First Heartland Jusan Bank
Joint Stock Company

Consolidated Financial Statements

for 2021
together with Independent Auditors' Report

Contents

«КПМГ Аудит» жауапкершілігі
шектеулі серіктестік
050051 Алматы, Достық д-лы 180,
Tel.: +7 (727) 298 0898

KPMG Audit
Limited Liability Partnership
Kazakhstan A25D6T5 Almaty, 180
Dostyk Avenue
E-mail: company@kpmg.kz

Independent Auditors' Report

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

Opinion

We have audited the consolidated financial statements of First Heartland Jusan Bank JSC and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2021, the consolidated 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021, and its consolidated financial performance and its consolidated 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 Consolidated Financial Statements* section of our report. We are independent of the Group 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 consolidated financial statements in the Republic of Kazakhstan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Expected Credit Losses (ECL) on loans to customers measured at amortised cost	
Please refer to the Notes 3, 4, 6, 9 and 24 in the consolidated financial statements.	
Key audit matter	**How the matter was addressed in our audit**
Loans to customers measured at amortised cost represent 28% 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 Group 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.	We analysed the key aspects of the Group'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 consolidated financial statements, we tested whether stages are correctly assigned by the Group by analysing financial and non-financial information, as well as assumptions and professional judgements, applied by the Group. — 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 Group 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.

	— 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 Group'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 consolidated financial statements disclosures appropriately reflect the Group'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 Group for 2021 but does not include the consolidated financial statements and our auditors' report thereon. The Annual Report of the Group for 2021 year is expected to be made available to us after the date of this auditors' report.

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

KPMG Audit LLC

State 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	8	210,464	114,541
Other interest income	8	3,600	4,344
Interest expense	8	(126,742)	(74,710)
Net interest income	8	**87,322**	**44,175**
Credit loss expenses	9	(4,184)	(35,231)
Net interest income after credit loss		**83,138**	**8,944**
Fee and commission income	10	34,597	10,158
Fee and commission expense	10	(23,558)	(7,158)
Net fee and commission income		**11,039**	**3,000**
Gross premiums written	11	26,398	13,607
Written premiums ceded to reinsurers	11	(3,733)	(1,920)
Net insurance premiums written		**22,665**	**11,687**
Change in the gross provision for unearned premiums	11	(5,948)	(2,975)
Reinsurers' share of change in the gross provision for unearned premiums	11	459	(147)
Net earned insurance premiums	11	**17,176**	**8,565**
Insurance claims incurred	12	(5,171)	(2,765)
Reinsurers' share in insurance claims incurred	12	1,557	882
Insurance claims incurred, net of reinsurance		**(3,614)**	**(1,883)**
Change in gross insurance contract provisions	12	(4,125)	(1,265)
Change in reinsurers' share in insurance claims provisions	12	631	2
Net insurance claims incurred	12	**(7,108)**	**(3,146)**
Net gains on financial instruments at fair value through profit or loss	13	5,832	12,886
Net gain on change in fair value of loans to customers at fair value through other comprehensive income		530	336
Net losses on derecognition of investment securities at fair value through other comprehensive income		(46)	(3,420)
Net foreign exchange gain	14	20,469	14,363
Gain on modification and initial recognition of financial liabilities to government institutions	31,32,33	3,712	124,592
Other income	15	34,577	13,699
Other operating income		**65,074**	**162,456**
Personnel expenses	16	(49,554)	(39,032)
Other general and administrative expenses	17	(44,431)	(19,722)
Impairment loss on other investments		(3,157)	–
Gain on reversal of other provisions		1,388	1,149
Other expenses	15	(19,395)	(9,879)
Other operating expenses		**(115,149)**	**(67,484)**
Loss on disposal of subsidiary	40	(10,261)	–
Gain on bargain purchase	5	–	170,609
Profit before corporate income tax benefit/(expense)		**43,909**	**282,944**
Corporate income tax benefit/(expense)	18	3,601	(24,745)
Profit for the year		**47,510**	**258,199**
Profit/(loss) attributable to:			
- Equity holders of the Bank		47,308	258,200
- Non-controlling interests		202	(1)

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

(in millions of Kazakhstani tenge unless otherwise stated)

	Note	*2021*	*2020**
Profit for the year		**47,510**	**258,199**
Other comprehensive income			
Other comprehensive (loss)/income that are to be reclassified subsequently to profit or loss:			
Net change in fair value of debt instruments at fair value through other comprehensive income	36	(5,226)	(8,542)
Change in loss allowance for expected credit losses on debt instruments at fair value through other comprehensive income	36	1,678	7,201
The amount reclassified to profit or loss as a result of derecognition of securities at fair value through other comprehensive income	36	46	3,420
Foreign operations – foreign currency translation differences		627	(1,413)
Total other comprehensive (loss)/income items that are or may be reclassified subsequently to profit or loss		*(2,875)*	*666*
Other comprehensive income that will not be reclassified subsequently to profit or loss:			
Gain on equity instruments at fair value through other comprehensive income	36	8,211	–
Revaluation reserve for property and equipment, net of income tax (2021: KZT 0.00; 2020: *KZT 10 million) (Note 18)*	36	–	48
Total other comprehensive income items that will not be reclassified subsequently to profit or loss:		*8,211*	*48*
Other comprehensive income for the year		**5,336**	**714**
Total comprehensive income for the year		**52,846**	**258,913**
Total comprehensive income/ (loss) attributable to:			
- Equity holders of the Bank		52,644	258,914
- Non-controlling interests		202	(1)
Total comprehensive income for the year		**52,846**	**258,913**
Earnings per share			
Basic and diluted earnings per ordinary share (in KZT)	37	287.84	1,948.72

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

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

Nurdaulet Galymovich Aidossov
Chairman of the Board

Nikara Miratovna Salikhova
Chief Accountant

26 May 2022

The notes set out on pages 15 to 134 form an integral part of these consolidated financial statements.

First Heartland Jusan Bank Joint Stock Company
Consolidated Statement of Financial Position
as at 31 December 2021

(in millions of Kazakhstani tenge unless otherwise stated)

	Note	*31 December 2021*	*31 December 2020**
Assets			
Cash and cash equivalents	19	1,158,235	1,404,257
Derivative financial instruments	20	8,858	12,114
Amounts due from banks and other financial institutions	21	35,938	83,729
Trading securities	22	76,407	39,504
Investment securities	23	540,749	336,095
Loans to customers	24	849,955	989,563
Promissory notes from the Ministry of Finance of the Republic of Kazakhstan		104,159	103,114
Insurance premiums and reinsurance assets		6,932	3,871
Property, equipment and intangible assets	25	81,647	101,019
Non-current assets held for sale	26	547	4,954
Investment property	27	37,152	10,033
Current corporate income tax assets		840	779
Deferred corporate income tax assets	18	163	2,154
Other assets	28	94,412	80,492
Total assets		**2,995,994**	**3,171,678**
Liabilities			
Due to banks and other financial institutions	29	54,786	85,160
Amounts payable under repurchase agreements	30	9,988	2,411
Derivative financial instruments	20	414	266
Current accounts and deposits from customers	31	1,803,593	1,896,682
Debt securities issued	32	244,320	231,807
Subordinated debt	33	188,871	199,834
Liabilities to the mortgage organisation	34	12,085	16,371
Lease liabilities		4,937	5,325
Current corporate income tax liabilities		652	701
Deferred corporate income tax liabilities	18	148,788	153,631
Insurance contract provisions		20,276	10,202
Other liabilities	35	30,031	29,995
Total liabilities		**2,518,741**	**2,632,385**
Equity	36		
Share capital		258,201	258,201
Treasury shares		(2,638)	–
Additional paid-in capital		764	631
Property and equipment revaluation reserve		1,316	1,425
Fair value reserve		8,334	6,187
Cumulative reserve for translation to presentation currency		(268)	(764)
Reverse acquisition provision		(137,564)	(137,564)
Other reserves		2,847	–
Retained earnings		344,132	411,178
Total equity attributable to the equity holders of the Group		**475,124**	**539,294**
Non-controlling interests		2,129	(1)
Total equity		**477,253**	**539,293**
Total equity and liabilities		**2,995,994**	**3,171,678**

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

The notes set out on pages 15 to 134 form an integral part of these consolidated financial statements.

(in millions of Kazakhstani tenge unless otherwise stated)

	Note	2021	2020*
Cash flows from operating activities			
Interest receipts	8	203,460	115,315
Interest payments	8	(109,225)	(56,069)
Fee and commission receipts		33,846	9,534
Fee and commission payments		(24,642)	(7,171)
Insurance premiums received		24,434	12,925
Insurance premiums paid to reinsurers		(3,329)	(2,235)
Net insurance claims incurred		(3,548)	(1,886)
Net realised gains on financial instruments at fair value through profit or loss	13	4,732	7,121
Net receipts from foreign exchange	14	12,457	5,757
Other income receipts		28,406	10,036
Other expenses paid		(17,219)	(7,936)
Personnel and other general and administrative expenses payments		(81,836)	(42,579)
Cash flows from operating activities before changes in operating assets and liabilities		**67,536**	**42,812**
Net decrease/ (increase) in operating assets			
Derivative financial instruments		12,704	–
Amounts due from banks and other financial institutions		47,304	(28,229)
Trading securities		(37,191)	(32,609)
Loans to customers		28,348	21,800
Other assets		5,650	7,641
Net (decrease)/increase in operating liabilities			
Due to banks and other financial institutions		(33,205)	(1,619)
Current accounts and deposits from customers		(30,203)	243,699
Amounts payable under repurchase agreements		7,576	(2,583)
Liabilities to mortgage organization		(1,896)	–
Other liabilities		(5,885)	(2,626)
Net cash provided from operating activities before income tax paid		**60,738**	**248,286**
Corporate income tax paid		(1,273)	(114)
Net cash from operating activities		**59,465**	**248,172**
Cash flows from investing activities			
Cash and cash equivalents acquired in connection with a business combination	5	–	559,133
Acquisition of the subsidiary	5	–	(41,661)
Purchase of investment securities measured at amortised cost		(1,331,373)	(592,306)
Repayment of investment securities measured at amortised cost		1,172,397	813,529
Purchase of investment securities measured at fair value through other comprehensive income		(1,426,306)	(851,455)
Sale and repayment of investment securities measured at fair value through other comprehensive income		1,406,173	928,055
Promissory notes from the Ministry of Finance of the Republic of Kazakhstan		–	(22,690)
Cash and cash equivalents disposed of on sale of the subsidiary	40	(17,054)	–
Proceeds from sale of the subsidiary	40	13,732	–
Proceeds from sale of non-current assets held for sale		684	3,971
Purchases of property and equipment and intangible assets		(10,368)	(3,287)
Proceeds from sale of property, equipment and investment property		11,580	1,050
Net cash (used in)/from investing activities		**(180,535)**	**794,339**

The notes set out on pages 15 to 134 form an integral part of these consolidated financial statements.

(in millions of Kazakhstani tenge unless otherwise stated)

	Note	*2021*	*2020**
Cash flows from financing activities			
Repayment of subordinated debt	33	(18,019)	(5,900)
Placement of subordinated debt	33	–	120,758
Repayment of lease liabilities		(1,363)	(1,685)
Repayment of loans from other banks		–	(56)
Proceeds from issue of share capital	36	–	41,661
Repurchase of share capital (ordinary shares)	36	(6,682)	–
Dividends paid to the Group's shareholders	36	(113,851)	(113,440)
Net cash (used in)/from financing activities		**(139,915)**	**41,338**
Effect of changes in exchange rates on cash and cash equivalents		14,977	22,368
Effect of changes in expected credit losses on cash and cash equivalents	9	(14)	(7)
Net (decrease)/ increase in cash and cash equivalents		**(246,022)**	**1,106,210**
Cash and cash equivalents at the beginning of the reporting year		1,404,257	298,047
Cash and cash equivalents as at the end of the reporting year	19	**1,158,235**	**1,404,257**
Non-cash transactions			
Withdrawal of pledge securing loans to customers		26,365	6,469

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

First Heartland Jusan Bank Joint Stock Company
Consolidated Statement of Changes in Equity
for the year ended 31 December 2021

(in millions of Kazakhstani tenge unless otherwise stated)

		Attributable to equity holders of the Group											
	Note	*Share capital*	*Treasury shares*	*Additional paid-in capital*	*Property and equipment revaluation reserve*	*Fair value reserve*	*Cumulative reserve for translation to presentation currency*	*Reverse acquisition reserve*	*Equity instrument reserve*	*Retained earnings*	*Total*	*Non-controlling interests*	*Total equity*
Balance at 1 January 2021		**258,201**	**–**	**631**	**1,425**	**6,187**	**(764)**	**(137,564)**	**–**	**411,178**	**539,294**	**(1)**	**539,293**
Comprehensive income for the year													
Profit for the year		–	–	–	–	–	–	–	–	47,308	**47,308**	202	**47,510**
Other comprehensive income		–	–	–	–	4,709	627	–	–	–	**5,336**	–	**5,336**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**4,709**	**627**	**–**	**–**	**47,308**	**52,644**	**202**	**52,846**
Transactions with owners recorded directly in equity													
Amortisation of property and equipment revaluation reserve		–	–	–	(74)	–	–	–	–	74	**–**	–	**–**
Repurchase of share capital	36	–	(6,682)	–	–	–	–	–	–	–	**(6,682)**	–	**(6,682)**
Other reserves operations	3, 36	–	–	–	–	–	–	–	7,212	–	**7,212**	–	**7,212**
Share-based payments	3, 36	–	4,044	321	–	–	–	–	(4,365)	–	**–**	–	**–**
Disposal of subsidiary	40	–	–	(188)	(35)	(2,562)	(131)	–	–	1,338	**(1,578)**	–	**(1,578)**
Acquisition of non-controlling interests		–	–	–	–	–	–	–	–	(1,915)	**(1,915)**	1,928	**13**
Dividends to the Group's shareholders	36	–	–	–	–	–	–	–	–	(113,851)	**(113,851)**	–	**(113,851)**
Total transactions with owners		**–**	**(2,638)**	**133**	**(109)**	**(2,562)**	**(131)**	**–**	**2,847**	**(114,354)**	**(116,814)**	**1,928**	**(114,886)**
Balance at 31 December 2021		**258,201**	**(2,638)**	**764**	**1,316**	**8,334**	**(268)**	**(137,564)**	**2,847**	**344,132**	**475,124**	**2,129**	**477,253**

The notes set out on pages 15 to 134 form an integral part of these consolidated financial statements.

(in millions of Kazakhstani tenge unless otherwise stated)

		Attributable to equity holders of the Group									
	Note	*Share capital*	*Additional paid-in capital*	*Property and equipment revaluation reserve*	*Fair value reserve*	*Cumulative reserve for translation to presentation currency*	*Reverse acquisition reserve*	*Retained earnings*	*Total*	*Non-controlling interests*	*Total equity*
Balance at 1 January 2020		**216,540**	**631**	**1,945**	**4,108**	**649**	**(137,564)**	**272,997**	**359,306**	–	**359,306**
Comprehensive income for the year											
Profit for the year		–	–	–	–	–	–	258,200	**258,200**	(1)	**258,199**
Other comprehensive income		–	–	48	2,079	(1,413)	–	–	**714**	–	**714**
Total comprehensive income for the year		**–**	**–**	**48**	**2,079**	**(1,413)**	**–**	**258,200**	**258,914**	**(1)**	**258,913**
Transactions with owners recorded directly in equity											
Amortisation of property and equipment revaluation reserve		–	–	(568)	–	–	**–**	568	**–**	**–**	**–**
Increase in share capital	36	41,661	–	–	–	–	–	(7,147)	**34,514**	–	**34,514**
Dividends to the Group's shareholders	36	–	–	–	–	–	–	(113,440)	**(113,440)**	–	**(113,440)**
Total transactions with owners		**41,661**	**–**	**(568)**	**–**	**–**	**–**	**(120,019)**	**(78,926)**	**–**	**(78,926)**
Balance at 31 December 2020		**258,201**	**631**	**1,425**	**6,187**	**(764)**	**(137,564)**	**411,178**	**539,294**	**(1)**	**539,293**

The notes set out on pages 15 to 134 form an integral part of these consolidated financial statements.

1. Background

Organisation and operations

These consolidated financial statements include the financial statements of First Heartland Jusan Bank Joint Stock Company (former Tsesnabank JSC) (the "Bank") and its subsidiaries (the "Group").

The Bank was registered on 17 January 1992 as Tsesnabank Open Joint Stock Company ("OJSC") under the laws of the Republic of Kazakhstan. As a result of changes made to the legislation in 2003, on 26 December 2003, the Bank was re-registered as a joint stock company (the "JSC").

On 6 February 2019, First Heartland Securities JSC, an investment arm of the financial holding company owned by the Nazarbayev Fund Private Fund and the group of autonomous education organisations Nazarbayev University and Nazarbayev Intellectual Schools, purchased 99.8% of ordinary shares of the Tsesnabank JSC.

On 26 April 2019, the First Heartland Securities JSC undertook a rebranding of the Bank. After rebranding, the Bank was named First Heartland Jýsan Bank JSC with the retail brand named 'Jýsan Bank'.

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

On 28 May 2021, the State Entity "Agency of the Republic of Kazakhstan for Regulation and Development of Financial Market" (the "ARDFM") issued a permit to the Bank for voluntary reorganisation through takeover of ATFBank JSC by the Bank.

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 as a result of 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 change of the name and following the re-registration procedure.

The principal activities of the Bank are commercial banking operations, credit operations, issuing guarantees, deposit taking, customer accounts opening and maintenance, cash and settlement operations, and securities and foreign exchange transactions. Debt securities issued by the Bank are listed on Kazakhstan Stock Exchange ("KASE") and Astana International Exchange (AIX).

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

The Bank's registered head office is: 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.

Acquisition of ATFBank JSC

On 4 November 2020, the Ban and the shareholder of ATFBank JSC - Mr G.Sh. Yessenov reached a preliminary agreement on purchase of shares of ATFBank JSC by the Bank. On 20 November 2020, under the signed agreement, the parties concluded a contract for sale and purchase of shares of ATFBank JSC. Upon approval by the ARDFM, on 29 December 2020, the Bank obtained control of ATFBank JSC acquiring 99.88% of voting shares in the bank.

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, the Bank repurchased 106,269 ordinary shares from minority shareholders of ATFBank JSC, at a price of KZT 922.53 per ordinary share. Thus, the ratio of number of ordinary shares of ATFBank JSC owned by the Bank to the total number of voting ordinary shares of ATFBank JSC was 100.0%.

On 11 March 2021, ATFBank JSC received a certificate on re-registration of a business name whereby ATFBank JSC was named ATFBank JSC - Subsidiary Bank of First Heart Jusan Bank Joint Stock Company (the "ATFBank JSC").

1. Background, continued

Acquisition of ATFBank JSC, continued

On 16 March 2021, at a joint general shareholders meeting of the Bank and ATFBank JSC, a decision was made for the Bank to take over ATFBank JSC. On 28 May 2021, the ARDFM issued a permit to the Bank for voluntary reorganisation through taking over ATFBank JSC by the Bank, which was completed on 3 September 2021. As both legal entities, at the reorganisation date, were under common control of the same ultimate shareholder, the takeover of ATFBank JSC was therefore accounted for as a business combination under common control.

Subsidiaries of ATFBank JSC

As part of the voluntary reorganisation through takeover of ATFBank JSC by the Bank, the Bank acquires rights, obligations and property, including investments of ATFBank JSC in its subsidiaries including Optima Bank JSC (97.10%), Tobet Group LLP (100.0%) and ATF Project LLP (100.0%).

Since a deed of transfer was signed on 3 September 2021, these entities are subsidiaries of the Bank and presented in 'investments in subsidiaries' line item in the separate statement of financial position of the Bank as at 31 December 2021.

On 1 September 2021, according to a decision of a sole participant of Tobet Group LLP, judicial authorities of the Republic of Kazakhstan re-registered the business name of the subsidiary Tobet Group LLP as Jusan Inkassatsiya LLP.

On 8 November 2021, a subsidiary of the Bank, ATF Project LLP, received a certificate of state re-registration of a legal entity, with changing its business name to Jusan Property LLP.

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

The Bank's subsidiaries

On 12 February 2021, management of the Bank made a decision to change the name of the subsidiary bank Plus Bank PJS and approved a new name - Kvant Mobile Bank Public Joint Stock Company (the "Kvant Mobile Bank PJSC"). These changes were registered in a manner prescribed by law, as of 22 March 2021.

On 17 May 2021, a subsidiary of the Bank, Jýsan Development LLP, received a certificate of state re-registration of a legal entity, with changing its business name to Jusan Development LLP.

On 31 May 2021, a subsidiary of the Bank, First Heartland Jýsan Invest JSC, received a certificate of state re-registration of a legal entity, with changing its business name to First Heartland Jusan Invest JSC.

On 9 June 2021, Jýsan Garant Insurance Company JSC, a subsidiary of the Bank, received a certificate of state re-registration of a legal entity, with changing its business name to Jusan Garant Insurance Company JSC (the "Jusan Garant IC JSC").

By the Resolution of the Board of Directors of the Bank of 12 August 2021, the Bank entered into a purchase and sale agreement with Pioneer Capital Invest LLP, a party joined by a special relationship with the Bank, to sell 100.00% of ordinary and preference shares of Kvant Mobile Bank PJSC.

On 7 September 2021, the Bank lost control of Kvant Mobile Bank PJSC. The transaction value (or the market value of the transaction) for sale of shares of Kvant Mobile Bank PJSC totalled RUB 2.359 million or RUB 12.21 per share. The aggregate consideration satisfied by cash, received by the Bank in the share sale transaction amounted to KZT 13,732 million *(Note 40)*.

By the Resolution of the Board of Directors of 1 October 2021, the Bank acquired 15,937,691 ordinary shares of First Heart Jusan Invest JSC, at a price of KZT 2,321.54 per share, by exercising its pre-emptive purchase right. The total value of ordinary shares acquired amounted to KZT 37,000 million. As a result of buyout of an additional issue of ordinary shares of First Heart Jusan Invest JSC, the Bank's equity interest changed to 95.00% as at 31 December 2021 (at 31 December 2020: 100.0%).

By the Resolution of the Board of Directors of the Bank of 7 December 2021, the Bank entered into a share purchase and sale agreement with Jusan Garant JSC whereby Jusan Garant IC JSC purchased from the Bank 2,800 ordinary shares or 3.5% of outstanding ordinary shares of Jusan Garant IC JSC, at a price of KZT 151.078.08 per ordinary share. Therefore, as at 31 December 2021 the Bank owns 77,200 shares of Jusan Garant IC JSC or 96.5% of outstanding shares (as at 31 December 2020: 100.0%).

The Bank's subsidiaries as at 31 December 2021 and 31 December 2020 are as follows:

(in millions of Kazakhstani tenge unless otherwise stated)

1. Background, continued

Acquisition of ATFBank JSC, continued

The Bank's subsidiaries, *continued*

Name	*Country of incorporation*	*Principal activities*	*Ownership interest, %* 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 LLC	The Republic of Kazakhstan	Doubtful and bad assets management	100.00	100.00
Jusan Inkassatsiya LLP (former Тобет Group LLP)	The Republic of Kazakhstan	Cash collection	100.00	–
Jusan Property LLP (former ATF Project LLP)	The Republic of Kazakhstan	Doubtful and bad assets management	100.00	–
Jusan Garant IC JSC	The Republic of Kazakhstan	Insurance business	100.00	100.00
Optima Bank OJSC	The Kyrgyz Republic	Banking	97.10	–
First Heartland Jusan Invest JSC	The Republic of Kazakhstan	Dealing and brokerage activities	95.00	100.00
Kvant Mobile Bank PJSC (former Plus Bank PJSC)	The Russian Federation	Banking	–	100.00
ATFBank JSC (SB of Jusan Bank JSC)	The Republic of Kazakhstan	Banking	–	99.88

Shareholders

At 31 December 2021, major shareholders of the Bank are First Heartland Securities JSC, a broker in Kazakhstan, which owns 78.73% of outstanding ordinary shares, and Mr Galimzhan Shakhmardanovich Yessenov who owns 20.11% of outstanding ordinary shares (31 December 2020: 80.04% of ordinary shares and 19.96% of ordinary shares, respectfully).

As at 31 December 2021 and 2020, shareholders who owned more than 5% of the Bank's outstanding shares are as follows:

Shareholders	*31 December 2021, %*	*31 December 2020, %*
First Heartland Securities JSC	78.73	80.04
Mr G.Sh. Yessenov	20.11	19.96
Other	1.16	–
Total	**100.00**	**100.00**

As at 31 December 2021, an 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 financing the 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 for the shares of Jysan Technologies Ltd, a parent company of First Heartland Securities JSC, in the sole interests of, and solely with a view to securing financing the 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 a 67.53% interest in Pioneer Capital Invest LLP.

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

(in millions of Kazakhstani tenge unless otherwise stated)

1. Background, continued

Kazakhstan business environment

The Group's operations are primarily located in Kazakhstan. Consequently, the Group is exposed to the economic and financial markets of the Republic 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.

Volatility in the global price of oil and the COVID-19 coronavirus pandemic also increases the level of uncertainty in the business environment.

Recent elevation of political tension between Ukraine and the Russian Federation has further increased the level of economic uncertainty in Kazakhstan *(Note 47)*.

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

2. Basis of preparation

General

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

Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that derivative financial instruments, trading securities, investment securities measured at fair value through other comprehensive income ("FVOCI"), loans to customers measured at fair value through profit or loss ("FVTPL"), loans to customers measured at fair value through other comprehensive income ("FVOCI"), Promissory notes from the Ministry of Finance of the Republic of Kazakhstan (the "MFRK") measured at fair value through other comprehensive income and land and buildings classified as 'Property and equipment') and investment property are stated at fair value.

Functional and presentation currency

The functional currency of the Bank and its subsidiaries, except for Kvant Mobile Bank PJSC and Optima Bank OJSC, is the Kazakhstani 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 functional currency of Kvant Mobile Bank PJSC is the Russian rouble. The functional currency of Optima Bank OJSC is the Kyrgyz som.

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

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

Reclassification

The following reclassifications were made in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2021 and consolidated statement of financial position as at 31 December 2020 to conform to changes in presentation as at 31 December 2021 and for 2020:

	As at 31 December 2020		
	As previously reported	*Amount of reclassification*	*As reclassified*
Consolidated statement of financial position			
Investment securities	336,193	(98)	**336,095**
Other assets	80,394	98	**80,492**

(in millions of Kazakhstani tenge unless otherwise stated)

2. Basis of preparation, continued

Classification, continued

	For the year ended 31 December 2020		
	As previously reported	*Amount of reclassification*	*As reclassified*
Consolidated statement of profit or loss and other comprehensive income			
Revaluation expense on property and equipment and intangible assets	(264)	264	–
Other general and administrative expenses	(19,737)	15	**(19,722)**

	For the year ended 31 December 2020		
	As previously reported	*Amount of reclassification*	*As reclassified*
Consolidated statement of cash flows			
Acquisition of the subsidiary	(41,678)	17	**(41,661)**
Proceeds from sale of non-current assets held for sale	3,988	(17)	**3,971**

Adjustments

The Group adjusted the following items in the consolidated statements of profit or loss and other comprehensive income and cash flows for the year ended 31 December 2020:

	For the year ended 31 December 2020		
	As previously reported	*Adjustment*	*As adjusted*
Consolidated statement of profit or loss and other comprehensive income			
Other income	4,099	9,600	**13,699**
Other expenses	–	(9,879)	**(9,879)**

	For the year ended 31 December 2020		
	As previously reported	*Adjustment*	*As adjusted*
Consolidated statement of cash flows			
Other income receipts	2,100	7,936	**10,036**
Other expenses paid	–	(7,936)	**(7,936)**

3. Significant accounting policies

Changes in accounting policy

Accounting principles applied in preparation and presentation of the consolidated financial statements are consistent with those applied in preparation of the Group's consolidated financial statements for 2021, except for application of new standards which became effective from 1 January 2021. The nature and impact of these changes are considered below. The Group has not early adopted any standards, interpretations or amendments that have been issued but 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 exceptions to address issues that might affect financial reporting when an interbank offered rate (IBOR) is replaced with an alternative risk-free interest rate. The amendments:

- provide for a practical expedient whereby contract modifications or change in the cash flows required by interest rate benchmark reform should be considered as a change in a variable inter rate equivalent to a change in a market interest rate;
- allow amendment of the designation of a hedging relationship and hedging documentation to reflect changes that are required by the IBOR reform;

3. Significant accounting policies. continued

Changes in accounting policy, continued

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

- the entity is provided with a temporary exception from complying with 'a separately identifiable component' requirement where an instrument with a risk-free interest rate is designated by the entity as a risk component for hedging relationships.

These amendments had not any impact on the Group's consolidated financial statements.

COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendments to IFRS 16).

On 28 May 2020, the IASB issued *Covid-19-Related Rent Concessions – Amendment to IFRS 16.* The pronouncement amended IFRS 16 *Leases* to provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16 if the change were not a lease modification.

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 made a decision to extend the application of this practical expedient until 30 June 2022.

The amendment applies for annual reporting periods beginning on or after 1 April 2021. The Group was not granted any COVID-19 related rent concessions; however, the Bank is expected to apply practical expedient during the eligible period, if required.

Basis for consolidation

Business combination

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. The Group measures goodwill at the acquisition date at:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the acquirer's previously held equity interest in the acquiree; less
- the net recognised amount (generally, fair value) of the identifiable assets acquired net of liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

The Group elects on the transaction-by-transaction basis whether to measure non-controlling interests at the acquisition date: at fair value, or at their proportionate share of the recognised amount of the identifiable net assets of the acquiree as at the acquisition date.

Combination of entities or businesses under common control

IFRS 3 excludes from its scope 'a combination of entities or businesses under common control'. For the purpose of the exemption, 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.

3 Significant accounting policies, continued

Basis of consolidation, continued

Combination of entities or businesses under common control, continued

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 Group) financial statements at their carrying amounts as at the date of transfer. The host (i.e. the Group) is taken to be the highest level reporting entity over which financial information of the acquired entity was consolidated.

Goodwill on initial acquisition of an entity under common control is recognised in the host (i.e. the Group) financial statements. Any difference between the carrying amount of net assets, including goodwill attributable to the transferring entity, and the consideration paid is recognised in equity in the financial statements of the Group.

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Loss of control

Upon loss of control of a subsidiary, the Group 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 Group 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.

Funds management

The Group manages and administers assets held in unit trusts and other investment vehicles on behalf of investors.

The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity.

Acquisitions and disposals of non-controlling interests

The Group accounts for the acquisitions and disposals of non-controlling interests as transactions with equity holders in their capacity as equity holders. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the parent.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Foreign currency translation

Transactions in foreign currencies are translated to the respective functional currency 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'.

3. Significant accounting policies, continued

Foreign currency translation, continued

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 arising on translation are recognised in profit or loss, except for differences arising on the translation of equity instruments designated as at FVOCI, which 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 USD 1.00 (31 December 2020: KZT 420.91 for USD 1.00).

Foreign operations

The assets and liabilities of foreign subsidiaries, including goodwill and fair value adjustments arising on acquisition, are translated to tenge at the exchange rates at the reporting date. The income and expenses of foreign subsidiaries are translated to tenge at exchange rates at the dates of the transactions. Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve in equity.

When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the foreign currency translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such item form part of a net investment in a foreign operation and are recognised in other comprehensive income, and presented in the translation reserve in equity.

Measurement of fair values

The Group measures financial instruments classified as at FVTPL and FVOCI, 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.

The principal or the most advantageous market must be accessible to the Group. 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 Group 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 prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 − valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3: valuation models, in which inputs that are significant to the fair value measurement are not observable in the market and the unobservable inputs have a significant effect on the instrument's valuation.

3. Significant accounting policies, continued

Measurement of fair values, continued

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group 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 Group 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 Group calculates interest income on debt financial assets measured at amortised cost or at FVOCI 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 Group 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 Group 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 Group reverts to calculating interest income on a gross basis.

For purchased or originated credit-impaired ("POCI") financial assets, the Group 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 at FVTPL is recognised using the contractual interest rate in 'Other interest income' in the consolidated statement of profit or loss and other comprehensive income.

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 Group 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 time 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 Group's consolidated financial statements may be partially in the scope of IFRS 9 *Financial Instrument*s and partially in the scope of IFRS 15 *Revenue from Contracts with Customers*. If this is the case, then the Group 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 comprise mainly transaction support and service fees, which are expensed as the services are received.

3. Significant accounting policies, continued

Segment reporting

An operating segment is a component of a Group 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 Group); 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 Group's operations are highly integrated and constitutes three operating business segments – banking , investment – brokerage and insurance activity – 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 Group commits to purchase the asset or liability. Regular way purchases or sales of financial assets and liabilities are those 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 FVTPL.

Measurement categories of financial assets and liabilities

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

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

The Group classifies and measures its derivative and trading portfolio at FVTPL. The Group may designate financial instruments at FVTPL, 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 FVTPL when they are instruments held for trading and derivative instruments, or the Group may designate a financial liability to be measured at fair value.

Amounts due from banks and other financial institutions, loans to customers, and other financial investments at amortised cost.

The Group 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; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding("SPPI").

These criteria are detailed below.

Business model assessment

The Group 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 Group 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:

3. Significant accounting policies, continued

Financial assets and liabilitiesб continued

Initial measurement, continued

Business model assessment, continued

- 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 Group 's original expectations, the Group 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.

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

As a second step of its classification process, the Group 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 Group 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 FVTPL.

Debt securities and promissory notes measured at FVOCI

The Group 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; and
- contractual terms of the financial assets comply with the SPPI test criteria.

Debt securities and promissory notes 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.

3. Significant accounting policies, continued

Financial assets and liabilities, continued

Initial measurement, continued

Debt securities and promissory notes measured at FVOCI

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 recognised 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 Group 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 Group 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.

Financial guarantees, letters of credit and credit related commitments

The Group 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 Group'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 Group 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 Group 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.

Classification of financial assets and financial liabilities

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

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 Group in the management of short-term commitments. Cash and cash equivalents are recognised at amortised cost in the consolidated statement of financial position.

3. Significant accounting policies, continued

Financial assets and liabilities, continued

Repurchase and reverse repurchase agreements and securities lending

Securities sold under sale and repurchase agreements ("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.

Derivative financial instruments

In the normal course of business, the Group 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 resulting from these instruments are included in the statement of profit or loss and other comprehensive income as 'net gains/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 Group 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, current accounts and deposits from 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 Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in profit or loss.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts and an intention to settle on a net basis or to realise the asset and settle the liability simultaneously. The Group 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 Group and all counterparties.

3. Significant accounting policies, continued

Restructuring of loans

Where possible, the Group 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 Group 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 Group's financial assets is performed in a similar way. Assessment of the Group's financial assets, other than loans to customers, is performed in a similar way.

The Group 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 Group considers the following:

- change of 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 Group 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 Group 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.

Measurement of impairment

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

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

No impairment loss is recognised on equity investments.

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

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

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

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of 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

Measurement of impairment, continued

Measurement of expected credit losses (ECL)

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

- *financial assets that are not credit-impaired at the reporting date*: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group 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 Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- *financial guarantee contracts*: the present value of expected payments to reimburse the holder less any amounts that the Group 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 Group assesses whether financial assets carried at amortised cost and debt financial assets 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 being past due;
- restructuring of a loan or advance on terms that the Group 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 is overdue for 90 days or more is considered credit-impaired.

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

- The market’s assessment of creditworthiness as reflected in the bond yields;
- The rating agencies’ assessments of creditworthiness;
- The country’s ability to access the capital markets for new debt issuance;
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt;
- 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.

3. Significant accounting policies, continued

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 Group 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 Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group 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 Group'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 Group 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 Group's continuing involvement is the amount of the transferred asset that the Group 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 Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Write-offs

Financial assets are written off in part or in full, only when the Group 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.

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 consolidated financial statements.

Where the Group 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.

3. Significant accounting policies, continued

Property and equipment

Owned assets

Items of property and equipment except for land and administrative buildings are stated in the consolidated 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
Administrative buildings	25-100
Industrial buildings	25-55
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.

Intangible assets

Acquired intangible assets are stated in the consolidated 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 Group 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.

3. Significant accounting policies, continued

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.

Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Items of investment property are measured at fair value.

Leases

At inception of a contract, the Group 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. *<u>Group as a lessee</u>*

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets.

The Group 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 Group 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 Group 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 Group 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 Group and payments of penalties for terminating a lease, if the lease term reflects the Group 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 Group 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.

Short-term leases and low-value assets leases

The Group 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 Group 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 five thousand). 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.

3. Significant accounting policies, continued

Leases, continued

i. Operating lease - Group as a lessor

Leases in which the Group 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 the lease terms 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.

ii. Finance lease −Group as a lessor

The Group 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 Group 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 Group 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 Group 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 Group 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 consolidated statement of financial position when the Group 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.

Pensions and other employee benefits liabilities

The Group does not have any pension arrangements separate from the State pension system of Kazakhstan, which requires current withholdings by the employer and employee 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 consolidated statement of profit or loss and other comprehensive income. The Group makes social tax contributions for its employees to the budget of the Republic of Kazakhstan. The Group 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.

(in millions of Kazakhstani tenge unless otherwise stated)

3. Significant accounting policies, continued

Equity, continued

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 consolidated statement of financial position, net of transaction costs. The corresponding cumulative dividends on those shares are charged as interest expense in the consolidated 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 consolidated financial statements.

Dividends

The ability of the Group 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 consolidated financial statements when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue.

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 Group established a share-based payment programme (as one of the forms of non-fixed remuneration package) that entitles certain members of key management personnel to be granted the Bank's and/or its subsidiaries shares, subject to a mandatory condition they would hold these shares for at least 3 (three) years without the obligation of the Bank and/or its subsidiaries 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.

Share-based remuneration payments during 2021 (2020: none) are as follows:

	Number of ordinary shares	*Fair value per ordinary share, KZT*	***Total KZT million***
Balance 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**

3. Significant accounting policies, continued

Share-based payment arrangements, continued

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

	2021
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, 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 tax. 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 income tax includes 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 adjustments to tax payable in respect of previous years. Current corporate income 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, 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 utilised. 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 Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Group believes 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 Group 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.

3. Significant accounting policies, continued

Insurance contracts

i. *Classification of contracts*

Contracts under which the Group accepts significant insurance risk from another party (the "policyholder") by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the "insured event") adversely affects the policyholder or other beneficiary are classified as insurance contracts. Insurance risk is the risk other than financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Insurance contracts may also transfer some financial risk.

Insurance risk is significant if, and only if, an insured event could cause the Group to pay significant additional benefits. Once a contract is classified as an insurance contract, it remains classified as an insurance contract until all rights and obligations are extinguished or expire.

Contracts under which the transfer of insurance risk to the Group from the policyholder is not significant are classified as financial instruments.

ii. *Recognition and measurement of insurance contracts*

Premiums

General business premiums written comprise the premiums on contracts entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period. Premiums are disclosed gross of commission payable to intermediaries and exclude taxes and levies based on premiums. The earned portion of premiums received is recognised as revenue. Premiums are earned from the date of attachment of risk, over the indemnity period, based on the pattern of risks underwritten. Outward reinsurance premiums are recognised as an expense in accordance with the pattern of reinsurance service received. The portion of outward reinsurance premiums not recognised is treated as a prepayment.

Provision for unearned premiums

The provision for unearned premiums comprises the proportion of gross premiums written which is estimated to be earned in the following or subsequent financial years, computed separately for each insurance contract using the daily pro-rata method, adjusted if necessary to reflect any variation in the incidence of risk during the period covered by the contract.

Claims

Claims comprise claims and claim handling expenses paid during the financial year together with the movement in the provision for outstanding claims.

Claims outstanding comprise provisions for the Group's estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date whether reported or not, and related internal and external claims handling expenses. Claims outstanding are assessed by reviewing individual claims and making allowance for claims incurred but not yet reported, the effect of both internal and external foreseeable events, such as changes in claims handling procedures, legislative changes and past experience and trends. Provisions for claims outstanding are not discounted.

Whilst management considers that the gross provisions for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and developments and may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the consolidated financial statements for the period in which the adjustments are made, and disclosed separately if material. The methods used, and the estimates made, are reviewed regularly.

iii. *Reinsurance assets*

The Group cedes reinsurance in the normal course of business for the purpose of limiting its potential net loss through the diversification of its risks. Assets, liabilities, income and expense arising from ceded reinsurance contracts are presented separately from the related assets, liabilities, income and expense from the related insurance contracts because the reinsurance arrangements do not relieve the Group from its direct obligations to its policyholders.

Only rights under contracts that give rise to significant transfer of insurance risk are accounted for as reinsurance assets. Rights under contracts that do not transfer significant insurance risk are accounted for as financial instruments.

3. Significant accounting policies, continued

Insurance contracts, continued

iii. *Reinsurance assets, continued*

Reinsurance premiums for ceded reinsurance are recognised as an expense on a basis that is consistent with the recognition basis for the premiums on the related insurance contracts. For general insurance business, reinsurance premiums are expensed over the period that the reinsurance cover is provided based on the expected pattern of the reinsured risks. The unexpensed portion of ceded reinsurance premiums is included in reinsurance assets. The net amounts paid to a reinsurer at the inception of a contract may be less than the reinsurance assets recognised by the Group in respect of its rights under such contracts.

The amounts recognised as reinsurance assets are measured on a basis that is consistent with the measurement of the provisions held in respect of the related insurance contracts.

Reinsurance assets include recoveries due from reinsurance companies in respect of claims paid. These are classified as reinsurers' share in insurance contract provisions in the consolidated statement of financial position.

Reinsurance assets are assessed for impairment at each reporting date. An asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Group may not recover all amounts due, and that the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.

iv. *Insurance acquisition costs*

Insurance acquisition costs include direct costs such as commissions paid to insurance agents and brokers and indirect costs such as administrative expenses connected with the processing of proposals and the issuing of policies. Insurance acquisition costs are expensed as incurred.

v. *Liability adequacy test*

At each reporting date, liability adequacy tests are performed to determine if the insurance contract provisions are adequate. Current best estimates of all future contractual cash flows and related expenses, such as claims handling expenses, and investment income from assets backing the insurance contract provisions are used in performing these tests.

If a shortfall is identified, an additional provision is established, if necessary. The deficiency is recognised in profit or loss for the year.

vi. *Insurance receivables and payables*

Amounts due to and from policyholders, agents and reinsurers are financial instruments and are included in insurance receivables and payables, and not in insurance contract provisions or reinsurance assets.

Standards issued but not yet effective

A number of new standards, amendments to standards and interpretations have been issued but are not yet effective as at the date of publication of the Group's consolidated financial statements. The Group plans to adopt these new standards, amendments to standards and interpretations when they become effective.

- *IFRS 17 Insurance Contracts*

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

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

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

- *Amendments to IFRS 3 – Reference to Conceptual Framework*

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

3. Significant accounting policies, continued

Standards issued but not yet effective, continued

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

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 Group.

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

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Group will apply the amendments to contracts for which the Group has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the Group 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 Group's consolidated financial statements.

- *Amendments to IAS 8 – Definition of Accounting Estimates*

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

- *Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of Accounting Policies*

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

4. Significant accounting judgements and estimates

Estimation uncertainty

The preparation of consolidated financial statements in conformity with IFRS requires management of the Group 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 debt securities issued and subordinated bonds

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

The fair value of KZT-denominated issued debt securities and subordinated bonds as at 31 December 2021 (*Note 46*) was determined using the discounted market interest rates ranging from 12.47% to 16.04% per annum, and of USD-denominated - at 3.45% per annum.

During 2020, the Group made amendments to the prospectuses of issue of the Group debt securities and subordinated bonds in terms of their maturities and nominal interest rate per annum. The Group 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 Group was measured by discounting contractual future cash flows at the market interest rates in the range from 12.5% to 15.3% per annum.

4. Significant accounting judgements and estimates, continued

Estimation uncertainty, continued

Fair value of debt securities issued and subordinated bonds, continued

In December 2020, the Group 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 Group 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 Group estimated the market rates using observable inputs, where possible, and has to make certain assessments for individual companies. Further information is disclosed in *Notes 32* and *33*. .

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is 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 46)*.

For loans to customers measured at fair value and impaired upon initial recognition the Group 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 Group assessed potential economic downturn and recovery period given the ongoing COVID-19 pandemic.

Classification of loans to customers

As a part of classification process, the Group assesses the contractual terms of the loans to customers to identify whether they represent solely payments of principal and interest on the amount outstanding. To make this assessment, the Group 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

The measurement of impairment losses across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining ECL / impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. Moreover, large-scale interruptions of business may result in problems with liquidity 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 Group. The Group'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 models that are considered accounting judgements and estimates include:

- the Group's internal credit grading model, which assigns probabilities of default ("PD");
- the Group's criteria, including qualitative assessments, for assessing if there has been a significant increase in credit risk resulting in ECL for financial assets being measured on a lifetime basis;
- grouping of financial assets, including various formulas and choice of input data;
- determination of associations 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.

4. Significant accounting judgements and estimates, continued

Estimation uncertainty, continued

Impairment losses on financial assets, continued

Management of the Group 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 Group 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 Group's customers. An average Point-in-Time PD has an effect of 3.11% due to the macro-economic adjustment. Based on entire information available as at 31 December 2021, when calculating ECL, the Group stated the remeasured expected future cash flows.

The amount of impairment allowance recognised in the consolidated statement of financial position as at 31 December 2021 was KZT 254,284 million (31 December 2020: KZT 539,053 million). Details are disclosed in *Note 24*.

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

Management of the Group applied a judgement to selecting an accounting policy for the one-time recognition of a difference between the fair value of debt securities and subordinated bonds issued or restructured under a single framework agreement in the consolidated statement of profit or loss and other comprehensive income as part of "Gain on modification and initial recognition of financial liabilities to government institutions".

Measurement of fair value of consideration paid for acquisition of controlling interest in ATF Bank JSC requires selection of the most suitable measurement model based on the terms and conditions of a contract for sales of ordinary shares as well as a framework agreement. To measure fair value of 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 transactions involving share-based payments is disclosed in *Note 5.*

The acquisition method under IFRS 3 requires management to measure fair value of identifiable assets and liabilities of ATFBank JSC as at the acquisition date and thus, requires applying a significant professional judgement. Management has engaged an independent appraiser to get assistance in such measurement. Key techniques, assumptions and assessments are disclosed in *Note 5*.

Determining the lease term of contracts with renewal options

The Group 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 Group has the option, under some of its leases to lease the assets for additional terms. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group 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.

4. Significant accounting judgements and estimates, continued

Estimation uncertainty, continued

- A terminal value was calculated using the Gordon growth model.
- 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 non-existent and insignificant amount 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 systems.

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

Acquisition of ATFBank JSC

On 29 December 2020, the Group took control over ATFBank JSC having acquired 99.88% or 81,763,048 voting shares through additional issue of 33,001,596 ordinary at an offering price of KZT 1,262.39 per share, for a total amount of KZT 41,661 million *(Note 1)*.

ATFBank JSC provided retail and corporate banking services in Kazakhstan, accepted deposits from the public, extended loans, made transfers within Kazakhstan and abroad, exchanged currencies and provided other banking services to its corporate and retail customers. Obtaining control over ATFBank JSC and its subsidiaries will allow the Group to improve its operating processes and increase the Group’s market share through access to the customer base of ATFBank JSC and reduce costs through economies of scale.

Consideration transferred

Taking into consideration the restrictive conditions for payment of dividends to a new shareholder of the Group, fair value of interest paid in the form of 19.96% of ordinary shares of the Group amounted to KZT 34,514 million. The difference between fair value of consideration paid and nominal value of ordinary shares redeemed by the new shareholder was KZT 7,148 million and was recognised in the consolidated statement of changes in equity.

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);
- terminal value was calculated using the Gordon growth model;
- discount rate was estimated on the basis of CAPM model and amounted to 17.0% per annum.

Furthermore, in December 2020, as part of the transaction of acquisition of a subsidiary bank in accordance with the terms and conditions of the framework agreement:

(in millions of Kazakhstani tenge unless otherwise stated)

5. Business combination, continued

Acquisition of ATFBank JSC, continued

Consideration transferred, continued

- as part of the fourth bond issue program, the Group made amendments to the prospectus of bond issue, the holder of which is Kazakhstan Sustainability Fund JSC. New maturity of the bond is 320 months and maturity date is 5 October 2045 (Note 32).
- the Group issued subordinated bonds with total nominal value of KZT 100,000 million, bearing a coupon rate of 9.0% per annum and maturing in 2025. The holder of the bonds is Sovereign Wealth Fund "Samruk-Kazyna" JSC (Note 33).
- as part of the fourth bond issue program the Group made amendments to the prospectus of bond issue, the holder of which is Kazakhstan Sustainability Fund JSC. New maturity of the bond is 276 months and maturity date is 25 October 2040. The nominal interest rate has been reduced from 4.0% to 0.1% per annum. (Note 33).
- as part of the fourth bond issue program the Group made amendments to the prospectus of bond issue, the holder of which is Kazakhstan Sustainability Fund JSC. New maturity of the bonds is 247 months and maturity date is 26 October 2040 (Note 33).

The difference between nominal value and fair value of debt securities and subordinated bonds at the date of initial recognition in the total amount of KZT 110,574 million was recognised in the consolidated statement of profit or loss and other comprehensive income within "Gain on modification and initial recognition of financial liabilities to government institutions".

Fair value of identifiable assets acquired and liabilities as well as bargain purchase gain on acquisition of ATFBank JSC on 29 December 2020 are as follows:

Fair value of ATFBank JSC and its subsidiaries as at the date of acquisition	*Balance at 29 December 2020*
Assets	
Cash and cash equivalents	559,133
Derivative financial instruments	14
Amounts due from banks and other financial institutions	52,201
Trading securities	84
Investment securities	26,199
Loans to customers	659,869
Property and equipment and intangible assets	41,342
Current tax assets	162
Other assets	55,433
Total assets	**1,394,437**
Liabilities	
Amounts due to banks and other financial institutions	75,830
Derivative financial instruments	266
Current accounts and deposits from customers	836,253
Debt securities issued	123,645
Subordinated debt	76,573
Current tax liability	101
Liabilities to mortgage organisation	11,955
Deferred tax liability	56,427
Lease liabilities	2,417
Other liabilities	5,847
Total liabilities	**1,189,314**
Net identifiable assets	**205,123**

Bargain purchase gain

Bargain purchase gain as a result of acquisition of controlling interest in ATFBank JSC has been calculated as follows:

5. Business combination, continued

Acquisition of ATFBank JSC, continued

Identifiable assets acquired and liabilities assumed

Fair value of net identifiable assets	205,123
Fair value of consideration in the form of 19.96% of ordinary shares of the Group	34,514
Total bargain purchase gain	**170,609**

The valuation techniques used for measuring the fair value of material assets acquired were as follows.

Assets acquired	Valuation technique
Investment securities	*Discounted cash flows:* Fair values of securities in the form of short-term discount bonds (notes) of the NBRK and government bonds of the MFRK have been calculated by discounting future cash flows in accordance with the terms and conditions of the prospectus. The discount rate has been determined based on the yield curve for market rates in KZT as reported by KASE.
Loans to customers	*Discounted cash flows:* As part of measurement of fair value of loan portfolio, the portfolio has been segmented by type of borrowers, loan status, loan type, collateral type, and lending product. Interest rates of the issued performing loans have been analysed for their compliance with the market rates. Such analysis has been performed separately for standard bank loans, for loans under special-purpose programs, and those under individual terms. Fair value of loans to customers has been measured as gross carrying amount less charged provisions calculated as present value of expected future cash flows from foreclosed collateral discounted at discount rate in the form of original effective interest rate for loans in Stages 1 and 2, and in the form of discount rate adjusted for risk for Stage 3 loans.
Property and equipment and collateral in 'other assets'	*Market comparison technique and income approach:* The valuation model uses inputs based on quoted market prices for similar items, considering the following criteria: location, square area, utility service connection, intended use. For the valuation purpose, the selected comparable items were adjusted to take account of a trade discount. For the purpose of valuating buildings and structures, management used a capitalisation method as part of the Income approach.

The valuation technique used to determine the fair value of material assumed liabilities is set out below:

Liabilities assumed	Valuation technique
Debt securities issued and subordinated debt	*Discounted cash flows:* The valuation model considers the present value of expected future cash flows estimated according to the Issue Prospectus terms. A discount rate was based on the KZT yield curve, taking account of a credit spread.
Deposits from customers	*Analysis of weighted average interest rates on deposit sub-portfolios as to their matching the market rates*
Amounts due from banks and other financial institutions	*Discounted cash flows:* The fair value of amounts due from banks and other financial institutions was estimated using 'Discounted cash flows' method (according to the repayment schedules) by individual contracts. A discount rate was based on the KZT yield curve, taking account of a credit spread.

The methods and assumptions used to determine the fair value of the Group' financial instruments at the acquisition date were substantially consistent with the fair value estimation techniques described in *Note 46*.

The respective amounts of gross contractual amounts and expected uncollectible amounts related to them at the acquisition date are as following:

- loans to customers – KZT 752,322 million and KZT 92,453 million

(in millions of Kazakhstani tenge unless otherwise stated)

5. Business combination, continued

Acquisition of ATFBank JSC, continued

Identifiable assets acquired and liabilities assumed, continued

From the date of acquisition to 31 December 2020 the Group's net interest income was KZT 242 million and loss was KZT 203 million. If the acquisition of business had occurred on 1 January 2020, management estimates that consolidated net interest income would have been KZT 101,231 million, and consolidated profit for the year would have been KZT 261,123 million. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2020.

6. Analysis of credit risks

For information on the Group's financial risk management framework, see *Note 39*. The corresponding description of accounting policies is presented 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 Group 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 Group's historical experience and expert credit assessment and including forward-looking information.

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

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

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

Corporate exposure	All exposures (corporate and retail exposures)
• Information obtained during periodic review of borrowers' 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 variable about payment ratios • Utilisation of the granted limit; • Requests for and granting of forbearance; • Existing and forecast changes in business, financial and economic conditions.

6. Analysis of credit risks, continued

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 Group collects performance and default information about its credit risk exposures analysed by jurisdiction or region, by type of product and borrower as well as by credit risk grading.

The Group 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 the majority of exposures the key driver would be GDP forecast growth and inflation.

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

Determining whether credit risk has increased significantly

The Group 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 Group's quantitative modelling, it is determined that there are the objective factors resulting in deterioration of financial and economic position of the counteragent. 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 Group's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain hightened risk criteria, such as placement on a watch list. Such qualitative factors are based on its expert judgement and relevant historical experience.

As a backstop, the 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 amounts due from banks and investment securities, for which significant increase in credit risk occurs, if past due by more than 7 (seven) 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.

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 Group 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 Group 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).

6. Financial risk review, continued

Definition of default

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

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the borrower is past due more than 90 (ninety) days on any material credit obligation to the Group, with the exception of amounts due from banks and investment securities, which are considered to be in default if past due more than 7 (seven) 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 an issuer is in default, the Group considers indicators that are:

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

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

Incorporating of forward-looking information

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

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variable and credit risk and credit losses. This 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 analysing historical data for the last 5 (five) years.

Modified financial assets

The contractual terms of a loan agreement 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 instrument at fair value in accordance with the accounting policy.

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

The Group renegotiates loans to customers in financial difficulties (referred to as ‘forbearance activities’) to maximise collection opportunities and minimise the risk of default. Under the Group’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 Group’s forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Group’s ability to collect interest and principal and the Group’s previous experience of similar forbearance action.

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

6. Financial risk review, continued

Modified financial assets, continued

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

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 difference between the gross carrying amount of assets and present value of future cash flows.

These parameters are generally derived from internally developed statistical 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 models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where possible, the Group 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 Group 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 a key parameter in determining LGD. LGDs are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

Exposure at default represents the expected exposure in the event of a default. The Group 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. For lending commitments, the EAD is a potential future amount that may be drawn under the contract, which are estimated based on historical observation and forward-looking forecasts. For financial guarantees, the EAD represents the guarantee exposures when the financial guarantee becomes payable.

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 must be subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

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

(in millions of Kazakhstani tenge unless otherwise stated)

6. Financial risk review, continued

Measurement of ECLs, continued

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

Item	*Carrying amount at 31 December 2021*	*External benchmarks used* *PD*	*LGD*
Cash and cash equivalents	1,055,493	Moody's default study	100%; 0% - if the Government acts as a counterparty
Amounts due from banks and other financial institutions	35,938	Moody's default study	100%; 0% - if the Government acts as a counterparty
Investment securities	511,209	Moody's default study	Moody's recovery rates study
Acquired right of claim on promissory note to the MFRK	104,159	Moody's default study	0%

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

Item	*Carrying amount at 31 December 2020*	*External benchmarks used* *PD*	*LGD*
Cash and cash equivalents	1,296,844	Moody's default study	100%; 0% - if the Government acts as a counterparty
Amounts due from banks and other financial institutions	83,729	Moody's default study	100%; 0% - if the Government acts as a counterparty
Investment securities	336,039	Moody's default study	Moody's recovery rates study
Acquired right of claim on promissory note to the MFRK	103,114	Moody's default study	0%

Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost and FVOCI debt instruments as at 31 December 2021. Unless specially indicated, for financial assets, the amounts in the table represent gross carrying amounts.

(in millions of Kazakhstani tenge unless otherwise stated)

6. Analysis of credit risks, continued

Credit quality analysis, continued

	31 December 2021		
	Stage 1	***Stage 2***	***Total***
Investment securities measured at FVOCI			
- rated from BBB- to BBB+	286,898	–	**286,898**
- rated from BB- to BB+	1,965	–	**1,965**
- rated from B- to B+	–	587	**587**
Total	**288,863**	**587**	**289,450**
Expected credit losses (for reference only)	(120)	(171)	**(291)**
Total gross carrying amount of investment securities measured at FVOCI	**288,983**	**758**	**289,741**
Investment securities at amortised cost			
- rated from BBB- to BBB+	214,719	–	**214,719**
- rated from B- to B+	7,107	–	**7,107**
	221,826	**–**	**221,826**
Expected credit losses	(67)	–	**(67)**
Total	**221,759**	**–**	**221,759**
Acquired right of claim on promissory note to the MFRK			
- rated from BBB- to BBB+	104,159	–	**104,159**
Total	**104,159**	**–**	**104,159**

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

	31 December 2020		
	Stage 1	***Stage 2***	***Total***
Investment securities measured at FVOCI			
- rated from BBB- to BBB+	283,279	–	**283,279**
- rated from BB- to BB+	4,959	–	**4,959**
- not rated	–	614	**614**
Total	**288,238**	**614**	**288,852**
Expected credit losses (for reference only)	(27)	(129)	**(156)**
Total gross carrying amount of investment securities measured at FVOCI	**288,265**	**743**	**289,008**
Investment securities at amortised cost			
- rated from BBB- to BBB+	39,401	–	**39,401**
- rated from BB- to BB+	1,290	–	**1,290**
- rated from B- to B+	6,560	–	**6,560**
	47,251	**–**	**47,251**
Expected credit losses	(64)	–	**(64)**
Total	**47,187**	**–**	**47,187**
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 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+	18,047	–	–	–	**18,047**
- rated from BB- to BB+	93,216	5,763	–	–	**98,979**
- rated from B- to B+	154,574	11,875	–	6,639	**173,088**
- rated from CCC- to CCC+	7,170	24,766	–	–	**31,936**
- not rated	126,122	8,936	3,308	30,147	**168,513**
- defaulted	–	–	9,533	302,534	**312,067**
	399,159	**51,340**	**12,841**	**339,320**	**802,660**
Expected credit losses	(2,297)	(1,886)	(4,007)	(228,957)	**(237,147)**
Loans to corporate customers	**396,862**	**49,454**	**8,834**	**110,363**	**565,513**
Gross ECL allowance for loans to customers	0.6	3.7	31.2	67.5	29.5

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 corporate customers at amortised cost					
- rated from BBB- to BBB+	2,149	586	–	–	**2,735**
- rated from BB- to BB+	135,798	–	–	–	**135,798**
- rated from B- to B+	149,786	398	–	–	**150,184**
- rated from CCC- to CCC+	51,532	2,260	–	327	**54,119**
- not rated	107,304	12,348	1,075	25,015	**145,742**
- defaulted	113	–	13,187	634,627	**647,927**
	446,682	**15,592**	**14,262**	**659,969**	**1,136,505**
Expected credit losses	(123)	(94)	(12,252)	(493,186)	**(505,655)**
Loans to corporate customers	**446,559**	**15,498**	**2,010**	**166,783**	**630,850**
ECL allowance in relation to loans to customers before ECL allowance, %	0.0	0.6	85.9	74.7	44.5

(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 corporate customers at amortised cost					
Not overdue	396,253	46,667	8,353	216,507	**667,780**
Overdue less than 30 days	2,899	1,594	135	5,459	**10,087**
Overdue 30-89 days	7	3,079	1,045	1,850	**5,981**
Overdue 90-179 days	−	−	1,025	25,535	**26,560**
Overdue 180-360 days	−	−	624	23,395	**24,019**
Overdue more than 360 days	−	−	1,659	66,574	**68,233**
	399,159	**51,340**	**12,841**	**339,320**	**802,660**
Expected credit losses	(2,297)	(1,886)	(4,007)	(228,957)	**(237,147)**
Total	**396,862**	**49,454**	**8,834**	**110,363**	**565,513**
Loans to retail customers at amortised cost					
Not overdue	247,855	1,138	1,238	3,929	**254,160**
Overdue less than 30 days	5,783	98	265	851	**6,997**
Overdue 30-89 days	518	2,190	412	561	**3,681**
Overdue 90-179 days	−	53	3,310	518	**3,881**
Overdue 180-360 days	−	−	4,106	947	**5,053**
Overdue more than 360 days	−	−	3,269	6,628	**9,897**
	254,156	**3,479**	**12,600**	**13,434**	**283,669**
Expected credit losses	(6,049)	(818)	(5,731)	(4,539)	**(17,137)**
Total	**248,107**	**2,661**	**6,869**	**8,895**	**266,532**

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 corporate customers at amortised cost					
Not overdue	441,824	14,673	340	246,708	**703,545**
Overdue less than 30 days	3,040	841	−	26,473	**30,354**
Overdue 30-89 days	1,818	78	54	11,359	**13,309**
Overdue 90-179 days	−	−	301	49,700	**50,001**
Overdue 180-360 days	−	−	4,965	61,536	**66,501**
Overdue more than 360 days	−	−	8,602	264,193	**272,795**
	446,682	**15,592**	**14,262**	**659,969**	**1,136,505**
Expected credit losses	(123)	(94)	(12,252)	(493,186)	**(505,655)**
Total	**446,559**	**15,498**	**2,010**	**166,783**	**630,850**
Loans to retail customers at amortised cost					
Not overdue	241,208	933	590	4,451	**247,182**
Overdue less than 30 days	5,626	544	87	2,193	**8,450**
Overdue 30-89 days	2,696	1,076	93	1,818	**5,683**
Overdue 90-179 days	11	−	1,463	2,408	**3,882**
Overdue 180-360 days	−	−	2,099	241	**2,340**
Overdue more than 360 days	9	−	12,156	16,490	**28,655**
	249,550	**2,553**	**16,488**	**27,601**	**296,192**
Expected credit losses	(1,494)	(772)	(13,430)	(17,702)	**(33,398)**
Total	**248,056**	**1,781**	**3,058**	**9,899**	**262,794**

(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 retail customers measured at fair value through other comprehensive income as at 31 December 2020.

	31 December 2020				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Loans to retail customers measured at fair value through other comprehensive income					
Not overdue	58,913	3,073	–	–	**61,986**
Overdue less than 30 days	393	2,273	–	–	**2,666**
Overdue 30-89 days	–	2,515	–	–	**2,515**
Overdue 90-179 days	–	–	773	–	**773**
Overdue 180-360 days	–	–	1,583	–	**1,583**
Overdue more than 360 days	–	–	1,388	–	**1,388**
	59,306	**7,861**	**3,744**	–	**70,911**
Expected credit losses (for reference only)	(1,392)	(2,370)	(31,459)	–	**(35,221)**

The following table provides information on quality of other financial assets measured at amortised cost as at 31 December 2021 and 31 December 2020:

	31 December2021				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Other financial assets at amortised cost					
Not overdue	22,648	–	166	354	**23,168**
Overdue less than 30 days	2,099	–	–	26	**2,125**
Overdue 30-89 days	–	63	–	140	**203**
Overdue 90-179 days	–	20	134	21	**175**
Overdue 180-360 days	–	–	40	–	**40**
Overdue more than 360 days	–	–	151	–	**151**
	24,747	**83**	**491**	**541**	**25,862**
Expected credit losses	(770)	(133)	(376)	(26)	**(1,305)**
Total	**23,977**	**(50)**	**115**	**515**	**24,557**

	31 December 2020				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Other financial assets at amortised cost					
Not overdue	6,905	–	6,762	381	**14,048**
Overdue less than 30 days	489	–	1	2	**492**
Overdue 30-89 days	–	68	1	45	**114**
Overdue 90-179 days	–	–	5	–	**5**
Overdue 180-360 days	–	31	892	4	**927**
Overdue more than 360 days	–	–	7,748	–	**7,748**
Total	**7,394**	**99**	**15,409**	**432**	**23,334**

7. Insurance risk management

The Group issues contracts that transfer insurance risk. This section summarises these risks and methods, which the Group uses to manage them.

Risk management objectives and policies for mitigating insurance risk

The Group’s management of insurance is a critical aspect of the business. For insurance contracts, the objective is to select assets with duration and a maturity value which match the expected cash flows from the claims on those portfolios.

The primary insurance and reinsurance activity carried out by the Group assumes the risk of loss from persons or organisations that are directly subject to the risk. Such risks may relate to property, liability, accident, cargo, health, financial or other perils that may arise from an insurable event. As such the Group is exposed to the uncertainty surrounding the timing and severity of claims under the contract.

7. Insurance risk management

Risk management objectives and policies for mitigating insurance risk, continued

The Group manages its insurance risk through underwriting limits, approval procedures for transactions that involve new products or that exceed set limits, pricing guidelines, centralised management of reinsurance and monitoring of emerging issues.

The theory of probability is applied to the pricing and provisioning for insurance contracts. The principal risk is that the frequency and severity of claims is greater than expected. Insurance events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

Underwriting strategy

The Group's underwriting strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks over a number of years and, as such, it is believed that this reduces the variability of the outcome. The underwriting strategy is set out in the business plan that sets out the classes of business to be written, the territories in which business is to be written and the industry sectors to which the Group is prepared to underwrite. The strategy is cascaded down to individual underwriters through detailed underwriting authorities that set out the limits that any one underwriter can write by line size, class of business, territory and industry in order to enforce appropriate risk selection within the portfolio.

Calculation of the tariffs and prices on insurance product reflects current market conditions and covers the most probable assumptions necessary for the adjustment of future results, aiming to significantly mitigate financial risks.

Adherence to the underwriting authorities is being monitored by management on an on-going basis. Those transactions requiring special authorisation are subject to the special attention of the Board of Directors of Jusan Garant Insurance Company JSC.

Reinsurance strategy

The Group reinsures a portion of the risks it underwrites in order to control its exposures to losses and protect capital resources. The Group buys facultative and Excess-of-Loss ("XL") based reinsurance to reduce the net exposure and not to exceed the actual margin of solvency.

Ceded reinsurance contains credit risk, and such reinsurance recoveries are reported after deductions for known insolvencies and uncollectible items. The Group monitors the financial condition of reinsurers on an ongoing basis and reviews its reinsurance arrangements periodically.

The Group does not utilise any stop-loss reinsurance to control its risk of losses resulting from one-off event.

Terms and conditions of insurance contracts and nature of risks covered

The terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts are set out below. In addition, the following gives an assessment of the Group's main products and the ways in which it manages the associated risks.

General insurance contract – Civil liability of a carrier to passengers

Product features

The purpose of mandatory insurance of civil liability of a carrier to passengers is the carrier's property interest related to its obligation established by the civil legislation of the Republic of Kazakhstan to compensate damage caused to life, health and/or property of the passengers during their transportation. This product generates income from the insurance and reinsurance premiums less amounts paid to cover claims and expenses incurred by the Group. The amount payable to a passenger in case of his/her suffering a property damage and/or damage to health, life is fixed in accordance with the legislation of the Republic of Kazakhstan. General civil liability is generally considered a 'long tail' line, as it takes a relatively long period of time to finalise and settle claims for a given accident year.

Risk management

The key risks associated with this product are underwriting risk, such as, uncertainty in calculation of the insurance payment and others. The estimated size of the reported loss is calculated based on the following information:

7. Insurance risk management, continued

Terms and conditions of insurance contracts and nature of risks covered, continued

General insurance contract – Civil liability of a carrier to passengers, continued

Risk management, continued

- In case of property damage the maximum amount is determined equal to the value of the baggage lost and/or things held by /(or put on) a passenger.
- In case of damage caused to health but without disability assignment a fixed amount is set as a compensation;
- If a disability is assigned a fixed amount is set for reimbursement, depending on the disability degree. If a passenger health is aggravated, and/or in case of his/her death, the reimbursable amount is subject to recalculation.
- In case of death a fixed reimbursable amount is determined.

Insurance risk is managed primarily through pricing, product design, underwriting and payments' management. The Group therefore monitors and reacts to changes in the general economic and commercial environment in which it operates.

Insurance contracts - Insurance against other financial losses

Product features

The subject of the contract of voluntary insurance against financial losses are the property interests of the policyholder related to the occurrence of losses resulting from a loss of work, loss of income, adverse acts of nature, continuous unforeseen expenses, loss of market value, non-performance/improper performance of contractual obligations of the counterparty to the policyholder and other losses arising from carrying out the financial and economic activity.

An insured event is occurrence of financial losses of the policyholder when the latter carries out its financial and economic activity.

Covered risks:

Inflation-related insured events:

- losses arising as a result of an unexpected increase in the inflation rate (unforeseen inflation means an inflation rate different from the one projected by the state authorities, in the amount established by the insurance contract), which caused decrease in purchasing power, etc.;
- losses of investors, banks and other credit institutions resulting from the unforeseen excess of interest rates paid on the funds raised over interest rates on loans provided, as well as losses resulting from changes in interest rates in the securities market in the amount established by the insurance contract;
- losses arising as a result of changes in the exchange rates of the foreign currencies in relation to the national monetary unit when carrying out the foreign trade, credit and currency operations, as well as losses related to changes in the exchange rate of the currency of payments during the period from the contract conclusion and to its performance, in the amount established by the insurance contract.

Insured events of commercial nature:

- losses arising from non-performance (improper performance) by the policyholder's counterparty of its contractual obligations to the policyholder in accordance with the procedure and by the deadline stipulated in the contract (non-payment of goods, works or services; failure to supply raw materials, goods, components, etc.) that have resulted in a total or partial loss of income (additional expenses) of the policyholder;
- losses arising from a partial or total loss of the cost of investment as a result of the actions of the state authorities and management bodies;
- losses arising from unauthorised access to the computer systems of the policyholder, processing company, electronic money transfer systems, electronic systems of communication with clients.

7. Insurance risk management, continued

Terms and conditions of insurance contracts and nature of risks covered, continued

Insurance contracts - Insurance against other financial losses, continued

Risk management

The key risks associated with this product are underwriting risk, such as, uncertainty in calculation of the insurance payment and others. The estimated size of the reported loss is calculated based on the following information:

The policyholder's accounting and financial reporting data, namely, breakdown of the expense items with the supporting documents attached. Depending on the circumstances accompanying an insured event, the list of required documents can be extended.

Insurance risk is managed primarily through pricing, product design, underwriting and payments' management. The Group therefore monitors and reacts to changes in the general economic and commercial environment in which it operates.

Insurance contracts – Property

Product features

Property insurance indemnifies, subject to any limits or excesses, the policyholder against loss or damage to its own material property and business interruption arising from this damage.

The event giving rise to a claim for damage to buildings or contents usually occurs suddenly (such as a fire or burglary) and the cause is readily determinable. The claim will thus be notified promptly and can be settled without delay. Property business is therefore classified as 'short-tail', contrasted with 'long-tail' classes where the ultimate claim cost takes longer to determine.

Risk management

The key risks associated with this product are underwriting risk, competitive risk, and claims experience risk.

Underwriting risk is the risk that the Group does not charge premiums appropriate for the different properties it insures. For private property insurance, it is expected that there will be large numbers of properties with similar risk profiles. However, for commercial business this may not be the case. Many commercial property proposals comprise a unique combination of location, type of business, and safety measures in place. Calculating a premium commensurate with the risk for these policies will be subjective, and hence risky.

Property classes are exposed to the risk that the insured will make false or invalid claims, or exaggerate the amount claimed following a loss. This largely explains why economic conditions correlate with the profitability of a property portfolio.

Insurance risk is managed primarily through pricing, independent assessment of property under international standards, product design, risk selection and reinsurance. The Group therefore monitors and reacts to changes in the general economic and commercial environment in which it operates.

Within the insurance process, concentrations of risk may arise where a particular event or series of events could impact heavily upon the Group's liabilities. Such concentrations may arise from a single insurance contract or through a small number of related contracts, and relate to circumstances where significant liabilities could arise.

Insurance contracts – Vehicles owner's civil liability and general civil liability

Product features

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

7. Insurance risk management, continued

Terms and conditions of insurance contracts and nature of risks covered, continued

Insurance contracts – Vehicles owner's civil liability and general civil liability, continued

Risk management

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

Insurance contracts – Cargo

Product features

The Group writes cargo insurance. Cargo insurance indemnifies, subject to any limits or excesses, the policyholder against loss or damage of cargo during transportation to the buyers. The return to shareholders under this product arises from the total premiums charged to policyholders less the amounts paid to cover claims and the expenses incurred by the Group. The event giving rise to a claim could be characterised as "low effect – high frequency" and the cause is readily determinable. The claim will thus be notified promptly and can be settled without delay. Cargo business is therefore classified as 'short-tail'.

Risk management

The key risks associated with this product are underwriting risk, competitive risk, and claims experience risk. The Group will also be exposed to the risk of dishonest actions by policyholders.

Underwriting risk is the risk that the Group does not charge premiums appropriate for the different routes it insures. The risk on any policy will vary according to many factors such as route and destination, safety measures of the carrier, nature of cargo etc. Many commercial cargo proposals will comprise a unique combination of route and destination, type of cargo, and safety measures accepted by carriers. Calculating a premium commensurate with the risk for these policies will be subjective.

Cargo classes are exposed to the risk that the insured will make false or invalid claims, or exaggerate the amount claimed following a loss. This largely explains why economic conditions correlate with the profitability of a cargo portfolio. Insurance risk is managed primarily through sensible pricing, product design, risk selection and reinsurance. The Group therefore monitors and reacts to changes in the general economic and commercial environment in which it operates. Within the insurance process, it is unlikely that concentrations of risk may arise where a particular event or series of events could impact heavily upon the Group's liabilities. Cargo supplies are generally made by limited batches and various supplies are not connected.

Insurance contracts – Casualty insurance

Product features

The purpose of the casualty insurance is to insure an employee in the event of death or significant injury caused to body, life or health, which leaded to full or partial disability of an insurant, or any other injury. Income from this product is generated from the receipt of insurance premiums less amounts paid to cover claims and expenses incurred by the Group. The amount payable to an employee in the event of death or injury is outlined in the contract and depends on the severity of injuries and their consequences. As a result of the long period that it typically takes to finalise and settle claims for a given accident year, casualty is regarded as "long tail" business.

Risk management

The key risks associated with this product are underwriting risk, such as, uncertainty in calculation of the insurance payment and others.

(in millions of Kazakhstani tenge unless otherwise stated)

7. Insurance risk management, continued

Terms and conditions of insurance contracts and nature of risks covered, continued

Insurance contracts – Casualty insurance, continued

The estimated size of the reported loss is calculated based on the following information:

- in case of persistent disablement of the employee:
  - repayment period – the period of establishing physical disability by the medical expert committee (it may be several years for lifetime disability benefit)
  - degree of the insurant's injury (disability).
- in case of death:
  - the payment is made in the amount of 100% of the insurance amount.

Concentration of insurance risk

A key aspect of the insurance risk faced by the Group is the extent of concentration of insurance risk which may exist where a particular event or series of events could impact significantly upon the Group's liabilities. Such concentrations may arise from a single insurance contract or through a small number of related contracts, and relate to circumstances where significant liabilities could arise. An important aspect of the concentration of insurance risk is that it may arise from the accumulation of risks within a number of individual classes or contracts tranche.

Concentrations of risk can arise in both high-severity, low frequency events, such as natural disasters and in situations where underwriting is biased towards a particular group, such as a particular geography or demographic trend.

The Group's key methods in managing these risks are two-fold. Firstly, the risk is managed through appropriate underwriting. Underwriters are not permitted to underwrite risks unless the expected profits are commensurate with the risks assumed. Secondly, the risk is managed through the use of reinsurance. The Group purchases reinsurance coverage for various classes of its liability and property business. The Group assesses the costs and benefits associated with the reinsurance programme on an ongoing basis.

Total aggregate exposures

The Group sets out the total aggregate exposure that it is prepared to accept in relation to concentrations of risk. It monitors these exposures both at the time of underwriting a risk, and on a monthly basis by reviewing reports which show the key aggregations to which the Group is exposed. The Group uses a number of modelling tools to monitor aggregation in order to measure the effectiveness of the reinsurance programmes and the net exposure to which the Group is exposed.

As at 31 December 2021 the Group had 496,435 insurance agreements in force (31 December 2020: 276,318 agreements).

Exposure to various business lines

The key concentrations identified as at 31 December 2021 are:

Type of insurance	*Total insured amount*	*Reinsurance amount*	*Net retention (after reinsurance)*
Vehicles owner's liability - obligatory	5,302,947	–	**5,302,947**
Property – voluntary	1,359,682	313,526	**1,046,156**
Civil liability of passenger carrier– obligatory	1,083,966	3,608	**1,080,358**
Civil liability – voluntary	533,874	67,414	**466,460**
Vehicles and cargo – voluntary	288,587	77,036	**211,551**
Other voluntary	183,513	7,012	**176,501**
Financial losses liability – voluntary	25,859	22,333	**3,526**
Casualty - voluntary	16,011	13,848	**2,163**
Other obligatory	19,124	–	**19,124**
Total	**8,813,563**	**504,777**	**8,308,786**

(in millions of Kazakhstani tenge unless otherwise stated)

7. Insurance risk management, continued

Total aggregate exposures, continued

Exposure to various business lines, continued

The key concentrations identified as at 31 December 2020 are:

Type of insurance	*Total insured amount*	*Reinsurance amount*	*Net retention (after reinsurance)*
Vehicles owner's liability - obligatory	2,415,804	–	**2,415,804**
Property – voluntary	838,103	129,390	**708,713**
Civil liability of passenger carrier - obligatory	687,493	971	**686,522**
Civil liability – voluntary	540,213	91,364	**448,849**
Vehicles and cargo – voluntary	194,145	37,736	**156,409**
Financial losses liability – voluntary	19,150	13,053	**6,097**
Casualty - voluntary	15,470	12,728	**2,742**
Other voluntary	105,513	2,839	**102,674**
Other obligatory	12,336	–	**12,336**
Total	**4,828,227**	**288,081**	**4,540,146**

Exposure by other countries

The Group is not exposed to risks in the countries other than the Republic of Kazakhstan, as the Group has no insurance contracts covering risk outside the Republic of Kazakhstan. As at 31 December 2021 the Group is exposed to risks in the following countries other than the Republic of Kazakhstan.

Country of insurance	*Total insured amount*	*Reinsurance amount*	*Net retention (after reinsurance)*
The Republic of Korea	21,240	–	**21,240**
The United States of America	17,644	–	**17,644**
Mexico	3,320	–	**3,320**
Kyrgyzstan	2,997	–	**2,997**
The Kingdom of Saudi Arabia	2,583	–	**2,583**
The People's Republic of China	2,487	–	**2,487**
The United Kingdom of Great Britain and Northern Ireland	2,155	–	**2,155**
The Republic of South Africa	1,873	–	**1,873**
The United Arab Emirates	1,691	–	**1,691**
Taiwan	1,539	–	**1,539**
Other countries	24,728	–	**24,728**
Total exposure (excluding Kazakhstan)	**82,257**	–	**82,257**
Kazakhstan	8,731,306	504,777	**8,226,529**
Total	**8,813,563**	**504,777**	**8,308,786**

The key concentrations identified as at 31 December 2020 are:

Country of insurance	*Total insured amount*	*Reinsurance amount*	*Net retention (after reinsurance)*
The United States of America	5,226	–	**5,226**
Mexico	2,733	–	**2,733**
The United Kingdom of Great Britain and Northern Ireland	1,855	–	**1,855**
The Republic of South Africa	1,293	–	**1,293**
The Republic of Tajikistan	1,012	–	**1,012**
Taiwan	779	–	**779**
The Russian Federation	757	–	**757**
The Republic of Guatemala	680	–	**680**
The Republic of Ecuador	625	–	**625**
The Commonwealth of the Bahamas	540	–	**540**
Other countries	9,520	–	**9,520**
Total exposure (excluding Kazakhstan)	**25,020**	–	**25,020**
Kazakhstan	4,803,207	288,081	**4,515,126**
Total	**4,828,227**	**288,081**	**4,540,146**

(in millions of Kazakhstani tenge unless otherwise stated)

7. Insurance risk management, continued

Total aggregate exposures, continued

Exposure to catastrophe events

The greatest likelihood of significant losses to the Group arises from catastrophic events, such as earthquake damage, resulting from an earthquake in Almaty. The Group does not possess catastrophe modelling techniques and software facilitating modelling of Probable Maximum Loss ("PML"). However, the Group made an estimate of its losses that it believes will not exceed 20% of total aggregate exposure.

The key concentration identified is:

Catastrophe events	*Total insured amount*	*Estimated PML (before reinsurance)*	*Net retention (after reinsurance)*
Almaty earthquake with magnitude exceeding seven points under Richter scale	372,540	74,508	43,221

Claims development

The Group uses statistical methods for insurance contract provisioning. Uncertainty about the amount and timing of claims payment for all insurance contracts is typically resolved within one year.

While the information in the table provides a historical perspective on the adequacy of unpaid claims estimates established in previous years, users of these consolidated financial statements are cautioned against extrapolating redundancies or deficiencies of the past on current unpaid loss balances. The Group believes that the estimate of total claims outstanding as of the end of 2021 is adequate. However, due to the inherent uncertainties in the reserving process, it cannot be assured that such balances will ultimately prove to be adequate.

Analysis of claims development (gross) - total

	Accident year			
	2018	*2019*	*2020*	*2021*
Estimate of cumulative claims				
At the end of the accident year	1,946	2,972	4,299	9,848
- one year later	1,443	2,800	4,053	–
- two years later	1,496	2,858	–	–
- three years later	1,236	–	–	–
	1,236	**2,858**	**4,053**	**9,848**
Cumulative payments to date	(1,230)	(2,168)	(3,138)	(3,668)
Gross outstanding claims liabilities	**6**	**690**	**915**	**6,180**

Assumptions and sensitivity analysis

Process used to determine the assumptions

Assumptions used to assess insurance assets and liabilities are adopted for more accurate estimation of reserves needed to cover any future liabilities for insurance contracts.

However, given the uncertainty in establishing outstanding claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

Provision is made at the reporting date for the expected ultimate cost of settlement of all claims incurred in respect of events up to that date, whether reported or not, together with related external claims handling expenses, less amounts already paid. The provision for claims is not discounted for the time value of money.

The sources of data used as inputs for the assumptions are typically internal to the Company, using detailed studies that are carried out at least annually. The assumptions are checked to ensure that they are consistent with observable market information or other published information. There is, however, a general lack of publicly available information on the Kazakhstan insurance market that would be relevant to identification of assumptions and sensitivities.

7. Insurance risk management, continued

Assumptions and sensitivity analysis, continued

The estimation of incurred but not reported claims (IBNR) is generally subject to a greater degree of uncertainty than the estimates of outstanding claims already notified, where more information is available. IBNR claims may often not be apparent to the Group until sometime after the occurrence of the event giving rise to the claim. Due to the 'short-tail' nature of the Group's portfolio a substantial amount of claims are settled within one year after the occurrence of the event giving rise to the claim.

Claims provisions for four classes of insurance (obligatory vehicle owner`s liability, obligatory employer's civil liability, voluntary transport insurance and voluntary medical insurance) are estimated using a range of statistical methods. Such methods extrapolate the development of paid and incurred claims, average cost per claim and ultimate claim numbers for each accident year based upon observed development of earlier years and expected loss ratios.

The key statistical method is the chain ladder method, which uses historical data to estimate the paid and incurred to date proportions of the ultimate claim cost.

The actual method or combination of methods used varies by the class of insurance contract based on observed historical claims development, but a key assumption which supports the determination of ultimate expected losses is the loss ratio of 60% of incurred losses.

Large claims are generally assessed separately and are measured on a case-by-case basis or projected separately in order to allow for the possible distorting effects on development and incidence of these large claims. Claims provisions are initially estimated at a gross level and a separate calculation is carried out to estimate the size of reinsurance recoveries. The method uses historical data, gross IBNR estimates and the effective term and terms and conditions of the reinsurance contracts to estimate the carrying value of the IBNR reinsurance asset. The Actuary of the Group is responsible for calculation of insurance reserves.

For other classes of insurance except for the mentioned above, the IBNR is calculated as minimum 5% of gross premium due to lack of statistics.

Sensitivity analysis

Management believes that, due to the 'short-tail' nature of the Group's business, the performance of the Group's portfolio is sensitive mainly to changes in observed claims developments of the reporting year. The Group adjusts its insurance tariffs on a regular basis based on the latest developments in these variables so that any emerging trends are taken into account.

(in millions of Kazakhstani tenge unless otherwise stated)

8. Net interest income

Net interest income comprises the following:

	2021	*2020*
Interest income calculated using effective interest method		
Cash and cash equivalents	43,158	10,950
Amounts due from banks and other financial institutions	278	400
Investment securities measured at FVOCI	23,830	34,123
Investment securities measured at amortised cost	10,020	6,177
Loans to customers measured at FVOCI	7,692	18,109
Loans to customers measured at amortised cost	120,827	40,893
Promissory notes from the MFRK	3,892	3,564
Other financial assets	767	325
	210,464	**114,541**
Other interest income		
Trading securities	1,410	794
Loans to customers measured at FVTPL *(Note 46)*	1,966	3,550
Amounts receivable on financial lease	224	–
	3,600	**4,344**
Total interest income	**214,064**	**118,885**
Interest expense		
Amounts due to banks and other financial institutions	(4,302)	(1,204)
Amounts payable under repo agreements	(179)	(2,245)
Current accounts and deposits from customers	(67,022)	(43,623)
Debt securities issued (*Note 32*)	(26,987)	(16,209)
Subordinated debts *(Note 33)*	(26,747)	(10,033)
Lease liabilities	(696)	(439)
Liabilities to the mortgage organisation	(312)	–
Other financial liabilities	(497)	(957)
Total interest income	**(126,742)**	**(74,710)**
Net interest income	**87,322**	**44,175**

Interest income earned comprises the following:

	2021	*2020*
Cash and cash equivalents	43,208	10,891
Amounts due from banks and other financial institutions	429	294
Trading securities	1,196	704
Investment securities	30,387	40,630
Loans to customers	124,147	59,227
Promissory notes from the MFRK	3,957	3,511
Other financial assets	136	58
Total	**203,460**	**115,315**

Interest expenses paid comprise the following:

	2021	*2020*
Amounts due to banks and other financial institutions	(4,038)	(218)
Amounts payable under repo agreements	(179)	(2,245)
Current accounts and deposits from customers	(70,176)	(44,360)
Debt securities issued (*Note 32*)	(14,474)	(1,549)
Subordinated debts *(Note 33)*	(19,691)	(7,400)
Lease liabilities	(266)	(56)
Liabilities to the mortgage organisation	(401)	(241)
Total	**(109,225)**	**(56,069)**

(in millions of Kazakhstani tenge unless otherwise stated)

9. Crefit loss expenses

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

	Note	*2021*	*2020*
Cash and cash equivalents	19	(14)	(7)
Amounts due from banks and other financial institutions	21	25	(42)
Investment securities	23	(86)	(114)
Loans to customers measured at FVOCI	24	(2,282)	(9,054)
Loans to customers measured at amortised cost	24	959	(27,724)
Financial guarantees and letters of credit		(62)	(40)
Other financial assets	28	(2,724)	1,750
Total		**(4,184)**	**(35,231)**

10. Fee and commission income and expense

Fee and commission income comprises:

	2021	*2020*
Client card account maintenance fees	12,206	1,438
Transfer operations	11,289	4,087
Cash withdrawal	3,853	1,593
Broker services	1,804	339
Guarantees and letters of credit	1,476	667
Settlements	1,360	674
Foreign exchange	694	337
Internet banking	322	228
Agent services	304	104
Safe deposit transaction services	284	109
Safe deposit transaction services	188	102
Agency contracts with insurance companies	76	–
Other fee and commission income	741	480
Total fee and commission income	**34,597**	**10,158**

Fee and commission expense comprises the following:

	2021	*2020*
Client card account maintenance fees	(16,119)	(3,282)
Insurance acquisition costs and insurance agents' services	(5,057)	(2,329)
Transfer operations	(792)	(189)
Correspondent accounts maintenance	(458)	(369)
Foreign exchange	(328)	(363)
Broker services	(226)	(151)
Guarantees and letters of credit	(59)	(38)
Agency contracts with auto dealers	(13)	(25)
Agent services	(6)	(82)
Other fee and commission expense	(500)	(330)
Total fee and commission expense	**(23,558)**	**(7,158)**
Net fee and commission income	**11,039**	**3,000**

Contract assets and liabilities

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

	31 December 2021	***31 December 2020***
Fee and commission receivable (*Note 28*)	2,313	832

No information is disclosed about remaining performance obligations at 31 December 2021 and 31 December 2020 that have an original expected duration of one year or less, as allowed by IFRS 15.

10. Fee and commission income and expense, continued

Performance obligations and revenue recognition policies

Revenue is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a good or service to a customer.

The following table provides 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.

Type of product/service	***Nature and timing of satisfaction of performance obligations, including significant payment terms***	***Revenue recognition under IFRS 15***
Commission for money transfers	The services for money transfers include the following: - services for accepting, processing and paying out the domestic money transfer (within Kazakhstan) without opening current and card account; - services for accepting, processing and paying out the international money transfer (abroad) without opening current and card account. Money transfer services are paid in advance.	Revenue is recognised over time as the services are provided. The stage of completion for determining the amount of revenue to recognise is assessed based on output method based on volume of services provided.
Commission for payment card maintenance	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.	Revenue is recognised upon receipt of compensation from payment systems. Other payment card fees are recognised at the time of transaction completion.

(in millions of Kazakhstani tenge unless otherwise stated)

11. Net earned insurance premiums

Net earned insurance premiums include:

	Obligatory insurance		*Voluntary insurance*					
2021	***Vehicle owner's liability***	***Other obligatory***	***Property***	***Civil liability***	***Transport and cargo***	***Financial losses***	***Other voluntary***	***Total***
Gross insurance premiums written	7,757	437	5,233	7,011	3,697	1,018	1,245	**26,398**
Change in the gross provision for unearned premiums	(2,379)	(154)	(1,000)	(1,587)	(426)	(277)	(125)	**(5,948)**
Gross earned insurance premiums	**5,378**	**283**	**4,233**	**5,424**	**3,271**	**741**	**1,120**	**20,450**
Written premiums ceded to reinsurers	–	(6)	(486)	(802)	(1,111)	(863)	(465)	**(3,733)**
Reinsurers' share of change in the gross provision for unearned premiums	–	2	126	(52)	24	270	89	**459**
Earned insurance premiums ceded to reinsurers	–	**(4)**	**(360)**	**(854)**	**(1,087)**	**(593)**	**(376)**	**(3,274)**
Net earned insurance premiums	**5,378**	**279**	**3,873**	**4,570**	**2,184**	**148**	**744**	**17,176**

	Obligatory insurance		*Voluntary insurance*					
2020	***Vehicle owner's liability***	***Other obligatory***	***Property***	***Civil liability***	***Transport and cargo***	***Financial losses***	***Other voluntary***	***Total***
Gross insurance premiums written	3,302	223	3,161	3,833	1,778	427	883	**13,607**
Change in the gross provision for unearned premiums	(1,193)	(28)	(1,088)	(989)	66	30	227	**(2,975)**
Gross earned insurance premiums	**2,109**	**195**	**2,073**	**2,844**	**1,844**	**457**	**1,110**	**10,632**
Written premiums ceded to reinsurers	–	(2)	(392)	(677)	(483)	(337)	(29)	**(1,920)**
Reinsurers' share of change in the gross provision for unearned premiums	–	1	(189)	288	(91)	(30)	(126)	**(147)**
Earned insurance premiums ceded to reinsurers	–	**(1)**	**(581)**	**(389)**	**(574)**	**(367)**	**(155)**	**(2,067)**
Net earned insurance premiums	**2,109**	**194**	**1,492**	**2,455**	**1,270**	**90**	**955**	**8,565**

(in millions of Kazakhstani tenge unless otherwise stated)

12. Net insurance claims incurred

Net earned insurance claims incurred include:

	Obligatory insurance		**Voluntary insurance**				
2021	***Vehicle owner's liability***	***Other obligatory***	***Property***	***Civil liability***	***Transport and cargo***	***Other voluntary***	***Total***
Claims paid	(2,138)	(10)	(960)	(215)	(540)	(1,308)	**(5,171)**
Reinsurers' share of claims incurred	–	1	634	–	98	824	**1.557**
Change in provisions for incurred but not reported claims	(338)	(81)	(153)	(258)	(87)	(61)	**(978)**
Change in provisions for reported but not settled claims	(538)	34	(1,812)	(211)	(282)	(338)	**(3,147)**
Change in reinsurers' share in claims provisions	-	2	194	46	(29)	418	**631**
Change in net insurance contract provisions	**(876)**	**(45)**	**(1,771)**	**(423)**	**(398)**	**19**	**(3,494)**
Net insurance claims incurred	**(3,014)**	**(54)**	**(2,097)**	**(638)**	**(840)**	**(465)**	**(7,108)**

	Obligatory insurance		**Voluntary insurance**				
2020	***Vehicle owner's liability***	***Other obligatory***	***Property***	***Civil liability***	***Transport and cargo***	***Other voluntary***	***Total***
Claims paid	(757)	(63)	(138)	(105)	(351)	(1,351)	**(2,765)**
Reinsurers' share of claims incurred	–	–	104	58	128	592	**882**
Change in provisions for incurred but not reported claims	(65)	(6)	(82)	(104)	30	(24)	**(251)**
Change in provisions for reported but not settled claims	110	(46)	(645)	(41)	(150)	(22)	**(1,014)**
Change in reinsurers' share in claims provisions	–	(2)	(73)	55	24	(2)	**2**
Change in net insurance contract provisions	**(175)**	**(54)**	**(800)**	**(90)**	**(96)**	**(48)**	**(1,263)**
Net insurance claims incurred	**(932)**	**(117)**	**(834)**	**(137)**	**(319)**	**(807)**	**(3,146)**

(in millions of Kazakhstani tenge unless otherwise stated)

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

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

	2021	*2020*
Net realised gain on currency derivative financial instruments *(Note 20)*	4,732	7,119
Net losses on change in fair value of loans to customers measured at fair value through profit or loss *(Note 46)*	(7,744)	(6,870)
Net realised gain on currency derivative financial instruments *(Note 20)*	9,446	12,129
Expenses /(gain) on change in fair of trading securities.	(602)	506
Net realised gain on trading securities	–	2
Total net gain on financial instruments at fair value through profit or loss	**5,832**	**12,886**

Net realised gain on currency financial instruments for 2021 comprises gain on foreign currency forward contracts of KZT 1,983 million (2020: loss of KZT 345 million) and gain on foreign currency swaps of KZT 2,749 million (2020: gain of KZT 7,466 million).

14. Net foreign exchange gain

Net foreign exchange gain comprises:

	2021	*2020*
Gain on spot transactions	12,457	5,757
Revaluation of foreign currency items, net	8,012	8,606
Total	**20,469**	**14,363**

15. Other income and expense

Other income comprises the following:

	2021	*2020*
Revenue*	23,748	11,153
Income from cash collection services	3,759	196
Loss from sale of non-current assets held for sale	1,758	–
Impairment loss on other non-financial assets	1,053	492
Revenue from sale of inventories	431	–
Other income from insurance activity	14	78
Gain from assignment of rights of claim on loans	–	73
Other income	3,814	1,707
Total	**34,577**	**13,699**

Other income comprises the following:

	2021	*2020*
Cost of goods, works and services sold*	(17,275)	(9,845)
Loss on change in net realisable value of foreclosed collateral**	(2,118)	–
Expenses on sale of other non-financial assets	–	(34)
Other expenses	(2)	–
Total	**(19,395)**	**(9,879)**

* Gross profit and cost of sales of goods, works and services for the year ended 31 December 2021 amounted to KZT 23,748 million and KZT 17,275 million, respectively (2020: KZT 11,153 million and KZT 9,845 million, respectively), are attributable to the Bank's subsidiary Jusan Development LLP.

The cost of goods, work and services sold for 2021 includes expenses on raw materials and supplies of KZT 12,442 million (2020: KZT 8,769 million), utilities and lease expenses in the amount of KZT 2,251 million (2020: KZT 320 million), transportation services and other expenses in the amount of KZT 2,582 million (2020: KZT 756 million).

** As at 31 December 2021, the Group recognised a loss of KZT 1,996 million on the net realisable value of foreclosed collateral within other expensed as the foreclosed property was damaged by fire (2020: none).

(in millions of Kazakhstani tenge unless otherwise stated)

16. Personnel expenses

Personnel expenses are as follows:

	2021	*2020*
Employee benefits	(44,496)	(35,824)
Social contributions and payroll related taxes	(5,058)	(3,208)
Total	**(49,554)**	**(39,032)**

17. Other general and administrative expenses

Other general administrative expenses are as follows:

	2021	*2020*
Depreciation and amortisation (*Note 25*)	(8,644)	(4,396)
Repairs and maintenance	(7,662)	(3,388)
Taxes other than corporate income tax	(7,338)	(1,865)
Contributions to Deposit Guarantee Fund	(3,450)	(2,509)
Fines and penalties	(2,346)	(15)
Advertising and marketing services	(2,147)	(869)
Communication and information services	(1,836)	(1,051)
Security	(1,827)	(880)
Professional services	(1,714)	(1,446)
Lease *(Note 43)*	(1,379)	(704)
Business travel expenses	(666)	(122)
Expenses on impairment of property and equipment and intangible assets *(Note 25)*	(666)	(264)
Stationery and office equipment supplies	(582)	(141)
Transportation costs	(560)	(273)
Postal and courier services	(243)	(149)
Personnel recruitment and training expenses	(109)	(34)
Insurance	(73)	(6)
Representation expenses	(62)	(20)
Cash collection expenses	(23)	(268)
Other	(3,104)	(1,322)
Total	**(44,431)**	**(19,722)**

18. Corporate income tax benefit/(expense)

Corporate income tax benefit/(expense) is as follows:

	2021	*2020*
Current corporate income tax expense	(911)	(450)
Income tax underprovided in prior periods	(16)	–
Decrease/(increase) in deferred corporate income tax expense - origination and decrease of temporary differences	4,528	(24,295)
Total corporate income tax benefit/(expense)	**3,601**	**(24,745)**

Income of Kvant Mobile PJSC is taxable in the Russian Federation at the income tax rate of 20% in 2021 and 2020. Income of Optima Bank OJSC is taxable in the Kyrgyz Republic at the income tax rate of 10% in 2021 and 2020.

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

(in millions of Kazakhstani tenge unless otherwise stated)

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

	2021	*%*	*2020*	*%*
Profit before corporate income tax	**43,909**		**282,944**	
Theoretical corporate income tax expense at the statutory rate	**(8,782)**	**20.0**	**(56,589)**	**20.0**
Non-deductible expenses				
Non-deductible expenses on revaluation of fair value of financial assets	(1,569)	3.6	(1,903)	0.7
Non-deductible interest expenses	(28)	0.1	(759)	0.3
Current non-deductible expenses on prior year taxes	(16)	0.0	(6)	0.0
Unrecognised deferred tax assets	–	0.0	(563)	0.2
Non-deductible impairment losses	–	0.0	(478)	0.2
Other non-deductible expenses	(1,226)	2.8	(1,118)	0.4
Non-taxable income				
Provision for tax losses carried forward	7,889	(18.0)	(7,930)	2.8
Exempt income on government securities listed at KASE	6,189	(14.1)	7,888	(2.8)
Subsidiary's income taxable at different rate	690	(1.6)	–	–
Non-taxable income on recovery of provisions for investments and borrowings	–	–	1,255	(0.4)
Non-taxable income on financial instruments	150	(0.3)	241	(0.1)
Non-taxable gain from bargain purchase of subsidiary	–	0.0	34,122	(12.1)
Adjustments for tax loss carry forwards	–	0.0	1,093	(0.4)
Other non-taxable income	304	(0.7)	2	–
Corporate income tax expense	**3,601**	**(8.2)**	**(24,745)**	**8.7**

Deferred tax assets and liabilities

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

Deferred tax assets and liabilities, continued. The deductible temporary differences do not expire under current tax legislation of the Republic of Kazakhstan. Period of use of tax loss carried forward expires in 10 years.

Deferred tax assets with regard to tax losses for 2017-2019 are partially recognised. The tax losses carry forwards expire in 2027-2029. Total income before corporate income tax for 2021 was KZT 43,909 million (2020: KZT 282,944 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	*Disposal of subsidiary*	*Recognised in profit or loss*	*Recorded directly in equity*	*31 December 2021*
Debt securities issued	(103,611)	–	1,605	–	**(102,006)**
Subordinated debts	(75,408)	–	5,439	–	**(69,969)**
Due to banks and other financial institutions	(4,417)	–	147	–	**(4,270)**
Derivative financial instruments	(2,376)	–	609	–	**(1,767)**
Unrecognised deferred tax assets	(22,534)	3,613	7,889	401	**(10,631)**
Loans to customers	17,571	(3,056)	(3)	–	**14,512**
Property and equipment and intangible assets	(1,877)	289	462	–	**(1,126)**
Other liabilities	(998)	(762)	(2,349)	–	**(4,109)**
Lease liabilities	(872)	–	938	–	**66**
Tax losses carry forwards	43,045	(2,161)	(10,209)	–	**30,675**
Deferred tax liability	**(151,477)**	**(2,077)**	**4,528**	**401**	**(148,625)**
Including:					
Deferred tax asset	**2,154**	**(2,077)**	**86**	**–**	**163**
Net deferred tax liabilities	**(153,631)**	**–**	**4,442**	**401**	**(148,788)**

(in millions of Kazakhstani tenge unless otherwise stated)

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

Deferred tax assets and liabilities, 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	*Acquisitions from business combination*	*Recognised in profit or loss*	*Recorded directly in equity*	*31 December 2020*
Debt securities issued	(94,634)	(1,575)	(7,402)	–	**(103,611)**
Subordinated debts	(12,241)	(48,883)	(14,284)	–	**(75,408)**
Due to banks and other financial institutions	(4,550)	–	133	–	**(4,417)**
Derivative financial instruments	–	–	(2,376)	–	**(2,376)**
Unrecognised deferred tax assets	(5,841)	(8,251)	(8,442)	–	**(22,534)**
Loans to customers	3,334	(309)	13,939	607	**17,571**
Property and equipment and intangible assets	(201)	(1,438)	(228)	(10)	**(1,877)**
Other liabilities	2,034	(3,989)	957	–	**(998)**
Lease liabilities	(898)	223	(197)	–	**(872)**
Tax losses carry forwards	41,759	7,681	(6,395)	–	**43,045**
Deferred tax liability	**(71,238)**	**(56,541)**	**(24,295)**	**597**	**(151,477)**
Including:					
Deferred tax asset	**2,284**	**48**	**–**	**(178)**	**2,154**
Net deferred tax liabilities	**(73,522)**	**(56,589)**	**(24,295)**	**775**	**(153,631)**

19. Cash and cash equivalents

Cash and cash equivalents consist of the following:

	31 December 2021	*31 December 2020*
Cash on hand	102,249	107,372
Cash on broker accounts	639	–
Balances on current accounts with NBRK (rated BBB-)	82,521	133,574
Balances on current accounts with Central Bank of the Russian Federation rated BBB-	–	3,879
Balances on current accounts with National Bank of the Kyrgyz Republic rated B	20,302	13,065
Balances on current bank accounts with other banks:		
- rated from AA- to AA+	3,342	4,348
- rated A- to A+	36,994	27,742
- rated from BBB- to BBB+	29,487	14,328
- rated from BB- to BB+	6,685	7,462
- rated B- to B+	642	1,129
- not rated	6,046	3,212
Precious metals	493	41
Term deposits with the NBRK rated BBB- with maturity of up to 90 days	636,238	986,346
Term deposits with the National Bank of the Kyrgyz Republic rated B- with maturity of up to 90 days	46,828	8,399
Short-term notes of the National Bank of the Kyrgyz Republic rated B with maturity of up to 90 days	42,901	6,607
Term deposits with other banks with maturity of up to 90 days*		
- rated from AA- to AA+	37,610	19,209
- rated from A- to A+	42,712	10,517
rated from BBB- to BBB+	–	4,213
rated from BB- to BB+	2,400	–
- rated from B- to B+	–	502
Accounts receivable under reverse repurchase agreements with maturity up to 90 days	60,191	52,349
Gross cash and cash equivalents	**1,158,280**	**1,404,294**
Allowance for expected credit losses	(45)	(37)
Cash and cash equivalents	**1,158,235**	**1,404,257**

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 Group concluded reverse repurchase agreements with contractual maturity of up to 90 (ninety) days, the fair value of which as at 31 December 2021 was KZT 61,762 million (31 December 2020: KZT 56,073 million).

(in millions of Kazakhstani tenge unless otherwise stated)

19. 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 minimum reserve 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 27,915 million), and the reserve asset is KZT 48,989 million (31 December 2020: KZT 56,888 million).

Optima Bank OJSC calculates the minimum reserve requirements in accordance with the rules of the National Bank of the Kyrgyz Republic (NBKR). As at 31 December 2021 Optima Bank OJSC is in compliance with the minimum reserve requirements, and its minimum reserve was KZT 20,965 million (31 December 2020: KZT 13,109 million).

Concentration of cash and cash equivalents

As at 31 December 2021, the Group held cash on current accounts with NBRK, terms deposits with NBRK, term deposits with NBKR, short-term notes of NBKR and cash on current accounts with NBKR (31 December 2020: with NBRK), whose balances exceed 10% of the Group's equity. The gross value of these balances as of 31 December 2021 was KZT 828,790 million (31 December 2020: KZT 1,119,920 million). All cash and cash equivalents are categorised into Stage 1 of the credit risk grading.

The table below provides an analysis of the changes in allowance for ECL for 2021 and 2020:

	2021	*2020*
Balance at 1 January	(37)	(5)
Acquired as a result of business combination	–	(25)
Net charge (*Note 9*)	(14)	(7)
Write-off	6	–
Balance at 31 December	**(45)**	**(37)**

20. Derivative financial instruments

Foreign currency contracts

The Group 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*		*Notional amount*	*Fair value*	
		Asset	*Liability*		*Asset*	*Liability*
Foreign currency contracts						
Forwards - foreign contracts with related party	306,823	8,847	–	168,645	11,987	–
Currency swaps – domestic contracts	8,970	–	(414)	38,342	27	(12)
Currency swaps - foreign contracts	2,935	11	–	172,396	100	(254)
Total	**318,728**	**8,858**	**(414)**	**379,383**	**12,114**	**(266)**

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.

(in millions of Kazakhstani tenge unless otherwise stated)

20. Derivative financial instruments

Forwards, continued

As at 31 December 2021, the Group has a forward contract 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 Group had forward contracts with a related party to sell USD 361 million and buy KZT 186,645 million that matured in 2021 but 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 swaps amounted to KZT 14,178 million (2020: KZT 19,248 million) (*Note 13*).

21. 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	54,421
Mandatory reserves with CBRF rated BBB-	–	746
Account with the NBKR rated B	388	123
Loans and deposits with other banks and financial institutions		
- rated from A- to A+	6,025	4,607
- rated BBB- to BBB+	14,829	13,608
- rated from BB- to BB+	517	667
- rated B- to B+	742	1,447
- not rated	9,374	12,465
Gross loans and deposits with other banks	**35,968**	**88,084**
Allowance for expected credit losses	(30)	(4,355)
Due from banks and other financial institutions	**35,938**	**83,729**

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).

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 of KZT 4,968 million with VISA International, security deposits and a margin with KASE for the total amount of KZT 4,363 million (31 December 2020: KZT 5,999 million), and deposit of KZT 43 million with UnionPay (31 December 2020: deposits in Kazinvestbank JSC, Visa International S.A., Limited Liability Company "Non-Banking Credit Organization Western Union MT East" and UnionPay International in the amount of KZT 4,256 million, KZT 2,105 million, KZT 45 million and KZT 42 million, respectively, and a loan of KZT 18 million from Orienbank OJSC).

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).

(in millions of Kazakhstani tenge unless otherwise stated)

21. Due from banks and other financial institutions, continued

Restricted cash with NBRK, continued

The funds received are placed on the Bank's special account opened with the NBRK, according to the terms for the placement of the KFU'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.

As at 31 December 2020, restricted cash with the NBRK in the total amount of KZT 54,421 million received from KSF represents an unutilised amount as part of the Programme (*Note 31*).

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.

At 31 December 2020, loans and deposits with other banks (not rated) comprise a deposit of KZT 4,256 million with Kazinvestbank overdue more than 360 days. The Group accrued 100% impairment allowance against this deposit. As at 31 December 2021, balance of Kazinvestbank JSC was written off against previously established provisions.

Mandatory cash balances with the Central Bank of the Russian Federation

Mandatory reserves with the Central Bank of the Russian Federation (CBRF) are interest-free deposits calculated in accordance with the requirements of CBRF and the free use of which is restricted.

Concentration of amounts due from banks and other financial institutions

As at 31 December 2021 the Group has no amounts due from banks and other financial institutions whose balance exceeds 10% of the Group's equity (31 December 2020: restricted cash with NBRK with gross balance of KZT 54,421 million).

The table below provides an analysis of the changes in allowance for ECL for 2021 and 2020:

	2021		
	Stage 1	***POCI***	***Total***
Balance at 1 January	(99)	(4,256)	**(4,355)**
Net decrease (*Note 9*)	25	–	**25**
Write-off	61	4,256	**4,317**
Foreign exchange differences	(17)	–	**(17)**
Balance at 31 December	**(30)**	**–**	**(30)**

	2020		
	Stage 1	***POCI***	***Total***
Balance at 1 January	(2)	–	**(2)**
Acquired as a result of business combination	(53)	(4,256)	**(4,309)**
Net charge (*Note 9*)	(42)	–	**(42)**
Foreign exchange differences	(2)	–	**(2)**
Balance at 31 December	**(99)**	**(4,256)**	**(4,355)**

(in millions of Kazakhstani tenge unless otherwise stated)

22. Trading securities

Trading securities include the following items:

Debt investment securities	*31 December 2021*	*31 December 2020*
- Government bonds		
- Notes of NBRK	7,680	3,847
- Bonds of MFRK	2,297	1,402
Total government bonds	**9,977**	**5,249**
Corporate bonds		
- rated from A- to A+	7,557	6,307
- rated BBB- to BBB+	36,453	16,317
- rated from BB- to BB+	4,053	3,592
- rated B- to B+	640	448
- not rated	3,534	–
Total corporate bonds	**52,237**	**26,664**
Structured notes		
International structured notes	–	212
Total structured notes	**–**	**212**
Total debt investment securities	**62,214**	**32,125**
Equity instruments		
ETF	2,026	2,198
Equity unit	1,546	1,502
Corporate shares	2,939	1,469
Total equity instruments	**6,511**	**5,169**
Pledged under sale and repurchase agreements		
- Government bonds		
Bonds of MFRK *(Note 30)*	7,682	2,210
Total government bonds pledged under sale and repurchase agreements	**7,682**	**2,210**
Total trading securities	**76,407**	**39,504**

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

As at 31 December 2021 and 31 December 2020 trading securities were neither past due nor impaired.

23. Investment securities

Investment securities comprise:

	31 December 2021	*31 December 2020*
Investment securities measured at FVOCI	318,990	288,908
Investment securities measured at amortised cost	221,759	47,187
Investment securities	**540,749**	**336,095**

(in millions of Kazakhstani tenge unless otherwise stated)

23. Investment securities, continued

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

Debt investment securities	*31 December 2021*	*31 December 2020*
Government bonds		
Notes of NBRK	255,542	257,340
- bonds of SWF Fund "Samruk-Kazyna" JSC	21,344	–
- bonds of MFRK	3,457	8,537
- Ministry of Finance of the Russian Federation	1,233	1,245
- bonds of KSF JSC	–	12,834
Total government bonds	**281,576**	**279,956**
Corporate bonds		
- rated BBB- to BBB+	5,129	3,323
- rated from BB- to BB+	1,965	4,959
- rated B- to B+	587	–
- not rated	–	614
Total corporate bonds	**7,681**	**8,896**
Equity securities		
- corporate shares of Kcell JSC	29,491	–
- unquoted shares	49	56
Total equity securities	**29,540**	**56**
Pledged under sale and repurchase agreements		
Government bonds		
NBRK notes *(Note 30)*	193	–
Total government bonds pledged under sale and repurchase agreements	**193**	–
Total	**318,990**	**288,908**

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.

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

All balances on investment securities measured at fair value through other comprehensive income are allocated to Stage 1 and Stage 2 for ECL purposes (*Note 6*).

The table below provides an analysis of the changes in allowances for ECL for 2021 and 2020:

	2021	*2020*
Balance at 1 January	(156)	(42)
Net charge (*Note 9*)	(83)	(114)
Foreign exchange differences	(52)	–
Balance at 31 December	**(291)**	**(156)**

(in millions of Kazakhstani tenge unless otherwise stated)

23. Investment securities, continued

Investment securities measured at amortised cost include:

Debt investment securities	*31 December 2021*	*31 December 2020*
Government bonds		
Notes of NBRK	187,406	20,698
- Eurobonds of MFRK	16,916	18,685
- Bonds of KSF JSC	8,208	–
- Treasury bonds of the Ministry of Finance of the Kyrgyz Republic	7,107	6,560
- Bonds of MFRK	19	18
Total gross government bonds	**219,656**	**45,961**
Allowance for expected credit losses	(67)	(64)
Total government bonds	**219,589**	**45,897**
Corporate bonds		
- rated from BB- to BB+	–	1,290
Total corporate bonds	**–**	**1,290**
Total debt investment securities	**219,589**	**47,187**
Pledged under sale and repurchase agreements		
Government bonds		
Bonds of MFRK *(Note 30)*	2,170	–
Total investment securities measured at amortised cost	**221,759**	**47,187**

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 Group 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 local companies and banks. These securities are freely tradable on KASE.

All government bond balances are allocated to Stage 1 for ECL purposes (Note 6). The table below provides an analysis of the changes in allowances for ECL for 2021 and 2020:

	2021	*2020*
Balance at 1 January	**(64)**	**–**
Acquired as a result of business combination	–	(64)
Net charge (*Note 9*)	(3)	–
Balance at 31 December	**(67)**	**(64)**

24. Loans to customers

Loans to customers comprise the following items:

	31 December 2021	*31 December 2020*
Loans to customers measured at amortised cost	1,086,329	1,432,697
Allowance for expected credit losses	(254,284)	(539,053)
Loans to customers measured at amortised cost, net of allowance for expected credit losses	**832,045**	**893,644**
Loans to customers measured at fair value through profit or loss	17,910	25,008
Loans to customers measured at fair value through other comprehensive income	–	70,911
Total loans to customers	**849,955**	**989,563**

(in millions of Kazakhstani tenge unless otherwise stated)

24. Loans to customers, continued

Loans to customers measured at amortised cost

Loans to customers measured at amortised cost comprise the following items:

	31 December 2021				
	Stage 1	*Stage 2*	*Stage 3*	*POCI**	*Total*
Loans to corporate customers					
Loans to large corporates	124,238	15,066	7,004	108,364	**254,672**
Loans to small and medium-size businesses	274,921	36,274	5,837	230,956	**547,988**
Total loans to corporate customers	**399,159**	**51,340**	**12,841**	**339,320**	**802,660**
Loans to retail customers					
Express loans	180,050	1,704	8,670	2,389	**192,813**
Mortgage loans	47,165	1,195	2,221	4,475	**55,056**
Consumer loans	23,531	393	1,191	6,408	**31,523**
Credit cards	2,274	187	465	23	**2,949**
Car loans	1,136	–	53	139	**1,328**
Total loans to retail customers	**254,156**	**3,479**	**12,600**	**13,434**	**283,669**
Gross loans to customers	**653,315**	**54,819**	**25,441**	**352,754**	**1,086,329**
Allowance for expected credit losses	(8,346)	(2,704)	(9,738)	(233,496)	**(254,284)**
Net loans to customers	**644,969**	**52,115**	**15,703**	**119,258**	**832,045**

	31 December 2020				
	Stage 1	*Stage 2*	*Stage 3*	*POCI**	*Total*
Loans to corporate customers					
Loans to large corporates	191,538	1,172	3,327	245,365	**441,402**
Loans to small and medium-size businesses	255,144	14,420	10,935	414,604	**695,103**
Total loans to corporate customers	**446,682**	**15,592**	**14,262**	**659,969**	**1,136,505**
Loans to retail customers					
Express loans	109,597	227	1,423	4,761	**116,008**
Mortgage loans	66,731	518	1,714	7,250	**76,213**
Car loans	20,353	1,654	11,545	10,800	**44,352**
Consumer loans	51,408	139	1,684	4,653	**57,884**
Credit cards	1,461	15	122	137	**1,735**
Total loans to retail customers	**249,550**	**2,553**	**16,488**	**27,601**	**296,192**
Gross loans to customers	**696,232**	**18,145**	**30,750**	**687,570**	**1,432,697**
Allowance for expected credit losses	(1,617)	(866)	(25,682)	(510,888)	**(539,053)**
Net loans to customers	**694,615**	**17,279**	**5,068**	**176,682**	**893,644**

* In 2019 the Group 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 of the Group, 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 consolidated statement of financial position.

As required by IFRS 9, the carrying amount of corporate POCI-loans recognised in the consolidated statement of financial position of the Group as at 31 December 2021 was KZT 145,506 million (31 December 2020: KZT 221,919 million) and corresponding ECL allowance was KZT 19,921 million (31 December 2020: KZT 45,236 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:

(in millions of Kazakhstani tenge unless otherwise stated)

24. Loans to customers, continued

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

	2021				
	Stage 1	*Stage 2*	*Stage 3*	*POCI**	*Total*
Loans to corporate customers					
Gross carrying amount at 1 January	446,682	15,592	14,262	659,969	**1,136,505**
New assets originated or purchased	358,461	4,864	–	4,155	**367,480**
Assets that have been derecognised or repaid (except for write-offs)	(345,132)	(20,243)	(3,401)	(97,587)	**(466,363)**
Transfers to Stage 1	375	(375)	–	–	**–**
Transfers to Stage 2	(51,482)	51,482	–	–	**–**
Transfers to Stage 3	(11,041)	(19)	11,060	–	**–**
Net remeasurement in interest accrued	(7,834)	(366)	(235)	18,836	**10,401**
Write-offs	–	–	(1,121)	(248,209)	**(249,330)**
Unwinding of discount	7,819	–	–	–	**7,819**
Disposal as a result of sale of subsidiary	(573)	–	(10,108)	–	**(10,681)**
Effect of movements in foreign exchange rates	1,884	405	2,384	2,156	**6,829**
At 31 December	**399,159**	**51,340**	**12,841**	**339,320**	**802,660**

	2021				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Loans to corporate customers					
ECL at 1 January	(123)	(94)	(12,252)	(493,186)	**(505,655)**
New assets originated or purchased	(1,759)	(106)	(181)	(177)	**(2,223)**
Assets that have been derecognised or repaid (except for write-offs)	283	25	97	46,541	**46,946**
Transfers to Stage 1	(4)	4	–	–	**–**
Transfers to Stage 2	99	(99)	–	–	**–**
Transfers to Stage 3	17	2	(19)	–	**–**
Net remeasurement in loss allowance	(1,071)	(1,579)	(333)	(33,822)	**(36,805)**
Unwinding of discount	–	–	(591)	3,694	**3,103**
Write-offs	(1)	–	1,121	248,210	**249,330**
Disposal as a result of sale of subsidiary	11	–	10,105	–	**10,116**
Effect of movements in foreign exchange rates	251	(39)	(1,954)	(217)	**(1,959)**
At 31 December	**(2,297)**	**(1,886)**	**(4,007)**	**(228,957)**	**(237,147)**

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				
	Stage 1	*Stage 2*	*Stage 3*	*POCI**	*Total*
Loans to corporate customers					
Gross carrying amount at 1 January	62,409	864	10,489	624,655	**698,417**
New assets acquired as a result of business combination (*Note 5*)	396,829	–	–	153,800	**550,629**
New assets originated or purchased	83,509	451	–	92	**84,052**
Assets that have been derecognised or repaid (except for write-offs)	(69,404)	(8,317)	(496)	(40,231)	**(118,448)**
Transfers to Stage 1	4,350	(4,350)	–	–	**–**
Transfers to Stage 2	(30,932)	30,932	–	–	**–**
Transfers to Stage 3	(216)	(4,462)	4,678	–	**–**
Net change in interest accrued	152	96	62	10,278	**10,588**
Write-offs	–	–	–	(118,652)	**(118,652)**
Effect of movements in foreign exchange rates	(15)	378	(471)	30,027	**29,919**
At 31 December	**446,682**	**15,592**	**14,262**	**659,969**	**1,136,505**

(in millions of Kazakhstani tenge unless otherwise stated)

24. Loans to customers, continued

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

	2020				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Loans to corporate customers					
ECL balance at 1 January	(405)	(29)	(10,315)	(474,334)	**(485,083)**
New assets acquired as a result of business combination (*Note 5*)	–	–	–	(92,423)	**(92,423)**
New assets originated or purchased	(476)	(4)	–	(78)	**(558)**
Assets that have been derecognised or repaid (except for write-offs)	162	44	353	3,961	**4,520**
Transfers to Stage 1	(105)	105	–	–	**–**
Transfers to Stage 2	248	(248)	–	–	**–**
Transfers to Stage 3	–	1,821	(1,821)	–	**–**
Net remeasurement of loss allowance	453	(1,782)	(781)	(25,187)	**(27,297)**
Unwinding of discount	–	–	11	96	**107**
Write-offs	–	–	–	118,652	**118,652**
Effect of movements in foreign exchange rates	–	(1)	301	(23,873)	**(23,573)**
At 31 December	**(123)**	**(94)**	**(12,252)**	**(493,186)**	**(505,655)**

In 2019 the Group acquired a controlling interest of the Bank and its subsidiaries. This resulted in recognition of new instruments from the date of acquisition. However, due to the limitations of the automated banking information system, the related financial statement disclosures reflect the historic gross value of the acquired loan agreements prior to their acquisition, together with a related allowance for expected credit losses. The additional disclosure of the historic cost of loans to customers before deduction of allowance for expected credit losses does not affect the carrying amount of the newly recognised POCI loans in the consolidated statement of financial position.

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

	2021				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Loans to retail customers					
Gross carrying amount at 1 January	249,550	2,553	16,488	27,601	**296,192**
New assets originated or purchased	141,285	–	–	3,451	**144,736**
Assets that have been derecognised or repaid (except for write-offs)	(91,729)	(250)	(1,523)	(5,726)	**(99,228)**
Transfers to Stage 1	819	(445)	(374)	–	–
Transfers to Stage 2	(3,806)	3,825	(19)	–	–
Transfers to Stage 3	(13,148)	(974)	14,122	–	–
Net remeasurement of loss allowance	(8,988)	(422)	(980)	(588)	**(10,978)**
Unwinding of discount	2,185	6	14	–	**2,205**
Write-offs	(15)	–	(2,842)	(11,314)	**(14,171)**
Disposal as a result of sale of subsidiary	(22,819)	(885)	(12,720)	–	**(36,424)**
Effect of movements in foreign exchange rates	822	71	434	10	**1,337**
At 31 December	**254,156**	**3,479**	**12,600**	**13,434**	**283,669**

	2021				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Loans to retail customers					
ECL at 1 January	(1,494)	(772)	(13,430)	(17,702)	**(33,398)**
New assets originated or purchased	(6,829)	–	–	(943)	**(7,772)**
Assets that have been derecognised or repaid (except for write-offs)	196	13	724	3,437	**4,370**
Transfers to Stage 1	(132)	111	21	–	**–**
Transfers to Stage 2	431	(437)	6	–	**–**
Transfers to Stage 3	1,764	485	(2,249)	–	**–**
Net remeasurement of loss allowance	(559)	(434)	(2,663)	99	**(3,557)**
Unwinding of discount	–	–	(2,537)	(933)	**(3,470)**
Write-offs	–	–	2,857	11,314	**14,171**
Disposal as a result of sale of subsidiary	606	234	11,943	–	**12,783**
Effect of movements in foreign exchange rates	(32)	(18)	(403)	189	**(264)**
At 31 December	**(6,049)**	**(818)**	**(5,731)**	**(4,539)**	**(17,137)**

(in millions of Kazakhstani tenge unless otherwise stated)

24. 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 measured at amortised cost for the year ended 31 December 2020:

	2020				
	Stage 1	***Stage 2***	***Stage 3***	***POCI***	***Total***
Loans to retail customers					
Gross carrying amount at 1 January	42,480	895	14,382	18,334	**76,091**
New assets acquired as a result of business combination (*Note 5*)	195,495	–	–	11,112	**206,607**
New assets originated or purchased	35,443	320	522	–	**36,285**
Assets that have been derecognised or repaid (except for write-offs)	(10,636)	(170)	(877)	(1,392)	**(13,075)**
Transfers to Stage 1	585	(134)	(451)	–	–
Transfers to Stage 2	(3,427)	3,514	(87)	–	–
Transfers to Stage 3	(1,745)	(1,644)	3,389	–	–
Net change in interest accrued	(7,880)	(161)	(240)	539	**(7,742)**
Write-offs	–	–	–	(1,116)	**(1,116)**
Effect of movements in foreign exchange rates	(765)	(67)	(150)	124	**(858)**
Gross carrying amount at 31 December	**249,550**	**2,553**	**16,488**	**27,601**	**296,192**

	2020				
	Stage 1	***Stage 2***	***Stage 3***	***POCI***	***Total***
Loans to retail customers					
ECL balance at 1 January	(441)	(173)	(10,939)	(13,640)	**(25,193)**
New assets acquired as a result of business combination (*Note 5*)	–	–	–	(4,944)	**(4,944)**
New assets originated or purchased	(1,339)	(58)	(298)	–	**(1,695)**
Assets that have been derecognised or repaid (except for write-offs)	78	4	162	635	**879**
Transfers to Stage 1	(63)	20	43	–	–
Transfers to Stage 2	101	(149)	48	–	–
Transfers to Stage 3	50	498	(548)	–	–
Net remeasurement of loss allowance	88	(935)	(1,942)	(784)	**(3,573)**
Write-offs	–	–	–	1,116	**1,116**
Effect of movements in foreign exchange rates	32	21	44	(85)	**12**
At 31 December	**(1,494)**	**(772)**	**(13,430)**	**(17,702)**	**(33,398)**

Modified and restructured loans

The Group 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 Group recognises profit or loss from modification before impairment loss is recognised.

During 2021 and 2020 the Group changed the terms of certain loans for retail business and provided, among other things, the repayment holiday (deferral of payments) as part of implementation of measures introduced by the Government of the Republic of Kazakhstan 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)

24. 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*	*Mortgage loans*	*Car loans*	*Express loans*	*Consumer loans*	*Credit cards*	*Total*
- not overdue	231,907	435,873	49,318	1,119	176,822	24,766	2,135	**921,940**
- overdue less than 30 days	3,346	6,741	1,176	15	4,337	1,313	156	**17,084**
- overdue 30-89 days	2,504	3,477	841	19	1,997	636	188	**9,662**
- overdue 90-179 days	–	26,560	981	2	2,114	348	436	**30,441**
- overdue more than 180 days and less than 1 year	2,588	21,431	818	15	3,691	504	25	**29,072**
- overdue more than 1 year	14,327	53,906	1,922	158	3,852	3,956	9	**78,130**
Gross loans to customers	**254,672**	**547,988**	**55,056**	**1,328**	**192,813**	**31,523**	**2,949**	**1,086,329**
Allowance for expected credit losses	(87,430)	(149,717)	(1,432)	(97)	(12,972)	(2,281)	(355)	**(254,284)**
Net loans to customers	**167,242**	**398,271**	**53,624**	**1,231**	**179,841**	**29,242**	**2,594**	**832,045**

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*	*Mortgage loans*	*Car loans*	*Express loans*	*Consumer loans*	*Credit cards*	*Total*
- not overdue	290,902	412,643	67,989	20,823	106,395	50,973	1,002	**950,727**
- overdue less than 30 days	3,375	26,979	1,729	546	3,744	1,968	463	**38,804**
- overdue 30-89 days	1,804	11,505	1,261	660	2,624	1,046	92	**18,992**
- overdue 90-179 days	23,380	26,621	603	698	1,749	769	63	**53,883**
- overdue more than 180 days and less than 1 year	20,783	45,718	332	1,337	481	184	6	**68,841**
- overdue more than 1 year	101,158	171,637	4,299	20,288	1,015	2,944	109	**301,450**
Gross loans to customers	**441,402**	**695,103**	**76,213**	**44,352**	**116,008**	**57,884**	**1,735**	**1,432,697**
Allowance for expected credit losses	(186,574)	(319,081)	(3,603)	(20,981)	(5,199)	(3,446)	(169)	**(539,053)**
Net loans to customers	**254,828**	**376,022**	**72,610**	**23,371**	**110,809**	**54,438**	**1,566**	**893,644**

(in millions of Kazakhstani tenge unless otherwise stated)

24. 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 of the Group 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 24 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 0.00%-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 -56,551/+56,551 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 as at 31 December 2021 would be KZT 11,690 million lower and KZT 14,643 million higher, respectively.

Loans to retail customers

The Group 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 0.1% - 50.36%; lifetime PD referred to as Stage 2 in terms of credit quality was 0.1% - 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 6 years; recovery rates for products of retail portfolio referred to as Stage 1 and Stage 2 for the first year was 34.86% - 80.19%, for the second year - 18.67%-59.10% and for the third year - 8.24%-42.27%.
- A discount of between 30.0% and 70.0% to the annually appraised value if the property pledged is sold.
- An average period from 24 to 44 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 7,859 million lower/higher).

Loan maturities

The maturities of the loans to customers as at the reporting date are presented in Note 39 and show the contractual maturities of the loans.

Loans to retail customers measured at fair value through other comprehensive income

Loans to retail customers measured at fair value through other comprehensive income as at 31 December 2020 include the following items:

	2020			
Carrying amount	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Car loans				
At 31 December	**59,306**	**7,861**	**3,744**	**70,911**

(in millions of Kazakhstani tenge unless otherwise stated)

24. Loans to customers, continued

Loans to retail customers measured at fair value through other comprehensive income, continued

Below is analysis of changes in ECL for loans to retail customer measured at fair value through other comprehensive income for the year ended 31 December 2021:

	2021			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
Car loans				
ECL balance at 1 January	**(1,392)**	**(2,370)**	**(41,115)**	**(44,877)**
Transfers to Stage 1	(432)	415	17	–
Transfers to Stage 2	30	(33)	3	–
Transfers to Stage 3	41	1,519	(1,560)	–
Write-offs	–	–	6,343	6,343
Other net remeasurements	533	(277)	(2,538)	**(2,282)**
Unwinding of discount	–	–	(2,411)	**(2,411)**
Effect of movements in foreign exchange rates	(45)	(55)	(1,393)	**(1,493)**
Disposal as a result of sale of subsidiary	1,265	801	42,654	**44,720**
At 31 December	**–**	**–**	**–**	**–**

Below is analysis of changes in ECL for loans to retail customer measured at fair value through other comprehensive income for the year ended 31 December 2020:

	2020			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
Car loans				
ECL balance at 1 January	**(3,320)**	**(1,238)**	**(32,638)**	**(37,196)**
Transfers to Stage 1	(417)	225	192	–
Transfers to Stage 2	256	(471)	215	–
Transfers to Stage 3	269	662	(931)	–
Write-offs	–	–	878	**878**
Other net remeasurement	1,557	(1,683)	(8,928)	**(9,054)**
Unwinding of discount	–	–	(3,043)	**(3,043)**
Effect of movements in foreign exchange rates	263	135	3,140	**3,538**
At 31 December	**(1,392)**	**(2,370)**	**(41,115)**	**(44,877)**

Loans to corporate 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 46.

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

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

The following table provides information on the credit quality of loans to corporate customers measured at fair value through profit or loss as at 31 December 2021:

	Loans to large corporates	*Loans to small and medium-size businesses*	*Total*
Not overdue	–	829	**829**
Overdue less than 30 days	–	1,110	**1,110**
Overdue 180-360 days	–	39	**39**
Overdue more than 360 days	718	15,214	**15,932**
Total	**718**	**17,192**	**17,910**

(in millions of Kazakhstani tenge unless otherwise stated)

24. Loans to customers, continued

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

The following table provides information on the credit quality of loans to corporate customers measured at fair value through profit or loss as at 31 December 2020:

	Loans to large corporates	*Loans to small and medium-size businesses*	*Total*
Not overdue	–	3,145	**3,145**
Overdue less than 30 days	–	33	**33**
Overdue 30-89 days	–	206	**206**
Overdue 90-179 days	–	–	–
Overdue 180-360 days	810	1,482	**2,292**
Overdue more than 360 days	411	18,921	**19,332**
Total	**1,221**	**23,787**	**25,008**

Analysis of collateral and other credit enhancements

The following tables provides information on collateral and other credit enhancements securing loans to corporate customers (net of loss allowance for expected credit losses) 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	7,700	7,700	–	–
Real estate	227,411	129,751	97,660	–
Movable property	3,372	2,764	608	–
Transport	35,227	32,529	2,698	–
Equipment	2,836	852	1,984	–
Guarantees	27,989	–	–	27,989
Other	371	371	–	–
No collateral or other credit enhancement	91,956	–	–	91,956
Total Stage 1 loans	**396,862**	**173,967**	**102,950**	**119,945**
Stage 2				
Cash and deposits	103	103	–	–
Real estate	36,534	28,449	8,085	–
Movable property	6,673	6,276	397	–
Transport	1,651	889	762	–
Equipment	999	810	189	–
Guarantees	1,121	–	–	1,121
No collateral or other credit enhancement	2,373	–	–	2,373
Total Stage 2 loans	**49,454**	**36,527**	**9,433**	**3,494**
Stage 3				
Cash and deposits	7	7	–	–
Real estate	8,228	5,918	2,310	–
Guarantees	18	–	–	18
Vehicles	47	–	47	–
Equipment	206	–	206	–
No collateral or other credit enhancement	328	–	–	328
Total Stage 3 loans	**8,834**	**5,925**	**2,563**	**346**
POCI				
Cash and deposits	513	513	–	–
Real estate	107,539	87,709	19,830	–
Movable property	632	–	632	–
Vehicles	172	13	159	–
Equipment	50	4	46	–
Guarantees	56	–	–	56
No collateral or other credit enhancement	1,401	–	–	1,401
Total loans of POCI stage	**110,363**	**88,239**	**20,667**	**1,457**
Measured at fair value through profit or loss				
Cash and deposits	1	1	–	–
Real estate	17,645	16,416	1,229	–
Equipment	264	264	–	–
Total loans to customers measured at fair value through profit or loss	**17,910**	**16,681**	**1,229**	**–**
Total loans to corporate customers	**583,423**	**321,339**	**136,842**	**125,242**

(in millions of Kazakhstani tenge unless otherwise stated)

24. Loans to customers, continued

Analysis of collateral and other credit enhancements, 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	33,380	33,380	–	–
Real estate	287,921	172,722	115,199	–
Movable property	17,628	14,972	2,656	–
Transport	64,923	47,682	17,241	–
Equipment	5,387	4,869	518	–
Guarantees	25,009	–	–	25,009
Other	542	–	542	–
No collateral or other credit enhancement	11,769	–	–	11,769
Total Stage 1 loans	**446,559**	**273,625**	**136,156**	**36,778**
Stage 2				
Cash and deposits	12	12	–	–
Real estate	14,886	4,649	10,237	–
Movable property	8	–	8	–
Transport	129	–	129	–
Equipment	17	–	17	–
Guarantees	398	–	–	398
No collateral or other credit enhancement	48	–	–	48
Total Stage 2 loans	**15,498**	**4,661**	**10,391**	**446**
Stage 3				
Cash and deposits	2	2	–	–
Real estate	1,993	1,083	910	–
Guarantees	13	–	–	13
No collateral or other credit enhancement	2	–	–	2
Total Stage 3 loans	**2,010**	**1,085**	**910**	**15**
POCI				
Cash and deposits	1,420	1,420	–	–
Securities	554	554	–	–
Real estate	154,447	137,541	16,906	–
Movable property	4,699	4,600	99	–
Vehicles	526	194	332	–
Equipment	1,802	1,738	64	–
Guarantees	1,429	–	–	1,429
No collateral or other credit enhancement	1,906	–	–	1,906
Total loans of POCI stage	**166,783**	**146,047**	**17,401**	**3,335**
Cash and deposits	1	1	–	–
Real estate	24,893	22,903	1,990	–
Equipment	114	114	–	–
Total loans to corporate customers measured at fair value through profit or loss	**25,008**	**23,018**	**1,990**	–
Total loans to corporate customers	**655,858**	**448,436**	**166,848**	**40,574**

The tables above exclude overcollateralisation.

During 2021, the Group made no amendments to the policy securing performance of obligations by borrowers (2020: the Group approved the policy securing performance of obligations by borrowers).

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

(in millions of Kazakhstani tenge unless otherwise stated)

24. Loans to customers, continued

Analysis of collateral and other credit enhancements, continued

Loans to retail customers

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.

Mortgage loans are secured by the underlying housing real estate. The Group's policy is to issue mortgage loans with a loan-to-value ratio of a maximum of 80% at loan inception date. Auto loans are secured by the underlying cars. The Group's policy is to issue auto 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 and POCI (net of loss allowance for expected credit losses) by types of collateral.

	31 December 2021			
Loans to retail customers at amortised cost	***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	7	7	–	–
Real estate	2,804	229	2,575	–
Vehicles	34	2	32	–
Guarantees	1	–	–	1
No collateral or other credit enhancement	4,023	–	–	4,023
Total Stage 3 loans	**6,869**	**238**	**2,607**	**4,024**
POCI				
Cash and deposits	25	25	–	–
Real estate	7,805	495	7,310	–
Movable property	49	3	46	–
Vehicles	60	1	59	–
Guarantees	90	55	–	35
No collateral or other credit enhancement	866	–	–	866
Total loans of POCI stage	**8,895**	**579**	**7,415**	**901**
Total loans to customers	**266,532**	**16,211**	**116,773**	**133,548**

(in millions of Kazakhstani tenge unless otherwise stated)

24. Loans to customers, continued

Analysis of collateral and other credit enhancements, continued

Loans to retail customers

	31 December 2020			
Loans to retail customers at amortised cost:	***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	1	1	–	–
Real estate	1,653	–	1,653	–
Vehicles	864	–	864	–
Guarantees	4	–	–	4
No collateral or other credit enhancement	536	–	–	536
Total Stage 3 loans	**3,058**	**1**	**2,517**	**540**
POCI				
Cash and deposits	16	16	–	–
Real estate	5,713	3,240	2,473	–
Movable property	6	–	6	–
Vehicles	1,940	7	1,933	–
Equipment	22	–	22	–
Guarantees	634	–	–	634
No collateral or other credit enhancement	1,568	–	–	1,568
Total loans of POCI stage	**9,899**	**3,263**	**4,434**	**2,202**
Total loans to customers	**262,794**	**60,718**	**59,199**	**142,877**

	31 December 2020			
Loans to retail customers measured at fair value through other comprehensive income	***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				
Vehicles	3,744	–	3,744	–
Total Stage 3 loans	**3,744**	**–**	**3,744**	**–**
Total loans to retail customers measured at fair value through other comprehensive income	**70,911**	**–**	**70,911**	**–**

(in millions of Kazakhstani tenge unless otherwise stated)

24. Loans to customers, continued

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*
Construction	199,314	272,636
Services	203,438	227,593
Trade	141,789	195,929
Production	121,486	181,768
Transport	33,382	112,190
Finance and insurance	59,759	55,333
Agriculture	20,710	21,329
Education	9,323	5,656
Other	13,459	64,071
Total loans to corporate customers	**802,660**	**1,136,505**
Loans to retail customers		
Express loans	192,813	116,008
Mortgage loans	55,056	76,213
Car loans	1,328	44,352
Consumer loans	31,523	57,884
Credit cards	2,949	1,735
Total loans to retail customers	**283,669**	**296,192**
Gross loans to customers	**1,086,329**	**1,432,697**
Allowance for expected credit losses	(254,284)	(539,053)
Net loans to customers	**832,045**	**893,644**

The following table represents loans issued to customers located within Russian Federation that operate in the following economic sectors:

	31 December 2021	*31 December 2020*
Loans to retail customers measured at fair value through other comprehensive income		
Car loans	–	70,911
Total loans to retail customers measured at fair value through other comprehensive income	**–**	**70,911**

Significant credit exposures

As at 31 December 2021 the Group has one group of borrowers (31 December 2020: none) whose loan balance exceeded 10% of equity. The gross value of these loans as at 31 December 2021 is KZT 87,269 million.

(in millions of Kazakhstani tenge unless otherwise stated)

25. Property and equipment and intangible assets

Movements of property and equipment for 2021 are as follows:

	Note	*Land plots and buildings*	*Land plots and (industrial) buildings*	*Computer equipment*	*Vehicles*	*Construction in progress*	*Other*	*Intangible assets*	*Right-of-use assets*	*Total*
Cost										
Balance at 1 January 2021		68,888	3,097	10,228	2,677	1,052	7,131	8,361	6,649	**108,083**
Additions		455	8	2,084	285	634	4,454	2,585	2,378	**12,883**
Disposals and write-offs		(14,914)	–	(2,946)	(237)	(2)	(2,672)	(1,091)	(2,030)	**(23,892)**
Transfers		72	–	(3,202)	–	(454)	3,582	2	–	–
Impairment	17	–	–	–	(34)	–	–	(641)	–	**(675)**
Disposed as a result of subsidiary sale	40	(3,757)	–	(31)	–	(40)	(1,363)	(1,763)	(959)	**(7,913)**
Foreign exchange difference		118	–	330	77	3	21	56	15	**620**
Balance at 31 December 2021		**50,862**	**3,105**	**6,463**	**2,768**	**1,193**	**11,153**	**7,509**	**6,053**	**89,106**
Depreciation and amortisation										
Balance at 1 January 2021		(730)	–	(861)	104	–	(2,096)	(1,649)	(1,832)	**(7,064)**
Depreciation and amortisation for the year	17	(963)	(75)	(1,532)	(145)	–	(2,625)	(1,398)	(1,906)	**(8,644)**
Disposals and write-offs		162	–	1,306	104	–	2,060	804	1,440	**5,876**
Transfers		(43)	–	1,338	–	–	(1,297)	2	–	–
Impairment	17	–	–	–	9	–	–	–	–	**9**
Disposed as a result of subsidiary sale	40	221	–	74	13	–	1,058	755	699	**2,820**
Foreign exchange difference		(4)	–	(325)	(85)	–	(18)	(24)	–	**(456)**
Balance at 31 December 2021		**(1,357)**	**(75)**	–	–	–	**(2,918)**	**(1,510)**	**(1,599)**	**(7,459)**
Carrying amount										
At 31 December 2021		**49,505**	**3,030**	**6,463**	**2,768**	**1,193**	**8,235**	**5,999**	**4,454**	**81,647**

(in millions of Kazakhstani tenge unless otherwise stated)

25. Property and equipment and intangible assets, continued

Movements of property and equipment for 2020 are as follows:

	Note	*Land plots and buildings*	*Land plots and (Industrial) buildings*	*Computer equipment*	*Vehicles*	*Construction in progress*	*Other*	*Intangible assets*	*Right-of-use assets*	*Total*
Cost										
Balance at 1 January 2020		36,698	–	2,365	210	660	6,812	6,072	5,407	**58,224**
Acquired as a result of business combination	5	29,372	–	7,345	507	415	–	1,497	2,206	**41,342**
Additions		5,155	–	601	22	129	970	981	393	**8,251**
Disposals and write-offs		(2,065)	–	(128)	(250)	(39)	(504)	(68)	(1,273)	**(4,327)**
Transfers		84	3,097	45	2,188	(113)	(16)	–	–	**5,285**
Effect of revaluation		(204)	–	–	–	–	(2)	–	–	**(206)**
Foreign exchange difference		(152)	–	–	–	–	(129)	(121)	(84)	**(486)**
Balance at 31 December 2020		**68,888**	**3,097**	**10,228**	**2,677**	**1,052**	**7,131**	**8,361**	**6,649**	**108,083**
Depreciation and amortisation										
Balance at 1 January 2020		(371)	–	(308)	(20)	–	(1,374)	(902)	(977)	**(3,952)**
Depreciation and amortisation for the year		(428)	–	(685)	(83)	–	(1,283)	(864)	(1,053)	**(4,396)**
Disposals and write-offs		53	–	132	207	–	467	68	198	**1,125**
Foreign exchange difference		16	–	–	–	–	94	49	–	**159**
Balance at 31 December 2020		**(730)**	–	**(861)**	**104**	–	**(2,096)**	**(1,649)**	**(1,832)**	**(7,064)**
Carrying amount										
At 31 December 2020		**68,158**	**3,097**	**9,367**	**2,781**	**1,052**	**5,035**	**6,712**	**4,817**	**101,019**

As at 31 December 2021 the Group has property and equipment pledged as collateral for the total amount of KZT 626 million (31 December 2020: KZT 644 million).

The Group measures fair value of land plots and (administrative) 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 revalued land and buildings as required by IFRS 13. The valuation resulted in an increase in the carrying amount of land and buildings by KZT 2,966 million recognised in the Group's equity.

As at 31 December 2021, as there were no significant fluctuations in the value of similar facilities in the market, the Group did not revalue the land plots and buildings, except for the land plots and buildings that were acquired as a result of business combination (*Note 5*), which were measured at fair value at the date of initial recognition on the Group's balance sheet.

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)

26. Non-current assets held for sale

	2021	*2020*
Balance at 1 January	**4,954**	**9,144**
Additions	14,536	5,655
Disposals	(17,039)	(8,917)
Disposed as a result of subsidiary sale *(Note 40)*	(1,728)	–
Remeasurement	(176)	(579)
Foreign exchange difference	–	(349)
Balance at 31 December	**547**	**4,954**

Non-current assets held for sale comprise the equity shares in the charter capital of the companies and real estate accepted by the Group in exchange for its rights of claim in relation to impaired loans to customers.

27. Investment property

Management of the Group believes that the carrying value of investment property items reflects their fair value as at 31 December 2021 and 2020.

	2021	*2020*
Balance at 1 January	**10,033**	**5,441**
Additions	30,679	5,646
Disposals	(3,562)	(378)
Remeasurement	2	(676)
Balance at 31 December	**37,152**	**10,033**

28. Other assets

Other assets include the following items:

	31 December 2021	*31 December 2020*
Restricted cash on accounts with KASE	8,733	5,043
Bank debtors	3,658	3,974
Fee and commission receivable *(Note 10)*	2,313	832
Receivables from guarantees issued	1,816	2,259
Trade receivables	1,509	1,051
Accounts receivable for the Bank's participation in auctions	1,279	2,810
Receivables from collection agencies	413	2,253
Receivables from sale of owned assets	189	–
Amount due from local commercial bank	7	214
Other receivables	5,945	4,898
Allowance for expected credit losses	(1,305)	–
Other financial assets	**24,557**	**23,334**
Repossessed collateral	58,350	54,314
Prepayments	7,418	2,703
Materials and supplies	3,566	1,173
Prepayments for intangible assets	212	329
Prepayments for office buildings	11	1,609
Other non-financial assets	630	187
Impairment allowance	(332)	(3,157)
Other non-financial assets	**69,855**	**57,158**
Other assets	**94,412**	**80,492**

As at 31 December 2020, the foreclosed property and pledged property in the amount of KZT 54,314 million mainly include security in the form of real estate accepted by the Group as a result of business combinations. These assets have been initially recognised at fair value and will be subsequently measured at the lower of fair value less cost to sell or the carrying value in accordance with the Group's accounting policy (*Note 3*).

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*).

(in millions of Kazakhstani tenge unless otherwise stated)

28. Other assets, continued

Analysis of movement in allowance for ECL

Movements in allowance for expected credit losses for other financial assets for 2021 and 2020 are as follows:

	2021	*2020*
ECL balance at 1 January	**–**	**(1,493)**
Net (charge)/decrease in allowance *(Note 9)*	(2,724)	1,750
Write-offs	1,419	–
Movements in foreign exchange rates and other movements	–	(257)
ECL balance at 31 January	**(1,305)**	**–**

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

	2021	*2020*
Balance at 1 January	**(3,157)**	**(3,097)**
Net decrease/(charge) of provision	2,462	(128)
Write-offs	363	26
Other changes	–	42
Balance at 31 December	**(332)**	**(3,157)**

29. Amounts due to banks and other financial institutions

Amounts due to banks and other financial institutions comprise the following items:

	31 December 2021	*31 December 2020*
Loans from state-owned companies	36,187	51,966
Loans from other banks and financial institutions	16,718	28,935
Current accounts and deposits from other financial institutions	1,677	214
Correspondent accounts of other banks	99	1,512
Deposits from other banks	80	2,526
	54,761	**85,153**
Foreign currency contracts (“spot”)	25	7
Total	**54,786**	**85,160**

As at 31 December 2021, loans received from state-owned companies included loans of KZT 25,651 million from Damu, of KZT 4,587 million from DBK, of KZT 3,415 million from the Ministry of Finance of the Kyrgyz Republic, of KZT 2,407 million from NBKR and of KZT 127 million from Agrarian Credit Corporation JSC (“ACC”) (31 December 2020: loans of KZT 32,983 million from Damu, of KZT 8,932 million from DBK. Of KZT 5,984 million from NBKR, of KZT 3,920 from MFKR and KZT 147 million from ACC) as part of the state programme of support to small and medium-size enterprises and large-size enterprises by the banking sector.

Loans provided by Damu, DBK and ACC are denominated in KZT, bear a nominal interest rate from 0.10% p.a. to 9.70% p.a. and mature in 2022-2035. Loans provided by NBKR and MFKR are denominated in Kyrgyz Som, bear a nominal interest rate from 1.5% to 6.5% and mature in 2022-2025.

Concentration of amounts due to banks and other financial institutions

As at 31 December 2021 and 2020 the Group had no amounts due to banks and other financial institutions whose gross balances exceeded 10% of the Group’s equity.

Covenants

As at 31 December 2021 the following cases of violation of covenants on loans received have occurred:

- For loans received from MFKR under the KfW programme, one covenant "Loan portfolio at risk PAR > 90" is violated, the actual value of which as at 31 December 2021 was 5.3% while the limit is 5.0%. As at the balance sheet date no permission/waiver was received from the creditor for temporary non-compliance with this covenant.

(in millions of Kazakhstani tenge unless otherwise stated)

29. Amounts due to banks and other financial institutions, continued

Covenants, continued

- For loans from the European Bank for Reconstruction and Development (EBRD), one OCER covenant is violated due to deferrals caused by COVID-19 pandemic, the actual value of which as at 31 December 2021 was 60.5%, while the limit is not more than 150%. As at the reporting date no permission/waiver was received from the creditor for temporary non-compliance with this covenant.
- In October 2021, there were changes in the ownership structure of the Group, which Simbiotics may consider as a violation of the covenant related to the change of the Bank's ultimate controlling party. At the reporting date no permission/waiver or confirmation was received from the creditor that the event was not considered to be a violation of the covenant.

Maturity of loans from banks and other financial institutions

The maturities of loans from banks and other financial institutions as at the reporting date are presented in *Note 39* and represent the periods of time from the reporting date and to the repayment dates under loan agreements.

As a result of violation of covenants, loans from MFKR under the KfW, EBRD and Simbiotics programmes as at 31 December 2021 are classified as "on demand" (short-term).

As a result of violation of covenants, loans from EBRD, Simbiotics, Incofin, MFKR under KfW programme as at 31 December 2020 are classified as "on demand" (short-term).

At the date of issue of the consolidated financial statements, none of these borrowings had been withdrawn ahead of schedule.

30. Amounts payable under repurchase agreements

Securities pledged under sale and repurchase agreements

As at 31 December 2021, the Group has accounts payable of KZT 9,988 million under repo agreements (31 December 2020: KZT 2,411 million), which are secured by trading securities, investment securities measured at amortised cost and investment securities measured at fair value through other comprehensive income with fair value of KZT 7,682 million, KZT 2,170 million and KZT 193 million, respectively (31 December 2020: trade securities with fair value of KZT 2,210 million) *(Notes 22 and 23)*.

31. Current accounts and deposits from customers

Current accounts and deposits from customers comprise:

	31 December 2021	*31 December 2020*
Current accounts and demand deposits		
Corporate	576,804	357,818
Retail	98,044	130,786
Term deposits		
Corporate	414,826	327,499
Retail	538,987	799,301
Savings deposits		
Corporate	120,435	189,333
Retail	54,497	91,945
	1,803,593	**1,896,682**
Held as security of guarantees and letters of credit *(Note 40)*	(13,493)	(4,862)

As at 31 December 2021, the Group maintained customer deposit balances of KZT 48,130 million that serve as collateral for loans and unrecognised credit instruments granted by the Group (31 December 2020: KZT 50,772 million).

As at 31 December 2021, the Group maintained customer current accounts and on demand deposit balances of KZT 14,465 million that serve as collateral for currency forward contracts (31 December 2020: KZT 11,575 million).

(in millions of Kazakhstani tenge unless otherwise stated)

31. Current accounts and deposits from customers, continued

As at 31 December 2021 the corporate term deposits also included deposits for the total amount of KZT 20,245 million (31 December 2020: KZT 42,861 million) received from KSF JSC as part of the state programme for refinancing of residential mortgage loans approved by NBRK. Deposits are denominated in tenge, bear an interest rates of 0.10%-2.99% per annum and are repayable in 2045-2050.

Participation in the state financing programmes

In August 2021, additional funds were received for KZT 3,816 million from KFS 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 3,675 million between the nominal value and fair value of the deposits at the date of initial recognition was recognised in the consolidated 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 current accounts comprise NBRK funds of KZT 54,421 million received from KSF, which represent an undisbursed amount under the state programme of preferential lending to small and medium-size enterprises *(Note 21).*

Concentration of amounts due to customers

As at 31 December 2021, the Group has two 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 194,143 million (31 December 2020: KZT 321,400 million).

32. Debt securities issued

Debt securities issued included:

	Date of issue	*Year of maturity*	*Coupon rate p.a.*	*Effective rate p.a.*	*Carrying amount 31 December 2021*	*Carrying amount 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	56,808
Third bond issue as part of the fourth bond issue program	10.02.2015	10.02.2023	9.70%	13.49%	37,043	36,052
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
Fight bond issue as part of the fourth bond issue program	10.02.2015	10.02.2025	9.90%	13.41%	18,980	18,607
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	12,178
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%	7.50%	2,958	2,881
KZT-denominated bonds of the second issue	22.01.2019	22.01.2034	0.10%	11.50%	387	216
					244,320	**231,807**

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

(in millions of Kazakhstani tenge unless otherwise stated)

32. Debt securities issued, continued

During 2020, as part of the fourth bond issue program, the Group made amendments to the prospectus of issue of the bonds, the holder of which is KSF JSC. The new maturity of the bond is 320 months and maturity date is 5 October 2045. Previous maturity of the bond was 15 years and maturity date was 5 February 2034. 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 *(Note 5).*

This was considered to represent a significant modification of the terms by management of the Group and, therefore, resulted in derecognition of the existed liability and recognition of a new liability. The fair value of a new liability of the Group was determined by discounting the future contractual cash flows using a market interest rate of 12.5% per annum.

The Group 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;
- the Group’s credit risk premium.

The difference between the nominal value and fair value of the issued debt securities arisen due to substantial modification on initial recognition in the total amount of KZT 47,267 million was recognised in the consolidated 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 securities at the date of substantial modification was KZT 7,801 million, which represents income from the settlement of the financial liability, which was also included in the "Gain on modification and initial recognition of the financial liabilities from government institutions” in the consolidated 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	**231,807**	**148,604**
Addition as a result of business combination *(Note 5)*	–	123,645
Changes in carrying amount from recognition of discount	–	(55,102)
Interest expense *(Note 8)*	26,987	16,209
Interest paid *(Note 8)*	(14,474)	(1,549)
Balance at 31 December	**244,320**	**231,807**

33. Subordinated debts

Subordinated debt comprises the following items:

	31 December 2021	*31 December 2020*
Subordinated debt	186,393	197,356
Preference shares	2,478	2,478
	188,871	**199,834**

As at 31 December 2021 and 31 December 2020, subordinated debt comprises quoted bonds and 2,500,000 cumulative non-redeemable preferred shares for the total amount of KZT 2,478 million (31 December 2020: KZT 2,478 million).

In case of bankruptcy, the subordinated debt would be repaid once the Group fully repays all other liabilities but before repayment of the preferred shares.

A summary of subordinated debt issued at 31 December 2021 and 31 December 2020 is presented below:

(in millions of Kazakhstani tenge unless otherwise stated)

33. Subordinated debts, continued

	Date of issue	*Year of maturity*	*Coupon rate, p.a.*	*Effective rate, p.a.*	*Carrying amount 31 December 2021*	*Carrying amount 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	36,805
Second bond issued as part of the fifth bond issue program*	10.02.2015	10.02.2025	10.00%	14.93%	19,662	19,119
KZT-denominated registered unsecured coupon bonds	22.12.2020	01.11.2035	0.10%	15.29%	9,874	8,630
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	7,095
KZT-denominated registered unsecured coupon bonds	23.12.2020	01.11.2040	0.10%	15.29%	5,593	4,924
KZT-denominated bonds of the seventh issue	04.06.2013	04.06.2023	8.00%	10.01%	4,899	4,828
KZT-denominated bonds of the eighth issue	04.06.2013	04.06.2028	9.00%	10.01%	4,795	4,771
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%	–	10,102
KZT-denominated bonds of the fourteenth issue	10.04.2014	10.04.2021	8.00%	10.01%	–	5,042
KZT-denominated bonds of the fifteenth issue	10.04.2014	10.04.2021	8.00%	10.01%	–	3,038
					186,393	**197,356**

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

On 10 April 2022 the Group redeemed the registered subordinated coupon bonds of the thirteenth, fourteenth and fifteenth issues of the third bond issue program due to their maturity, using the Group'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 Group 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 consolidated 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.

On 30 March and 12 June 2020 the Group redeemed the registered subordinated coupon bonds of the third bond issue program due to their maturity, using the Group's own funds. The total amount of payments on these bonds was KZT 5,900 million.

During 2020, as part of the fourth bond issue program the Group made amendments to the prospectus of bond issue, the holder of which is Kazakhstan Sustainability Fund JSC. The 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.

33. Subordinated debts, continued

Change of maturity and interest rate on these bonds was considered to represent a significant modification of the terms by management of the Group and, therefore, resulted in derecognition of the existed liability and recognition of a new liability. The fair value of a new liability of the Group 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 consolidated 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 Group.

In March 2020, as part of the fourth bond issue programme the Group 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 Kazakhstan Sustainability Fund JSC.

The Group 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 Group'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 total amount of KZT 14,018 million was recognised in the consolidated statement of profit or loss and other comprehensive income within "Gain on modification and initial recognition of the financial liabilities from 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 *(Note 5)*. The fair value of a new liability of the Group 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 consolidated statement of profit or loss and other comprehensive income within "Gain on modification and initial recognition of the financial liabilities from government institutions". The negative difference between the carrying amount and fair value of these subordinated bonds at the date of substantial modification was KZT 1,359 million, which represents income from the settlement of the financial liability, which was also included in the "Gain on modification and initial recognition of the financial liabilities from government institutions" in the consolidated statement of profit or loss and other comprehensive income.

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 Group'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 947 million (KZT 420.23 per share) (2020: KZT 992 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 616 million (KZT 273.65 per share).

As at 31 December 2021, dividends accrued on cumulative non-redeemable preferred shares are KZT 78 million (31 December 2020: KZT 141 million).

(in millions of Kazakhstani tenge unless otherwise stated)

33. Subordinated debts, continued

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

	2021	*2020*
Balance at 1 January	**199,834**	**75,277**
Addition as a result of business combination *(Note 5)*	−	76,573
Changes from financing cash flows		
Placement of subordinated debt	−	120,758
Repayment of subordinated debt	(18,019)	(5,900)
	(18,019)	**114,858**
Changes in carrying amount from recognition of discount	−	(69,507)
Interest expense *(Note 8)*	26,747	10,033
Interest paid *(Note 8)*	(19,691)	(7,400)
Balance at 31 December	**188,871**	**199,834**

34. 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 Group issued mortgage loans to customers and transferred it to KSF 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 Group acts as an agent under this programme and receives a commission fee of 4.0% p.a. of the interest receipts.

The Group has determined that it neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset transferred; however, the Group has determined that it retains control over the assets transferred and continues recognising thereof to the extent of continuing involvement in the assets transferred. As the Group's continuing involvement takes a form of the guarantee on the asset transferred, the extent of the Group's continuing involvement is determined equal to maximum amount of consideration received that the Group has to return. The Group believes that the value of the guarantee is high enough and this guarantee will prevent the Operator from selling of the asset transferred thereto, as such sale will be impracticable 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 16,390 million and the carrying amount of liabilities to the Operator is KZT 16,371 million).

(in millions of Kazakhstani tenge unless otherwise stated)

35. Other liabilities

Other liabilities comprise the following items:

	31 December 2021	*31 December 2020*
Trade payables	1,987	815
Insurance and reinsurance payables	1,918	860
Accrued expenses on deposit guarantee fund	606	524
Accrued fee and commission expense	333	726
Liabilities on electronic money issued	186	203
Other lenders	1,853	2,993
Other financial liabilities	**6,883**	**6,121**
Provision for accrued vacation and other amounts due to employees	8,623	16,914
Other taxes payable	7,026	460
Provision for guarantees and letters of credit	4,666	3,107
Other prepayments	1,470	1,507
Deferred income on guarantees and letters of credit issued	815	408
Other liabilities	548	1,478
Other non-financial liabilities	**23,148**	**23,874**
Total other liabilities	**30,031**	**29,995**

36. Equity

Share capital

As at 31 December 2021 the authorised share capital of the Bank 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.

In December 2020, as part of the business combination *(Note 5)*, 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 Group 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**
As 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 consolidated statement of changes in equity under the caption "Additional paid-in capital".

(in millions of Kazakhstani tenge unless otherwise stated)

36. 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.

Cumulative reserve for translation in presentation currency

Reserve for translation in presentation currency comprises foreign exchange reserve and is used to reflect the translation differences, which arise in translation of the financial statements of foreign operations.

Reverse acquisition reserve

In 2019, under the business combination, First Heartland Bank JSC was identified as the acquirer.

The reverse acquisition reserve represents an adjustment to the Group's equity in accordance with IFRS, in order to allow the registered share capital of the Bank to be presented as a separate component.

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*	*Cumulative foreign currency translation reserve*	*Other reserves related to equity instruments*	*Total*
At 1 January 2021	**1,425**	**6,187**	**(764)**	–	**6,848**
Depreciation of revaluation reserve, net of income tax	(74)	–	–	–	**(74)**
Net change in fair value of debt instruments measured at FVOCI	–	(5,226)	–	–	**(5,226)**
Change in ECL allowance of debt instruments measured at FVOCI	–	1,678	–	–	**1,678**
Amount reclassified to profit or loss on derecognition of investment securities measured at FVOCI	–	46	–	–	**46**
Net change in fair value of equity instruments measured at FVOCI	–	8,211	–	–	**8,211**
Foreign currency differences arising on translation of foreign operations	–	–	627	–	**627**
Change in ownership interest in subsidiary resulting in loss of control	(35)	(2,562)	(131)	–	**(2,728)**
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)**
As at 31 December 2021	**1,316**	**8,334**	**(268)**	**2,847**	**12,229**

(in millions of Kazakhstani tenge unless otherwise stated)

36. Equity, continued

Share capital, continued

Movements in 'reserves' captions for 2020

	Revaluation reserve for property and equipment	*Fair value reserve*	*Cumulative reserve for translation in presentation currency*	*Total*
At 1 January 2020	**1,945**	**4,108**	**649**	**6,702**
Depreciation of revaluation reserve, net of income tax	(568)	–	–	**(568)**
Revaluation reserve for property and equipment, net of income tax *(KZT 3 million, Note 25)*	48	–	–	**48**
Net change in fair value of debt instruments measured at FVOCI	–	(8,542)	–	**(8,542)**
Change in ECL allowance of debt instruments measured at FVOCI	–	7,201	–	**7,201**
Amount reclassified to profit or loss on derecognition of investment securities measured at FVOCI	–	3,420	–	**3,420**
Foreign currency differences arising on translation of foreign operations	–	–	(1,413)	**(1,413)**
As at 31 December 2020	**1,425**	**6,187**	**(764)**	**6,848**

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).

37. Earnings per share

Basic and diluted earnings per share

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

	2021	*2020*
Basic earnings per share		
Profit attributable to ordinary shareholders	47,308	258,200
Weighted average number of ordinary shares	164,353,205	132,497,361
Basic and diluted earnings per ordinary share, in KZT	**287.84**	**1,948.72**

38. Analysis by segment

The Group has three reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the chief operating decision maker reviews internal management reports on at least a quarterly basis. The operations of each of the reportable segments are summarised below:

(in millions of Kazakhstani tenge unless otherwise stated)

38. Analysis by segment, continued

- banking – includes extension of loans, taking deposits and other transactions with customers; trading and corporate finance activities, funding the Group's activities and banking risk management through borrowings, and issue of debt securities;
- insurance – conducting insurance and reinsurance activities.
- investing and brokerage activity – includes provision of broker services, financing instrument trading and transactions on capital markets.

Information regarding the results of each reportable segment is included below. The segments' performance is assessed based on a segment's profit before income tax, as included in the internal management reports based on statutory financial statements, which are reviewed by the Chairman of the Board of the Bank. Segment profit is used to evaluate the segment's operating results as management believes that such information is the most relevant in evaluating the results of certain segments relative to others who operate within these industries. Inter-segment pricing is determined on an arm's length basis.

Segment breakdown of assets and liabilities is set out below:

	31 December 2021	*31 December 2020*
Assets		
Banking	2,971,607	3,290,639
Investing and brokerage activity	84,642	40,536
Insurance	34,916	22,724
Unallocated assets	55,425	25,884
Total assets	**3,146,590**	**3,379,783**
Liabilities		
Banking	2,488,198	2,618,862
Investing and brokerage activity	8,614	3,017
Insurance	22,987	11,566
Unallocated liabilities	10,558	8,877
Total liabilities	**2,530,357**	**2,642,322**

(in millions of Kazakhstani tenge unless otherwise stated)

38. Segment analysis, continued

Segment information for the main reportable segments for the year ended 31 December 2021 is set out below:

	Banking	*Insurance*	*Investing and brokerage activity*	*Unallocated segments*	*Total*
Interest income calculated using the effective interest method	209,809	757	85	696	**211,347**
Other interest income	2,213	87	1,472	–	**3,772**
Fee and commission income	34,095	16	2,166	–	**36,277**
Gross earned insurance premiums	–	20,929	–	–	**20,929**
Net gain on financial instruments measured at fair value through profit or loss	6,446	(34)	(580)	–	**5,832**
Net gain on change in fair value of loans to customers measured at FVOCI	530	–	–	–	**530**
Net foreign exchange gain	18,970	411	1,088	–	**20,469**
Gain on modification and initial recognition of the financial liabilities to government institutions	3,712	–	–	–	**3,712**
Gain on recovery of other reserves	1,351	3	34	–	**1,388**
Other operating (expense)/income	7,978	19	10	8,608	**16,615**
Total income	**285,104**	**22,188**	**4,275**	**9,304**	**320,871**
Interest expense	(126,256)	–	(34)	(1,500)	**(127,790)**
Fee and commission expense	(19,136)	(5,193)	(879)	(30)	**(25,238)**
Credit loss (expenses) / income	(3,426)	75	–	(833)	**(4,184)**
Written premiums ceded to reinsurers	–	(3,733)	–	–	**(3,733)**
Net insurance claims incurred	–	(7,108)	–	–	**(7,108)**
Net losses due to derecognition of investment securities measured at FVOCI	(90)	44	–	–	**(46)**
Impairment losses on other investments	(3,157)	–	–	–	**(3,157)**
Impairment losses on investments in subsidiaries	(2,348)	–	–	–	**(2,348)**
Personnel expenses	(40,748)	(3,473)	(1,283)	(4,050)	**(49,554)**
Other general and administrative expenses	(41,354)	(1,168)	(478)	(2,891)	**(45,891)**
Total expenses	**(236,515)**	**(20,556)**	**(2,674)**	**(9,304)**	**(269,049)**
Segment financial result	**48,589**	**1,632**	**1,601**	–	**51,822**
Corporate income tax benefit					**3,601**
Net profit after corporate income tax benefit					**55,423**
Other segment items					
Additions of property and equipment	9,553	–	–	2,027	**11,580**
Depreciation and amortisation	(7,989)	(61)	(24)	(570)	**(8,644)**

(in millions of Kazakhstani tenge unless otherwise stated)

38. Segment analysis, continued

Segment information for the main reportable segments for the year ended 31 December 2020 is set out below:

	Banking	*Insurance*	*Investing and brokerage activity*	*Unallocated segments*	*Total*
Interest income calculated using the effective interest method	113,332	741	160	412	**114,645**
Other interest income	3,579	159	833	–	**4,571**
Fee and commission income	9,866	9	576	–	**10,451**
Gross earned insurance premiums	–	10,523	–	–	**10,523**
Net gain on financial instruments measured at fair value through profit or loss	12,380	41	458	7	**12,886**
Net gain on change in fair value of loans to customers measured at FVOCI	336	–	–	–	**336**
Net foreign exchange gain	13,111	277	975	–	**14,363**
Gain on modification and initial recognition of the financial liabilities to government institutions	124,592	–	–	–	**124,592**
Gain on recovery of other reserves	1,354	(104)	(28)	(337)	**885**
Other operating income	1,693	85	(14)	2,641	**4,405**
Total income	**280,243**	**11,731**	**2,960**	**2,723**	**297,657**
Interest expense	(73,691)	–	(38)	(1,480)	**(75,209)**
Fee and commission expense	(4,719)	(2,384)	(340)	(7)	**(7,450)**
Written premiums ceded to reinsurers	–	(1,920)	–	–	**(1,920)**
Net insurance claims incurred	–	(3,146)	–	–	**(3,146)**
Credit loss (expenses)/income	(36,374)	(121)		1,264	**(35,231)**
Net losses due to derecognition of investment securities measured at FVOCI	(3,317)	–	(103)	–	**(3,420)**
Impairment losses on investments in subsidiaries	(5,172)	–		–	**(5,172)**
Personnel expenses	(35,085)	(1,863)	(877)	(1,207)	**(39,032)**
Other general and administrative expenses	(18,199)	(688)	(210)	(553)	**(19,650)**
Total expenses	**(176,821)**	**(10,122)**	**(1,586)**	**(1,965)**	**(190,494)**
Segment financial result	**103,422**	**1,609**	**1,392**	**740**	**107,163**
Corporate income tax expense					**(24,745)**
Net profit after corporate income tax					**82,418**
Other segment items					
Additions of property and equipment	345	2	13	–	**360**
Depreciation and amortisation	4,299	45	13	39	**4,396**

Interest expense is allocated between the segments on the basis of information presented in the consolidated financial statements of each reporting segment, taking into account the elimination of intra-group operations.

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

	2021	*2020*
Revenue		
Total revenue for reportable segments	320,871	297,921
Elimination of inter-segment revenue	(4,188)	(969)
Consolidated revenue	**316,683**	**296,952**
Profit or loss		
Total profit of reportable segments	55,423	82,418
Loss on disposal of subsidiary	(10,261)	–
Bargain purchase gain	–	170,609
Elimination of inter-segment profit or loss	2,348	5,172
Consolidated profit for the year	**47,510**	**258,199**

(in millions of Kazakhstani tenge unless otherwise stated)

38. Segment analysis, continued

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities, continued

	2021	*2020*
Assets		
Total assets for reportable segments	3,146,590	3,379,783
Elimination of inter-segment assets	(150,596)	(208,105)
Consolidated assets	**2,995,994**	**3,171,678**
Liabilities		
Total liabilities for reportable segments	2,530,357	2,642,322
Elimination of inter-segment liabilities	(11,616)	(9,937)
Consolidated liabilities	**2,518,741**	**2,632,385**

The geographic information for 2021 and 2020 is as follows:

	Revenues		*Non-current financial assets At 31 December*	
	2021	*2020*	*2021*	*2020*
Republic of Kazakhstan	279,977	272,327	111,936	103,064
Russian Federation	11,535	25,594	–	6,397
Kyrgyz Republic	29,359	–	5,968	5,028
Total	**320,871**	**297,921**	**117,904**	**114,489**

The majority of revenues from external customers relate to residents of the Republic of Kazakhstan. The majority of non-current assets are located in the Republic of Kazakhstan. The Group operates in the Republic of Kazakhstan and foreign countries. In presenting the geographic information, the allocation of revenue has been based on the geographic location of customers and assets.

Major customers

For 2021 and 2020, no corporate customers of the reportable segments represented more than 10% of the Group's total revenue.

39. Risk management

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

Risk management policies and procedures

The risk management policies aim to identify, analyse and manage the risks faced by the Group, 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 Group 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, currency 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.

39. Risk management, continued

Market risk, continued

The Group 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 Group;
- 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 Group's ability to withstand changes;
- performing back-testing to check the effectiveness of the risk measurement procedures using historical data on the Group's operations;
- minimising risks related to the failure of the Group's staff to comply with the established limits and market risk powers;
- developing mechanisms to address unexpected or extraordinary situations of the Group 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 Group manages its market risk by setting open position limits in relation to consolidated 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 Group also uses Value-at-Risk ("VaR") methodology to monitor market risk of its trading positions.

During 2021 and 2020 the Group 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.

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 Group 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.

(in millions of tenge unless otherwise stated)

39. Risk management, 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*	*As at 31 December 2021*
Assets							
Cash and cash equivalents	860,892	165,436	–	–	–	131,907	**1,158,235**
Amounts due from banks and other financial institutions	4,510	12,187	1,198	1,150	–	16,893	**35,938**
Trading securities	2,504	7,237	28,356	31,315	485	6,510	**76,407**
Investment securities	253,510	161,129	42,545	52,645	1,329	29,591	**540,749**
Loans to customers	72,892	20,704	105,052	499,922	151,385	–	**849,955**
Promissory notes from the MFRK	682	–	–	103,477	–	–	**104,159**
	1,194,990	**366,693**	**177,151**	**688,509**	**153,199**	**184,901**	**2,765,443**
Liabilities							
Amounts due to banks and other financial institutions	11,827	1,071	4,164	18,318	19,406	–	**54,786**
Amounts payable under repurchase agreements	9,988	–	–	–	–	–	**9,988**
Amounts due to customers	256,033	138,535	666,295	131,975	60,374	550,381	**1,803,593**
Debt securities issued	299	4,452	11,844	119,277	108,448	–	**244,320**
Subordinated debt	–	2,686	264	145,903	37,790	2,228	**188,871**
	278,147	**146,744**	**682,567**	**415,473**	**226,018**	**552,609**	**2,301,558**
	916,843	**219,949**	**(505,416)**	**273,036**	**(72,819)**	**(367,708)**	**463,885**

(in millions of tenge unless otherwise stated)

39. Risk management, 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*	*As at 31 December 2020*
Assets							
Cash and cash equivalents	537,298	355	–	–	–	866,604	**1,404,257**
Amounts due from banks and other financial institutions	740	11,447	2,409	491	3,345	65,297	**83,729**
Trading securities	8,335	749	3,475	17,982	5,040	3,923	**39,504**
Investment securities	84,454	95,980	124,446	30,943	240	32	**336,095**
Loans to customers	146,301	43,407	192,433	452,707	154,563	152	**989,563**
Promissory notes from the MFRK	657	–	–	102,457	–	–	**103,114**
	777,785	**151,938**	**322,763**	**604,580**	**163,188**	**936,008**	**2,956,262**
Liabilities							
Amounts due to banks and other financial institutions	24,518	5,279	8,089	19,772	26,709	793	**85,160**
Amounts payable under repurchase agreements	2,411	–	–	–	–	–	**2,411**
Amounts due to customers	267,789	132,067	723,972	241,125	100,063	431,666	**1,896,682**
Debt securities issued	359	4,420	9,527	67,932	149,569	–	**231,807**
Subordinated debt	64	2,307	19,519	64,540	110,904	2,500	**199,834**
	295,141	**144,073**	**761,107**	**393,369**	**387,245**	**434,959**	**2,415,894**
	482,644	**7,865**	**(438,344)**	**211,309**	**(224,057)**	**501,049**	**540,466**

(in millions of tenge unless otherwise stated)

39. Risk management, continued

Average effective interest rate

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

	31 December 2021 Average effective interest rate, % p.a.			***31 December 2020 Average effective interest rate, % p.a.***		
	KZT	***US D***	***Other currencies***	***KZT***	***US D***	***Other currencies***
Interest-bearing assets						
Cash and cash equivalents	9.28	0.27	4.27	8.67	0.67	0.68
Amounts due from banks and other financial institutions	2.90	0.59	3.57	0.20	1.72	0.02
Trading securities	10.01	2.29	0.22	9.42	1.77	3.67
Investment securities measured at fair value through other comprehensive income	9.16	2.22	–	10.13	1.87	–
Investment securities measured at amortised cost	9.43	3.88	8.72	10.06	3.01	7.90
Loans to customers	17.63	9.16	16.75	14.35	7.73	10.34
Promissory notes from the MFRK	–	3.93	–	–	3.93	–
Interest-bearing liabilities						
Amounts due to banks and other financial institutions	5.42	0.99	7.01	4.91	2.98	7.09
Amounts due to customers	7.95	0.56	3.13	8.36	0.91	2.71
Debt securities issued	12.42	3.55	–	10.69	3.55	–
Subordinated debt	14.18	–	–	12.88	–	–
Lease liabilities	12.52	5.12	9.38	11.30	4.92	7.91
Amounts payable under repurchase agreements	9.96	0.56	–	–	1.37	–

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	(6,979)	(6,979)	(2,438)	(2,438)
100 bp parallel rise	6,979	6,979	2,438	2,438

(in millions of tenge unless otherwise stated)

39. Risk management, continued

Average effective interest rate, continued

Interest rate sensitivity analysis, continued

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	1,394	3,150	904	1,517
100 bp parallel rise	(2,093)	(3,755)	(1,870)	(2,350)

Currency risk

The Group 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:

As at 31 December 2021	*KZT*	*USD*	*EUR*	*RUB*	*Other currencies*	*Total*
Assets						
Cash and cash equivalents	208,290	746,148	63,950	13,142	126,705	**1,158,235**
Amounts due from banks and other financial institutions	5,439	28,424	1,685	2	388	**35,938**
Trading securities	17,426	52,400	–	–	70	**69,896**
Investment securities	454,898	49,272	–	–	7,039	**511,209**
Loans to customers	666,498	114,347	7	8	69,095	**849,955**
Promissory notes from the MFRK*	–	104,159	–	–	–	**104,159**
Insurance premiums under reinsurance contracts	4,687	2,245	–	–	–	**6,932**
Other financial assets	9,488	10,584	232	859	3,394	**24,557**
Total financial assets	**1,366,726**	**1,107,579**	**65,874**	**14,011**	**206,691**	**2,760,881**
Liabilities						
Amounts due to banks and other financial institutions	30,393	6,339	5	264	17,785	**54,786**
Amounts due to customers	920,745	664,008	40,678	10,335	167,827	**1,803,593**
Debt securities issued	232,499	11,821	–	–	–	**244,320**
Subordinated debt	188,871	–	–	–	–	**188,871**
Amounts payable under repurchase agreements	5,370	4,618	–	–	–	**9,988**
Lease liabilities	3,132	1,620	–	–	185	**4,937**
Other financial liabilities	4,915	1,284	299	127	258	**6,883**
Total financial liabilities	**1,385,925**	**689,690**	**40,982**	**10,726**	**186,055**	**2,313,378**
The effect of derivatives held for risk management	297,732	(271,268)	2,935	(2,925)	(8,556)	**17,918**
Net position as at 31 December 2021	**278,533**	**146,621**	**27,827**	**360**	**12,080**	**465,421**

* 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 tenge unless otherwise stated)

39. Risk management, continued

Currency risk, continued

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

At 31 December 2020	*KZT*	*USD*	*EUR*	*RUB*	*Other currencies*	*Total*
Assets						
Cash and cash equivalents	690,081	600,732	46,562	29,822	37,060	**1,404,257**
Amounts due from banks and other financial institutions	57,494	23,450	1,743	919	123	**83,729**
Trading securities	9,408	30,023	–	–	73	**39,504**
Investment securities	297,504	32,230	–	–	6,361	**336,095**
Loans to customers	656,479	177,899	35	90,811	64,339	**989,563**
Promissory notes from the MFRK*	–	103,114	–	–	–	**103,114**
Insurance premiums under reinsurance contracts	2,842	1,029	–	–	–	**3,871**
Other financial assets	16,386	5,192	91	322	1,343	**23,334**
Total financial assets	**1,730,194**	**973,669**	**48,431**	**121,874**	**109,299**	**2,983,467**
Liabilities						
Amounts due to banks and other financial institutions	42,233	17,885	2	67	24,973	**85,160**
Amounts due to customers	967,864	725,721	40,604	100,760	61,733	**1,896,682**
Debt securities issued	219,628	12,179	–	–	–	**231,807**
Subordinated debt	199,834	–	–	–	–	**199,834**
Amounts payable under repurchase agreements	–	2,411	–	–	–	**2,411**
Lease liabilities	3,653	945	–	362	365	**5,325**
Other financial liabilities	4,136	933	283	287	482	**6,121**
Total financial liabilities	**1,437,348**	**760,074**	**40,889**	**101,476**	**87,553**	**2,427,340**
The effect of derivatives held for risk management	317,151	(301,145)	3,773	(6,303)	3,105	**16,581**
Net position as at 31 December 2020	**609,997**	**(87,550)**	**11,315**	**14,095**	**24,851**	**572,708**

A weakening of the KZT, as indicated below, against the following currencies at 31 December 2021 and 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 Group 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*
20% appreciation of USD against KZT	23,459	23,459	(14,008)	(14,008)
20% appreciation of EUR against KZT	4,452	4,452	1,810	1,810
25% appreciation of RUR against KZT	58	58	2,255	2,255

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 risk

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. Other price risk arises when the Group takes a long or short position in a financial instrument.

(in millions of tenge unless otherwise stated)

39. Risk management, continued

Other price risk, continued

An analysis of sensitivity of profit or loss and equity to changes in equity securities prices based on positions for equity instruments existing as at 31 December 2021 and 2020 and a simplified scenario of a 10% change in all equity securities prices is as follows:

	2021		2020	
	Profit or loss	Equity	Profit or loss	Equity
10% increase in securities prices	421	3,373	517	519
10% decrease in securities prices	(421)	(3,373)	(517)	(519)

Credit risk

Credit risk is the probability of financial loss to the Bank if a borrower or counterparty fails to meet its contractual obligations according to agreed terms. The Group has policies and procedures for the management of credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors 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 of the Group’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 Group;
- internal control system for the credit risk management process.

On the basis of the Credit Policy, which covers the key directions of the Group’s activity and the system of the credit risk management instruments, the Group 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 Group’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 Group 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.

39. Risk management, continued

Credit risk, continued

To achieve the Group's key performance indicators, while setting the interest rates for the customers from the corporate business, SME 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 Group's overheads.

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 Group exercises the ongoing monitoring of the status of individual loans, and regularly revalues 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 Group.

Also, requirements to collateral are very important for the management of credit risk. The Group 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 Group uses such methods as diversification of the loan portfolio and system of management reporting, which allows exercising the regular monitoring of the Group lending activity, identifying the major problems and implementing the risk minimisation instruments as well as stress-testing of credit risk.

The Group 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 Group 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 Group, 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 Group and individual segments on a monthly/quarterly basis, and submitted for consideration to the Management Board/Board of Directors of the Bank.

The Group applies the methodology of credit risk stress testing, which is performed using a scenario analysis and sensitivity analysis. While performing the stress testing, the Group 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 Group's business, which is based on assessment of influence of the local stress factors, including those related to the specifics of the Group'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 Group's operations, and to forecast the impact of these factors and develop risk mitigation methods.

(in millions of tenge unless otherwise stated)

39. Risk management, continued

Credit risk, continued

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the unconsolidated 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.

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	1,055,493	1,296,844
Amount due from banks and other financial institutions	35,938	83,729
Trading securities	69,896	34,123
Investment securities	511,209	336,039
Loans to customers	849,955	989,563
Promissory notes from the MFRK	104,159	103,114
Insurance premiums	6,932	3,871
Other financial assets	24,557	23,334
Total maximum exposure to credit risk	**2,658,139**	**2,870,617**

For the analysis of concentration of credit risk in respect of loans to customers refer to *Note 24.*

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in *Note 39.*

As at 31 December 2021 the Group 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 liabilities

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

- are offset in the Group's consolidated statement of financial position, or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the consolidated 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 Group 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 transitions upon the counterparty's failure to post collateral.

The following table provides information on financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2021:

(in millions of tenge unless otherwise stated)

39. Risk management, continued

Offsetting financial assets and liabilities, continued

Types of financial assets/liabilities	Gross amounts of recognised financial assets/liabilities	Gross amount of recognised financial asset/liability offset in the consolidated statement of financial position	Net amount of financial assets/liabilities presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral received	
Loans to customers	45,505	–	45,505	–	(8,079)	**37,426**
Amounts receivable under reverse repurchase agreements	60,191	–	60,191	(60,191)	–	–
Total financial assets	**105,696**	**–**	**105,696**	**(60,191)**	**(8,079)**	**37,426**
Amounts due to customers	9,141	–	9,141	(8,079)	–	**1,062**
Amounts payable under repurchase agreements	9,988	–	9,988	(9,988)	–	–
Total financial liabilities	**19,129**	**–**	**19,129**	**(18,067)**	**–**	**1,062**

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

Types of financial assets/liabilities	Gross amounts of recognised financial assets/liabilities	Gross amount of recognised financial asset/liability offset in the consolidated statement of financial position	Net amount of financial assets/liabilities presented in the consolidated statement of financial position	Related amounts not offset in the consolidated 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	38,240	–	38,240	(38,240)	–	–
Total financial assets	**55,853**	–	**55,853**	**(38,240)**	**(5,173)**	**12,440**
Amounts due to customers	5,173	–	5,173	(5,173)	–	–
Amounts payable under repurchase agreements	2,411	–	2,411	(2,411)	–	–
Total financial liabilities	**7,584**	–	**7,584**	**(7,584)**	–	–

The securities lent under agreements to repurchase represent the transferred financial assets that are not entirely derecognised.

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

Liquidity risk

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

The Group 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.

39. Risk management, continued

Offsetting financial assets and liabilities, continued

Liquidity risk, continued

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

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

In the process of liquidity risk management the Group 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 Group, 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 Group;
- 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 Group's strategy and those types of activity, which expose the Group to the liquidity risk;
- the Group's risk appetite strategy;
- size, nature and complexity of the Group's business;
- size of the Group's exposure to liquidity risk and assessment of its impact on the Group's financial position;
- the results of the risk assessment, including those obtained through stress testing;
- the effectiveness of the liquidity risk management procedures previously applied by the Group;
- 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 banking laws 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 Group 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 tenge unless otherwise stated)

39. 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:

As 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*	*Total*
Liabilities								
Amounts due to banks and other financial institutions	12,149	1,127	5,154	20,310	42,727	–	81,467	**54,786**
Derivative financial instruments	127	287	–	–	–	–	414	**414**
Amounts payable under repurchase agreements	9,987	–	–	–	–	–	9,987	**9,988**
Amounts due to customers	789,078	156,192	692,194	153,595	78,145	–	1,869,204	**1,803,593**
Debt securities issued	318	6,439	19,171	159,440	621,471	–	806,839	**244,320**
Subordinated debt	–	3,109	13,265	212,459	374,107	–	602,940	**188,871**
Lease liabilities	75	458	2,146	5,786	83	–	8,548	**4,937**
Other financial liabilities	3,193	156	3,444	37	6	34	6,870	**6,883**
Total liabilities	**814,927**	**167,768**	**735,374**	**551,627**	**1,116,539**	**34**	**3,386,269**	**2,313,792**
Credit related commitments	18,804	–	–	–	–	–	18,804	18,804

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

(in millions of tenge unless otherwise stated)

39. Risk management, continued

Liquidity risk, continued

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

As 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*	*Total*
Liabilities								
Amounts due to banks and other financial institutions	19,338	5,279	8,118	19,887	49,045	793	102,460	**85,160**
Derivative financial instruments	193	73	–	–	–	–	266	**266**
Amounts payable under repurchase agreements	2,411	–	–	–	–	–	2,411	**2,411**
Amounts due to customers	750,920	141,214	683,200	255,230	104,247	–	1,934,811	**1,896,682**
Debt securities issued	319	6,260	7,233	121,755	683,282	–	818,849	**231,807**
Subordinated debt	–	3,110	33,109	130,609	474,862	–	641,690	**199,834**
Lease liabilities	134	455	2,566	6,703	77	–	9,935	**5,325**
Other financial liabilities	4,044	1,528	6	–	–	994	6,572	**5,306**
Total liabilities	**777,359**	**157,919**	**734,232**	**534,184**	**1,311,513**	**1,787**	**3,516,994**	**2,426,791**
Credit related commitments	41,412	–	–	–	–	–	41,412	41,412

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. In accordance with legislation of the Russian Federation and the Republic of Kyrgyzstan, individuals can withdraw their term deposits at any time, losing in most of the cases the accrued interest. As at 31 December 2021, the carrying amount of these term deposits amounted to KZT 538,987 million (31 December 2020: KZT 799,301 million). The amount of such deposits, by each time band as at 31 December 2021, is as follows:

- demand and less than one month - KZT 22,161 million (31 December 2020: KZT 54,428 million),
- from 1 to 3 months - KZT 84,367 million (31 December 2020: KZT 62,332 million),
- from 3 months to 1 year - KZT 328,963 million (31 December 2020: KZT 485,328 million),
- from 1 to 5 years - KZT 98,868 million (31 December 2020: KZT 191,583 million),
- more than 5 years - KZT 4,628 million (31 December 2020: KZT 5,630 million).

(in millions of tenge unless otherwise stated)

39. Risk management, continued

Liquidity risk, continued

However management believes that in spite of this early withdrawal 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 Group indicates that these customer accounts provide a long-term and stable source of funding.

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 consolidated statement of financial position as at 31 December 2021:

As 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	992,799	165,436	–	–	–	–	–	**1,158,235**
Amounts due from banks and other financial institutions	17,972	12,187	1,198	1,150	3,431	–	–	**35,938**
Trading securities	2,504	7,237	28,356	31,315	485	6,510	–	**76,407**
Investment securities	253,510	161,129	42,545	52,645	1,329	29,591	–	**540,749**
Loans to customers	10,981	20,704	105,052	499,922	151,385	–	61,911	**849,955**
Promissory notes from the MFRK	682	–	–	103,477	–	–	–	**104,159**
Property and equipment and intangible assets	36	71	310	1,253	7,083	72,894	–	**81,647**
Non-current assets held for sale	–	–	547	–	–	–	–	**547**
Investment property	–	–	–	16,870	20,236	46	–	**37,152**
Insurance premiums and reinsurance assets	2,556	2,391	1,670	240	5	–	70	**6,932**
Current tax asset	1	–	839	–	–	–	–	**840**
Deferred tax asset	–	–	80	–	–	83	–	**163**
Other assets	6,729	4,477	8,489	64,328	3	10,022	364	**94,412**
Total assets	**1,287,770**	**373,632**	**189,086**	**771,200**	**183,957**	**119,146**	**62,345**	**2,987,136**
Non-derivative liabilities								
Amounts due to banks and other financial institutions	11,827	1,071	4,164	18,318	19,406	–	–	**54,786**
Amounts due to customers	782,744	148,683	670,717	141,075	60,374	–	–	**1,803,593**
Debt securities issued	299	4,452	11,844	119,277	108,448	–	–	**244,320**
Subordinated debt	–	2,686	264	145,903	37,790	2,228	–	**188,871**
Liabilities to the mortgage company	–	–	4	305	11,776	–	–	**12,085**
Lease liabilities	38	257	1,154	3,404	84	–	–	**4,937**
Amounts payable under repurchase agreements	9,988	–	–	–	–	–	–	**9,988**
Deferred tax liabilities	–	–	697	–	148,091	–	–	**148,788**
Insurance contract provisions	3,361	4,381	11,179	1,259	96	–	–	**20,276**
Current tax liability	461	10	181	–	–	–	–	**652**
Other liabilities	7,543	1,171	18,097	2,734	7	34	445	**30,031**
Total liabilities	**816,261**	**162,711**	**718,301**	**432,275**	**386,072**	**2,262**	**445**	**2,518,327**
Net position	**471,509**	**210,921**	**(529,215)**	**338,925**	**(202,115)**	**116,884**	**61,900**	**468,809**

(in millions of tenge unless otherwise stated)

39. Risk management, continued

Liquidity risk, continued

The table below shows an analysis, by contractual maturities, of the amounts recognised in the consolidated 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	1,403,902	355	–	–	–	–	–	**1,404,257**
Amounts due from banks and other financial institutions	66,037	11,447	2,409	491	3,345	–	–	**83,729**
Trading securities	8,335	749	3,475	17,982	5,040	3,923	–	**39,504**
Investment securities	84,454	95,980	124,446	30,943	240	32	–	**336,095**
Loans to customers	47,519	43,407	192,433	452,707	154,563	–	98,934	**989,563**
Promissory notes from the MFRK	657	–	–	102,457	–	–	–	**103,114**
Property and equipment and intangible assets	–	–	–	–	–	101,019	–	**101,019**
Non-current assets held for sale	–	580	4,280	94	–	-	–	**4,954**
Investment property	–	–	–	–	–	10,033	–	**10,033**
Insurance premiums and reinsurance assets	1,713	488	1,450	220	–	–	–	**3,871**
Current tax asset	–	–	779	–	–	–	–	**779**
Deferred tax asset	–	–	–	–	2,154	–	–	**2,154**
Other assets	10,142	1,488	10,401	41,760	4,013	12,137	551	**80,492**
Total assets	**1,622,759**	**154,494**	**339,673**	**646,654**	**169,355**	**127,144**	**99,485**	**3,159,564**
Non-derivative liabilities								
Amounts due to banks and other financial institutions	25,311	5,279	8,089	19,772	26,709	-	–	**85,160**
Amounts due to customers	699,455	132,067	723,972	241,125	100,063	-	–	**1,896,682**
Debt securities issued	359	4,420	9,527	67,932	149,569	-	–	**231,807**
Subordinated debt	64	2,307	19,519	64,540	110,904	2,500	–	**199,834**
Liabilities to the mortgage company	42	–	7	10,877	5,445	–	–	**16,371**
Lease liabilities	44	211	988	3,805	277	–	–	**5,325**
Amounts payable under repurchase agreements	2,411	–	–	–	–	–	–	**2,411**
Deferred tax liabilities	–	–	–	153,631	–	–	–	**153,631**
Insurance contract provisions	23	1,044	8,457	678	–	–	–	**10,202**
Current tax liability	–	–-	701	–	–	–	–	**701**
Other liabilities	14,143	1,257	1,890	10,963	7	1,564	171	**29,995**
Total liabilities	**741,852**	**146,585**	**773,150**	**573,323**	**392,974**	**4,064**	**171**	**2,632,119**
Net position	**880,907**	**7,909**	**(433,477)**	**73,331**	**(223,619)**	**123,080**	**99,314**	**527,445**

(in millions of tenge unless otherwise stated)

39. Risk management, continued

Operational risk

Operational risk is the probability of loss arising from a wide variety of causes associated with the Bank'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 Group had developed the policy on operational risk management, which was approved by the Board of Directors.

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

- Level 1- risk management by the departments of the Group.
- 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 Group, 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 Group and controls the work performed by risk coordinators.

The Group uses automated systems 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 Group. Self-assessment is conducted by the risk management coordinators 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.

40. Disposal of subsidiary

On 7 September 2021, the Group lost control over Kvant Mobile Bank PJSC due to sale of 100% shares of Pioneer Capital Invest LLP, a company related to the Group by a special relationship, under the terms set forth in the share purchase agreement dated 31 August 2021. The total value of transaction (or the market value of transaction) for Kvant Mobile Bank PJSC's shares was RUB 2.359 million or RUB 12.21 per share.

The table below shows the assets and liabilities of Kvant Mobile Bank PJSC as at the date of disposal:

Net assets of Kvant Mobile Bank PJSC as at the date of disposal	*7 September 2021*
Assets	
Cash and cash equivalents	17,054
Amounts due from banks and other financial institutions	799
Loans to customers *(Note 24)*	74,368
Non-current assets held for sale *(Note 26)*	1,728
Property and equipment and intangible assets *(Note 25)*	5,093
Current corporate income tax assets	1
Deferred corporate income tax assets	2,077
Other assets	3,756
Total assets	**104,876**
Liabilities	
Amounts due to banks and other financial institutions	422
Amounts due to customers	75,163
Lease liabilities	301
Other liabilities	663
Total liabilities	**76,549**
Net assets	**28,327**

(in millions of tenge unless otherwise stated)

40. Disposal of subsidiary, continued

The loss on disposal of subsidiary recognised in the consolidated statement of changes in equity amounted to KZT 10,261 million. The net profit of Kvant Mobile Bank PJSC for the period ended 7 September 2021 included in the consolidated net income amounted to KZT 705 million.

	7 September 2021
Cash received *(Note 1)*	13,732
Perpetual subordinated debts	4,334
Disposed assets	(28,327)
Loss on disposal of subsidiary	**(10,261)**

41. Capital management

The NBRK sets and monitors capital requirements for the Group as a whole. The Group defines as capital those items defined by statutory regulation as capital for credit institutions.

- Tier 1 capital is a total of basic and additional capital. Basic capital comprises ordinary share capital, share premium, current and prior periods' retained earnings and reserves created thereof, less treasury share capital, intangible assets including goodwill, and current and prior periods losses, deferred tax asset net of deferred tax liability and other revaluation reserves. Additional capital comprises of perpetual contracts and paid-in preference share capital less adjustments for the Group's investment in its own perpetual financial instruments and treasury preference shares.
- Tier 2 capital, which comprises the subordinated debt denominated in the national currency, less investments in the subordinated debt of the financial organisations not consolidated with the Bank under IFRS.
- Total capital is the sum of tier 1 and tier 2 capital less difference between retail deposits and equity according to the balance sheet data, multiplied by 5.5, and less the positive difference between provisions (reserves) calculated in accordance with the Guidelines on creation of provisions (reserves) for impairment of the bank's assets in the form of loans and receivables as per Appendix 1 to the Regulations and provisions (reserves) created and stated in the banks' accounting records under IFRS and the requirements of the Law of the RK on Accounting and Financial Reporting (the "positive difference"). Various further limits and qualifying criteria are applied to the above elements of the capital base. Various further limits and qualifying criteria are applied to the above elements of the capital base.

In accordance with the current legislative requirements, the banks have to maintain the following coefficients:

- 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, inclusive of the 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, inclusive of the 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, inclusive of the capital conservation buffer.

The following table shows the composition of the capital position of the Group as at 31 December 2021 and 2020 calculated in accordance with the requirements established by the NBRK:

	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	0.282	0.360
k1.2	0.282	0.360
k.2	0.499	0.597

NBRK's requirements established by covenants under liabilities incurred by the Bank and its subsidiary. The Bank and its subsidiaries complied with all externally imposed capital requirements as at 31 December 2021 (31 December 2020: The Group complied with all externally imposed capital requirements).

(in millions of tenge unless otherwise stated)

42. Credit related commitments

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

The Group 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 Group also provides guarantees by acting as settlement agent in securities borrowing and lending transactions.

The Group 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 credit related commitments are set out in the following table by category. The amounts reflected in the table for credit related 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*
Financial guarantees issued	12,124	30,598
Letters of credit	5,113	8,346
Credit card commitments	1,567	2,468
	18,804	**41,412**
Less: Reserves	(191)	(272)
	18,613	**41,140**

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

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, credit related commitment of KZT 18,526 million are allocated to Stage 1 of the credit risk level (31 December 2020: KZT 39,339 million), KZT 63 million, KZT 199 million and KZT 16 million are allocated to Stages 2, 3 and POSI of the credit risk stage, respectively (31 December 2020: KZT 377 million and KZT 184 million, respectively).

As at 31 December 2021 the Group has no outstanding off-balance sheet liabilities which exceed 10% of equity (31 December 2020: none).

As at 31 December 2021, current accounts and deposits of customer held as collateral under guarantees and letters of credit amounted to KZT 13,493 million (31 December 2020: KZT 4,862 million).

43. Operating lease

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	31 December 2021	*31 December 2020*
Less than 1 year	181	31

The Group 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.

In 2021, KZT 1,379 million was recognised as expense in the consolidated statement of profit or loss and other comprehensive income under the operating lease agreements (31 December 2020: KZT 704 million) *(Note 17)*.

(in millions of tenge unless otherwise stated)

44. 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. The Group does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on its property or relating to operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

Litigation

In the ordinary course of business, the Group 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 conditions or the results of future operations of the Group.

Taxation contingencies in Kazakhstan

The taxation system in the Republic of Kazakhstan continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the 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. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Kazakhstan tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position, if the authorities were successful in enforcing their interpretations, could be significant.

45. Related party transactions

Control relationship

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. G.Sh. 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) *(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 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 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 the financial 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.

Total remuneration paid to the key management personnel is as follows:

	2021	*2020*
Personnel expenses		
Key management personnel	3,923	14,957

Transactions with the key management personnel

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

(in millions of tenge unless otherwise stated)

45. Related party transactions

Transactions with the key management personnel, continued

	31 December 2021	*Average interest rate, %*	*31 December 2020*	*Average interest rate, % p.a.*
Assets				
Loans to customers	–	–	5	4.00
Other assets	–	–	114	–
Liabilities				
Current accounts and deposits from customers	2,386	3.01	2,213	2.60
Other liabilities	4,663	–	11,594	–

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

	2021	*2020*
Interest expense	(24)	(20)
Other operating expenses	(419)	–
Total	**(443)**	**(20)**

(in millions of tenge unless otherwise stated)

45. Related party transactions, continued

Transactions with other related parties

The outstanding balances and the related average interest rates as at 31 December 2021 and related profit or loss amounts of transactions for the year ended 31 December 2021 with other related parties are as follows:

	Parent Company		*Ultimate parent company and other fellow subsidiaries*		*Other*		
	KZT mln	*Average interest rate, %*	*KZT mln*	*Average interest rate, %*	*KZT mln*	*Average interest rate, % p.a.*	*Total KZT mln*
Consolidated statement of financial position							
Assets							
Cash and cash equivalents							
in USD	–	–	–	–	487	–	**487**
in other currency	–	–	–	–	74	–	**74**
Derivative financial instruments							
Forward contracts *(Note 20)*	–	–	–	–	8,847	–	**8,847**
Loans to customers							
in KZT							
Principal	–	–	–	–	1,003	14.01	**1,003**
Other assets	–	–	–	–	1,287	–	**1,287**
Liabilities							
Current accounts and deposits from customers							
in KZT	–	–	1	–	79,838	7.67	**79,839**
in USD	–	–	2,331	–	132,603	0.13	**134,934**
in other currency	–	–	–	–	6,815	1.00	**6,815**
Other liabilities	–	–	–	–	128	–	**128**
Consolidated statement of profit or loss and other comprehensive income							
Interest income	–	–	–	–	411	–	**411**
Interest expense	–	–	–	–	(4,097)	–	**(4,097)**
Net gains on FX derivatives transactions	–	–	–	–	5,786	–	**5,786**
Other income	–	–	–	–	520	–	**520**
Other general and administrative expenses	–	–	–	–	(291)	–	**(291)**

As at 31 December 2021, current accounts and deposits of customers include a current account of KZT 2,331 million attributable to the ultimate controlling party of the Group (31 December 2020: nil).

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

(in millions of tenge unless otherwise stated)

45. Related party transactions, 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		*Ultimate parent company and other fellow subsidiaries*		*Other*		
	KZT mln	***Average interest rate, %***	***KZT mln***	***Average interest rate, %***	***KZT mln***	***Average interest rate, % p.a.***	***Total KZT mln***
Consolidated statement of financial position							
Assets							
Derivative financial instruments							
Forward contracts *(Note 20)*	–	–	–	–	11,987	–	**11,987**
Foreign currency swaps	–	–	–	–	112	–	**112**
Loans to customers							
in KZT							
Principal	–	–	–	–	994	2.08	994
Other assets	–	–	–	–	65	–	65
Liabilities							
Current accounts and deposits from customers							
in KZT	–	–	7	–	55,741	7.36	**55,748**
in USD	–	–	87,321	0.10	147,397	0.56	**234,718**
in other currency	–	–	–	–	6,904	0.10	**6,904**
Other liabilities	–	–	–	–	40	–	**40**
Consolidated statement of profit or loss and other comprehensive income							
Interest income	–	–	–	–	165	–	**165**
Interest expense	–	–	(7)	–	(1,322)	–	**(1,329)**
Fee and commission income	–	–	–	–	2	–	**2**
Fee and commission expense	(19)	–	–	–	–	–	**(19)**
Net gains on FX derivatives transactions	–	–	–	–	11,741	–	**11,741**
Other income	4	–	–	–	403	–	**407**
Other general and administrative expenses	–	–	–	–	(13)	–	**(13)**

(in millions of tenge unless otherwise stated)

46. Fair value of financial instruments

Accounting classifications and fair values

For the purposes of fair value disclosures, the Group 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 as at 31 December 2021:

	FVTPL	*Amortised cost*	*FVOCI*	*Carrying amount*	*Fair value*
Financial assets					
Cash and cash equivalents	–	1,158,235	–	**1,158,235**	**1,158,235**
Amounts due from banks and other financial institutions	–	35,938	–	**35,938**	**35,938**
Trading securities	76,407	–	–	**76,407**	**76,407**
Derivative financial instruments	8,858	–	–	**8,858**	**8,858**
Investment securities measured at fair value through other comprehensive income	–	–	318,990	**318,990**	**318,990**
Loans to customers	17,910	832,045	–	**849,955**	**839,033**
Investment securities measured at amortised cost	–	221,759	–	**221,759**	**222,686**
Promissory notes from the MFRK	–	–	104,159	**104,159**	**104,159**
Insurance premiums	–	6,932	–	**6,932**	**6,932**
Other financial assets	–	24,557	–	**24,557**	**24,557**
	103,175	**2,279,466**	**423,149**	**2,805,790**	**2,795,795**
Financial liabilities					
Amounts due to banks and other financial institutions	–	54,786	–	**54,786**	**53,295**
Amounts due to customers	–	1,803,593	–	**1,803,593**	**1,805,918**
Derivative financial instruments	414		–	**414**	**414**
Debt securities issued	–	244,320	–	**244,320**	**214,895**
Subordinated debt	–	188,871	–	**188,871**	**187,066**
Lease liabilities	–	4,937	–	**4,937**	**4,937**
Amounts payable under repurchase agreements	–	9,988	–	**9,988**	**9,988**
Other financial liabilities	–	6,883	–	**6,883**	**6,883**
	414	**2,313,378**	–	**2,313,792**	**2,283,396**

(in millions of tenge unless otherwise stated)

46. 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 as at 31 December 2020:

	FVTPL	*Amortised cost*	*FVOCI*	*Carrying amount*	*Fair value*
Financial assets					
Cash and cash equivalents	–	1,404,257	–	**1,404,257**	**1,404,257**
Amounts due from banks and other financial institutions	–	83,729	–	**83,729**	**83,729**
Trading securities	39,504	–	–	**39,504**	**39,504**
Derivative financial instruments	12,114	–	–	**12,114**	**12,114**
Investment securities measured at fair value through other comprehensive income	–	–	288,908	**288,908**	**288,908**
Loans to customers	25,008	893,644	70,911	**989,563**	**987,341**
Investment securities measured at amortised cost	–	47,187	–	**47,187**	**48,707**
Promissory notes from the MFRK	–	–	103,114	**103,114**	**103,114**
Insurance premiums	–	1,817	–	**1,817**	**1,817**
Other financial assets	–	23,334	–	**23,334**	**23,234**
	76,626	**2,453,968**	**462,933**	**2,993,527**	**2,992,725**
Financial liabilities					
Amounts due to banks and other financial institutions	–	85,160	–	**85,160**	**85,160**
Amounts due to customers	–	1,896,682	–	**1,896,682**	**1,883,757**
Derivative financial instruments	266	–	–	**266**	**266**
Debt securities issued	–	231,807	–	**231,807**	**220,242**
Subordinated debt	–	199,834	–	**199,834**	**198,575**
Lease liabilities	–	5,325	–	**5,325**	**5,325**
Amounts payable under repurchase agreements	–	2,411	–	**2,411**	**2,411**
Other financial liabilities	–	6,121	–	**6,121**	**6,121**
	266	**2,427,340**	–	**2,427,606**	**2,401,857**

46. 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 ordinary transaction between market participants at the measurement date. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

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

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

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market-observable prices exist. 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 Group 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 Group 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., 6.00% - 31.00% p.a. and 4.40% - 23.00% p.a. are used for discounting future cash flows from loans to corporate customers denominated in KZT, KGS and USD, respectively (31 December 2020: 12.2% - 15.3% p.a., 5.00% - 30.00% p.a. and 4.00% - 19.00% p.a., respectively);
- discount rates of 9.52% - 33.70% p.a. and 7.00% - 31.00% p.a. are used for discounting future cash flows from loans to retail customers denominated in KZT and KGS, respectively (31 December 2020: 4.60% - 22.00% p.a. and 4.00% - 32.00% p.a.);
- discount rates of 0.40% - 7.50% p.a., 0.01% - 13.00% p.a. and 0.6% - 8.4% p.a. are used for discounting future cash flows from current accounts and deposits of corporate and retail customers denominated in KZT, KGS and USD, respectively (31 December 2020: 0.4% - 8.9% p.a., 1.20% - 13.00% p.a. and 0.50% - 13.00% p.a., respectively);
- discount rates of 13.80% - 14.60% p.a. are used for discounting future cash flows from debt securities issued denominated in KZT, and 5.30% p.a. - on debt securities issued denominated in USD (31 December 2020: 11.2% - 13.5% p.a.);
- discount rate of 13.82% - 14.64% p.a. is used for discounting future cash flows from subordinated debt (31 December 2020: 11.7% - 15.3% 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 tenge unless otherwise stated)

46. 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 consolidated statement of financial position:

		Fair value measurement using			
As at 31 December 2021	*Measurement date*	*Input data of Level 1*	*Input data of Level 2*	*Input data of Level 3*	*Total*
Financial instruments at FVTPL:					
- derivative financial assets	31 December 2021	–	8,858	–	**8,858**
- derivative financial liabilities	31 December 2021	–	414	–	**414**
- trading securities	31 December 2021	54,976	21,431	–	**76,407**
- loans to customers	31 December 2021	–	–	17,910	**17,910**
Equity financial instruments at FVOCI:					
- corporate shares	31 December 2021	–	29,540	–	**29,540**
Debt financial instruments at FVOCI:					
- investment securities at FVOCI	31 December 2021	12,587	276,863	–	**289,450**
- promissory notes from the MFRK	31 December 2021	–	104,159	–	**104,159**

		Fair value measurement using			
As at 31 December 2020	*Measurement date*	*Input data of Level 1*	*Input data of Level 2*	*Input data of Level 3*	*Total*
Financial instruments at FVTPL:					
- derivative financial assets	31 December 2020	–	12,114	–	**12,114**
- derivative financial liabilities	31 December 2020	–	266	–	**266**
- trading securities	31 December 2020	31,679	7,825	–	**39,504**
- loans to customers	31 December 2020	–	–	25,008	**25,008**
Debt financial instruments at FVOCI:					
- investment securities at FVOCI	31 December 2020	9,904	278,948	–	**288,852**
- loans to customers	31 December 2020	–	70,911	–	**70,911**
- promissory notes from 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 276,863 million (31 December 2020: KZT 278,948 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 Group 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 Group 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 24*.

(in millions of tenge unless otherwise stated)

46. 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 8)*	1,966	3,550
Interest paid	(1,320)	(874)
Net loss on change in fair value *(Note 13)*	(7,744)	(6,870)
At 31 December	**17,910**	**25,008**

Although the Group believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of 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 Group's financial instruments is designated, and which are not presented at fair value in the consolidated statement of financial position. The fair values of non-financial assets and non-financial liabilities are not presented in the table

As at 31 December 2021	*Level 1*	*Level 2*	*Level 3*	*Fair value*	*Carrying amount*
Assets					
Cash and cash equivalents	–	1,158,235	–	**1,158,235**	**1,158,235**
Amounts due from banks and other financial institutions	–	35,938	–	**35,938**	**35,938**
Loans to customers	–	587,889	233,234	**821,123**	**832,045**
Investment securities measured at amortised cost	20,060	202,626	–	**222,686**	**221,759**
Other financial assets	–	24,557	–	**24,557**	**24,557**
Liabilities					
Amounts due to banks and other financial institutions	–	53,295	–	**53,295**	**54,786**
Amounts due to customers	–	1,507,374	298,544	**1,805,918**	**1,803,593**
Debt securities issued	–	214,895	–	**214,895**	**244,320**
Subordinated debt	–	187,066	–	**187,066**	**188,871**
Lease liabilities	–	4,937	–	**4,937**	**4,937**
Amounts payable under repurchase agreements	–	9,988	–	**9,988**	**9,988**
Other financial liabilities	–	6,883	–	**6,883**	**6,883**

(in millions of tenge unless otherwise stated)

46. Fair value of financial instruments, continued

Unobservable valuation differences on initial recognition, continued

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2020:

As at 31 December 2020	*Level 1*	*Level 2*	*Level 3*	*Fair value*	*Carrying amount*
Assets					
Cash and cash equivalents	–	1,404,257	–	**1,404,257**	**1,404,257**
Amounts due from banks and other financial institutions	–	83,729	–	**83,729**	**83,729**
Loans to customers	–	837,978	149,363	**987,341**	**989,563**
Investment securities measured at amortised cost	–	41,442	7,265	**48,707**	**47,187**
Other financial assets	–	23,334	–	**23,334**	**23,334**
Liabilities					
Amounts due to banks and other financial institutions	–	85,160	–	**85,160**	**85,160**
Amounts due to customers	–	1,883,757	–	**1,883,757**	**1,896,682**
Debt securities issued	–	220,242	–	**220,242**	**231,807**
Subordinated debt	–	198,575	–	**198,575**	**199,834**
Lease liabilities	–	5,325	–	**5,325**	**5,325**
Amounts payable under repurchase agreements	–	2,411	–	**2,411**	**2,411**
Other financial liabilities	–	6,121	–	**6,121**	**6,121**

47. 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 2022 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 Group 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.

In January 2022 there was a change in the corporate name of the company owned by the Bank’s subsidiary Jusan Development LLP, namely: Concern Tsesna-Astyk LLP was renamed to “JFood Kazakhstan LLP”.

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.

As at 31 December 2021, the Group's trading securities portfolio includes securities of Russian emitters totaling KZT 26,935 million. As at the date of issue of the consolidated financial statements, the debt securities of Russian emitters of fair value of KZT 4,601 million at 31 December 2021 had been redeemed due to maturity, as a result of which the Group recognised income of KZT 863 million. At the date of issue of the consolidated financial statements, the valuation of loss on revaluation of trading securities had not been completed.

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 Group has sufficient liquidity cushion to meet its obligations to the counterparties.

(in millions of tenge unless otherwise stated)

47. Subsequent events, continued

Liquidity risk, continued

At the date of issue of the consolidated financial statements, the Group has withdrawn all funds from the accounts with Russian banks included in the sanction list.

Credit risk

The negative impact on Kazakhstan's economy is also likely to increase the credit risk for many borrowers and result in significant additional amount of expected credit losses being recognised however, currently the financial effect is not possible to quantify.

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 Group's income and on the value of assets and liabilities that are sensitive to interest rate changes.

Currency risk

The Group 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 20% weakening of KZT against USD, the net effect on equity would be KZT 23,494 million (based on the Group's exposure to currency risk as at 31 December 2021).

However, the broader effect of these events and their impact on Kazakhstan's economy, including any subsequent impact on the Group's financial performance in 2022, cannot be determined as at the date of approval of these consolidated financial statements.

(in millions of tenge unless otherwise stated)

Annex to the audited consolidated financial statements of the Bank for the year ended 31 December 2021.

The carrying amounts of one ordinary share and one preference share calculated in accordance with the rules of the Kazakhstan Sock Exchange to the audited consolidated financial statements of the Group for the year ended 31 December 2021 are as follows:

The carrying amount of 1 ordinary share:

NAV = (TA – IA) – TL = (2,995,994 – 5,999) – 2,518,741 = KZT 471,254 million;

BV_{CS} = NAV / NO_{CS} = KZT 471,254 million / 164,078,731 shares = **KZT 2,872.12 per 1 ordinary share**;

The carrying amount of 1 preference share:

BV_{PS} = (PS + TD_{PS}) / NO_{PS} = KZT 2,478 million / 2,500,000 shares = **KZT 991.20 per 1 preference share;**

where,

TA – the assets of the share issuer in the statement of financial position of the share issuer as at the calculation date;
IA – the intangible assets in the statement of financial position of the share issuer as at the calculation date, which the entity will not be able to sell to third parties in order to recover the cash or cash equivalents paid and/or to receive economic benefits;
TL – the liabilities in the statement of financial position of the share issuer as at the calculation date;
PS – the balance of the account 'Charter capital, preference shares' in the statement of financial position of the share issuer as at the calculation date;
BV_{CS} – the carrying amount of one ordinary share as at the calculation date;
NAV – the net assets for ordinary shares as at the calculation date;
NO_{CS} – the number of ordinary shares as at the calculation date;
NO_{PS} – the number of preference shares as at the calculation date;
TD_{PS} – the amount of dividends accrued but unpaid on preference shares as at the date.