated interbank loan agreement with Kvant Mobile Bank PJSC for the total amount USD 10 million, bearing an interest rate 4.5% per annum, on the terms of repayment and without indicating the deadline for repayment. The purpose of the loan is to increase an additional paid-in capital of Kvant Mobile Bank PJSC. Due to sale of 100% of shares of the subsidiary, the balance under this agreement of the total amount of KZT 4,334 million was transferred to other investments of the Bank. At 31 December 2021, the impairment allowance for other investments amounted to KZT 3,158 million (31 December 2020: none).

Movement in the carrying amount of investments in capital of the subsidiaries and other investments included in other receivables (*Note 23*) is as follows:

	Investments in subsidiaries		***Other investments***	
	2021	***2020***	***2021***	***2020***
Balance at 1 January	**200,969**	**32,732**	**–**	**–**
Decrease of investments in ATFBank JSC as part of business combination	(131,513)	–	–	–
Acquisition of subsidiaries as part of business combination (*Note 5*)	39,347	131,513	98	–
Increase of investments in subsidiaries during the year	54,013	40,776	11	–
Disposal of investments in Kvant Mobile Bank PJSC	(13,732)	–	–	–
Decrease of investments in subsidiaries during the year	(1,636)	–	–	–
Transfer to other assets	(4,334)	–	4,334	–
Reversal/(charge) of investment impairment loss	810	(4,052)	(3,158)	–
Balance at 31 December	**143,924**	**200,969**	**1,285**	**–**

The Bank uses its own experience and judgments to assess the amount of provision for impairment of investments in subsidiaries. For the investments in subsidiaries, whose assets are measured predominantly at fair value, management believes that adjusted net assets is the most appropriate technique for estimation of the recoverable amount of the investments at the reporting date. For other investments in subsidiaries, the recoverable amount of investment is determined with the reference to the discounted projected future cash flows from operational activity of each particular subsidiary with the evidence of impairment indicators.

(in millions of Kazakhstani tenge unless otherwise stated)

22. Investments in subsidiaries, continued

Movements in impairment allowance for investments in subsidiaries and other investments for 2021 and 2020 are as follows:

	Investments in subsidiaries		*Other investments*	
	2021	***2020***	***2021***	***2020***
Balance at 1 January	**(54,678)**	**(50,626)**	**–**	**–**
Reversal/(charge) of investment impairment loss	810	(4,052)	(3,158)	–
Write-offs	35,264	–	–	–
Balance at 31 December	**(18,604)**	**(54,678)**	**(3,158)**	**–**

Net impairment losses on investments in subsidiaries and other investments of KZT 2,348 million were recognised in the separate statement of profit or loss and other comprehensive income (2020: impairment losses on investments in subsidiaries of KZT 4,052 million).

23. Other assets

Other assets include the following items:

	31 December 2021	***31 December 2020***
Restricted cash on accounts with Kazakhstan Stock Exchange	8,733	5,043
Receivables from sale of owned assets	3,990	1,245
Receivables from collection agencies	1,863	3
Fee and commission receivable (*Note 9*)	1,849	800
Receivables from guarantees issued	1,816	701
Accounts receivable for the Bank's participation in auctions	1,279	2,810
Amount due from local commercial bank	7	214
Other receivables	4,235	3,513
Allowance for expected credit losses	(6,220)	(4,171)
Other financial assets	**17,552**	**10,158**
Repossessed collateral	63,084	4,643
Prepayments	7,693	4,289
Materials and supplies	420	354
Prepayments for intangible assets	61	286
Prepayments for office buildings	11	1,609
Other non-financial assets	42	19
Impairment allowance	(10,160)	(3,566)
Other non-financial assets	**61,151**	**7,634**
Total	**78,703**	**17,792**

As at 31 December 2021, the foreclosed property in the amount of KZT 42,411 million mainly was trabsferred to the Bank as a result of business combinations (*Note 5*). In accordance with the Bank's accounting policy these assets are accounted for at the lower of fair value less cost to sell or carrying amount. At 31 December 2020, the fair value of foreclosed pledged property as part of the acquisition of AO ATFBank was measured using the comparative analysis and income method depending on the type of foreclosed pledged property (Note 5).

Movements in allowance for expected credit losses for other financial assets are as follows:

	2021	***2020***
ECL balance at 1 January	(4,171)	(4,670)
Increase from business combination	(2,026)	–
Net (charge)/ recovery (*Note 8*)	(504)	529
Write-offs	445	17
Effect of movements in foreign exchange rates	36	(47)
ECL balance at 31 January	**(6,220)**	**(4,171)**

(in millions of Kazakhstani tenge unless otherwise stated)

23. Other assets, continued

Movements in impairment allowance for other non-financial assets are as follows:

	2021	*2020*
Balance at 1 January	(3,566)	(4,043)
Increase from business combination	(8,748)	–
Net remeasurement of impairment allowance	2,154	477
Balance at 31 December	**(10,160)**	**(3,566)**

As at 31 December 2021, included in other non-financial assets are total overdue other receivables of KZT 3,745 million, of which KZT 3,614 million are overdue for more than 90 days (31 December 2020: included in other non-financial assets are total other overdue receivables of KZT 3,566 million, of which KZT 2,392 million are overdue for more than 90 days).

24. Amounts due to banks and other financial institutions

Due to banks and other financial institutions comprise the following items:

	31 December 2021	*31 December 2020*
Loans from state-owned companies	30,365	6,686
Correspondent accounts of other banks	1,128	118
Deposits from other banks	–	2,526
	31,493	**9,330**
Foreign currency contracts (“spot”)	25	7
Total	**31,518**	**9,337**

As at 31 December 2021, loans received from state-owned companies included loans of KZT 25,651 million from Damu, loans of KZT 4,587 million from DBK and loans of 127 million from Agrarian Credit Corporation JSC (“ACC”) as part of the state programme of support to small and medium-size enterprises and large-size enterprises by the banking sector. The loans issued by Damu, DBK and ACC are denominated in KZT, bear the nominal interest rates from 0.1% to 9.7% per annum and mature in 2022-2035.

As at 31 December 2021, loans of KZT 29,883 million from the stated-owned companies, including Damu, DBK and ACC, were transferred to the Bank as a result of the business combinations (*Note 5*). These financial liabilities were initially recognised at fair value, including the assumption that raising of funds as part of the government lending programs available to the second-tier banks, represent a separate market segment.

As at 31 December 2020, loans from the state-owned entities included loans of KZT 4,821 million from Damu and loans of KZT 1,865 million from DBK. The loans are denominated in tenge and bear a nominal interest rate of 0.1% per annum (effective interest rate was 11.5% per annum), and mature in 2034-2035.

Concentration of amounts due to banks and other financial institutions

As at 31 December 2021 and 31 December 2020, the Bank has no amount due to banks and other financial institutions whose balance exceeds 10% of equity.

(in millions of Kazakhstani tenge unless otherwise stated)

25. Amounts due to customers

Amounts due to customers comprise:

	31 December 2021	*31 December 2020*
Current accounts and demand deposits		
Corporate	376,143	172,186
Retail	37,501	35,540
Term deposits		
Corporate	413,748	146,331
Retail	505,283	405,289
Savings deposits		
Corporate	120,435	189,333
Retail	54,497	18,419
Amounts due to customers customers	**1,507,607**	**967,098**
Held as security of guarantees and letters of credit (*Note 33)*	(13,009)	(2,140)

At 31 December 2021, the deposits of the Bank's customers of KZT 45,971 million are subject to a registered debenture to secure loans and unrecognised credit instruments provided by the Bank (31 December 2020: KZT 12,338 million).

At 31 December 2021, current accounts and demand deposits of the Bank's customers of KZT 14,465 million are subject to a registered debenture to secure currency forwards contracts (31 December 2020: KZT 11,575 million).

Participation in the state financing programmes

As at 31 December 2021, corporate term deposits also include deposits in the total amount of KZT 20,244 million (nominal value of KZT 46,409 million) received from KSF under the state program for refinancing of mortgage housing loans approved by the NBRK. The deposits are denominated in tenge, bear nominal interest rates of 0.10-2.99% per year, and are repayable in 2045-2050. Out of the total amount of the above-mentioned deposits, the amount of KZT 16,675 million was received by the Bank as part of the business combinations on 3 September 2021 (including deposits closed during the period in the total amount of KZT 42,362 million).

In September and November 2021, additional funds were received from KFS in the amount of 587 million tenge, as part of the state program for refinancing of mortgage housing loans, which bear a nominal interest rate of 0.10% per annum and mature in 2048 and 2050. The Bank recognised these deposits at fair value on initial recognition using the market interest rates of 13.3% and 14.7% per annum. The difference of KZT 567 million between the nominal value and fair value of the deposits at the date of initial recognition was recognised in a separate statement of profit or loss and other comprehensive income, within income from modification and initial recognition of financial liabilities to the state institutions.

As at 31 December 2020, the corporate term deposits include deposits for the total amount of KZT 3,083 million received from KSF as part of the state programme for refinancing of residential mortgage loans approved by the NBRK in 2015, and the state programme of preferential lending to business entities approved by the NBRK in 2020. The deposits are denominated in tenge, bear nominal interest rates of 0.1-5.0% per annum and mature in 2021-2050. As at 31 December 2020, an undisbursed amount of funds received from KSF in the total amount of KZT 12,205 million was recorded on the current accounts with the NBRK, which are restricted in use (*Note 18)*.

Concentration of amounts due to customers

As at 31 December 2021, the Bank has three customers (31 December 2020: four customers), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2021 is KZT 203,332 million (31 December 2020: KZT 298,767 million).

(in millions of Kazakhstani tenge unless otherwise stated)

26. Debt securities issued

Debt securities issued included:

					Carrying amount	
	Date of issue	***Year of maturity***	***Coupon rate p.a.***	***Effective rate p.a.***	***31 December 2021***	***31 December 2020***
Third bond issue as part of the fifth bond issue program*	14.03.2019	14.03.2026	10.95%	13.44%	57,496	–
Third bond issue as part of the fourth bond issue program*	10.02.2015	10.02.2023	9.70%	13.49%	37,043	–
KZT-denominated bonds of the first issue	15.10.2018	15.01.2034	0.10%	11.50%	33,394	30,061
KZT-denominated bonds of the fourth issue	22.01.2019	22.01.2034	0.10%	11.50%	23,306	20,986
KZT-denominated bonds of the fifth issue	11.12.2020	05.10.2045	0.10%	12.50%	20,754	18,761
First bond issue as part of the fourth bond issue program*	10.02.2015	10.02.2025	9.90%	13.41%	18,980	–
KZT-denominated bonds of the third issue	28.01.2019	28.01.2034	0.10%	11.50%	13,792	12,419
USD-denominated bonds*	01.11.2019	01.11.2022	4.00%	3.55%	11,822	–
KZT-denominated bonds of the twelfth issue	04.06.2013	04.06.2023	Inflation rate +1.0%	8.90%	9,934	9,823
KZT-denominated bonds of the fourth issue	28.01.2019	28.01.2034	0.10%	11.50%	8,275	7,451
KZT-denominated bonds of the third issue	28.01.2019	28.01.2034	0.10%	11.50%	6,179	5,564
KZT-denominated bonds of the first issue	11.07.2007	11.07.2027	7.50%	10.90%	2,958	2,881
KZT-denominated bonds of the second issue	22.01.2019	22.01.2034	0.10%	11.50%	532	478
Total					**244,465**	**108,424**

* debt securities issued represent bonds acquired by the Bank as part of the business combination (*Note 5*).

The Bank's debt securities issued are quoted at KASE. USD-denominated bonds are quoted at AIX.

During 2020, as part of the fourth bond issue program, the Bank made amendments to the prospectus of issue of the bonds, the holder of which is Kazakhstan Sustainability Fund JSC. The new maturity period pf the bonds is 320 months, with the maturity date being 5 October 2045. Previously, the bonds matured in 15 years. The Agency of the RK for Regulation and Development of the Financial Market registered changes in the prospectus of issue of these bonds on 11 December 2020.

Change in the maturity of the bond was considered to represent a significant modification of the terms by management of the Bank and, therefore, resulted in derecognition of the existed liability and recognition of a new liability. Fair value of the Bank's new liability was measured by discounting of future contract cash flows using a market interest rate of 12.5% per annum.

The Bank has used the following assumptions to estimate the market interest rate at the date of terms modification:

- yield on long-term bonds issued by the MFRK; and
- the Bank's credit risk premium.

The difference between the nominal value and fair value of the issued debt securities at the date of initial recognition in the total amount of KZT 47,267 million was recognised in the separate statement of profit or loss and other comprehensive income within "Gain on modification and initial recognition of the financial liabilities to government institutions". The difference between the carrying amount and fair value of these issued debt securities at the date of significant modification amounted to KZT 7,801 million and represents a loss on settlement of financial liability, which was also included in "Gain on modification and initial recognition of the financial liabilities to government institutions" in the separate statement of profit or loss and other comprehensive income.

(in millions of Kazakhstani tenge unless otherwise stated)

26. Debt securities issued, continued

Reconciliation of movements of liabilities to cash flows arising from financing activities

	2021	*2020*
Balance at 1 January	**108,424**	**148,829**
Changes from financing cash flows		
Proceeds from business combination *(Note 5)*	123,864	–
Changes in carrying amount from recognition of discount	–	(55,068)
Interest expense	17,132	16,218
Interest paid	(4,955)	(1,555)
Balance at 31 December	**244,465**	**108,424**

27. Subordinated debts

Subordinated debt comprises the following items:

	31 December 2021	*31 December 2020*
Subordinated bonds	186,427	120,872
Preference shares	2,750	2,750
Subordinated debts	**189,177**	**123,622**

As at 31 December 2021, subordinated debt comprises quoted bonds and 2,500,000 cumulative non-redeemable preferred shares for the total amount of KZT 2,750 million (31 December 2020: KZT 2,750 million).

In case of bankruptcy, the subordinated debt would be repaid after the repayment in full of all other liabilities by the Bank but before repayment of the preferred shares.

(in millions of Kazakhstani tenge unless otherwise stated)

27. Subordinated debts, continued

(a) Subordinated bonds

A summary of bond issues at 31 December 2021 and 31 December 2020 is presented below:

					Carrying amount	
	Date of issue	*Year of maturity*	*Coupon rate p.a.*	*Effective rate p.a.*	*31 December 2021*	*31 December 2020*
KZT-denominated bonds of the first issue	24.12.2020	24.12.2025	9.00%	13.80%	86,170	83,635
First bond issued as part of the fifth bond issue program*	10.02.2015	10.02.2025	10.00%	14.93%	37,852	–
Second bond issued as part of the fifth bond issue program*	10.02.2015	10.02.2025	10.00%	14.93%	19,662	–
KZT-denominated registered unsecured coupon bonds*	22.12.2020	01.11.2035	0.10%	15.29%	9,874	–
KZT-denominated bonds of the sixth issue	11.12.2020	25.10.2040	0.10%	14.60%	8,333	7,824
KZT-denominated registered unsecured coupon bonds*	11.12.2020	01.11.2040	0.10%	15.29%	7,474	–
KZT-denominated registered unsecured coupon bonds*	23.12.2020	01.11.2040	0.10%	15.29%	5,593	–
KZT-denominated bonds of the seventh issue	04.06.2013	04.06.2023	8.00%	10.01%	4,916	4,845
KZT-denominated bonds of the eighth issue	04.06.2013	04.06.2028	9.00%	10.01%	4,812	4,788
KZT-denominated bonds of the second issue	11.12.2020	26.10.2040	0.10%	14.60%	1,741	1,543
KZT-denominated bonds of the thirteenth issue	10.04.2014	10.04.2021	8.00%	10.01%	–	10,121
KZT-denominated bonds of the fourteenth issue	10.04.2014	10.04.2021	8.00%	10.01%	–	5,061
KZT-denominated bonds of the fifteenth issue	10.04.2014	10.04.2021	8.00%	10.01%	–	3,055
Total					**186,427**	**120,872**

* Subordinated bonds represent bonds acquired by the Bank as part of the business combination (*Note 5*).

The Bank's subordinated bonds issued are quoted at KASE.

On 10 April 2022 the Bank redeemed the registered subordinated coupon bonds of the thirteenth, fourteenth and fifteenth bond issue programs due to their maturity, using the Bank's own funds. The total amount of payments on these bonds was KZT 18,019 million.

In December 2020, as part of the sixth bond issue programme the Bank issued the subordinated bonds with a total nominal value of KZT 100,000 million and a coupon rate of 9.0% per annum, which mature in 2025. The holder of these bonds is National Wealth Fund "Samruk-Kazyna" JSC. The Bank determined the fair value of debt securities issued on initial recognition using a market rate of 13.8% p.a.

The difference between the nominal value and fair value of the subordinated bonds at the date of initial recognition in the amount of KZT 16,580 million was recognised in the separate statement of profit or loss and other comprehensive income within "Gain on modification and initial recognition of the financial liabilities to government institutions". The market interest rate of 13.8% per annum was calculated given the yield curve of government securities in KZT having similar maturity period and credit risks of the respective securities of the Bank.

In December 2020, as part of the fourth bond issue program the Bank made amendments to the prospectus of bond issue, the holder of which is KSF. New maturity of the bond is 276 months and maturity date is 25 October 2040. Previous maturity of the bond was 15 years and maturity date was 25 October 2032. A nominal interest rate was reduced from 4.0% to 0.1% per annum. The Agency of the RK for Regulation and Development of the Financial Market registered changes in the bond issue prospectus on 11 December 2020.

(in millions of Kazakhstani tenge unless otherwise stated)

27. Subordinated debts, continued

(a) Subordinated bonds, continued

Change of maturity and interest rate on these bonds was considered to represent a significant modification of the terms by management of the Bank and, therefore, resulted in derecognition of the existed liability and recognition of a new liability. The fair value of a new liability of the Bank was determined by discounting the future contractual cash flows using a market interest rate of 14.6% per annum. The difference between the nominal value and fair value of the subordinated bonds as a result of significant modification at the date of initial recognition in the total amount of KZT 31,854 million was recognised in the separate statement of profit or loss and other comprehensive income within "Gain on modification and initial recognition of the financial liabilities to government institutions". The difference between the carrying amount and fair value of these subordinated bonds at the date of significant modification amounted to KZT 1,316 million and represents a loss on settlement of financial liability, which was also included in "Gain on modification and initial recognition of the financial liabilities to government institutions" in the separate statement of profit or loss and other comprehensive income. The market interest rate of 14.6% per annum was calculated given the yield curve of government securities in KZT having similar maturity period and credit risks of the respective securities of the Bank.

In March 2020, as part of the fourth bond issue programme the Bank placed the subordinated bonds with total nominal value of KZT 20,758 million, bearing a coupon rate of 0.1% per annum and maturing in 2030, and having a market interest rate of 12.1% per annum. The holder of these bonds is KSF.

The Bank used the following assumptions to estimate the market interest rate as at the date of recognition of liabilities:

- yield on long-term bonds issued by the MFRK for 10-year period;
- the Bank's credit risk premium.

The difference between the nominal value and fair value of the subordinated bonds at the date of initial recognition in the amount of KZT 14,018 million was recognised in the separate statement of profit or loss and other comprehensive income within "Gain on modification and initial recognition of the financial liabilities to government institutions".

In December 2020 amendments were made to the prospectus of issue of these bonds in terms of their maturity. New maturity of the bond is 247 months and maturity date is 26 October 2040. The Agency of the RK for Regulation and Development of the Financial Market registered changes in the prospectus of issued of this bond on 11 December 2020. The fair value of a new liability of the Bank was determined by discounting the future contractual cash flows using a market interest rate of 14.6% per annum. The difference between the nominal value and fair value of the bonds as a result of significant modification at the date of initial recognition was KZT 7,115 million and was recognised in the separate statement of profit or loss and other comprehensive income within "Gain on modification and initial recognition of the financial liabilities to government institutions".

Negative difference between the carrying amount and fair value of these subordinated bonds at the date of significant modification amounted to KZT 1,359 million and represents a loss on settlement of financial liability, which was also included in "Gain on modification and initial recognition of the financial liabilities to government institutions" in the separate statement of profit or loss and other comprehensive income.

Reconciliation of movements of liabilities to cash flows arising from financing activities

	2021	*2020*
Balance at 1 January	**123,622**	**75,655**
Changes from financing cash flows		
Proceeds from business combination *(Note 5)*	77,652	–
Placement of subordinated debt	–	120,758
Redemption of subordinated debt	(18,019)	(5,900)
	59,633	**114,858**
Changes in carrying amount from recognition of discount	–	(69,524)
Interest expense *(Note 7)*	19,645	10,260
Interest paid *(Note 7)*	(13,723)	(7,627)
Balance at 31 December	**189,177**	**123,622**

27. Subordinated debts, continued

(b) Cumulative non-redeemable preference shares

Holders of cumulative non-redeemable preference shares receive a minimum cumulative dividend of 10% p. a. of the par value of their shareholding. The preference shares do not carry the right to vote unless the dividend is in arrears. All shares rank equally with regard to distribution of residual value of the Bank's net assets, except that preference shareholders participate only to the extent of the face value of the shares adjusted for any dividends in arrears. All preference shares were issued and fully paid at price of KZT 1,000 each.

On 20 May 2021, based on the decision of the Annual General Meeting of the Bank's Shareholders of 19 May 2021, the actual payment of dividends on cumulative non-redeemable preference shares for 2020 amounted to KZT 1,051 million (KZT 420.23 per share) (2020: KZT 1,101 million).

On 10 December 2021, on the basis of decision of the Extraordinary General Meeting of the Bank's shareholders of 9 December 2021 the Bank paid dividends on preferred shares in the amount of KZT 684 million (KZT 273.65 per share).

As at 31 December 2021, dividends accrued on preferred shares are KZT 250 million (31 December 2020: KZT 250 million).

28. Liabilities to the mortgage organisation

Accounts payable to Mortgage Organisation "Baspana" JSC

In 2018, the NBRK approved the residential mortgage programmes "Mortgage Program "7-20-25" and "Baspana Hit". Main objective of these programme is providing opportunities to population to buy primary housing and encouraging banks to provide related financing. According to the terms of "Mortgage Program "7-20-25", loans are issued in KZT, carry an annual interest rate of 7.0% and mature in 25 years. The initial contribution makes up 20%. According to the terms of "Baspana Hit" programme, loans are issued in KZT, carry an annual nominal interest rate equal to a base rate of the National Bank of the RK + 175 basis points and mature in 15 years. The initial contribution makes up 20%. No commission for issue and servicing a loan is charged.

As part of the programmes the Bank issued mortgage loans to customers and transferred it to Kazakhstan Sustainability Fund JSC (the "Operator") (previously Mortgage Organisation "Baspana" JSC whose activity was terminated in March 2020 through consolidation with KFS), in exchange for consideration in cash in the amount of the loans' nominal value. The Bank acts as an agent under this programme and receives a commission fee of 4.0% p.a. of the interest receipts.

Under the conditions of transfer of the Bank's assets to the Operator, if a default event in relation to the transferred loans occurs, the Bank is obligated to repurchase the transferred loans from the Operator. Therefore, the Bank retains all the credit risks and rewards of ownership of the loans transferred and continues to recognise these loans in its assets. As at 31 December 2021, the carrying amount of loans transferred is KZT 13,278 million and the carrying amount of the liabilities to the Operator is KZT 12,085 million (31 December 2020: the carrying amount of loans transferred is KZT 4,435 million and the carrying amount of liabilities to the Operator is KZT 4,416 million).

(in millions of Kazakhstani tenge unless otherwise stated)

29. Other liabilities

Other liabilities comprise the following items:

	31 December 2021	*31 December 2020*
Accrued expenses on deposit guarantee fund	606	504
Liabilities on electronic money issued	186	203
Dividends payable	1	1
Other lenders	1,700	1,224
Other financial liabilities	**2,493**	**1,932**
Provision for accrued vacation and other amounts due to employees	6,437	14,421
Other taxes payable	6,387	251
Provisions for guarantees and letters of credit	4,475	2,835
Deferred income on guarantees and letters of credit issued	815	388
Other prepayments	955	114
Other liabilities	652	298
Other non-financial liabilities	**19,721**	**18,307**
Total	**22,214**	**20,239**

30. Equity

Share capital

As at 31 December 2021 the authorised share capital comprises 697,500,000 ordinary shares (31 December 2020: 697,500,000 ordinary shares). The authorised, issued and outstanding share capital comprises 165,318,620 ordinary shares of which 164,078,731 ordinary shares are outstanding (31 December 2020: 165,318,620 issued and outstanding ordinary shares). The shares have no nominal value.

During 2020, as part of acquisition of a subsidiary (*Note 1*), 33,001,596 ordinary shares were additionally issued at an offer price of KZT 1,262.39 per share for a total amount of KZT 41,661 million.

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

Treasury shares

Movements in treasury shares are as follows:

	Number of ordinary shares, items	Carrying amount per one ordinary share, in KZT	**Total amount in KZT mln**
As at 31 December 2020	–	–	–
Treasury shares repurchased during the year	3,141,054	2,127.37	**6,682**
Placement of treasury shares	1,901,165	2,127.37	**4,044**
At 31 December 2021	**1,239,889**	**2,127.37**	**2,638**

On 30 March 2021, the Board of Directors of the Bank decided to repurchase 3,141,054 placed ordinary shares from the Bank's shareholders at a price of KZT 2,127,37 per ordinary share, for a total amount of KZT 6,682 million (2020: none) and pay a non-fixed lump-sum remuneration to some members of the Management Board of the Bank in the form of 1,901,165 ordinary shares, the offering price of which was KZT 2,296.17 per share, for a total amount of KZT 4,365 million (2020: none). The difference between the purchase price and sale price in the amount of KZT 321 million was recognised in the separate statement of changes in equity under the caption “Additional paid-in capital”.

(in millions of Kazakhstani tenge unless otherwise stated)

30. Equity, continued

Nature and purpose of reserves

Revaluation reserve for property and equipment

The revaluation reserve of property and equipment is used to recognise revaluation increase in fair value of land and building as well as revaluation decrease in fair value of land and building, however, revaluation decrease is recognised to the extent that it relates to a previous revaluation increase in the value of the same asset previously recognised in equity.

Fair value reserve

Fair value reserve comprises change in the fair value of financial assets designated at fair value through other comprehensive income.

Other reserves related to equity instruments

Share-based payments

The Bank implements a program under which certain senior executives receive remuneration in the form of Bank's shares. Share-based transactions settled with equity instruments are measured in accordance with IFRS 2 *Share-based Payments*.

The share-based payment reserve is used to record the amount of share-based payment settled with equity instruments made by key management personnel as part of their remuneration.

The amount of the accrued reserve for payment of non-fixed lump-sum remuneration in the form of ordinary shares owned by certain members of the Management Board of the Bank is 3,141,054 ordinary shares with a fair value of KZT 2,296.17 per share, for a total of KZT 7,212 million *(Note 3)*.

Movements in 'reserves' captions for 2021

	Revaluation reserve for property and equipment	*Fair value reserve*	*Other reserves related to equity instruments*	*Total*
Balance at 1 January 2021	**1,818**	**3,875**	**–**	**5,693**
Depreciation of revaluation reserve, net of income tax	(74)	–	–	**(74)**
Net change in fair value of debt instruments measured at FVOCI	–	(1,961)	–	**(1,961)**
Change in ECL allowance of debt instruments measured at FVOCI (*Note 8*)	–	107	–	**107**
Amount reclassified to profit or loss on derecognition of investment securities measured at FVOCI	–	89	–	**89**
Net change in fair value of equity instruments measured at FVOCI	–	8,211	–	**8,211**
Accrual of reserve for payment of non-fixed lump-sum remuneration in the form of ordinary shares *(Note 3)*	–	–	7,212	**7,212**
Decrease in accrual of reserve for payment of non-fixed lump-sum remuneration in the form of ordinary shares *(Note 3)*	–	–	(4,365)	**(4,365)**
At 31 December 2021	**1,744**	**10,321**	**2,847**	**14,912**

(in millions of Kazakhstani tenge unless otherwise stated)

30. Equity, continued

Nature and purpose of reserves, continued

<u>*Share-based payments, continued*</u>

Movements in 'reserves' captions for 2020

	Revaluation reserve for property and equipment	*Fair value reserve*	*Total*
Balance at 1 January 2020	**2,373**	**873**	**3,246**
Revaluation reserve for property and equipment, net of income tax (*KZT 3 million, Note 15*)	13	–	**13**
Depreciation of revaluation reserve, net of income tax	(568)	–	**(568)**
Net change in fair value of debt instruments measured at FVOCI	–	(320)	**(320)**
Change in ECL allowance for debt instruments measured at FVOCI	–	4	**4**
Amount reclassified to profit or loss on derecognition of investment securities measured at FVOCI	–	3,318	**3,318**
At 31 December 2020	**1,818**	**3,875**	**5,693**

Dividends

In accordance with Kazakhstan legislation and the Bank's charter documents, distributable reserves are subject to the rules and regulations of the Republic of Kazakhstan.

On 10 December 2021, based on the decision of the Extraordinary General Meeting of the Bank's shareholders dated 9 December 2021, dividends of KZT 44,900 million were paid on the Bank's ordinary shares (KZT 273.65 per ordinary share).

On 20 May 2021, based on the decision of the Annual General Meeting of the bank's shareholders dated 19 May 2021, dividends of KZT 68,951 million were paid on the bank's ordinary shares (KZT 420.23 per ordinary share).

On 5 and 6 March 2020, in accordance with decision of the sole shareholder of First Heartland Securities JSC, No. 020320/A dated 2 March 2020, dividends on the Bank's ordinary shares for 2013, 2014 and 2015 were paid in the amount of KZT 19,289 million (KZT 145.57 per ordinary share).

On 20 April 2020, in accordance with decision of the sole shareholder of First Heartland Securities JSC, No. 170420/A dated 17 April 2020, dividends on the Bank's ordinary shares for 2015, 2016, 2017 and 2019 were paid in the amount of KZT 94,151 million (KZT 114.45, KZT 77.46, KZT 327.66 and KZT 191.24 per ordinary share, respectively).

Earnings per share

Basic and diluted earnings per share

Basic and diluted earnings per share are presented on consolidated basis in accordance with IAS 33 *Earnings per share*.

Income and shares used in calculating basic and diluted earnings per share are as follows:

	2021	***2020***
Consolidated profit attributable to ordinary shareholders	47,308	258,200
Weighted average number of ordinary shares for the year ended 31 December	164,353,205	132,497,361
Basic and diluted earnings per ordinary share, in KZT	**287.84**	**1,948.72**

As at 31 December 2021 and 2020, the Bank has no financial instruments, which dilute earnings or loss per ordinary share.

31. Risk management

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

Risk management policies and procedures

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

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

Credit, market and liquidity risks are managed and controlled by the Board of Directors, Management Board and through a system of Credit Committees and the Authorised Collegial Bodies ("ACB"). In order to facilitate efficient and effective decision-making, the Bank established a hierarchy of credit committees depending on the type and amount of the exposure.

Both external and internal risk factors are identified and managed throughout the organisation. Particular attention is given to identifying the full range of risk factors and determination of the level of assurance over the current risk mitigation procedures. Apart from the standard credit, market and liquidity risk analysis, the Risk Department monitors operational risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

Market risk

Market risk is the probability of financial losses on balance sheet and off-balance sheet items, due to adverse changes in the market situation, expressed in changes in market interest rates, foreign exchange rates, market value of financial instruments, goods. The main types of market risk are interest rate, currency and price risks.

Market risk arises from open positions in interest rate and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices and foreign currency rates.

The Bank manages market risk through performance of the following tasks:

- determining and establishing the levels of market risk appetite and developing action plans in case of breaches of the established levels, including responsibility for taking risks that have been determined to be high;
- building up an effective market risk management system of the Bank;
- ensuring an optimal ratio between profitability and the level of risk assumed;
- ensuring that the authorised collegial bodies (ACB) who make decisions involving risks, are aware of the market risk by establishing an effective corporate governance system and having complete, reliable and timely management information;
- identifying the participants to the process and determining the procedure for their interaction while managing market risk;
- ensuring continuous monitoring and control of established levels of risk appetite and internal limits of market risk;
- performing stress testing to identify the level of potential market risks, assessing the Bank's ability to withstand changes;
- performing back-testing to check the effectiveness of the risk measurement procedures using historical data on the Bank's operations;

(in millions of Kazakhstani tenge unless otherwise stated)

31. Risk management, continued

Market risk, continued

- minimising risks related to the failure of the Bank's staff to comply with the established limits and market risk powers;
- developing mechanisms to address unexpected or extraordinary situations of the Bank related to a significant change in market indicators resulting in increase in market risk.

Overall authority for market risk is vested in the Management Board and Board of Directors. Market risk limits are approved by Management Board and Board of Directors based on recommendations of the Market Risk Department.

The Bank manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits. These are monitored on a regular basis and reviewed by the Management Board and approved by the Board of Directors.

The Bank also utilises Value-at-Risk (VAR) methodology to monitor market risk of its trading positions.

During 2021 and 2020 the Bank implemented the following measures: improved the market risk management procedures; improved procedures of the market risk stress testing; improved the system of the market risk management reporting; revised internal limits form market risk early warning indicators of market risk.

Interest rate risk

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

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. As the financial instruments have fixed interest rates, the interest rate gap analysis is consistent with the maturity analysis.

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities of banking book. An analysis of sensitivity of profit or loss and equity (net of taxes) to changes in interest rate repricing risk based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities expected for the period of up to twelve months existing as at 31 December 2021 and 2020 is as follows:

	2021		***2020***	
	Profit or loss	***Equity***	***Profit or loss***	***Equity***
100 bp parallel fall	(5,907)	(5,907)	208	208
100 bp parallel rise	5,907	5,907	(208)	(208)

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of financial assets at FVTPL and financial assets at FVOCI due to changes in the interest rates based on positions existing as at 31 December 2021 and 31 December 2020 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves using modified duration method is as follows:

	2021		***2020***	
	Profit or loss	***Equity***	***Profit or loss***	***Equity***
100 bp parallel fall	462	1,240	760	1,361
100 bp parallel rise	(462)	(1,240)	(760)	(1,181)

(in millions of Kazakhstani tenge unless otherwise stated)

31. Risk management, continued

Market risk, continued

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major interest bearing financial instruments as at 31 December 2021 is as follows:

	Less than 1 month	*From 1 to 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*More than 5 years*	*Non-interest bearing*	*31 December 2021*
Assets							
Cash and cash equivalents	625,006	164,089	–	–	–	131,907	**921,002**
Amounts due from banks and other financial institutions	59	12,332	672	76	–	18,321	**31,460**
Trading securities	–	–	1	187	–	–	**188**
Investment securities	247,114	158,730	38,591	40,449	–	29,491	**514,375**
Loans to customers	65,351	14,150	73,302	426,044	152,251	–	**731,098**
Acquired right of claim on promissory note to the MFRK	682	–	–	103,477	–	–	**104,159**
	938,212	**349,301**	**112,566**	**570,233**	**152,251**	**179,719**	**2,302,282**
Liabilities							
Amounts due to banks and other financial institutions	–	15	30	10,915	19,405	1,153	**31,518**
Amounts payable under repurchase agreements	2,170	–	–	–	–	–	**2,170**
Amounts due to customers	131,522	134,152	648,789	122,513	60,297	410,334	**1,507,607**
Debt securities issued	300	4,452	11,844	119,277	108,592	–	**244,465**
Subordinated debt	–	2,686	281	145,975	37,735	2,500	**189,177**
	133,992	**141,305**	**660,944**	**398,680**	**226,029**	**413,987**	**1,974,937**
	804,220	**207,996**	**(548,378)**	**171,553**	**(73,778)**	**(234,268)**	**327,345**

(in millions of Kazakhstani tenge unless otherwise stated)

31. Risk management, continued

Market risk, continued

Interest rate gap analysis, continued

A summary of the interest gap position for major interest-bearing financial instruments as at 31 December 2020 is as follows:

	Less than 1 month	*From 1 to 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*More than 5 years*	*Non-interest bearing*	*31 December 2020*
Assets							
Cash and cash equivalents	84,293	–	–	–	–	641,977	**726,270**
Amounts due from banks and other financial institutions	18	6,314	837	491	3,345	18,575	**29,580**
Trading securities	–	–	1	168	–	–	**169**
Investment securities	84,904	70,813	119,896	18,703	–	11	**294,327**
Loans to customers	74,402	5,073	31,167	93,605	39,665	152	**244,064**
Acquired right of claim on promissory note to the MFRK	657	–	–	102,457	–	–	**103,114**
	244,274	**82,200**	**151,901**	**215,424**	**43,010**	**660,715**	**1,397,524**
Liabilities							
Amounts due to banks and other financial institutions	125	2,526	–	–	6,686	–	**9,337**
Amounts due to customers	186,191	55,789	391,826	131,067	4,428	197,797	**967,098**
Debt securities issued	359	272	9,789	–	98,004	–	**108,424**
Subordinated debt	64	266	18,929	4,815	97,048	2,500	**123,622**
	186,739	**58,853**	**420,544**	**135,882**	**206,166**	**200,297**	**1,208,481**
	57,535	**23,347**	**(268,643)**	**79,542**	**(163,156)**	**460,418**	**189,043**

(in millions of Kazakhstani tenge unless otherwise stated)

31. Risk management, continued

Market risk, continued

Average effective interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2021 and 2020. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	31 December 2021			*31 December 2020*		
	KZT	***USD***	***Other currencies***	***KZT***	***USD***	***Other currencies***
Interest-bearing assets						
Cash and cash equivalents	9.31	0.28	–	8.84	0.73	–
Amounts due from banks and other financial institutions	–	0.64	4.39	–	1.41	3.40
Trading securities	7.00	–	–	7.00	–	–
Investment securities measured at fair value through other comprehensive income	9.13	2.33	–	10.14	–	–
Investment securities measured at amortised cost	9.45	3.88	–	14.96	3.08	–
Loans to customers	17.63	8.20	–	16.55	10.79	–
Acquired right of claim on promissory note to the MFRK	–	3.93	–	–	3.93	–
Interest-bearing liabilities						
Amounts due to banks and other financial institutions	5.98	–	–	11.50	–	–
Amounts payable under repurchase agreements	–	0.45	–	–	–	–
Amounts due to customers						
- *term deposits*	7.95	0.56	0.17	10.33	0.78	1.04
Debt securities issued	12.42	3.55	–	11.42	–	–
Subordinated debt	14.18	–	–	13.00	–	–
Lease liabilities	12.50	–	–	13.25	–	–

(in millions of Kazakhstani tenge unless otherwise stated)

31. Risk management, continued

Currency risk

The Bank has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates.

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2021:

	KZT	*USD*	*EUR*	*RUB*	*Other currencies*	*Total*
Assets						
Cash and cash equivalents	205,033	650,309	53,205	8,624	3,831	**921,002**
Amounts due from banks and other financial institutions	4,137	25,638	1,685	–	–	**31,460**
Trading securities	188	–	–	–	–	**188**
Investment securities	473,944	40,431	–	–	–	**514,375**
Loans to customers	669,848	61,235	7	8	–	**731,098**
Acquired right of claim on promissory note to the MFRK	–	104,159	–	–	–	**104,159**
Other financial assets	7,491	9,385	198	478	–	**17,552**
Total financial assets	**1,360,641**	**891,157**	**55,095**	**9,110**	**3,831**	**2,319,834**
Liabilities						
Amounts due to banks and other financial institutions	30,426	878	211	3	–	**31,518**
Amounts payable under repurchase agreements	–	2,170	–	–	–	**2,170**
Amounts due to customers	922,760	545,748	29,663	6,148	3,288	**1,507,607**
Debt securities issued	232,643	11,822	–	–	–	**244,465**
Subordinated debt	189,177	–	–	–	–	**189,177**
Lease liabilities	3,080	–	–	–	–	**3,080**
Other financial liabilities	1,275	796	296	126	–	**2,493**
Total financial liabilities	**1,379,361**	**561,414**	**30,170**	**6,277**	**3,288**	**1,980,510**
The effect of derivatives held for risk management	297,732	(280,238)	2,935	(2,925)	–	**17,504**
Net position as at 31 December 2021	**279,012**	**49,505**	**27,860**	**(92)**	**543**	**356,828**

Promissory notes from the Ministry of Finance of the Republic of Kazakhstan are denominated in KZT, including interest, but are indexed to the change in US Dollar to KZT exchange rate from the date of issue of promissory notes.

(in millions of Kazakhstani tenge unless otherwise stated)

31. Risk management, continued

Currency risk, continued

The following table shows the currency structure of financial assets and liabilities at 31 December 2020:

	KZT	*USD*	*EUR*	*RUB*	*Other currencies*	*Total*
Assets						
Cash and cash equivalents	167,120	519,422	30,872	6,540	2,316	**726,270**
Amounts due from banks and other financial institutions	12,248	17,316	16	–	–	**29,580**
Trading securities	169	–	–	–	–	**169**
Investment securities	275,006	19,321	–	–	–	**294,327**
Loans to customers	208,270	35,794	–	–	–	**244,064**
Acquired right of claim on promissory note to the MFRK	–	103,114	–	–	–	**103,114**
Other financial assets	4,797	5,155	59	147	–	**10,158**
Total financial assets	**667,610**	**700,122**	**30,947**	**6,687**	**2,316**	**1,407,682**
Liabilities						
Amounts due to banks and other financial institutions	6,756	2,575	2	4	–	**9,337**
Amounts due to customers	449,753	490,385	22,960	2,033	1,967	**967,098**
Debt securities issued	108,424	–	–	–	–	**108,424**
Subordinated debt	123,622	–	–	–	–	**123,622**
Lease liabilities	2,498	–	–	–	–	**2,498**
Other financial liabilities	1,465	399	32	36	–	**1,932**
Total financial liabilities	**692,518**	**493,359**	**22,994**	**2,073**	**1,967**	**1,212,911**
The effect of derivatives held for risk management	354,162	(336,690)	3,773	(4,213)	(231)	**16,801**
Net position as at 31 December 2020	**329,254**	**(129,927)**	**11,726**	**401**	**118**	**211,572**

A weakening of the KZT, as indicated below, against the following currencies at 31 December 2021 and 31 December 2020, would have decreased/increased equity and profit or loss by the amounts shown below. This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	31 December 2021		***31 December 2020***	
	Profit or loss	***Equity***	***Profit or loss***	***Equity***
30% appreciation of USD against KZT	11,881	11,881	(20,788)	(20,788)
30% appreciation of EUR against KZT	6,686	6,686	1,876	1,876
20% appreciation of RUB against KZT	(15)	(15)	64	64

A strengthening of the KZT against the above currencies at 31 December 2021 and 2020 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Other price risks

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

31. Risk management, continued

Credit risk

Credit risk is the probability of financial loss to the Group if a customer or counterparty fails to meet its contractual obligations according to agreed terms. The Bank has policies and procedures in place to manage credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration and the establishment of a Credit Committee to actively monitor credit risk. The credit policy is reviewed and approved by the Board of Directors.

The credit policy establishes and determines the major requirements to be followed in lending activity, including:

- aims and objectives the Bank's lending activity;
- priorities and restrictions in lending;
- credit risk allowable level;
- system of the credit risk limits;
- terms of granting loans to the individuals and legal entities, including entities having special relations with the Bank;
- stages and participants of the lending process;
- decision-making system;
- key principles and methods of credit risk management in the Bank;
- internal control system for the credit risk management process.

On the basis of the Credit Policy, which covers the key directions of the Bank's activity and the system of the credit risk management instruments, the Bank has built a more efficient lending process in the segments of the corporate business, small and medium-size business and retail business, as described below.

Corporate and SME loan credit applications are analysed by the Credit Analysis Department and SME lending divisions in branches, respectively, which are responsible for the analysis of issuing loans. The minimum rating required for the borrower to obtain a loan has been established in accordance with the decision of the Board of Directors of the Bank.

Then, to consider a project at the meeting of the authorised body that makes decisions on concluding a transaction, the opinions of the Bank's departments are provided, including: opinion of the Legal Department; opinion of the Security Department; opinion of the Collateral Department; and opinion of the Risk Management Department.

For the purpose of effective risk management, the Risk Management Department, while analysing the projects, assigns a rating (probability of default) to the borrower.

Currently the Bank uses the rating and scoring models for each business segment: small, medium, corporate and retail clients.

Based on the submitted opinions, the Credit Committee makes a decision depending on the level of authority to make decisions. In this case, transactions in excess of 5% of the Bank's equity are approved exclusively by the decision of the Board of Directors of the Bank.

Retail loan credit applications are reviewed by the Retail Lending Department through the use of models and application data verification procedures developed together with the Credit Risk Department.

To achieve the Bank's key performance indicators, while setting the interest rates for the customers from the corporate business, SMB and retail business, the level of credit risk accepted under each transaction is taken into account, and at least the following factors are analysed:

- rating/scoring (probability of default of the Borrower);
- losses if the borrower defaults;
- funding costs;
- cost of capital;
- the Bank's overheads.

31. Risk management, continued

Credit risk, continued

As a part of this lending process, to ensure the timely response to the changes in the financial position and paying capacity of the Borrower and ability to make the appropriate management decisions, the Bank exercises the ongoing monitoring of the status of individual loans, and regularly revaluates the paying capacity of its borrowers. Revaluation procedures are based on analysis of the financial statements of the borrower as at the latest reporting date, or other information provided by the borrower itself or otherwise obtained by the Bank.

Also, requirements to collateral are very important for the management of credit risk. The Bank had developed and implemented effective procedures for the monitoring of collateral, in order to avoid the decrease of coverage of the credit portfolio by the collateral.

To ensure the effective risk management at the portfolio level the Bank uses such methods as diversification of the loan portfolio and system of management reporting, which allows exercising the regular monitoring of the Bank lending activity, identifying the major problems and implementing the risk minimisation instruments as well as stress-testing of credit risk.

The Bank has improved the system of credit risk limits, which comprises:

- credit risk allowable level;
- limits by the categories of borrowers;
- limits on the types of lending;
- limits for the retail segment, comprising the portfolio limits and individual limits;
- limits on lending in terms of the industries, etc.

Monitoring and control are exercised periodically and findings are submitted for consideration to the Management Board/Board of Directors of the Bank.

This instrument allows the Bank to control the lending activity based on the strategic development targets and risk taking in different areas.

The system of management reporting is functioning within the Bank, the purpose of which is to provide the high quality, reliable and accurate information on the credit risk level and its deviation from the set value. The management reports are generated at the level of both the Bank and individual segments on a monthly/quarterly basis, and submitted for consideration to the Management Board/Board of Directors of the Bank.

The Bank applies the methodology of credit risk stress testing, which is performed using a scenario analysis and sensitivity analysis. While performing the stress testing, the Bank uses the following scenarios:

- general business scenario, which is based on assessment of influence of deterioration of the economic situation in the country, including decline in economic growth in general and in separate industries;
- scenario specific to the Bank’s business, which is based on assessment of influence of the local stress factors, including those related to the specifics of the Bank’s lending activity and structure of its loan portfolio.

Credit risk stress testing makes it possible to respond on a timely basis to changes in macroeconomic and other indicators that may adversely affect the Bank’s operations, and to forecast the impact of these factors and develop risk mitigation methods.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the separate statement of financial position and unrecognised contractual commitment amounts. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

(in millions of Kazakhstani tenge unless otherwise stated)

31. Risk management, continued

Credit risk, continued

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

	31 December 2021	*31 December 2020*
Assets		
Cash and cash equivalents	844,450	671,429
Amounts due from banks and other financial institutions	31,460	29,580
Trading securities	188	169
Investment securities	514,375	294,327
Loans to customers	731,098	244,064
Acquired right of claim on promissory note to the MFRK	104,159	103,114
Other financial assets	17,552	10,158
Total	**2,243,282**	**1,352,841**

For the analysis of concentration of credit risk in respect of loans to customers refer to *Note 20*.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in *Note 33*.

As at 31 December 2021 the Bank has no debtors or groups of connected debtors (31 December 2020: none), credit risk exposure to whom exceeds 10% of maximum credit risk exposure.

Offsetting financial assets and financial liabilities

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

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

Similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements and securities borrowing and lending agreements.

The Bank receives and accepts collateral in the form of cash and marketable securities in respect of the following transactions:

- loans to customers collateralised by cash on bank deposits; and
- repurchase and reverse repurchase agreements.

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

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2021:

(in millions of Kazakhstani tenge unless otherwise stated)

31. Risk management, continued

Offsetting financial assets and financial liabilities, continued

At 31 December 2021	*Gross amounts of recognised financial assets/liabilities*	*Gross amounts of recognised financial liability/asset offset in the separate statement of financial position*	*Net amount of financial asset/liability presented in the separate statement of financial position*	*Related amounts not offset in the separate statement of financial position*		*Net amount*
				Financial instruments	*Cash collateral received*	
Loans to customers	44,641	–	44,641	–	(7,215)	**37,426**
Amounts receivable under reverse repurchase agreements	49,206	–	49,206	(49,206)	–	–
Total financial assets	**93,847**	**–**	**93,847**	**(49,206)**	**(7,215)**	**37,426**
Amounts due to customers	7,215	–	7,215	(7,215)	–	–
Amounts payable under repurchase agreements	2,170	–	2,170	(2,170)	–	–
Total financial liabilities	**9,385**	**–**	**9,385**	**(9,385)**	**–**	**–**

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2020:

At 31 December 2020	*Gross amounts of recognised financial assets/liabilities*	*Gross amounts of recognised financial liability/asset offset in the separate statement of financial position*	*Net amount of financial asset/liability presented in the separate statement of financial position*	*Related amounts not offset in the separate statement of financial position*		*Net amount*
				Financial instruments	*Cash collateral received*	
Loans to customers	17,613	–	17,613	–	(5,173)	**12,440**
Amounts receivable under reverse repurchase agreements	37,808	–	37,808	(37,808)	–	–
Total financial assets	**55,421**	–	**55,421**	**(37,808)**	**(5,173)**	**12,440**
Amounts due to customers	5,173	–	5,173	(5,173)	–	–
Total financial liabilities	**5,173**	**–**	**5,173**	**(5,173)**	–	–

The securities pledged under repurchased agreements represent the transferred financial assets that are not derecognised in their entirety.

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the separate statement of financial position that are disclosed in the above tables are measured in the separate statement of financial position at amortised cost. The amounts in the above tables that are offset in the separate statement of financial position are measured on the same basis.

31. Risk management, continued

Liquidity risk

Liquidity risk is a risk of losses to which the Bank is exposed if it is unable to fulfil its liabilities in time without unacceptable losses. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

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

The key objectives of the Bank's liquidity risk management are as follows:

- to ensure that the Bank is able to discharge its liabilities in time and in full scope;
- to invest the Bank's free cash flows in high income earning and highly liquid assets.

In the process of liquidity risk management the Bank is governed by the following principles:

- liquidity is managed on a day-to-day basis and continuously;
- sound management of assets and liabilities;
- management of access to the interbank market;
- diversification and stability of liabilities;
- application of the methods and instruments for the liquidity risk assessment, which do not contradict the regulatory legal acts of the NBRK;
- clear split of the powers and responsibility for liquidity management between the bodies of the Bank, its officials and business units;
- setting of limits that ensure the adequate level of liquidity and meet the size, nature of business and financial position of the Bank;
- in case of a conflict between the liquidity and returns, to make decision in favour of liquidity;
- planning of the liquidity requirements;
- regular monitoring of the decisions to provide liquidity, which have been made before.

Liquidity risk management policy provides for assessment of the total liquidity requirement under both normal and stressed conditions, taking into account the following:

- the Bank's strategy and those types of activity, which expose the Bank to the liquidity risk;
- the Banks' risk appetite strategy;
- size, nature and complexity of the Bank's business;
- size of the Bank's exposure to liquidity risk and assessment of its impact on the Bank's financial position;

31. Risk management, continued

Liquidity risk, continued

- the results of the risk assessment, including those obtained through stress testing;
- the effectiveness of the liquidity risk management procedures previously applied by the Bank;
- expectations of internal organisational and/or external changes in market conditions;
- legislation of the Republic of Kazakhstan.

To manage the liquidity risk, a system of the liquidity risk management is established, which is based on the *Rules for the Formation of the Risk Management and Internal Control System for Second-tier Banks*, approved by Resolution No.188 of the NBRK's Management Board of dated 12 November 2019, and standards and instruments recommended by Basel Committee on Bank Supervision and complies with the requirements of the NBRK and best global practices. The liquidity risk management system meets the current market situation, strategy, size and level of complexity of the Bank's operations and ensures the efficient identification, measurement, monitoring and control of the Bank's liquidity risk, with due consideration of the intra-group transactions.

The Bank seeks to actively support a diversified and stable funding base comprising debt securities in issue, long- and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and efficiently to unforeseen liquidity requirements.

The liquidity position is monitored on a daily basis and liquidity forecasting is performed on a regular basis by the Strategic Risks Department both under normal and stress market conditions. Under normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a daily basis. Decisions on liquidity management are made by the authorised collegial body and implemented by the Strategic Risks Department.

(in millions of Kazakhstani tenge unless otherwise stated)

31. Risk management, continued

Liquidity risk, continued

The following tables show the undiscounted cash flows on financial liabilities and unrecognised credit related commitments on the basis of their earliest possible contractual maturity. The total gross outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial assets, liability or credit related commitment.

The maturity analysis for financial liabilities as at 31 December 2021 is as follows:

At 31 December 2021	*Demand and less than 1 month*	*From 1 to 3 months*	*From 3 months to 1 year*	*From 1 to 5 years*	*More than 5 years*	*No maturity*	*Total gross amount outflow*	*Carrying amount*
Liabilities								
Amounts due to banks and other financial institutions	1,155	64	852	12,502	42,727	–	**57,300**	**31,518**
Amounts payable under repurchase agreements	2,170	–	–	–	–	–	**2,170**	**2,170**
Amounts due to customers	524,513	151,763	673,937	143,368	78,145	–	**1,571,726**	**1,507,607**
Debt securities issued	319	6,439	19,171	159,440	621,615	–	**806,984**	**244,465**
Subordinated debt	–	3,109	13,282	212,531	374,324	–	**603,246**	**189,177**
Lease liabilities	37	392	1,795	4,468	–	–	**6,692**	**3,080**
Other financial liabilities	2,377	–	38	34	–	44	**2,493**	**2,493**
Total liabilities	**530,571**	**161,767**	**709,075**	**532,343**	**1,116,811**	**44**	**3,050,611**	**1,980,510**
Credit related commitments	13,009	–	–	–	–	–	**13,009**	**13,009**

Future interest payments for non-redeemable cumulative preference shares, which are payable annually, are not included in the table above.

(in millions of Kazakhstani tenge unless otherwise stated)

31. Risk management, continued

Liquidity risk, continued

The maturity analysis for financial liabilities as at 31 December 2020 is as follows:

At 31 December 2020	*Demand and less than 1 month*	*From 1 to 3 months*	*From 3 months to 1 year*	*From 1 to 5 years*	*More than 5 years*	*No maturity*	*Total gross amount outflow*	*Carrying amount*
Liabilities								
Amounts due to banks and other financial institutions	68	2,526	29	115	29,022	–	**31,760**	**9,337**
Amounts due to customers	387,235	61,485	403,397	133,309	5,430	–	**990,856**	**967,098**
Debt securities issued	319	300	851	14,383	620,577	–	**636,430**	**108,424**
Subordinated debt	–	21	29,188	43,883	228,574	–	**301,666**	**123,622**
Lease liabilities	–	257	1,302	3,930	77	–	**5,566**	**2,498**
Other financial liabilities	716	222	–	–	–	994	**1,932**	**1,932**
Total liabilities	**388,338**	**64,811**	**434,767**	**195,620**	**883,680**	**994**	**1,968,210**	**1,212,911**
Credit related commitments	2,140	–	–	–	–	–	**2,140**	**2,140**

The tables above show the undiscounted cash flows of non-derivative financial liabilities, including issued financial guarantee contracts, and unrecognised loan commitments on the basis of their earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

In accordance with Kazakhstan legislation, depositors can withdraw their term deposits at any time, losing in most of the cases the accrued interest. These deposits are classified in accordance with their stated maturity dates. As at 31 December 2021, the carrying amount of these term deposits amounted to KZT 505,283 million (31 December 2020: KZT 405,289 million). The amount of such deposits, by each time band as at 31 December 2021, is as follows:

- demand and less than 1 months – KZT 19,699 million (31 December 2020: KZT 40,381 million);
- from 1 to 3 months – KZT 80,170 million (31 December 2020: KZT 13,558 million);
- from 3 months to 1 year – KZT 310,955 million (31 December 2020: KZT 226,405 million);
- from 1 to 5 years – KZT 89,908 million (31 December 2020: KZT 124,945 million);
- More than 5 years – KZT 4,551 million (31 December 2020: nil).

However, management believes that in spite of this option and the fact that a substantial portion of customer accounts are on demand, diversification of these customer accounts and deposits by number and type of depositors, and the past experience of the Bank indicates that these customer accounts provide a long-term and stable source of funding.

(in millions of Kazakhstani tenge unless otherwise stated)

31. Risk management, continued

Liquidity risk, continued

Management expects that the cash flows from certain assets and liabilities will be different from their contractual terms, either because management has the discretionary ability to manage the cash flows, or because past experience indicates that cash flows will differ from contractual terms.

The table below shows an analysis, by contractual maturities, of the amounts recognised in the separate statement of financial position as at 31 December 2021:

At 31 December 2021	*Demand and less than 1 month*	*From 1 to 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*More than 5 years*	*No maturity*	*Overdue*	*Total*
Non-derivative assets								
Cash and cash equivalents	756,913	164,089	–	–	–	–	–	**921,002**
Amounts due from banks and other financial institutions	13,520	12,354	2,058	97	3,431	–	–	**31,460**
Trading securities	–	–	1	187	–	–	–	**188**
Investment securities	247,114	158,730	38,591	40,449	–	29,491	–	**514,375**
Loans to customers	4,687	14,150	73,302	426,044	152,251	–	60,664	**731,098**
Acquired right of claim on promissory note to the MFRK	682	–	–	103,477	–	–	–	**104,159**
Current corporate income tax assets	–	–	572	–	–	–	–	**572**
Property, equipment and intangible assets	–	–	–	–	–	68,543	–	**68,543**
Non-current assets held for sale	–	–	92	–	–	–	–	**92**
Investments in subsidiaries	–	–	–	–	–	143,924	–	**143,924**
Other assets	1,745	1,386	3,758	61,529	3	10,009	273	**78,703**
Total assets	**1,024,661**	**350,709**	**118,374**	**631,783**	**155,685**	**251,967**	**60,937**	**2,594,116**
Non-derivative liabilities								
Amounts due to banks and other financial institutions	1,153	15	30	10,915	19,405	–	–	**31,518**
Amounts payable under repurchase agreements	2,170	–	–	–	–	–	–	**2,170**
Amounts due to customers	518,186	144,300	653,211	131,613	60,297	–	–	**1,507,607**
Debt securities issued	300	4,452	11,844	119,277	108,592	–	–	**244,465**
Subordinated debt	–	2,686	281	145,975	37,735	2,500	–	**189,177**
Liabilities to the mortgage company	–	–	4	305	11,776	–	–	**12,085**
Lease liabilities	–	191	803	2,086	–	–	–	**3,080**
Deferred corporate income tax liabilities	–	–	–	–	148,091	–	–	**148,091**
Other liabilities	5,292	490	13,349	2,597	6	34	446	**22,214**
Total liabilities	**527,101**	**152,134**	**679,522**	**412,768**	**385,902**	**2,534**	**446**	**2,160,407**
Net position	**497,560**	**198,575**	**(561,148)**	**219,015**	**(230,217)**	**249,433**	**60,491**	**433,709**
Net accumulated position	**497,560**	**696,135**	**134,987**	**354,002**	**123,785**	**373,218**	**433,709**	

(in millions of Kazakhstani tenge unless otherwise stated)

31. Risk management, continued

Liquidity risk, continued

The table below shows an analysis, by contractual maturities, of the amounts recognised in the separate statement of financial position as at 31 December 2020:

At 31 December 2020	*Demand and less than 1 month*	*From 1 to 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*More than 5 years*	*No maturity*	*Overdue*	*Total*
Non-derivative assets								
Cash and cash equivalents	726,270	–	–	–	–	–	–	**726,270**
Amounts due from banks and other financial institutions	18,545	6,314	837	491	3,345	–	48	**29,580**
Trading securities	–	–	1	168	–	–	–	**169**
Investment securities	84,904	70,813	119,896	18,703	–	11	–	**294,327**
Loans to customers	24,094	5,073	31,167	93,605	39,665	–	50,460	**244,064**
Acquired right of claim on promissory note to the MFRK	657	–	–	102,457	–	–	–	**103,114**
Property, equipment and intangible assets	–	–	–	–	–	47,462	–	**47,462**
Non-current assets held for sale	–	–	2,845	–	–	–	–	**2,845**
Investments in subsidiaries	–	–	–	–	–	200,969	–	**200,969**
Current corporate income tax assets	–	–	456	–	–	–	–	**456**
Other assets	3,258	75	1,721	470	22	11,723	523	**17,792**
Total assets	**857,728**	**82,275**	**156,923**	**215,894**	**43,032**	**260,165**	**51,031**	**1,667,048**
Non-derivative liabilities								
Amounts due to banks and other financial institutions	125	2,526	–	–	6,686	–	–	**9,337**
Amounts due to customers	383,988	55,789	391,826	131,067	4,428	–	–	**967,098**
Debt securities issued	359	272	26	9,763	98,004	–	–	**108,424**
Subordinated debt	64	266	18,929	4,815	97,048	2,500	–	**123,622**
Liabilities to the mortgage company	–	–	2	103	4,311	–	–	**4,416**
Lease liabilities	–	102	593	1,792	11	–	–	**2,498**
Deferred corporate income tax liabilities	–	–	–	–	96,872	–	–	**96,872**
Other liabilities	7,455	240	62	10,895	7	1,353	227	**20,239**
Total liabilities	**391,991**	**59,195**	**411,438**	**158,435**	**307,367**	**3,853**	**227**	**1,332,506**
Net position	**465,737**	**23,080**	**(254,515)**	**57,459**	**(264,335)**	**256,312**	**50,804**	**334,542**
Net accumulated position	**465,737**	**488,817**	**234,302**	**291,761**	**27,426**	**283,738**	**334,542**	

31. Risk management, continued

Operational risk

Operational risk is the probability of loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors, such as those arising from legal and regulatory requirements (excluding strategic risk and reputational risk).

The Bank had developed the policy on operational risk management, which was approved by the Board of Directors.

The Bank is establishing the system of operational risk management that is organised in three levels:

- Level 1- risk management by the departments of the Bank;
- Level 2- risk management by the independent operational risk management department;
- Level 3- independent assessment of operational risk management system effectiveness by the internal audit department

Level 1 relates to risk coordinators that were appointed in the departments of the Bank, who are responsible for the collection and direction of information about the operational risk to the risk management department. Risk management department conducts the education of risk coordinators of the Bank and controls the work performed by risk coordinators.

The Bank uses automated base for the collection and analysis of information about operation risk events. Risk coordinators collect the information about operation risk events, each event is evaluated by the risk management department together with process holders and then directed to the specialised collegial body.

Additional instrument of operational risk management is the process of self-assessment of operational risk in the departments of the Bank. Self-assessment is conducted by the first level of defence directed by the risk management department. The results are organised in risk maps.

Separate operational risk assessment is conducted before implementation of new products, processes and systems.

On a monthly basis, Management Board and Board of Directors review the information on operational risk.

32. Capital management

The Bank maintains an actively managed capital base to cover risks inherent in the business. The capital adequacy of the Bank is monitored using, among other approaches, the coefficients set by the banking legislation.

As at 31 December 2021 and 31 December 2020 the Bank fully complied with all externally imposed capital requirements.

The Bank's capital management policy is to ensure the compliance by the Bank with externally imposed capital requirements and maintain a credit rating and capital adequacy ratios, which ensure the sustainable operation of the Bank and maximize shareholder value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities.

Under the current legal requirements, the banks have to maintain:

- a ratio of basic capital to the sum of credit risk-weighted assets and contingent liabilities, market risk-weighted assets and contingent assets and liabilities, and quantified operational risk (k1) at least at 0.075, including a capital conservation buffer;
- a ratio of tier 1 capital, net of investments, to the sum of credit risk-weighted assets and contingent liabilities, market risk-weighted assets and contingent assets and liabilities, and quantified operational risk (k1.2) at least at 0.085, including a capital conservation buffer;
- a ratio of equity to the sum of credit risk-weighted assets and contingent liabilities, market risk-weighted assets and contingent assets and liabilities, and quantified operational risk (k2) at least at 0.010, including a capital conservation buffer.
- The following table shows the composition of the capital position of the Bank as at 31 December 2021 and 2020 calculated in accordance with the requirements established by the NBRK:

(in millions of Kazakhstani tenge unless otherwise stated)

32. Capital management, continued

	31 December 2021	*31 December 2020*
Tier 1 capital	390,899	267,403
Tier 2 capital	301,842	175,272
Total statutory capital	**692,741**	**442,675**
Total risk-weighted statutory assets, contingent liabilities and operational and market risks	**1,386,944**	**718,562**
k1 ratio	0.282	0.360
k1.2 ratio	0.282	0.360
k2 ratio	0.499	0.597

The Bank is subject to minimum capital adequacy requirements, calculated in accordance with the NBRK's requirements established by covenants under liabilities incurred by the Bank. The Bank complied with all externally imposed capital requirements as at 31 December 2021 and 31 December 2020.

33. Credit related commitments

The Bank has outstanding commitments to extend loans. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years. The Bank also provides guarantees by acting as settlement agent in securities borrowing and lending transactions.

The Bank applies the same credit risk management policies and procedures when granting credit commitments, financial guarantees and letters of credit as it does for granting loans to customers.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if the counterparties failed completely to perform as contracted.

	31 December 2021	*31 December 2020*
Letters of credit	8,324	345
Credit card commitments	4,546	956
Financial guarantees issued	139	839
	13,009	**2,140**

Agreements for credit- and credit line-related commitments provide for the Bank's right to unilaterally withdraw from an agreement once conditions unfavourable to the Bank have arisen, including change of refinancing, inflation and exchange rates, and other conditions.

As at 31 December 2021 the amount of current accounts and deposits from customers held to secure the guarantees and letters of credit is KZT 13,009 million (31 December 2020: KZT 2,140 million).

Total outstanding contractual amount of credit- and credit line-related commitments, and guarantees and letters of credit does not necessarily represent future cash claims as the term of commitments may expire or the said commitments may be cancelled without funds being provided to the borrower.

As at 31 December 2021, the Bank has no outstanding off-balance sheet commitments that exceed 10% of equity (2020: none).

34. Operating lease

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	31 December 2021	*31 December 2020*
Less than 1 year	22	17

34. Operating lease, continued

Leases as lessee, continued

The Bank leases a number of premises and equipment under operating leases. The leases typically run for an initial period of one-to-five years, with an option to then renew the lease. Lease payments are usually increased annually to reflect market rentals. None of the leases include contingent rentals.

During 2021 KZT 732 million were recognised as expense in the separate statement of profit or loss and other comprehensive income under the operating lease agreements (31 December 2020: KZT 529 thousand) (*Note 14*).

35. Contingencies

Insurance

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

Litigations

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

Taxation contingencies in Kazakhstan

The taxation system in the Republic of Kazakhstan is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities.

Taxes are subject to review and investigation by various levels of authorities, which have the authority to impose severe fines and interest charges. A tax year generally remains open for review by the tax authorities for five subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

These circumstances may create tax risks in the Republic of Kazakhstan that are more significant than in other countries.

However, the interpretations of the relevant authorities could differ and the effect on the financial position, if the authorities were successful in enforcing their interpretations, could be significant.

36. Related party transactions

Control relationship

As at 31 December 2021, the major shareholders of the Bank are the Kazakhstani brokerage company First Heartland Securities JSC that owns 78.73% of outstanding ordinary shares and Mr. G.Sh. Yessenov, who owns 20.11% of outstanding ordinary shares (31 December 2020: 80.04% of ordinary shares and 19.96% of ordinary shares, respectively) (*Note 1*).

As at 31 December 2021, the ultimate controlling party of the Bank and its subsidiaries is NU Generation Foundation, Inc., a non-profit organisation established specifically to ensure financing of operations of autonomous educational organisations Nazarbayev University and Nazarbayev Intellectual Schools, as well as their organisations.

(in millions of Kazakhstani tenge unless otherwise stated)

36. Related party transactions, continued

Control relationship

As at 31 December 2020, Pioneer Capital Invest LLP exercised voting rights on the shares of Jysan Technologies Ltd, the Parent Company of First Heartland Securities JSC, solely for the benefit of, and specifically to ensure financing activities of the autonomous educational organisations Nazarbayev University and Nazarbayev Intellectual Schools, as well as their organisations. As at 31 December 2020, the Private Fund "Nazarbayev Fund" owned 67.53% interest in Pioneer Capital Invest LLP.

Remuneration to the key management personnel

Total remuneration paid to the key management personnel included in personnel expenses in the separate statement of profit or loss and other comprehensive income for 2021 and 2020 is as follows:

	2021	*2020*
Personnel expenses		
Remuneration to the key management personnel	1,997	13,864

In 2021, the Bank transferred 1.16% of the total number of the outstanding ordinary shares of the Bank to management and senior executives of the Bank as a non-fixed remuneration in the form of shares *(Notes 1 and 3)*.

Transactions with the key management personnel

The outstanding balances and average interest rates as at 31 December 2021 and 31 December 2020 for transactions with the members of the key management personnel are as follows:

	31 December 2021	*Average interest rate, % per annum*	*31 December 2020*	*Average interest rate, % per annum*
Liabilities				
Amounts due to customers	2,225	3.92	1,888	4.27
Other liabilities	3,950	–	11,460	–

Amounts included in profit or loss in relation to transactions with the key management personnel in 2021 and 2020 are as follows:

	2021	*2020*
Interest expense		
Key management personnel	(20)	(20)

(in millions of Kazakhstani tenge unless otherwise stated)

36. Related party transactions, continued

Transactions with other related parties

Other related parties include the Parent Company, ultimate Parent Company, fellow subsidiaries and other related entities. The outstanding balances and the related average interest rates as at 31 December 2021 and related profit or loss amounts of transactions for 2021 with other related parties are as follows:

	Subsidiaries		*Other**		
	KZT mln	*Average interest rate, % per annum*	*KZT mln*	*Average interest rate, % per annum*	*Total KZT million*
Separate statement of financial position					
Assets					
Cash and cash equivalents					
- in USD	–	–	487	–	**487**
- other currency	1	–	74	–	**75**
Derivative financial instruments					
Forward contracts (Note 17)	–	–	8,847	–	**8,847**
Loans to customers					
- in KZT					
Principal	3,219	0.10	1,003	14.01	**4,222**
Investments in subsidiaries (*Note 22*)	143,924	–	–	–	**143,924**
Other assets	2,901	–	1,287	–	**4,188**
Liabilities					
Amounts due to banks and other financial institutions					
- in KZT	33	–	–	–	**33**
- in USD	879	–	–	–	**879**
- other currency	209	–	–	–	**209**
Amounts due to customers					
- in KZT	2,185	6.82	79,839	7.67	**82,024**
- in USD	3,631	–	132,603	0.13	**136,234**
- other currency	29	–	6,815	1.00	**6,844**
Debt securities issued	270	–	–	–	**270**
Subordinated debt	306	–	–	–	**306**
Other liabilities	1	–	128	–	**129**
Separate statement of profit or loss and other comprehensive income					
Interest income	1,019	–	411	–	**1,430**
Interest expense	(250)	–	(4,097)	–	**(4,347)**
Fee and commission income	911	–	–	–	**911**
Fee and commission expenses	(18)	–	–	–	**(18)**
Net gains on FX derivatives transactions	–	–	5,786	–	**5,786**
Other income	284	–	520	–	**804**
Other general and administrative expenses	(242)	–	(291)	–	**(533)**

* Other related parties include other entities under common control.

As at 31 December 2021, amounts due to customers include a current account in the amount of KZT 2,331 million related to the ultimate controlling party of the Bank (as at 31 December 2020: nil).

In 2021, the Bank sold property and equipment to another related party at a carrying amount of KZT 9,135 million.

(in millions of Kazakhstani tenge unless otherwise stated)

36. Related party transactions, continued

Transactions with other related parties, continued

The outstanding balances and the related average interest rates as at 31 December 2020 and related profit or loss amounts of transactions for 2020 with other related parties are as follows:

	Parent Company		*Subsidiaries*		*Other**		
	KZT mln	***Average interest rate, % per annum***	***KZT mln***	***Average interest rate, % per annum***	***KZT mln***	***Average interest rate, % per annum***	***Total KZT million***
Separate statement of financial position							
Assets							
Cash and cash equivalents							
- in USD	–	–	416	–	–	–	**416**
- other currency	–	–	84	–	–	–	**84**
Derivative financial instruments							
Forward contracts (Note 17)	–	–	–	–	11,987	–	**11,987**
Foreign currency swaps (Note 17)	–	–	–	–	86	–	**86**
Loans to customers							
- in KZT							
Principal	–	–	5,986	0.10	994	14.00	**6,980**
Investments in subsidiaries (*Note 22*)	–	–	200,969	–	–	–	**200,969**
Other assets	–	–	118	–	65	–	**183**
Liabilities							
Amounts due to banks and other financial institutions							
- in KZT	–	–	3	–	–	–	**3**
- in USD	–	–	4	–	–	–	**4**
Amounts due to customers							
- in KZT	–	–	1,230	5.13	55,604	7.36	**56,834**
- in USD	–	–	1,148	0.47	234,219	0.20	**235,367**
- other currency	–	–	4	–	6,904	0.10	**6,908**
Debt securities issued	–	–	263	–	–	–	**263**
Subordinated debt	–	–	362	–	–	–	**362**
Other liabilities	–	–	–	–	40	–	**40**
Separate statement of profit or loss and other comprehensive income							
Interest income	–	–	279	–	165	–	**444**
Interest expense	–	–	(3)	–	(1,328)	–	**(1,331)**
Fee and commission income	–	–	91	–	2	–	**93**
Fee and commission expenses	(19)	–	(19)	–	–	–	**(38)**
Net gains on FX derivatives transactions	–	–	–	–	11,741	–	**11,741**
Other income	4	–	236	–	403	–	**643**
Other general and administrative expenses	–	–	(2)	–	(13)	–	**(15)**

* Other related parties are the entities that are controlled by the ultimate controlling party.

(in millions of Kazakhstani tenge unless otherwise stated)

37. Fair value of financial instruments

Accounting classifications and fair values

For the purposes of fair value disclosures, the Bank has determined categories of assets and liabilities based on their nature, characteristics and risks inherent to assets or liabilities as well as the level in the fair value hierarchy. The table below sets out the carrying amounts and fair values of financial assets and financial liabilities of the Bank as at 31 December 2021:

	FVTPL	*Amortised cost*	*FVOCI*	*Carrying amount*	*Fair value*
Financial assets					
Cash and cash equivalents	–	921,002	–	**921,002**	**921,002**
Derivative financial instruments	8,858	–	–	**8,858**	**8,858**
Amounts due from banks and other financial institutions	–	31,460	–	**31,460**	**31,460**
Trading securities	188	–	–	**188**	**188**
Investment securities at FVOCI	–	–	306,377	**306,377**	**306,377**
Investment securities at amortised cost	–	207,998	–	**207,998**	**208,915**
Loans to customers	17,910	713,188	–	**731,098**	**721,273**
Acquired right of claim on promissory note to the MFRK	–	–	104,159	**104,159**	**104,159**
Other financial assets	–	17,552	–	**17,552**	**17,552**
	26,956	**1,891,200**	**410,536**	**2,328,692**	**2,319,784**
Financial liabilities					
Amounts due to banks and other financial institutions	–	31,518	–	**31,518**	**30,027**
Amounts payable under repurchase agreements	–	2,170	–	**2,170**	**2,170**
Amounts due to customers	–	1,507,607	–	**1,507,607**	**1,509,701**
Debt securities issued	–	244,465	–	**244,465**	**215,039**
Subordinated debt	–	189,177	–	**189,177**	**187,372**
Lease liabilities	–	3,080	–	**3,080**	**3,080**
Other financial liabilities	–	2,493	–	**2,493**	**2,493**
	–	**1,980,510**	**–**	**1,980,510**	**1,949,882**

(in millions of Kazakhstani tenge unless otherwise stated)

37. Fair value of financial instruments, continued

Accounting classifications and fair values, continued

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities of the Bank as at 31 December 2020:

	FVTPL	*Amortised cost*	*FVOCI*	*Carrying amount*	*Fair value*
Financial assets					
Cash and cash equivalents	–	726,270	–	**726,270**	**726,270**
Derivative financial instruments	12,099	–	–	**12,099**	**12,099**
Amounts due from banks and other financial institutions	–	29,580	–	**29,580**	**29,405**
Trading securities	169	–	–	**169**	**169**
Investment securities at FVOCI	–	–	274,988	**274,988**	**274,988**
Investment securities at amortised cost	–	19,339	–	**19,339**	**20,762**
Loans to customers	25,008	219,056	–	**244,064**	**241,843**
Acquired right of claim on promissory note to the MFRK	–	–	103,114	**103,114**	**102,457**
Other financial assets	–	10,158	–	**10,158**	**10,158**
	37,276	**1,004,403**	**378,102**	**1,419,781**	**1,418,151**
Financial liabilities					
Amounts due to banks and other financial institutions	–	9,337	–	**9,337**	**9,337**
Amounts due to customers	–	967,098	–	**967,098**	**954,174**
Debt securities issued	–	108,424	–	**108,424**	**96,859**
Subordinated debt	–	123,622	–	**123,622**	**122,364**
Lease liabilities	–	2,498	–	**2,498**	**2,498**
Other financial liabilities	–	1,932	–	**1,932**	**1,932**
	–	**1,212,911**	**–**	**1,212,911**	**1,187,164**

37. Fair value of financial instruments, continued

Accounting classifications and fair values, continued

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

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

The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

Valuation techniques include net present value and discounted cash flow models and comparison to similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices and foreign currency exchange rates. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm’s length.

The Bank uses widely recognised valuation models for determining the fair value of common and simpler financial instruments. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives such as interest rate swaps.

For more complex instruments, the Bank uses proprietary valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Example of instruments involving significant unobservable inputs includes certain securities for which there is no active market.

The following assumptions are used by the Management to estimate the fair values of financial instruments as at 31 December 2021:

- discount rates of 13.26%-15.62% p.a. and 4.4%-4.50% p.a. are used for discounting future cash flows from loans to corporate customers denominated in KZT and USD, respectively (31 December 2020: 13.15%-13.54% p.a. and 4.3%-5.40% p.a., respectively);
- discount rates of 9.52%-33.70% p.a. are used for discounting future cash flows from loans to retail customers (31 December 2020: 18.71%-18.82% p.a.);
- discount rates of 0.4%-7.5% p.a. and 0.6%-8.4% p.a. are used for discounting future cash flows from amount due to customers of corporate and retail customers, respectively (31 December 2020: 0.4%-7.3% p.a. and 0.8%-9.2% p.a., respectively);
- discount rate of 12.47%-16.03% p.a. is used for discounting future cash flows from debt securities issued denominated in KZT, 3.45% p.a. For discounting debt securities issued denominated in USD (31 December 2020: 11.2%-12.5% p.a. for debt securities issued denominated in KZT);
- discount rate of 13.82%-16.64% p.a. is used for discounting future cash flows from subordinated debt (31 December 2020: 11.7% -14.6% p.a.).

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short-term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to current accounts, demand deposits and savings accounts without a specific maturity.

(in millions of Kazakhstani tenge unless otherwise stated)

37. Fair value of financial instruments, continued

Fair value hierarchy

The table below analyses financial instruments measured at fair value at 31 December 2021 and 2020, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the separate statement of financial position:

		Fair value measurement using		
At 31 December 2021	*Measurement date*	*Input data of Level 2*	*Input data of Level 3*	*Total*
Financial instruments at FVTPL:				
- derivative financial instruments	31 December 2021	8,858	–	**8,858**
- trading securities	31 December 2021	188	–	**188**
- loans to customers	31 December 2021	–	17,910	**17,910**
Equity financial instruments at FVOCI:				
- corporate shares	31 December 2021	29,491	–	**29,491**
Debt financial instruments at FVOCI:				
- investment securities at FVOCI	31 December 2021	276,886	–	**276,886**
- acquired right of claim on promissory note to the MFRK	31 December 2021	104,159	–	**104,159**

		Fair value measurement using		
At 31 December 2020	*Measurement date*	*Input data of Level 2*	*Input data of Level 3*	*Total*
Financial instruments at FVTPL:				
- derivative financial instruments	31 December 2020	12,099	–	**12,099**
- trading securities	31 December 2020	169	–	**169**
- loans to customers	31 December 2020	–	25,008	**25,008**
Debt financial instruments at FVOCI:				
- investment securities at FVOCI	31 December 2020	274,977	–	**274,977**
- acquired right of claim on promissory note to the MFRK	31 December 2020	103,114	–	**103,114**

Securities, which are listed on Kazakh Stock Exchange but which do not have an active market as at 31 December 2021 and 2020 are classified as Level 2 in the fair value hierarchy. As at 31 December 2021, the financial instruments classified as Level 2, include government securities for the amount of KZT 276,886 million (31 December 2020: KZT 274,977 million) and promissory notes from the MFRK in the amount of KZT 104,159 million (31 December 2020: KZT 103,114 million).

During 2021 and 2020, the Bank did not make any transfers between levels 1 and 2, 2 and 3 of the fair value hierarchy.

In many cases all significant inputs into the valuation techniques are wholly observable, for example by reference to information from similar transactions in the currency market. In cases where all inputs are not observable, for example because there are no observable trades in a similar risk at the reporting date, the Bank uses valuation techniques that rely on unobservable inputs – e.g., volatilities of certain underlying, expectations on termination periods.

Changes in Level 3 assets measured at fair value

The fair value of loans to customers measured at FVTPL is determined using the discounted cash flows valuation technique. The valuation model considers the present value of expected future cash flows from the foreclosure of collateral, discounted using a risk-adjusted discount rate from 16.28% to 19.30% p.a. (31 December 2020: from 11.95% to 14.95% p.a.). Unobservable inputs to valuation models include credit, market and liquidity risk adjustments associated with expected cash flows from the borrower's operations or the valuation of collateral. For the assumptions used in estimation of expected future cash flows from the foreclosure of collateral please refer to Note 20.

(in millions of Kazakhstani tenge unless otherwise stated)

37. Fair value of financial instruments, continued

Changes in Level 3 assets measured at fair value, continued

The following table shows a reconciliation of the amounts recognised at the beginning and at the end of the reporting period for Level 3 financial assets carried at fair value:

	Fair value measurement using input data of Level 3	
	2021	***2020***
Loans to customers measured at fair value through profit or loss		
At 1 January	**25,008**	**29,202**
Net interest income (*Note 7*)	1,966	3,550
Interest paid	(1,320)	(874)
Net loss on change in fair value *(Note 10)*	(7,744)	(6,870)
At 31 December	**17,910**	**25,008**

Although the Bank believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value.

Fair value of financial assets and financial liabilities that are not measured at fair value

The table below provides a comparison between the carrying amount and the fair value by category and level in the fair value hierarchy to which the fair value measurement of the Bank's financial instruments is designated, and which are not presented at fair value in the separate statement of financial position. The fair values of non-financial assets and non-financial liabilities are not presented in the table.

At 31 December 2021	*Level 1*	*Level 2*	*Level 3*	*Fair value*	*Carrying amount*
Financial assets					
Cash and cash equivalents	–	921,002	–	**921,002**	**921,002**
Amounts due from banks and other financial institutions	–	31,460	–	**31,460**	**31,460**
Investment securities measured at amortised cost	20,060	188,855	–	**208,915**	**207,998**
Loans to customers	–	591,239	112,124	**703,363**	**713,188**
Other financial assets	–	17,552	–	**17,552**	**17,552**
Financial liabilities					
Amounts due to banks and other financial institutions	–	30,027	–	**30,027**	**31,518**
Amounts payable under repurchase agreements	–	2,170	–	**2,170**	**2,170**
Amounts due to customers	–	1,509,701	–	**1,509,701**	**1,507,607**
Debt securities issued	–	215,039	–	**215,039**	**244,465**
Subordinated debt	–	187,372	–	**187,372**	**189,177**
Lease liabilities	–	3,080	–	**3,080**	**3,080**
Other financial liabilities	–	2,493	–	**2,493**	**2,493**

(in millions of Kazakhstani tenge unless otherwise stated)

37. Fair value of financial instruments, continued

Fair value of financial assets and financial liabilities that are not measured at fair value, continued

At 31 December 2020	*Level 1*	*Level 2*	*Level 3*	*Fair value*	*Carrying amount*
Financial assets					
Cash and cash equivalents	–	726,270	–	**726,270**	**726,270**
Amounts due from banks and other financial institutions	–	29,405	–	**29,405**	**29,580**
Investment securities measured at amortised cost	–	20,108	654	**20,762**	**19,339**
Loans to customers	–	127,084	89,751	**216,835**	**219,056**
Other financial assets	–	10,158	–	**10,158**	**10,158**
Financial liabilities					
Amounts due to banks and other financial institutions	–	9,337	–	**9,337**	**9,337**
Amounts due to customers	–	954,174	–	**954,174**	**967,098**
Debt securities issued	–	96,859	–	**96,859**	**108,424**
Subordinated debt	–	122,364	–	**122,364**	**123,622**
Lease liabilities	–	2,498	–	**2,498**	**2,498**
Other financial liabilities	–	1,932	–	**1,932**	**1,932**

38. Subsequent events

On 2 January 2022 protests started in Mangistau region of Kazakhstan related to significant increase in the retail price of liquefied natural gas. These protests spread to other cities and resulted in unrest, property damage and loss of life. On 5 January the government declared a state of emergency.

As a result of the above protests and state of emergency the President of Kazakhstan has made certain public announcements regarding possible measures including making amendments to tax legislation, introduction of measures to support financial stability, control and stabilization of the inflation level and the tenge exchange rate.

On 19 January 2022 the state of emergency was lifted. The Bank is currently unable to quantify what the impact, if any, may be on the financial position of any new measures the government may take or any impact from the effect on the Kazakhstan economy as a result of the above protests and state of emergency.

As a result of the escalation of the political conflict between the Russian Federation and Ukraine in February 2022, numerous sanctions were imposed by most Western countries on the Russian Federation. The purpose of these sanctions is to negatively impact the economy of the Russian Federation. This has resulted in significant increase of volatility on the foreign exchange and stock markets, as well as in significant depreciation of KZT against USD and EUR.

On 25 April 2022, the Monetary Policy Committee of the NBRK decided to set the base rate at 14.00% per annum with an interest corridor of +/- 1.00 pp. Accordingly, the rate on constant access to liquidity transactions will be 15.00%, and on constant access transactions on the withdrawal of liquidity - 13.00%.

Liquidity risk

Based on the stress-tests performed under the negative scenario, the Bank has sufficient liquidity cushion to meet its obligations to the counterparties.

As at the date of issue of the separate financial statements the Bank has withdrawn cash from the accounts with the Russian banks that were included into the sanctions list.

Credit risk

The negative impact on the Kazakhstan's economy is also likely to increase the credit risk for certain borrowers and result in significant additional amount of expected credit losses being recognized; however, currently the financial effect is not possible to quantify.

38. Subsequent events, continued

Interest rate risk

Interest rate risk is managed by maintaining a well-balanced structure of assets and liabilities and a system of limits. Such policy limits the possible effect of changes in interest rates on the Bank's income and on the value of assets and liabilities that are sensitive to interest rate changes.

Currency risk

The Bank has assets and liabilities denominated in a number of foreign currencies. Devaluation of KZT against USD and other foreign currencies will result in revaluation of financial assets and liabilities. In case of 30% weakening of KZT against USD, the net effect on equity would be KZT 11,881 million (based on the Bank's exposure to currency risk as at 31 December 2021).

The broader effect of these events and their impact on Kazakhstan's economy, including any subsequent impact on the Bank's financial performance in 2022, cannot be determined as at the date of approval of these financial statements.

On 8 April, according to the decision of the Board of Directors the Bank increased investments in OMAD Yug LLP by means of transfer of property to the charter capital of the subsidiary worth of KZT 3,792 million.