Subsidiary JSC VTB Bank (Kazakhstan)

Financial statements

for 2020
together with independent auditor's report

CONTENTS

INDEPENDENT AUDITOR'S REPORT

Statement of financial position 1
Statement of comprehensive income 2
Statement of changes in equity 3
Statement of cash flows 4

NOTES TO THE FINANCIAL STATEMENTS

1. Principal activities 5
2. Basis of preparation 5
3. Summary of significant accounting policies 6
4. Significant accounting judgments and estimates 15
5. Segment information 17
6. Cash and cash equivalents 22
7. Trading securities 22
8. Amounts due from financial institutions 22
9. Derivative financial assets and liabilities 23
10. Loans to customers 23
11. Property and equipment 31
12. Intangible assets 32
13. Taxes 32
14. Other assets and liabilities 34
15. Amounts due to banks and other financial institutions 35
16. Lease liabilities 36
17. Amounts due to customers 36
18. Debt securities issued 37
19. Subordinated debt 37
20. Share capital 38
21. Credit loss expense 38
22. Commitments and contingencies 38
23. Net fee and commission income 41
24. Personnel and other operating expenses 42
25. Earnings per share 42
26. Risk management 43
27. Fair values of financial instruments 56
28. Maturity analysis of assets and liabilities 58
29. Related party transactions 59
30. Changes in liabilities arising from financing activities 61
31. Capital adequacy 62

«Эрнст энд Янг» ЖШС
Әл-Фараби д-лы, 77/7
«Есентай Тауэр» ғимараты
Алматы қ., 050060
Қазақстан Республикасы
Тел.: +7 727 258 59 60
Факс: +7 727 258 59 61
www.ey.com/kz

ТОО «Эрнст энд Янг»
пр. Аль-Фараби, д. 77/7
здание «Есентай Тауэр»
г. Алматы, 050060
Республика Казахстан
Тел.: +7 727 258 59 60
Факс: +7 727 258 59 61
www.ey.com/kz

Ernst & Young LLP
Al-Farabi ave., 77/7
Esentai Tower
Almaty, 050060
Republic of Kazakhstan
Tel.: +7 727 258 59 60
Fax: +7 727 258 59 61
www.ey.com/kz

Independent auditor's report

To the Shareholder and Board of Directors of
Subsidiary Joint Stock Company VTB Bank (Kazakhstan)

Opinion

We have audited the financial statements of Subsidiary JSC VTB Bank (Kazakhstan) (the "Bank"), which comprise the statement of financial position as at 31 December 2020, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2020 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter	How the matter was addressed in the audit
Allowance for expected credit losses on loans to customers	
Estimation of allowance for expected credit losses on loans to customers in accordance with IFRS 9 *"Financial Instruments"* is a key area of the Bank's management judgment. Identification of factors of a significant increase in credit risk since initial recognition of an asset, including identification of changes in risk of default during the remaining life of a financial instrument, as well as determination of probability of default and loss given at default rates, require significant use of professional judgment, assumptions and analysis of various historical, current and forward-looking information. The use of different models and assumptions may significantly affect the amount of allowance for expected credit losses on loans to customers. Due to the substantial amount of loans to customers and the significant use of professional judgment, estimation of allowance for expected credit losses was a key audit matter. As at 31 December 2020, the Bank made some changes to the model for calculating expected credit losses due to the ongoing COVID-19 pandemic. The deterioration in quality of the loan portfolio as a result of the COVID-19 pandemic can have a significant impact on the estimation of expected credit losses.	Our audit procedures included the analysis of methodology for estimation of expected credit losses on loans to customers and analysis and testing of controls on identification of factors of significant increase in credit risk since initial recognition of loans to customers, including debt overdue period, existence of credit driven debt restructuring and change in internal credit rating. We analyzed the judgments used by the Bank's management in determining the significant increase in credit risk and default criteria for loans to customers in connection with the ongoing COVID-19 pandemic. We performed, on a sample basis, testing of input data and analysis of assumptions used by the Bank in estimating the allowance for expected credit losses on loans to customers on a collective basis, including historical data on debt servicing, expected recoveries in the event of default as a result of sale of collateral and repayments in cash. We also performed analysis of the forward-looking information, including macroeconomic forecasts and scenario weights, used by the Bank in its expected credit loss model, taking into account the uncertainties associated with the COVID-19 pandemic. For individual assessment of allowance for expected credit losses on loans to customers we performed, on a sample basis, analysis of financial and non-financial information on borrowers and scenarios of recovery in the event of default used by the Bank, including as a result of sale of collateral.

Information on expected credit losses on loans to customers and the Bank's management approach to estimation of allowance for expected credit losses is presented in Note 10 *Loans to customers* and Note 26 *Risk management* to the financial statements.	We have recalculated the allowance for expected credit losses. We have analyzed information on allowance for expected credit losses on loans to customers disclosed in the Notes to the financial statements.

Valuation of loans received from financial institutions

We consider this issue to be a key audit matter due to the substantial amounts recognized, the complexity and use of the Bank's management judgment to determine the fair value of liabilities at initial recognition. Information on loans received is presented in Note 15 *Amounts due to banks and other financial institutions* to the financial statements.	Our audit procedures included the analysis of valuation methodology and the model and testing of inputs used by the Bank to determine the fair value of loans received at initial recognition. We engaged valuation specialists for assessment of key inputs used in the estimation, such as risk-free interest rate and credit spread, and compared them with observable market data. We have analyzed information on loans received disclosed in the Notes to the financial statements.

Other information included in the Bank's 2020 Annual Report

Other information consists of the information included in the Bank's 2020 Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Bank's 2020 Annual Report is expected to be made available to us after the date of this auditor's report.

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

Responsibilities of management and Board of Directors for the financial statements

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

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

Board of Directors is responsible for overseeing the Bank's financial reporting process.

Building a better working world

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

The partner in charge of the audit resulting in this independent auditor's report is Olga Khegay.

Ernst & Young LLP

Olga Khegay
Auditor

Auditor's qualification certificate
No. МФ-0000286 dated 25 September 2015

Rustamzhan Sattarov
General Director
Ernst & Young LLP

State audit license for audit activities on the territory of the Republic of Kazakhstan: series МФЮ-2 No. 0000003 issued by the Ministry of Finance of the Republic of Kazakhstan on 15 July 2005

050060, Republic of Kazakhstan, Almaty,
Al - Farabi Ave. 77 / 7, Esentai Tower

9 March 2021

STATEMENT OF FINANCIAL POSITION

at 31 December 2020

(in thousands of tenge)

	Notes	*2020*	*2019*
Assets			
Cash and cash equivalents	6	**114,146,963**	66,175,037
Trading securities	7	**25,322,724**	–
Amounts due from financial institutions	8	**6,685,700**	7,145,522
Derivative financial assets	9	**199,991**	34,724
Loans to customers	10	**164,095,557**	122,928,338
Property and equipment and right of use assets	11	**5,006,406**	6,787,627
Intangible assets	12	**4,372,119**	3,181,796
Current corporate income tax assets	13	**193,171**	21,061
Deferred corporate income tax assets	13	**–**	154,063
Other assets	14	**2,916,749**	2,903,533
Total assets		**322,939,380**	209,331,701
Liabilities			
Amounts due to banks and other financial institutions	15	**31,795,642**	31,129,443
Government grants		**2,971,279**	3,026,766
Derivative financial liabilities	9	**–**	206,488
Amounts due to customers	17	**233,175,270**	123,511,277
Debt securities issued	18	**15,156,798**	14,759,142
Lease liabilities	16	**1,858,986**	3,226,602
Subordinated debt	19	**8,450,568**	9,264,867
Deferred corporate income tax liabilities	13	**315,737**	–
Other liabilities	14	**2,777,544**	2,828,660
Total liabilities		**296,501,824**	187,953,245
Equity			
Share capital	20	**29,957,000**	29,957,000
Accumulated deficit		**(3,519,444)**	(8,578,544)
Total equity		**26,437,556**	21,378,456
Total equity and liabilities		**322,939,380**	209,331,701

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

I.V. Li — Acting Chairperson of the Management Board

A.V. Lavrentyeva — Chief accountant

9 March 2021

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2020

(in thousands of tenge)

	Notes	*2020*	*2019*
Interest revenue calculated using effective interest rate			
Cash and cash equivalents		**2,352,181**	652,635
Amounts due from financial institutions		**866,465**	716,450
Loans to customers		**18,219,250**	16,378,097
Investment securities		**–**	11,547
		21,437,896	17,758,729
Other interest income			
Trading securities		**1,088,311**	111,072
		22,526,207	17,869,801
Interest expense			
Amounts due to banks and other financial institutions		**(2,118,764)**	(1,259,907)
Amounts due to customers		**(7,593,217)**	(3,567,240)
Debt securities issued		**(1,671,778)**	(1,526,826)
Subordinated debt		**(768,218)**	(854,626)
Lease liabilities		**(271,568)**	(337,089)
		(12,423,545)	(7,545,688)
Net interest income before credit loss expense		**10,102,662**	10,324,113
Credit loss expense	21	**(4,013,691)**	(3,064,481)
Net interest income		**6,088,971**	7,259,632
Net fee and commission income	23	**3,344,125**	3,364,713
Net gains from government grants	15	**576,570**	366,931
Net gains on derecognition of financial assets at fair value through other comprehensive income		**3,067**	3,122
Net gains from transactions with financial instruments at fair value through profit or loss		**40**	–
Net losses on modification of financial assets at amortised cost not resulting in derecognition		**(306,853)**	–
Net gains from transactions in foreign currencies			
- dealing		**3,900,590**	5,533,333
- translation differences		**1,836,499**	(1,406,735)
Other income		**227,269**	158,841
Non-interest income		**9,581,307**	8,020,205
Personnel expenses	24	**(5,344,700)**	(5,273,127)
Other operating expenses	24	**(2,447,457)**	(2,545,224)
Depreciation and amortisation	11, 12	**(1,507,621)**	(1,481,380)
Taxes other than corporate income tax		**(77,582)**	(75,745)
Other expenses		**(143,829)**	(150,670)
Non-interest expense		**(9,521,189)**	(9,526,146)
Profit before corporate income tax expense		**6,149,089**	5,753,691
Corporate income tax expense	13	**(1,089,989)**	(1,190,528)
Profit for the year		**5,059,100**	4,563,163
Other comprehensive loss			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods			
Net change in fair value of debt instruments at fair value through other comprehensive income		**–**	36,886
Change in allowance for expected credit losses of debt instruments at fair value through other comprehensive income		**–**	(7,282)
Other comprehensive income for the year, net of tax		**–**	29,604
Total comprehensive income for the year		**5,059,100**	4,592,767
Basic and diluted earnings per share (in tenge)	25	**1,688.79**	1,523.24

The accompanying notes on pages 5 to 62 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2020

(in thousands of tenge)

	Share capital	*Accumulated deficit*	*Fair value reserve*	*Total equity*
As at 31 December 2018	29,957,000	(9,022,000)	(29,604)	20,905,396
Profit for the year	–	4,563,163	–	4,563,163
Other comprehensive income for the year	–	–	29,604	29,604
Total comprehensive income for the year	–	4,563,163	29,604	4,592,767
Dividends declared *(Note 20)*	–	(4,119,707)	–	(4,119,707)
As at 31 December 2019	29,957,000	(8,578,544)	–	21,378,456
Profit for the year	**–**	**5,059,100**	**–**	**5,059,100**
Other comprehensive income for the year	–	–	–	–
Total comprehensive income for the year	–	**5,059,100**	–	**5,059,100**
As at 31 December 2020	**29,957,000**	**(3,519,444)**	–	**26,437,556**

STATEMENT OF CASH FLOWS

for the year ended 31 December 2020

(in thousands of tenge)

	Notes	*2020*	*2019*
Cash flows from operating activities			
Interest income received		**16,933,111**	15,721,937
Interest expense paid		**(11,783,766)**	(7,127,731)
Fee and commission income received		**4,495,768**	4,482,014
Fee and commission expenses paid		**(1,060,611)**	(1,106,610)
Realised gains less losses from dealing in foreign currencies		**3,528,835**	5,639,388
Personnel expenses paid		**(5,277,372)**	(5,114,823)
Other income received		**–**	60,313
Other operating expenses paid		**(2,637,165)**	(2,657,832)
Cash from operating activities before changes in operating assets and liabilities		**4,198,800**	9,896,656
Net (increase)/decrease in operating assets			
Trading securities		**(24,217,713)**	4,876,333
Amounts due from financial institutions		**649,089**	(880,390)
Loans to customers		**(41,876,967)**	(35,537,078)
Other assets		**191,626**	1,433,898
Net increase/(decrease) in operating liabilities			
Amounts due to banks and other financial institutions		**649,637**	18,267,912
Government grants		**3,707,200**	5,141,363
Amounts due to customers		**102,629,419**	34,511,926
Other liabilities		**(838,941)**	(2,565,425)
Net cash from operating activities before corporate income tax		**45,092,150**	35,145,195
Corporate income tax paid		**(792,299)**	–
Net cash from operating activities		**44,299,851**	35,145,195
Cash flows from investing activities			
Proceeds from redemption of debt investment securities		**6,589**	603,123
Purchase of property and equipment		**(492,155)**	(1,455,989)
Purchase of intangible assets		**(1,530,966)**	(1,015,480)
Net cash used in investing activities		**(2,016,532)**	(1,868,346)
Cash flows from financing activities			
Proceeds from debt securities issued	30	**–**	14,299,410
Redemption of debt securities issued	30	**–**	(20,000,000)
Repayment of subordinated debt	30	**–**	(5,800,000)
Lease payments	16	**(532,784)**	(678,252)
Dividends paid to the shareholder of the Bank	20	**–**	(4,119,707)
Net cash used in financing activities		**(532,784)**	(16,298,549)
Effect of exchange rates changes on cash and cash equivalents		**6,221,456**	(121,396)
Effect of expected credit losses on cash and cash equivalents		**(65)**	(5)
Net increase in cash and cash equivalents		**47,971,926**	16,856,899
Cash and cash equivalents, beginning		**66,175,037**	49,318,138
Cash and cash equivalents, ending	6	**114,146,963**	66,175,037
Non-cash transactions			
Offset of current income tax assets against payables on payments to budget		**–**	15,927
Repossession of collateral		**272,566**	527,377

The accompanying notes on pages 5 to 62 are an integral part of these financial statements.

(in thousands of tenge, unless otherwise is stated)

1. Principal activities

Subsidiary JSC VTB Bank (Kazakhstan) (the "Bank") was formed on 19 September 2008 as a joint stock company under the laws of the Republic of Kazakhstan. As at 31 December 2020, the Bank operated under a general license for conducting banking and other activities and operations on securities market No. 1.2.14/39 issued by the National Bank of the Republic of Kazakhstan (hereinafter, the "NBRK") on 3 February 2020, which supersedes previous licenses.

The Bank accepts deposits from the public and extends credit, transfers payments in Kazakhstan and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. As at 31 December 2020, the Bank's registered legal address is: 26/29 Timiryazev Str., Almaty, 050040, Republic of Kazakhstan. As at 31 December 2020, the Bank had 17 branches throughout Kazakhstan (31 December 2019: 17).

The Bank is a participant of the Kazakhstan Deposit Insurance Fund (hereinafter, the "KDIF"). The primary objective of the KDIF is to protect interests of depositors in the event of forced liquidation of the participant bank. As at 31 December 2020 and 2019, depositors can receive limited insurance coverage for deposits, depending on its amount and the currency: in tenge – up to KZT 10 million, in foreign currencies – up to KZT 5 million, savings deposits in tenge – up to KZT 15 million.

As at 31 December 2020 and 2019, the sole shareholder of the Bank is Public Joint-Stock Company Bank VTB (Russia) (the "Parent"). The ultimate controlling party of the Bank is the Government of the Russian Federation.

2. Basis of preparation

General

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

The financial statements are prepared under the historical cost convention except as disclosed in Summary of significant accounting policies.

The financial statements are presented in thousands of Kazakhstani tenge ("KZT" or "tenge"), unless otherwise indicated.

As at 31 December 2020, the official exchange rate used for translation of monetary balances on foreign currency accounts was KZT 420.91 for 1 US dollar (31 December 2019: KZT 382.59 to 1 US dollar).

Impact of the COVID-19 pandemic

Due to the rapid spread of the COVID-19 pandemic in 2020, many governments, including the Government of the Republic of Kazakhstan, have taken various measures to control the outbreak, including imposition of travel restrictions, lockdown, closing of businesses and other institutions, and ban for travel in and out of certain regions. These measures have had an impact on the global supply chain, demand for goods and services, as well as the level of business activity in general. It is expected that both the pandemic itself and related public health and social measures can affect the activities of companies from various industries.

The National Bank of the Republic of Kazakhstan took support measures to prevent a significant deterioration in economic indicators as a result of the COVID-19 outbreak. These measures include, among other things, concessional loans for entities operating in affected industries and affected individuals, credit holidays, and exemptions from certain regulatory restrictions to support the financial sector and its ability to provide resources and help customers avoid liquidity deficit as a result of measures for containment of COVID-19.

The Bank continues to assess the impact of the pandemic and changes in economic conditions on its operations, financial position and financial results.

Estimation uncertainty

To the extent that information was available as at 31 December 2020, the Bank has reflected revised estimates of expected future cash flows in its ECL measurement *(Note 10)* and measurement of fair value of financial instruments *(Note 27)*.

Functional and presentation currency of financial statements

The functional currency of the Bank is tenge as, being the national currency of the Republic of Kazakhstan, reflects the economic substance of the majority of the Bank's transactions and circumstances relevant to them that affect its activities.

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

Financial information of the financial statements is rounded to the nearest thousand.

(in thousands of tenge, unless otherwise is stated)

3. Summary of significant accounting policies

Changes in accounting policies

The Bank has early applied the amendment to IFRS 16 *COVID-19 Related Rent Concessions*, according to which the lessee is exempt from the necessity to analyse whether the lease assignment related to the COVID-19 pandemic is a modification of the lease. The Bank has not early adopted any other standard, clarifications or amendment that has been issued but is not yet effective.

The Bank also applied the amendments to the standards, which entered into force on 1 January 2020, but they did not have an impact on the Bank's financial statements.

Fair value measurement

The Bank measures financial instruments at fair value through profit or loss (FVPL) and fair value through other comprehensive income (FVOCI) at fair value at each reporting date. Information on fair value of financial instruments measured at amortised cost is disclosed in *Note 27*.

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

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

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

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

- Level 1 – quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

Financial assets and liabilities

Initial recognition

Date of recognition

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

Initial measurement

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value and, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount.

(in thousands of tenge, unless otherwise is stated)

3. Summary of significant accounting policies (continued)

Financial assets and liabilities (continued)

Initial measurement (continued)

Measurement categories of financial assets and liabilities

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

- Amortised cost;
- FVOCI;
- FVPL.

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

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL when they are held for trading, are derivative instruments or the fair value designation is applied.

Amounts due from financial institutions and loans to customers

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

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

The details of these conditions are outlined below.

Business model assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment.

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

The SPPI test

As a second step of its classification process the Bank assesses the contractual terms of financial asset to identify whether they meet the SPPI test.

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

(in thousands of tenge, unless otherwise is stated)

3. Summary of significant accounting policies (continued)

Financial assets and liabilities (continued)

Initial measurement (continued)

The SPPI test (continued)

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

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

Financial guarantees, letters of credit and undrawn loan commitments

The Bank issues financial guarantees, letters of credit and loan commitments.

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

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan or a letter of credit with pre-specified terms to the customer. Commitments to extend loans and letters of credit are described in IFRS 9 as fixed contractual obligations to provide a loan or letter of credit under certain conditions. The requirements for assessing ECL apply to such obligations.

The Bank occasionally issues loan commitments at below market interest rates drawdown. Such commitments are initially recognised at fair value and subsequently measured at the higher of the amount of the ECL allowance and the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

Performance guarantees

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

Reclassification of financial assets and liabilities

The Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank changes the business model for managing financial assets. Financial liabilities are never reclassified.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the NBRK and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments, including forwards, swaps and options on currency markets. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in profit or loss within transactions with trading securities or within foreign currency transactions (trading operations), depending on the nature of the financial instrument.

(in thousands of tenge, unless otherwise is stated)

3. Summary of significant accounting policies (continued)

Derivative financial instruments (continued)

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

Derivatives embedded in liabilities and non-financial host contacts are treated as separate derivatives and recorded at fair value if they met the definition of a derivative (as defined above), their economic characteristics and risks were not closely related to those of the host contract, and the host contract was not itself held for trading or designated at FVPL. The embedded derivatives separated from the host are carried at fair value within the trading portfolio with changes in the fair value recognised in profit or loss.

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

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to the National Bank of the Republic of Kazakhstan, amounts due to credit institutions, amounts due to customers, debt securities issued, other borrowed funds and subordinated loans. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the borrowings are derecognised as well as through the amortisation process.

Lease

i. Bank as a lessee

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

Right-of-use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating a lease, if the lease term reflects the Bank exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

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

(in thousands of tenge, unless otherwise is stated)

3. Summary of significant accounting policies (continued)

Lease (continued)

i. Bank as a lessee (continued)

Short-term leases and leases of low-value assets

The Bank also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (short-term leases), and lease contracts for which the underlying asset is of low value (low-value assets).

ii. Operating – Bank as a lessor

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

iii. Finance – Bank as a lessor

The Bank recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- The normal course of business;
- The event of default; and
- The event of insolvency or bankruptcy of the entity and all of the counterparties.

These conditions are not generally met in master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Renegotiated loans

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

The Bank derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI. When assessing whether or not to derecognise a loan to a customer, amongst others, the Bank considers the following factors:

- Change in currency of the loan;
- Change in counterparty;
- If the modification is such that the instrument would no longer meet the SPPI criterion.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, presented within interest revenue calculated using EIR in the profit or loss, to the extent that an impairment loss has not already been recorded.

(in thousands of tenge, unless otherwise is stated)

3. Summary of significant accounting policies (continued)

Renegotiated loans (continued)

For modifications not resulting in derecognition, the Bank also reassesses whether here has been a significant increase in credit risk or whether the assets should be classified as credit-impaired. Once an asset has been classified as credit-impaired as the result of modification, it will remain in Stage 3 for a minimum 6-month probation period. In order for the restructured loan to be reclassified out of Stage 3, regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period in accordance with the modified payment schedule.

Derecognition of financial assets and liabilities

Financial assets

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

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

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

Write-offs

Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense. A write-off constitutes a derecognition event.

Financial liabilities

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. Such grants are deducted from related expenses when they are recorded in the financial statements.

When the Bank receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments.

A benefit from a loan provided by the government at a below market rate of interest are treated as a government grant. The loan is recognised and measured in accordance with IFRS 9 *Financial Instruments*. The benefit from using a below market rate of interest is measured as the difference between the original carrying amount of the loan determined in accordance with IFRS 9, and the proceeds received.

(in thousands of tenge, unless otherwise is stated)

3. Summary of significant accounting policies (continued)

Taxes

The current income tax expense is calculated in accordance with the regulations of the Republic of Kazakhstan.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Republic of Kazakhstan also has various operating taxes, that are assessed on the Bank's activities. These taxes are included as a component of other operating expenses.

Property and equipment

Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

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

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Leasehold improvements	Up to 10
Computer hardware	2-10
Vehicles	7
Other	2-16

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

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

Intangible assets

Intangible assets include software and licenses and are initially measured at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised over the useful economic lives from 5 to 17 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Retirement and other employee benefit obligations

The Bank does not have any pension arrangements separate from the State pension system of the Republic of Kazakhstan, which requires current contributions by the employer calculated as a percentage of current gross salary payments. These expenses are charged in the period the related salaries are earned. In addition, the Bank has no post-retirement benefits or other compensated benefits requiring accrual.

(in thousands of tenge, unless otherwise is stated)

3. Summary of significant accounting policies (continued)

Share capital

Common shares are classified as equity. Share capital is measured at the fair value of consideration received. External costs directly attributable to the issue of new shares are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised.

Segment reporting

The Bank's segmental reporting is based on the following operating segments: "Corporate – investment banking, (including following sub-segments: "Investment – banking", "Loans and deposits" and "Transactional business"), "Medium corporate business" (including following sub-segments: "Investment – banking", "Loans and deposits" and "Transactional business"), "Retail business", "Treasury" and "Other".

Contingent assets and liabilities

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

Recognition of income and expenses

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

Interest and similar income and expenses

The Bank calculates interest revenue on debt financial assets measured at amortised cost or at FVOCI by applying the EIR to the gross carrying amount of financial assets other than credit-impaired financial assets. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest revenue or expense.

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

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

Fee and commission income and expenses

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time

Fee and commission income obtained for rendering the services during a certain period of time are accrued during this period. These items include commission income and fees for the issuance of guarantees and letters of credit. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loans.

(in thousands of tenge, unless otherwise is stated)

3. Summary of significant accounting policies (continued)

Fee and commission income and expenses (continued)

Commission income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as purchase or sale of currency, transfer transactions or cash transactions are recognised on completion of such transaction.

The Bank's expenses for the agent's services are recognised as fee and commission expenses in the statement of comprehensive income.

Foreign currency translation

The financial statements are presented in Kazakh tenge, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially translated into functional currency at the official exchange rate at the date of the transaction established by the Kazakhstan Stock Exchange (hereinafter – the "KASE") and published by the NBRK. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of comprehensive income as net gains/losses from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Non-monetary items measured at fair value in a foreign currency are translated using the official exchange rates at the date when the fair value was determined. Differences between the contractual exchange rate of a transaction in a foreign currency and the official exchange rate on the date of the transaction are included in net gains/(losses) from dealing in foreign currencies.

Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. IFRS 17 introduces new accounting requirements for banking products with insurance features that may affect the determination of which instruments or which components thereof will be in the scope of IFRS 9 or IFRS 17.

Credit cards and similar products that provide insurance coverage: most issuers of these products will be able to continue with their existing accounting treatment as a financial instrument under IFRS 9. IFRS 17 excludes from its scope credit card contracts (and other similar contracts that provide credit or payment arrangements) that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer.

When the insurance coverage is provided as part of the contractual terms of the credit card, the issuer is required to:

- Separate the insurance coverage component and apply IFRS 17 to it
- Apply other applicable standards (such as IFRS 9, IFRS 15 *Revenue from Contracts with Customers* or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*) to the other components

Loan contracts that meet the definition of insurance but limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract: Issuers of such loans – e.g. a loan with waiver on death – have an option to apply IFRS 9 or IFRS 17. The election would be made at a portfolio level and would be irrevocable.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17.

The Bank is currently in the process of assessing the impact of adopting IFRS 17 on its financial statements.

(in thousands of tenge, unless otherwise is stated)

3. Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

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

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual periods beginning on or after 1 January 2022 with earlier adoption permitted. The Bank will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. This amendment is not expected to have significcant impact on the Bank's financial statements.

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

In August 2020 the IASB issued *Interest Rate Benchmark Reform – Phase 2* Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, (IBOR reform Phase 2) to address the accounting issues which arise upon the replacement of an IBOR with a RFR.

IBOR reform Phase 2 includes a number of reliefs and additional disclosures. The reliefs apply upon the transition of a financial instrument from an IBOR to a risk-free-rate (RFR).

Changes to the basis for determining contractual cash flows as a result of interest rate benchmark reform are required as a practical expedient to be treated as changes to a floating interest rate, provided that, for the financial instrument, the transition from the IBOR benchmark rate to RFR takes place on an economically equivalent basis.

The Bank will apply IBOR reform Phase 2 from 1 January 2021.

4. Significant accounting judgments and estimates

Estimation uncertainty

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual outcomes can differ from these estimates.

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

Determining of the lease term of contracts with renewal options

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

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

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. More details are provided in *Note 26*.

(in thousands of tenge, unless otherwise is stated)

4. Significant accounting judgments and estimates (continued)

Estimation uncertainty (continued)

Expected credit losses on financial assets

The measurement of impairment losses across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining the ECL and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. In addition, the occurrence of large-scale business disruptions potentially gives rise to liquidity issues for certain entities and consumers. The deterioration in credit quality of loan portfolios, but also, e.g., of trade receivables (among other things), as a result of the COVID-19 pandemic may have a significant impact on ECL measurement. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's internal credit grading model, which assigns PDs to the individual grades;
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs;
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL model.

Leases – Estimating the incremental borrowing rate

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Bank 'would have to pay', which requires estimation when no observable rates are available (such as for the Bank that did not enter into financing transactions for the appropriate period) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when the lease term differs from the financing term).

The Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the stand-alone credit rating).

Taxes

The Republic of Kazakhstan currently has a single Tax Code that regulates main taxation matters. The existing taxes include value added tax, corporate income tax, social and other taxes. Implementing regulations are often unclear or nonexistent and insignificant amount of precedents has been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organisations; thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges. These facts create tax risks in the Republic of Kazakhstan substantially more significant than typically found in countries with more developed tax systems.

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

Assessment of recoverability of deferred corporate income tax assets requires to use subjective judgements by the Bank's management around the likely timing and the level of future taxable profit together with the tax planning strategy.

The management believes that deferred corporate income tax assets as at 31 December 2020 are recorded to the extent that it is probable that future taxable profits will be available to cover temporary differences, unused tax losses and unused tax benefits, and deferred corporate income tax assets are reduced to the extent that it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

(in thousands of tenge, unless otherwise is stated)

5. Segment information

Disclosure of segment information is presented on the basis consistent with IFRS data about reportable segments, adjusted if necessary, on intersegment reallocation. Qualitative and quantitative information about operating segments is reported to the management of the Bank in order to make decisions about allocation of resources to the segment and assess its performance.

Income, disclosed in this note, comprises the following: net interest income, net commission income, gains less losses on transactions with financial assets at fair value through profit or loss, gains less losses from foreign currencies and other operating income. Each of these items is considered in determining the income of a particular sub-segment / segment without sub-segments, if its value for this sub-segment /segment without sub-segments is positive. Totals are calculated as the sum of item-by-item components.

Transactions between segments are carried out mainly in the normal course of business.

Below is the information about the reportable segments of the Bank as at 31 December 2020 and 2019, and segment results for the years ended 31 December 2020 and 2019.

(in thousands of tenge, unless otherwise is stated)

5. Segment information (continued)

2020	Corporate – investment banking: Investment banking	Corporate – investment banking: Loans and deposits	Corporate – investment banking: Cash and liquidity management	Total CIB	Medium corporate business: Investment banking	Medium corporate business: Loans and deposits	Medium corporate business: Cash and liquidity management	Total MCB	Retail Banking	Treasury	Total prior to elimination of inter-segment transactions	Elimination of inter-segment transactions	Total
Cash and cash equivalents	–	–	205,150	205,150	–	–	1,864,019	1,864,019	3,516,470	108,561,324	114,146,963	–	114,146,963
Trading securities	–	–	–	–	–	–	–	–	–	25,322,724	25,322,724	–	25,322,724
Amounts due from financial institutions	86,356	5,876,194	–	5,962,550	–	311,145	–	311,145	215,972	196,033	6,685,700	–	6,685,700
Derivative financial assets	4,559	–	–	4,559	–	–	–	–	–	195,432	199,991	–	199,991
Loans to customers	–	48,967,946	–	48,967,946	–	62,938,613	–	62,938,613	52,188,998	–	164,095,557	–	164,095,557
Property and equipment and right of use assets	25,861	455,122	144,421	625,404	992,793	1,444,888	953,676	3,391,357	911,825	77,820	5,006,406	–	5,006,406
Intangible assets	51,097	307,592	156,302	514,991	333,619	1,395,113	606,837	2,335,569	1,516,915	4,644	4,372,119	–	4,372,119
Current corporate income tax assets	3,595	6,100	9,807	19,502	–	42,930	9,272	52,802	117,907	3,560	193,171	–	193,171
Other assets	28,666	80,089	73,751	182,506	–	727,640	179,877	907,517	1,770,172	56,554	2,916,749	–	2,916,749
Intersegment / intersub-segemt transfer of funds	300,334	2,893,850	139,991,257	143,185,441	46,843	19,755,944	51,957,052	71,759,839	55,715,611	28,956,291	299,617,182	(299,617,182)	–
Total assets	500,468	58,586,893	140,580,688	199,668,049	1,373,255	86,616,273	55,570,733	143,560,261	115,953,870	163,374,382	662,556,562	(299,617,182)	322,939,380
Amounts due to banks and other financial institutions	–	2,492,048	7,693,630	10,185,678	–	17,105,185	–	17,105,185	4,482,554	22,225	31,795,642	–	31,795,642
Government grants	–	–	–	–	–	–	–	–	2,971,279	–	2,971,279	–	2,971,279
Amounts due to customers	–	200	132,264,832	132,265,032	–	6,457,246	50,781,688	57,238,934	43,671,304	–	233,175,270	–	233,175,270
Debt securities issued	–	–	–	–	–	–	–	–	–	15,156,798	15,156,798	–	15,156,798
Lease liability	62,380	211,418	185,639	459,437	27,653	385,372	341,963	754,988	642,090	2,471	1,858,986	–	1,858,986
Subordinated loan	–	–	–	–	–	–	–	–	–	8,450,568	8,450,568	–	8,450,568
Deferred corporate income tax liabilities	4,465	16,721	13,491	34,677	19,190	81,103	31,219	131,512	145,037	4,511	315,737	–	315,737
Other liabilities	236,841	79,885	322,970	639,696	–	376,721	1,031,054	1,407,775	708,394	21,679	2,777,544	–	2,777,544
Intersegment / intersub-segemt transfer of funds	318,494	48,489,843	526,871	49,635,208	1,326,412	56,457,614	3,305,447	61,089,473	54,722,469	134,170,032	299,617,182	(299,617,182)	–
Total liabilities	622,180	51,590,115	141,007,433	193,219,728	1,373,255	80,863,241	55,491,371	137,727,867	107,343,127	157,828,284	596,119,006	(299,617,182)	295,501,824
Total equity	(121,769)	6,996,682	(423,794)	6,451,119	–	5,752,340	79,212	5,831,552	8,608,845	5,546,040	26,437,556	–	26,437,556
Total equity and liabilities	500,411	58,586,797	140,583,639	199,670,847	1,373,255	86,615,581	55,570,583	143,559,419	115,951,972	163,374,324	622,556,562	(299,617,182)	322,939,380

(in thousands of tenge, unless otherwise is stated)

5. Segment information (continued)

2020	Corporate – investment banking (CIB): Investment banking: External customers	CIB: Investment banking: Other segments	CIB: Loans and deposits: External customers	CIB: Loans and deposits: Other segments	CIB: Cash and liquidity management: External customers	CIB: Cash and liquidity management: Other segments	Total CIB: External customers	Total CIB: Other segments	Medium corporate business (MCB): Investment banking: External customers	MCB: Investment banking: Other segments	MCB: Loans and deposits: External customers	MCB: Loans and deposits: Other segments	MCB: Cash and liquidity management: External customers	MCB: Cash and liquidity management: Other segments	Total MCB: External customers	Total MCB: Other segments	Retail Banking: External customers	Retail Banking: Other segments	Treasury: External customers	Treasury: Other customers	Elimination of inter-segment transactions	Total
Interest revenue	237,705	3,692	3,777,130	137,338	911	7,006,861	4,015,746	7,147,891	–	–	5,659,625	749,621	–	2,520,965	5,659,625	3,270,586	9,648,050	2,269,108	3,202,786	10,616,881	23,304,466	22,526,207
Interest expense	(5,334)	(314,081)	(228,261)	(2,137,550)	(5,065,300)	(1,720)	(5,298,895)	(2,453,351)	(3,672)	–	(536,110)	(3,925,362)	(1,618,561)	(21,519)	(2,158,343)	(3,946,881)	(2,396,362)	(4,684,428)	(2,569,945)	(12,219,806)	(23,304,466)	(12,423,545)
Net interest income before credit loss expense	232,371	(310,389)	3,548,869	(2,000,212)	(5,064,389)	7,005,141	(1,283,149)	4,694,540	(3,672)	–	5,123,515	(3,175,741)	(1,618,561)	2,499,446	3,501,282	(676,295)	7,251,688	(2,415,320)	632,841	(1,602,925)	–	10,102,662
Credit loss expense	11,556	–	(437,392)	–	(215,346)	–	(641,182)	–	–	–	(376,313)	–	(544,840)	–	(921,153)	–	(2,448,780)	–	(2,576)	–	–	4,013,691
Net interest income	243,927	(310,389)	3,111,477	(2,000,212)	(5,279,735)	7,005,141	(1,924,331)	4,694,540	(3,672)	–	4,747,202	(3,175,741)	(2,163,401)	2,499,446	2,580,129	(676,295)	4,802,908	(2,415,320)	630,265	(1,602,925)	–	6,088,971
Net fee and commission income	188,061	(82,206)	–	–	102,589	–	290,650	(82,206)	–	82,206	–	–	926,657	–	926,657	82,206	2,245,376	–	(118,558)	–	–	3,344,125
Gain from government grant	–	–	(76,413)	–	–	–	(76,413)	–	–	–	92,246	–	–	–	92,246	–	560,737	–	–	–	–	576,570
Net gains on derecognition of financial assets at fair value through other comprehensive income	3,067	–	–	–	–	–	3,067	–	–	–	–	–	–	–	–	–	–	–	–	–	–	3,067
Net gains from transactions with financial instruments at fair value through profit or loss	40	–	–	–	–	–	40	–	–	–	–	–	–	–	–	–	–	–	–	–	–	40
Net losses on modification of financial assets at amortised cost that does not result in derecognition	–	–	(306,853)	–	–	–	(306,853)	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(306,853)
Net gains from transactions in foreign currencies	3,594,973	(237,884)	–	–	–		3,594,973	(237,884)	–	385,052	–	–	–	–	–	385,052	12,576	33,703	293,041	(180,871)	–	3,900,590
- dealing	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
- foreign exchange revaluation	1,836,499	–	–	–	–	–	1,836,499	–	–	–	–	–	–	–	–	–	–	–	–	–	–	1,836,499
Other operating revenue	–	–	–	–	–	–	–	–	–	–	10,207	–	–	–	10,207	–	133,944	–	83,118	–	–	227,269
Non-interest income	5,622,640	(320,090)	(383,266)	–	102,589	–	5,341,963	(320,090)	–	467,258	102,453	–	926,567	–	1,029,110	467,258	2,952,633	33,703	257,601	(180,871)	–	9,581,307
Net operating profit	5,866,567	(630,479)	2,728,211	(2,000,212)	(5,177,146)	7,005,141	3,417,632	4,374,450	(3,672)	467,258	4,849,655	(3,175,741)	(1,236,744)	2,499,446	3,609,239	(209,037)	7,755,541	(2,381,617)	887,866	(1,783,796)	–	15,670,278
Non-interest expense	(747,143)	–	(539,355)	–	(468,326)	–	(1,754,824)	–	(158,958)	–	(1,832,933)	–	(1,325,526)	–	(3,317,417)	–	(4,404,402)	–	(44,546)	–	–	(9,521,189)
Profit before corporate income tax expense	5,119,424	(630,479)	2,188,856	(2,000,212)	(5,645,472)	7,005,141	1,662,808	4,374,450	(162,630)	467,258	3,016,722	(3,175,741)	(2,562,270)	2,499,446	291,822	(209,037)	3,351,139	(2,381,617)	843,320	(1,783,796)	–	6,149,089
Corporate income tax expense	(784,041)	–	(55,130)	–	(237,481)	–	(1,076,652)	–	(53,207)	–	35,200	–	10,973	–	(7,034)	–	(169,379)	–	163,076	–	–	(1,089,989)
Profit for the year	4,335,383	(630,479)	2,133,726	(2,000,212)	(5,882,953)	7,005,141	586,156	4,374,450	(215,837)	467,258	3,051,922	(3,175,741)	(2,551,297)	2,499,446	284,788	(209,037)	3,181,760	(2,381,617)	1,006,396	(1,783,796)	–	5,059,100
Segment result							–	4,960,606							–	75,751	–	800,143	–	(777,400)	–	5,059,100

All revenues of the Bank are generated in Kazakhstan. Geographic areas of the Bank activities are presented in *Note 26* to these financial statements with reference to the actual location of the counteragent, i.e. based on economic risk rather than legal risk of the counteragent.

(in thousands of tenge, unless otherwise is stated)

5. Segment information (continued)

	Corporate – investment banking				Medium corporate business								
2019	*Investment banking*	*Loans and deposits*	*Cash and liquidity manage-ment*	*Total CIB*	*Investment banking*	*Loans and deposits*	*Cash and liquidity manage-ment*	*Total MCB*	*Retail Banking*	*Treasury*	*Total prior to elimination of inter-segment transac-tions*	*Elimina-tion of inter-segment transac-tions*	*Total*
Cash and cash equivalents	–	–	–	–	–	–	–	–	3,505,599	62,669,438	66,175,037	–	66,175,037
Amounts due from financial institutions	1,004,477	5,851,233	–	6,855,710	–	–	–	–	246,032	43,780	7,145,522	–	7,145,522
Loans to customers	–	27,229,803	–	27,229,803	–	50,860,904	–	50,860,904	44,837,631	–	122,928,338	–	122,928,338
Derivative financial assets	34,724	–	–	34,724	–	–	–	–	–	–	34,724	–	34,724
Property and equipment	111,214	106,469	162,445	380,128	33,739	969,157	1,170,427	2,173,323	4,195,557	38,619	6,787,627	–	6,787,627
Intangible assets	78,463	103,891	110,897	293,251	12,087	462,812	537,314	1,012,213	1,873,839	2,493	3,181,796	–	3,181,796
Current corporate income tax assets	409	714	713	1,836	–	5,504	1,033	6,537	12,688	–	21,061	–	21,061
Deferred corporate income tax assets	4,672	4,925	8,875	18,472	1,196	47,964	28,671	77,831	275,236	(217,476)	154,063	–	154,063
Other assets	110,052	39,746	73,356	223,154	–	908,883	238,245	1,147,128	1,431,117	102,134	2,903,533	–	2,903,533
Intersegment / intersub-segemt transfer of funds	305,480	8,054,628	64,509,094	72,869,202	19,181	10,387,085	33,489,484	43,895,750	39,142,955	34,612,527	190,520,434	(190,520,434)	–
Total assets	1,649,491	41,391,409	64,865,380	107,906,280	66,203	63,642,309	35,465,174	99,173,686	95,520,654	97,251,515	399,852,135	(190,520,434)	209,331,701
Amounts due to banks and other financial institutions	–	1,796,219	11,674,961	13,471,180	–	4,657,315	–	4,657,315	2,418,621	10,582,327	31,129,443	–	31,129,443
Amounts due to customers	–	5,495,949	52,148,926	57,644,875	–	3,804,556	32,013,763	35,818,319	30,048,083	–	123,511,277	–	123,511,277
Debt securities issued	–	–	–	–	–	–	–	–	–	14,759,142	14,759,142	–	14,759,142
Subordinated loan	–	–	–	–	–	–	–	–	–	9,264,867	9,264,867	–	9,264,867
Government grants	–	–	–	–	–	86,355	–	86,355	2,940,411	–	3,026,766	–	3,026,766
Derivative financial liabilities	35,147	–	–	35,147	–	–	–	–	–	171,341	206,488	–	206,488
Other liabilities	149,305	52,770	572,919	774,994	–	483,765	648,626	1,132,391	892,706	28,569	2,828,660	–	2,828,660
Operating lease liabilities	57,780	87,455	100,522	245,757	18,760	513,288	547,740	1,079,788	1,894,475	6,582	3,226,602	–	3,226,602
Intersegment / intersub-segemt transfer of funds	1,402,084	29,618,086	329,258	31,349,428	54,232	45,209,300	1,790,062	47,053,594	47,210,684	64,906,728	190,520,434	(190,520,434)	–
Total liabilities	1,644,316	37,050,479	64,826,586	103,521,381	72,992	54,754,579	35,000,191	89,827,762	85,404,980	99,719,556	378,473,679	(190,520,434)	187,953,245
Total equity	44,188	4,277,290	126,130	4,447,608	–	8,874,905	325,829	9,200,734	7,458,099	272,015	21,378,456	–	21,378,456
Total equity and liabilities	1,688,504	41,327,769	64,952,716	107,968,989	72,992	63,629,484	35,326,020	99,028,496	92,863,079	99,991,571	299,852,135	(190,520,434)	209,331,701

(in thousands of tenge, unless otherwise is stated)

5. Segment information (continued)

	Corporate – investment banking (CIB)								*Medium corporate business (MCB)*													
	Investment banking		*Loans and deposits*		*Cash and liquidity management*		*Total CIB*		*Investment banking*		*Loans and deposits*		*Cash and liquidity management*		*Total MCB*		*Retail Banking*		*Treasury*		*Elimination of inter-segment transactions*	
2019	*External customers*	*Other segments*	*External customers*	*Other segments*	*External customers*	*Other segments*	*External customers*	*Other segments*	*External customers*	*Other segments*	*External customers*	*Other segments*	*External customers*	*Other segments*	*External customers*	*Other segments*	*External customers*	*Other segments*	*External customers*	*Other customers*		*Total*
Interest revenue	122,619	5,486	3,172,633	69,210	–	3,033,527	3,295,252	3,108,223	–	–	5,247,480	636,894	–	1,451,365	5,247,480	2,088,259	8,678,219	1,551,670	648,850	9,348,224	16,096,376	17,869,801
Interest expense	(12,527)	(237,388)	(13,051)	(2,048,206)	(2,322,311)	–	(2,347,889)	(2,285,594)	(2,028)	–	(542,812)	(3,484,853)	(641,484)	–	(1,186,324)	(3,484,853)	(1,532,580)	(3,990,463)	(2,478,895)	(6,335,466)	(16,096,376)	(7,545,688)
Net interest income before credit loss expense	110,092	(231,902)	3,159,582	(1,978,996)	(2,322,311)	3,033,527	947,363	822,629	(2,028)	–	4,704,668	(2,847,959)	(641,484)	1,451,365	4,061,156	(1,396,594)	7,145,639	(2,438,793)	(1,830,045)	3,012,758	–	10,324,113
Credit loss expense	7,282	–	(304,458)	–	(219,943)	–	(517,119)	–	–	–	(473,680)	–	(257,658)	–	(731,338)	–	(1,826,848)	–	10,824	–	–	(3,064,481)
Net interest income	117,374	(231,902)	2,855,124	(1,978,996)	(2,542,254)	3,033,527	430,244	822,629	(2,028)	–	4,230,988	(2,847,959)	(899,142)	1,451,365	3,329,818	(1,396,594)	5,318,791	(2,438,793)	(1,819,221)	3,012,758	–	7,259,632
Net fee and commission income	221,026	(85,187)	–	–	152,261	–	373,287	(85,187)	–	85,187	–	–	1,037,587	–	1,037,587	85,187	2,141,790	–	(187,951)	–	–	3,364,713
Gain from government grant	–	–	178,247	–	–	–	178,247	–	–	–	159,902	–	–	–	159,902	–	28,782	–	–	–	–	366,931
Net gains on derecognition of financial assets at fair value through other comprehensive income	3,122	–	–	–	–	–	3,122	–	–	–	–	–	–	–	–	–	–	–	–	–	–	3,122
Net gains from transactions in foreign currencies	4,873,289	(36,030)	–	–	–	–	4,873,289	(36,030)	–	324, 192	–	–	–	–	–	324,192	60,225	13,885	599,819	(302,047)	–	5,533,333
- dealing	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
- foreign exchange revaluation	(1,406,735)	–	–	–	–	–	(1,406,735)	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(1,406,735)
Other operating revenue	4,094	–	–	–	–	–	4,094	–	–	–	11,735	–	–	–	11,735	–	119,165	–	23,847	–	–	158,841
Non-interest income	3,694,796	(121,217)	178,247	–	152,261	–	4,025,304	(121,217)	–	409,379	171,637	–	1,037,587	–	1,209,224	409,379	2,349,962	13,885	435,715	(302,047)	–	8,020,205
Net operating profit	3,812,170	(353,119)	3,033,371	(1,978,996)	(2,389,993)	3,033,527	4,455,548	701,412	(2,028)	409,379	4,402,625	(2,847,959)	138,445	1,451,365	4,539,042	(987,215)	7,668,753	(2,424,908)	(1,383,506)	2,710,711	–	15,279,837
Non-interest expense	(578,521)	–	(538,264)	–	(397,340)	–	(1,514,125)	–	(64,762)	–	(1,847,834)	–	(1,412,001)	–	(3,324,597)	–	(4,653,985)	–	(33,439)	–	–	(9,526,146)
Profit before corporate income tax expense	3,233,649	(353,119)	2,495,107	(1,978,996)	(2,787,333)	3,033,527	2,941,423	701,412	(66,790)	409,379	2,554,791	(2,847,959)	(1,273,556)	1,451,365	1,214,445	(987,215)	3,014,768	(2,424,908)	(1,416,945)	2,710,711	–	5,753,691
Corporate income tax expense	(573,428)	–	(105,104)	–	(49,181)	–	(727,713)	–	(68,438)	–	58,450	–	(35,405)	–	(45,393)	–	58,948	–	(476,370)	–	–	(1,190,528)
Profit for the year	2,660,221	(353,119)	2,390,003	(1,978,996)	(2,836,514)	3,033,527	2,213,710	701,412	(135,228)	409,379	2,613,241	(2,847,959)	(1,308,961)	1,451,365	1,169,052	(987,215)	3,073,716	(2,424,908)	(1,893,315)	2,710,711	–	4,563,165
Segment result							–	2,915,122							–	181,837	–	648,808	–	817,396	–	4,563,163

(in thousands of tenge, unless otherwise is stated)

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	2020	*2019*
Cash on hand	**5,575,869**	4,849,014
Cash on current accounts with the NBRK	**25,629,695**	38,004,446
Cash on current bank accounts, other banks	**4,407,398**	7,312,901
Time deposits with the NBRK up to 90 days	**78,534,111**	16,008,721
	114,147,073	66,175,082
Less ECL allowance	**(110)**	(45)
	114,146,963	66,175,037

Under Kazakh legislation, the Bank is required to maintain obligatory reserves, which are computed as a percentage of certain liabilities of the Bank. Such reserves must be held on the current account with the NBRK or physical cash computed based on average balances of the aggregate of cash balances on current account with the NBRK or physical cash during the period of reserve creation.

As at 31 December 2020 and 2019, obligatory reserves amounted to KZT 4,586,963 thousand and KZT 1,956,743 thousand respectively.

All balances of cash equivalents are allocated to Stage 1 for ECL measurement purposes. An analysis of changes in the ECL allowance during the year is as follows:

	2020	*2019*
ECL allowance as at 1 January	**(45)**	(40)
Net change in the allowance for the year *(Note 21)*	**(63)**	(3)
Foreign exchange differences	**(2)**	(2)
ECL allowance at 31 December	**(110)**	(45)

7. Trading securities

Trading securities comprise:

	2020	*2019*
Notes of the NBRK	**25,322,724**	–
	25,322,724	–

As at 31 December 2020, trading securities are presented by discount notes of the NBRK with maturity in 2021.

8. Amounts due from financial institutions

Amounts due from financial institutions comprise:

	2020	*2019*
Loans issued for more than 90 days	**6,509,356**	5,970,391
Restricted cash	**305,621**	1,307,602
	6,814,977	7,277,993
Less ECL allowance	**(129,277)**	(132,471)
	6,685,700	7,145,522

As at 31 December 2020 and 31 December 2019, loans issued for a period of more than 90 days included a loan issued to a Kazakh bank with a nominal value of KZT 6,000,000 thousand. The loan is denominated in tenge, had an interest rate of 13.5% per annum (31 December 2019: 13.5% per annum) and matures in 2021 (31 December 2019: in 2020).

As at 31 December 2020, cash restricted in use included the deposits placed as collateral of the Bank's liabilities to the KASE in the amount of KZT 88,153 thousand (31 December 2019: KZT 1,060,333 thousand) and organisations that provide services for conducting payment transactions in the amount of KZT 154,556 thousand (31 December 2019: KZT 139,369 thousand).

(in thousands of tenge, unless otherwise is stated)

8. Amounts due from financial institutions (continued)

All balances with financial institutions are allocated to Stage 1 for ECL measurement purposes. An analysis of changes in gross carrying value and corresponding ECL allowance for the year is as follows:

	2020	*2019*
Gross carrying amount at 1 January	**7,277,993**	6,328,730
New assets originated or purchased	**41,013,237**	32,140,130
Assets repaid	**(41,624,298)**	(31,205,303)
Net change in accrued interest	**1,173**	5,617
Foreign exchange differences	**146,872**	8,819
At 31 December	**6,814,977**	7,277,993

	2020	*2019*
ECL allowance as at 1 January	**(132,471)**	(129,965)
Net change in the allowance for the year *(Note 21)*	**3,239**	(2,338)
Foreign exchange differences	**(45)**	(168)
At 31 December	**(129,277)**	(132,471)

9. Derivative financial assets and liabilities

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

	2020			*2019*		
	Notional principal	*Fair value*		*Notional principal*	*Fair value*	
		Asset	*Liability*		*Asset*	*Liability*
Foreign exchange contracts						
Forwards – domestic	**180,877**	**4,303**	**–**	278,850	10,568	–
Swaps – domestic	**–**	**–**	**–**	26,819,559	24,156	(34,703)
Swaps – foreign	**14,115,252**	**195,688**	**–**	37,949,613	–	(171,785)
Derivative financial assets/(liabilities)	**14,296,129**	**199,991**	**–**	65,048,022	34,724	(206,488)

Forwards

Forwards contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market.

Swaps

Swaps are contractual agreements between two parties to exchange movements in foreign currency rates based on specified notional amounts.

10. Loans to customers

Loans to customers comprise:

	2020	*2019*
Corporate lending	**99,281,203**	68,458,978
Small business lending	**20,059,792**	17,637,830
Consumer and other lending	**53,419,657**	42,278,197
Residential mortgages	**4,167,760**	5,124,635
Gross loans to customers	**176,928,412**	133,499,640
Less ECL allowance	**(12,832,855)**	(10,571,302)
Loans to customers	**164,095,557**	122,928,338

(in thousands of tenge, unless otherwise is stated)

10. Loans to customers (continued)

Allowance for impairment of loans to customers

Below is an analysis of changes in gross carrying amount and relevant ECLs for the year ended 31 December 2020:

Corporate lending	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying value as at 1 January 2020	59,599,838	–	8,859,140	–	68,458,978
New assets originated or purchased	125,530,478	–	–	209,366	125,739,844
Assets repaid	(94,390,611)	–	(1,221,801)	–	(95,612,412)
Transfers to Stage 1	–	–	–	–	–
Transfers to Stage 2	(1,705,554)	1,705,554	–	–	–
Transfers to Stage 3	(1,226,927)	–	1,226,927	–	–
Change in interest accrued	(51,044)	866	297,632	79,421	326,875
Change in classification of borrowers	(62,554)	–	–	–	(62,554)
Unwinding of discount	–	–	731,140	7,159	738,299
Amounts written off	–	–	(2,081,746)	–	(2,081,746)
Foreign exchange differences	1,710,924	–	62,995	–	1,773,919
As at 31 December 2020	89,404,550	1,706,420	7,874,287	295,946	99,281,203

Corporate lending	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL allowance as at 1 January 2020	(256,439)	–	(5,054,208)	–	(5,310,647)
New assets originated or purchased	(558,671)	–	–	–	(558,671)
Assets repaid	460,168	–	35,841	–	496,009
Transfers to Stage 1	–	–	–	–	–
Transfers to Stage 2	–	–	–	–	–
Transfers to Stage 3	32,917	–	(32,917)	–	–
Impact on ECL of exposures transferred between stages and changes to inputs	(69,926)	–	(444,900)	(84,028)	(598,854)
Change in classification of borrowers	288	–	–	–	288
Unwinding of discount (recognised in interest income)	–	–	(731,140)	(7,159)	(738,299)
Amounts written off	–	–	2,081,746	–	2,081,746
Foreign exchange differences	(7,390)	–	(46,401)	–	(53,791)
As at 31 December 2020	(399,053)	–	(4,191,979)	(91,187)	(4,682,219)

Small business lending	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying value as at 1 January 2020	13,735,719	79,022	3,735,277	87,812	17,637,830
New assets originated or purchased	18,734,671	–	–	–	18,734,671
Assets repaid	(15,356,774)	(829,539)	(658,354)	(13,936)	(16,858,603)
Transfers to Stage 1	1,165,432	(1,120,789)	(44,643)	–	–
Transfers to Stage 2	(2,209,430)	2,212,611	(3,181)	–	–
Transfers to Stage 3	(317,623)	(226,620)	544,243	–	–
Change in interest accrued	32,618	220,575	261,821	9,093	524,107
Change in classification of borrowers	62,554	–	–	–	62,554
Unwinding of discount	–	–	375,833	–	375,833
Amounts written off	–	–	(417,527)	–	(417,527)
Foreign exchange differences	–	–	927	–	927
As at 31 December 2020	15,847,167	335,260	3,794,396	82,969	20,059,792

(in thousands of tenge, unless otherwise is stated)

10. Loans to customers (continued)

Allowance for impairment of loans to customers (continued)

Small business lending	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL allowance as at 1 January 2020	(59,883)	(2,591)	(2,632,981)	–	(2,695,455)
New assets originated or purchased	(71,192)	–	–	–	(71,192)
Assets repaid	49,231	5,879	468,027	–	523,137
Transfers to Stage 1	(37,591)	7,851	29,740	–	–
Transfers to Stage 2	6,430	(6,819)	389	–	–
Transfers to Stage 3	964	1,343	(2,307)	–	–
Impact on ECL of exposures transferred between stages and changes to inputs	80,358	(6,008)	(566,625)	–	(492,275)
Change in classification of borrowers	(288)	–	–	–	(288)
Unwinding of discount (recognised in interest income)	–	–	(375,833)	–	(375,833)
Recoveries	–	–	(56,912)	–	(56,912)
Amounts written off	–	–	417,527	–	417,527
Foreign exchange differences	–	–	(927)	–	(927)
As at 31 December 2020	(31,971)	(345)	(2,719,902)	–	(2,752,218)

Consumer and other lending	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2020	38,397,740	478,234	3,402,223	42,278,197
New assets originated or purchased	27,421,766	–	–	27,421,766
Assets repaid	(16,727,753)	(172,181)	(890,935)	(17,790,869)
Transfers to Stage 1	1,770,147	(1,622,649)	(147,498)	–
Transfers to Stage 2	(5,188,682)	5,235,954	(47,272)	–
Transfers to Stage 3	(559,160)	(3,450,654)	4,009,814	–
Change in interest accrued	813,293	49,962	315,331	1,178,586
Unwinding of discount	–	–	458,294	458,294
Amounts written off	–	–	(126,899)	(126,899)
Foreign exchange differences	(64)	–	646	582
As at 31 December 2020	45,927,287	518,666	6,973,704	53,419,657

Consumer and other lending	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL allowance as at 1 January 2020	(1,006,912)	(197,526)	(1,201,547)	(2,405,985)
New assets originated or purchased	(987,630)	–	–	(987,630)
Assets repaid	473,590	69,850	402,894	946,334
Transfers to Stage 1	(792,949)	720,477	72,472	–
Transfers to Stage 2	161,504	(184,731)	23,227	–
Transfers to Stage 3	17,405	1,532,135	(1,549,540)	–
Impact on ECL of exposures transferred between stages and changes to inputs	689,002	(2,156,359)	(913,444)	(2,380,801)
Unwinding of discount (recognised in interest income)	–	–	(458,294)	(458,294)
Recoveries	–	–	(64,979)	(64,979)
Amounts written off	–	–	126,899	126,899
Foreign exchange differences	(165)	1	(751)	(856)
As at 31 December 2020	(1,446,096)	(216,153)	(3,563,063)	(5,225,312)

(in thousands of tenge, unless otherwise is stated)

10. Loans to customers (continued)

Allowance for impairment of loans to customers (continued)

Residential mortgages	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2020	**4,571,682**	**12,523**	**540,430**	**5,124,635**
Assets repaid	**(875,354)**	**(1,877)**	**(105,970)**	**(983,201)**
Transfers to Stage 1	**191,705**	**(170,349)**	**(21,356)**	–
Transfers to Stage 2	**(215,500)**	**236,336**	**(20,836)**	–
Transfers to Stage 3	**(50,037)**	**(36,448)**	**86,485**	–
Change in interest accrued	**37,264**	**(1,797)**	**(15,360)**	**20,107**
Unwinding of discount	–	–	**17,145**	**17,145**
Amounts written off	–	–	**(10,926)**	**(10,926)**
As at 31 December 2020	**3,659,760**	**38,388**	**469,612**	**4,167,760**

Residential mortgages	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL allowance as at 1 January 2020	**(7,874)**	–	**(151,341)**	**(159,215)**
Assets repaid	**12,593**	**17**	**60,747**	**73,357**
Transfers to Stage 1	**(297)**	**297**	–	–
Transfers to Stage 2	**3,846**	**(3,846)**	–	–
Transfers to Stage 3	–	**3,152**	**(3,152)**	–
Impact on ECL of exposures transferred between stages and changes to inputs	**(11,727)**	**380**	**(69,682)**	**(81,029)**
Unwinding of discount (recognised in interest income)	–	–	**(17,145)**	**(17,145)**
Amounts written off	–	–	**10,926**	**10,926**
As at 31 December 2020	**(3,459)**	–	**(169,647)**	**(173,106)**

Below is an analysis of changes in gross carrying amount and relevant ECLs for the year ended 31 December 2019:

Corporate lending	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2019	34,076,286	748,009	11,041,729	45,866,024
New assets originated or purchased	94,491,475	–	–	94,491,475
Assets repaid	(65,650,028)	–	(4,797,345)	(70,447,373)
Transfers to Stage 1	700,080	(700,080)	–	–
Transfers to Stage 2	(4,179,725)	4,179,725	–	–
Transfers to Stage 3	–	(4,234,741)	4,234,741	–
Change in interest accrued	(693,389)	7,087	108,412	(577,890)
Change in classification of borrowers	901,910	–	–	901,910
Unwinding of discount	–	–	570,529	570,529
Amounts written off	–	–	(2,296,381)	(2,296,381)
Foreign exchange differences	(46,771)	–	(2,545)	(49,316)
As at 31 December 2019	59,599,838	–	8,859,140	68,458,978

Corporate lending	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL allowance as at 1 January 2019	(297,143)	(28,880)	(6,141,444)	(6,467,467)
New assets originated or purchased	(469,344)	–	–	(469,344)
Assets repaid	391,117	–	378,185	769,302
Transfers to Stage 1	(5,367)	5,367	–	–
Transfers to Stage 2	89,664	(89,664)	–	–
Transfers to Stage 3	–	176,996	(176,996)	–
Impact on ECL of exposures transferred between stages and changes to inputs	40,920	(63,819)	(841,550)	(864,449)
Change in classification of borrowers	(6,457)	–	–	(6,457)
Unwinding of discount (recognised in interest income)	–	–	(570,529)	(570,529)
Amounts written off	–	–	2,296,381	2,296,381
Foreign exchange differences	171	–	1,745	1,916
As at 31 December 2019	(256,439)	–	(5,054,208)	(5,310,647)

(in thousands of tenge, unless otherwise is stated)

10. Loans to customers (continued)

Allowance for impairment of loans to customers (continued)

Small business lending	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying value as at 1 January 2019	12,623,383	68,113	3,973,655	–	16,665,151
New assets originated or purchased	22,523,652	–	–	91,133	22,614,785
Assets repaid	(20,225,390)	(6,817)	(573,445)	(3,321)	(20,808,973)
Transfers to Stage 1	70,011	(70,011)	–	–	–
Transfers to Stage 2	(359,510)	414,566	(55,056)	–	–
Transfers to Stage 3	–	(317,153)	317,153	–	–
Change in interest accrued	27,664	(17,943)	269,319	–	279,040
Change in classification of borrowers	(901,910)	–	–	–	(901,910)
Unwinding of discount	–	–	360,720	–	360,720
Amounts written off	–	–	(531,523)	–	(531,523)
Foreign exchange differences	(22,181)	8,267	(25,546)	–	(39,460)
As at 31 December 2019	13,735,719	79,022	3,735,277	87,812	17,637,830

Small business lending	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL allowance as at 1 January 2019	(50,964)	(5,375)	(2,612,585)	–	(2,668,924)
New assets originated or purchased	(140,436)	–	–	–	(140,436)
Assets repaid	115,893	–	–	–	115,893
Transfers to Stage 1	(3,790)	3,790	–	–	–
Transfers to Stage 2	1,507	(31,477)	29,970	–	–
Transfers to Stage 3	–	25,721	(25,721)	–	–
Impact on ECL of exposures transferred between stages and changes to inputs	11,450	4,750	(195,035)		(178,835)
Change in classification of borrowers	6,457	–	–	–	6,457
Unwinding of discount (recognised in interest income)	–	–	(360,720)	–	(360,720)
Amounts written off	–	–	531,523	–	531,523
Foreign exchange differences	–	–	(413)	–	(413)
As at 31 December 2019	(59,883)	(2,591)	(2,632,981)	–	(2,695,455)

Consumer and other lending	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2019	29,181,205	585,872	4,334,604	34,101,681
New assets originated or purchased	27,875,001	–	–	27,875,001
Assets repaid	(16,433,214)	(585,565)	(258,147)	(17,276,926)
Assets sold	–	–	(602,542)	(602,542)
Transfers to Stage 1	2,460,573	(2,460,573)	–	–
Transfers to Stage 2	(4,660,045)	5,582,825	(922,780)	–
Transfers to Stage 3		(2,646,148)	2,646,148	–
Change in interest accrued	(27,320)	1,823	(133,710)	(159,207)
Unwinding of discount	–	–	123,753	123,753
Amounts written off	–	–	(1,786,593)	(1,786,593)
Foreign exchange differences	1,540	–	1,490	3,030
As at 31 December 2019	38,397,740	478,234	3,402,223	42,278,197

(in thousands of tenge, unless otherwise is stated)

10. Loans to customers (continued)

Allowance for impairment of loans to customers (continued)

Consumer and other lending	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL allowance as at 1 January 2019	(853,032)	(179,791)	(1,305,216)	(2,338,039)
New assets originated or purchased	(814,275)	–	–	(814,275)
Assets repaid	430,071	24,790	90,442	545,303
Transfers to Stage 1	(454,410)	454,410	–	–
Transfers to Stage 2	127,043	(381,203)	254,160	–
Transfers to Stage 3	–	989,301	(989,301)	–
Impact on ECL of exposures transferred between stages and changes to inputs	557,777	(1,105,033)	(914,010)	(1,461,266)
Unwinding of discount (recognised in interest income)	–	–	(123,753)	(123,753)
Amounts written off	–	–	1,786,593	1,786,593
Foreign exchange differences	(86)	–	(462)	(548)
As at 31 December 2019	(1,006,912)	(197,526)	(1,201,547)	(2,405,985)

Residential mortgages	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2019	5,186,816	52,180	1,100,823	6,339,819
Assets repaid	(989,225)	(14,233)	(215,295)	(1,218,753)
Transfers to Stage 1	563,109	(563,109)	–	–
Transfers to Stage 2	(179,161)	731,908	(552,747)	–
Transfers to Stage 3	–	(195,541)	195,541	–
Change in interest accrued	(9,857)	1,318	37,257	28,718
Unwinding of discount	–	–	16,065	16,065
Amounts written off	–	–	(41,214)	(41,214)
As at 31 December 2019	4,571,682	12,523	540,430	5,124,635

Residential mortgages	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL allowance as at 1 January 2019	(22,638)	(1,007)	(115,960)	(139,605)
Assets repaid	46	–	7,227	7,273
Transfers to Stage 1	(236)	236	–	–
Transfers to Stage 2	2,336	(51,394)	49,058	–
Transfers to Stage 3	–	8,630	(8,630)	–
Impact on ECL of exposures transferred between stages and changes to inputs	12,618	43,535	(108,185)	(52,032)
Unwinding of discount (recognised in interest income)	–	–	(16,065)	(16,065)
Amounts written off	–	–	41,214	41,214
As at 31 December 2019	(7,874)	–	(151,341)	(159,215)

As at 31 December 2020, the Bank has introduced certain changes to the process for assessing expected credit losses due to the ongoing COVID-19 pandemic. In particular, it revised the indicators of a significant increase in credit risk and did not automatically conclude that there was a significant increase in credit risk following the loan modification as a result of government support measures. The Bank also updated forward-looking information, including forecasts of macroeconomic indicators and scenario weights.

Modified and restructured loans

The Bank derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss to the extent that an impairment loss has not already been recorded.

During 2020, the Bank modified the terms of certain consumer loans, including the provision of credit holidays, as part of implementation of measures introduced by the government in connection with the consequences of the COVID-19 pandemic.

(in thousands of tenge, unless otherwise is stated)

10. Loans to customers (continued)

Modified and restructured loans (continued)

The Bank also participated in a program developed by the Kazakhstan Sustainability Fund JSC to support small and medium-sized businesses as part of the implementation of measures introduced by the Government following the consequences of the COVID-19 pandemic *(Note 26)*.

The table below shows Stage 2 and Stage 3 assets, the terms of which were revised during the period and which as a result are recorded as restructured, reflecting the relevant modification losses incurred by the Bank.

	2020	*2019*
Loans modified during the period		
Amortised cost before modification	–	5,677,769

Collateral and other credit enhancements

The amount and type of collateral required by the Bank depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties, production equipment, inventory and trade receivables;
- For retail lending, mortgages over residential properties, charges over transport, cash and cash equivalents and guarantees of third parties.

The Bank also receives guarantees of the parents on loans issued to subsidiaries.

Management monitors the market value of collateral and requests additional collateral in accordance with the underlying agreement during its review of the adequacy of the allowance for loan impairment.

In absence of collateral or other credit enhancements, ECL in respect of Stage 3 loans to customers as at 31 December 2020 and 2019 would have been higher by:

	2020	*2019*
Corporate lending	**1,058,428**	1,175,223
Small business lending	**993,736**	1,081,038
Consumer and other lending	**1,267,252**	1,225,649
Residential mortgages	**292,361**	362,903
	3,611,777	3,844,813

During the year, the Bank took possession of different assets in exchange of indebtness of respective borrowers. The Bank is in the process of selling of those assets. It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

The carrying value of the assets repossessed during the period and held as at the reporting date is as follows:

	2020	*2019*
Buildings and land *(Note 14)*	**520,414**	431,872
Total repossessed collateral	**520,414**	431,872

(in thousands of tenge, unless otherwise is stated)

10. Loans to customers (continued)

Concentration of loans to customers

As at 31 December 2020, the Bank had a concentration of loans represented by KZT 58,547,024 thousand issued by the Bank to ten largest independent parties or 33.1% of gross loan portfolio (31 December 2019: KZT 34,853,947 thousand or 26.1%). As at 31 December 2020, ECL allowance of KZT 356,772 thousand was formed against these loans (31 December 2019: KZT 174,338 thousand).

Loans have been extended to the following types of customers:

	2020	*2019*
Private companies	**119,340,995**	86,096,808
Individuals	**57,587,417**	47,402,832
	176,928,412	133,499,640

Loans were mainly extended to the customers in Kazakhstan performing their activities in the following economic sectors:

	2020	*2019*
Individuals	**57,587,417**	47,402,832
Wholesale trading	**22,192,080**	15,663,542
Financial services	**17,372,075**	420,291
Mining industry	**11,363,927**	6,405,844
Transportation	**10,601,554**	11,049,623
Food industry	**9,032,329**	7,522,797
Retail trade	**8,563,854**	6,879,564
Energy industry	**6,273,324**	6,343,045
Communication	**5,990,224**	5,087,740
Investments in real estate	**5,065,471**	2,036,243
Housing construction	**4,687,675**	2,841,418
Agriculture	**2,933,885**	2,332,501
Consumer goods industry	**2,446,677**	1,515,842
Health care	**2,141,160**	2,252,046
Production of construction materials	**1,934,100**	1,547,651
Production of machinery and equipment	**1,660,423**	1,758,829
Recreation and hotel business	**1,587,327**	2,313,772
Oil and gas industry	**753,838**	4,573,803
Education	**159,672**	199,321
Other	**4,581,400**	5,352,936
	176,928,412	133,499,640

(in thousands of tenge, unless otherwise is stated)

11. Property and equipment

Movement in property and equipment is presented as follows:

	Leasehold improve-ment	*Computer equipment*	*Vehicles*	*Assets to be installed*	*Other assets*	*Right-of-use assets*	*Total*
Cost							
At 31 December 2018	1,020,149	2,149,791	90,006	357,599	2,374,670	–	5,992,215
Impact of adopting IFRS 16	–	–	–	–	–	3,262,953	3,262,953
At 1 January 2019	1,020,149	2,149,791	90,006	357,599	2,374,670	3,262,953	9,255,168
Additions	13,013	126,564	446	1,533,502	77,464	441,477	2,192,466
Disposals	(277,117)	(22,473)	–	–	(280,365)	–	(579,955)
Transfers	417,498	404,013	–	(1,228,002)	406,491	–	–
At 31 December 2019	1,173,543	2,657,895	90,452	663,099	2,578,260	3,704,430	10,867,679
Additions	**3,620**	**1,359**	**–**	**482,878**	**4,301**	**45,086**	**537,244**
Disposals	**(315,218)**	**(68,618)**	**(11,107)**	**–**	**(361,300)**	**(1,347,250)**	**(2,103,493)**
Transfers	**48,102**	**203,357**	**–**	**(670,936)**	**419,477**	**–**	**–**
At 31 December 2020	**910,047**	**2,793,993**	**79,345**	**475,041**	**2,640,738**	**2,402,266**	**9,301,430**
Accumulated depreciation							
At 31 December 2018	(590,153)	(1,130,217)	(31,298)	–	(1,651,475)	–	(3,403,143)
Depreciation charge	(198,325)	(233,250)	(11,327)	–	(267,114)	(546,848)	(1,256,864)
Disposals	277,118	21,434	–	–	281,403	–	579,955
At 31 December 2019	(511,360)	(1,342,033)	(42,625)	–	(1,637,186)	(546,848)	(4,080,052)
Depreciation charge	**(243,686)**	**(215,412)**	**(10,184)**	**–**	**(238,044)**	**(459,651)**	**(1,166,977)**
Disposals	**315,216**	**68,617**	**11,107**	**–**	**361,300**	**195,765**	**952,005**
At 31 December 2020	**(439,830)**	**(1,488,828)**	**(41,702)**	**–**	**(1,513,930)**	**(810,734)**	**(4,295,024)**
Net book value							
At 31 December 2018	429,996	1,019,574	58,708	357,599	723,195	3,262,953	5,852,025
At 31 December 2019	662,183	1,315,862	47,827	663,099	941,074	3,157,582	6,787,627
At 31 December 2020	**470,217**	**1,305,165**	**37,643**	**475,041**	**1,126,808**	**1,591,532**	**5,006,406**

At 31 December 2020, the original cost of fully depreciated property and equipment in use of the Bank amounted to KZT 1,128,481 thousand (31 December 2019: KZT 1,270,361 thousand).

(in thousands of tenge, unless otherwise is stated)

12. Intangible assets

The movements in intangible assets were as follows:

	Licenses and software	*Assets to be installed*	*Total*
Cost			
At 31 December 2018	2,761,667	459,381	3,221,048
Additions	601,636	709,290	1,310,926
Disposal	(11,695)	(21,508)	(33,203)
Transfers	623,837	(623,837)	–
At 31 December 2019	3,975,445	523,326	4,498,771
Additions	**352,870**	**1,190,131**	**1,543,001**
Disposal	**(515)**	**(12,034)**	**(12,549)**
Transfers	**454,791**	**(454,791)**	**–**
At 31 December 2020	**4,782,591**	**1,246,632**	**6,029,223**
Accumulated depreciation			
At 31 December 2018	(1,092,893)	–	(1,092,893)
Depreciation charge	(224,516)	–	(224,516)
Disposal	434	–	434
At 31 December 2019	(1,316,975)	–	(1,316,975)
Depreciation charge	**(340,644)**	**–**	**(340,644)**
Disposal	**515**	**–**	**515**
At 31 December 2020	**(1,657,104)**	**–**	**(1,657,104)**
Net book value			
At 31 December 2018	1,668,774	459,381	2,128,155
At 31 December 2019	2,658,470	523,326	3,181,796
At 31 December 2020	**3,125,487**	**1,246,632**	**4,372,119**

In 2020, the Bank developed intangible assets as part of projects to develop remote channels and automate the Bank's internal business processes in order to improve the level of customer service.

13. Taxes

The corporate income tax expense comprises:

	2020	*2019*
Current corporate income tax expense	**620,189**	–
Deferred corporate income tax charge – origination and reversal of temporary differences	**469,800**	1,190,528
Corporate income tax expense	**1,089,989**	1,190,528

The Republic of Kazakhstan was only one tax jurisdiction in which the Bank's income is taxable. In accordance with tax legislation the applied corporate income tax rate is 20% in 2020 and 2019.

(in thousands of tenge, unless otherwise is stated)

13. Taxation (continued)

The reconciliation between the corporate income tax expense in the accompanying financial statements and profit before corporate income tax multiplied by the statutory tax rate for the periods ended 31 December is as follows:

	2020	*2019*
Profit before tax	**6,149,089**	5,753,691
Statutory rate	**20%**	20%
Theoretical corporate income tax expense at the statutory rate	**1,229,818**	1,150,738
Non-deductible interest expense	**48,615**	28,892
Non-deductible operating expenses	**42,662**	19,578
Non-deductible impairment charge	**29,897**	16,462
Non taxable income on state securities and securities officially listed at KASE	**(218,972)**	(25,142)
Other differences	**(42,031)**	–
Corporate income tax expense	**1,089,989**	1,190,528

As at 31 December 2020, current corporate income tax assets comprised KZT 193,171 thousand (31 December 2019: KZT 21,061 thousand).

Deferred corporate income tax assets and liabilities as of 31 December and their movements for the respective years comprise:

	2018	*Origination and reversal of temporary differences within profit or loss*	*2019*	*Origination and reversal of temporary differences within profit or loss*	*2020*
Tax effect of deductible temporary differences					
Tax losses carry-forward	1,601,857	(1,056,531)	545,326	**(545,326)**	**–**
Loans to customers	–	396,415	396,415	**476,653**	**873,068**
Accrued expenses for unused vacations	12,732	2,443	15,175	**5,368**	**20,543**
Accrued expenses on premiums	76,414	36,706	113,120	**8,097**	**121,217**
Lease liabilities	–	645,320	645,320	**(273,523)**	**371,797**
Allowances for doubtful debts	2,867	(2,867)	–	**–**	**–**
Other accrued expenses	24,868	38,604	63,472	**(3,559)**	**59,913**
Deferred corporate income tax assets	1,718,738	60,090	1,778,828	**(332,290)**	**1,446,538**
Tax effect of taxable temporary differences					
Amounts due to banks and other financial institutions	–	(462,698)	(462,698)	**(592,050)**	**(1,054,748)**
Right-of-use assets	–	(631,516)	(631,516)	**313,210**	**(318,306)**
Property and equipment	(374,147)	(156,404)	(530,551)	**141,330**	**(389,221)**
Deferred corporate income tax liabilities	(374,147)	(1,250,618)	(1,624,765)	**(137,510)**	**(1,762,275)**
Corporate income tax assets/(liabilities), net	1,344,591	(1,190,528)	154,063	**(469,800)**	**(315,737)**

In Kazakhstan tax losses are carried forward for a period of ten years.

(in thousands of tenge, unless otherwise is stated)

14. Other assets and liabilities

Other assets comprise at 31 December:

	31 December 2020	*31 December 2019*
Other financial assets		
Receivables from transferred assets	**618,019**	801,157
Accounts receivable on guarantees and letters of credits	**242,265**	395,138
Banking settlements	**178,178**	283,389
Receivables on currency transactions	**2,343**	82,700
Other	**69,652**	101,579
	1,110,457	1,663,963
Less ECL allowance	**(263,741)**	(177,288)
	846,716	1,486,675
Other non-financial assets		
Repossessed collateral	**520,414**	431,872
Other prepayments and deferred expenses	**693,711**	399,805
Advances paid for property and equipment and intangible assets	**439,261**	215,202
Rent prepayment	**171,672**	128,271
State duties payable	**148,980**	115,852
Inventory	**68,522**	72,621
Other	**27,473**	53,235
	2,070,033	1,416,858
Other assets	**2,916,749**	2,903,533

As at 31 December 2020, receivables from transferred assets comprised claims for payment for transferred repossessed collateral sold on deferred payment terms.

As at 31 December 2020, advances for property, equipment and intangible assets include advances for the purchase of equipment and software in the amount of KZT 206,035 thousand (31 December 2019: KZT 37,690 thousand).

As at 31 December 2020 and 2019, the repossessed collateral comprises land and buildings obtained under collateral agreements on loans to customers. These assets are offered for sale by public auction.

The movement in the allowances for other financial assets for 2020 and 2019 are as follows:

	Stage 3
As at 31 December 2018	150,896
Net change in the allowance for the year *(Note 21)*	49,711
Write-offs	(31,356)
Effect from changes in exchange rates	8,037
As at 31 December 2019	177,288
Net change in the allowance for the year *(Note 21)*	**142,265**
Write-offs	**(54,889)**
Effect from changes in exchange rates	**(923)**
As at 31 December 2020	**263,741**

(in thousands of tenge, unless otherwise is stated)

14. Other assets and liabilities (continued)

As at 31 December other liabilities comprise:

	2020	*2019*
Financial liabilities		
ECL allowance on contingent liabilities *(Note 22)*	**931,100**	875,125
Accrued administrative expenses	**177,595**	145,893
Fee and commission expenses accrued	**50,524**	112,386
Guarantee fees for forward contracts	**58,135**	95,699
Banking settlements	**110,644**	94,502
Professional services payable	**35,818**	34,070
Insurance payables	**1,501**	3,324
Currency transactions liabilities	**75,128**	93
Other	**91**	3,709
	1,440,536	1,364,801
Non-financial liabilities		
Premiums accrued	**606,086**	565,598
Liabilities to Kazakhstan Deposit Insurance Fund JSC ("KDIF")	**203,067**	251,104
Deferred commission income	**135,353**	312,622
Taxes other than corporate income tax payable	**237,140**	187,223
Accrued expenses for unused vacations	**102,714**	75,873
Other	**52,648**	71,439
	1,337,008	1,463,859
	2,777,544	2,828,660

According to the results of the competition held by KDIF, the Bank was selected by the agent bank and received funds for the payment of guarantee compensation on deposits of individuals and individual entrepreneurs placed in the forcibly-liquidated Qazaq Bank JSC. Payment to depositors of Qazaq Bank JSC began on 24 December 2018 and will continue until 24 April 2021.

15. Amounts due to banks and other financial institutions

As at 31 December 2020, amounts due to banks and other financial institutions comprise:

	2020	*2019*
Current accounts	**7,715,856**	16,755,355
Term deposits and loans	**24,079,786**	14,374,088
	31,795,642	31,129,443

As at 31 December 2020 and 2019, current accounts include cash placed by a Kazakh bank for a total amount of KZT 7,193,563 thousand and KZT 11,675,182 thousand, respectively.

As at 31 December 2020 and 2019, current accounts also include cash placed by the Parent for a total amount of KZT 511,552 thousand and KZT 1,995,506 thousand, respectively *(Note 29)*.

As at 31 December 2020, term deposits and loans include loans from Entrepreneurship Development Fund "Damu" JSC in the amount of KZT 2,622,671 thousand (31 December 2019: KZT 2,768,208 thousand) as part of the state programs to support small and medium-sized businesses by the banking sector. The loans are denominated in KZT, bear interest rates of 1.0-8.5% per annum and mature in 2022-2027.

As at 31 December 2020, time deposits and loans from financial institutions also include tenge-denominated funds raised by the Bank from the Development Bank of Kazakhstan JSC as part of the state program to support domestic automakers with an interest rate of 1% per annum and maturing in 2029-2037, and loans in tenge received from Agrarian Credit Corporation JSC under Agrobusiness state program with an interest rate of 2,8% per annum and maturing in 2025-2026, with a carrying amount of KZT 4,552,493 thousand (31 December 2019: KZT 2,416,894 thousand) and KZT 4,926,386 thousand (31 December 2019: KZT 3,687,053 thousand), respectively. The funds were raised at below-market rates for subsequent concessional car loans and financing of agricultural entities.

In 2020, the Bank attracted loans from Development Bank of Kazakhstan JSC in the amount of KZT 5,000,000 thousand with the interest rate of 1.0% per annum and maturity in 2030. The fair value of the attracted loan at the date of initial recognition amounted to KZT 1,686,513 thousand and was determined by the Bank using the market rate of 13.50% per annum.

(in thousands of tenge, unless otherwise is stated)

15. Amounts due to banks and other financial institutions (continued)

In 2020, the Bank attracted loans from Agrarian Credit Corporation JSC in the amount of KZT 1,370,000 thousand with the interest rate of 2.8% per annum and maturity in 2025-2026. The fair value of the attracted loans at the date of initial recognition amounted to KZT 1,076,216 thousand and was determined by the Bank using the market rates of 12.24-12.50% per annum.

As at 31 December 2020, liabilities to the Kazakhstan Sustainability Fund JSC included funds in the amount of KZT 12,157,851 thousand received as part of the implementation of measures of the Government of the Republic of Kazakhstan to support small and medium-sized businesses affected by the COVID-19 pandemic. These liabilities include deposits, denominated in tenge in the amount of KZT 7,356,523 thousand with a nominal rate of 5.00% per annum and maturing in 2021 and funds in the amount of KZT 4,801,328 thousand that are not subject to accrual and payment of interest is not provided for until the above funds are utilised by the Bank. The difference between the nominal and the fair value of the attracted deposits at the date of initial recognition amounted to KZT 260,535 thousand and was determined by the Bank using the market rates of 12.90% per annum.

Upon initial recognition of loans attracted under the above-mentioned programs in 2020, the difference between their nominal and fair value in the total amount of KZT 3,867,806 thousand was recognised by the Bank as a liability as a result of receiving a government grant in accordance with IAS 20.

In 2020 and 2019, income recognised as a result of meeting the conditions for receiving subsidies under these programs, less losses resulting from the initial recognition of loans to customers on preferential terms provided for by the above programs, amounted to KZT 576,570 thousand and KZT 366,931 thousand, respectively, and was recorded in the statement of comprehensive income under Net gains from government grants.

16. Lease liabilities

Set out below, are the carrying amounts of lease liabilities and the movements during 2020 and 2019:

	2020	*2019*
At 1 January	**3,226,602**	3,126,288
Additions	–	441,477
Interest accrued	**271,568**	337,089
Payments	**(532,784)**	(678,252)
Termination of lease agreements	**(1,106,400)**	–
At 31 December	**1,858,986**	3,226,602

In 2020, the total cash outflow under the Bank's lease agreements amounted to KZT 523,784 thousand (2019: KZT 678,252 thousand). In 2020, the Bank also had no non-cash additions to right-of-use assets and lease liabilities.

17. Amounts due to customers

Amounts due to customers comprised the following at December 31:

	2020	*2019*
Time deposits	**164,766,703**	90,185,670
Current accounts	**68,408,567**	33,325,607
	233,175,270	123,511,277
Term deposits held as security against guarantees and letters of credit *(Note 22)*	**671,676**	745,025

As at 31 December 2020, the Bank's ten largest customers accounted for KZT 91,682,892 thousand or 39.3% of total amounts due to customers (31 December 2019: KZT 41,670,885 thousand or 33.7%).

Included in time deposits are deposits of individuals in the amount of KZT 40,005,311 thousand (31 December 2019: KZT 27,734,860 thousand). In accordance with the Civil Code of the Republic of Kazakhstan, the Bank is obliged to repay such deposits upon demand of a depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest is not paid or paid at considerably lower interest rate depending on the terms specified in the agreement.

(in thousands of tenge, unless otherwise is stated)

17. Amounts due to customers (continued)

Amounts due to customers include accounts with the following types of customers:

	2020	*2019*
Private enterprises	**184,777,238**	90,681,111
Individuals	**48,398,032**	32,830,166
	233,175,270	123,511,277

An analysis of customer accounts by economic sector follows:

	2020	*2019*
Metallurgy	**53,705,111**	7,437,830
Individuals	**48,398,032**	32,830,166
Non-credit financial institutions	**37,963,595**	31,965,228
Wholesale trading	**19,011,501**	12,896,644
Production of machinery and equipment	**10,903,113**	2,183,517
Retail trade	**8,133,436**	3,693,419
Construction	**6,261,220**	9,652,838
Energy industry	**6,051,863**	2,568,024
Transport and communication	**5,317,678**	2,630,905
Oil and gas production	**4,534,575**	1,211,585
Food industry	**3,348,836**	4,797,235
Investments in real estate	**2,718,447**	771,877
Research and development	**2,111,340**	186,050
Production of construction materials	**1,408,150**	1,189,350
Education	**1,368,798**	307,836
Chemical industry	**1,349,607**	1,196,347
Agriculture	**1,271,953**	1,225,858
Mining industry	**1,063,241**	1,011,503
Consumer goods industry	**584,539**	87,723
Entertainment	**312,415**	1,474,128
Other	**17,357,820**	4,193,214
	233,175,270	123,511,277

18. Debt securities issued

Debt securities issued comprise:

	2020	*2019*
Debt securities issued at KASE	**15,328,288**	15,328,288
Less unamortised discount	**(171,490)**	(569,146)
	15,156,798	14,759,142

As at 31 December 2020 and 2019, the Bank's debt securities comprise unsecured coupon bonds placed under the first bond program with the aggregate nominal value of KZT 14,935,113 thousand. These bonds have a nominal interest rate of 8% and 9% per annum and maturing in 2021.

19. Subordinated debt

As at 31 December 2020, the Bank's subordinated debt is represented by loans received from the Parent in the amount of KZT 8,450,658 thousand (31 December 2019: KZT 9,264,867 thousand) with an interest rate of 8.93% per annum (as at 31 December 2019: 8.93% per annum) and mature in 2025 (31 December 2019: in 2025). The loan was received in Russian rubles.

(in thousands of tenge, unless otherwise is stated)

20. Share capital

As at 31 December 2020 and 2019 authorised and issued common shares in the amount of 2,995,700 shares are issued and fully paid by the Parent at the price of placement of KZT 10 thousand per one common share.

In 2020, the Bank did not declare or pay any dividends on common shares. Subject to the decision of the sole shareholder dated 31 May 2019, the Bank declared and paid dividends on common shares for the year ended 31 December 2018, in the amount of KZT 4,119,707 thousand.

21. Credit loss expense

The table below shows the ECL charges on financial instruments recorded in profit or loss for the year ended 31 December 2020:

	Notes	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Cash and cash equivalents	6	**(63)**	–	–	–	**(63)**
Amounts due from credit institutions	8	**3,239**	–	–	–	**3,239**
Loans to customers	10	**65,796**	**(2,086,241)**	**(1,027,142)**	**(84,028)**	**(3,131,615)**
Other financial assets	14	–	–	**(142,265)**	–	**(142,265)**
Financial guarantees	22	**(211,991)**	**(11)**	**(566,852)**	–	**(778,854)**
Undrawn loan commitments	22	**25,931**	–	–	–	**25,931**
Letters of credit	22	**9,936**	–	–	–	**9,936**
Total credit loss expense		**(107,152)**	**(2,086,252)**	**(1,736,259)**	**(84,028)**	**(4,013,691)**

The table below shows the ECL charges on financial instruments recorded in profit or loss for the year ended 31 December 2019:

	Notes	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Cash and cash equivalents	6	(3)	–	–	(3)
Amounts due from credit institutions	8	(2,338)	–	–	(2,338)
Loans to customers	10	135,837	(1,095,777)	(1,582,926)	(2,542,866)
Investment securities measured at fair value through other comprehensive income		7,282	–	–	7,282
Other financial assets	14	–	–	(49,711)	(49,711)
Financial guarantees	22	43,908	(30,350)	(482,314)	(468,756)
Undrawn loan commitments	22	1,098	–	–	1,098
Letters of credit	22	(9,187)	–	–	(9,187)
Total credit loss expense		176,597	(1,126,127)	(2,114,951)	(3,064,481)

22. Commitments and contingencies

Operating environment

Kazakhstan continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Kazakh economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

Due to the recent rapid outbreak of the coronavirus pandemic (COVID-19), many countries, including the Republic of Kazakhstan, have introduced quarantine measures that have had a significant impact on the level and scale of business activity of market participants. The pandemic itself and the measures taken to minimise its consequences have had a significant impact on the activities of companies from various industries. Since March 2020, there has been significant volatility in the capital, currency and commodity markets, including lower oil prices and the depreciation of the tenge against the US dollar and euro. This has resulted in increased uncertainty about further economic growth, which, in turn, may negatively affect the Bank's financial position, results of operations and economic prospects.

Management believes it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances.

(in thousands of tenge, unless otherwise is stated)

22. Commitments and contingencies (continued)

Taxes

The tax environment in the Republic of Kazakhstan is subject to change and inconsistent application and interpretations. Differences in the interpretation of Kazakhstan laws and regulations of the Bank and Kazakh authorities may lead to the accrual of additional taxes, fines and penalties.

Kazakhstani legislation and tax practices are are continually evolving and are therefore subject to varying interpretations and frequent changes that may be retroactive. In certain cases, in order to determine the tax base, tax legislation refers to the provisions of IFRS, whereas the interpretation of the respective provisions of IFRS by the Kazakh tax authorities may differ from accounting policies, judgements and estimates applied by the management in preparation of these separate financial statements, which may result in additional tax liabilities for the Bank. Since 1 January 2020, the adequacy of tax assessment in the reporting period may be reviewed during the next five calendar years. However, under certain circumstances, a tax year may remain open for a longer period of time.

The Bank's management believes that its interpretations of the relevant legislation are appropriate and the Bank's tax position will be sustained.

Legal

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

The Bank assesses the likelihood of material liabilities arising from individual circumstances and makes provision in its financial statements only where it is probable that events giving rise to the liability will occur and the amount of the liability can be reasonably estimated. No provision has been made in these financial statements for any of the above described contingent liabilities.

Commitments and contingencies

Commitments and contingencies of the Bank as at 31 December comprise:

	2020	*2019*
Credit related commitments		
Undrawn loan commitments	**12,704,436**	15,740,759
Financial guarantees	**5,951,854**	7,816,754
Letters of credit	**105,070**	1,019,429
	18,761,360	24,576,942
Less ECL allowance	**(931,100)**	(875,125)
Commitments and contingencies (before deducting collateral)	**17,830,260**	23,701,817
Less funds held as security against guarantees and letters of credit *(Note 17)*	**(671,676)**	(745,025)
Commitments and contingencies	**17,158,584**	22,956,792

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

The loan commitment agreements stipulate the right of the Bank to unilaterally withdraw from the agreement should any conditions unfavourable to the Bank arise, including change of the refinance rate, inflation, exchange rates and other conditions.

(in thousands of tenge, unless otherwise is stated)

22. Commitments and contingencies (continued)

Commitments and contingencies (continued)

Below is an analysis of changes in the ECL allowances for the year ended 31 December 2020:

Financial guarantees	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL allowance as at 1 January 2020	**(48,674)**	**–**	**(765,237)**	**(813,911)**
New financial guarantees	**(116,024)**	**–**	**–**	**(116,024)**
Expired financial guarantees	**308,954**	**–**	**5,952**	**314,906**
Amounts paid	**–**	**–**	**209,366**	**209,366**
Transfers to Stage 2	**209,575**	**(209,575)**	**–**	**–**
Transfers to Stage 3	**–**	**209,586**	**(209,586)**	**–**
Changes to models and inputs used for ECL calculations	**(404,921)**	**(11)**	**(572,804)**	**(977,736)**
Reserve amounts transferred to discount	**–**	**–**	**475,639**	**475,639**
Foreign exchange differences	**(8,423)**	**–**	**10,911**	**2,488**
As at 31 December 2020	**(59,513)**	**–**	**(845,759)**	**(905,272)**

Undrawn loan commitments	*Stage 1*	*Total*
ECL allowance as at 1 January 2020	**(51,802)**	**(51,802)**
Expired liabilities	**17,027**	**17,027**
Changes to models and inputs used for ECL calculations	**8,904**	**8,904**
Foreign exchange differences	**43**	**43**
At 31 December 2020	**(25,828)**	**(25,828)**

Letters of credit	*Stage 1*	*Total*
ECL allowance as at 1 January 2020	**(9,412)**	**(9,412)**
New letters of credit	**(838,597)**	**(838,597)**
Expired liabilities	**838,597**	**838,597**
Changes to models and inputs used for ECL calculations	**9,936**	**9,936**
Foreign exchange differences	**(524)**	**(524)**
At 31 December 2020	**–**	**–**

Below is an analysis of changes in the ECL allowances for the year ended 31 December 2019:

Financial guarantees	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL allowance as at 1 January 2019	(102,019)	–	(243,136)	(345,155)
New financial guarantees	(34,575)	–	–	(34,575)
Expired financial guarantees	61,813	–	–	61,813
Transfers to Stage 2	9,437	(9,437)	–	–
Transfers to Stage 3	–	39,787	(39,787)	–
Changes to models and inputs used for ECL calculations	16,670	(30,350)	(482,314)	(495,994)
Foreign exchange differences	–	–	–	–
As at 31 December 2019	(48,674)	–	(765,237)	(813,911)

Undrawn loan commitments	*Stage 1*	*Total*
ECL allowance as at 1 January 2019	(52,923)	(52,923)
New liabilities	(37,316)	(37,316)
Expired liabilities	38,414	38,414
Foreign exchange differences	23	23
As at 31 December 2019	(51,802)	(51,802)

Letters of credit	*Stage 1*	*Total*
ECL allowance as at 1 January 2019	(357)	(357)
New letters of credit	(9,187)	(9,187)
Foreign exchange differences	132	132
As at 31 December 2019	(9,412)	(9,412)

(in thousands of tenge, unless otherwise is stated)

23. Net fee and commission income

Net fee and commission income comprise:

	2020	*2019*
Transfer operations	**1,438,605**	1,803,863
Cash operations	**382,811**	1,000,909
Processing of payment cards	**173,333**	684,369
Agency services	**1,759,932**	304,404
Guarantees issued	**173,149**	242,883
Foreign currency transactions	**188,061**	221,026
Settlement transactions	**84,188**	91,931
Online banking	**83,786**	50,241
Letters of credit issued	**8,185**	6,370
Other	**50,824**	91,902
Fee and commission income	**4,342,874**	4,497,898
Settlements operations	**(696,371)**	(671,074)
Transfer operations	**(150,564)**	(219,397)
Correspondent accounts with the NBRK	**(104,374)**	(172,772)
Custodian services	**(16,566)**	(25,336)
Agency services	**(13,802)**	(13,171)
Letters of credit and guarantees issued	**–**	(264)
Other	**(17,072)**	(31,171)
Fee and commission expense	**(998,749)**	(1,133,185)
Net fee and commission income	**3,344,125**	3,364,713

The Bank's revenue from contracts with customers is mostly represented by fee and commission income.

The Bank recognised the following contract assets and liabilities in statement of financial position related to its contracts with customers:

	2020	*2019*
Accrued income receivable (presented within other assets)	**242,265**	395,138
Deferred income (presented within other liabilities)	**135,353**	312,622

The Bank usually collects fees and commissions in advance of completion of the underlying transaction or shortly thereafter (for contracts where performance obligation is satisfied point in time, such as settlement transactions). For services provided over time (such as those related to credit cards maintenance), the Bank usually charges upfront monthly, quarterly or annual fees covering respective portion of the overall contract period.

The Bank applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

(in thousands of tenge, unless otherwise is stated)

24. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2020	*2019*
Salaries and bonuses	**(4,856,428)**	(4,820,622)
Social security costs	**(488,272)**	(452,505)
Personnel expenses	**(5,344,700)**	(5,273,127)
Security	**(393,885)**	(389,226)
Information services	**(384,590)**	(333,248)
Licenses	**(290,882)**	(357,354)
Communications	**(249,543)**	(217,675)
Marketing and advertising	**(195,886)**	(158,870)
Lease	**(140,290)**	(209,677)
Contributions to KDIF	**(114,072)**	(89,906)
Legal and consultancy	**(109,200)**	(58,277)
Repair and maintenance of property and equipment	**(82,963)**	(75,120)
Business trip expenses	**(51,081)**	(149,965)
Transportation	**(68,810)**	(84,767)
Cash collection	**(64,715)**	(77,651)
Entertainment	**(52,242)**	(16,174)
Office supplies	**(29,856)**	(38,536)
Membership fees	**(12,344)**	(43,173)
Translation services	**(9,673)**	(7,514)
Insurance expenses	**(7,635)**	(7,513)
Other	**(189,790)**	(230,578)
Other operating expenses	**(2,447,457)**	(2,545,224)

For the year ended 31 December 2020, the Bank recognised the following lease expenses: for short-term leases – KZT 16,514 thousand, for leases of low-value assets – KZT 815 thousand (in 2019: for short-term leases – KZT 20,779 thousand, for leases of low-value assets – KZT 3,788 thousand).

25. Earnings per share

Basic earnings per share is calculated by dividing the net profit for the year attributable to common shareholders by the weighted average number of participating shares outstanding during the period. The Bank does not have any share options or convertible debt or equity instruments.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2020	*2019*
Net profit for the year attributable to the shareholder of the Bank	**5,059,100**	4,563,163
Weighted average number of common shares for basic and diluted earnings per share computation	**2,995,700**	2,995,700
Basic and diluted earnings per share (in tenge)	**1,688,79**	1,523,24

As at 31 December 2020 and 2019, the Bank did not have any financial instruments diluting earnings per share.

The carrying amount of one ordinary share calculated in accordance with the methodology indicated in the Listing Rules of Kazakhstan Stock Exchange as at 31 December 2020 and 2019 is presented below:

	31 December 2020			*31 December 2019*		
Type of shares	*Number of outstanding shares*	*Net assets (thousands of tenge)*	*Book value per share (tenge)*	*Number of outstanding shares*	*Net assets (thousands of tenge)*	*Book value per share (tenge)*
Common	**2,995,700**	**22,065,437**	**7,365,70**	2,995,700	18,196,660	6,074,26

(in thousands of tenge, unless otherwise is stated)

26. Risk management

Introduction

Risk is inherent in the Bank's activities. The Bank manages these risks through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk. It is also subject to operating risks. In managing risks the Bank applies approved group-wide standards and approaches.

Risk management structure

The Board of Directors is ultimately responsible for identifying risks, establishing permissible level and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Management Board

The Management Board has the responsibility to monitor the overall risk process within the Bank.

Risk Controlling

The Risk Control Department is responsible for monitoring compliance with risk principles, policies and limits, across the Bank, for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This unit also ensures the complete capture of the risks in risk measurement and reporting systems. It monitors and controls quality of credit portfolio, coverage of credit risk by liquid collateral. The unit is responsible for implementation of the credit policies of the Bank and fulfilment of requirements of internal documents and state regulatory authorities. It takes part in making decisions on accepting different risks. The unit develops methods of quantitative estimation of risks attributable to the Bank, and provides recommendation to different departments of the Bank on minimisation and effective control over risks. It develops and implements methodology and analytical instruments, which allow evaluating risks, controlling level of risk and organising procedures to mitigate risks.

Bank Treasury

Bank Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

Internal audit

Risk management processes throughout the Bank are audited annually by the internal audit group that examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The Bank also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. The above information is provided to the Board of Directors, Management Board of the Bank, Committees of the Bank and managers of units. The report includes aggregate credit exposure, hold limit exceptions, liquidity ratios, risk profile changes. On a monthly basis detailed reporting of industry, customer and geography risks takes place. The appropriateness of the allowance for credit losses is assessed on a monthly basis. The Board of Directors receives a comprehensive risk report once a month which is designed to provide all the necessary information to assess the risks of the Bank.

(in thousands of tenge, unless otherwise is stated)

26. Risk management (continued)

Introduction (continued)

Risk mitigation

As part of its overall risk management, the Bank uses financial instruments to manage exposures resulting from changes in interest rates, foreign currencies and exposures arising from forecast transactions. The Bank actively uses collateral to reduce its credit risks (see below for more detail).

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties will fail to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and undertake corrective action.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

Credit-related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

The carrying amount of components of the statement of financial position without the influence of risk mitigation through the use of master netting agreements and collateral agreements, most accurately reflects the maximum credit exposure on these components.

Where financial instruments are recorded at fair value, their carrying amounts represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is presented in *Note 10* "Loans to customers" and *Note 22* "Contractual commitments and contingencies".

26. Risk management (continued)

Credit risk (continued)

Impairment assessment

The Bank calculates ECL based on several probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. The mechanics of the ECL calculations are outlined below and the key elements are as follows:

Probability of default (PD)	The Probability of Default is an estimate of the likelihood of default over a given time horizon, A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
EAD	The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
The Loss Given Default (LGD)	The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time, It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral, It is usually expressed as a percentage of the EAD.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The 12mECL is the portion of LTECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECL and 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Bank groups its loans as described below:

Stage 1:	When loans are first recognised, the Bank recognises an allowance based on 12m ECL, Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
Stage 2:	When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL, Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
Stage 3:	Loans considered credit-impaired, The Bank recognises an allowance for the LTECL.
POCI:	Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition, POCI assets are recorded at fair value at original recognition and interest revenue is subsequently recognised based on a credit-adjusted EIR, ECL are only recognised or released to the extent that there is a subsequent change in the lifetime expected credit losses.

Definition of default and cure

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Bank considers funds with banks defaulted, and takes immediate corrective measures, if at the time of close of business required intraday payments specified in the individual agreements were not made.

(in thousands of tenge, unless otherwise is stated)

26. Risk management (continued)

Credit risk (continued)

Definition of default and cure (continued)

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Assignment of the status "Bad debts" to the borrower;
- More than 60 calendar days' overdue payments of principal and/or interest for individually assessed borrowers, and more than 90 for collectively assessed borrowers;
- Restructuring of a loan due to deterioration in the financial condition of the borrower;
- The borrower is deceased;
- Availability of the Bank's confirmed information on force majeure as well as other circumstances that caused substantial material damage to the borrower and do not allow the borrower to continue its business activities;
- The debtor or any legal entity within the debtor's group filing for bankruptcy application or declaring bankruptcy.

In accordance with the Bank's policy, financial instruments are considered "cured" and, therefore, are transferred from Stage 3 to Stage 2, subject to the following conditions:

- The borrower repays the debt that results in a decrease in the gross carrying amount of the financial asset at the date of creation of provisions (reserves) to a level equal to or lower than the outstanding amount at the time the financial asset is allocated to Stage 3;
- There are no new default events inherent to the borrower in addition to the previously identified event, on the basis of which the borrower was assigned to Stage 3;
- Repayment by the borrower of at least 30% of the principal amount in accordance with the terms of the new agreement / new parameters of the agreement concluded as a result of the restructuring;
- The expiration of a 2-year period after default restructuring, subject to a positive assessment of the borrower's creditworthiness (including qualitative and quantitative factors characterizing the financial condition of the borrower) in accordance with the procedure established by the Bank.

Internal rating and PD estimation process

The credit risk department of the Bank develops and applies its internal rating models on corporate clients. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information that could affect the borrower's behaviour. Where practical, they also build on information from the national and international external rating agencies. PDs, incorporating forward looking information and the IFRS 9 stage classification of the exposure, are assigned for each grade. This is repeated for each economic scenario as appropriate.

(in thousands of tenge, unless otherwise is stated)

26. Risk management (continued)

Credit risk (continued)

Treasury and interbank relationships

The Bank's treasury and interbank relationships and counterparties comprise financial services institutions, banks, broker-dealers, exchanges and clearing-houses. For these relationships, the Bank's credit risk department analyses publicly available information such as financial information and other external data, e.g., the external ratings, and assigns the internal rating, as shown in the table below.

Rating of external international rating agency (Standard & Poor's)	*The internal rating*	*Description of the internal rating*	*Probability of default, 12-month PD*
AA+ to AAA			0.00
AA+			0.00
AA			0.01
AA-			0.02
A+			0.04
A			0.05
A-			0.07
BBB+			0.12
BBB			0.21
BBB-			0.25
BB+	A1		0.49
BB	A2	High	0.70
BB	A3		0.70
BB-	B1		1.19
BB-	B2		1.19
B+	B3	Standard grade	2.08
B+	C1		2.08
B	C2		5.85
B	C3	Substandard	5.85
B-	D1		8.77
CCC/C	D2	Default	24.34

Corporate and small business lending

For commercial loans, the quality of loans is assessed by credit risk department of the Bank. The credit risk assessment is based on a credit scoring model that takes into account various historical, current and forward-looking information such as:

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.
- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports, publicly traded bond or CDS prices or press releases and articles.
- Macroeconomic information.
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.

Consumer lending and mortgage lending

Retail business lending includes lending for purposes not related to commercial and entrepreneurial activities, including unsecured loans. Evaluation of these products is carried out using an automated system for processing credit applications, including the scoring of socio-demographic data about the client, data from the credit reporting agency and other sources of information about the client, allowing to assess its creditworthiness and solvency on the loan.

(in thousands of tenge, unless otherwise is stated)

26. Risk management (continued)

Credit risk (continued)

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation. To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12mECL. For Stage 2 and Stage 3 assets, the Bank assesses the probability of default over the life of the instrument.

Loss given default

LGD values are assessed on a monthly basis by the Bank's Risk Department The credit risk assessment is based on a LGD assessment framework consisting of two indicators: "Recovery cash" and collateral "Recovery cash" takes into account historical data on real cash repayments on loans that have defaulted since the default status was assigned The cost of collateral is assessed taking into account a decrease by a fixed ratio depending on the type of collateral and then discounted for 2 years at the original effective rate Certain levels of LGD are established as a result of applying these methods.

The Bank segments its retail lending products into homogeneous groups based on similar parameters In particular the Bank determines product groups by such parameters as: by type of collateral by maturities by the characteristics of the borrower etc.

LGD rates are estimated for the Stage 1, Stage 2, Stage 3 and POCI segment of each asset class.

Significant increase in credit risk

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk. The Bank believes that the credit risk of a financial instrument has increased significantly since initial recognition and the financial asset is classified to Stage 2, in the following cases:

- For commercial lending, late payments on a financial instrument increased by 30 to 90 days; assignment of a "potentially problematic transaction" characteristic to a financial instrument; decrease in client rating from the moment a financial asset is recognized by 3 or more positions (depending on the initially assigned rating at the time of recognition of a financial asset);
- For retail and small business loans late payments on a financial instrument increased by 30 to 90 days.

Assessment of ECL allowances

Assessment of ECL allowances is carried out according to the following scenarios:

Corporate lending

For the entire portfolio, in the context of each financial asset, the following indicators are assessed: probability of default of the client (based on a rating determined and established for each client); LGD, which provides for an assessment of "Recovery cash" and the distributional value of collateral. The LGD is assessed individually for each financial asset.

Small business, consumer and mortgage lending

Similar to a commercial lending portfolio, the following indicators are assessed for the entire portfolio of each financial asset: probability of default of the client (based on transition matrices (Markov Chains method); LGD, which provides for the assessment of "Recovery cash" and the distributional value of collateral. In connection with the individual assessment of LGD for each financial asset, calculation of allowance for a portfolio of small businesses, consumer lending and mortgage lending is also carried out individually in the context of each financial asset. Exceptions include "Cash loan" products, card products. Assessment of ECL allowance in the portfolio of these products is carried out on a collective basis. This is due to the lack of collateral, which excludes an individual assessment of LGD, in this regard, ECL allowance in these products is assessed on a collective basis.

Regardless of the portfolio, all financial assets that are assigned to Stage 3 have a default probability of 100%.

ECL allowances for financial assets allocated to Stage 3 in the commercial lending portfolio and the small business lending portfolio with a carrying value of more than 0.2% of the Bank's equity are assessed on an individual basis and based on multiple economic scenarios.

(in thousands of tenge, unless otherwise is stated)

26. Risk management (continued)

Credit risk (continued)

Assessment of ECL allowances (continued)

Forward-looking information and multiple economic scenarios

In its ECL models, the Bank relies on a broad range of forward looking information as economic inputs, such as:

- GDP growth;
- Price of Brent crude oil per barrel;
- Copper price growth rate (LME).

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

The Bank obtains the forward-looking information from third party sources (external rating agencies, governmental bodies e.g. central banks, and international financial institutions).

Rapid spread of COVID-19 pandemic in 2020 and related public health and social measures may affect the activities of companies from various industries. The following changes in the economic environment may affect the Bank's operations:

- Reduced industrial production and activities in many sectors of the economy as a result of government restrictions related to the outbreak of the COVID-19 pandemic;
- Implementation of measures of state support for the population and business related to the development of the COVID-19 pandemic;
- Significant depreciation of the tenge exchange rate against major foreign currencies, high volatility in the foreign exchange market;
- Offering clients changes to certain loan terms, including government support programs;
- Expansion of the product offering to clients via remote service channels;
- Changes in the macroeconomic indicators used in the models for estimating allowance for expected credit losses (ECL).

Key drivers	*ECL scenario*	*Assigned probabilities, %*	*2021*	*2022*	*2023*
GDP growth, %					
	Upside	10	4.466	5.360	6.260
	Base case	60	2.800	3.700	4.600
	Downside	30	-0.114	0.970	1.870
Copper price growth rate (LME)					
	Upside	10	1.378	1.367	1.224
	Base case	60	1.120	1.117	0.974
	Downside	30	0.952	0.944	0.801
Rate of price increase for Brent crude oil per barrel, US dollar					
	Upside	10	1.427	1.505	1.323
	Base case	60	1.125	1.213	1.031
	Downside	30	0.786	0.869	0.688

(in thousands of tenge, unless otherwise is stated)

26. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets

With the exception of loans to small businesses, consumer and mortgage loans, the Bank manages the credit quality of financial assets through the internal credit ratings system.

The table below shows the credit quality by class of asset for statement of financial position lines as at 31 December 2020 based on the Bank's credit rating system.

	Notes		*High grade*	*Standard grade*	*Sub-standard grade*	*Default*	*Total*
Cash and cash equivalents, except for cash on hand	6	Stage 1	**103,355,348**	**5,215,746**	–	–	**108,571,094**
Amounts due from financial institutions	8	Stage 1	**216,300**	**6,469,400**	–	–	**6,685,700**
Loans to customers at amortised cost							
- Corporate lending	10	Stage 1	**40,630,959**	**39,959,962**	**8,813,629**	–	**89,404,550**
		Stage 2	–	–	**1,706,420**		**1,706,420**
		Stage 3	–	–	–	**8,170,233**	**8,170,233**
Financial guarantees							
- Corporate lending		Stage 1	**532,500**	**729,821**	**405,924**	–	**1,668,245**
		Stage 3	–	–	–	**2,131,385**	**2,131,385**
Undrawn loan commitments							
- Corporate lending		Stage 1	**432,944**	**8,626,679**	**954,095**	–	**10,013,718**
- Letters of credit		Stage 1	**105,070**	–	–	–	**105,070**
			145,273,121	**61,001,608**	**11,880,068**	**10,301,618**	**228,456,415**

The table below shows the credit quality by class of asset for statement of financial position lines as at 31 December 2019 based on the Bank's credit rating system.

	Notes		*High grade*	*Standard grade*	*Sub-standard grade*	*Default*	*Total*
Cash and cash equivalents, except for cash on hand	6	Stage 1	56,945,142	4,380,881	–	–	61,326,023
Amounts due from financial institutions	8	Stage 1	246,125	6,899,397	–	–	7,145,522
Loans to customers at amortised cost	10						
- Corporate lending		Stage 1	14,808,736	38,104,434	6,430,229	–	59,343,399
		Stage 3	–	–	–	3,804,932	3,804,932
Financial guarantees							
- Corporate lending		Stage 1	1,342,551	1,214,086	757,949	–	3,314,586
		Stage 3	–	–	–	1,759,546	1,759,546
Undrawn loan commitments							
- Corporate lending		Stage 1	5,620,194	2,149,598	5,479,458	–	13,249,250
Letters of credit		Stage 1	–	1,010,017	–	–	1,010,017
			78,962,748	53,758,413	12,667,636	5,564,478	150,953,275

It is the Bank's policy to maintain accurate and consistent risk ratings across the corporate lending portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly.

Financial guarantees, letters of credit and loan commitments are assessed and a allowance for expected credit losses is calculated in similar manner as for loans.

(in thousands of tenge, unless otherwise is stated)

26. Risk management (continued)

Credit risk (continued)

Deferred payments, concessional financing, and other customer support measures

Support of small- and medium-sized businesses in cooperation with the Kazakhstan Sustainability Fund JSC

In 2020, the Bank, together with the Kazakhstan Sustainability Fund JSC (KSF), participated in the program of concessional lending to business entities, aimed at supporting entrepreneurs affected by imposition of a state of emergency in the country in view of coronavirus infection. The final lending rate for the ultimate borrower is up to 8.0% per annum.

As at 31 December 2020, the liabilities to the KSF include deposits in the amount of KZT 7,356,523 thousand received from the KSF under the program to support small and medium-sized businesses as part of the implementation of measures introduced by the government due to the consequences of the COVID-19 pandemic. The accrual and payment of interest is not provided for until the above funds are utilised by the Bank. Deposits are denominated in tenge, the nominal interest rate is 5.0% per annum (after disbursement) and the maturity date is 2021 *(Note 15)*.

Under this program, 125 applications from customers were approved for a total amount of KZT 10,266,777 thousand, loans were issued in tenge with a nominal interest rate of 7.0-8.0 % per annum and maturing in 2021.

The purpose of loans to customers is to replenish working capital (purchase of goods and other tangible assets, works, services; replenishment of stocks, consumables and raw materials; expansion of the range; fulfillment of contractual obligations; implementation of current expenses, including administrative expenses (payment of wages to employees, payment of taxes, etc.).

No fees are charged for the provision and servicing of a loan and/or new financing under credit lines, except for fees for violations and (or) changes to the terms of the loan.

Support for individuals following imposition of the state of emergency

According to the Decree of the President of the Republic of Kazakhstan No. 285 dated 15 March 2020 and in accordance with the Procedure for suspension of payments of principal amounts and interest approved by the Order of the Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market No. 167 dated 26 March 2020, in order to ensure socio-economic stability following the imposition of the state of emergency in the country from 16 March to 15 June 2020, for individuals whose financial condition deteriorated, payments under bank loan agreements were suspended by granting a grace period for paying the principal amount and interest.

Deferred and due payments of principal and interest in grace period from 16 March 2020 to 15 June 2020 (inclusive) were distributed until the end of the loan term by increasing the loan term in order to reduce the credit burden. At that:

- For individual borrowers (socially vulnerable segments of the population, recipients of targeted social aid, and registered unemployed) – unpaid amounts on the principal and interest during the grace period are deferred to the next months by extending the loan term without changing the monthly payments according to the repayment schedule;
- For loans to individuals under the Beneficial Auto and Nyrly Zher Mortgage products – deferred and due payments on the principal and interest during the grace period are distributed over the remaining term of the loan without increasing the loan term (with the accrual of interest on the balance of the principal at the time of granting the deferral);
- For loans overdue for not more than 60 calendar days as at 16 March 2020 – the amount of overdue principal, overdue interest and interest accrued on overdue principal were transferred to the accounts of outstanding loan due and distributed until the end of the loan term with an increase in the loan term.

Commissions and other fees for consideration of the application for suspension of payments and the corresponding amendment of the pledge agreements and other related agreements are not charged:

1. The grace period was granted on the basis of the borrower's application (in any form containing the reason for the suspension of payments) and submitted to the Bank by any available means in the period from 16 March to 15 June 2020 (inclusive). At that, it was not required to receive an application from borrowers belonging to socially vulnerable segments of the population, recipients of targeted social aid, and registered unemployed, but with the information and consent of the borrower in accessible ways, without the requirement of supporting documents;
2. As the number of requests from individuals (pool of borrowers) accumulates, the matter of granting a deferral with 'not defaulted' characteristics is submitted to the authorised body of the Bank for consideration without receiving and attaching the relevant expert opinions to the credit dossier;
3. In case of a favourable decision of the authorised body, the deferral is reflected in the accounting system without signing additional agreements with borrowers and without applying commission and other fees to borrowers. Additional agreements with a new repayment schedule are signed with borrowers and participants of the transaction after cancellation of the emergency.

(in thousands of tenge, unless otherwise is stated)

26. Risk management (continued)

Credit risk (continued)

Deferred payments, concessional financing, and other customer support measures (continued)

Support for legal entities following imposition of the state of emergency

In accordance with the 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 for Suspension of Payments of Principal Debt and Loan Fees to Households and Small and Medium-Sized Businesses Affected by the State of Emergency and the Procedure for Providing Support Measures to Small and Medium-Sized Businesses approved by the Order of the Agency for Regulation and Development of the Financial Market of the Republic of Kazakhstan* No. 251 dated 15 June 2020 in order to provide small and medium-sized businesses the financial position of which deteriorated during the state of emergency and (or) quarantine with additional support measures to maintain business, implement plans to restore the financial condition and prevent cases of overdue debt under bank loan and microcredit agreements, provision of deferred payments under bank loan agreements and (or) micro-credit for a period sufficient to restore the financial position and solvency of a small and medium-sized business entity. The deferred payment period is not less than 90 (ninety) calendar days, unless other terms are specified in the application of the small and medium-sized business entity.

Deferred payments were granted by establishing a new payment schedule in the form of distribution of previously deferred payments until the end of the loan term or extending the loan term for the deferred period, unless a different payment schedule was provided for in the bank loan agreement and (or) microcredit, or was not specified in the application of the small and medium-sized business entity.

The table below shows the number of client accounts and respective amounts of loans to customers that are subject to government programs and special Bank's programs as at 31 December 2020.

Concessional financing	*Corporate lending*	*Small business lending*	*Total*
State programs			
Number of pending applications	–	–	–
Number of approved applications	99	26	125
Amount of loans to customers under the program	6,845,129	3,421,648	10,266,777
% of the portfolio before ECL allowance	6.9%	17.1%	

Grace period	*Corporate lending*	*Small business lending*	*Residential mortgages*	*Consumer and other lending*	*Total*
State programs					
Number of pending applications	–	–	–	–	–
Number of approved applications	36	498	154	7,324	8,012
Amount of loan to customers under the program	2,344,053	4,733,310	1,513,247	13,063,268	21,653,878
% of the portfolio before ECL allowance	2.4%	23.6%	36.3%	24.5%	

(in thousands of tenge, unless otherwise is stated)

26. Risk management (continued)

Credit risk (continued)

Deferred payments, concessional financing, and other customer support measures (continued)

Support for legal entities following imposition of the state of emergency (continued)

The geographical concentration of Bank's financial assets and liabilities is set out below:

	2020			
	Kazakhstan	*CIS and other non OECD countries*	*OECD countries*	*Total*
Assets				
Cash and cash equivalents	**109,749,147**	**236,243**	**4,161,573**	**114,146,963**
Trading securities	**25,322,724**	**–**	**–**	**25,322,724**
Amounts due from financial institutions	**6,025,562**	**505,582**	**154,556**	**6,685,700**
Derivative financial assets	**–**	**199,991**	**–**	**199,991**
Loans to customers	**164,089,182**	**6,375**	**–**	**164,095,557**
Other financial assets	**830,635**	**2,639**	**13,442**	**846,716**
	306,017,250	**950,830**	**4,329,571**	**311,297,651**
Liabilities				
Amounts due to banks and other financial institutions	**31,273,350**	**519,051**	**3,241**	**31,795,642**
Amounts due to customers	**223,928,248**	**7,998,500**	**1,248,522**	**233,175,270**
Debt securities issued	**15,156,798**	**–**	**–**	**15,156,798**
Lease liabilities	**1,858,986**	**–**	**–**	**1,858,986**
Subordinated loan	**–**	**8,450,568**	**–**	**8,450,568**
Other financial liabilities	**1,349,623**	**4,538**	**86,375**	**1,440,536**
	273,567,005	**16,972,657**	**1,338,138**	**291,877,800**
Net assets/(liabilities)	**32,450,245**	**(16,021,827)**	**2,991,433**	**19,419,851**

	2019			
	Kazakhstan	*CIS and other non OECD countries*	*OECD countries*	*Total*
Assets				
Cash and cash equivalents	58,875,671	288,102	7,011,264	66,175,037
Amounts due from financial institutions	7,005,801	19,506	120,215	7,145,522
Derivative financial assets	34,724	–	–	34,724
Loans to customers	122,887,908	40,430	–	122,928,338
Other financial assets	1,388,981	77,833	19,861	1,486,675
	190,193,085	425,871	7,151,340	197,770,296
Liabilities				
Amounts due to banks and other financial institutions	26,049,278	1,999,730	3,080,435	31,129,443
Derivative financial liabilities	34,703	171,785	–	–
Amounts due to customers	120,469,495	1,471,574	1,570,208	123,511,277
Debt securities issued	14,759,142	–	–	14,759,142
Lease liabilities	3,226,602	–	–	3,226,602
Subordinated loan	–	9,264,867	–	9,264,867
Other financial liabilities	1,329,431	18,456	16,914	1,364,801
	165,868,651	12,926,412	4,667,557	183,256,620
Net assets/(liabilities)	24,324,434	(12,500,541)	2,483,783	14,307,676

(in thousands of tenge, unless otherwise is stated)

26. Risk management (continued)

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. In order to limit this risk the management ensured availability of different funding sources in addition to the existing minimal amount of bank deposits. Also, it manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

For the purpose of evaluation and decrease of risk of liquidity as well as to manage this risk, the Bank uses the following ways:

- Analysis of contractual maturities and forecasting cash flows (gap analysis), as well as analysis of deposit base concentration;
- Establishing limits for maturity gaps (gap limit) as well as establishing and regular updating of limits on the total volume of financing considering current and forecast levels of liquidity;
- Distribution and using of treasury securities portfolio to manage current liquidity;
- Development of emergency action plans (plans for emergency financing).

The Bank is also obliged to comply with liquidity requirements established by the regulators including requirements of the NBRK represented by obligatory norms.

The Banks monitors a number of internal liquidity indicators in a daily basis. The Bank's Treasury Department manages short-term liquidity on an on-going basis using cash position and portfolio of highly marketable securities.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. In addition, the Bank maintains cash (obligatory reserve) with the NBRK, the amount of which depends on the level of the Bank's liabilities.

Analysis of financial liabilities by remaining contractual maturities

The tables below summarise the maturity profile of the Bank's financial liabilities at 31 December based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not require repayment on the earliest date at which the Bank will be required to make an appropriate payment and presents time deposits of physical persons by maturities based on this proposal in the table below:

	2020				
Financial liabilities	*Less than 3 months*	*From 3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Amounts due to banks and other financial institutions	**13,000,139**	**7,144,013**	**11,285,542**	**13,215,785**	**44,645,479**
Amounts due to customers	**122,236,397**	**98,885,620**	**17,383,694**	**–**	**238,505,711**
Debt securities issued	**97,862**	**15,716,769**	**–**	**–**	**15,814,631**
Lease liabilities	**136,185**	**309,055**	**1,292,375**	**691,079**	**2,428,694**
Subordinated loan	**187,628**	**563,052**	**10,762,590**	**–**	**11,513,270**
Other financial liabilities	**1,440,536**	**–**	**–**	**–**	**1,440,536**
Total undiscounted financial liabilities	**137,098,747**	**122,618,509**	**40,724,201**	**13,906,864**	**314,348,321**

	2019				
Financial liabilities	*Less than 3 months*	*From 3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Amounts due to banks and other financial institutions	22,325,536	1,067,742	6,684,612	7,497,763	37,575,653
Amounts due to customers	45,908,982	45,710,319	34,918,315	–	126,537,616
Debt securities issued	356,909	917,213	16,209,235	–	17,483,357
Lease liabilities	215,766	539,876	2,426,086	1,261,075	4,442,803
Subordinated loan	205,718	621,675	3,302,789	9,298,776	13,428,958
Other financial liabilities	1,364,801	–	–	–	1,364,801
Total undiscounted financial liabilities	70,377,712	48,856,825	63,541,037	18,057,614	200,833,188

(in thousands of tenge, unless otherwise is stated)

26. Risk management (continued)

Liquidity risk and funding management (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

In accordance with the Civil Code of the Republic of Kazakhstan, the Bank is obliged to repay the customer deposits upon demand of depositors.

The table below shows the contractual expiry by maturity of the Bank's financial commitments and contingencies: each undrawn commitment on lending is included in the time band containing the earliest date it can be drawn down. In the case of financial guarantee contracts the maximum amount of guarantee applies to the earliest period in which this guarantee may be called.

	2020				
	Less than 3 months	*From 3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Commitments and contingencies	**6,122,620**	**1,131,781**	**11,305,270**	**201,690**	**18,761,360**

	2019				
	Less than 3 months	*From 3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Commitments and contingencies	17,548,614	3,371,611	2,935,840	720,877	24,576,942

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchanges. The market risk for the trading and non-trading portfolio is managed and monitored based on sensitivity analysis. Except for the concentrations within foreign currency, the Bank has no significant concentration of market risk.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Risk Committee established limits on foreign currency positions based on NBRK standards. Positions are monitored on a daily basis.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against tenge, with all other variables held constant on the profit or loss (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on profit or loss. All other variables are held constant. The negative amount in the table reflects a potential net reduction in profit or loss or equity, while a positive amount reflects a net potential increase.

	2020			
Currency	*Change in currency rate in %*	*Effect on profit before tax*	*Change in currency rate in %*	*Effect on profit before tax*
US dollar	**14%**	**9,415,818**	**-11%**	**(7,398,143)**
Euro	**14%**	**26,849**	**-11%**	**(21,096)**
Russian ruble	**15%**	**(2,085,628)**	**-15%**	**2,085,628**
GBP	**14%**	**460**	**-11%**	**(362)**

(in thousands of tenge, unless otherwise is stated)

26. Risk management (continued)

Market risk (continued)

Currency risk (continued)

	2019			
Currency	*Change in currency rate in %*	*Effect on loss before tax*	*Change in currency rate in %*	*Effect on loss before tax*
USD	12%	(3,495,269)	-9%	2,621,452
Euro	12%	3,624,815	-9%	(2,718,611)
Russian ruble	12%	(993,821)	-12%	993,821
GBP	12%	3,051	-9%	(2,289)

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but a control framework and monitoring and responding to potential risks could be effective tools to manage the risks. Controls should include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

27. Fair values of financial instruments

The Bank determines determines the policies and procedures for both recurring fair value measurement, such as unquoted available-for-sale securities and for non-recurring measurement, such as assets held for sale.

At each reporting date, the Bank analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Bank's accounting policies. For this analysis, the Bank verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Bank also compares each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable. On an interim basis, the Bank presents the valuation results to the audit committee and the Bank's independent auditors. In addition, main assumptions used in measurement are discussed.

The following table presents analysis of assets and liabilities based on the assets and liabilities nature, characteristics and risks as well as the hierarchy of fair value sources.

31 December 2020	*Date of valuation*	*Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant unobservable inputs (Level 3)*	*Total*
Assets measured at fair value					
Derivative financial assets	31 December 2020	**199,991**	–	–	**199,991**
Trading securities	31 December 2020	**25,322,724**	–	–	**25,322,724**
Assets for which fair value is disclosed					
Cash and cash equivalents	31 December 2020	–	**114,146,963**	–	**114,146,963**
Amounts due from financial institutions	31 December 2020	–	**6,685,700**	–	**6,685,700**
Loans to customers	31 December 2020	–	–	**168,103,162**	**168,103,162**
Other financial assets	31 December 2020	–	–	**846,716**	**846,716**
Liabilities measured at fair value					
Derivative financial liabilities	31 December 2020	–	–	–	–
Liabilities whose fair value is disclosed					
Amounts due to banks and other financial institutions	31 December 2020	–	**32,809,637**	–	**32,809,637**
Amounts due to customers	31 December 2020	–	**233,157,203**	–	**233,157,203**
Debt securities issued	31 December 2020	–	**14,984,416**	–	**14,984,416**
Lease liabilities	31 December 2020	–	–	**1,858,986**	**1,858,986**
Subordinated loan	31 December 2020	–	**8,450,568**	–	**8,450,568**
Other financial liabilities	31 December 2020	–	–	**1,440,536**	**1,440,536**

(in thousands of tenge, unless otherwise is stated)

27. Fair values of financial instruments (continued)

31 December 2019	*Date of valuation*	*Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant unobservable inputs (Level 3)*	*Total*
Assets measured at fair value					
Derivative financial assets	31 December 2019	34,724	–	–	34,724
Assets for which fair value is disclosed					
Cash and cash equivalents	31 December 2019	–	66,175,037	–	66,175,037
Amounts due from financial institutions	31 December 2019	–	7,145,522	–	7,145,522
Loans to customers	31 December 2019	–	–	129,222,011	129,222,011
Other financial assets	31 December 2019	–	–	1,486,675	1,486,675
Liabilities measured at fair value					
Derivative financial liabilities	31 December 2019	206,488	–	–	206,488
Liabilities whose fair value is disclosed					
Amounts due to banks and other financial institutions	31 December 2019	–	29,728,507	–	29,728,507
Amounts due to customers	31 December 2019	–	123,459,666	–	123,459,666
Debt securities issued	31 December 2019	–	14,761,369	–	14,761,369
Lease liabilities	31 December 2019	–	–	3,226,602	3,226,602
Subordinated loan	31 December 2019	–	9,264,867	–	9,264,867
Other financial liabilities	31 December 2019	–	–	1,364,801	1,364,801

During 2020 and 2019 the Bank did not make transfers between levels of the fair value hierarchy for financial instruments recorded at fair value.

Fair values of financial assets and liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	2020			*2019*		
	Carrying amount	*Fair value*	*Unrecognised gain/ (loss)*	*Carrying amount*	*Fair value*	*Unrecognised gain/ (loss)*
Financial assets						
Cash and cash equivalents	**114,146,963**	**114,146,963**	–	66,175,037	66,175,037	–
Amounts due from financial institutions	**6,685,700**	**6,685,700**	–	7,145,522	7,145,522	–
Loans to customers	**164,095,557**	**168,103,162**	**4,007,605**	122,928,338	129,222,011	6,293,673
Other financial assets	**846,716**	**846,716**	–	1,486,675	1,486,675	–
Financial liabilities						
Amounts due to banks and other financial institutions	**31,795,642**	**32,809,637**	**(1,013,995)**	31,129,443	29,728,507	1,400,936
Amounts due to customers	**233,175,270**	**233,157,203**	**18,067**	123,511,277	123,459,666	51,611
Debt securities issued	**15,156,798**	**14,984,416**	**172,382**	14,759,142	14,761,369	(2,227)
Lease liabilities	**1,858,986**	**1,858,986**	–	3,226,602	3,226,602	–
Subordinated loan	**8,450,568**	**8,450,568**	–	9,264,867	9,264,867	–
Other financial liabilities	**1,440,536**	**1,440,536**	–	1,364,801	1,364,801	–
Total unrecognised change in unrealised fair value			**3,184,059**			7,743,993

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in these financial statements.

(in thousands of tenge, unless otherwise is stated)

27. Fair values of financial instruments (continued)

Assets for which fair value approximates carrying value

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

Fixed and variable rate financial instruments

In the event of quoted debt instruments, fair value is based on quoted market prices. The fair value of unquoted instruments, loans to customers, customer deposits, amounts due from financial institutions, deposits of banks and other financial institutions, other financial assets and liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities. In determining the current interest rate, the Bank uses available information published on the official site of NBRK.

Significant non-observable source data and sensitivity of financial instruments of level 3 measured at fair value to changes in key assumptions

As at 31 December 2020 and 2019, the Bank had no financial instruments of Level 3 measured at fair value.

28. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See *Note 24* "Risk management" for the Bank's contractual undiscounted repayment obligations.

	2020			*2019*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Cash and cash equivalents	**114,146,963**	–	**114,146,963**	66,175,037	–	66,175,037
Trading securities	**25,322,724**	–	**25,322,724**	–	–	–
Amounts due from financial institutions	**6,685,700**	–	**6,685,700**	1,312,292	5,833,230	7,145,522
Derivative financial assets	**199,991**	–	**199,991**	34,724	–	34,724
Loans to customers	**36,335,661**	**127,759,896**	**164,095,557**	51,852,091	71,076,247	122,928,338
Property and equipment and right of use assets	–	**5,006,406**	**5,006,406**	–	6,787,627	6,787,627
Intangible assets	–	**4,372,119**	**4,372,119**	–	3,181,796	3,181,796
Current corporate income tax assets	**193,171**	–	**193,171**	21,061	–	21,061
Deferred corporate income tax assets	–	–	–	–	154,063	154,063
Other assets	**1,853,512**	**1,063,237**	**2,916,749**	1,890,865	1,012,668	2,903,533
Total	184,737,722	138,201,658	322,939,380	121,286,070	88,045,631	209,331,701
Amounts due to banks and other financial institutions	**19,814,771**	**11,980,871**	**31,795,642**	22,433,963	8,695,480	31,129,443
Government grants	**2,971,279**	–	**2,971,279**	3,026,766	–	3,026,766
Derivative financial liabilities	–	–	–	206,488	–	206,488
Amounts due to customers	**215,019,959**	**18,155,311**	**233,175,270**	90,972,002	32,539,275	123,511,277
Debt securities issued	**15,156,798**	–	**15,156,798**	393,175	14,365,967	14,759,142
Lease liabilities	–	**1,858,986**	**1,858,986**	–	3,226,602	3,226,602
Subordinated loan	**20,568**	**8,430,000**	**8,450,568**	24,867	9,240,000	9,264,867
Deferred corporate income tax liabilities	–	**315,737**	**315,737**	–	–	–
Other liabilities	**2,652,296**	**125,248**	**2,777,544**	2,054,606	774,054	2,828,660
Total	**255,635,671**	**40,866,153**	**296,501,824**	119,111,867	68,841,378	187,953,245
Net position	**(70,897,949)**	**97,335,505**	**26,437,556**	2,174,203	19,204,253	21,378,456

The Bank's capability to repay its liabilities relies on its ability to realise an equivalent amount of assets within the same period of time.

(in thousands of tenge, unless otherwise is stated)

29. Related party transactions

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not. Transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Transactions with government-related entities

The Russian Federation controls the Bank through the Federal Agency for the Administration of State Property of the Russian Federation.

The Russian Federation through its state agencies and other institutions directly and indirectly controls and has significant influence over a significant number of entities (together referred to as "entities associated with the state").

In the course of its daily activities, the Bank performs all transactions with related parties at prices established on the basis of market rates.

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

	2020			
	Parent	*Entities under common control of the Parent*	*Government-related entities*	*Key management personnel*
Cash and cash equivalents as at 1 January	287,935	73,082	–	–
Receipts on current accounts during the year	2,477,466,412	493,301,737	–	–
Payments from the current accounts during the year	(2,477,518,104)	(493,082,628)	–	–
Cash and cash equivalents as at 31 December, before ECL allowance	236,243	292,191	–	–
	–	–	–	–
Less ECL allowance	(2)	(2)	–	–
Cash and cash equivalents as at 31 December, less ECL allowance	236,241	292,189	–	–
	–	–	–	–
Loans to customers as at 1 January	–	–	–	–
Loans issued during the year	–	–	–	3,118
Loans repaid during the year	–	–	–	(3,118)
Loans to customers at 31 December	–	–	–	–
Amounts due to banks and other financial institutions as at 1 January	1,995,506	12,926	–	–
Proceeds during the year	2,197,892,552	112,578,967	139,015	–
Payments during the year	(2,199,376,506)	(112,585,962)	182,698	–
Amounts due to banks and other financial institutions as at 31 December	511,552	5,931	321,713	–
	–	–	–	–
Amounts due to customers at 1 January	–	–	–	7,873
Receipts on current accounts during the year	–	–	–	629,213
Payments from the current accounts during the year	–	–	–	(632,124)
Amounts due to customers at 31 December	–	–	–	4,962
Subordinated debt as at 1 January	9,264,867			
Repayments made during the year	–	–	–	–
Accrued interest on subordinated debt	768,218	–	–	–
Payment of interest income on subordinated debt	(763,796)	–	–	–
Effect from changes in exchange rates	(818,721)	–	–	–
Subordinated debt as at 31 December	8,450,568	–	–	–

(in thousands of tenge, unless otherwise is stated)

29. Related party disclosures (continued)

	2019			
	Parent	*Entities under common control of the Parent*	*Government-related entities*	*Key management personnel*
Cash and cash equivalents as at 1 January	73,003	29,965	–	–
Receipts on current accounts during the year	2,376,525,138	487,070,511	–	–
Payments from the current accounts during the year	(2,376,310,167)	(487,027,393)	–	–
Cash and cash equivalents as at 31 December, before allowance	287,974	73,083	–	–
Less ECL allowance	(39)	(1)	–	–
Cash and cash equivalents as at 31 December, less ECL allowance	287,935	73,082	–	–
Loans to customers as at 1 January	–	–	–	334
Loans issued during the year	–	–	–	–
Loans repaid during the year	–	–	–	(334)
Loans to customers at 31 December	–	–	–	–
Investment securities as at 1 January	–	–	592,067	–
Available-for-sale investment securities sold during the year	–	–	(600,000)	–
Change in accrued interest on debt securities at fair value through other comprehensive income	–	–	(28,953)	–
Fair value revaluation on debt securities at fair value through other comprehensive income	–	–	36,886	–
Investment securities as at 31 December, before ECL allowance	–	–	–	–
Less ECL allowance	–	–	–	–
Investment securities as at 31 December, less ECL allowance	–	–	–	–
Amounts due to banks and other financial institutions as at 1 January	2,541,678	9,282	–	–
Proceeds during the year	2,061,889,398	164,674,791	–	–
Payments during the year	(2,062,435,570)	(164,671,147)	–	–
Amounts due to banks and other financial institutions as at 31 December	1,995,506	12,926	–	–
Amounts due to customers at 1 January	–	–	–	7,612
Receipts on current accounts during the year	–	–	–	413,183
Payments from the current accounts during the year	–	–	–	(412,922)
Amounts due to customers at 31 December	–	–	–	7,873
Subordinated debt as at 1 January	13,840,183	–	–	–
Repayments made during the year	(5,800,000)	–	–	–
Accrued interest on subordinated debt	854,626	–	–	–
Payment of interest income on subordinated debt	(886,868)	–	–	–
Effect from changes in exchange rates	1,256,926	–	–	–
Subordinated debt as at 31 December	9,264,867	–	–	–

(in thousands of tenge, unless otherwise is stated)

29. Related party disclosures (continued)

Transactions with government-related entities (continued)

	2020				2019			
	Parent	*Entities under common control of the Parent*	*Govern-ment-related entities*	*Key manage-ment personnel*	*Parent*	*Entities under common control of the Parent*	*Govern-ment-related entities*	*Key manage-ment personnel*
Cash and cash equivalents								
Interest revenue	**733**	**2,127**	–	–	1,527	–	–	–
Interest rates	–	–	–	–	0.5%	–	–	–
Loans to customers								
Interest revenue	–	–	–	–	–	–	–	–
Interest rates	–	–	–	–	–	–	–	20%
Investment securities								
Interest revenue	–	–	–	–	–	–	11,547	–
Interest rates	–	–	–	–	–	–	8.75%	–
Amounts due to banks and other financial institutions								
Interest expense	**(1,623)**	–	–	–	(9,760)	–	–	–
Interest rates	–	–	–	–	0.01-7.5%	–	–	–
Subordinated loan								
Interest expense	**(768,218)**	–	–	–	(854,626)	–	–	–
Interest rates	**8.93%**	–	–	–	8.93%	–	–	–

Compensation to key management personnel totalling 6 persons (in 2019 – 7 persons) includes the following:

	2020	*2019*
Salaries and other short-term benefits	**389,115**	310,824
Social security costs	**36,902**	29,554
Total key management personnel compensation	**426,017**	340,378

30. Changes in liabilities arising from financing activities

	Debt securities issued	*Subordinated debt*
Carrying amount as at 31 December 2018	20,407,415	13,840,183
Issue	14,299,410	–
Redemption	(20,000,000)	(5,800,000)
Foreign exchange differences	–	1,240,000
Other	52,317	(15,316)
Carrying amount at 31 December 2019	14,759,142	9,264,867
Foreign exchange differences	–	**(818,721)**
Other	**397,656**	**4,422**
Carrying amount as at 31 December 2020	**15,156,798**	**8,450,568**

The "Other" line also includes the effect of accrued but not yet paid interest on debt securities issued and subordinated loans. The Bank classifies interest paid as cash flows from operating activities.

(in thousands of tenge, unless otherwise is stated)

31. Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the NBRK in supervising the Bank.

As at 31 December 2020 and 2019, the Bank had complied in full with all its externally imposed capital requirements.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

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

The NBRK sets and monitors capital requirements for the Bank.

Under the current capital requirements set by the NBRK banks have to maintain:

- A ratio of basic capital to the sum of credit risk weighted assets and contingent liabilities, market risk and a quantitative measure of operating risk weighted assets and contingent liabilities and (k1);
- A ratio of tier 1 capital less investments to the sum of credit risk-weighted assets and contingent liabilities, market risk and a quantitative measure of operational risk weighted assets, contingent assets and liabilities (k1-2);
- A ratio of own capital to the sum of credit risk weighted assets and contingent liabilities, market risk and a quantitative measure of operating risk weighted assets and contingent liabilities and (k2).

The Bank's equity is calculated as the sum of tier 1 capital and tier 2 capital less positive differences calculated in accordance with the requirements of the NBRK.

Investments for the purposes of calculation of the above ratios represent investments into share capital (interest in the share capital) of a legal entity and subordinated debt of a legal entity if their total exceeds 10% of the total of tier 1 and tier 2 capital of the Bank.

In February 2020, an assessment of the quality of the Bank's assets as of 1 April 2019 initiated by the NBRK was completed. As at the assessment date, the Bank has a reserve of equity, taking into account the audit results.

The following table shows the composition of the Bank's capital position calculated in accordance with the NBRK requirements as at 31 December:

	2020	*2019*
Tier 1 capital	**22,277,374**	17,915,075
Tier 2 capital	**6,744,000**	9,240,000
Positive differences to be deducted from equity	**–**	–
Equity	**29,021,374**	27,155,075
Risk-weighted statutory assets, contingent and possible liabilities, operational and market risk	**196,279,261**	174,178,677
Ratio k1 (min. 5.5%)	**11.3%**	10.3%
Ratio k1-2 (min. 6.5%)	**11.3%**	10.3%
Ratio k2 (min. 8.0%)	**14.8%**	15.60%