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CENTERCREDIT

JOINT STOCK COMPANY BANK CENTERCREDIT

Consolidated Financial Statements
for the year ended 31 December 2020

Contents

KPMG

«КПМГ Аудит» жауапкершілігі
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Independent Auditors' Report

To the Shareholders and Board of Directors of Joint Stock Company Bank CenterCredit

Opinion

We have audited the consolidated financial statements of Joint Stock Company Bank CenterCredit and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statements of profit or loss, 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 2020, 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 International Code of Ethics. 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') for loans to customers	
Please refer to Notes 3 (m), 4 and 17 in the consolidated financial statements.	
The key audit matter	**How the matter was addressed in our audit**
Loans to customers and banks represent 54% 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 applies ECL valuation models, which require 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 the IFRS 9); - assessment of probability of default (PD) and loss given default (LGD); - assessment of expected cash flows forecast for Stage 3 loans, including key assumptions on collateral realisation periods. There is increased risk of material misstatement of ECL in the current year due to the increased judgement and estimation uncertainty as a result of COVID- 19. Due to the significant volume of loans to customers and the related estimation uncertainty in estimating of allowance for ECL, this area is a key audit matter.	We analysed the key aspects of the Group's methodology and policies related to ECL estimate for compliance with the requirements of IFRS 9, including involvement of our own specialists in financial risks management. To analyse adequacy of professional judgement and assumptions made by the management in relation to allowance for ECL estimate, we performed the following procedures: — For loans to corporate clients we assessed and tested the design and operating effectiveness of the controls over allocation of loans into Stages. — For a sample of loans to corporate clients, for which a potential change 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. We paid special attention to allocation of the credit risk stage for the loans negotiated as a result of COVID-19 outbreak, as well as for counterparties related to the industries affected by COVID-19. — For a sample of loans to corporate clients, we tested the correctness of data inputs for PD calculation. — For a sample of Stage 3 loans to corporate clients, where ECL are assessed individually we critically assessed assumptions used by the Group to forecast future cash flows, including the estimated value of realisable collateral and their expected realization periods based on our understanding of historical experience and planned measures agreed with the regulator to enhance the collection process and publicly available market information. — For loans to individuals we tested the design and operating effectiveness of controls over timely reflection of delinquency events in the underlying systems. — We agreed input data for the model used to assess ECL for loans to individuals to underlying documents and checked whether these loans have been correctly allocated into Stages on a sample basis.

	— We assessed general predictive capability of the models used by the Group to assess ECL by comparing the estimates made as at 1 January 2020 with actual results for 2020. 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 2020 but does not include the consolidated financial statements and our auditors' report thereon. The Annual Report of the Group for 2020 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 treats 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. МФ-0000096 of 27 August 2012

KPMG Audit LLC

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

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

31 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2020

(in millions of Kazakhstani tenge, except for earnings per share expressed in tenge)

	Note	Year ended 31 December 2020	Year ended 31 December 2019
Interest income calculated using the effective interest method		126,278	119,509
Other interest income		1,925	1,472
Interest expense		(66,040)	(62,004)
Net interest income before expected credit loss allowance on interest-bearing assets	5	**62,163**	**58,977**
Expected credit loss allowance on loans to customers and banks	6	(48,227)	(41,657)
Net interest income		**13,936**	**17,320**
Fee and commission income	7	25,089	26,482
Fee and commission expense	7	(9,221)	(7,720)
Net fee and commission income		**15,868**	**18,762**
Net gain on financial instruments at fair value through profit or loss	8	693	1,150
Net gain on sale and repayment of financial assets measured at fair value through other comprehensive income		2,714	1,031
Net foreign exchange gain	9	9,873	5,237
Expected credit loss allowance on other financial assets and due from banks		(562)	(1,265)
Charge of provision for credit related commitments		(647)	(5)
Impairment loss on other non-financial assets	19	(2,426)	(880)
Other income/(expenses)	19	15,398	(231)
Net non-interest income		**40,911**	**23,799**
Operating income		54,847	41,119
Operating expenses	10	(40,691)	(38,746)
Operating income before income tax		**14,156**	**2,373**
Income tax expense	11	(1,647)	(389)
Profit for the year		**12,509**	**1,984**
Earnings per share			
Basic (KZT)	12	74.39	12.29
Diluted (KZT)		74.39	12.28

The consolidated financial statements as set out on pages 8 to 92 were approved by Management Board on 31 March 2021 and were signed on its behalf by:

G.A. Khussainov Chairman of the Management Board	Ye.A. Assylbek Deputy Chairman of the Management Board, member	A.T. Nurgaliyeva Chief Accountant
31 March 2021 **Almaty, Kazakhstan**	**31 March 2021** **Almaty, Kazakhstan**	**31 March 2021** **Almaty, Kazakhstan**

Explanatory notes as set out on pages 14 to 92 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

(in millions of Kazakhstani tenge, except for earnings per share expressed in tenge)

	Year ended 31 December 2020	Year ended 31 December 2019
PROFIT FOR THE YEAR	**12,509**	**1,984**
OTHER COMPREHENSIVE INCOME		
Items that will not be reclassified to profit or loss:		
Revaluation of land and buildings	548	-
Items that are or may be reclassified subsequently to profit or loss:		
Net gain resulting on revaluation of investment securities during the period (net of tax – KZT nil)	4,359	5,096
Reclassification adjustment relating to investment securities disposed of during the period (net of tax – KZT nil)	(2,714)	(1,031)
Total items that are or may be reclassified subsequently to profit or loss	*1,645*	*4,065*
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF INCOME TAX	**2,193**	**4,065**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**14,702**	**6,049**

The consolidated financial statements as set out on pages 8 to 92 were approved by Management Board on 31 March 2021 and were signed on its behalf by:

G.A. Khussainov
Chairman
of the Management Board

31 March 2021
Almaty, Kazakhstan

Ye.A. Assylbek
Deputy Chairman of the Management Board, member

31 March 2021
Almaty, Kazakhstan

A.T. Nurgaliyeva
Chief Accountant

31 March 2021
Almaty, Kazakhstan

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CONSOLIDATED STATEMENT OF FINANCAL POSITION AS AT 31 DECEMBER 2020

(in millions of Kazakhstani tenge unless otherwise stated)

	Note	31 December 2020	31 December 2019
ASSETS:			
Cash and cash equivalents	13	279,330	158,868
Financial instruments at fair value through profit or loss			
Held by the Group	14	*16,316*	*12,241*
Pledged under sale and repurchase agreements	14	*9,653*	*7,148*
Investment securities			
Held by the Group	15	*288,039*	*140,167*
Pledged under loans from banks	15	*24,816*	*24,730*
Due from banks	16	63,426	9,102
Loans to customers and banks	17		
Loans to corporate customers		*510,785*	*554,705*
Loans to retail customers		*498,688*	*427,685*
Current income tax assets		1,274	2,713
Property, plant and equipment and intangible assets	18	42,716	41,056
Other assets	19	122,213	82,024
TOTAL ASSETS		**1,857,256**	**1,460,439**
LIABILITIES AND EQUITY			
LIABILITIES:			
Due to banks and financial institutions	20	126,558	84,004
Customer accounts	21		
Due to corporate customers		*512,944*	*414,482*
Due to retail customers		*676,320*	*544,463*
Debt securities issued	22	109,757	111,535
Deferred income tax liabilities	11	11,600	9,677
Subordinated bonds	23	62,540	61,342
Other liabilities	24	225,851	121,847
TOTAL LIABILITIES		**1,725,570**	**1,347,350**
EQUITY:			
Equity attributable to owners of the Parent Bank:			
Share capital	25	61,760	57,865
Fair value reserve for securities		2,204	559
Property revaluation reserve		4,773	4,225
Retained earnings		62,949	50,440
Total equity		**131,686**	**113,089**
TOTAL LIABILITIES AND EQUITY		**1,857,256**	**1,460,439**
Book value per ordinary share (KZT)	12	734	672
Book value per preference share (KZT)	12	309	297

The consolidated financial statements as set out on pages 8 to 92 were approved by Management Board on 31 March 2021 and were signed on its behalf by:

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31 March 2021
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A.T. Nurgaliyeva
Chief Accountant

31 March 2021
Almaty, Kazakhstan

Explanatory notes as set out on pages 14 to 92 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

(in millions of Kazakhstani tenge unless otherwise stated)

	Share capital	Fair value reserve	Revaluation of property, plant and equipment	Retained earnings	Total equity attributable to owners of the Parent Bank	Non-controlling interest	Total equity
Balance at 1 January 2019	57,600	(3,506)	4,347	48,280	106,721	377	107,098
Total comprehensive income							
Profit for the year	-	-	-	1,984	1,984	-	1,984
Other comprehensive income							
Items that are or may be reclassified subsequently to profit or loss:							
Net change in fair value	-	4,065	-	-	4,065	-	4,065
Total items that are or may be reclassified subsequently to profit or loss	-	4,065	-	-	4,065	-	4,065
Total other comprehensive income	-	4,065	-	-	4,065	-	4,065
Total comprehensive income for the year	-	4,065	-	1,984	6,049	-	6,049
Other movements in equity							
Transfer of the amount from revaluation resulting from depreciation and disposals	-	-	(122)	122	-	-	-
Total other movements in equity	-	-	(122)	122	-	-	-
Transactions with owners recorded directly in equity							
Treasury shares issued (Note 25)	954	-	-	-	954	-	954
Treasury shares purchased (Note 25)	(689)	-	-	-	(689)	-	(689)
Total transactions with owners	265	-	-	-	265	-	265
Change in non-controlling interest	-	-	-	54	54	(377)	(323)
Balance at 31 December 2019	57,865	559	4,225	50,440	113,089	-	113,089

Explanatory notes as set out on pages 14 to 92 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

(in millions of Kazakhstani tenge unless otherwise stated)

	Share capital	Fair value reserve	Revaluation of property, plant and equipment	Retained earnings	Total equity
Balance at 1 January 2020	**57,865**	**559**	**4,225**	**50,440**	**113,089**
Total comprehensive income					
Profit for the year	-	-	-	12,509	12,509
Other comprehensive income					
Items that will not be reclassified to profit or loss:					
Revaluation of land and buildings	-	-	548	-	548
Total items that will not reclassified to profit or loss	-	-	**548**	-	**548**
Items that are or may be reclassified subsequently to profit or loss:					
Net change in fair value	-	1,645	-	-	1,645
Total items that are or may be reclassified subsequently to profit or loss	-	1,645	-	-	1,645
Total other comprehensive income	-	1,645	548	-	2,193
Total comprehensive income for the year	-	**1,645**	**548**	**12,509**	**14,702**
Transactions with owners recorded directly in equity					
Treasury shares issued (Note 25)	4,312	-	-	-	4,312
Treasury shares purchased (Note 25)	(417	-	-	-	(417)
Total transactions with owners	**3,895**	-	-	-	**3,895**
Balance 31 December 2020	**61,760**	**2,204**	**4,773**	**62,949**	**131,686**

The consolidated financial statements as set out on pages 8 to 92 were approved by Management Board on 31 March 2021 and were signed on its behalf by:

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31 March 2021
Almaty, Kazakhstan

Ye.A. Assylbek
Deputy Chairman of the
Management Board, member

31 March 2021
Almaty, Kazakhstan

A.T. Nurgaliyeva
Chief Accountant

31 March 2021
Almaty, Kazakhstan

Explanatory notes as set out on pages 14 to 92 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020

(in millions of Kazakhstani tenge unless otherwise stated)

	Year ended 31 December 2020	Year ended 31 December 2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received	120,422	116,254
Interest paid	(62,944)	(62,525)
Services fee and commission received	25,089	26,482
Services fee and commission paid	(8,210)	(7,892)
Net payments on derivative instrument transactions	390	929
Net foreign exchange gain	8,431	5,545
Other income/(payments) receipts	1,239	(231)
Operating expenses paid	(37,848)	(35,509)
Cash flow from operating activities before changes in operating assets and liabilities	**46,569**	**43,053**
Change in operating assets:		
Financial instruments measured at fair value through profit or loss	(6,277)	23,504
Due from banks	(57,270)	2,967
Loans to customers and banks	32,764	34,124
Other assets	(1,763)	836
Change in operating liabilities:		
Financial instruments measured at fair value through profit or loss	-	(12,668)
Due to banks and financial institutions	43,651	(11,364)
Customer accounts	189,622	(112,556)
Other liabilities	(2,087)	2,946
Cash flows from/(used in) operating activities before tax	**245,209**	**(29,158)**
Income tax paid	-	(1,314)
Net cash flows from/(used in) operating activities	**245,209**	**(30,472)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from repayment and sale of investment securities	210,399	646,711
Acquisition of investment securities	(342,718)	(628,774)
Acquisition of property, plant and equipment and intangible assets	(6,028)	(7,287)
Proceeds from sale of property, plant and equipment	308	1,948
Net cash flows (used in)/from investing activities	**(138,039)**	**12,598**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from treasury shares issued, net	3,893	265
Proceeds from debt securities issued	-	34,701
Repurchase and repayment of debt securities issued	(8,960)	(21,701)
Receipts from subordinated bonds	-	400
Repayment of subordinated bonds	-	(11,879)
Net cash flows (used in)/from financing activities	**(5,067)**	**1,786**
Effect of changes in foreign exchange rate fluctuations on cash and cash equivalents	18,359	(457)
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	**120,462**	**(16,545)**
CASH AND CASH EQUIVALENTS, beginning of the year	158,868	175,413
CASH AND CASH EQUIVALENTS, end of the year (Note 13)	**279,330**	**158,868**

The consolidated financial statements as set out on pages 8 to 92 were approved by Management Board on 31 March 2021 and were signed on its behalf by:

G.A. Khussainov
Chairman of the Management Board

31 March 2021
Almaty, Kazakhstan

Ye.A. Assylbek
Deputy Chairman of the Management Board, member

31 March 2021
Almaty, Kazakhstan

A.T. Nurgaliyeva
Chief Accountant

31 March 2021
Almaty, Kazakhstan

Explanatory notes as set out on pages 14 to 92 form an integral part of these consolidated financial statements.

(in millions of Kazakhstani tenge unless otherwise stated)

1. INTRODUCTION

(a) Principal activity

JSC Bank CenterCredit (the "Bank") is a Joint Stock Company, which has been incorporated and carrying out its operations in the Republic of Kazakhstan since 1988. The Bank is regulated by the legislation of the Republic of Kazakhstan. The Agency of the Republic of Kazakhstan for Regulation and Development of Financial Market (the "AFM") is a regulatory authority of the Bank. The Bank conducts its business under the license number 1.2.25/195/34, renewed on 28 January 2015.

The Bank's principal activity consists of commercial banking activities, trading with securities, foreign currencies and derivative instruments, loan origination activities and guarantees.

The Bank is a member of the Kazakhstan Deposit Insurance Fund (the "KDIF").

The registered address is 38, Al Farabi Ave., Almaty, Republic of Kazakhstan.

As at 31 December 2020 and 31 December 2019, the Bank had 19 branches in the Republic of Kazakhstan.

The Bank is a parent company of a banking group (the "Group"), which consists of the following subsidiaries consolidated in its consolidated financial statements:

Name	Country of operation	Ownership interest 31 December 2020	Ownership interest 31 December 2019	Activity
LLP BCC-SAOO	Republic of Kazakhstan	100%	100%	Management of distressed assets
JSC BCC Invest	Republic of Kazakhstan	100%	100%	Brokerage and dealer activity
LLP Center Leasing	Republic of Kazakhstan	100%	90.75%	Finance lease and other types of activity

As at 31 December 2020 and 2019, the number of ordinary shares was allocated as follows:

	31 December 2020 %	31 December2019 %
B.R. Baiseitov	52.56	47.93
V.S. Lee	11.43	10.40
D.R. Amankulov	3.71	5.90
Other (individually hold less than 5%)	32.30	35.77
	100.00	**100.00**

During 2020, as part of the additional capitalisation, the Bank placed 14,371,988 ordinary shares for the amount of KZT 4,311,596,400.

The consolidated financial statements were authorised for issue by the Management Board of JSC Bank CenterCredit on 31 March 2021.

(b) Kazakhstan business environment

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

The first months of 2020 have seen significant global market turmoil triggered by the outbreak of the coronavirus. The World Health Organization declared on 11 March 2020 the coronavirus (COVID-19) outbreak a pandemic. Responding to the potentially serious threat the COVID-19 presents to public health, for the purpose of protection of life and health of the citizens, the Government of the Republic of Kazakhstan, pursuant to the legislation of the Republic of Kazakhstan, has imposed state of emergency throughout the Republic of Kazakhstan for the period from 16 March 2020 to 12 May 2020.

Due to lockdown and business disruption in many countries, global oil demand has drastically decreased leading to oversupply and sharp fall in oil prices. On 12 April 2020, major global oil producers including Kazakhstan agreed to a record cut in crude oil production for stabilizing the oil market, which, however, has not been able to reverse the downward pressure on the oil market. Sharp decrease in oil prices and production volumes results in corresponding decrease of oil producers' income and payments to the republican budget, which is likely to have major economic and social consequences and unavoidably affect public sector spending.

1. INTRODUCTION, CONTINUED

(b) Kazakhstan business environment, continued

As part of execution of Order of the Chairman of the Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market No. 167 dated 26 March 2020 "On approval of the procedure of suspension of repayment of principal debt and interests on loans issued to individuals, small and medium-sized businesses that have suffered as a result of introduction of the state of emergency", upon application of borrowers, the Group provided a deferral of payment for the period of duration of the state of emergency. These deferrals did not result in significant modification of loans to customers.

Taking into account the Group's current operational and financial performance along with other currently available public information, within the year ended 31 December 2020, the Group has analysed the trends of macroeconomic factors, of which GDP is a key indicator, in estimating expected credit losses on loans to customers, and allocation by credit risk stages. However, management cannot preclude the possibility that extended lockdown periods, an escalation in severity of such measures, or a consequential adverse impact of such measures on the economic environment will have an adverse effect on the Group in the medium and longer term. The Group also considers negative development scenarios and is ready to adapt its operational plans accordingly. The Group continues to monitor the situations closely and will respond to mitigate the impact of such events and circumstances as they occur.

The consolidated financial statements reflect management's assessment of the impact of the 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

(a) Statement of compliance

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

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and at fair value through other comprehensive income are stated at fair value and buildings and constructions are measured at fair value, which increase is stated in the revaluation property reserve.

(c) Functional and presentation currency

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

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

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

(d) Assessment of the Group's ability to continue as a going concern

The accompanying consolidated financial statements have been prepared on assumption that the Group will continue as a going concern.

On 15 March 2020 the government of the Republic of Kazakhstan declared a state of emergency that have subsequently been prolonged to 12 May 2020 in response to the global COVID-19 virus pandemic. A number of restrictions on the movement of individuals within Kazakhstan have been imposed, in order to reduce the spread of the virus. This has reduced the normal economic activities of many businesses in the country. Other governments across the world have imposed similar restrictions in order to limit the impact of the virus, resulting in a significant reduction in global economic activity.

State of emergency and quarantine were introduced, first of all, in the largest cities – Almaty and Nur-Sultan, with subsequent introduction of this regime throughout Kazakhstan. The bodies of executive power have introduced measures to restrict movement and contacts of the people by means of temporary suspension of work of educational institutions, shopping centres, places of public catering, cinemas, sport facilities as well as industrial enterprises, construction facilities, financial market entities, etc. These events have certain impact on the country's economy in general, which may result in its slowdown in mid-term.

2. BASIS OF PREPARATION, CONTINUED

(d) Assessment of the Group's ability to continue as a going concern, continued

Under the current economic situation, the Government of the Republic of Kazakhstan is taking a number of supporting measures to stimulate business activity in the country and growth of consumption:

- as part of the "Economy of simple things" financing programme and a new government programme to support businesses that have suffered from introduction of quarantine, KZT 1 trillion was allocated to provide preferential lending of the economy at the interest rate of 8%;
- tax reliefs have been introduced as well as limitations on inspection of small and medium-sized businesses;
- social payments of KZT 42,500 were made to individuals who lost their jobs, including self-employed people and socially vulnerable groups of population;
- measures have been provided for to grant deferrals in payments to both individuals and economic entities, whose activity was affected by COVID-19 pandemic.

In accordance with the Resolution of the Management Board of the NBRK dated 19 March 2020, No.39, the Program of Preferential Lending was approved, which stipulates measures of support to small and medium-sized businesses and individual entrepreneurs that have been affected by introduction of the state of emergency in the country as a result of spreading a coronavirus infection. To grant loans through the operator - KSF JSC, the NBRK has allocated KZT 600,000 million, of which KZT 71,000 million represent a limit for the Group. Business support mechanism was implemented though granting the concessional loans for replenishment of working capital for a term of up to 12 months.

Pursuant to Joint Order of the Chairman of NBRK No. 273 of 30 November 2020, a new limit of KZT 93,000 million has been set for the Group. On 15 December 2020 the Group received additional KZT 22,000 million.

Taking into account the current situation in the economy and within the Group, as well as expected negative implications of COVID-19 spreading, the Group has analysed its financial positions under the following scenarios:

- Scenario No.1 implies decrease of an average annual price of BRENT oil up to USD 44 per barrel by the end of 2021; while exchange rate of the national currency to USD will be KZT 476.09 per USD 1; GDP growth rate - 3.4%, and inflation rate - 6.7% by the end of 2021;
- Scenario No.2 implies decrease of an average annual price of BRENT oil up to USD 35 per barrel by the end of 2021; while exchange rate of the national currency to USD will be KZT 538.21 per USD 1; GDP growth rate will be - 3.2%, and inflation rate will be 8.63% by the end of 2021.

Based on the calculations made under the above-mentioned scenarios, the Group management has concluded that a range of possible outcomes in case of negative developments, which have been analysed to form this judgement, does not indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern.

To continue as a going concern, the Group keeps carrying out its operations using a remote access and takes measures to protect health of the employees working on site, including provision of the individual protective devices, observance of distancing regime, and disinfection of the Bank's premises. The Group also ensures organisation of operations of the functions that process the customer transactions, and uninterrupted functioning of the ATMs, terminals, Internet-banking, mobile banking, cash collection service, Call-center.

Asset Quality Review (AQR)

During 2019 the NBRK performed the Asset Quality Review (AQR) of the banking sector of the Republic of Kazakhstan. AQR was performed across 14 largest second-tier banks, which account for 87% of the total assets of the banking sector.

To ensure transparency and objectivity of the review, the NBRK carried out AQR jointly with an international consultant and independent audit firms. AQR was carried out in accordance with the methodology of the European Central Bank and in compliance with requirements of the legislation of the Republic of Kazakhstan related to accounting and prudential regulation.

Based on AQR results, the Group presented a report, which comprised comments and recommendations on improvement of business processes, on the basis of which a detailed action plan was prepared that has been agreed by the regulator AFM. The implementation of the action plan is monitored by the regulator on a quarterly basis.

(in millions of Kazakhstani tenge unless otherwise stated)

2. BASIS OF PREPARATION, CONTINUED

(e) Use of estimates and judgements

In preparing these consolidated financial statements, management has made judgement, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets and liabilities, income and expense. 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.

Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements is included in the following notes:

- classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding – Note 3(g)(i).
- establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL – Note 4.

Assumptions and estimations uncertainty

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the consolidated financial statements for the year ended 31 December 2020 is included in the following notes:

- impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information – Note 4;
- estimates of impairment of loans to customers – Note 17;
- estimates of fair value of foreclosed collateral – Note 19;
- estimates of fair value of financial assets and liabilities for disclosure purposes – Note 32.

(f) Comparative information

Comparative information is adjusted to conform to changes in presentation of the consolidated financial statements in the year ended 31 December 2020.

Reclassifications in the annual consolidated financial statements for the previous year

While preparing the consolidated financial statements of the Group for the year ended 31 December 2020, management made certain classifications which affected comparative information, for the purpose of presentation of the financial statements for the year ended 31 December 2019. The effects from reclassifications on the corresponding figures may be as follows:

	As previously reported	Effect of reclassification	As reclassified
Consolidated Statement of Financial Position as at 31 December 2019			
Due to banks and financial institutions	113,656	(29,652)	84,004
Debt securities issued	81,883	29,652	111,535

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below are applied consistently to all periods presented in these consolidated financial statements, and are applied consistently by Group entities.

(a) Basis of consolidation

(i) Business combinations

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 as the fair value of the consideration transferred (including the fair value of any previously-held equity interest in the acquiree the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquire), plus the recognised amount of any non-controlling interests in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

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

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.

(ii) Subsidiaries

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In particular, the Group consolidates investees that it controls on the basis of de facto circumstances. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(iii) 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.

(iv) 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.

(v) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

(b) Non-controlling interests

Non-controlling interests are the equity in a subsidiary not attributable, directly or indirectly, to the Bank. Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity attributable to equity holders of the Bank. Non-controlling interests in profit or loss and total comprehensive income are separately disclosed in the consolidated statements of profit or loss and other comprehensive income.

(c) Interest income and expense

Effective interest rate

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

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

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(c) Interest income and expense, continued

Effective interest rate, continued

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

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

Amortised cost and gross carrying amount

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

The 'gross carrying amount of a financial asset' measured at amortised cost is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see (m).

Dividend income is recognised in profit or loss on the date that the dividend is declared.

Presentation

Interest income calculated using the effective interest method presented in the consolidated statement of profit or loss includes:

- interest on financial assets measured at amortised cost;
- interest on debt instruments measured at FVOCI.

Other interest income presented in the consolidated statement of profit or loss includes interest income on non-derivative debt financial instruments measured at FVTPL.

Interest expense presented in the consolidated statement of profit or loss includes financial liabilities measured at amortised cost.

(in millions of Kazakhstani tenge unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(d) 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 (see Note 3(c)).

Other fee and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – is recognised as the related services are performed. 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.

The contract with a customer, which resulted in a financial instrument recognised in the consolidated financial statements of the Group may be partially within the scope of IFRS 9 and partially within the scope of IFRS 15. In this case, the Group first applies IFRS 9 to separate and measure the part of the contract, which is within the scope of IFRS 9 and then applies IFRS 15 to the remaining part of this contract.

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

(e) Foreign currency

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

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rate ruling at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

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

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments unless the difference is due to impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss.

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

	31 December 2020	31 December 2019
KZT/EUR	516.79	429
KZT/USD	420.91	382.59

(f) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with the NBRK and other banks, and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of short-term commitments. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

(g) Financial instruments

(i) Classification

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(g) Financial instruments, continued

(i) Classification, continued

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

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

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

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When a debt financial asset measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

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

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

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice, In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the 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 portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected;
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(g) Financial instruments, continued

(i) Classification, continued

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

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

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

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

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract.

In addition, a prepayment feature is treated as consistent with this criterion if a financial asset is acquired or originated at a premium or discount to its contractual par amount, the prepayment amount substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable compensation for early termination), and the fair value of the prepayment feature is insignificant on initial recognition.

Reclassification

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

Financial assets – subsequent measurement, gains and losses

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL.

Reclassification

Financial liabilities are not reclassified subsequent to their initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(g) Financial instruments, continued

(ii) Modification of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as 'substantial modification'), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs.

Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

Changes in cash flows on existing financial assets or financial liabilities are not considered as modification, if they result from existing contractual terms, e.g. changes in interest rates initiated by the Group due to changes in the NBRK key rate, if the loan contract entitles the Group to do so.

The Group performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The 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. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset deemed to have expired. In making this evaluation the Group analogizes to the guidance on the derecognition of financial liabilities.

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

- the change in the currency of a financial asset;
- change in collateral or other credit enhancement;
- inclusion of conversion feature.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(g) Financial instruments, continued

(ii) Modification of financial assets and financial liabilities, continued

Financial liabilities

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

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

- change the currency of the financial liability;
- change in collateral or other credit enhancement;
- inclusion of conversion feature;
- change the subordination of the financial liability.

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

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

(iii) Derecognition

Financial assets

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

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

The Group enters into transactions whereby it transfers assets recognised on its consolidated statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset. Examples of such transaction are the contracts of rights of claims to loans signed with Kazakhstan Sustainability Fund JSC (Note 17).

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(g) Financial instruments, continued

(iii) Derecognition, continued

Financial assets, continued

If the Group continues recognising asset to the extent of its continuing involvement, the Group also recognises a related liability. A transferred assets and liability related to it are measured on the basis, which reflects those rights and liabilities, which the Group has retained. An asset-related liability is measured so that the net carrying amount of the transferred asset and liability related to it represent an amortised cost of the rights and liabilities retained by the Group.

The Group continues recognising income arising on the transferred asset to the extent of its continuing involvement and recognises expense incurred on the associated liability.

If the transferred asset is measured at amortised cost, the associated financial liability may not be designated as at fair value through profit or loss.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

(iv) Fair value measurement principles

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 in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument, but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, the Group measures assets and long positions at the bid price and liabilities and short positions at the ask price.

(v) Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the consolidated statement of financial position and the counterparty liability included in amounts payable under repo transactions within balances and loans from banks and financial institutions. The difference between the sale and repurchase prices represents interest expense and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions within loans to customers and banks. The difference between the purchase and resale prices represents interest income and is recognised in profit or loss over the term of the reverse repo agreement using the effective interest method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(g) Due from banks, loans to customers and banks

(v) Repurchase and reverse repurchase agreements, continued

'Due from banks' and 'Loans to customers and banks' captions in the consolidated statement of financial position include:

- due from banks and loans to customers and banks measured at amortised cost (see Note 3(g)(i)); they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

(h) Investment securities

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

- debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt and equity investment securities mandatorily measured at FVTPL or designated as at FVTPL; these are measured at fair value with changes recognised immediately in profit or loss;
- debt securities measured at FVOCI; and
- equity investment securities designated as at FVOCI.

(i) Property and equipment and intangible assets

(i) Owned assets

Items of property and equipment are stated in the consolidated financial statements at cost less accumulated depreciation and impairment losses, except for buildings and constructions, which are stated at revalued amounts as described below.

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.

Buildings and constructions are subject to revaluation on a regular basis. The frequency of revaluation depends on the movements in the fair values of the buildings being revalued. A revaluation increase on the buildings falling within the category "Buildings and constructions" is recognised as other comprehensive income except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease on the buildings falling within the category "Buildings and constructions" is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised as other comprehensive income directly in equity, in which case it is recognised in other comprehensive income.

(ii) Intangible assets

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

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

(iii) Depreciation and amortisation

Depreciation on property, plant and equipment and amortisation on intangible assets is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated.

Depreciation is charged at the following annual rates:

Buildings and other constructions	1.25-2.50%
Furniture and computer equipment	5.60-20.00%
Intangible assets	6.67-100.00%

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(j) 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. Investment property is initially recognised at the cost of acquisition, including acquisition costs. Subsequently, the investment property is recognised at cost net of accumulated depreciation and impairment loss. Depreciation is charged on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives range from 10 to 40 years.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

(k) Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Such assets, or disposal group, are generally measured at the lower of their carrying amount and fair value less cost to sell.

(l) Due to banks and financial institutions, deposits and customer accounts, debt securities issued and subordinated bonds

Due to banks and other financial institutions, deposits and customer accounts, debt securities issued and subordinated bonds are initially measured at fair value minus incremental direct transaction costs, and subsequently are measured at their amortised cost using the effective interest method.

(m) Impairment of assets

See also Note 4.

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;
- loan commitments issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

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

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

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

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

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument. Financial instruments, 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

(m) Impairment of assets, continued

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 (see Note 4).
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(m) Impairment of assets, continued

Credit-impaired financial assets, continued

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

Presentation of allowance for ECL in the consolidated statement of financial position

Loss allowances for ECL are presented in the consolidated statement of financial position as follows:

- *financial assets measured at amortised cost:* as decrease in carrying amount of these assets;
- *loan commitments and financial guarantee contracts*: generally, as a provision;
- *where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component:* the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component (loan issued). Any excess of the loss allowance over the gross amount of the drawn component (loan issued) is presented as a provision; and
- *debt instruments measured at FVOCI*: no loss allowance is recognised in the consolidated statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-offs

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on debt financial assets' in the consolidated statement of profit or loss and other comprehensive income.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Non-financial assets

Other non-financial assets, other than deferred tax assets, are assessed at each reporting date for any indications of impairment. The recoverable amount of goodwill is estimated at each reporting date. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non-financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised in consolidated financial statements. An impairment loss in respect of goodwill is not reversed.

Accounts receivable under the joint cooperation agreement were measured at fair value as at the signing date (Note 19).

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(n) 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 effect is material, 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, where appropriate, the risks specific to the liability.

(o) Financial guarantees contracts and loan commitments

In the normal course of business, the Group enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. *Subsequently they are measure*d at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

The Group has issued no loan commitments that are measured at FVTPL. For other loan commitments the Group recognises loss allowance.

(p) Share capital

(i) Ordinary shares

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

(ii) Preference shares

Preference share capital that is non-redeemable and carries no mandatory dividends is classified as equity.

(ii) Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a decrease in equity.

(iv) Dividends

The ability of the Group to declare and pay dividends is subject to the rules and regulations of the Kazakhstan legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

(q) Taxation

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

Current tax

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

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(q) Taxation, continued

Deferred tax

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 is not recognised for the following temporary differences:

— initial recognition of goodwill not deductible for tax purposes;

— temporary differences related to the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

— temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, are considered, based on the business plans for individual subsidiaries in the Group. 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 accordance with the tax legislation of the Republic of Kazakhstan, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies. In addition, the tax base is determined separately for each of the Group's main activities and, therefore, tax losses and taxable profits related to different activities cannot be offset.

(r) 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 relating 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.

(s) 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. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(s) Leases, continued

As a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external and internal sources and makes certain adjustments, if necessary, to reflect the terms of the lease and type of the asset leased.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The lease term ends within 12 months of the date of initial application, such leases do not contain extension options, and the Group will not be subject to significant economic penalties, if the Group fails to extend lease for the subsequent 12-month term.

(t) New standards and interpretations not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2021 and earlier application is permitted. However, the Group has not early adopted them in preparing these consolidated financial statements.

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

The Phase 2 amendments provide practical relief from certain requirements in the standards. These reliefs relate to modifications of financial instruments, lease contracts or hedging relationships when a benchmark interest rate in a contract is replaced with a new alternative benchmark rate. When the basis for determining the contractual cash flows of a financial instrument is changed as a direct consequence of interest rate benchmark reform and is made on an economically equivalent basis, the Phase 2 amendments provide a practical expedient to update the effective interest rate of a financial instrument before applying the existing requirements in the standards. The amendments also provide an exception to use a revised discount rate that reflects the change in interest rate when remeasuring a lease liability because of a lease modification that is required by interest rate benchmark reform. Finally, the Phase 2 amendments provide a series of reliefs from certain hedge accounting requirements when a change required by interest rate benchmark reform occurs to a hedged item and/or hedging instrument and consequently the hedge relationship can be continued without any interruption.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(t) New standards and interpretations not yet adopted, continued

Other standards

The following new or amended standards are not expected to have a significant impact on the Group's financial statements.

- *Reference to Conceptual Framework (Amendments to IFRS 3).*
- *COVID-19-Related Rent Concessions (Amendment to IFRS 16).*
- *Classification of Liabilities as Current or Non-current (Amendments to IAS 1).*
- *Onerous contracts – Cost of Fulfilling a Contract (Amendments to IAS 37).*
- *IFRS 17 Insurance Contracts and Amendments to IFRS 17 Insurance Contracts.*
- *Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).*

4. FINANCIAL RISK REVIEW

This note presents information about the Group's exposure to financial risks. For information on the Group's financial risk management framework, see Note 27 in the consolidated financial statements of the Group for the year ended 31 December 2020.

Credit risk - Amounts arising from ECL

See accounting policy in Note 3(m).

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 objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

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

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

Credit risk grades

The 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.

4. FINANCIAL RISK REVIEW, CONTINUED

Credit risk - Amounts arising from ECL, continued

Credit risk grades, continued

Corporate exposure	All exposures (corporate and retail exposures)
• Information obtained during periodic review of borrower files – e.g. audited financial statements, management accounts, 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;	• Payment record – this includes overdue status.
• Data from credit reference agencies, press articles, changes in external credit ratings;	• Utilisation of the granted limit. • Requests for and granting of forbearance.
• quoted bond and credit default swap (CDS) prices for the issuer where available;	• Existing and forecast changes in business, financial and economic conditions.
• Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities.	

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analysed by jurisdiction or region, 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 most exposures, key macro-economic indicator is likely to be GDP growth.

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 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 heightened risk criteria, such as placement on a watch list, restructuring feature that results in transfer to Stage 3. Such qualitative factors are based on its expert judgement and relevant historical experience.

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

4. FINANCIAL RISK REVIEW, CONTINUED

Credit risk - Amounts arising from ECL, continued

Determining whether credit risk has increased significantly, continued

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency of forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases the Group determines a probation period during which the financial asset is required to demonstrated good behaviour to provide evidence that its credit risk has declined sufficiently. When contractual terms of 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;
- credit risk exposures are not transferred directly from a portfolio for which a loss allowance is recognised in the amount of 12-month ECL measurement (Stage 1) to portfolio of credit-impaired assets (Stage 3);
- there is no unwarranted volatility in value of allowance for expected credit losses from transfers of credit risk exposure from the portfolio, for which allowance for expected credit losses is recognised in the amount of 12-month ECL (Stage 1) to the portfolio, under which allowance for expected credit losses is recognised in the lifetime ECL (Stage 2).

Modified financial assets

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

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

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

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 counterparty 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.

4. FINANCIAL RISK REVIEW, CONTINUED

Credit risk - Amounts arising from ECL, continued

Modified financial assets, continued

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired (see Note 3(m)). 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.

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 days on any material credit obligation to the Group;
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower 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. The Group uses expert judgment in assessment of forward-looking information. This estimate is also based on information obtained from external sources.

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. The key driver is GDP forecast.

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 over the past 5 years.

ECL measurement

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.

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.

(in millions of Kazakhstani tenge unless otherwise stated)

4. FINANCIAL RISK REVIEW, CONTINUED

Credit risk - Amounts arising from ECL, continued

Measurement of ECL, continued

PD estimates are estimates at a certain date, which are calculated separately for each loan portfolio, based on Roll Rate model (Markov chains) applied to the loan portfolios with similar credit risk characteristics. The probability of transition of loan portfolio's segment from one 'past due' stage to stage 3 (default) is determined with the use of migration matrices based on historical data. Depth of historical data has to be a least 60 periods. Adjustment to average transition matrix will be made, with economic conditions taken into account, by adding standard normal distribution of an average matrix of each segment and z-criterion of macroeconomic factor. A macroeconomic factor is GDP growth. Official statistics data (official websites of regulatory authority, statistics agencies of the Republic of Kazakhstan) are used as inputs for estimates with economic conditions taken into account. 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 claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure as at the date of default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including unwinding of discounts and bonuses. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the guarantee exposure when the financial guarantee becomes payable.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Group considers a longer period.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- instrument type;
- credit assets segmentation;
- restructuring indicators.

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

For portfolios in respect of which the Group has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows.

			External benchmarks used	
	Carrying amount 31 December 2020	**Carrying amount 31 December 2019**	**PD**	**LGD**
Cash and cash equivalents	279,330	158,868	Moody's default study	70%; 0% - if the Government of the Republic of Kazakhstan acts as a counterparty
Due from banks	63,426	9,102		
Investment securities	312,855	164,897	Moody's default study	LGD for investment securities, whose issuers are financial institutions is equal to 70%, for other companies LGD is based on the history of recovery rates depending on rating; 0% - if the Government of the Republic of Kazakhstan acts as a counterparty

(in millions of Kazakhstani tenge unless otherwise stated)

4. FINANCIAL RISK REVIEW, CONTINUED

Credit risk - Amounts arising from ECL, continued

Measurement of ECL, continued

Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost, FVOCI investment securities as at 31 December 2020. Unless specially indicated, for financial assets, the amounts in the table represent gross carrying amounts.

Explanation of the terms: Stage 1, Stage 2, Stage 3, and POCI are included in Note 3(m).

	31 December 2020			
	Stage 1 12-month expected credit losses	Stage 2 Lifetime ECL of assets not credit-impaired	Stage 3 Lifetime ECL for credit-impaired assets	Total
Cash and cash equivalents				
- rated from AA- to AA+	14,589	-	-	14,589
- rated from A- to A+	14,131	-	-	14,131
- rated from BBB- to BBB+	189,095	-	-	189,095
- rated from BB- to BB+	2,212	-	-	2,212
- rated from B- to B+	1,922	-	-	1,922
- not rated	476	-	-	476
Loss allowance	(71)	-	-	(71)
Total cash and cash equivalents (less cash on hand)	**222,354**	-	-	**222,354**

	31 December 2020			
	Stage 1 12-month expected credit losses	Stage 2 Lifetime ECL of assets not credit-impaired	Stage 3 Lifetime ECL for credit-impaired assets	Total
Investment securities measured at amortised cost				
Rated AAA	7,097	-	-	7,097
- rated from BBB- to BBB+	9,659	-	-	9,659
	16,756	-	-	**16,756**
Loss allowance	-	-	-	-
Total investment securities measured at amortised cost	**16,756**	-	-	**16,756**
Investment securities measured at FVOCI - debt				
Rated AAA	13,480	-	-	13,480
- rated from BBB- to BBB+	265,190	-	-	265,190
- rated from BB- to BB+	10,727	-	-	10,727
- rated from B- to B+	6,400	-	-	6,400
Total investment securities measured at FVOCI - debt	**295,797**	-	-	**295,797**
Loss allowance	(90)	-	-	(90)
Gross carrying amount of investment securities measured at FVOCI - debt	**293,703**	-	-	**293,703**
Due from banks				
- rated from AA- to AA+	5,292	-	-	5,292
- rated from BBB- to BBB+	58,073	-	-	58,073
- not rated	69	-	-	69
	63,434	-	-	**63,434**
Loss allowance	(8)	-	-	(8)
Total due from banks	**63,426**	-	-	**63,426**

(in millions of Kazakhstani tenge unless otherwise stated)

4. FINANCIAL RISK REVIEW, CONTINUED

Credit risk - Amounts arising from ECL, continued

Measurement of ECL, continued

	31 December 2020				
	Stage 1 12-month expected credit losses	**Stage 2 Lifetime ECL of assets not credit-impaired**	**Stage 3 Lifetime ECL for credit-impaired assets**	**Originated credit-impaired financial assets (POCI- assets)**	**Total**
Loans to corporate customers measured at amortised cost					
Not overdue loans	325,237	62,568	116,998	-	504,803
Overdue loans					
- overdue less than 30 days	1,819	230	8,552	1,383	11,984
- overdue 31-60 days	-	1,270	2,094	-	3,364
- overdue 61-90 days	-	44	875	-	919
- overdue 91-180 days	-	-	6,273	-	6,273
- overdue more than 180 days	-	-	28,828	-	28,828
	327,056	**64,112**	**163,620**	**1,383**	**556,171**
Loss allowance	(1,212)	(5,792)	(84,127)	-	(91,131)
Total loans to corporate customers measured at amortised cost	**325,844**	**58,320**	**79,493**	**1,383**	**465,040**
Loans to individuals measured at amortised cost					
Not overdue loans	429,444	25,027	4,939	-	459,410
Overdue loans					
- overdue less than 30 days	5,730	2,514	872	-	9,116
- overdue 31-60 days	-	3,935	1,625	-	5,560
- overdue 61-90 days	-	1,471	1,003	-	2,474
- overdue 91-180 days	-	-	9,280	-	9,280
- overdue more than 180 days	-	-	36,719	-	36,719
	435,174	**32,947**	**54,438**	**-**	**522,559**
Loss allowance	(4,281)	(1,025)	(18,565)	-	(23,871)
Total loans to individuals measured at amortised cost	**430,893**	**31,922**	**35,873**	**-**	**498,688**
Loans under reverse repurchase agreements					
Reverse repo agreements	44,993	-	-	-	44,993
Loss allowance	-	-	-	-	-
Total loans under reverse repurchase agreements	**44,993**	**-**	**-**	**-**	**44,993**

(in millions of Kazakhstani tenge unless otherwise stated)

4. FINANCIAL RISK REVIEW, CONTINUED

Credit risk - Amounts arising from ECL, continued

Measurement of ECL, continued

	31 December 2019			
	Stage 1 12-month expected credit losses	**Stage 2 Lifetime ECL of assets not credit-impaired**	**Stage 3 Lifetime ECL for credit-impaired assets**	**Total**
Cash and cash equivalents				
- rated from AA- to AA+	7,822	-	-	7,822
- rated from A- to A+	25,373	-	-	25,373
- rated from BBB- to BBB+	50,014	-	-	50,014
- rated from BB- to BB+	3,929	-	-	3,929
- rated from B- to B+	5,836	-	-	5,836
- not rated	604	-	-	604
	93,578			**93,578**
Loss allowance	(158)	-	-	(158)
Total cash and cash equivalents (less cash on hand)	**93,420**	-	-	**93,420**
Investment securities measured at amortised cost				
- rated from BBB- to BBB+	4,355	-	-	4,355
	4,355	-	-	**4,355**
Loss allowance	-	-	-	-
Total investment securities measured at amortised cost	**4,355**	-	-	**4,355**
Investment securities measured at FVOCI - debt				
- rated from AA- to AA+	9,759	-	-	9,759
- rated from BBB- to BBB+	124,087	-	-	124,087
- rated from BB- to BB+	26,330	-	-	26,330
Total investment securities measured at FVOCI - debt	**160,176**	-	-	**160,176**
Loss allowance	(146)	-	-	(146)
Gross carrying amount of investment securities measured at FVOCI - debt	**159,976**	-	-	**159,976**
Due from banks				
- rated from AA- to AA+	3,126	-	-	3,126
- rated from BBB- to BBB+	5,934	-	-	5,934
- not rated	50	-	-	50
	9,110	-	-	**9,110**
Loss allowance	(8)	-	-	(8)
Total due from banks	**9,102**	-	-	**9,102**

(in millions of Kazakhstani tenge unless otherwise stated)

4. FINANCIAL RISK REVIEW, CONTINUED

Credit risk - Amounts arising from ECL, continued

Measurement of ECL, continued

	31 December 2019				
	Stage 1 12-month expected credit losses	**Stage 2 Lifetime ECL of assets not credit-impaired**	**Stage 3 Lifetime ECL for credit-impaired assets**	**Originated credit-impaired financial assets (POCI- assets)**	**Total**
Loans to corporate customers measured at amortised cost					
Not overdue loans	317,782	72,960	147,823	1,712	540,277
Overdue loans					
- overdue less than 30 days	1,853	476	14,915	301	17,545
- overdue 31-60 days	-	3,642	3,072	-	6,714
- overdue 61-90 days	-	52	3,701	-	3,753
- overdue 91-180 days	-	-	2,119	-	2,119
- overdue more than 180 days	-	-	29,743	-	29,743
	319,635	**77,130**	**201,373**	**2,013**	**600,151**
Loss allowance	(1,084)	(2,667)	(104,226)	-	(107,977)
Total loans to corporate customers measured at amortised cost	**318,551**	**74,463**	**97,147**	**2,013**	**492,174**
Loans to individuals measured at amortised cost					
Not overdue loans	343,301	28,647	6,462	-	378,410
Overdue loans					
- overdue less than 30 days	7,029	2,285	2,079	-	11,393
- overdue 31-60 days	-	3,050	543	-	3,593
- overdue 61-90 days	-	2,300	552	-	2,852
- overdue 91-180 days	-	-	5,230	-	5,230
- overdue more than 180 days	-	-	51,439	-	51,439
	350,330	**36,282**	**66,305**	**-**	**452,917**
Loss allowance	(1,961)	(1,286)	(21,985)	-	(25,232)
Total loans to individuals measured at amortised cost	**348,369**	**34,996**	**44,320**	**-**	**427,685**
Loans under reverse repurchase agreements					
Reverse repo agreements	61,771	-	-	-	61,771
Loss allowance	-	-	-	-	-
Total loans under reverse repo agreements	**61,771**	**-**	**-**	**-**	**61,771**

(in millions of Kazakhstani tenge unless otherwise stated)

5. NET INTEREST INCOME

	Year ended 31 December 2020	Year ended 31 December 2019
Interest income calculated using the effective interest rate method		
Interest income on financial assets recorded at amortised cost:		
- interest income on assets not credit-impaired	96,792	89,353
- interest income on credit-impaired assets	13,233	18,846
Interest income on financial assets measured at fair value through other comprehensive income	16,253	11,310
Total interest income calculated using the effective interest rate method	**126,278**	**119,509**
Interest income on financial assets recorded at amortised cost comprises:		
Interest on loans to customers and banks	105,923	104,447
Interest on investment securities measured at amortised cost	736	1,145
Interest on due from banks	3,366	1,443
Penalties on loans to customers and banks	-	1,164
	110,025	**108,199**
Interest income on financial assets at fair value through profit or loss and investments in net finance lease	1,925	1,472
Other interest income	**1,925**	**1,472**
Total interest income	**128,203**	**120,981**
Interest expense:		
Interest expense on financial liabilities recorded at amortised cost	(66,040)	(62,004)
Total interest income	**(66,040)**	**(62,004)**
Interest expense on financial liabilities recorded at amortised cost:		
Interest on customer accounts	(42,745)	(37,702)
Interest on debt securities issued	(11,364)	(8,960)
Interest on due to banks and financial institutions	(4,746)	(7,705)
Interest on subordinated bonds	(7,185)	(7,637)
Total interest expense on financial liabilities recorded at amortised cost	**(66,040)**	**(62,004)**
	62,163	**58,977**

(in millions of Kazakhstani tenge unless otherwise stated)

6. CHARGE OF EXPECTED CREDIT LOSS ALLOWANCE FOR INTEREST BEARING ASSETS

Years ended 31 December 2019 and 2020	Corporate loans	Small and medium-sized enterprises	Mortgage loans	Consumer loans	Business development	Car loans	Loans to banks	Total loans to customers and banks
1 January 2019	**95,440**	**10,752**	**8,524**	**9,189**	**8,796**	**465**	**25**	**133,191**
Charge/(recovery) of allowance*	21,700	1,637	7,162	4,877	3,610	(35)	(20)	38,931
New financial assets originated or purchased*	434	238	10	2,018	21	-	5	2,726
Effect of unwinding of discount**	3,755	506	53	236	323	1	-	4,874
Write-off of assets	(19,706)	(4,879)	(7,667)	(6,592)	(6,155)	(373)	-	(45,372)
Recovery of assets previously written-off	273	145	413	384	135	40	-	1,390
Foreign exchange difference	(2,253)	(65)	(68)	(83)	(51)	(1)	-	(2,521)
31 December 2019	**99,643**	**8,334**	**8,427**	**10,029**	**6,679**	**97**	**10**	**133,219**
1 January 2020	**99,643**	**8,334**	**8,427**	**10,029**	**6,679**	**97**	**10**	**133,219**
Charge/(recovery) of allowance*	20,744	9,731	3,981	7,203	2,845	29	(3)	44,530
New financial assets originated or purchased*	1,426	193	317	1,573	151	19	18	3,697
Effect of unwinding of discount**	3,921	554	50	5	203	-	-	4,733
Write-off of assets	(25,983)	(10,890)	(6,903)	(3,330)	(3,065)	(8)	-	(50,179)
Writing off of previously charged effect of unwinding of discount on gross basis	(15,684)	(1,672)	(1,183)	(2,648)	(3,199)	(92)	-	(24,478)
Recovery of assets previously written-off	408	266	472	984	1,160	39	-	3,329
Foreign exchange difference	130	10	8	21	7	-	-	176
31 December 2020	**84,605**	**6,526**	**5,169**	**13,837**	**4,781**	**84**	**25**	**115,027**

*Provisions recognised during the twelve months ended 31 December 2020 and 2019 are presented in the consolidated statement of profit or loss in "Charge of credit loss allowance for interest-bearing assets" line item.

**Unwinding of discount on present value of expected credit losses.

(in millions of Kazakhstani tenge, unless otherwise stated)

7. FEE AND COMMISSION INCOME/(EXPENSE)

	For the year ended 31 December 2020	For the year ended 31 December 2019
Payment cards	8,649	8,090
Settlements	6,664	7,799
Guarantees	4,350	4,428
Cash operations	3,481	4,590
Securities purchase and sale	884	-
Trust operations	209	100
Custody activities	161	263
Internet-banking services	63	112
Documentary operations	52	112
Other	576	988
Total fee and commission income	**25,089**	**26,482**
Payment cards	(7,751)	(5,666)
Settlements	(594)	(1,151)
Custody activities	(156)	(131)
Documentary operations	(15)	(275)
Other	(705)	(497)
Total fee and commission income	**(9,221)**	**(7,720)**
	15,868	**18,762**

Commissions income that are not integral to the effective interest rate on a financial asset or financial liability, is recognised depending on the type of the service either at the point in time or over time as the Group satisfies its performance obligation under the contract:

- commission for settlement operations, cash operations, payment card operations, Internet-banking services, foreign exchange operations is charged for the execution of payment order in accordance with tariffs depending on the type of the transaction and recognised as income at the moment of the transaction execution;
- 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.

Contract balances

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

KZT mln	For the year ended 31 December 2020	For the year ended 31 December 2019
Receivables which are included in 'other assets' (Note 19)	6,911	8,246

8. NET GAIN ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	Year ended 31 December 2020	Year ended 31 December 2019
Realised gain on trading operations	552	238
Unrealised (loss)/gain on operations with derivative financial instruments	(6)	9
Unrealised gain on movement in fair value	309	211
Realised (loss)/gain on operations with derivative financial instruments	(162)	692
	693	**1,150**

9. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

	For the year ended 31 December 2020	For the year ended 31 December 2019
Dealing operations, net	8,431	5,545
Translation differences, net	1,442	(308)
	9,873	**5,237**

(in millions of Kazakhstani tenge, unless otherwise stated)

10. OPERATING EXPENSES

	For the year ended 31 December 2020	For the year ended 31 December 2019
Wages and salaries	18,727	18,142
Taxes other than income tax	4,096	3,694
Short-term lease expenses	3,427	3,218
Depreciation and amortisation	3,408	3,212
Administrative expenses	2,996	3,217
Contributions to Deposit Guaranteeing Fund	2,661	1,982
Security and security alarming expenses	1,155	1,162
Telecommunications	1,116	835
Professional services	603	680
Advertising costs	571	401
Collection expenses	540	512
Equipment repair and maintenance	357	452
Business travel expenses	135	341
Representation expenses	25	51
Other expenses	874	847
	40,691	**38,746**

11. INCOME TAX EXPENSE

	For the year ended 31 December 2020	For the year ended 31 December 2019
Current year tax expense	-	8
Movement in deferred tax and liabilities due to origination and reversal of temporary differences and movement in valuation allowance	1,647	381
Total income tax expense	**1,647**	**389**

In 2020, the applicable tax rate for current and deferred tax is 20% (2019: 20%).

Reconciliation of effective tax rate for the year ended 31 December

	31 December 2020	%	31 December 2019	%
Profit before income tax	**14,156**		**2,373**	
Income tax at the applicable income tax rate	2,831	20.00	475	20.00
Non-taxable interest and other income on transactions with state and other qualified securities	(1,263)	(8.92)	(1,365)	(57.5)
Change in unrecognised deferred tax assets	16	0.11	(8)	(0.4)
Non-taxable income	(46)	(0.32)	(14)	(0.61)
Non-deductible operating and other expenses	109	0.77	1,301	54.8
	1,647	**11.63**	**389**	**16.39**

(a) Deferred tax assets and liabilities

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to deferred tax liabilities as at 31 December 2020 and 31 December 2019.

Movements in temporary differences during 2020 and 2019 are presented as follows:

2020	Balance at 1 January 2020	Recognised in profit or loss	Recognised in equity	Balance at 31 December 2020
Accrued interest payable	66	(39)	-	27
Investment securities measured at fair value through other comprehensive income	(38)	-	(166)	(204)
Tax loss carried forward	1,123	-	-	1,123
Other	278	3	-	281
Effect of modification of financial assets terms	257	(100)	-	157
Discount on loans to customers	493	(399)	-	94
Discount on low-interest customer accounts	(861)	(758)	-	(1,619)
Discount on subordinated bonds	(7,375)	220	-	(7,155)
Property, plant and equipment and intangible assets	(3,620)	(574)	(110)	(4,304)
	(9,677)	**(1,647)**	**(276)**	**(11,600)**

(in millions of Kazakhstani tenge, unless otherwise stated)

11. INCOME TAX EXPENSE, CONTINUED

(a) Deferred tax assets and liabilities, continued

2019	Balance at 1 January 2019	Recognised in profit or loss	Recognised in equity	Balance at 31 December 2019
Accrued interest payable	123	(57)	-	66
Investment securities measured at fair value through other comprehensive income	159	-	(197)	(38)
Tax loss carried forward	1,123	-	-	1,123
Other	164	114	-	278
Effect of modification of financial assets terms	405	(148)	-	257
Discount on loans to customers	-	493	-	493
Discount on low-interest customer accounts	(240)	(621)	-	(861)
Discount on subordinated bonds	(7,564)	189	-	(7,375)
Property, plant and equipment and intangible assets	(3,269)	(351)	-	(3,620)
	(9,099)	(381)	(197)	(9,677)

12. EARNINGS PER SHARE

Basic and diluted earnings per share are calculated by dividing the net income for the period attributable to equity holders of the parent by the weighted average number of participating shares outstanding during the period.

	Year ended 31 December 2020	Year ended 31 December 2019
Basic earnings per share		
Net earnings attributable to shareholders of the Bank	12,509	1,984
Less: additional dividends payable upon full distribution of profit to the preferred share holders	(7)	(2)
Net earnings attributable to ordinary shareholders	**12,502**	**1,982**
Weighted average number of ordinary shares for purposes of basic earnings per share	168,050,441	161,293,951
Basic earnings per share (in KZT)	**74.39**	**12.29**
Diluted earnings per share		
Net earnings attributable to ordinary shareholders	12,502	1,982
Add: additional dividends payable upon full distributions of profit to the preferred shareholders	7	2
Earnings used in calculation of diluted earnings per share	12,509	1,984
Weighted average number of ordinary shares	168,050,441	161,293,951
Shares deemed to be issued:		
Weighted average number of ordinary shares that would be issued for the convertible preferred shares	100,696	219,968
Weighted average number of ordinary shares for purposes of diluted earnings per share	**168,151,137**	**161,513,919**
Diluted earnings per share (tenge)	**74.39**	**12.28**

The Group has calculated the book value of one share per each class of shares in accordance with the methodology for computation of the book value of one share provided by KASE.

The book value of one share per each class of shares as at 31 December 2020 and 31 December 2019 is as follows:

	31 December 2020			31 December 2019		
Type of shares	Outstanding shares (number of shares)	Amount for calculation of book value KZT million	Book value of one share, KZT	Outstanding shares (number of shares)	Amount for calculation of book value KZT million	Book value of one share, KZT
Ordinary shares	172,249,571	126,362	734	160,509,129	107,893	672
Preference shares	93,851	29	309	148,073	44	297
		126,391			107,937	

(in millions of Kazakhstani tenge, unless otherwise stated)

12. EARNINGS PER SHARE, CONTINUED

The book value of one preference share is calculated as the ratio of the amount of equity attributable to preference shares to the total number of preference shares as at the reporting date. The book value of one ordinary share is calculated as the ratio of the amount of net asset value of the Group for ordinary shares to the total number of ordinary shares as at the reporting date. The net asset value of the Group for ordinary shares is calculated as the total equity net of intangible assets and the amount of equity attributable to preference shares as at reporting date. Total number of ordinary and preference shares is calculated as total number of shares issued and outstanding, net of shares repurchased by the Group as at the reporting date.

Management of the Group believes that the Group fully complies with the requirements of KASE as at the reporting date.

13. CASH AND CASH EQUIVALENTS

	31 December 2020	31 December 2019
Cash on hand	**56,976**	**65,448**
Nostro accounts with the NBRK	**67,855**	**43,105**
Nostro accounts with other banks		
- rated from AA- to AA+	14,589	7,822
- rated from A- to A+	14,131	25,373
- rated from BBB- to BBB+	5,922	6,909
- rated from BB- to BB+	2,212	3,929
- rated from B- to B+	15	40
-not rated	476	604
Total gross nostro accounts with other banks	**37,345**	**44,677**
Loss allowance	(28)	(24)
Total nostro accounts with other banks	**37,317**	**44,653**
Term deposits with the NBRK	**115,318**	**-**
Term deposits with other banks		
- rated from B- to B+	1,907	5,796
Total gross current accounts and term deposits with other banks	**1,907**	**5,796**
Loss allowance	(43)	(134)
Total current accounts and term deposits with other banks	**1,864**	**5,662**
Total cash and cash equivalents	**279,330**	**158,868**

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

All cash and cash equivalents are allocated to Stage 1 of the credit risk grade.

As at 31 December 2020, the Group has accounts with two banks (31 December 2019: 2 banks), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2020 is KZT 197,414 million (31 December 2019: KZT 73,869 million).

Minimum reserve requirements

As at 31 December 2020 and 2019, minimum reserve requirements are calculated in accordance with regulations issued by the NBRK. To meet the minimum reserves requirements the Bank places cash in reserve assets, which are required to be maintained at the level of not less than the average amount of cash on hand denominated in national currency and balance on the current account with the NBRK in the national currency for 4 weeks, calculated as certain minimum level of deposits and current accounts of the customers that are residents and non-residents of the Republic of Kazakhstan, and of other liabilities of the Bank. As at 31 December 2020, the minimum reserve requirement is KZT 17,661 million (31 December 2019: minimum reserve requirement was KZT 13,749 million) and reserve asset was KZT 39,381 million (31 December 2019: KZT 17,089 million).

(in millions of Kazakhstani tenge, unless otherwise stated)

14. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss comprise:

	Nominal interest rate, %	31 December 2020	Nominal interest rate, %	31 December 2019
Trading securities				
Debt securities				
Government bonds of the Republic of Kazakhstan	3.87-9.6	1,373	3.88-9.6	542
Discount notes of the NBRK	-	1,070	-	-
Corporate bonds	7.7-15.00	10,260	6.30-15	8,945
*Equity securities**				
Shares of Kazakhstani companies		3,485		2,754
Shares of international companies		128		-
		16,316		**12,241**
Pledged under sale and repurchase agreements				
- Government bonds of the Republic of Kazakhstan	3.87-8.45	3,682	3.88-6.50	3,604
- Corporate bonds	8.5-12.00	5,971	6.3-15.00	3,544
		9,653		**7,148**
		25,969		**19,389**

* Ownership interest in equity securities is below 1%.

The table below provides analysis of credit quality of debt securities at fair value through profit or loss based on Standard and Poor's ratings or ratings of other international rating agencies as at 31 December 2020:

	Corporate bonds	Discount notes of the NBRK	Government bonds of the Republic of Kazakhstan	Total
- rated from BBB- to BBB+	6,370	1,070	5,055	12,495
- rated from BB- to BB+	4,607	-	-	4,607
- rated from B- to B+	5,254	-	-	5,254
	16,231	**1,070**	**5,055**	**22,356**

The table below provides analysis of credit quality of debt securities at fair value through profit or loss based on Standard and Poor's ratings or ratings of other international rating agencies as at 31 December 2019:

	Corporate bonds	Government bonds of the Republic of Kazakhstan	Total
- rated from BBB- to BBB+	2,584	4,146	6,730
- rated from BB- to BB+	1,681	-	1,681
- rated from B- to B+	8,224	-	8,224
	12,489	**4,146**	**16,635**

None of the financial assets at fair value through profit and loss are past due.

15. INVESTMENT SECURITIES

	31 December 2020	31 December 2019
Investment securities at fair value through other comprehensive income	296,099	160,542
Investment financial assets at amortised cost	16,756	4,355
Total investment securities	**312,855**	**164,897**

(in millions of Kazakhstani tenge, unless otherwise stated)

15. INVESTMENT SECURITIES, CONTINUED

Investment securities at fair value through other comprehensive income

	Nominal interest rate, %	31 December 2020	Nominal interest rate, %	31 December 2019
Debt securities				
Government bonds of the Republic of Kazakhstan	0.6-11.0	104,976	5.3-10.2	15,145
Corporate bonds	2.12-11.0	52,595	2.12-8.5	45,720
Discount notes of the NBRK		120,495		74,581
Equity securities				
Shares of Kazakh companies		276		345
Shares of international companies		26		21
Pledged under bank loans				
Government bonds of the Republic of Kazakhstan	5.13	2,540	5.13	6,737
Corporate bonds	4.38-6.95	15,191	4.38-6.95	17,993
		296,099		**160,542**

All investment securities are categorised into Stage 1 of credit risk grading.

Investment securities measured at amortised cost

	Nominal interest rate, %	31 December 2020	Nominal interest rate, %	31 December 2019
Debt securities				
Government bonds of the Republic of Kazakhstan	3.87-5.00	5,584	5.80-6.70	2,529
Corporate bonds	2.12-8.5	3,988	8.5	1,826
Discount notes of the NBRK		99		-
		9,671		**4,355**
Pledged under bank loans				
Corporate bonds	2.12	7,085		-
		7,085		-
Allowance for expected credit losses		-		-
		16,756		**4,355**

16. DUE TO BANKS

	31 December 2020	31 December 2019
Term deposits		
- contingent deposit with the NBRK	58,073	5,934
- rated from AA- to AA+	5,292	3,126
- not rated	69	50
Total gross term deposits	**63,434**	**9,110**
Allowance for expected credit losses	(8)	(8)
Total term deposits	**63,426**	**9,102**

The credit ratings are presented by reference to the credit ratings of Standard & Poor's rating agency or analogues of similar international rating agencies. As at 31 December 2020 and 2019 all due to banks are categorised into Stage 1 of credit risk grading.

As at 31 December 2020, a contingent deposit with the NBRK comprises funds of KZT 50,810 million received from Kazakhstan Sustainability Fund JSC (the "KSF JSC") under the preferential lending programme, which aims at providing support to small and medium enterprises, and KZT 2,888 million (31 December 2019: KZT 3,864 million) received from Development Bank of Kazakhstan JSC ("DBK JSC") (31 December 2019: KZT 2,070 million) received from DAMU Entrepreneurship Development Fund JSC ("EDF DAMU JSC") in accordance with the loan agreements with KSF JSC, DBK JSC and EDF DAMU JSC.

Funds will be distributed as loans to small and medium businesses on preferential terms. These funds may be withdrawn from the contingent deposit account only after the approval of KSF JSC, DBK JSC and EDF DAMU JSC, respectively.

Concentration of accounts and deposits with banks

As at 31 December 2020 the Group has one bank (2019: the Group has no banks) whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2020 is KZT 58,073 million.

(in millions of Kazakhstani tenge, unless otherwise stated)

17. LOANS TO CUSTOMERS AND BANKS

	31 December 2020	31 December 2019
Loans to customers	1,032,751	998,164
Accrued interest	45,979	54,904
	1,078,730	**1,053,068**
Less credit loss allowance	(115,002)	(133,209)
Total loans to customers	**963,728**	**919,859**
Loans to banks	775	766
Accrued interest	2	4
Less credit loss allowance	(25)	(10)
Total loans to banks	**752**	**760**
Loans under reverse repurchase agreements	**44,993**	**61,771**
Total loans to customers and banks	**1,009,473**	**982,390**

Movement in credit loss allowance for loans to customers and banks for twelve months ended 31 December 2020 and 31 December 2019 is disclosed in Note 6.

The following table provides information by types of loan products as at 31 December 2020:

	Gross amount	Credit loss allowance	Carrying amount
Loans to corporate customers			
Corporate loans	418,158	(84,605)	333,553
Small- and medium-sized enterprises	138,013	(6,526)	131,487
Loans to individuals			
Mortgage loans (including mortgage loans under the '7-20-25' programme and the 'Baspana Hit' programme)	305,754	(5,169)	300,585
Consumer loans	126,723	(13,837)	112,886
Business development	75,023	(4,781)	70,242
Auto loans	15,059	(84)	14,975
	1,078,730	**(115,002)**	**963,728**

The following table provides information by types of loan products as at 31 December 2019:

	Gross amount	Credit loss allowance	Carrying amount
Loans to corporate customers			
Corporate loans	464,524	(99,643)	364,881
Small- and medium-sized enterprises	135,627	(8,334)	127,293
Loans to individuals			
Mortgage loans (including mortgage loans under the '7-20-25' programme and the 'Baspana Hit' programme)	213,997	(8,427)	205,570
Consumer loans	147,881	(10,029)	137,852
Business development	83,325	(6,679)	76,646
Auto loans	7,714	(97)	7,617
	1,053,068	**(133,209)**	**919,859**

(in millions of Kazakhstani tenge, unless otherwise stated)

17. LOANS TO CUSTOMERS AND BANKS, CONTINUED

(a) Credit quality of corporate loans, loans to small- and medium-sized enterprises and loans to individuals

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

	Corporate loans	Small- and medium-sized enterprises	Mortgage loans	Consumer loans	Business development	Auto loans	Total
Loans to customers							
Not overdue loans	384,032	120,771	287,834	97,531	59,205	14,840	964,213
Overdue loans:							
- overdue less than 30 days	10,022	1,962	3,097	4,196	1,792	31	21,100
- overdue 31-60 days	2,042	1,322	1,757	2,474	1,315	14	8,924
- overdue 61-90 days	110	809	946	1,399	126	3	3,393
- overdue 91-180 days	5,256	1,017	3,470	4,488	1,322	-	15,553
- overdue more than 180 days	16,696	12,132	8,650	16,635	11,263	171	65,547
Gross loans to customers	**418,158**	**138,013**	**305,754**	**126,723**	**75,023**	**15,059**	**1,078,730**
Credit loss allowance	(84,605)	(6,526)	(5,169)	(13,837)	(4,781)	(84)	(115,002)
Total loans to customers, net of allowance for expected credit losses	**333,553**	**131,487**	**300,585**	**112,886**	**70,242**	**14,975**	**963,728**

(in millions of Kazakhstani tenge, unless otherwise stated)

17. LOANS TO CUSTOMERS AND BANKS, CONTINUED

(a) Credit quality of corporate loans, loans to small- and medium-sized enterprises and loans to individuals, continued

The following table provides information on the credit quality of loans to customers as at 31 December 2019:

	Corporate loans	Small- and medium-sized enterprises	Mortgage loans	Consumer loans	Business development	Auto loans	Total
Loans to customers							
Not overdue loans	425,624	114,653	189,290	118,343	63,370	7,407	918,687
Overdue loans:							
- overdue less than 30 days	12,901	4,644	3,552	4,635	3,145	61	28,938
- overdue 31-60 days	6,107	607	1,433	1,737	410	13	10,307
- overdue 61-90 days	249	3,504	1,092	1,258	490	12	6,605
- overdue 91-180 days	1,220	899	1,598	2,329	1,290	13	7,349
- overdue more than 180 days	18,423	11,320	17,032	19,579	14,620	208	81,182
Gross loans to customers	**464,524**	**135,627**	**213,997**	**147,881**	**83,325**	**7,714**	**1,053,068**
Credit loss allowance	(99,643)	(8,334)	(8,427)	(10,029)	(6,679)	(97)	(133,209)
Total loans to customers, net of allowance for expected credit losses	**364,881**	**127,293**	**205,570**	**137,852**	**76,646**	**7,617**	**919,859**

(b) Analysis of movement in loss allowance on loans to customers

Key assumptions and judgments for estimating allowance for expected credit losses

As at 31 December 2020, in determining the credit loss allowance for loans to corporate customers classified into Stage 3 of credit risk grading, management makes the following key assumptions:

- estimate by management of expected operating cash flows for a number of borrowers, whose operating activities have not ceased;
- estimate by management of a value of collateral as at the date of sale and timing of anticipated receipts: a delay of 36 - 60 months in obtaining proceeds from the foreclosure of collateral;
- for some borrowers recorded in Stage 3 the potential investors and partners are expected to be attracted to increase the operating cash flows sufficient to repay a debt to the Group.

Loans recorded in Stage 3 were included in the Action Plan based on results of AQR, which comprises measures aimed at rehabilitation of the borrowers, repayment at the expense of sale of collateral and foreclosure under the court decision. In accordance with the Plan, the Group expects that the debt according to the agreed list of borrowers will be repaid during the five years. Under this Plan, the Group provides to the regulator the Plan progress reports on a quarterly basis.

(in millions of Kazakhstani tenge, unless otherwise stated)

17. LOANS TO CUSTOMERS AND BANKS, CONTINUED

(b) Analysis of movement in loss allowance, continued

	Twelve months ended 31 December 2020			
	Stage 1 12-month expected credit losses (ECL)	Stage 2 Lifetime ECL for assets not credit-impaired	Stage 3 Lifetime ECL for credit-impaired assets	Total
Loans to corporate customers and small- and medium-sized enterprises				
Allowance for expected credit losses at the beginning of the year	**1,084**	**2,667**	**104,226**	**107,977**
Transition to lifetime expected credit losses for assets not credit-impaired	(46)	76	(30)	-
Transition to lifetime expected credit losses for credit-impaired assets	(113)	(738)	851	-
Charge/(recovery) of allowance	(1,250)	3,732	27,993	30,475
New financial assets originated or purchased	1,535	53	31	1,619
Effect of unwinding of discount	-	-	4,475	4,475
Write-off of assets	-	-	(36,873)	(36,873)
Write-off of previously accrued effect of unwinding of discount, gross			(17,356)	(17,356)
Recovery of assets previously written-off	-	-	674	674
Foreign exchange difference	2	2	136	140
Allowance for expected credit losses at the end of the year	**1,212**	**5,792**	**84,127**	**91,131**

	Twelve months ended 31 December 2020			
	Stage 1 12-month expected credit losses (ECL)	Stage 2 Lifetime ECL of assets not credit-impaired	Stage 3 Lifetime ECL for credit-impaired assets	Total
Loans to individuals				
Allowance for expected credit losses at the beginning of the year	**1,961**	**1,286**	**21,985**	**25,232**
Transition to 12-month expected credit losses	16	(14)	(2)	-
Transition to lifetime expected credit losses for assets not credit-impaired	(45)	59	(14)	-
Transition to lifetime expected credit losses for credit-impaired assets	(165)	(330)	495	-
Charge/(recovery) of allowance	1,239	(89)	12,908	14,058
New financial assets originated or purchased	1,269	111	680	2,060
Effect of unwinding of discount	-	-	258	258
Write-off of assets	-	-	(13,306)	(13,306)
Write-off of the previously accrued effect of unwinding of discount, gross	-	-	(7,122)	(7,122)
Recovery of assets previously written-off	-	-	2,655	2,655
Foreign exchange difference	6	2	28	36
Allowance for expected credit losses at the end of the year	**4,281**	**1,025**	**18,565**	**23,871**

(in millions of Kazakhstani tenge, unless otherwise stated)

17. LOANS TO CUSTOMERS AND BANKS, CONTINUED

(b) Analysis of movement in loss allowance, continued

	Twelve months ended 31 December 2019			
	Stage 1 12-month expected credit losses (ECL)	Stage 2 Lifetime ECL of assets not credit-impaired	Stage 3 Lifetime ECL for credit-impaired assets	Total
Loans to corporate customers and small- and medium-sized enterprises				
Allowance for expected credit losses at the beginning of the year	**982**	**2,004**	**103,206**	**106,192**
Transition to 12-month expected credit losses	5	(4)	(1)	-
Transition to lifetime expected credit losses for assets not credit-impaired	(1)	1,691	(1,690)	-
Transition to lifetime expected credit losses for credit-impaired assets	(30)	(670)	700	-
Charge/(recovery) of allowance	(366)	(309)	24,012	23,337
New financial assets originated or purchased	513	6	153	672
Effect of unwinding of discount	-	-	4,261	4,261
Write-off of assets	-	-	(24,585)	(24,585)
Recovery of assets previously written-off	-	-	418	418
Foreign exchange difference	(19)	(51)	(2,248)	(2,318)
Allowance for expected credit losses at the end of the year	**1,084**	**2,667**	**104,226**	**107,977**

	Twelve months ended 31 December 2019			
	Stage 1 12-month expected credit losses (ECL)	Stage 2 Lifetime ECL of assets not credit-impaired	Stage 3 Lifetime ECL for credit-impaired assets	Total
Loans to individuals				
Allowance for expected credit losses at the beginning of the year	**828**	**880**	**25,266**	**26,974**
Transition to 12-month expected credit losses	2	(1)	(1)	-
Transition to lifetime expected credit losses for assets not credit-impaired	(90)	109	(19)	-
Transition to lifetime expected credit losses for credit-impaired assets	(339)	(89)	428	-
Charge/(recovery) of allowance	(363)	302	15,675	15,614
New financial assets originated or purchased	1,941	92	16	2,049
Effect of unwinding of discount	-	-	613	613
Write-off of assets	-	-	(20,787)	(20,787)
Recovery of assets previously written-off	-	-	972	972
Foreign exchange difference	(18)	(7)	(178)	(203)
Allowance for expected credit losses at the end of the year	**1,961**	**1,286**	**21,985**	**25,232**

(in millions of Kazakhstani tenge, unless otherwise stated)

17. LOANS TO CUSTOMERS AND BANKS, CONTINUED

(c) Analysis of movements in gross carrying amount

Significant changes in the gross carrying amount of loans to customers during the year that contributed to changes in loss allowance were as follows:

Loans to corporate customers and small- and medium-sized enterprises

- During twelve months of 2020, the high volume of loans to customers originated increased the gross carrying amount of the portfolio of loans to corporate customers and small- and medium-sized enterprises by KZT 150,060 million with a corresponding increase in loss allowance measured on a 12-month basis by KZT 1,619 million.
- During twelve months of 2020, the high volume of loans repaid decreased the gross carrying amount of the portfolio of loans to corporate customers and small- and medium-sized enterprises by KZT 138,990 million with a corresponding decrease in loss allowance measured on a 12-month basis by KZT 1,315 million.
- The write-off of loans with a total gross carrying amount of KZT 36,873 million and write-off of the previously accrued effect of unwinding of discount of KZT 17,356 million resulted in the reduction of Stage 3 loss allowance by the same amount.

Loans to individuals

- During twelve months of 2020, the high volume of loans to customers originated increased the gross carrying amount of the portfolio of retail loans by KZT 116,447 million with a corresponding increase in loss allowance measured on a 12-month basis by KZT 2,060 million.
- During twelve months of 2020, the high volume of loans repaid decreased the gross carrying amount of the portfolio of retail loans by KZT 26,359 million with a corresponding decrease in loss allowance measured on a 12-month basis by KZT 697 million.
- The write-off of loans with a total gross carrying amount of KZT 13,306 million and write-off of the previously accrued effect of unwinding of discount of KZT 7,122 million resulted in the reduction of Stage 3 loss allowance by the same amount.

(d) Analysis of collateral and other credit enhancements

(i) Loans to corporate customers

Loans to corporate customers are secured by various types of collateral depending on the type of transactions. The general creditworthiness of a corporate customer and small- and medium-sized customer tends to be the most relevant indicator of credit quality of the loan extended to it. However, collateral provides additional security and the Group generally requests corporate borrowers and small- and medium-sized customers to provide it.

The following tables provides information on collateral and other credit enhancements securing loans to corporate customers and small- and medium-sized enterprises (net of loss allowance) by types of collateral.

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
Loans to corporate customers				
Cash and deposits	1,228	1,228	-	-
Real estate	211,183	211,183	-	-
Vehicles	628	628	-	-
Equipment	14,502	14,502	-	-
Corporate guarantees	51,725	-	-	51,725
Revenue from future contracts	5,851	-	-	5,851
Goods in turnover	3,545	-	-	3,545
Mineral rights	26,363	26,363	-	-
Other collateral	3,451	-	3,451	-
No collateral or other credit enhancements	15,077	-	-	15,077
Total loans to corporate customers	**333,553**	**253,904**	**3,451**	**76,198**

(in millions of Kazakhstani tenge, unless otherwise stated)

17. LOANS TO CUSTOMERS AND BANKS, CONTINUED

(d) Analysis of collateral and other credit enhancements, continued

(i) Loans to corporate customers, continued

31 December 2020	Carrying amount of loans to customers	Fair value of collateral: for collateral assessed as of reporting date	Fair value of collateral: for collateral assessed as of loan inception date	Fair value of collateral not determined
Loans to small- and medium-sized enterprises				
Cash and deposits	6,372	6,372	-	-
Real estate	99,621	99,621	-	-
Vehicles	540	540	-	-
Equipment	12,988	12,988	-	-
Corporate guarantees	7,394	-	-	7,394
Goods in turnover	123	-	-	123
Other collateral	479	173	147	159
No collateral or other credit enhancements	3,970	-	-	3,970
Total loans to small- and medium-sized enterprises	**131,487**	**119,694**	**147**	**11,646**
Total loans to corporate customers	**465,040**	**373,598**	**3,598**	**87,844**

31 December 2019	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
Loans to corporate customers				
Cash and deposits	841	841	-	-
Real estate	258,449	258,449	-	-
Vehicles	606	606	-	-
Equipment	16,316	16,316	-	-
Corporate guarantees	29,892	-	-	29,892
Income from future contracts	12,793	-	-	12,793
Goods in turnover	7,382	-	-	7,382
Mineral rights	24,297	24,297	-	-
Other collateral	4,323	-	4,323	-
No collateral or other credit enhancements	9,982	-	-	9,982
Total loans to corporate customers	**364,881**	**300,509**	**4,323**	**60,049**
Loans to small- and medium-sized enterprises				
Cash and deposits	5,284	5,284	-	-
Real estate	106,023	106,023	-	-
Vehicles	760	760	-	-
Equipment	3,667	3,667	-	-
Corporate guarantees	7,676	-	-	7,676
Goods in turnover	397	-	-	397
Other collateral	1,241	158	656	427
No collateral or other credit enhancements	2,245	-	-	2,245
Total loans to small- and medium-sized enterprises	**127,293**	**115,892**	**656**	**10,745**
Total loans to corporate customers	**492,174**	**416,401**	**4,979**	**70,794**

The tables above exclude overcollateralisation. In accordance with the recommendations of the NBRK, collateral in the form of income from future contract is not sufficient and cannot be used in estimate of allowance. As at 31 December 2020 the loans to corporate customers with net carrying amount of KZT 5,851 million (31 December 2019: KZT 12,793 million) are secured by income from future contracts.

17. LOANS TO CUSTOMERS AND BANKS, CONTINUED

(d) Analysis of collateral and other credit enhancements, continued

(i) Loans to corporate customers, continued

The amount recorded in the item 'No collateral or other credit enhancement' comprises unsecured loans and parts of loans, which are not fully secured.

For majority of loans the fair value of collateral was assessed at the reporting day. The Group also has loans, for which the fair value of collateral was assessed at the loan inception date and it was not updated for further changes, and loans for which the fair value of collateral is not determined and cannot be determined. Information on the valuation of collateral is based on when this estimate was made, if any.

For loans secured by multiple types of collateral, collateral that is most relevant for credit losses assessment is disclosed. Sureties received from individuals, such as shareholders of the company's borrowers, are not considered for credit losses assessment purposes.

Credit-impaired loans to corporate customers

At 31 December 2020, the net carrying amount of credit-impaired loans to corporate customers amounted to KZT 80,892 million (2019: KZT 99,160 million) and the value of identifiable collateral (mainly commercial properties) held against those loans amounted to KZT 80,892 million (2019: KZT 99,160 million), excluding overcollaterisation. For each loan, the value of disclosed collateral is capped to the nominal amount of the loan that is held against.

During 2020, there was no change in the Group's collateral policy.

(ii) Loans to retail customers

Mortgage loans are secured by the underlying housing real estate. Business development loans are secured by real estate. Auto loans are secured by the underlying cars. Consumer loans are usually secured by underlying property and in some cases by assets, including real estate, cash and motor vehicles.

Mortgage loans

Included in mortgage loans are loans with a net carrying amount of KZT 5,363 million (31 December 2019: KZT 9,533 million), which are secured by collateral with a fair value of less than the net carrying amount of the individual loans. The fair value of collateral for these loans amounts to KZT 3,011 million (31 December 2019: KZT 5,196 million).

Management believes that the fair value of collateral for mortgage loans with a net carrying amount of KZT 295,222 million (31 December 2019: KZT 92,956 million) is at least equal to the carrying amount of individual loans at the reporting date.

Auto loans

Included in auto loans are loans with a net carrying amount of KZT 258 million (31 December 2019: KZT 48 million), which are secured by collateral with a fair value of less than the net carrying amount of the individual loans. The fair value of collateral for these loans amounts to KZT 13 million (31 December 2019: KZT 12 million).

Management believes that the fair value of collateral for auto loans with a net carrying amount of KZT 14,717 million (31 December 2019: KZT 7,569 million) is at least equal to the carrying amount of individual loans at the reporting date.

Consumer loans

Included in consumer loans are loans with a net carrying amount of KZT 58,231 million (31 December 2019: KZT 67,025 thousand), which are secured by collateral with a fair value of less than the net carrying amount of the individual loans. The fair value of collateral for these loans amounts to KZT 2,152 million (31 December 2019: KZT 2,651 million).

Management believes that the fair value of collateral for consumer loans with a net carrying amount of KZT 54,655 million (31 December 2019: KZT 70,827 million) is at least equal to the carrying amount of individual loans at the reporting date.

(in millions of Kazakhstani tenge, unless otherwise stated)

17. LOANS TO CUSTOMERS AND BANKS, CONTINUED

(d) Analysis of collateral and other credit enhancements, continued

(ii) Loans to retail customers, continued

Business development

Included in business development portfolio are loans with a net carrying amount of KZT 7,494 million (31 December 2019: KZT 4,877 million), which are secured by collateral with a fair value of less than the net carrying amount of the individual loans. The fair value of collateral for these loans amounts to KZT 2,214 million (31 December 2019: KZT 2,048 million).

Management believes that the fair value of collateral for business development loans with a net carrying amount of KZT 62,748 million (31 December 2019: KZT 71,769 million) is at least equal to the carrying amount of individual loans at the reporting date.

Credit-impaired loans to retail customers

The following table stratifies credit exposures from credit-impaired loans to retail customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross carrying amount of the loan to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. For credit-impaired loans the value of collateral is based on the most recent appraisals.

	2020	2019
Credit-impaired loans		
Loan-to-value ratio (LTV ratio)		
Less than 50%	15,599	20,584
51-70%	4,431	5,518
70%-150%	7,738	9,834
More than 150%	8,156	8,384
Total	**35,924**	**44,320**

Repossessed collateral

During the year 2020, the Group obtained certain assets by taking possession of collateral for loans to customers with a net carrying amount of KZT 28,521 million (2019: KZT 6,126 million). As at 31 December 2020, the repossessed collateral was KZT 68,258 million (31 December 2019: KZT 48,917 million of repossessed collateral) (Note 19).

(e) Loan portfolio analysis

As at 31 December 2020, the Group has 11 borrowers or groups of connected borrowers (31 December 2019: 10), whose loan balances exceed 10% of equity. The gross value of these balances as at 31 December 2020 is KZT 255,407 million (31 December 2019: KZT 200,063 million).

As at 31 December 2020 and 31 December 2019, included in the loans to customers are renegotiated loans of KZT 69,585 million and KZT 64,359 million, respectively, that would otherwise be past due or impaired.

Industry and geographical analysis of the loan portfolio

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

	31 December 2020	31 December 2019
Individuals	522,559	452,917
Trade	84,224	109,829
Rent of real estate	81,507	99,223
Transportation and equipment maintenance services	57,980	28,272
Oil and gas industry	45,601	40,840
Energy	43,063	30,783
Manufacturing	36,433	39,916
Housing construction	34,323	40,442
Food industry	28,854	34,012
Transport and telecommunications	27,057	40,366
Industrial construction	26,086	49,858
Agriculture	16,712	20,320
Financial services	2,916	2,923
Other	71,415	63,367
Total	**1,078,730**	**1,053,068**
Allowance for expected credit losses	(115,002)	(133,209)
	963,728	**919,859**

(in millions of Kazakhstani tenge, unless otherwise stated)

17. LOANS TO CUSTOMERS AND BANKS, CONTINUED

(e) Loan portfolio analysis, continued

Industry and geographical analysis of the loan portfolio, continued

Fair value of assets received as collateral and carrying amount of reverse repurchase agreements as at 31 December 2020 and 31 December 2019 is as follows:

	31 December 2020		31 December 2019	
	Carrying amount of loans	Fair value of collateral	Carrying amount of loans	Fair value of collateral
Government bonds of the Republic of Kazakhstan	38,854	40,130	52,262	53,164
Other	6,139	7,164	9,509	11,928
	44,993	47,294	61,771	65,092

(f) Loan maturities

The maturity of the loan portfolio as at the reporting date is presented in Note 27, which shows the remaining period from the reporting date to the contractual maturity of the loans. Due to the short-term nature of the loans issued by the Group, it is likely that part of the loans will be extended at maturity. Accordingly, the effective maturity of the loan portfolio may be significantly longer than the contractually agreed term.

(g) Continuing involvement in the asset

To realise the first initiative "New Opportunities for Each Family to Procure Housing", announced in the Address to the People by the President of the Republic of Kazakhstan "Five Social Initiatives of the President", the Programme "7-20-25. New Opportunities for Each Family to Procure Housing" (the "Programme") was approved by the Resolution of the NBRK dated 31 May 2018. The operator of the Programme is Kazakhstan Sustainability Fund JSC (the "Operator").

The Programme enables Kazakhstan citizens to procure residential real estate on a primary market under conditions that are more preferential in comparison with those applicable in second-tier banks ("STB") for mortgage loans.

The Group issues loans in accordance with the conditions of the Programme: it includes into bank loan contracts the clauses providing for the borrower's commitment and responsibility to repay a loan, establishes a repayment schedule and ensures maintaining a loan file containing information and documents in compliance with the requirements of the laws of the RK.

Once a loan has been issued, the Bank should transfer rights of claim on loans by transferring to the Operator the documents as agreed in the contract, not more often than once in 10 business days.

In accordance with the Programme and Trust Management Agreement with the Operator, the Group holds transferred loans in trust and ensures that credit files are appropriately maintained. Fees for trust management services is paid in the amount and at the times as agreed under the Trust Management Agreement and makes up 4% of the carrying amount of assets at the end of each month. In case of partial repayment of interest by the borrowers, a trust management fee is calculated pro-rated to the interest paid.

The Bank is obliged to repurchase rights of claim on transferred mortgage loans when the loan principal amount and interest are overdue more than 90 calendar days.

The lending terms under the Programme are as follows:

- An annual nominal interest rate is 7%.
- A loan term is up to 25 years; initial contribution is no less and no more than 20% of the value of a home pledged as collateral.
- Maximum value of a home to be purchased: KZT 25 million - for cities of Nur-Sultan, Almaty, Atyrau, Aktau, and Shymkent and KZT 15 million – for other regions of the RK.
- Collateral: real estate purchased on a primary market.
- Commission for issue and servicing a loan: nil.

17. LOANS TO CUSTOMERS AND BANKS, CONTINUED

(g) Continuing involvement in the asset, continued

The lending terms under the Programme are as follows:, continued

- To be eligible to get a loan under the Programme, an individual must meet the following criteria:
  - be a citizen of the Republic of Kazakhstan;
  - provide proof of income;
  - no outstanding mortgage loans;
  - no home owned in the Republic of Kazakhstan, other than: dorm rooms with useful area of no more than 15 square meters per each family member, dilapidated housing which may ruin (break down) as certified by the appropriate document issued by a local executive body where such housing property is located.

As at 31 December 2020, as many as 10,786 loans worth over KZT 125,681 million have been issued under the '7-20-25' programme (2019: as many as 6,604 loans for the amount of KZT 76,000 million).

To create more opportunities for Kazakhstan citizens to purchase own homes, on 28 December 2018 the Group launched a mortgage loan programme, named "Baspana Hit". Under this programme, loans are issued for purchasing real estate on both primary and secondary housing markets.

The lending terms under the Baspana Hit programme are as follows:

- An interest rate is calculated with the formula: a base rate of the National Bank of the RK + 175 basis points;
- A loan term is up to 15 years; initial contribution is not less than 20% of the value of a home purchased;
- Maximum value of a home to be purchased: KZT 25 million - for cities of Nur-Sultan, Almaty, Atyrau, and Aktau, and KZT 15 million – for other regions of the RK.
- To be eligible to get a loan under the Programme, an individual must meet the following criteria:
  - be a citizen of the Republic of Kazakhstan;
  - provide proof of income;
  - no outstanding mortgage loans.

As at 31 December 2020, as many as 10,045 loans worth over KZT 95,462 million have been issued under the 'Baspana Hit' programme (31 December 2019: as many as 3,497 loans for the amount of KZT 30,023 million).

(h) Transfer of financial assets

During 2020, the Group sold a portfolio of mortgage loans at its carrying amount, the balance of which amounted to KZT 210,890 million at the year-end (31 December 2019: KZT 103,081 million) and issued a customer a guarantee of reverse repurchase or exchange of certain loans, if loans are overdue for more than 90 days. The amount of reverse repurchase or exchange is not limited. Reverse repurchase is performed at the loan nominal value (outstanding principal and interest accrued) as of the purchase date.

The Group has determined that it neither transferred nor retained 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 the asset transferred thereto, as such sale will be impracticable.

(in millions of Kazakhstani tenge, unless otherwise stated)

17. LOANS TO CUSTOMERS AND BANKS, CONTINUED

(h) Transfer of financial assets, continued

The Group's continuing involvement in said transferred portfolio is recorded in the consolidated statement of financial position within 'loans to customers' (Note 17) in the amount of KZT 210,890 million, which is equal to the respective liability from continuing involvement, which is included in 'other liabilities' (Note 24).

The Group has determined that the carrying amount of the transferred portfolio of mortgage loans reflects its fair value.

18. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	Buildings and constructions	Furniture and equipment	Construction-in-progress	Intangible assets	Total
Cost/revalued amount					
1 January 2019	**25,112**	**15,450**	**247**	**11,513**	**52,322**
Acquisitions	831	4,074	1,375	1,007	7,287
Transfers	120	6	(126)	-	-
Disposals	(151)	(959)	-	(1,765)	(2,875)
31 December 2019	**25,912**	**18,571**	**1,496**	**10,755**	**56,734**
Acquisitions	294	2,012	2,590	1,132	6,028
Transfer to investment property	(2,880)	-	-	-	(2,880)
Remeasurement	2,027	-	-	-	2,027
Disposals	(1,093)	(498)	(13)	(72)	(1,676)
31 December 2020	**24,260**	**20,085**	**4,073**	**11,815**	**60,233**
Accumulated depreciation, amortisation and impairment					
1 January 2019	**(509)**	**(8,530)**	-	**(4,700)**	**(13,739)**
Charge for the year	(234)	(1,730)	-	(939)	(2,903)
Disposals	5	922	-	37	964
31 December 2019	**(738)**	**(9,338)**	-	**(5,602)**	**(15,678)**
Charge for the year	(424)	(1,998)	-	(986)	(3,408)
Disposals	1,034	467	-	68	1,569
31 December 2020	**(128)**	**(10,869)**	-	**(6,520)**	**(17,517)**
Net carrying amount					
31 December 2020	**24,132**	**9,216**	**4,073**	**5,295**	**42,716**
31 December 2019	**25,174**	**9,233**	**1,496**	**5,153**	**41,056**

Intangible assets comprise computer software, patents and licences.

The Group revalued its buildings and constructions during 2020. Evaluation was performed by independent appraisers. Independent appraisers used two approaches to measure the fair value of property and equipment – comparative approach using the market information to measure fair value of buildings and constructions under active market conditions, and cost approach, when no active market existed for items subject to revaluation. As at 31 December 2020 and 31 December 2019, total fair value of buildings and constructions was KZT 24,125 million and KZT 25,174 million, respectively. If buildings and constructions of the Group had been valued at cost, their carrying amount would have been KZT 19,327 million and KZT 18,735 million as at 31 December 2020 and 31 December 2019, respectively.

Fair values of buildings and constructions are categorised into Levels 2 and 3 of the fair value hierarchy.

(in millions of Kazakhstani tenge, unless otherwise stated)

19. OTHER ASSETS

	31 December2020	31 December 2019
Other financial assets		
Accounts receivable	7,794	4,052
Accrued commission	6,911	8,246
Western Union and other wireless transfers	868	335
	15,573	**12,633**
Allowance for expected credit losses	(1,733)	(2,476)
	13,840	**10,157**
Other non-financial assets		
Repossessed collateral	68,158	48,917
Receivables under joint arrangements	20,006	-
Investment property	14,110	11,490
Payment receivable for repossessed collateral	3,448	4,884
Advances paid	3,305	4,249
Taxes receivable other than income tax	1,485	2,047
Inventories	33	36
Other assets	1,134	1,124
	111,679	**72,747**
Allowance for expected credit losses	(3,306)	(880)
	108,373	**71,867**
	122,213	**82,024**

In May 2020, the Group entered into joint arrangement with the construction company RAMS Kazakhstan LLP, to sell land plots intended for construction of a multi-purpose housing estate worth KZT 20,006 million. Under the contract, payments for land plots will be cashless and made through transfer into the ownership of the Group a part of residential and non-residential premises of the housing estate. Non-cash consideration was measured at fair value as of the sale date. Income from the transaction recognised in the consolidated statement of profit and loss and included in 'other income' line was KZT 12,699 million.

	2020	2019
Other income/ (expenses)		
Income from a joint arrangement	12,699	383
Gain on revaluation of property, plant and equipment	1,460	-
Other	1,239	(614)
	15,398	**(231)**

As at 31 December 2020 other financial assets of KZT 13,257 million were categorised into Stage 1 of the credit risk grading (31 December 2019: KZT 10,074 million), KZT 1,369 million and KZT 947 million are categorised into Stages 2 and 3 of the credit risk grading, respectively (31 December 2019: KZT 869 million and KZT 1,690 million, respectively).

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

2020	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January	**(716)**	**(70)**	**(1,690)**	**(2,476)**
Net remeasurement of loss allowance	-	-	(645)	(645)
Write-offs	-	-	1,388	1,388
Balance at 31 December	**(716)**	**(70)**	**(947)**	**(1,733)**

2019	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January	**-**	**-**	**(1,388)**	**(1,388)**
Net remeasurement of loss allowance	(716)	(70)	(394)	(1,180)
Write-offs	-	-	92	92
Balance at 31 December	**(716)**	**(70)**	**(1,690)**	**(2,476)**

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

2020	2020	2019
Balance at 1 January	**(880)**	**-**
Net remeasurement of loss allowance	(2,426)	(880)
Balance at 31 December	**(3,306)**	**(880)**

(in millions of Kazakhstani tenge, unless otherwise stated)

19. OTHER ASSETS, CONTINUED

Repossessed collateral. Repossessed collateral comprises real estate collateral accepted by the Group in exchange for its liabilities on credit-impaired loans. These assets have been initially measured at fair value and subsequently measured at the lower of fair value less cost to sell and the carrying value. The Group's policy is to sell these assets as soon as it is practicable.

When measuring the fair values as at 31 December 2020, management used the market approach, which is based on an analysis of the prices of the latest comparable sales of similar properties, and the income approach. The following assumptions were used in applying the income approach:

— Cash flows were estimated taking into account market rental rates and occupancy rates.

— The present value of cash flows was determined using the discount rate of 17.51%.

Payment receivable for repossessed collateral. Payment on repossessed collateral comprises prepayments for repossessed collateral which is acquired through auctions.

Investment property. Fair value of investment property was measured using the market approach, which reflects the prices of latest transactions on similar real estate items, and as at 31 December 2020 and 31 December 2019 amounted to KZT 13,940 million and KZT 13,535 million, respectively.

The fair value of investment property is categorised within Level 3 of the fair value hierarchy.

Included into operating lease income is investment property rental income for the years ended 31 December 2020 and 31 December 2019 amounted to KZT 236 million and KZT 552 million, respectively. Operating expenses related to investment property from which the Group earned rental income for the years ended 31 December 2020 and 31 December 2019 amounted to KZT 773 million and KZT 410 million, respectively.

20. DUE TO BANKS AND FINANCIAL INSTITUTIONS

	Nominal interest rate, %	31 December 2020	Nominal interest rate, %	31 December 2019
Long-term loans due to banks and financial institutions	1.00-4.50	32,828	1.00-9.80	52,366
Proceeds from borrowings under the soft lending programme for business entities		50,810		-
Loans due to international credit organisations	8.95-9.95	26,397	7.80-9.45	16,841
Banks' correspondent accounts		6,471		7,688
Loans due to the NBRK	9.00	61	9.25	74
Accumulated interest expense		338		629
		116,905		**77,598**
Loans under repurchase agreements	1.5-10.25	9,653	9.25-10.85	6,406
		126,558		**84,004**

Long-term loans due to banks and financial institutions. Long-term loans due to banks and financial institutions comprise long-term loans from JSC Entrepreneurship Development Fund DAMU ("DAMU") and JSC Development Bank of Kazakhstan ("JSC DBK") in the amount of KZT 17,031 million at 1.0%-4.5% p.a. maturing in 2021-2035 and of KZT 15,807 million at 1%-2% p.a. maturing in 2034-2037, as at 31 December 2020, respectively (31 December 2019: KZT 36,540 million and KZT 15,807 million, respectively). During the 2020 and 2019, the Group has been repaying principal and interest according to the repayment schedules. Loans from DAMU JSC are secured by debt securities of KZT 5,272 million (2019: KZT 6,737 million).

During the year ended 31 December 2020, the Group received additional tranche of long-term loans from JSC DBK in the amount of KZT 2,000 million (the year ended 31 December 2019: KZT 3,189 million) at 1% p.a. maturing in 2037. The loans have been received for further financing of large-sized enterprises ("LSE") operating in the processing industry and further financing of individuals, buyers of cars manufactured in Kazakhstan.

During 2020, the Group repaid the long-term loan from JSC DAMU in the amount of 18,960 million at 4.3-9.08% per annum.

During the year ended 31 December 2019, the Group received a long-term loan from JSC DAMU of KZT 1,474 million at 1 – 4.5% p.a. and maturing in 2025. During 2019, the Group repaid the long-term loan from JSC DAMU in the amount of 11,111 million at 7% per annum.

(in millions of Kazakhstani tenge unless otherwise stated)

20. DUE TO BANKS AND FINANCIAL INSTITUTIONS, CONTINUED

Loans under the Preferential Lending Programme for small and medium-size enterprises (the "Programme")

As at 31 December 2020, loans of KZT 50,810 million under the Programme comprise loans from KSF JSC, which mature in 2021 and are intended for extending loans to enterprises, which were adversely affected by the state of emergency imposed by the Government to mitigate the impact of the COVID-19 pandemic.

The loans from JSC DAMU were received in accordance with the Government programme aimed at financing small- and medium-sized enterprises ("SME") in specific industries ("the Programme"). Under the loan agreement between DAMU and the Group, the Group extends loans to SME borrowers, eligible to participate in the Programme, at the interest rate with margin of 4% and with maturity not exceeding 10 years. The Group's obligation to repay the loan to DAMU is not contingent on collectability of the loans extended to SME borrowers. The Group is obligated to pay a 15% penalty on the amounts not extended to SME borrowers within 3-9 months after receiving the money from DAMU.

The Group management believes that there are no other financial instruments similar to loans received from DAMU, JSC DBK and JSC Agrarian Credit Corporation at the interest rates of 1-2% p.a. and due to specific nature of LSE and SME clients, this product represents a separate market. As a result, the loans received from DAMU, JSC DBK and JSC Agrarian Credit Corporation at the interest rates of 1-2% p.a. represent the orderly transactions and as such have been recorded at fair value at the recognition date.

Loans due to international credit organisations. Loans due to international credit organisations comprise loans from the European Bank for Reconstruction and Development ("EBRD") at 8.95%-9.95% p.a. maturing in 2021-2023.

During the year ended 31 December 2020, the Group received a loan from European Bank for Reconstruction and Development JSC in the amount of KZT 17,574 million at 7.65-9.75% p.a. maturing in 2023. During 2020, the Group has repaid principal and interest according to the repayment schedules in the amount of KZT 9,744 million. The loans are secured by debt securities of KZT 19,544 million (2019: KZT 17,993 million).

During the year ended 31 December 2019, the Group received a loan from European Bank for Reconstruction and Development JSC in the amount of KZT 8,651 million at 7.8% p.a. maturing in 2022. During 2019, the Group has repaid principal and interest according to the repayment schedules in the amount of KZT 10,448 million.

The Group is obligated to comply with financial covenants in relation to due to and loans from financial institutions mentioned above. These covenants include the established ratios including debt-to-equity ratios and other coefficients used for financial performance ratios. As at 31 December 2020 and as at 31 December 2019, the Group has not breached any of these covenants.

As at 31 December 2020 and 31 December 2019, due to banks and financial institutions included loans received under repurchase agreements of KZT 9,653 million and KZT 6,406 million that were repaid in January 2020 and 2019, respectively. The fair value of assets pledged under repurchase agreements amounted to KZT 9,653 million and KZT 7,148 million as at 31 December 2020 and 31 December 2019, respectively.

21. CUSTOMER ACCOUNTS

	31 December 2020	31 December 2019
Customer accounts		
- Retail	676,320	544,463
- Corporate	512,944	414,482
	1,189,264	**958,945**

	31 December 2020	31 December 2019
Term deposits	868,944	684,689
Call deposits	315,336	270,584
	1,184,280	**955,273**
Accrued interest	4,984	3,672
	1,189,264	**958,945**

(in millions of Kazakhstani tenge unless otherwise stated)

21. CUSTOMER ACCOUNTS, CONTINUED

As at 31 December 2020, the Group has 1 customer (31 December 2019: 1 customer), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2020 are KZT 42,190 thousand (31 December 2019: KZT 17,019 million).

	31 December 2020	31 December 2019
Analysis by sectors:		
Individuals	676,320	544,463
Construction	123,938	93,382
Social services	122,561	70,636
Trade	72,716	62,434
Education and health care	43,751	35,626
Transport and communication	24,990	23,678
Oil and gas industry	16,596	5,797
Manufacturing	16,260	15,520
Agriculture	13,342	13,547
Power engineering	11,461	10,769
Fuel	9,034	7,596
Research and development	7,295	6,216
Entertainment	4,596	9,863
Metallurgy	4,080	3,377
Insurance and pension fund activities	2,330	4,307
Public administration	2,186	1,439
Chemical production	1,900	4,078
Machinery manufacturing	1,423	1,305
Other	34,485	44,912
Total due to customers	**1,189,264**	**958,945**

22. DEBT SECURITIES ISSUED

	Currency	Issue date	Maturity date	Interest rate, %	31 December 2020	Interest rate, %	31 December 2019
	KZT	16/03/2015-27/12/2018	16/03/2022-05/02/2028	8.50-12.00	75,086	8.50-12.00	75,752
Bonds issued in Kazakhstan	USD	10/06/2019	10/06/2021	4.50	5,093	4.50	4,974
	USD	03/03/2006	Perpetual	6.27	28,259	7.93	29,652
					108,438		**110,378**
Accrued interest					1,319		1,157
					109,757		**111,535**

Coupons on debt securities issued are repayable semi-annually; principal is repayable at maturity. Interest payment dates for perpetual instruments are: March 3, June 3, September 3, and December 3, paid annually.

23. SUBORDINATED BONDS

	Currency	Date of issue	Maturity date	Interest rate, %	31 December 2020	Interest rate, %	31 December 2019
Fixed rate	KZT	27/11/2009-03/11/2017	27/11/2024-03/11/2032	4.00-11.00	53,063	4.00-11.00	51,904
Floating rate	KZT	05/12/2007 - 11/11/2008	05/12/2022-11/11/2023	8.00	8,398	6.30-6.50	8,373
					61,461		**60,277**
Accrued interest					1,079		1,065
					62,540		**61,342**

Coupons on subordinated bonds are repayable semi-annually; principal is repayable at maturity.

(in millions of Kazakhstani tenge unless otherwise stated)

23. SUBORDINATED BONDS, CONTINUED

Participation in the Programme of Strengthening Financial Stability of Banking Sector in the Republic of Kazakhstan

By its Resolution No.191 dated 10 October 2017 the NBRK approved the Bank's participation in the Programme of Strengthening Financial Stability of Banking Sector of the Republic of Kazakhstan (the "Programme").

In accordance with the terms of the Programme, the Bank received cash from the NBRK's subsidiary – Kazakhstan Sustainability Fund JSC – by means of issue of registered coupon subordinated bonds of the Bank (the "Bonds") convertible into the Bank's ordinary shares on the terms provided for in the Bond Issue Prospectus.

The Bank is subject to restrictions (covenants) in its activities valid for 5 years from the Bonds' issue date, breach of any of each will result in exercising by the Bonds' holders of their right of Bonds being converted to the Bank's ordinary shares:

- the Bank undertakes to comply with capital adequacy ratios set by the authorised body for the second-tier banks of the Republic of Kazakhstan;
- the Bank undertakes not to commit action intended to withdraw the Bank's assets; at that, summary of activities to be considered the withdrawal of assets is set out in the Bond Issue Prospectus.

Within the framework of the Bank's participation in the Programme, on 3 November 2017, the Bank placed the Bonds at Kazakhstan Stock Exchange in the amount of KZT 60,000 million with 15-year maturity and coupon rate of 4.00% per year. Unwinding of discount of the Bonds using the market interest rate of 13%, which was recognised as income in the statement of profit or loss at initial recognition of the Bonds, is KZT 34,993 million. As at 31 December 2020, the carrying amount of the Bonds is KZT 24,604 million (31 December 2019: KZT 23,507 million).

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

	Liabilities		
	Debt securities issued	**Subordinated bonds**	**Total**
Balance at 1 January 2019	**100,203**	**71,915**	**172,118**
Changes from financing cash flows			
Proceeds from debt securities issued	34,701		34,701
Repayment of debt securities issued	(21,701)		(21,701)
Proceeds from subordinated bonds	-	400	400
Repayment of subordinated bonds	-	(11,879)	(11,879)
Total changes from financing cash flows	**13,000**	**(11,479)**	**1,521**
Changes in carrying amount from recognition of discount	**(1,014)**	**(1,095)**	**(2,109)**
Other changes	**(1,592)**	**1,070**	**(522)**
Interest expense	8,960	7,637	16,597
Interest paid	(8,022)	(6,706)	(14,728)
Balance at 31 December 2019	**111,535**	**61,342**	**172,877**
Balance at 1 January 2020	**111,535**	**61,342**	**172,877**
Changes from financing cash flows			
Repayment of debt securities issued	(8,960)	-	(8,960)
Total changes from financing cash flows	**(8,960)**	**-**	**(8,960)**
Changes in carrying amount from recognition of discount	**1,053**	**1,303**	**2,356**
Other changes	**4,810**	**(1,185)**	**3,625**
Interest expense	11,364	7,185	18,549
Interest paid	(10,045)	(6,105)	(16,150)
Balance at 31 December 2020	**109,757**	**62,540**	**172,297**

(in millions of Kazakhstani tenge unless otherwise stated)

24. OTHER LIABILITIES

	31 December 2020	31 December 2019
Other financial liabilities:		
Liability from continuing involvement (Note 17 (h))	210,890	103,082
Settlements on other liabilities	6,304	8,271
Liabilities under guarantees issued	5,946	7,764
Provision for guarantees and letters of credit	667	113
Accrued commission expenses	134	450
	223,941	**119,680**
Other non-financial liabilities:		
Taxes payable other than income tax	1,330	765
Other non-financial liabilities	580	1,402
Total other liabilities	**225,851**	**121,847**

25. SHARE CAPITAL

As at 31 December 2029 the Bank's share capital comprises the following:

	Authorised share capital	Unissued share capital	Placement of authorised ordinary shares	Repurchased share capital from shareholders	Total share capital
Ordinary shares, items	1,211,140,611	(1,045,502,700)	14,371,988	(7,760,328)	172,249,571
Preference shares, items	39,249,255	-	-	(39,155,404)	93,851

Ordinary shares of 14,371,988 for the total amount of KZT 4,312 million were placed in May 2020, with a placing price of KZT 300 per share.

As at 31 December 2020 the Bank's share capital comprises the following:

	Authorised and issued share capital	Placement of authorised ordinary shares	Repurchased shares	Total
Ordinary shares	57,821	4,312	(402)	61,731
Preference shares	44	-	(15)	29
	57,865	**4,312**	**(417)**	**61,760**

As at 31 December 2019 the Bank's share capital comprises the following:

	Authorised share capital	Unissued share capital	Placement of authorised ordinary shares	Repurchased share capital from shareholders	Total share capital
Ordinary shares, items	995,876,753	(833,419,953)	3,181,111	(5,128,782)	160,509,129
Preference shares, items	39,249,255	-	-	(39,101,182)	148,073

Ordinary shares of 3,181,111 for the total amount of KZT 954 million were placed in March 2019, with a placing price of KZT 300 per share.

As at 31 December 2019 the Bank's share capital comprised:

	Authorised and issued share capital	Placement of authorised ordinary shares	Repurchased shares	Total
Ordinary shares	57,511	954	(644)	57,821
Preference shares	89	-	(45)	44
	57,600	**954**	**(689)**	**57,865**

All ordinary shares are ranked equally, carry one vote, and have no par value.

Preference shares are cumulative and convertible into ordinary shares according to the decision of the Board of Directors, one preferred share can be exchanged for one ordinary share. According to the legislation of the Republic of Kazakhstan and Bank's incorporation documents, dividends are payable on ordinary shares in the form of cash or securities of the Bank, on condition that the decision was made at the annual meeting of shareholders of the Bank. In accordance with the Bank's Charter, dividend on ordinary shares are paid on the basis of financial results for the year. Distributable reserves are subject to rules and regulations of the Republic of Kazakhstan.

25. SHARE CAPITAL, CONTINUED

Terms of preference shares require that the Group pays dividends per one preference share as follows: $R = (b + 3.5\%) \times 300$, where

R – is a guaranteed amount of dividends per one preference share convertible into an ordinary share, which is calculated in tenge.

b -is a base rate of the NBRK. The base rate is determined as at the first day of the year following the year, in which dividends on preference shares were paid. In this regard the guaranteed amount of dividends per one preference share is set at the level of not less than 12% and not more than 14% per annum.

Dividends on preference shares are paid to comply with the legislation of the Republic of Kazakhstan. This legislation envisages that joint stock companies pay the fixed guaranteed amount of the dividend on the preference shares. Under Kazakhstan law on joint stock companies, the amount of the dividend paid on the ordinary shares may not exceed the amount of the dividends paid on preference shares. In addition, dividends on ordinary shares may not be paid until dividends on preference shares have been paid in full.

	For the year ended 31 December 2020 Quantity (in thousands)	For the year ended 31 December 2019 Quantity (in thousands)
Preference shares at the beginning of the year	148	295
Treasury shares repurchased	(54)	(147)
Preference shares at the end of the year	**94**	**148**
Ordinary shares at the beginning of the year	160,509	160,025
Treasury shares repurchased	(2,841)	(2,853)
Treasury shares sold	210	156
Placement of authorised ordinary shares	14,372	3,181
Ordinary shares at the end of the year	**172,250**	**160,509**

Reserve capital

Until 2013, in accordance with amendments to the Resolution No. 196 "On Establishment of Minimum Limit on Reserve Capital of Second-Tier Banks" issued by the Agency of the Republic of Kazakhstan on the Regulation and Supervision of Financial Markets and Financial Organisations (the "FMSA") dated 31 January 2011 (that became invalid in 2013), the Bank was obligated to establish a reserve capital by transferring an amount from retained earnings to provision for future expected losses.

As at 31 December 2020, reserve for general banking risks of the Bank included in retained earnings in the consolidated statement of financial position of the Group amounts to KZT 4,981 million (31 December 2019: KZT 4,981 million).

26. SEGMENT REPORTING

The segment information below is presented on the basis used by the Group's chief operating decision maker to evaluate performance, in accordance with IFRS 8 and in accordance with the segment reporting presented in the consolidated financial statements for the year ended 31 December 2020 and 2019. The Group's reporting segments under IFRS 8 are as follows:

- Corporate banking – maintenance of settlement accounts, deposit taking, provision of overdrafts, loans and other credit facilities.
- Retail banking – provisions of private banking services, private customer current accounts, taking of savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.
- Investment banking – financial instruments trading, money market operations, repo agreements, foreign currency and derivative products, structured financing, corporate lease and asset management services, merger and acquisitions advice, provision of Group's funding through issue of debt securities and attracting loans. This segment is responsible for redistribution of funds raised by other segments.

(in millions of Kazakhstani tenge unless otherwise stated)

26. SEGMENT REPORTING, CONTINUED

The accounting policies of the operating segments are consistent with those described in the summary of significant accounting policies, of these consolidated financial statements. The Board of Directors reviews discrete financial information for each of its segments, including assessment of operating income, assets and liabilities. The segments are managed primarily on the basis of their results, which do not include the effects of intragroup eliminations.

Segment assets and liabilities comprise all assets and liabilities, which account for the major portion of the consolidated statement of financial position but excluding income tax assets and liabilities. Internal charges and transfer pricing adjustments have been reflected in the performance of each business. All revenues and expenses are attributable only to external customers, and there are no transactions between business segments.

Therefore, the Group presents its business on the basis of three main segments. Segment information about these businesses is presented below.

	Retail banking	Corporate banking	Investing activities	For the year ended 31 December 2020
Interest income calculated using the effective interest method	53,013	53,247	20,018	126,278
Other interest income	-	-	1,925	1,925
Interest expense	(33,037)	(14,454)	(18,549)	(66,040)
Credit loss allowance for interest-bearing assets	(13,231)	(34,996)	-	(48,227)
Net non-interest income	6,544	32,158	2,209	40,911
Operating expenses	(9,988)	(26,144)	(4,559)	(40,691)
Profit before income tax	**3,301**	**9,811**	**1,044**	**14,156**
Segment assets*	499,214	981,542	375,226	1,855,982
Segment liabilities*	677,441	874,475	162,054	1,713,970
Other segment items				
Depreciation/amortisation expense on property, plant and equipment and intangible assets	(813)	(2,128)	(467)	(3,408)
Loans to customers and banks	498,688	510,785	-	1,009,473
Customer accounts	676,320	512,944	-	1,189,264
Financial guarantees and credit related commitments	-	128,888	-	128,888

	Retail banking	Corporate banking	Investing activities	For the year ended 31 December 2019
Interest income calculated using the effective interest method	52,579	50,842	16,088	119,509
Other interest income	-	-	1,472	1,472
Interest expenses	(27,915)	(17,495)	(16,594)	(62,004)
Credit loss allowance for interest-bearing assets	(17,126)	(24,531)	-	(41,657)
Net non-interest income	4,710	16,365	2,724	23,799
Operating expenses	(9,072)	(27,053)	(2,621)	(38,746)
Profit/(loss) before income tax	**3,176**	**(1,872)**	**1,069**	**2,373**
Segment assets*	429,377	842,437	185,912	1,457,726
Segment liabilities*	567,940	548,516	221,217	1,337,673
Other segment items				
Depreciation/amortisation expense on property, plant and equipment and intangible assets	(727)	(2,354)	(131)	(3,212)
Loans to customers and banks	427,685	554,705	-	982,390
Customer accounts	544,463	414,482	-	958,945
Financial guarantees and credit related commitments	-	138,821	-	138,821

*- net of current and deferred income tax. Income tax expense is not allocated.

26. SEGMENT REPORTING, CONTINUED

The majority of the Group's assets are located in the Republic of Kazakhstan and the Group generates income from operations conducted within the Republic of Kazakhstan.

Major customers

For the year ended 31 December 2020 the reporting segments have no corporate and retail customers (for the year ended 31 December 2019: no corporate and retail customers), whose income from transactions individually exceed 10% of the total income of the Group.

27. RISK MANAGEMENT POLICY

(a) Corporate governance structure

The Bank was established as an open joint-stock company in accordance with the requirements of the legislation of the Republic of Kazakhstan. The Bank's supreme governing body is the general meeting of the shareholders, which is convened to hold the annual and extraordinary meetings. The general meeting of shareholders makes strategic decisions related to the Bank's operations.

The general meeting of shareholders determines the structure of the Board of Directors. The Board of Directors has overall responsibility for the general management of the Bank's activity.

The legislation of the Republic of Kazakhstan and Bank's Charter determine the lists of decisions, which are exclusively approved by the general shareholders' meeting and that are approved by the Board of Directors.

The Board of Directors meeting elects the Chairman of Management Board, determines the structure of the Management Board. The Bank's executive bodies are responsible for implementation of the decision made by the general meeting of shareholders and Board of Directors. The Bank's executive bodies are subordinated to the Board of Directors and general meeting of shareholders.

(b) Risk management policies and procedures

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

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 and emerging best practice.

As at 31 December 2020, the Group's internal documentation establishing the procedures and methodologies for identification, managing and stress-testing the Bank's significant risks, was approved by the authorised management bodies of the Group in accordance with regulations and recommendations issued by the NBRK.

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

The Management Board is responsible for monitoring and implementation of risk mitigation measures and making sure that the Group operates within the established risk parameters. Risk Management function (Risk Management Group) is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. Risk Management function reports directly to the Chairman of the Management Board and indirectly to the Board of Directors.

Credit, market and liquidity risks, both at the portfolio and transactional levels, are managed and controlled through a system of Credit Committees, Finance and Risk Management Committee (FRMC) and Risk Management Committee (FMC). 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 determining the level of assurance over current risk mitigation procedures.

(in millions of Kazakhstani tenge, unless otherwise stated)

27. RISK MANAGEMENT POLICY, CONTINUED

(c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices and foreign currency rates.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return on risk.

FRMC, FMC manage interest rate risk and market risk thus ensuring a positive interest margin for the Group. The Department of Planning and Finance exercises monitoring of the current financial position of the Group, assesses the Group's sensitivity to changes in the interest rates and their impact on the Group's profitability.

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

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The 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.

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. An analysis of sensitivity of profit or loss and equity (net of taxes) to changes in interest rates (repricing risk) based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2020 and 2019 is as follows:

	2020		2019	
	Profit or loss	**Equity**	**Profit or loss**	**Equity**
100 bp parallel fall	(2,123)	(2,123)	(1,112)	(1,112)
100 bp parallel rise	2,123	2,123	1,112	1,112

An analysis of the sensitivity of net profit or loss and equity as a result of changes in the fair value of financial assets measured at fair value through other comprehensive income and through profit or loss due to changes in the interest rates, based on positions existing as at 31 December 2020 and 2019 and a simplified scenario of a 150 bp symmetrical fall or rise in all yield curves, is as follows:

	2020		2019	
	Profit or loss	**Equity**	**Profit or loss**	**Equity**
150 bp parallel rise	(782)	(7,787)	(1,049)	(5,169)
150 bp parallel fall	398	6,526	612	5,023

(ii) 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 Treasury Department performs currency risk management through management of open currency position, which enables the Group to minimize losses from significant fluctuations of exchange rates of national and foreign currencies. The Risk Management Group determines limits on open currency positions and stop-loss. All limits and restrictions are approved by the Management and the Board of Directors. The Treasury Department performs monitoring of the Group's currency position with the aim to match the requirements of the NBRK.

(in millions of Kazakhstani tenge, unless otherwise stated)

27. RISK MANAGEMENT POLICY, CONTINUED

(c) Market risk, continued

(ii) Currency risk, continued

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

	KZT	USD USD 1 = KZT 420.91	EUR EUR 1 = KZT 516.79	Other Currency	31 December 2020 Total
Financial assets:					
Cash and cash equivalents	129,989	133,053	8,747	7,541	279,330
Financial instruments at FVTPL	20,802	5,167	-	-	25,969
Investment financial assets at FVOCI	243,892	49,567	2,640	-	296,099
Investment financial assets at amortised cost	6,498	10,258	-	-	16,756
Due from banks	58,113	5,313	-	-	63,426
Loans to customers and banks	797,080	197,533	14,076	784	1,009,473
Other financial assets	9,313	4,387	124	16	13,840
Total financial assets	**1,265,687**	**405,278**	**25,587**	**8,341**	**1,704,893**
Financial liabilities:					
Due to banks and financial institutions	123,763	2,642	153	-	126,558
Customer accounts	793,123	364,109	25,369	6,663	1,189,264
Debt securities issued	76,226	33,531	-	-	109,757
Subordinated bonds	62,540	-	-	-	62,540
Other financial liabilities	215,607	8,072	212	50	223,941
Total financial liabilities	**1,271,259**	**408,354**	**25,734**	**6,713**	**1,712,060**
Open position	(5,572)	(3,076)	(147)	1,628	

The Group's exposure to foreign currency exchange rate risk as at 31 December 2019 is presented in the table below:

	KZT	USD USD 1= KZT 382.59	EUR EUR 1 = KZT 429	Other Currency	31 December 2019 Total
Financial assets:					
Cash and cash equivalents	38,326	103,930	11,716	4,896	158,868
Financial instruments at FVTPL	12,382	6,980	-	27	19,389
Investment financial assets at FVOCI	100,984	59,537	21	-	160,542
Investment financial assets at amortised cost	4,355	-	-	-	4,355
Due from banks	5,957	3,145	-	-	9,102
Loans to customers and banks	781,474	190,200	10,716	-	982,390
Other financial assets	5,245	4,688	213	11	10,157
Total financial assets	**948,723**	**368,480**	**22,666**	**4,934**	**1,344,803**
Financial liabilities:					
Due to banks and financial institutions	75,232	8,687	85	-	84,004
Customer accounts	608,307	323,922	22,388	4,328	958,945
Debt securities issued	76,897	34,638	-	-	111,535
Subordinated bonds	61,342	-	-	-	61,342
Other financial liabilities	113,969	5,380	202	129	119,680
Total financial liabilities	**935,747**	**372,627**	**22,675**	**4,457**	**1,335,506**
Open position	12,976	(4,147)	(9)	477	

(in millions of Kazakhstani tenge, unless otherwise stated)

27. RISK MANAGEMENT POLICY, CONTINUED

(c) Market risk, continued

(ii) Currency risk, continued

A weakening of the KZT, as indicated below, against the following currencies at 31 December 2020 and 2019, would have increased (decreased) 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 implies that all other variables, especially interest rates, are constant.

	2020	2019
20% appreciation of USD against KZT	(492)	(664)
20% appreciation of EUR against KZT	(24)	(1)
20% appreciation of other currencies against KZT	260	76

(iii) Other price risks

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

VAR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The VAR model used by the Group is based upon a 95 percent confidence level and assumes a 60-day holding period depending on the type of positions. The VAR model used is mainly based on historical simulation. The model derives plausible future scenarios based on historical market rate time series, taking into account inter-relationships between different markets and rates. Potential movements in market prices are determined with reference to market data from at least the last 12 months.

Although VAR is a valuable tool in measuring market risk exposures, it has a number of limitations, especially in less liquid markets as follows:

- the use of historical data as a basis for determining future events may not encompass all possible scenarios, particularly those that are of an extreme nature;
- a 60-day holding period assumes that all positions can be liquidated or hedged within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period;
- The use of a 95% confidence level does not take into account losses that may occur beyond this level. There is a five percent probability that the loss could exceed the VAR estimate;
- VAR is only calculated on the end-of-day balances and does not necessarily reflect exposures that may arise on positions during the trading day;
- The VAR measure is dependent upon the position and the volatility of market prices. The VAR of an unchanged position reduces if market volatility declines and vice versa.

The Group does not solely rely on its VAR calculations in its market risk measurement due to inherent risk of usage of VAR as described above. The limitations of the VAR methodology are recognised by supplementing VAR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio, and gap analysis.

A summary of the VAR estimates of losses that could occur in respect of the portfolio of financial instruments at fair value as at 31 December is as follows:

	31 December 2020	31 December 2019
Foreign exchange risk	2,122	305
	2,122	**305**

27. RISK MANAGEMENT POLICY, CONTINUED

(d) Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group. The Group has policies and procedures in place to manage credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration and the establishment of a Credit Committee to actively monitor credit risk. The credit policy is reviewed and approved by the Board of Directors upon approval by the Management Board of the Bank.

The credit policy establishes:

- procedures for reviewing and approving loan credit applications;
- methodology for the credit assessment of borrowers (corporate and retail);
- methodology for the credit assessment of counterparties, issuers and insurance companies;
- methodology for the evaluation of collateral;
- credit documentation requirements;
- procedures for the ongoing monitoring of loans and other credit exposures.

Credit applications from the corporate customers are originated by the relevant credit managers. On-site visit and financial analysis can be made either with or without participation of the credit risk department employees, depending on the authority level and borrower's rating. To comply with the statutory procedures of the regulator for generating a credit file and ensuring internal risk control, the related departments (legal department, security department and credit analysis department) provide their opinions on the project. A credit decision is made by the authorised Credit committees represented by the Credit committees at the levels of branches, regions and the Head Office. In case of review of the credit applications, which are outside of the authority and limits of the branches at the Head Office Credit committees, the Risk Management Group prepares additionally its opinion.

The Group enters into numerous transactions where the counterparties are not rated by international rating agencies. The Group has developed internal models, which allow it to determine the rating of counterparties, which are comparable to ratings of international rating agencies. These models include rating models for corporate customers and scoring models for individuals and small business. The Group uses these instruments for initial measurement of credit risk and pricing of the loans issued.

Scoring models

Scoring is an automated system of customer evaluation, which processes applications from different sales channels, treats these applications and uses the strategies to make accurate decisions on loan granting. The system produces online decision, which allows to standardise and automate the process of making decisions on loan granting and reduce the operating expenses and operating risks.

The system sets the lending strategies comprising the Credit Rules, scoring models and antifraud strategies, which use the customer initial parameters and the product parameters. The input parameters for decision-making are the social and demographic, financial indicators of the customers, as well as data from external sources, such as credit bureau, telecommunication and transaction data, etc.

Credit Rules serve as an instrument for automated check of the applicants against the credit policy. These are a set of conditions, upon passing of which a subject receives a positive decision; or if there are negative indicators arise, a negative decision is made with regard to a customer. Credit Rules are developed and updated on the basis of statistical analyses and customers' behaviour in the market.

A scoring models as a statistical model used for quantitative assessment of future creditworthiness of new and existing borrowers of the Group. When scoring is used, each of the parameters inserted into scoring model has a numeric value, the sum of which represents the borrower's internal credit score. The assigned score reflects the probability of default of the borrower. Quality of scoring models is checked on the continuous basis for their compliance with international standards by assessing their effectiveness and accuracy.

Antifraud strategy includes a number of checks to prevent the fraud risks on the part of the applicant.

The scoring methodologies are tailor-made for specific products and segments and are applied during the stage of making decision on loan issuance.

(in millions of Kazakhstani tenge, unless otherwise stated)

27. RISK MANAGEMENT POLICY, CONTINUED

(d) Credit risk, continued

Scoring models, continued

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

	2020	2019
ASSETS		
Cash and cash equivalents	222,354	93,420
Financial instruments at FVTPL	22,356	16,635
Investment financial assets at FVOCI - debt financial instruments	295,797	160,176
Investment financial assets at amortised cost	16,756	4,355
Due from banks	63,426	9,102
Loans to customers and banks	1,009,473	982,390
Other financial assets	13,840	10,157
Total maximum exposure to credit risk	**1,644,002**	**1,276,235**

For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers, see Note 17.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in Note 29.

The Bank calculates and monitors, on the ongoing basis, the mandatory norm of the maximum risk per one borrower or group of related borrowers, which regulates the Bank's credit risk with regard to a single borrower or group of related borrowers and determines the maximum ratio of the total liabilities of a borrower (borrowers included in the group of related borrowers) to the Bank to the Bank's equity. As at 31 December 2020 and 31 December 2019 the maximum allowable value of k-3 norm established by NBRK was 25%. The value of k-3 norm calculated by the Bank as at 31 December 2020 and 31 December 2019 was in compliance with the statutory norm.

As at 31 December 2020 the Group has no debtors or groups of connected debtors, credit risk exposure to whom exceeds 10 percent maximum credit risk exposure.

Offsetting financial assets and financial liabilities

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

- are offset in the 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 financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements and securities borrowing and lending agreements.

The Group conducts derivative transactions that are not transacted on the exchange through a central counterparty. Management believes that such settlements are, in effect, equivalent to net settlement and that, the Group meets the net settlement criterion as this gross settlement mechanism has features that eliminate or result in insignificant credit and liquidity risk, and that the Group will process receivables and payables in a single settlement process or cycle.

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

- derivatives;
- sale and repurchase, and reverse sale and repurchase agreements; and
- securities lending and borrowing.

Such collateral is subject to the standard industry terms of the International Swaps and Derivatives Association ("ISDA") Credit Support Annex. This means that securities received/given as collateral can be pledged or sold during the term of the transaction but must be returned on maturity of the transaction. The terms also give each counterparty the right to terminate the related transactions upon the counterparty's failure to post collateral.

(in millions of Kazakhstani tenge, unless otherwise stated)

27. RISK MANAGEMENT POLICY, CONTINUED

(d) Credit risk, continued

Offsetting financial assets and financial liabilities, continued

The table below shows financial assets and financial liabilities subject to offsetting, 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 assets/liabilities 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 and banks	72,254	-	72,254	-	(7,600)	64,654
Loans under reverse repurchase agreements	44,993	-	44,993	(44,993)	-	-
Total financial assets	**117,247**	**-**	**117,247**	**(44,993)**	**(7,600)**	**64,654**
Current accounts and deposits from customers	7,600	-	7,600	(7,600)	-	-
Due to banks and financial institutions (loans under REPO agreements)	9,653	-	9,653	(9,653)	-	-
Total financial liabilities	**17,253**	**-**	**17,253**	**(17,253)**	**-**	**-**

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2019:

Types of financial assets/liabilities	Gross amounts of recognised financial assets/ liabilities	Gross amount of recognised financial assets/liabilities 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 and banks	58,777	-	58,777	-	(8,746)	50,031
Loans under reverse repurchase agreements	61,771	-	61,771	(61,771)	-	-
Total financial assets	**120,549**	**-**	**120,549**	**(61,771)**	**(8,746)**	**50,031**
Current accounts and deposits from customers	8,746	-	8,746	(8,746)	-	-
Due to banks and financial institutions (loans under REPO agreements)	6,406	-	6,406	(6,406)	-	-
Total financial liabilities	**15,152**	**-**	**15,152**	**(15,152)**	**-**	**-**

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 on the following basis:

- Assets and liabilities resulting from sale and repurchase agreements, reverse sale and repurchase agreements and securities lending and borrowing – amortised cost.

(in millions of Kazakhstani tenge, unless otherwise stated)

27. RISK MANAGEMENT POLICY, CONTINUED

(d) Credit risk, continued

Offsetting financial assets and financial liabilities, continued

The securities pledged under repurchased agreements (Note 15) represent the transferred financial assets that are not derecognised in their entirety. The securities lent or sold under agreements to repurchase are transferred to a third party and the Group receives cash in exchange. These financial assets may be repledged or resold by counterparties in the absence of default by the Group, but the counterparty has an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. Because the Group sells the contractual rights to the cash flows of the securities it does not have the ability to use the transferred assets during the term of the agreement.

Geographical concentration

The Finance and Risk Management Committee ("FRMC") exercises control over the risk in the legislation and regulatory arena and assesses its influence on the Group's activity. This approach allows the Group to minimise potential losses from the investment climate fluctuations in the Republic of Kazakhstan.

The geographical concentration of assets and liabilities is set out below:

	Kazakhstan	Non-OECD countries	OECD countries	31 December 2020 Total
Financial assets:				
Cash and cash equivalents	244,682	1,521	33,127	279,330
Financial instruments at FVTPL	25,841	-	128	25,969
Investment financial assets at FVOCI	275,066	7,504	13,529	296,099
Investment financial assets at amortised cost	7,542	-	9,214	16,756
Due from banks	58,113	-	5,313	63,426
Loans to customers and banks	995,112	14,361	-	1,009,473
Other financial assets	13,840	-	-	13,840
Total financial assets	**1,620,196**	**23,386**	**61,311**	**1,704,893**
Financial liabilities:				
Due to banks and financial institutions	97,627	2,322	26,609	126,558
Customer accounts	1,178,483	6,544	4,237	1,189,264
Debt securities issued	81,332	-	28,425	109,757
Subordinated bonds	62,540	-	-	62,540
Other financial liabilities	223,941	-	-	223,941
Total financial liabilities	**1,643,923**	**8,866**	**59,271**	**1,712,060**
Open position	**(23,727)**	**14,520**	**2,040**	

	Kazakhstan	Non-OECD countries	OECD countries	31 December 2019 Total
Financial assets:				
Cash and cash equivalents	119,074	928	38,866	158,868
Financial instruments at FVTPL	19,389	-	-	19,389
Investment financial assets at FVOCI	142,158	8,604	9,780	160,542
Investment financial assets at amortised cost	4,355	-	-	4,355
Due from banks	5,957	-	3,145	9,102
Loans to customers and banks	968,439	13,951	-	982,390
Other financial assets	10,157	-	-	10,157
Total financial assets	**1,269,529**	**23,483**	**51,791**	**1,344,803**
Financial liabilities:				
Due to banks and financial institutions	32,008	4,110	47,886	84,004
Customer accounts	948,053	5,333	5,559	958,945
Debt securities issued	111,535	-	-	111,535
Subordinated bonds	61,342	-	-	61,342
Other financial liabilities	119,680	-	-	119,680
Total financial liabilities	**1,272,618**	**9,443**	**53,445**	**1,335,506**
Open position	**(3,089)**	**14,040**	**(1,654)**	

27. RISK MANAGEMENT POLICY, CONTINUED

(e) 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. 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 liquidity policy is reviewed and approved by the Management Board.

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 Treasury Department performs management of these risks through analysis of asset and liability maturity and performance of money market transactions for current liquidity support and cash flow optimization. The Department of Planning and Finance determines the optimum structure of balance and limits on liquidity ratios. Gap-positions are approved by the FRMC. The Risk Management Group performs monitoring of liquidity ratios.

The liquidity management policy requires:

- liquidity risk identification and measurement;
- monitoring of liquidity risk and liquidity positions, establishment of reporting system, including prudential and management reporting;
- liquidity risk limitation, formation of the system of limits (restrictions) and early warning indicators;
- stress-testing;
- development of alternative options of liquidity planning, maintaining liquidity and funding contingency plans and their regular review;
- organisation of internal controls over liquidity risk and liquidity risk management, exercise of internal audit;
- disclosure of respective information on liquidity risk and liquidity position.

The following tables show analysis of financial assets and liabilities grouped according to the principle of period remaining from the balance sheet date till maturity date, except for the financial assets through profit or loss and investment financial assets at fair value through other comprehensive income, which were categorised as "on demand and less than 1 month" as they may be realised, as necessary, at any time.

(in millions of Kazakhstani tenge, unless otherwise stated)

27. RISK MANAGEMENT POLICY, CONTINUED

(e) Liquidity risk, continued

31 December 2020	Weighted average effective interest rate	On demand and up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	31 December 2020 Total
Financial assets							
Cash and cash equivalents	7.02%	117,225	-	-	-	-	117,225
Financial instruments at FVTPL	9.43%	22,356	-	-	-	-	22,356
Investment financial assets at FVOCI	6.79%	295,797	-	-	-	-	295,797
Investment financial assets at amortised cost	4.74%	99	-	1,896	14,761	-	16,756
Loans to customers and banks	10.78%	118,450	44,859	142,555	360,274	343,335	1,009,473
Total interest bearing financial assets		**553,927**	**44,859**	**144,451**	**375,035**	**343,335**	**1,461,607**
Cash and cash equivalents		162,105	-	-	-	-	162,105
Financial instruments at FVTPL		3,613	-	-	-	-	3,613
Investment financial assets at FVOCI		302	-	-	-	-	302
Due from banks		63,426	-	-	-	-	63,426
Other financial assets		13,840	-	-	-	-	13,840
Total financial assets		**797,213**	**44,859**	**144,451**	**375,035**	**343,335**	**1,704,893**
Financial liabilities							
Due to banks and financial institutions	5.74%	9,644	-	6,658	23,034	29,941	69,277
Customer accounts	6.35%	86,508	84,162	486,109	222,877	17,642	897,298
Debt securities issued	8.99%	-	-	5,106	66,134	38,517	109,757
Subordinated bonds	12.04%	-	-	-	37,937	24,603	62,540
Other financial liabilities	3.07%	2,052	4,601	6,007	38,571	159,658	210,889
Total interest bearing liabilities		**98,204**	**88,763**	**503,880**	**388,553**	**270,361**	**1,349,761**
Due to banks and financial institutions		6,471	-	50,810	-	-	57,281
Customer accounts		285,699	12	4,244	360	1,651	291,966
Other financial liabilities		13,052	-	-	-	-	13,052
Total financial liabilities		**403,426**	**88,775**	**558,934**	**388,913**	**272,012**	**1,712,060**
Liquidity gap		393,787	(43,916)	(414,483)	(13,878)	71,323	
Interest sensitivity gap		455,723	(43,904)	(359,429)	(13,518)	72,974	
Cumulative interest sensitivity gap		**455,723**	**411,819**	**52,390**	**38,872**	**111,846**	
Cumulative interest sensitivity gap as a percentage of total financial assets		**31.18%**	**28.18%**	**3.58%**	**2.66%**	**7.65%**	

(in millions of Kazakhstani tenge, unless otherwise stated)

27. RISK MANAGEMENT POLICY, CONTINUED

(e) Liquidity risk, continued

31 December 2019	Weighted average effective interest rate	On demand and up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	31 December 2019 Total
Financial assets							
Cash and cash equivalents	2.50%	-	5,662	-	-	-	5,662
Financial instruments at FVTPL	7.71%	16,641	-	-	-	-	16,641
Investment financial assets at FVOCI	5.63%	160,176	-	-	-	-	160,176
Investment financial assets at amortised cost	6.15%	-	211	2,318	1,826	-	4,355
Loans to customers and banks	11.50%	110,145	45,362	183,741	456,434	186,708	982,390
Total interest bearing financial assets		**286,962**	**51,235**	**186,059**	**458,260**	**186,708**	**1,169,224**
Cash and cash equivalents		153,206	-	-	-	-	153,206
Financial instruments at FVTPL		2,748	-	-	-	-	2,748
Investment financial assets at FVOCI		367	-	-	-	-	367
Due from banks		9,102	-	-	-	-	9,102
Other financial assets		10,157	-	-	-	-	10,157
Total financial assets		**462,542**	**51,235**	**186,059**	**458,260**	**186,708**	**1,344,804**
Financial liabilities							
Due to banks and financial institutions	6.12%	39,826	1,298	25,325	9,947	2,241	78,637
Customer accounts	6.16%	39,874	60,606	284,466	276,390	17,439	678,775
Debt securities issued	9.91%	-	1,106	51	28,607	81,771	111,535
Subordinated bonds	11.75%	-	559	508	16,357	43,918	61,342
Other financial liabilities	3.00%	857	1,122	2,667	16,945	81,492	103,083
Total interest bearing liabilities		**80,557**	**64,691**	**313,017**	**348,246**	**226,861**	**1,033,372**
Due to banks and financial institutions		5,367	-	-	-	-	5,367
Customer accounts		274,086	1	4,111	379	1,593	280,170
Other financial liabilities		16,597	-	-	-	-	16,597
Total financial liabilities		**376,607**	**64,692**	**317,128**	**348,625**	**228,454**	**1,335,506**
Liquidity gap		85,935	(13,457)	(131,069)	109,635	(41,746)	
Interest sensitivity gap		206,405	(13,456)	(126,958)	110,014	(40,153)	
Cumulative interest sensitivity gap		**206,405**	**192,949**	**65,991**	**176,005**	**135,852**	
Cumulative interest sensitivity gap as a percentage of total financial assets		**17.65%**	**16.50%**	**5.64%**	**15.05%**	**11.62%**	

(in millions of Kazakhstani tenge, unless otherwise stated)

27. RISK MANAGEMENT POLICY, CONTINUED

(e) Liquidity risk, continued

In accordance with legislation of the Republic of Kazakhstan, 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.

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 financial 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.

A further analysis of the liquidity and interest rate risks is presented in the following tables in accordance with IFRS 7. The amounts disclosed in these tables do not correspond to the amounts recorded on the statement of financial position as the presentation below includes a maturity analysis for financial liabilities that indicates the total remaining contractual payments (including interest payments), which are not recognised in the statement of financial position under the effective interest rate method. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate yield curves at the end of the reporting period.

	On demand and up to 1 month	1 month to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	31 December 2020 Total
Financial liabilities:						
Due to banks and financial institutions	10,250	527	9,054	27,851	34,613	82,295
Customer accounts	90,678	91,589	502,326	232,796	29,849	947,238
Debt securities issued	-	1,680	13,159	97,321	41,184	153,344
Subordinated bonds		1,108	4,984	51,430	76,420	133,942
Other financial liabilities	3,587	7,597	19,136	100,910	254,206	385,436
Total interest-bearing liabilities	**104,515**	**102,501**	**548,659**	**510,308**	**436,272**	**1,702,255**
Due to banks and financial institutions	6,471	-	50,810	-	-	57,281
Customer accounts	285,697	12	4,244	360	1,653	291,966
Other financial liabilities	13,052	-	-	-	-	13,052
Total financial liabilities	**409,735**	**102,513**	**603,713**	**510,668**	**437,925**	**2,064,554**
Financial guarantees and commitments	128,888	-	-	-	-	128,888

	On demand and up to 1 month	1 month to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	31 December 2019 Total
Financial liabilities:						
Due to banks and financial institutions	39,922	1,803	29,676	11,400	11,985	94,786
Customer accounts	45,943	65,896	299,979	284,623	17,295	713,736
Debt securities issued	-	1,785	6,608	57,785	94,443	160,621
Subordinated bonds	-	1,108	4,857	39,791	102,629	148,385
Other financial liabilities	866	1,509	4,388	26,101	108,437	141,301
Total interest bearing liabilities	**86,731**	**72,101**	**345,508**	**419,700**	**334,789**	**1,258,829**
Due to banks and financial institutions	5,367	-	-	-	-	5,367
Customer accounts	274,086	1	4,111	379	1,593	280,170
Other financial liabilities	16,597	-	-	-	-	16,597
Total financial liabilities	**382,781**	**72,102**	**349,619**	**420,079**	**336,382**	**1,560,963**
Financial guarantees and commitments	138,821	-	-	-	-	138,821

27. RISK MANAGEMENT POLICY, CONTINUED

(e) Liquidity risk, continued

The timing of cash outflows has been prepared on the following basis:

Prepaid liabilities

Where a financial liability can be prepaid by the counterparty, the cash outflow has been included at the earliest date on which the counterparty can require repayment regardless whether or not such early repayment results in a penalty. If the repayment of financial liability is triggered by, or is subject to, specific criteria such as market price hurdles being reached, it is included at the earliest possible date that the conditions could be fulfilled without considering probability of the conditions being met.

The financial guarantees and commitments are included in the "On demand" category because payments can be required upon request.

(f) Operational risk

Definition of operational risk:

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and innovation. In all cases, the Group policy requires compliance with all applicable legal and regulatory requirements.

The Group manages operational risk by establishing internal controls that management determines to be necessary in each area of its operations.

28. CAPITAL MANAGEMENT

NBRK sets and monitors capital requirements for the Bank as a whole.

The Bank 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 paid-in 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, excluding deferred tax assets recognised in relation to deductible temporary differences, other revaluation reserves, gains from sales related to asset securitisation transactions, gains or losses from revaluation of financial liabilities at fair value related to change in own credit risk, regulatory adjustments to be deducted from the additional capital, but due to insufficient levels of it deducted from basic capital, and investments in financial instruments of investees not consolidated in the Group with certain limitations. Additional capital comprises of perpetual contracts and paid-in preference share capital less adjustments for the Bank's investment in its own perpetual financial instruments, treasury preference shares, investments in financial instruments of investees not consolidated in the Group with certain limitations and regulatory adjustments to be deducted from the tier 2 capital, but due to insufficient levels of it deducted from additional capital.
- Tier 2 capital comprises subordinated debt in KZT less investments in subordinated debt of financial institutions the Bank holds 10% and more shares in.

Total capital is the sum of tier 1 and tier 2 capital.

There are a set of different limitations and classification criteria applied to the above listed total capital elements.

28. CAPITAL MANAGEMENT, CONTINUED

In accordance with the regulations set by the NBRK the Bank has to maintain total capital adequacy within 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);
- a ratio of tier 1 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 (k1-2);
- a ratio of total 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 (k2).

As at 31 December 2020 the minimum level of ratios as applicable to the Bank are as follows:

- k1 – not less than 0.065 (31 December 2019: 0.075);
- k1-2 – not less than 0.075 (31 December 2019: 0.085);
- k2 – not less than 0.090 (31 December 2019: 0.100).

On 1 October 2019, NBRK introduced a new regulatory capital buffer for the capitalisation ratios. The regulatory capital buffer is calculated as the ratio of positive difference between provisions calculated in accordance with the Impairment Provisioning Guidelines of bank's assets (loans and accounts receivable) to the Ratio, and provisions formed and reflected in the bank's accounting in accordance with IFRS and the requirements of the legislation of the Republic of Kazakhstan on accounting and financial reporting (the "positive difference") to the sum of assets and contingent liabilities weighted by the degree of credit risk.

As at 31 December 2020, the Bank complied with all prudential capital ratios k1, k1-2 and k2, inclusive and exclusive of the regulatory capital buffer, and the actual ratios were 0.115, 0.115 and 0.191 (31 December 2019: k1 – 0.094, k1-2 – 0.100 and k2 – 0.174).

As at 31 December 2020, the regulatory capital buffer was 0.07% (31 December 2019: 2%) and k1, k1-2 and k2 ratios, including the regulatory capital buffer were 6.57%, 7.57% and 9.07%, respectively (31 December 2019: 9.5%, 10.5% and 12%, respectively).

The following table shows the composition of the capital position as at 31 December 2020 calculated in accordance with the requirements established by the resolution of Board of National Bank of the Republic of Kazakhstan of the resolution of Board of National Bank of the Republic of Kazakhstan of 13 September 2018, No. 170 "On establishment of normative values and techniques of calculations of prudential standard rates and other regulations, obligatory to observance, and limits of the size of the capital of bank for the certain date and Rules of calculation and limits of the open foreign exchange position of bank" with amendments and additions.

(in millions of Kazakhstani tenge, unless otherwise stated)

28. CAPITAL MANAGEMENT, CONTINUED

	31 December 2020	31 December 2019
Tier 1 capital		
Basic capital:	**123,734**	**108,564**
Share capital	63,242	58,932
Statutory retained earnings of prior years	47,945	46,575
Retained earnings of current period	8,586	1,497
Reserves formed from statutory retained earnings of prior years	4,981	4,981
Revaluation surplus for buildings	1,442	1,442
Revaluation reserve of investment securities	2,642	285
Statutory adjustments:		
Intangible assets	(5,104)	(5,148)
Total basic capital	**123,734**	**108,564**
Additional capital:		
Paid-in preference share capital not satisfying basic capital requirements	11,775	11,775
Bank's treasury preference shares	(11,686)	(11,686)
Perpetual financial instruments obtained before 1 January 2015 (20% of carrying amount – in 2019)	n/a	6,186
Tier 1 capital	**123,823**	**114,839**
Tier 2 capital		
Subordinated debt	80,701	82,154
Subordinated debt placed before 1 January 2015 denominated in KZT	-	3,167
Total tier 2 capital	**80,701**	**85,321**
Total capital	**204,524**	**200,160**
Positive difference between regulatory statutory allowance for credit losses and allowance for credit losses under impairment provisions and IFRS impairment provision	(780)	(22,923)
Risk-weighted assets, contingent liabilities and derivative financial instruments and operational risk		
Credit risk-weighted assets	913,419	985,438
Credit risk-weighted contingent liabilities	84,377	105,085
Market risk-weighted assets, contingent assets and liabilities	16,955	11,686
Operational risk	58,109	49,380
Risk-weighted assets, contingent liabilities and derivative financial instruments and operational risk	**1,072,860**	**1,151,589**
k1	**0.115**	**0.094**
k1-2	**0.115**	**0.100**
k2	**0.191**	**0.174**

(in millions of Kazakhstani tenge, unless otherwise stated)

29. CREDIT RELATED COMMITMENTS

The Group has outstanding 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 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 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.

As at 31 December 2020 and 31 December 2019, the nominal values or contractual values and risk-weighted amounts are as follows:

	31 December 2020		31 December 2019	
	Nominal value	Risk-weighted value	Nominal value	Risk-weighted value
Guarantees issued and other similar liabilities	124,119	88,078	132,543	75,407
Letters of credit and other contingent liabilities related to other transaction	4,769	954	6,278	1,256
	128,888	**89,032**	**138,821**	**76,663**

Management expects that loans and liabilities under credit facilities will be financed as required at the expense of the amounts received from repayment of the current loan portfolio according to the payment schedules.

As at 31 December 2020, the guarantees issued in the amount of KZT 123,279 million are classified as Stage 1 of credit risk gradings (31 December 2019: KZT 128,089 million), KZT 618 million and KZT 222 million are classified as Stages 2 and 3, respectively (31 December 2019: KZT 3,479 million and KZT 975 million, respectively).

The following table shows the guarantees issued and other similar liabilities secured by different types of collaterals and not the fair value of the collateral itself.

	31 December 2020	31 December 2019
Cash	36,041	57,136
Real estate	13,645	12,899
Movable property	10,009	219
Corporate guarantees	9,603	12,169
Unsecured	5,080	4,930
Goods in turnover	20	200
Land	100	-
Other	49,621	44,990
Total	**124,119**	**132,543**

The following table shows the letters of credit issued and other contingent liabilities secured by different types of collaterals and not the fair value of the collateral itself.

	31 December 2020	31 December 2019
Cash	4,769	6,278
Total	**4,769**	**6,278**

The total outstanding contractual commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

(in millions of Kazakhstani tenge, unless otherwise stated)

30. CUSTODIAN SERVICES

The Group provides custodian services to individuals, trusts, retirement benefit plans and other institutions, whereby it accounts and holds assets or make settlements on the customers' transactions with different financial instruments at the direction of the customer. The Group receives fee income for providing these services. Assets received under custodian management are not assets of the Group and are not recognised in the consolidated statement of financial position. The Group is not exposed to any credit risk related to such activities, as it does not guarantee these investments.

Fiduciary assets are categorised as follows based on their nominal value:

	31 December 2020	31 December 2019
Securities	340,472	266,434
Investments in buildings, machinery, equipment, transport and other property	7,039	6,597
Unit investment funds	25	22
Bank deposits	43	373
Other assets	-	20
Total fiduciary assets	**347,579**	**273,446**

The Bank keeps accounting and prepares reporting for assets and investment funds, asset management and other legal entities and transactions with assets and makes reconciliation with the management company with regard to the assets being served, in accordance with the requirements of the legislation of the Republic of Kazakhstan and NBRK rules.

31. CONTINGENCIES

(a) Insurance

The insurance industry in the Republic of Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The 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 operations and financial position.

(b) Litigations

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.

(c) Taxation contingencies in Kazakhstan

The taxation system in Kazakhstan is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities, including opinions with respect to IFRS treatment of revenues, expenses and other items in the financial statements. Taxes are subject to review and investigation by various levels of authorities, which have the authority to impose severe fines and interest charges. A tax year generally remains open for review by the tax authorities for five subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

These circumstances may create tax risks in 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 tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

(in millions of Kazakhstani tenge, unless otherwise stated)

32. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS

(a) Accounting classifications and fair values

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

	Financial instruments at fair value through profit or loss	Financial instruments at fair value through other comprehensive income	Amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	-	279,330	279,330	279,330
Financial instruments at FVTPL	25,969	-	-	25,969	25,969
Investment financial assets at FVOCI	-	296,099	-	296,099	296,099
Investment financial assets at amortised cost	-	-	16,756	16,756	16,989
Due from banks	-	-	63,426	63,426	63,426
Loans to customers and banks	-	-	1,009,473	1,009,473	1,002,239
Other financial assets	-	-	13,840	13,840	13,840
	25,969	**296,099**	**1,382,825**	**1,704,893**	**1,697,892**
Due to banks and financial institutions	-	-	126,558	126,558	126,558
Customer accounts	-	-	1,189,264	1,189,264	1,188,980
Debt securities issued	-	-	109,757	109,757	98,638
Subordinated bonds	-	-	62,540	62,540	56,106
Other financial liabilities	-	-	223,941	223,941	223,941
	-	**-**	**1,712,060**	**1,712,060**	**1,694,223**

(in millions of Kazakhstani tenge, unless otherwise stated)

32. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS, CONTINUED

(a) 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 2019:

	Financial instruments at fair value through profit or loss	Financial instruments at fair value through other comprehensive income	Amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	-	158,868	158,868	158,868
Financial instruments at FVTPL	19,389	-	-	19,389	19,389
Investment financial assets at FVOCI	-	160,542	-	160,542	160,542
Investment financial assets at amortised cost	-	-	4,355	4,355	4,275
Due from banks	-	-	9,102	9,102	9,102
Loans to customers and banks	-	-	982,390	982,390	974,476
Other financial assets	-	-	10,157	10,157	10,157
	19,389	**160,542**	**1,164,872**	**1,344,803**	**1,336,809**
Due to banks and financial institutions	-	-	84,004	84,004	84,004
Customer accounts	-	-	958,945	958,945	957,859
Debt securities issued	-	-	111,535	111,535	105,788
Subordinated bonds	-	-	61,342	61,342	57,729
Other financial liabilities	-	-	119,680	119,680	119,680
	-	-	**1,335,506**	**1,335,506**	**1,325,060**

32. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS, CONTINUED

(a) Accounting classifications and fair values, continued

The estimates of fair value are intended to approximate the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

Valuation techniques include net present value and discounted cash flow models and comparison to similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices and foreign currency exchange rates. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Group uses widely recognised valuation models to determine the fair value of common and simpler financial instruments, such as interest rate and currency swaps that use only observable market data and require little management judgment and estimation. 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 include certain loans and securities for which there is no active market.

The following assumptions are used by management to estimate the fair values of financial instruments:

- discount rates of 5.6 – 12.5% and 18.4%, are used for discounting future cash flows from loans to corporate customers and loans to retail customers, respectively (2019: 4.4 – 12.9% and 18.8%);
- discount rates of 0.4 – 7.3% and 1.0 – 9.2% are used to calculate expected future cash flows from current accounts and deposits of corporate and retail customers (2019: 1 – 7.2% and 1.2 – 9.4%);
- quoted market prices are used for determination of fair value of debt securities issued.

The estimates of fair value are intended to approximate the amount for which a financial instrument can be exchanged between knowledgeable, willing parties in an arm's length transaction. 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.

(b) Fair value hierarchy

The Group measures fair values for financial instruments recorded on the consolidated statement of financial position using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument;
- Level 2: Valuation techniques based on observable inputs either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for identical or similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data;

(in millions of Kazakhstani tenge, unless otherwise stated)

32. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS, CONTINUED

(b) Fair value hierarchy, continued

- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The table below analyses financial instruments measured at fair value at 31 December 2020, by the level in the fair value hierarchy into which the fair value measurement is categorised.

	Level 1	Level 2	Total
Non-derivative financial instruments at fair value through profit or loss – debt securities	4,346	21,623	25,969
Investment financial assets at FVOCI - debt financial instruments	33,842	262,257	296,099
	38,188	**283,880**	**322,068**

The table below analyses financial instruments measured at fair value at 31 December 2019, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1	Level 2	Total
Non-derivative financial instruments at fair value through profit or loss – debt securities	7,007	12,382	19,389
Investment financial assets at FVOCI - debt financial instruments	43,990	116,552	160,542
	50,997	**128,934**	**179,931**

Unobservable valuation differences on initial recognition

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 of termination periods. When fair value at initial recognition is not evidenced by a quoted price in an active market or based on a valuation technique that uses data only from observable markets, any difference between the fair value at initial recognition and the transaction price is not recognised in profit or loss immediately, but is deferred (see note 3).

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

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 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.

	Level 2	Level 3	Total fair values	Total carrying amount
Assets				
Cash and cash equivalents	279,330	-	279,330	279,330
Due from banks	63,426	-	63,426	63,426
Loans to customers and banks	888,196	114,043	1,002,239	1,009,473
Other financial assets	13,840	-	13,840	13,840
Liabilities				
Customer accounts	126,558	-	126,558	126,558
Due to banks and financial institutions	1,188,980	-	1,188,980	1,189,264
Debt securities issued	98,638	-	98,638	109,757
Subordinated bonds	56,106	-	56,106	62,540
Other financial liabilities	223,941	-	223,941	223,941

(in millions of Kazakhstani tenge, unless otherwise stated)

32. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS, CONTINUED

(b) Fair value hierarchy, continued

The reconciliation of Level 3 fair value measurements of financial assets is presented as follows:, 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 2019.

	Level 2	Level 3	Total fair values	Total carrying amount
Assets				
Cash and cash equivalents	158,868	-	158,868	158,868
Due from banks	9,102	-	9,102	9,102
Loans to customers and banks	834,080	140,396	974,476	982,390
Other financial assets	10,157	-	10,157	10,157
Liabilities				
Customer accounts	957,859	-	957,859	958,945
Due to banks and financial institutions	84,004	-	84,004	84,004
Debt securities issued	105,788	-	105,788	111,535
Subordinated bonds	57,729	-	57,729	61,342
Other financial liabilities	119,680	-	119,680	119,680

33. RELATED PARTY TRANSACTIONS

Mr. B.R. Baiseitov is an ultimate controlling party of the Group.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. Transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and related parties are disclosed below:

	31 December 2020		31 December 2019	
	Related party transactions	Average effective interest rate	Related party transactions	Average effective interest rate
Loans to customers and banks, gross	**21,523**		**19,414**	
- key management personnel of the Group				
- *in KZT*	60	4.10%	48	2.95%
- close relatives of key management personnel				
- *in KZT*	102	5.52%	51	6.00%
- entities under common control				
- *in USD*	21,361	7.24%	19,315	5.03%
- *in KZT*			-	-
Provision for losses on loans to customers and banks	**(7,462)**		**(19)**	
- entities under common control	(7,462)		(19)	
Customer accounts	**7,530**		**6,158**	
- key management personnel of the Group				
- *in KZT*	1,078	1.95%	2,089	8.92%
- *in USD*	-	-	-	-
- close relatives of key management personnel				
- *in USD*	2,315	1.23%	2,135	1.23%
- *in KZT*	-	-	186	9.98%
- other				
- *in EUR*	4,137	4.98%	1,252	1.29%
- *in KZT*	-	-	496	10.4%
Debt securities issued				
Shareholders	1,263	4.5%	1,142	4.5%

Secured and unsecured loans and guarantees are issued to key management personnel in the ordinary course of business. These loans are issued mostly on the same terms, including interest rates, that are used in other similar transactions with the persons of similar status or, if applicable, with other companies and employees These transactions did not involve more than the normal risk of repayment or present other unfavourable features.

(in millions of Kazakhstani tenge, unless otherwise stated)

33. RELATED PARTY TRANSACTIONS, CONTINUED

Amounts deposited by key management personnel and other related parties earn interest at the same rates as those offered to the market or on the same terms and conditions applicable to other employees within the Group.

Included in the consolidated statement of profit or loss for the year ended 31 December 2020 and 2019 are the following amounts, which arose due to transactions with related parties:

	For the year ended 31 December 2020	For the year ended 31 December 2019
Interest income	**63**	**535**
- key management personnel of the Group	2	2
- close relatives of key management personnel	6	3
- entities under common control	55	530
Interest expense	**(187)**	**(139)**
- key management personnel of the Group	(31)	(30)
- close relatives of key management personnel	(27)	(80)
- other	(129)	(29)
Allowance for expected credit losses on loans to customers and banks	**(7,437)**	**-**
- entities under common control	(7,437)	-
Operating expenses	**(492)**	**(618)**
- key management personnel of the Group	(492)	(618)

Key management personnel remuneration for the years ended 31 December 2020 and 2019 represent short-term employee benefits. Total remuneration of members of the Board of Directors and the Management Board amounted to KZT 492 million and KZT 618 million, for the years ended 31 December 2020 and 2019, respectively.

34. SUBSEQUENT EVENTS

During 2021 the Group repaid loans from European Bank for Reconstruction and Development JSC in the amount of KZT 9,008 million.

On 22 January 2021 the Bank signed Agreement No. 92/1 “On Interaction of the Bank, as an Authorised Operator, and Unified Accumulative Pension Fund JSC (the UAPF)”. The Bank has implemented the IT integration processes with the UAPF and automated the service of filing applications for pension payments through the Bank’s Internet resource.