JSC “Bank Freedom Finance Kazakhstan”

Separate financial statements

for 2021 together with independent auditor’s report

CONTENTS

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INDEPENDENT AUDITOR'S REPORT

To the Shareholder and Board of Directors of JSC Bank Freedom Finance Kazakhstan

Opinion

We have audited the separate financial statements of JSC Bank Freedom Finance Kazakhstan (the "Bank"), which comprise the separate statement of financial position as at 31 December 2021, and the separate statement of profit or loss and other comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2021, 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 Separate Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the separate financial statements in the Republic of Kazakhstan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The financial statements of the Bank for the year ended 31 December 2020, were audited by another auditor who expressed an unmodified opinion on those statements on 26 April 2021.

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

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

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

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

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

Deloitte LLP
State license on auditing in the
Republic of Kazakhstan
0000015, type MFU-2, issued by
the Ministry of Finance of the
Republic of Kazakhstan
dated 13 September 2006

Zhangir Zhilysbayev
Engagement partner
Qualified auditor
of the Republic of Kazakhstan
Qualification certificate
No. MF-0000116
dated 22 November 2012
General Director
Deloitte LLP

29 April 2022
Almaty, Kazakhstan

SEPARATE STATEMENT OF FINANCIAL POSITION

as at 31 December 2021

(in thousands of tenge)

	Notes	*2021*	*2020*
Assets			
Cash and cash equivalents	5	**42,799,179**	47,782,215
Amounts due from financial institutions	6	**2,247,442**	857,825
Loans to customers	7	**15,789,745**	411,444
Investment securities	8	**325,984,528**	27,187,514
Property and equipment	9	**4,894,130**	4,369,243
Investment in a subsidiary		**3,000**	3,000
Intangible assets	10	**1,246,608**	1,161,940
Current corporate income tax assets	12	**920,094**	126,025
Other assets	11	**1,402,316**	745,827
Total assets		**395,287,042**	82,645,033
Liabilities			
Financial instruments at fair value through profit or loss		**8,650**	–
Amounts due to financial institutions	13	**3,828,429**	2,380,381
Amounts due to customers	14	**101,727,860**	50,818,928
Liabilities under repurchase agreements	15	**238,739,451**	7,940,553
Deferred corporate income tax liabilities	12	**231,385**	574,923
Subordinated loan	16	**1,040,000**	3,392,737
Lease liabilities		**128,854**	128,118
Other liabilities	17	**761,051**	180,739
Total liabilities		**346,465,680**	65,416,379
Equity			
Share capital	18	**32,356,139**	9,356,140
Additional paid-in capital	16	**2,400,340**	–
Revaluation reserve for property and equipment	18	**335,668**	340,075
Retained earnings		**13,729,215**	7,532,439
Total equity		**48,821,362**	17,228,654
Total equity and liabilities		**395,287,042**	82,645,033

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

Akhmetova G.A. — Chairperson of the Management Board

Kubeeva D.K. — Chief Accountant

29 April 2022

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2021

(in thousands of tenge)

	Notes	2021	2020
Interest income calculated using effective interest rate	19	**17,144,260**	10,637,722
Interest expense	19	**(13,824,156)**	(5,215,796)
Net interest income	19	**3,320,104**	5,421,926
Credit loss expense		**(274,134)**	(2,302,797)
Net interest income after credit loss expense		**3,045,970**	3,119,129
Net fee and commission income	20	**147,285**	758,678
Net income /(expenses) on transactions with financial instruments at fair value through profit or loss	21	**6,920,056**	(51,611)
Net gains/(losses) from foreign currencies			
- dealing		**1,508,045**	973,275
- translation differences		**(136,079)**	(159,258)
Gain on derecognition of financial assets measured at amortized cost		**–**	197,482
Other income		**88,134**	72,189
Non-interest income		**8,527,441**	1,790,755
Personnel expenses	22	**(3,338,504)**	(1,932,604)
Administrative and other operating expenses	22	**(2,335,433)**	(2,559,308)
Other expense		**(50,643)**	(85,760)
Non-interest expense		**(5,724,580)**	(4,577,672)
Net gain on disposal of assets and liabilities held for sale, net	30	**–**	1,462,005
Profit before corporate income tax expense		**5,848,831**	1,794,217
Corporate income tax benefit/(expense)	12	**343,538**	(314,662)
Profit for the year		**6,192,369**	1,479,555
Other comprehensive income			
Other comprehensive income/(loss) not to be reclassified to profit or loss in the subsequent periods			
Revaluation of property and equipment	26	**–**	(508,627)
Corporate income tax relating to components of comprehensive income		**–**	101,724
Other comprehensive loss for the year, net of corporate income tax		**–**	(406,903)
Total comprehensive income for the year		**6,192,369**	1,072,652
Basic and diluted earnings per share (in tenge)	23	**547.18**	158.14

The accompanying notes on pages 8 to 56 are an integral part of these separate financial statements.

SEPARATE STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2021

(in thousands of tenge)

	Notes	*Share capital*	*Additional paid-in capital*	*Revaluation reserve for property and equipment*	*Retained earnings*	*Total equity*
At 31 December 2019		9,356,140	–	761,249	6,038,613	16,156,002
Profit for the year		–	–	–	1,479,555	1,479,555
Other comprehensive loss for the year		–	–	(406,903)	–	(406,903)
Total comprehensive income for the year		–	–	(406,903)	1,479,555	1,072,652
Amortization of property and equipment revaluation reserve		–	–	(14,271)	14,271	–
At 31 December 2020		9,356,140	–	340,075	7,532,439	17,228,654
Profit for the year		–	–	–	6,192,369	6,192,369
Other comprehensive income for the year		–	–	–	–	–
Total comprehensive income for the year		–	–	–	6,192,369	6,192,369
Increase in share capital		22,999,999	–	–	–	22,999,999
Redemption of subordinated loan	16	–	2,400,340	–	–	2,400,340
Amortization of property and equipment revaluation reserve		–	–	(4,407)	4,407	–
At 31 December 2021		32,356,139	2,400,340	335,668	13,729,215	48,821,362

The accompanying notes on pages 8 to 56 are an integral part of these separate financial statements.

SEPARATE STATEMENT OF CASH FLOWS

for the year ended 31 December 2021

(in thousands of tenge)

	Notes	*2021*	*2020*
Cash flows from operating activities			
Interest received		**17,577,119**	11,520,659
Interest paid		**(13,808,723)**	(5,340,719)
Fees and commissions received		**2,124,723**	1,615,700
Fees and commissions paid		**(1,882,716)**	(834,313)
Net realized income on transactions with financial instruments at fair value through profit or loss		**6,928,706**	973,275
Net gains/(losses) from foreign currency, trading		**1,508,045**	(61,237)
Other income received		**87,709**	69,461
Personnel expenses paid		**(3,253,420)**	(2,365,384)
Administrative and other operating expenses paid		**(1,816,376)**	(1,368,475)
Cash flows from operating activities before changes in operating assets and liabilities		**7,465,067**	4,208,967
Net changes in operating assets and liabilities			
Amounts due from financial institutions		**(1,368,663)**	(40,907)
Investment securities measured at fair value through profit or loss		**(299,021,240)**	–
Loans to customers		**(15,641,298)**	64,723,623
Other assets		**(435,348)**	3,499,637
Financial instruments at fair value through profit or loss		**276**	–
Amounts due to financial institutions		**1,453,821**	(6,939,545)
Amounts due to customers		**50,640,393**	(38,226,882)
Liabilities under repurchase agreements		**230,798,898**	7,940,553
Other liabilities		**258,345**	(25,375)
Net cash flows (used in)/ from operating activities before corporate income tax		**(25,849,749)**	35,140,071
Corporate income tax paid		**(794,069)**	(1,250,131)
Net cash (used in)/from operating activities		**(26,643,818)**	33,889,940
Cash flows from investing activities			
Purchase of investment securities at amortized cost		**–**	(27,087,509)
Proceeds from redemption of investment securities at amortized cost		**–**	4,353,781
Purchase of investment securities at fair value through other comprehensive income		**–**	(1,599,634)
Proceeds from redemption of investment securities at fair value through other comprehensive income		–	1,679,956
Purchase of property and equipment		**(919,907)**	(54,453)
Purchase of intangible assets		**(183,853)**	(31,858)
Proceeds from sale of property and equipment		**4,144**	534,528
Net cash used in investing activities		**(1,099,616)**	(22,205,189)
Cash flows from financing activities			
Proceeds from issuance of share capital	18	**22,999,999**	–
Repayment of lease liabilities		**(62,995)**	(99,770)
Net cash flows from/(used in) financing activities		**22,937,004**	(99,770)
Net (decrease)/increase in cash and cash equivalents		**(4,806,430)**	11,584,981
Effect of exchange rate changes on cash and cash equivalents		**(177,204)**	2,762,267
Effect of expected credit losses on cash and cash equivalents		**598**	(13,555)
Cash and cash equivalents as at 1 January	5	**47,782,215**	33,448,522
Cash and cash equivalents as at 31 December	5	**42,799,179**	47,782,215
Non-cash transactions			
Redemption of subordinated loan	16, 28	**2,400,340**	–
Repayment of loans to customers by repossessing collateral	11	**–**	1,364,943

The accompanying notes on pages 8 to 56 are an integral part of these separate financial statements.

(in thousands of tenge)

1. Principal activities

These separate financial statements comprise the financial statements of JSC "Bank Freedom Finance Kazakhstan" (the "Bank").

The Bank was registered on 31 July 2009 under the laws of the Republic of Kazakhstan. The Bank operates under a general banking license No. 1.1.260 issued by the Agency for Regulation and Supervision of Financial Markets and Financial Organizations of the Republic of Kazakhstan on 10 June 2011. The Bank's activities are regulated by the Agency of the Republic of Kazakhstan for Regulation and Development of Financial Market.

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 2021, the Bank's branch network comprises 8 branches located in the Republic of Kazakhstan (31 December 2020: 8 branches).

Registered address of the Bank's head office: Republic of Kazakhstan, Almaty, Kurmangazy, 61A.

The Bank is a member of the Kazakhstan Deposit Insurance Fund ("KDIF"). The primary goal of the KDIF is to protect interests of depositors in the event of forcible liquidation of a member-bank. As at 31 December 2021, depositors can receive limited insurance coverage for deposits up to a maximum of KZT 15 million per deposit, depending on the amount of the deposit and currency (as at 31 December 2020: KZT 15 million).

Starting from November 2015, the Bank is a member of Kazakhstan Stock Exchange foreign exchange market ("KASE").

On 31 May 2018, the Bank established a subsidiary OUSA Nova Limited Liability Partnership ("OUSA Nova LLP") in accordance with the NBRK permission to establish a subsidiary by the Bank No. 17 dated 2 May 2018. The principal activities of OUSA Nova LLP are the acquisition of doubtful and bad assets of the parent bank, sublease of real estate taken onto the books of the Bank.

On 29 July 2020, a contract for the purchase and sale of 100% of the ordinary shares of Bank Kassa Nova JSC was signed between ForteBank JSC and the investment company Freedom Finance JSC. On 25 December 2020, the transaction was closed by re-registering 100% of the Bank's ordinary shares in the Central Securities Depository JSC.

On 25 December 2020, a contract for the purchase and sale of the Bank's shares owned by ForteBank JSC in the amount of 100% of the issued share capital of the Bank was registered with the authorized body between ForteBank JSC and Freedom Finance JSC. On 1 February 2021, the name of the Bank was changed and a certificate of state re-registration of the legal entity as Freedom Finance Kazakhstan Bank JSC was received.

As at 31 December 2021 and 2020, the sole shareholder of the Bank, which owns 100% of outstanding shares is Freedom Finance JSC (the "Parent").

The Bank is under the effective control of Mr. T.R. Turlov, who is the ultimate controlling party and has the power to direct the Bank's activities at its sole discretion and on its own account.

2. Basis of preparation

General provisions

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

The separate financial statements have been prepared under the cost convention except as disclosed in the accounting policies below. For example, land, buildings within property and equipment, securities at fair value through profit or loss were measured at fair value.

These financial statements have been prepared on the assumption that the Bank will continue as a going concern for the foreseeable future. As at 31 December 2021, the Bank recognized a net cash outflow from operating activities of KZT 26,643,818 thousand. Management believes that the Bank will generate sufficient cash flow from the sale of securities to meet its obligations.

The Bank's management has no intention or need to liquidate or significantly reduce the volume of its activities.

These separate financial statements are presented in thousands of Kazakhstan tenge ("tenge" or "KZT"), unless otherwise is stated.

(in thousands of tenge)

2. Basis of preparation (continued)

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. Since March 2020, there has been significant volatility in the stock, currency and commodity markets, including decline in oil prices and depreciation of tenge against the US dollar and euro.

In 2020, the Government and 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. 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 *(Notes 7 and 25)*. In 2021, no similar measures were taken.

3. Summary of significant accounting policies

Changes in accounting policies

The accounting policies adopted in the preparation of the annual separate financial statements for the year ended 31 December 2021 are consistent with the accounting policies applied in the previous reporting year, except for the new editions of the standards adopted below, which entered into force on 1 January 2021. The Bank has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective.

New and amended IFRSs effective for the current year

The following amendments to standards and interpretations became applicable to the Bank from 1 January 2021:

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	*Interest Rate Benchmark Reform (Phase 2)*
Amendments to IFRS 16	*Covid-19-Related Rent Concessions*

The above standards and interpretations were reviewed by the Bank's management, but did not have a significant effect on the separate financial statements of the Bank.

Fair value measurement

The Bank measures financial instruments carried at fair value through profit or loss (FVPL) and fair value through other comprehensive income (FVOCI) and non-financial assets such as investment property, at fair value at each reporting date.

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

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

The principal or the most advantageous market must be accessible 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.

3. Summary of significant accounting policies (continued)

Fair value measurement (continued)

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized 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) market 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 recognized in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (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 recognized 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.

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:

- Amortized cost
- FVOCI
- FVPL

Measurement categories of financial assets and liabilities (continued)

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 amortized cost or at FVPL when they are held for trading, are derivative instruments or the fair value designation is applied.

Amounts due from banks and other financial institutions, loans to customers, investments securities at amortized cost

The Bank only measures amounts due from credit institutions, loans to customers and other financial investments at amortized 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.

(in thousands of tenge)

3. Summary of significant accounting policies (continued)

Financial assets and liabilities (continued)

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 realized 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 amortization of the premium/discount).

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 recognized in the separate 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 recognized less cumulative amortization recognized in the separate statement of comprehensive income, and an ECL provision.

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 with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

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

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.

(in thousands of tenge)

3. Summary of significant accounting policies (continued)

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 obligations.

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the separate statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from credit institutions or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest revenue and accrued over the life of repo agreements using the effective interest method.

Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments including forwards and swaps in the foreign exchange 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 the separate statement of comprehensive income as net gains/(losses) from financial instruments at fair value through profit or loss or net gains/(losses) from foreign currencies, depending on the nature of the instrument.

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

Borrowings

Borrowings 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 NBRK, amounts due to banks and other financial institutions, amounts due to customers, other borrowed funds and subordinated loans. After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the borrowings are derecognized as well as through the amortization 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 recognizes 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 recognizes 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 recognized, 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 recognized 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.

(in thousands of tenge)

3. Summary of significant accounting policies (continued)

Lease (continued)

i. Bank as a lessee (continued)

Lease liabilities

At the commencement date of the lease, the Bank recognizes 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 recognized 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.

Short-term leases and leases of low-value assets

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

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 separate statement of comprehensive income 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 recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

iii. Finance – Bank as a lessor

The Bank recognizes 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 recorded within the initial amount of lease receivables.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the separate statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize 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 separate statement of financial position.

Restructured 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.

(in thousands of tenge)

3. Summary of significant accounting policies (continued)

Restructured loans (continued)

The Bank derecognizes 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 recognized as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognized 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 derecognize 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 that is presented in a separate line item in the separate statement of comprehensive income, to the extent that an impairment loss has not already been recorded.

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 derecognized 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 recognized to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

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

Write-off

Financial assets are written off 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.

3. Summary of significant accounting policies (continued)

Financial liabilities

A financial liability is derecognized 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 recognized in profit or loss.

Taxation

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 utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized 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 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.

Following initial recognition at cost, buildings are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

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

An annual transfer from the revaluation reserve for property and equipment to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

(in thousands of tenge)

3. Summary of significant accounting policies (continued)

Property and equipment (continued)

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
Buildings and constructions	25-65
Furniture and office equipment	5-25
Computer hardware	5-10
Vehicles	10
Leasehold improvements	2-3

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 capitalization.

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic lives of 1 to 25 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

Provisions

Provisions are recognized 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; such expense is charged in the period the related salaries are earned. In addition, the Bank has no significant post-employment benefits.

Share capital

Share capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, 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 recognized as additional paid-in capital.

Additional paid-in capital

Transactions with common shares (the difference between the placement price of shares and their nominal value), or in the form of a difference between the price of the repurchase of outstanding shares and the price of subsequent sale, in the form of amounts of excess of contributions (property contributions) over the value of the contribution (property contribution), determined in constituent documents, as well as arising from transactions with the parent organization and other transactions provided for by the legislation of the Republic of Kazakhstan, are reflected in additionally paid-in capital.

Dividends

Dividends are recognized 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 separate financial statements are authorized for issue.

(in thousands of tenge)

3. Summary of significant accounting policies (continued)

Contingencies

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

Recognition of income and expenses

Revenue is recognized 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 recognized:

Revenue and expense recognition

Interest and similar revenue and expense

The Bank calculates interest revenue on debt financial assets measured at amortized cost or at FVOCI by applying the EIR to the gross carrying amount of financial assets other than credit-impaired 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.

When a financial asset becomes credit-impaired, the Bank calculates interest revenue by applying the effective interest rate to the net amortized 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 calculating the credit-adjusted EIR and applying that rate to the amortized cost of the asset. The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortized cost of the POCI assets.

Interest revenue on all financial assets at FVPL is recognized using the contractual interest rate in "Other interest revenue" in the separate statement of comprehensive income.

Fee and commission income

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

Fees earned for the provision of services over a period of time are accrued over that period as respective performance obligations are satisfied. These fees include commission income and asset management, custody and other management and advisory fees. 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 recognized as an adjustment to the effective interest rate on the loan.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as where the Bank's performance obligation is the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognized on completion of the underlying transaction. Fees or components of fees that are linked to certain performance obligations are recognized after fulfilling the corresponding criteria. When the contract provides for a variable consideration, fee and commission income is only recognized to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur until the uncertainty associated with the variable consideration is subsequently resolved.

(in thousands of tenge)

3. Summary of significant accounting policies (continued)

Foreign currency translation

The separate financial statements are presented in thousands of tenge, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. 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 recognized in the separate statement of comprehensive income as net gains/(losses) from foreign currencies. 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 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 NBRK exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official NBRK exchange rates at 31 December 2021 and 31 December 2020, were 431.80 tenge and 420.91 tenge to 1 US dollar, respectively.

New and revised IFRSs issued but not yet effective

At the time these separate financial statements were approved, the Bank has not applied the following new and revised IFRSs that have been issued but are not yet effective:

New or revised standard or interpretation	Applicable to annual reporting periods beginning on or after
IFRS 17 Insurance contracts	1 January 2023
Amendments to IFRS 17 Insurance contracts	1 January 2023
Amendments to IAS 1 Classification of Liabilities as Current or Non-current (as part of the project to formulate Annual Improvements to IFRS 2010-2012 cycles).	1 January 2023
Amendments to IAS 8 – Definition of Accounting Estimates	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of Accounting Policies	1 January 2023
Annual Improvements to IFRS Standards 2018-2020:	
Amendments to IFRS 3 – "Reference to the Conceptual Framework	1 January 2022
Amendments to IAS 16 Property, Plant and Equipment – Revenue Before Intended Use	1 January 2022
Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets – "Loss-making Contracts – Completion Value	1 January 2022
Amendments to IAS 12 Deferred Tax Relating to Assets and Liabilities Arising from a Single Transaction	1 January 2023
Amendment to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Date to be determined by the IASB

The Bank does not expect that the application of the standards referred to above will have a material impact on the Bank's separate financial statements in subsequent periods.

4. Significant accounting judgements and estimates

Estimation uncertainty

In the process of applying the Bank's accounting policies, management has used its judgments and made estimates in determining the amounts recognized in the separate financial statements. The most significant use of judgments and estimates are as follows:

Fair value of financial instruments

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

Expected credit losses

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. 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 formulae 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 models.

Taxation

The Republic of Kazakhstan currently has a single Tax Code that regulates main taxation matters. The existing taxes include value added tax, corporate income tax, social and other taxes. Implementing regulations are often unclear or nonexistent and insignificant amount of precedents has been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organizations; 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 2021 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 utilized.

(in thousands of tenge)

5. Cash and cash equivalents

Cash and cash equivalents comprised the following:

	31 December 2021	*31 December 2020*
Cash on hand	**3,086,571**	4,205,124
Current accounts with NBRK	**5,058,210**	8,346,006
Current accounts with other banks	**20,513,029**	2,822,432
Accounts receivable under reverse repurchase agreements	**5,919,022**	9,205,698
Time deposits with NBRK with contractual maturity of 90 days or less	**8,252,005**	23,216,822
Time deposits with other banks with contractual maturity of 90 days or less	–	7,090
Cash and cash equivalents before ECL allowance	**42,828,837**	47,803,172
ECL allowance	**(29,658)**	(20,957)
Cash and cash equivalents	**42,799,179**	47,782,215

All balances of cash and cash equivalents are allocated to Stage 1 for ECL measurement purposes.

As at 31 December 2021 and 2020, the Bank entered into reverse repurchase agreements at the Kazakhstan Stock Exchange. The subject of these agreements are the government bonds with the total fair value of KZT 5,939,786 thousand as at 31 December 2021 (31 December 2020: KZT 9,215,775 thousand).

Minimum reserve requirements

In accordance with regulations issued by the NBRK, minimum reserve requirements are calculated as a percent of specified banks liabilities. Banks are required to comply with these requirements by maintaining average reserve assets (national currency cash and amounts on current accounts with NBRK) equal or in excess of the average minimum requirements. As at 31 December 2021, minimum reserve requirements of the Bank amount to KZT 1,853,008 thousand (31 December 2020: KZT 916,694 thousand).

6. Amounts due from financial institutions

Amounts due from financial institutions comprise the following:

	31 December 2021	*31 December 2020*
Funds provided as collateral	**1,270,909**	859,127
Term deposits	**978,689**	–
Amounts due from financial institutions before ECL allowance	**2,249,598**	859,127
ECL allowance	**(2,156)**	(1,302)
Amounts due from financial institutions	**2,247,442**	857,825

As at 31 December 2021, funds provided as collateral included a security deposit of a participant of MasterCard system in the amount of KZT 306,782 thousand (as at 31 December 2020: KZT 298,829 thousand) and a security deposit of a participant of Visa International system in the amount of KZT 149,127 thousand (31 December 2020: KZT 145,298 thousand) and deposit placed as collateral of the Bank's liabilities to the KASE in the amount of KZT 815,000 thousand (as at 31 December 2020: KZT 415,000 thousand).

As at 31 December 2021, term deposits include euro-denominated deposits with a Ukrainian bank with a contract term of 90 days at an interest rate of 1.0%. The deposits were closed ahead of schedule in February 2022.

All balances with financial institutions are allocated to Stage 1 for ECL measurement purposes.

(in thousands of tenge)

7. Loans to customers

As at 31 December 2021 and 2020, loans to customers comprised the following:

	31 December 2021	*31 December 2020*
Loans to customers	**16,105,040**	336,808
Credit cards	**32,929**	159,310
Loans to customers before ECL allowance	**16,137,969**	496,118
Stage 1	**16,089,740**	437,816
Stage 2	**15,960**	3,378
Stage 3	**32,269**	54,924
	16,137,969	496,118
ECL allowance	**(348,224)**	(84,674)
Loans to customers	**15,789,745**	411,444

During 2020, as part of the purchase and sale transaction of 100% share in the Bank by Freedom Finance JSC, loans to customers with the net book value of KZT 47,521,139 thousand were purchased by ForteBank JSC (*Note 30*).

The table below provides an analysis of the carrying value of loans to customers by collateral received, rather than the fair value of the collateral itself:

	31 December 2021	*31 December 2020*
Loans secured by real estate	**8,757,995**	19,736
Unsecured loans*	**7,368,905**	149,221
Loans secured by cash and deposits	**8,536**	321,407
Loans secured by guarantees and sureties	**2,533**	5,754
	16,137,969	496,118
ECL allowance	**(348,224)**	(84,674)
Loans to customers	**15,789,745**	411,444

* Unsecured loans mainly comprised loans acquired under a right of claims assignment agreement.

Concentration of loans to customers

As at 31 December 2021, the Bank had ten major borrowers, apart from loans acquired under a right of claims assignment agreement, which accounted for 3% (31 December 2020: 72%) of the total loan portfolio before ECL. As at 31 December 2021, the aggregate amount of these loans was KZT 526,510 thousand (31 December 2020: KZT 358,083 thousand). As at 31 December 2021, an allowance of KZT 779 thousand was recognized against these loans (31 December 2020: KZT 14,421 thousand).

Below is the structure of the loan portfolio by product type:

	31 December 2021		*31 December 2020*	
	Amount	*%*	*Amount*	*%*
Mortgage	**8,765,072**	**54.3%**	336,808	67.9%
Consumer loans	**7,339,969**	**45.5%**	–	–
Credit cards	**32,928**	**0.2%**	159,310	32.1%
	16,137,969	**100.0%**	496,118	100.0%

(in thousands of tenge)

7. Loans to customers (continued)

Analysis of changes in gross carrying value and corresponding ECL allowance

Analysis of movements in gross carrying amount and ECL allowance of loans for the year ended 31 December 2021 are as follows:

	2021				
	Stage 1	***Stage 2***	***Stage 3***	***POCI***	***Total***
Gross carrying value as at 1 January 2021	**437,816**	**3,378**	**54,924**	**–**	**496,118**
Transfers to Stage 2	**(15,741)**	**16,221**	**(480)**	**–**	**–**
Transfers to Stage 3	**(29,744)**	**(3,247)**	**32,991**	**–**	**–**
New assets originated or purchased	**19,024,530**	**–**	**–**	**–**	**19,024,530**
Assets derecognized or repaid (excluding write-offs)	**(3,327,152)**	**(392)**	**(14,229)**	**–**	**(3,341,773)**
Amounts written off	**–**	**–**	**(40,942)**	**–**	**(40,942)**
Effect from changes in exchange rates	**31**	**–**	**5**	**–**	**36**
At 31 December 2021	**16,089,740**	**15,960**	**32,269**	**–**	**16,137,969**

	2021				
	Stage 1	***Stage 2***	***Stage 3***	***POCI***	***Total***
ECL at 1 January 2021	**(28,356)**	**(1,669)**	**(54,649)**	**–**	**(84,674)**
Transfers to Stage 2	**158**	**(638)**	**480**	**–**	**–**
Transfers to Stage 3	**1,907**	**1,617**	**(3,524)**	**–**	**–**
New assets originated or purchased	**(326,566)**	**–**	**–**	**–**	**(326,566)**
Assets derecognized or repaid (excluding write-offs)	**17,902**	**52**	**8,741**	**–**	**26,695**
Changes in risk parameters	**7,679**	**(3,440)**	**(8,855)**	**–**	**(4,616)**
Amounts written off	**–**	**–**	**40,942**	**–**	**40,942**
Effect from changes in exchange rates	**–**	**–**	**(5)**	**–**	**(5)**
ECL at 31 December 2021	**(327,276)**	**(4,078)**	**(16,870)**	**–**	**(348,224)**

(in thousands of tenge)

7. Loans to customers (continued)

Analysis of changes in gross carrying value and corresponding ECL allowance (continued)

Analysis of movements in gross carrying amount and ECL allowance of loans for the year ended 31 December 2020 are as follows:

	2020				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying value as at 1 January 2020	55,779,143	3,339,758	11,072,531	1,657,251	71,848,683
Transfers to Stage 1	6,926,750	(4,797,772)	(2,128,978)	–	–
Transfers to Stage 2	(15,820,804)	19,097,451	(3,276,647)	–	–
Transfers to Stage 3	(2,879,015)	(14,633,320)	17,512,335	–	–
New assets originated or purchased	11,127,040	–	–	18,116	11,145,156
Assets derecognized or repaid (excluding write-offs)	(54,671,089)	(3,211,288)	(19,046,624)	(1,254,736)	(78,183,737)
Changes to contractual cash flows due to modifications not resulting in derecognition	(321)	–	9,809	(3,063)	6,425
Transfers between the levels as a result of changes in materiality of loans	44,026	(99,657)	337,550	(45,530)	236,389
Net change in accrued interest	321,135	194,980	1,513,904	25,855	2,055,874
Changes to contractual cash flows due to modifications not resulting in derecognition	(4)	10,721	(167,378)	4,439	(152,222)
Transfers between the levels as a result of changes in materiality of loans	(44,026)	99,657	(337,550)	45,530	(236,389)
Amounts written off	(345,085)	(58,216)	(5,524,958)	(447,862)	(6,376,121)
Effect from changes in exchange rates	66	61,064	90,930	–	152,060
Gross carrying value at 31 December 2020	437,816	3,378	54,924	–	496,118

	2020				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL at 1 January 2020	(246,263)	(50,366)	(3,427,475)	(253)	(3,724,357)
Transfers to Stage 1	(136,020)	85,206	50,814	–	–
Transfers to Stage 2	188,903	(413,204)	224,301	–	–
Transfers to Stage 3	21,670	428,568	(450,238)	–	–
Changes in risk parameters	(377,277)	(170,076)	(4,962,888)	(449,082)	(5,959,323)
New assets originated or purchased	(137,442)	–	–	–	(137,442)
Recoveries of ECL on previously written-off assets	313,474	60,100	3,492,154	1,473	3,867,201
Amounts written off	344,616	58,103	5,524,960	447,862	6,375,541
Effect from changes in exchange rates and other adjustments	(17)	–	(506,277)	–	(506,294)
ECL at 31 December 2020	(28,356)	(1,669)	(54,649)	–	(84,674)

Microfinance organization loans

In May 2021, the Bank entered into an agreement with the "Microfinance Organization Freedom Finance Credit" LLP (hereinafter referred to as the "MFO"), which is a related party of the Bank, an agreement on the assignment of claims on unsecured loans issued on the basis of microcredit agreements concluded with borrowers, under which the MFO transfers to the Bank the rights of claim on microcredits. On initial recognition, the Bank records claims on microloans at market value determined by an independent appraisal company. As at 31 December 2021, the limit on the total value of claims under micro loans was not more than KZT 14,000,000 thousand, and the limit on reverse sale was not more than KZT 4,000,000 thousand.

The Bank has the right for reverse sale of microcredits to the MFO that at the time of sale have overdue debts for more than 20 (twenty) days. During 2021, the Bank repurchased rights of claim in the amount of KZT 12,398,888 thousand and resold in the amount of KZT 2,928,026 thousand. As 31 December 2021, microloans purchased from the MFO with the right for reverse sale amounted to KZT 7,339,968 thousand.

(in thousands of tenge)

7. Loans to customers (continued)

Provision for impairment of loans

In 2020, the Bank has introduced certain changes to the process for assessing expected credit losses due to the ongoing COVID-19 pandemic. In particular, the Bank 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. The Bank applied additional adjustments to the probability of default on credit cards in Phase 1 to adequately reflect the uncertainty associated with the spread of the COVID-19 pandemic, resulting in an increase in credit loss expense of KZT 25,470 thousand for the year ended 31 December 2020. In 2021, there were no similar modification on loans to customers.

Restructured and modified loans

The Bank derecognizes 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 recognized as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognized 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 retail and corporate 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. The Bank assessed these modifications as insignificant. In 2021, there were no similar modifications on loans to customers.

8. Investment securities

Investment securities comprised the following:

	31 December 2021	*31 December 2020*
Debt securities at fair value through profit or loss		
Bonds of Kazakhstani corporations	**174,187,218**	–
Government bonds of the Republic of Kazakhstan	**149,095,088**	–
Bonds of foreign organizations	**2,036,205**	–
Government bonds of the foreign countries	**666,017**	–
Investment securities measured at fair value through profit or loss	**325,984,528**	–
Debt securities at amortized cost		
Government bonds of the Republic of Kazakhstan	–	19,237,267
Bonds of Kazakhstani corporations	–	8,041,359
ECL allowance	–	(91,112)
Investment securities measured at amortized cost	–	27,187,514
Total investment securities	**325,984,528**	27,187,514

An analysis of changes in the ECL allowance in relation to investment securities at amortized cost for the years ended 31 December 2021 and 2020 is as follows:

	2021	*2020*
ECL allowance as at 1 January	**(91,112)**	(8,577)
Net change in the allowance for the year	**91,112**	(81,614)
Other changes	–	(921)
At 31 December	–	(91,112)

As at 31 December 2020, investment securities are allocated to Stage 1 for ECL measurement purposes.

As at 31 December 2021 and 2020, the fair value of investment securities which are collateral under REPO is KZT 239,368,657 thousand and KZT 7,951,291 thousand, respectively. As at 31 December 2021 and 2020, the carrying amount of repo transactions on the above assets is KZT 238,739,451 thousand and KZT 7,940,553 thousand, respectively (*Note 15*).

(in thousands of tenge)

9. Property and equipment

Movement in property and equipment is presented as follows:

	Land	*Buildings and constructions*	*Furniture and office equipment*	*Computer equipment*	*Vehicles*	*Leasehold improvements*	*Right-of-use assets*	*Total*
Revalued amount/ cost								
At 31 December 2019	**484,983**	**5,357,665**	**975,695**	**683,520**	**25,533**	**24,760**	**267,357**	**7,819,513**
Additions	1,829	–	11,037	76,271	–	3,539	–	92,676
Disposals	(12,444)	(576,406)	(43,450)	(7,797)	–	(13,303)	(23,773)	(677,173)
Effect of revaluation	(87,507)	(1,550,306)	–	–	–	–	–	(1,637,813)
At 31 December 2020	**386,861**	**3,230,953**	**943,282**	**751,994**	**25,533**	**14,996**	**243,584**	**5,597,203**
Additions	–	**229,855**	**157,360**	**343,855**	**16,757**	**2,932**	**126,975**	**877,734**
Disposals	–	**(386)**	**(25,038)**	**(13,276)**	**(4,136)**	**(14,996)**	**(174,700)**	**(232,532)**
Modification	–	–	–	–	–	–	**(68,884)**	**(68,884)**
Effect of revaluation	–	–	–	–	–	–	–	–
At 31 December 2021	**386,861**	**3,460,422**	**1,075,604**	**1,082,573**	**38,154**	**2,932**	**126,975**	**6,173,521**
Accumulated depreciation								
At 31 December 2019	–	**(325,306)**	**(544,004)**	**(430,643)**	**(4,895)**	**(11,405)**	**(45,447)**	**(1,361,700)**
Accrual	–	(80,020)	(92,852)	(57,385)	(2,553)	(7,715)	(86,878)	(327,403)
Disposals	–	65,105	29,846	7,277	–	11,999	6,695	120,922
Effect of revaluation	–	340,221	–	–	–	–	–	340,221
At 31 December 2020	–	–	**(607,010)**	**(480,751)**	**(7,448)**	**(7,121)**	**(125,630)**	**(1,227,960)**
Accrual	–	(50,920)	(86,729)	(73,314)	(2,903)	(5,622)	(53,326)	(272,814)
Disposals	–	32	20,059	13,274	1,552	11,766	174,700	221,383
Effect of revaluation	–	–	–	–	–	–	–	–
At 31 December 2021	–	**(50,888)**	**(673,680)**	**(540,791)**	**(8,799)**	**(977)**	**(4,256)**	**(1,279,391)**
Net book value								
At 31 December 2019	**484,983**	**5,032,359**	**431,691**	**252,877**	**20,638**	**13,355**	**221,910**	**6,457,813**
At 31 December 2020	**386,861**	**3,230,953**	**336,272**	**271,243**	**18,085**	**7,875**	**117,954**	**4,369,243**
At 31 December 2021	**386,861**	**3,409,534**	**401,924**	**541,782**	**29,355**	**1,955**	**122,719**	**4,894,130**

In 2021, the Bank did not engage an independent appraiser to determine the fair value of land, buildings and constructions owned by the Bank. Based on the analysis of the market, the management of the Bank concluded that there was no significant change in the fair value of similar assets.

The Bank used independent appraiser services to determine the fair value of land, buildings and constructions that are in ownership of the Bank in December of 2020. The fair value was determined using the market and income approaches. More details about the fair value of land, buildings and constructions are disclosed in *Note 26*.

If the land, buildings and constructions were accounted for at historical cost, their net book value would be at 31 December:

	2021	*2020*
Cost	**4,137,927**	4,137,927
Accumulated depreciation	**(608,531)**	(549,332)
Net book value	**3,529,396**	3,588,595

In 2020, as part of the change of the Bank's shareholder, the Bank transferred buildings and land to ForteBank JSC with a total carrying value of KZT 830,110 thousand (*Note 30*). Cost of fully depreciated assets that are in use by the Bank as at 31 December 2021 amounts to KZT 414,882 thousand (as at 31 December 2020: KZT 486,455 thousand). Right-of-use assets are represented by the right to use premises.

(in thousands of tenge)

10. Intangible assets

The movements in intangible assets were as follows:

	Computer software	*Computer software in development*	*Licenses*	*Total*
Cost				
At 31 December 2019	1,764,494	–	208	1,764,702
Additions	76,208	–	–	76,208
At 31 December 2020	1,840,702	–	208	1,840,910
Additions	**57,563**	**126,278**	**–**	**183,841**
At 31 December 2021	**1,898,265**	**126,278**	**208**	**2,024,751**
Accumulated amortization				
At 31 December 2019	(607,556)	–	(208)	(607,764)
Accrual	(71,206)	–	–	(71,206)
At 31 December 2020	(678,762)	–	(208)	(678,970)
Accrual	**(99,173)**	**–**	–	**(99,173)**
At 31 December 2021	**(777,935)**	**–**	**(208)**	**(778,143)**
Net book value				
At 31 December 2019	1,156,938	–	–	1,156,938
At 31 December 2020	1,161,940	–	–	1,161,940
At 31 December 2021	**1,120,330**	**126,278**	**–**	**1,246,608**

11. Other assets

Other assets comprised the following:

	31 December 2021	*31 December 2020*
Receivables on securities	**466,150**	–
Receivables on sale of collateral in installments	**368,582**	537,465
Other receivables	**10,677**	13,169
ECL allowance	**(56,452)**	(11,607)
Total other financial assets	**788,957**	539,027
Prepaid expenses	**267,976**	142,057
Prepayment for property and equipment and intangible assets	**168,931**	–
Inventories	**95,384**	19,593
Taxes prepaid other than corporate income tax	**34,330**	45,009
Other	**46,738**	141
Total other non-financial assets	**613,359**	206,800
Total other assets	**1,402,316**	745,827

On 13 December 2021, a deal was concluded to acquire debt securities of Gaz Finance plc. As a result of a technical error, the nominal value of these securities was incorrectly reflected on KASE, which led to incomplete crediting of these securities to the Bank's brokerage account. As a result, as at 31 December 2021, receivables on securities in the amount of KZT 466,150 thousand were outstanding. On 14 February 2022, KASE credited these securities to the Bank's account.

(in thousands of tenge)

11. Other assets (continued)

An analysis of changes in the ECLs for other financial assets for the year ended 31 December 2021 and 2020 is as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
ECL allowance as at 1 January 2021	**(22)**	**(21)**	**(11,564)**	**(11,607)**
Net change in allowance *	**(5,192)**	**(554)**	**(55,612)**	**(61,358)**
Write-offs	–	–	**16,131**	**16,131**
Foreign exchange adjustments	**382**	–	–	**382**
ECL allowance as at 31 December 2021	**(4,832)**	**(575)**	**(51,045)**	**(56,452)**

	Stage 1	*Stage 2*	*Stage 3*	*Total*
ECL allowance as at 1 January 2020	(1,812)	–	(32,750)	(34,562)
Net change in allowance *	1,258	(21)	21,186	22,423
Foreign exchange adjustments	532	–	–	532
ECL allowance as at 31 December 2020	(22)	(21)	(11,564)	(11,607)

* *Net change in allowance is included in "Credit loss expense" in the separate statement of comprehensive income.*

In 2020, the Bank took possession of collateral against repayment of borrowers' debts in the amount of KZT 1.364.943 thousand and sold the repossessed collateral with a total carrying amount of KZT 3,004,905 thousand, including those sold without installment payment in the amount of KZT 2,804,385 thousand, property with a carrying amount of KZT 200,520 thousand sold on installment payment terms, and returned the repossessed collateral to borrowers with a carrying amount of KZT 13,113 thousand as part of the program to refinance mortgage loans to customers. In 2020, the Bank conducted an analysis for impairment of inventory and recognized a loss in the amount of KZT 43,756 thousand. In 2021, the Bank did not collect or sell collateral and, therefore, did not analyze the impairment of inventories.

12. Taxation

The corporate income tax expenses comprise:

	2021	*2020*
Current corporate income tax expense	–	915,054
Deferred corporate income tax benefit — origination and reversal of temporary differences	**(343,538)**	(600,392)
Corporate income tax (benefit)/expense	**(343,538)**	314,662

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 2021 and 2020.

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

	2021	*2020*
Profit before corporate income tax expense	**5,848,831**	1,794,217
Statutory tax rate	**20%**	20%
Theoretical corporate income tax expense at the statutory rate	**1,169,766**	358,843
Interest income on investment securities, non-taxable	**(1,578,620)**	–
Interest expenses on preferred shares, non-deductible	**16,000**	16,000
Other differences	**49,316**	(60,317)
Corporate income tax (benefit)/expense	**(343,538)**	314,140

(in thousands of tenge)

12. Taxation (continued)

In accordance with the tax code of the Republic of Kazakhstan, losses arising from the sale of securities are reimbursed from capital gains received from the sale of other securities, with the exception of capital gains from the sale of securities on exchanges operating in the territory of the Republic Kazakhstan. Income received from the sale of securities by the method of open trading on stock exchanges operating in the territory of the Republic of Kazakhstan is not taxed. Where these losses cannot be offset in the period in which they are incurred, they may be carried forward to the next ten years, inclusive, and offset by capital gains from proceeds from the sale of other securities. During the years ended 31 December 2021 and 2020, the Bank did not incur any losses that can be carried forward to subsequent years.

As at 31 December 2021 and 2020, current corporate income tax assets are KZT 920,094 thousand and 126,025 thousand, respectively.

Deferred corporate income tax assets and liabilities, and their movement for respective years comprised the following as at 31 December:

	2019	*Origination and reversal of temporary differences within profit or loss*	*Origination and reversal of temporary differences within other comprehensive income*	*2020*	*Origination and reversal of temporary differences within profit or loss*	*Origination and reversal of temporary differences within other comprehensive income*	*2021*
Tax effect of deductible temporary differences							
Loans to customers	104,099	(104,099)	–	–	**177,534**	–	**177,534**
Other assets	31,680	(7,417)	–	24,263	**(11,746)**	–	**12,517**
Amounts due to financial institutions	13	(13)	–	–	**–**	–	**–**
Lease liabilities	45,291	(19,667)	–	25,624	**147**	–	**25,771**
Other liabilities	91,307	(86,214)	–	5,093	**17,016**	–	**22,109**
Deferred tax asset	272,390	(217,410)	–	54,980	**182,951**	–	**237,931**
Tax effect of taxable temporary differences							
Loans to customers	–	(1,078)	–	(1,078)	**1,078**	–	**–**
Property and equipment and intangible assets	(588,748)	221,453	101,724	(265,571)	**(179,202)**	–	**(444,773)**
Right-of-use assets	(25,239)	1,648	–	(23,591)	**(952)**	–	**(24,543)**
Amounts due to financial institutions	(593,325)	593,325	–	–	**–**	–	**–**
Subordinated loan	(342,117)	2,454	–	(339,663)	**339,663**	–	**–**
Deferred tax liability	(1,549,429)	817,802	101,724	(629,903)	**160,587**	–	**(469,316)**
Deferred corporate income tax liabilities	(1,277,039)	600,392	101,724	(574,923)	**343,538**	–	**(231,385)**

13. Amounts due to financial institutions

Amounts due to financial institutions comprise:

	31 December 2021	*31 December 2020*
Deposits from governmental organisations	**3,828,429**	2,380,381
Total amounts due to financial institutions	**3,828,429**	2,380,381

As at 31 December 2021, deposits from government organizations are represented by deposits in the amount of KZT 3,828,429 thousand received from Kazakhstan Sustainability Fund JSC under the state program for refinancing mortgage loans to customers (31 December 2020: KZT 2,380,381 thousand).

(in thousands of tenge)

14. Amounts due to customers

Amounts due to customers include the following:

	31 December 2021	*31 December 2020*
Current accounts and demand deposits		
- Corporate customers	**42,132,390**	11,880,807
- Retail customers	**3,897,014**	1,786,624
Term deposits		
- Corporate customers	**22,223,978**	11,091,896
- Retail customers	**32,414,413**	24,793,642
Guarantee deposits		
- Corporate customers	**965,079**	791,675
- Retail customers	**94,986**	474,284
	101,727,860	50,818,928
Held as security against loans to customers	**1,038,844**	380,454
Held as security against guarantees (*Note 24*)	**908,503**	885,505

Below is the breakdown of due to customers by industry sectors:

	31 December 2021		*31 December 2020*	
	Amount	*%*	*Amount*	*%*
Individuals	**36,406,413**	**35.8%**	27,054,550	53.2%
Professional services	**26,012,425**	**25.6%**	2,838,094	5.6%
Financial services	**8,695,444**	**8.5%**	2,315,733	4.6%
Lease	**5,059,296**	**5.0%**	843,551	1.7%
Trade	**4,980,956**	**4.9%**	3,158,725	6.2%
Production	**4,743,321**	**4.7%**	3,859,380	7.6%
Construction	**3,797,226**	**3.7%**	2,490,809	4.9%
Communication and information	**3,584,908**	**3.5%**	894,614	1.8%
Transportation	**720,772**	**0.7%**	457,622	0.9%
Medical services	**553,964**	**0.5%**	274,605	0.5%
Education	**520,279**	**0.5%**	467,926	0.9%
Agriculture	**244,453**	**0.2%**	188,733	0.4%
Insurance	**124,333**	**0.1%**	41,704	0.1%
Electrical power	**103,435**	**0.1%**	21,194	0.0%
Mining industry	**100,010**	**0.1%**	77,677	0.2%
Asset management	**47,113**	**0.1%**	174,097	0.3%
Non-commercial entities	**3,714**	**0.1%**	347,248	0.7%
Property	**2,468**	**0.0%**	1,404,397	2.8%
Other	**6,027,330**	**5.9%**	3,908,269	7.6%
Total amounts due to customers	**101,727,860**	**100.0%**	50,818,928	100.0%

As at 31 December 2021, the Bank had ten major clients, which accounted for 37% of the gross balance of current accounts and deposits of clients (as at 31 December 2020: 17%). The total aggregate amount due to such customers as at 31 December 2021 was KZT 37,744,197 thousand (31 December 2020: KZT 8,436,554 thousand).

In accordance with the Kazakh Civil Code, the Bank is obliged to repay such deposits upon demand of a depositor. According to the current conditions for accepting deposits, in cases where the term deposit is returned to the depositor upon request before the expiration of the term, the deposit interest is paid for the actual period of placing the deposit.

(in thousands of tenge)

15. Liabilities under repurchase agreements

As at 31 December 2021 and 2020, the Bank entered into repurchase agreements on the Kazakhstan Stock Exchange. The fair value of assets pledged as collateral and the carrying amount of liabilities under repurchase agreements amounted to:

	31 December 2021	
	Carrying value	*Fair value*
Government bonds of the Republic of Kazakhstan	**122,249,624**	**122,787,326**
Bonds of Kazakhstani corporations	**110,290,852**	**110,378,704**
Coupon bonds of the Sovereign Welfare Fund Samruk-Kazyna Joint Stock Company	**6,198,975**	**6,202,627**
Total liabilities under repurchase agreements	**238,739,451**	**239,368,657**

	31 December 2020	
	Carrying value	*Fair value*
Government bonds of the Republic of Kazakhstan	7,940,553	7,951,291
Total liabilities under repurchase agreements	7,940,553	7,951,291

As at 31 December 2021 and 2020, liabilities under repurchase agreements included accrued interest in the amount of KZT 92,457 thousand and KZT 1,777 thousand maturing in January 2022 and 2021, respectively.

16. Subordinated loan

Subordinated loans comprised the following:

	31 December 2021	*31 December 2020*
Debt component of preferred shares	**1,040,000**	1,040,000
Long-term loans	–	2,352,737
Subordinated loan	**1,040,000**	3,392,737

Details on long-term subordinated loans received are provided below:

Creditor	*Borrowing currency*	*The nominal interest rate*	*Date of issue*	*Maturity*	*31 December 2021*	*31 December 2020*
Freedom Holding Corp. / Global Development LLP	Tenge	7,00%	20 June 2011	24 July 2033	–	853,333
Freedom Holding Corp. / Maglink Limited	US dollar	3,00%	28 June 2011	20 June 2033	–	417,437
Freedom Holding Corp. / Global Development LLP	Tenge	7,00%	23 June 2011	24 July 2033	–	30,023
Freedom Holding Corp. / Global Development LLP	Tenge	7,00%	29 August 2016	24 July 2033	–	1,051,944
					–	2,352,737

On 20 December 2020, Freedom Holding Corp. and the original creditors Global Development LLP and Maglink Limited signed agreements on the assignment of claims under subordinated loan agreements. The rights of claim under the subordinated loan agreements were transferred from the original creditor to the new creditor on the date of receipt of the value of the rights paid by the new creditor to the bank account of the original creditor on 22 December 2020.

In 2021, the Bank and Freedom Holding Corp. signed the agreements to terminate subordinated debt agreements, according to which Freedom Holding Corp. made a full forgiveness of the subordinated debt, which was reflected in the additional paid-in capital of the Bank in the amount of KZT 2,400,340 thousand.

In December 2010, the Bank placed 1,000,000 preferred shares at the placement value of 1,000 tenge per share. These preferred shares do not have any voting rights unless payment of preferred dividends has been delayed for three months and carry a cumulative dividend of a minimum of 8% per annum, but not less than dividends on ordinary shares.

In accordance with IAS 32, if the non-redeemable preferred share establishes a contractual right to a dividend, it contains a financial liability in respect of the dividends, whereby the net present value of the obligation to distribute dividends is shown as a liability and the balance of the issue proceeds as equity. In 2021 and 2020, the dividend expense on preferred shares amounted to KZT 80,000 thousand and was classified as interest expense in accordance with IAS 32. The fair value of modified loans at initial recognition was determined by the Bank using market interest rates of 10.77% per annum for the loan in US dollars and 14,28% for loans denominated in tenge.

(in thousands of tenge)

17. Other liabilities

Other liabilities comprised the following:

	31 December 2021	*31 December 2020*
Payables to suppliers	**438,092**	84,089
Accrued commission expenses	**82,922**	–
Other financial liabilities	**61,503**	48,370
Other financial liabilities	**582,517**	132,459
Accrued expenses for unused vacations	**96,047**	13,172
Provisions (*Note 24*)	**47,000**	–
Accrued expenses on bonuses	**14,500**	12,291
Other taxes payable other than corporate income tax	**11,854**	1,806
Fees and commissions of future periods on issued guarantees	**5,672**	8,650
Other non-financial liabilities	**3,461**	12,361
Other non-financial liabilities	**178,534**	48,280
Total other liabilities	**761,051**	180,739

18. Equity

As at 31 December 2021, the Bank has 53,500,000 authorized ordinary shares (31 December 2020: 13,500,000 authorized common shares). On 27 October 2021, Freedom Finance JSC acquired 11.010.052 common shares of the Bank at a book value of 2,089 tenge per share.

As at 31 December 2021, 20,366,192 common shares issued (31 December 2020: 9,356,140 common shares) were fully paid by the shareholder at the placement price of 1 thousand tenge per ordinary share.

There were no dividends declared or paid on common shares during 2021 and 2020.

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 2021 and 2020 is presented below:

	31 December 2021			*31 December 2020*		
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	**20,366,192**	**47,573,712**	**2,335.92**	9,356,140	16,067,076	1,717.28

Revaluation reserve for property and equipment

The revaluation reserve for property and equipment is used to record increases in the fair value of land and buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognized in equity.

As at 31 December 2021, the Bank's property and equipment revaluation reserve is KZT 335,668 thousand (as at 31 December 2020: KZT 340,075 thousand).

(in thousands of tenge)

19. Net interest income

Net interest income comprised the following:

	2021	2020
Interest income calculated using effective interest rate		
Cash and cash equivalents	223,205	568,918
Amounts due from financial institutions	1,864	2,149
Loans to customers	639,665	9,606,012
Investment securities:		
- measured at FVPL	16,217,155	–
- measured at FVOCI	–	280,872
- measured at amortized cost	–	80,322
Other assets	62,371	99,449
Total interest income	17,144,260	10,637,722
Interest expense calculated using effective interest rate		
Amounts due to customers	(2,776,945)	(4,274,493)
Amounts due to financial institutions	(295,218)	(461,760)
Subordinated loan	(307,589)	(379,316)
Liabilities under repurchase agreements	(10,437,164)	(82,582)
Other interest expense	(1,600)	(405)
	(13,818,516)	(5,198,556)
Lease liabilities	(5,640)	(17,240)
Total interest expense	(13,824,156)	(5,215,796)
Net interest income	3,320,104	5,421,926

In 2020, interest income on loans to customer comprises a loss from modification that does not result in derecognition in the amount of KZT 145,797 thousand. In 2021, loss on modification that does not result in derecognition comprised KZT 209,215 thousand.

20. Net commission income

Net commission income comprised the following:

	2021	2020
Payment cards	1,119,405	534,775
Settlements operations	366,141	355,789
Cash operations	248,943	313,222
Foreign currency transactions	124,517	63,304
Guarantees issued	118,951	196,502
Opening and maintenance of customer accounts	111,692	85,575
Other	20,683	46,325
Total fee and commission income	2,110,332	1,595,492
Transactions on customers card accounts	(1,302,136)	(740,588)
Securities operations	(573,478)	(9,914)
Settlements operations	(87,433)	(68,041)
Other	–	(18,271)
Total fee and commission expense	(1,963,047)	(836,814)
Net commission income	147,285	758,678

(in thousands of tenge)

21. Net income/(expenses) on transactions with financial instruments at fair value through profit or loss

Net income/(expenses) on transactions with financial instruments at fair value through profit or loss comprised the following:

	2021	*2020*
Net unrealized gains on trading securities	**4,796,754**	–
Net realized gains on trading securities	**2,555,650**	–
Net realized expenses on derivative financial instruments	**(432,348)**	(51,611)
Total net income/(expenses) on transactions with financial instruments at fair value through profit or loss	**6,920,056**	(51,611)

22. Personnel and administrative and other operating expenses

Personnel and administrative and other operating expenses comprised the following:

	2021	*2020*
Salaries and bonuses	**3,072,553**	1,758,479
Social security contributions	**265,951**	174,125
Total personnel expenses	**3,338,504**	1,932,604
Depreciation and amortization (*Notes 9 and 10*)	**371,987**	398,609
Technical support and software	**346,744**	330,068
Taxes other than corporate income tax	**267,489**	255,175
Plastic cards issuance	**239,712**	12,271
Advertising and marketing services	**162,636**	41,757
Professional services	**162,383**	140,381
Repair and maintenance	**155,586**	31,735
Membership fees	**143,935**	136,739
Communication and information services	**129,930**	67,579
Security	**57,937**	101,365
Utilities	**53,767**	49,777
Rent	**52,415**	49,795
Business trips	**33,549**	3,966
Representation services	**15,692**	1,335
Office supplies	**12,835**	11,132
Transportation	**9,234**	4,508
Loss on disposal of property and equipment	**7,647**	3,892
Fines and penalties	**613**	359
Loss from revaluation of property and equipment	**–**	788,965
Other	**111,342**	129,900
Total administrative and other operating expenses	**2,335,433**	2,559,308

23. Earnings per share

Basic earnings per share is calculated by dividing the net profit for the period attributable to ordinary shareholders by the weighted average number of participating shares outstanding during the period.

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

	2021	*2020*
Net profit for the year attributable to the shareholder of the Bank	**6,192,369**	1,479,555
Weighted average number of ordinary shares for basic and diluted earnings per share computation	**11,316,834**	9,356,140
Basic and diluted earnings per share (in tenge)	**547.18**	158.14

As at 31 December 2021 and 2020, the Bank did not have any financial instruments diluting earnings per share.

(in thousands of tenge)

24. Commitments and contingencies

Operating environment

Emerging markets, including Kazakhstan, are subject to economic, political, social, litigation and regulatory risks that are different from those in more developed markets. The laws and regulations governing doing business in Kazakhstan can change rapidly and are subject to arbitrary interpretation. The future direction of Kazakhstan's development depends to a large extent on the tax and monetary policy of the state, the laws and regulations adopted, and changes in the political situation in the country.

Due to the fact that Kazakhstan produces and exports large volumes of oil and gas, the Kazakh economy is particularly sensitive to changes in world oil and gas prices.

The impact of changes in economic conditions on the future results of operations and financial position of the Bank could be significant.

COVID-19 pandemic – in early 2020, the new coronavirus began to spread very rapidly around the world (COVID-19), which led the World Health Organization to declare a pandemic in March 2020. The measures taken by many countries to contain the spread of COVID-19 are causing significant operational difficulties for many companies and have a significant impact on global financial markets. As a result, the Bank may be exposed to an even greater impact from COVID-19 as a result of its negative impact on the global economy and major financial markets. The significance of the impact of COVID-19 on the Bank's operations depends to a large extent on the duration and extent of the impact of the virus on the global and Kazakhstani economies.

The management of the Bank monitors the current developments in the economic environment and takes the measures it deems necessary to maintain the sustainability and development of the Bank's business in the foreseeable future.

Legal

The Bank is subject to various potential legal proceedings related to business operations. 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 separate 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 separate financial statements for any of the above described contingent liabilities.

Taxation

The tax environment in the Republic of Kazakhstan is subject to change and inconsistent application and interpretations. Discrepancies in the interpretation of Kazakhstan laws and regulations of the Bank and Kazakhstan authorized bodies may result in additional charge of taxes, fines and penalties.

Kazakhstan legislation and tax practices 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. The tax authorities may perform a retrospective tax audit during five years after the ending of the tax year.

The Bank's management believes that its interpretations of the relevant legislation are acceptable and the Bank's tax position is justified.

As at 31 December 2021, the State Revenue Department for Almaty completed the documentary tax audit of the Bank for 2016. As a result of the tax audit, the State Revenue Department of Almaty ordered the Bank to pay KZT 296,637 thousand. The Bank received clarifications on controversial issues from the authorized bodies and on 14 March 2022 sent a complaint to the Appeals Department of the Ministry of Finance of the Republic of Kazakhstan. Appeal procedures are currently underway to challenge the results of the tax audit for 2016. According to the Bank's sale and purchase agreement, in 2020, when a shareholder is changed, the risks of additional taxes associated with taxation for the period 2016-2020 are fully retained by the seller. Also, according to the Bank's assessment, there is sufficient probability that the outcome of the issue will be in favor of the Bank. As a result, the Bank recognized an estimated tax liability in the amount of KZT 47,000 thousand (*Note 17*).

(in thousands of tenge)

24. Commitments and contingencies (continued)

Commitments and contingencies

The Bank's commitments and contingencies comprised the following:

	31 December 2021	*31 December 2020*
Credit related commitments		
Guarantees issued	**2,256,977**	2,404,913
Undrawn credit lines	**4,375,422**	117,200
	6,632,399	2,522,113
Capital expenditure commitments	**48,811**	–
Commitments and contingencies before deducting collateral	**6,681,210**	2,522,113
Less amounts due to customers held as security against guarantees (*Note 14*)	**(908,503)**	(885,505)
Commitments and contingencies	**5,772,707**	1,636,608

The total amount of contractual commitments on undrawn credit lines 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 unfavorable to the Bank arise, including deterioration of the borrower's financial condition.

25. Risk management

Introduction

Risk management is inherent in the bank activities and is an essential element of the Bank's operations. The major risks faced by the Bank are those related to market risk, credit risk, liquidity risk and operational risks.

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

Risk management structure

Board of Directors

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

Management Board

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

Risk Committees

Credit, market and liquidity risks, both at the portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee ("ALCO"). For improving the efficiency of decision-making process, the Bank has established a hierarchy of credit committees depending on the type and amount of risk exposure.

Credit risk department

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

(in thousands of tenge)

25. Risk management (continued)

Risk management structure (continued)

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 Board of Directors.

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 models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. 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 analyze, control and identify early risks. This information is presented and explained to the Management Board, the Risk Committees, and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, liquidity ratios and risk profile changes. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

A daily briefing is given to the Management Board and all other relevant employees of the Bank on the utilization of market limits, proprietary investments and liquidity, plus any other risk developments.

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in foreign currencies, credit risks, and exposures arising from forecast transactions.

The Bank actively uses collateral to reduce its credit risk.

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.

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed 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. 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 take corrective action.

25. Risk management (continued)

Credit risk (continued)

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 maximum exposure to credit risk for the components of the separate statement of financial position, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying amounts.

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 shown in *Note 7*.

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 derecognized and is still in the portfolio.
Exposure at default (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.
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 realization 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 into Stage 1, Stage 2, Stage 3 and POCI, as described below:

Stage 1:	When loans are first recognized, the Bank recognizes an allowance based on 12mECL.
Stage 2:	When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL.
Stage 3:	Loans considered credit-impaired. The Bank records 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 recognized based on a credit-adjusted EIR. ECL are only recognized or released to the extent that there is a subsequent change in the lifetime expected credit losses.

25. Risk management (continued)

Credit risk (continued)

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 60 days past due on its contractual payments.

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:

- Death of the borrower (co-borrower)
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy application/protection
- The debt was restructured due to deterioration of financial condition of the borrower once or more over the last 12 months with due account for the criteria for credit quality cure
- Decision of the authorized body to assign a default status to a financial asset

It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present at the reporting date subject to a reduction of the debt on this financial instrument as a result of the repayment of its portion, as well as in the case of restructuring, the borrower made at least three consequent contractual payments as appropriate. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on whether this indicates there has been a significant increase in credit risk compared to initial recognition.

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 Risk Management Bank analyses publicly available information such as external ratings of international rating agencies, which serve as the basis for certain ECL.

Retail lending

Retail lending includes unsecured loans to individuals, credit cards, overdrafts and loans secured by real estate. Evaluation of unsecured products is carried out using an automated scoring system based on qualitative and quantitative indicators. The main indicators used in the models are as follows: length of employment at the last job, credit history, frequency of pension contributions, education, marital status, as well as the ratio of the amount of the contribution on the expected loan to the average monthly income of the client. Evaluation of products secured by real estate is carried out by determining the level of solvency and the ratio of the loan to the collateral value of the collateral.

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too. 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, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

The Bank determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of Bank's models.

The Bank's product offering for its clients, small and medium-sized businesses, and retail customers includes a variety of overdraft and credit cards facilities, in which the Bank has the right to cancel and/or reduce the facilities. The Bank does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Bank's expectations of the customer behavior, its likelihood of default and the Bank's future risk mitigation procedures, which could include reducing or cancelling the facilities. The interest rate used to discount the ECLs for credit cards is based on the average effective interest rate that is expected to be charged over the expected period of exposure to the facilities.

(in thousands of tenge)

25. Risk management (continued)

Credit risk (continued)

Loss given default

For lending to small and medium-sized businesses. LGD values are assessed at least monthly by account managers and reviewed and approved by the Risk Management Bank.

The credit risk assessment is based on a standardized LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realized from any collateral held.

The Bank segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics.

Where appropriate, further recent data and forward-looking economic scenarios are used in order to determine the IFRS 9 LGD rate for each group of financial instruments. When assessing forward-looking information, the expectation is based on multiple scenarios. Examples of key inputs involve changes in. collateral values including property prices for mortgages, payment status or other factors that are indicative of losses in the Bank.

LGD rates are estimated for the Stage 1, Stage 2, Stage 3 and POCI segment of each asset class. The inputs for these LGD rates are estimated and, where possible, calibrated through back testing against recent recoveries.

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 since initial recognition.

If contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

Grouping financial assets measured on a collective basis

Dependent on the factors below, the Bank calculates ECLs either on a collective or on an individual basis.

Asset classes where the Bank calculates ECL on an individual basis include:

- all Stage 3 assets, regardless of the class of financial assets
- the treasury and interbank relationships (such as amounts due from banks, cash equivalents and debt investment securities at amortized cost and FVOCI)
- exposures that have been classified as POCI when the original loan was derecognized and a new loan was recognized as a result of a credit driven debt restructuring
- financial assets whose gross carrying value at the reporting date exceeds 0.2% of the Bank's equity. but not less than KZT 50 million.

Asset classes where the Bank calculates ECL on a collective basis include:

- financial assets that are not subject to individual assessment

The Bank groups these exposures into smaller homogeneous portfolios, based on a combination of internal and external characteristics of the loans, for example internal grade, overdue bucket, product type, loan-to-value ratios, or borrower's industry.

(in thousands of tenge)

25. Risk management (continued)

Credit risk (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;
- volume of production of oil and gas condensate;
- base rates of the NBRK;
- oil price;
- index of real wages;
- unemployment rate;
- inflation rate.

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the separate 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. NBRK and international financial institutions). Experts of the Bank's Risk Management Department determine the weights attributable to the multiple scenarios. The tables show the values of the key forward looking economic variables/assumptions used in each of the economic scenarios for the ECL calculations.

	2022		
Key factors	***Basic***	***Optimistic***	***Pessimistic***
Price of Brent crude oil (Brent ICE), USD	80.00	108.00	54.70
GDP index, %	104.90	109.80	101.20
Volume of production of oil and gas condensate, million tons	86.0	92.0	78.0
Inflation rate, %	8.50	6.90	9.50
USD/KZT exchange rate	452.0	419.90	473.90
Index of real wages	109.0	114.30	98.90
Unemployment rate	5.0	4.90	8.80

Grace period and concessional financing

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 6 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 unpaid payments of principal and interest in grace period from 16 March 2020 to 15 June 2020 (inclusive) were as follows:

- on unsecured loans of individual borrowers, the interest accrued on the outstanding balance within the grace period spread until the end of the term of the contract. To maintain the debt burden and prevent an increase in the monthly payment, the loan term is extended for the corresponding period;

- for secured loans of individuals, the interest accrued on the outstanding balance within the grace period is spread over the remaining term of the loan without increasing the term of the loan;

- on loans with overdue debts as at 16 March 2020, the amount of overdue principal, overdue interest and interest accrued on overdue principal were transferred to the accounts of urgent loan debt and spread until the end of the loan term, while the decision to grant deferral on loans with a delay of more than 90 days to borrowers who are not socially vulnerable, recipients of targeted social aid, registered unemployed, was made by the authorized body of the Bank individually for each loan.

(in thousands of tenge)

25. Risk management (continued)

Credit risk (continued)

Grace period and concessional financing (continued)

Support for individuals following imposition of the state of emergency (continued)

The Bank did not charge any commissions or other fees for consideration of the application for granting a grace period.

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. Granting of the grace period was carried out:
   a) without receiving and attaching expert opinions to the credit file;
   b) without signing additional agreements with borrowers and without applying commission and other payments to borrowers. Additional agreements with a new repayment schedule were signed with borrowers and participants of the transaction after cancellation of the emergency when the borrower applied to the Bank's branch.

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 amounts and interest on loans of the population, small- and medium-sized businesses affected by imposition of the state of emergency (taking into account amendments and additions No. 193 dated 17 April 2020 and No. 223 dated 26 May 2020), the grace period for repayment of the principal and interest under bank loan agreements was provided for payments for the period from 16 March 2020 to 15 June 2020, with the allocation of deferred payments for future periods.

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. 251 dated 15 June 2020 *On additional measures to support small- and medium-sized businesses (subject to amendments and additions No. 311 dated 3 August 2020)*, the grace period for repayment of the principal amount under bank loan agreements was provided for payments falling for the period from 15 June 2020 to 1 October 2020 (but not less than 3 months, unless otherwise specified in the borrower's application), the grace period for repayment of interest under bank loan agreements was provided for payments falling for the period from 15 June 2020 to 1 October 2020, with the allocation of deferred payments for future periods.

Maximum credit risk exposure

The Bank's maximum exposure to credit risk may vary significantly depending on the individual risks inherent in individual assets and the overall market risk.

The following table sets out the maximum exposure to credit risk for financial assets. For balance sheet financial assets, the maximum exposure to credit risk is equal to the carrying amount of those assets, excluding offsets of assets and liabilities and collateral.

31 December 2021	***Maximum exposure to credit exposure and net exposure to credit exposure after offset***	***Collateral***	***Net credit exposure after offsetting and accounting for collateral***
Cash and cash equivalents	**42,799,179**	**5,919,022**	**36,880,157**
Amounts due from financial institutions	**2,247,442**	**–**	**2,247,442**
Loans to customers	**15,789,745**	**8,727,906**	**7,061,839**
Investment securities measured at FVPL	**325,984,528**	**–**	**325,984,528**
Other financial assets	**788,957**	**–**	**788,957**

(in thousands of tenge)

25. Risk management (continued)

Credit risk (continued)

Maximum credit risk exposure (continued)

31 December 2020	*Maximum exposure to credit exposure and net exposure to credit exposure after offset*	*Collateral*	*Net credit exposure after offsetting and accounting for collateral*
Cash and cash equivalents	47,782,215	9,205,698	38,576,517
Amounts due from financial institutions	857,825	–	857,825
Loans to customers	411,444	342,155	69,289
Investment securities measured at amortized cost	27,187,514	–	27,187,514
Other financial assets	539,027	–	539,027

Financial assets are classified according to current credit ratings assigned by international rating agencies such as Fitch, Standard & Poor's and Moody's. The highest possible rating is AAA. The investment grade financial assets correspond to ratings from AAA to BBB.

Below is the classification of the Bank's financial assets by credit ratings:

	31 December 2021			
	*>BBB**	*<BBB*	*Credit rating not assigned*	*Total*
Cash and cash equivalents	**1,420,339**	**38,221,246**	**3,157,594**	**42,799,179**
Amounts due from financial institutions	**455,642**	**978,689**	**813,111**	**2,247,442**
Loans to customers	**–**	–	**15,789,745**	**15,789,745**
Investment securities measured at FVPL	**112,686,430**	**212,807,536**	**490,562**	**325,984,528**
Other financial assets	–	**466,150**	**322,807**	**788,957**

	31 December 2020			
	*>BBB**	*<BBB*	*Credit rating not assigned*	*Total*
Cash and cash equivalents	13,644,958	34,004,762	132,495	47,782,215
Amounts due from financial institutions	442,825	–	415,000	857,825
Loans to customers	–	–	411,444	411,444
Investment securities measured at amortized cost	27,187,514	–	–	27,187,514
Other financial assets	–	–	539,027	539,027

* *This category includes financial instruments with a credit rating of BBB or higher.*

Institutions in the financial sector are generally exposed to credit risk arising from financial assets and contingent liabilities. The degree of credit risk is constantly monitored to ensure compliance with credit limits and creditworthiness in accordance with the Bank's approved risk management policy.

(in thousands of tenge)

25. Risk management (continued)

Geographic concentration

The Investment Committee controls the risk associated with changes in legislation and evaluates its impact on the Bank's operations. This approach allows the Bank to minimize possible losses from changes in the investment climate in the Republic of Kazakhstan.

Information on the geographical concentration of financial assets and liabilities as at 31 December 2021 and 2020 is presented below:

31 December 2021	*Republic of Kazakhstan*	*OECD countries*	*Non-OECD countries*	*Total*
Financial assets				
Cash and cash equivalents	**39,074,348**	**579,153**	**3,145,678**	**42,799,179**
Amounts due from financial institutions	**813,110**	**455,643**	**978,689**	**2,247,442**
Loans to customers	**15,789,745**	**–**	**–**	**15,789,745**
Investment securities measured at FVPL	**323,282,307**	**2,702,221**	**–**	**325,984,528**
Other financial assets	**321,845**	**466,270**	**842**	**788,957**
Total financial assets	**379,281,355**	**4,203,287**	**4,125,209**	**387,609,851**
Financial liabilities				
Amounts due to financial institutions	**3,828,429**	**–**	**–**	**3,828,429**
Amounts due to customers	**88,359,337**	**7,843,544**	**5,524,979**	**101,727,860**
Liabilities under repurchase agreements	**238,739,451**	**–**	**–**	**238,739,451**
Subordinated loan	**1,040,000**	**–**	**–**	**1,040,000**
Other financial liabilities	**348,193**	**218,002**	**16,322**	**582,517**
Total financial liabilities	**332,315,410**	**8,061,546**	**5,541,301**	**345,918,257**
Position on foreign currencies dealing	**6,908,800**	**–**	**–**	**6,908,800**
Net position	**53,874,745**	**(3,858,259)**	**(1,416,092)**	**48,600,394**

31 December 2020	*Republic of Kazakhstan*	*OECD countries*	*Non-OECD countries*	*Total*
Financial assets				
Cash and cash equivalents	47,147,009	241,481	393,725	47,782,215
Amounts due from financial institutions	415,000	442,825	–	857,825
Loans to customers	411,444	–	–	411,444
Investment securities measured at amortized cost	27,187,514	–	–	27,187,514
Other financial assets	539,027	–	–	539,027
Total financial assets	75,699,994	684,306	393,725	76,778,025
Financial liabilities				
Amounts due to financial institutions	2,380,381	–	–	2,380,381
Amounts due to customers	49,399,342	456,755	962,831	50,818,928
Liabilities under repurchase agreements	7,940,553	–	–	7,940,553
Subordinated loan	–	3,392,737	–	3,392,737
Other financial liabilities	88,929	23,602	19,928	132,459
Total financial liabilities	59,809,205	3,873,094	982,759	64,665,058
Net position	15,890,789	(3,188,788)	(589,034)	12,112,967

25. Risk management (continued)

Interest rate risk

To manage interest rate risk, the Bank uses periodic assessment of potential losses that may be incurred as a result of negative changes in market conditions. Management of the Bank monitors the Bank's interest margin and believes that the Bank does not bear significant interest rate risk and related cash flow risk due to the absence of floating rate financial instruments.

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 prices. Market risks comprise currency risk, profit rate risk and other price risk. Market risk arises from open positions in profit rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

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

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

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

In addition, the Bank uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by the Bank include risk factor stress testing, where stress movements are applied to each risk category, and ad hoc stress testing, which includes applying possible stress events to specific positions.

Interest rate risk is also managed by monitoring the interest rate gap and is supplemented by monitoring the sensitivity of net interest margin to various standard and non-standard interest rate scenarios.

Interest rate risk

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

Analysis of the timing of the revision of interest rates

Interest rate risk is primarily managed by monitoring changes in interest rates. Since most financial instruments have a fixed interest rate, the repricing analysis is similar to the maturity analysis.

Price risk

Price risk is the risk of loss (direct loss or lost profit) as a result of unfavorable changes in market prices. In order to limit price risk, the Bank sets limits on maximum losses from changes in the price of securities (stop-loss).

Price risk assessment is based on the VaR method, which is carried out taking into account the following parameters:

- method of historical modeling;
- relevant interval – 255 days;
- confidence interval – 99.5%.

Price risk limits are set by the Board of Directors of the Bank.

(in thousands of tenge)

25. Risk management (continued)

Market risk (continued)

Currency risk

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

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Despite the fact that the Bank hedges its exposure to currency risk, such transactions do not qualify as hedging relationships in accordance with IFRS.

The currency position of the Bank as at 31 December 2021 is presented below:

31 December 2021	*Tenge*	*US dollar*	*Other currencies*	*Total*
Financial assets				
Cash and cash equivalents	**9,493,501**	**27,298,236**	**6,007,442**	**42,799,179**
Amounts due from financial institutions	**813,110**	**455,643**	**978,689**	**2,247,442**
Loans to customers	**15,789,745**	**–**	**–**	**15,789,745**
Investment securities	**316,033,891**	**9,183,196**	**767,441**	**325,984,528**
Other financial assets	**343,079**	**422,980**	**22,898**	**788,957**
Total financial assets	**342,473,326**	**37,360,055**	**7,776,470**	**387,609,851**
Financial liabilities				
Amounts due to financial institutions	**3,828,429**	**–**	**–**	**3,828,429**
Amounts due to customers	**54,956,744**	**40,134,266**	**6,636,850**	**101,727,860**
Liabilities under repurchase agreements	**237,037,663**	**1,701,788**	**–**	**238,739,451**
Subordinated loan	**1,040,000**	**–**	**–**	**1,040,000**
Other financial liabilities	**582,517**	**–**	**–**	**582,517**
Total financial liabilities	**297,445,353**	**41,836,054**	**6,636,850**	**345,918,257**
Position on foreign currencies dealing	**–**	**6,908,800**	**–**	**6,908,800**
Net position	**45,027,973**	**2,432,801**	**1,139,620**	**48,600,394**

The currency position of the Bank as at 31 December 2020 is presented below:

31 December 2020	*Tenge*	*US dollar*	*Other currencies*	*Total*
Financial assets				
Cash and cash equivalents	34,345,368	11,944,410	1,492,437	47,782,215
Amounts due from financial institutions	413,992	443,833	–	857,825
Loans to customers	410,701	743	–	411,444
Investment securities measured at FVPL	27,187,514	–	–	27,187,514
Other financial assets	539,027	–	–	539,027
Total financial assets	62,896,602	12,388,986	1,492,437	76,778,025
Financial liabilities				
Amounts due to financial institutions	2,380,381	–	–	2,380,381
Amounts due to customers	38,098,257	11,561,083	1,159,588	50,818,928
Liabilities under repurchase agreements	7,940,553	–	–	7,940,553
Subordinated loan	2,975,300	417,437	–	3,392,737
Other financial liabilities	132,319	54	86	132,459
Total financial liabilities	51,526,810	11,978,574	1,159,674	64,665,058
Position on foreign currencies dealing	–	–	–	–
Net position	11,369,792	410,412	332,763	12,112,967

(in thousands of tenge)

25. Risk management (continued)

Market risk (continued)

Currency risk (continued)

The following table sets out the currencies in which the Bank has significant positions as at 31 December in non-trading monetary assets and liabilities and projected cash flows. This analysis is pre-tax and is based on changes in foreign exchange rates that, in the opinion of the Bank, are reasonably possible as of the end of the reporting period. The analysis assumes that all other variables, especially interest rates, remain constant. Negative amounts in the table reflect a potential net decrease in profit or equity, while a positive amount reflects a potential net increase. These sensitivity levels represent the Bank's management's assessment of possible changes in foreign exchange rates due to the uncertainty about the future changes in geopolitical risks and their impact on the economy of Kazakhstan.

	2021		*2020*	
Валюта	*Increase in exchange rate in %*	*Effect on profit before tax*	*Increase in exchange rate in %*	*Effect on profit before tax*
US dollar	**30.00%**	**729,840**	14.00%	57,458

	2021		*2020*	
Валюта	*Increase in exchange rate in %*	*Effect on profit before tax*	*Increase in exchange rate in %*	*Effect on profit before tax*
US dollar	**(30.00%)**	**(729,840)**	(11.00%)	(45,145)

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, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

Liquidity risk

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

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

The Bank seeks to actively support a diversified and stable funding base comprising issued debt securities, long-term and short-term loans from other banks, deposits of the main corporate customers and individuals as well as diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements. Liquidity risk management policy includes:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto
- maintaining a diverse range of funding sources
- managing the concentration and profile of debts
- maintaining debt financing plans
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow
- maintaining liquidity and funding contingency plans
- monitoring liquidity ratios against regulatory requirements.

(in thousands of tenge)

25. Risk management (continued)

Liquidity risk (continued)

The Bank Treasury receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more unfavorable market conditions is performed by the Treasury. Under normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a monthly basis. Decisions on liquidity management are made by the ALCO and implemented by the Treasury.

The table below shows financial assets and liabilities as at 31 December 2021 and 2020 by their expected maturities.

	31 December 2021					
Financial assets	***On demand***	***Less than 3 months***	***3 months to 1 year***	***1 year to 5 years***	***More than 5 years***	***Total***
Cash and cash equivalents	42,799,179	–	–	–	–	42,799,179
Amounts due from financial institutions	2,247,442	–	–	–	–	2,247,442
Loans to customers	28,743	43,559	709,033	6,491,720	8,516,690	15,789,745
Investment securities measured at FVPL	149,761,106	–	7,564,909	43,371,301	125,287,212	325,984,528
Other financial assets	12,687	492,345	122,868	160,838	219	788,957
Total financial assets	**194,849,157**	**535,904**	**8,396,810**	**50,023,859**	**133,804,121**	**387,609,851**
Financial liabilities						
Amounts due to financial institutions	–	37,908	–	–	3,790,521	3,828,429
Amounts due to customers	51,523,868	6,423,293	25,128,001	18,227,387	425,311	101,727,860
Liabilities under repurchase agreements	238,739,451	–	–	–	–	238,739,451
Subordinated loan	–	–	40,000	–	1,000,000	1,040,000
Other financial liabilities	203,959	176,449	202,109	–	–	582,517
Total financial liabilities	**290,467,278**	**6,637,650**	**25,370,110**	**18,227,387**	**5,215,832**	**345,918,257**
Net financial assets/(liabilities)	**(95,618,121)**	**(6,101,746)**	**(16,973,300)**	**31,796,472**	**128,588,289**	**41,691,594**

(in thousands of tenge)

25. Risk management (continued)

Liquidity risk (continued)

	31 December 2020					
Financial assets	***On demand***	***Less than 3 months***	***3 months to 1 year***	***1 year to 5 years***	***More than 5 years***	***Total***
Cash and cash equivalents	47,782,215	–	–	–	–	47,782,215
Amounts due from financial institutions	857,825	–	–	–	–	857,825
Loans to customers	4,426	17,455	321,549	68,014	–	411,444
Investment securities measured at amortized cost	–	945,257	941,455	20,312,947	4,987,855	27,187,514
Other financial assets	15,537	31,619	164,225	326,479	1,167	539,027
Total financial assets	48,660,003	994,331	1,427,229	20,707,440	4,989,022	76,778,025
Financial liabilities						
Amounts due to financial institutions	–	14,369	–	–	2,366,012	2,380,381
Amounts due to customers	18,017,456	5,672,048	18,185,606	8,929,620	14,198	50,818,928
Liabilities under repurchase agreements	7,940,553	–	–	–	–	7,940,553
Subordinated loan	–	–	88,934	–	3,303,803	3,392,737
Other financial liabilities	–	–	132,459	–	–	132,459
Total financial liabilities	25,958,009	5,686,417	18,406,999	8,929,620	5,684,013	64,665,058
Net financial assets/(liabilities)	22,701,994	(4,692,086)	(16,979,770)	11,777,820	(694,991)	12,112,967

Liabilities that are redeemable on demand are treated in the table above as if redemption had been made. However, the Bank expects that many customers will not request repayment at the earliest date on which the Bank would be required to make the respective payment. Moreover, the Bank believes that, if necessary, it will be able to sell investment securities at fair value through profit or loss within a short period of time, as these securities are actively traded in the market, and, accordingly, the table does not reflect expected cash flows calculated by the Bank on the basis of information on the demand for customer funds for previous periods.

(in thousands of tenge)

25. Risk management (continued)

Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank's financial liabilities at 31 December 2021 and 2020, based on contractual undiscounted payments. 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 request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

	31 December 2021					
Financial liabilities	*On demand*	*Less than 3 months*	*3 months to 1 year*	*1 year to 5 years*	*More than 5 years*	*Total*
Amounts due to financial institutions	–	87,809	265,467	1,414,070	9,464,251	11,231,597
Amounts due to customers	49,800,383	8,414,597	28,426,333	17,591,184	1,331,641	105,564,138
Liabilities under repurchase agreements	238,739,451	80,218	–	–	–	238,819,669
Subordinated loan	–	–	80,000	320,000	1,040,000	1,440,000
Other financial liabilities	361	176,449	405,707	–	–	582,517
Total undiscounted financial liabilities	288,540,195	8,759,073	29,177,507	19,325,254	11,835,892	357,637,921

	31 December 2020					
Financial liabilities	*On demand*	*Less than 3 months*	*3 months to 1 year*	*1 year to 5 years*	*More than 5 years*	*Total*
Amounts due to financial institutions	–	59,781	178,549	953,975	5,518,932	6,711,237
Amounts due to customers	17,018,067	7,696,912	20,309,385	10,386,871	14,198	55,425,433
Subordinated loan	15	19,141	162,577	834,139	5,770,802	6,786,674
Other financial liabilities	71,581	–	60,764	114	–	132,459
Total undiscounted financial liabilities	17,089,663	7,775,834	20,711,275	12,175,099	11,303,932	69,055,803

In accordance with Kazakhstan legislation, depositors can withdraw their term deposits at any time, losing in most of the cases the accrued interest income. The Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay. Accordingly, in the above table, deposits of individuals are presented in accordance with contractual terms with consideration of this assumption.

Management expects that the repayment of liabilities and disposal of assets may be different from their contractual terms either because management has the discretionary ability to manage the cash flows or because past experience indicates that cash flows on these financial assets and liabilities may differ from contractual terms.

(in thousands of tenge)

26. Fair value measurement

Fair value measurement procedures

For the purpose of significant assets evaluation, such as real estate, external appraisers are engaged. The Bank's Managing Board decides is external appraisers should be engaged. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Appraisers are normally rotated every three years.

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, in conjunction with the Bank's external appraisers, 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 a periodic basis, the Bank and the Bank's external appraisers present the valuation results to the Audit Committee. This includes a discussion of the major assumptions used in the valuations.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Fair value hierarchy

		Fair value measurement using			
31 December 2021	*Date of valuation*	*Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant non-observable inputs (Level 3)*	*Total*
Assets measured at fair value					
Investment securities measured at FVPL	31 December 2021	**314,205,670**	**11,288,296**	**490,562**	**325,984,528**
Property and equipment – land and buildings	31 December 2020	**–**	–	**3,617,814**	**3,617,814**
Assets for which fair value is disclosed					
Cash and cash equivalents	31 December 2021	**3,086,571**	**39,712,608**	–	**42,799,179**
Amounts due from financial institutions	31 December 2021	–	**2,247,442**	–	**2,247,442**
Loans to customers	31 December 2021	–	**–**	**14,322,312**	**14,322,312**
Other financial assets	31 December 2021	–	**–**	**788,957**	**788,957**
Liabilities whose fair value is disclosed:					
Amounts due to banks and other financial institutions	31 December 2021	**–**	–	**3,501,317**	**3,501,317**
Amounts due to customers	31 December 2021	**–**	**99,029,187**	**–**	**99,029,187**
Liabilities under repurchase agreements	31 December 2021	–	**235,952,115**	**–**	**235,952,115**
Subordinated loan	31 December 2021	**–**	**1,040,000**	–	**1,040,000**
Lease liabilities	31 December 2021	–	**128,854**	–	**128,854**
Other financial liabilities	31 December 2021	–	**–**	**582,517**	**582,517**

(in thousands of tenge)

26. Fair value measurement (continued)

Fair value hierarchy (continued)

		Fair value measurement using			
31 December 2020	*Date of valuation*	*Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant non-observable inputs (Level 3)*	*Total*
Assets measured at fair value					
Property and equipment – land and buildings	31 December 2020	–	–	3,617,814	3,617,814
Assets for which fair value is disclosed					
Cash and cash equivalents	31 December 2020	4,205,124	43,577,091	–	47,782,215
Amounts due from financial institutions	31 December 2020	–	857,825	–	857,825
Loans to customers	31 December 2020	–	–	404,748	404,748
Investment securities measured at amortized cost	31 December 2020	19,331,341	8,058,056	–	27,389,398
Other financial assets	31 December 2020	–	–	545,956	545,956
Liabilities whose fair value is disclosed:					
Amounts due to banks and other financial institutions	31 December 2020	–	–	2,773,829	2,773,829
Amounts due to customers	31 December 2020	–	51,055,596	–	51,055,596
Liabilities under repurchase agreements	31 December 2020	–	7,951,291	–	7,951,291
Subordinated loan	31 December 2020	–	3,684,128	–	3,684,128
Lease liabilities	31 December 2020	–	128,118	–	128,118
Other financial liabilities	31 December 2020	–	–	132,459	132,459

During 2021 and 2020, there was no movement between levels of the hierarchy model of the fair value for financial assets and liabilities shown at fair value.

(in thousands of tenge)

26. Fair value measurement (continued)

Fair value 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 separate statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	31 December 2021		*31 December 2020*	
	Carrying amount	*Fair value*	*Carrying amount*	*Fair value*
Financial assets				
Cash and cash equivalents	**42,799,179**	**42,799,179**	47,782,215	47,782,215
Amounts due from financial institutions	**2,247,442**	**2,247,442**	857,825	857,825
Loans to customers	**15,789,745**	**14,322,312**	411,444	404,748
Investment securities measured at amortized cost	**–**	**–**	27,187,514	27,389,398
Other financial assets	**788,957**	**788,957**	539,027	545,956
Financial liabilities				
Amounts due to financial institutions	**3,828,429**	**3,501,317**	2,380,381	1,957,063
Amounts due to customers	**101,727,860**	**99,029,187**	50,818,928	51,055,596
Liabilities under repurchase agreements	**238,739,451**	**235,952,115**	7,940,553	7,951,290
Subordinated loan	**1,040,000**	**1,040,000**	3,392,737	3,684,128
Lease liabilities	**128,854**	**128,854**	128,118	128,118
Other financial liabilities	**582,517**	**582,517**	132,459	132,459

Valuation techniques and assumptions

The following describes the methodologies and assumptions used to determine fair values for assets and liabilities recorded at fair value in the separate financial statements and those items that are not measured at fair value in the separate statement of financial position, but whose fair value is disclosed.

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.

Financial assets and financial liabilities carried at amortized cost

Fair value of the quoted notes and bonds is based on price quotations at the reporting date. The fair value of unquoted instruments, loans to customers, customer funds, amounts due from other banks and other financial institutions, amounts due to banks and other financial institutions, subordinated loans, 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.

Property and equipment – land and buildings

The fair value of land and buildings owned by the Bank is based on valuations performed by an accredited independent appraiser. The fair value of the Bank's land and buildings was determined by using market comparable and income approaches.

Description of significant unobservable inputs for the assessment:

Significant unobservable inputs used to estimate the fair value of property and equipment classified in Level 3 of the fair value hierarchy, together with the quantitative sensitivity analysis as at 31 December 2020, are as follows:

Significant non-observable inputs	**Range (weighted average value)**	**Fair value sensitivity to inputs**
Average rental rate (adjusted for banking strengthening)	3,510-9,945 (6,728) tenge/sq,m	Increase/(decrease) in the average rental rate by 30% will result in an increase/(decrease) in the fair value by KZT 606,423 thousand.
Weighing approach	50/50 %	Increase/(decrease) in weighting of results by 10% will result in an increase/(decrease) in the fair value by KZT 149,283 thousand.

(in thousands of tenge)

27. Related party disclosures

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.

The Bank's related parties comprise counterparties that are the Bank's shareholders, and members of the Board of Directors and Managing Board. Other related parties comprise: companies with which the Bank has significant shareholders in common; companies in which a substantial interest in the voting power is owned, directly or indirectly, by shareholders of the Bank or by individuals which have significant influence over the Bank, or anyone expected to influence, or be influenced by, that person in their dealings with the Bank.

Related parties may enter into transactions which unrelated parties might not. Prices and terms of such transactions may differ from prices and terms of transactions between unrelated parties.

Balance of related party transactions as at 31 December 2021 and 2020 is presented below:

	31 December 2021		
	Parent	*Key management personnel*	*Other related parties*
Assets			
Other assets	**2,146**	**2**	**1,730**
Liabilities			
Amounts due to customers	**4,736,137**	**95,048**	**22,328,789**
Subordinated loan	**1,040,000**	**–**	**–**
Other liabilities	**82,922**	**39**	**–**

	31 December 2020		
	Parent	*Key management personnel*	*Other related parties*
Assets			
Other assets	5,548	–	–
Liabilities			
Amounts due to customers	222,097	86,524	1,434,497
Subordinated loan	1,040,000	–	2,352,737

As at 31 December 2021, the Bank purchased micro loans from "Microfinance Organization Freedom Finance Credit" LLP, a related party of the Bank, in the amount of KZT 7.339.968 thousand (*Note 7*).

During 2020, as part of the transaction to change the shareholder of the Bank, the Bank transferred a Bank of assets and related liabilities to ForteBank JSC (*Note 30*).

The income and expense items on transactions with related parties for the years ended 31 December 2021 and 2020 were as follows:

	31 December 2021			*31 December 2020*		
	Parent	*Key management personnel*	*Other related parties*	*Parent*	*Key management personnel*	*Other related parties*
Interest income on loans to customers	**–**	**–**	**–**	–	279	5,777
Credit loss expense	**–**	**–**	**–**	–	–	(276)
Interest expense on amounts due to customers	**6,131**	**449**	**4,837**	(169)	(3,642)	(44,600)
Interest expense on subordinated debt	**(80,000)**	**–**	**(227,589)**	(1,555)	–	(109,310)
Net fee and commission (expense)/income	**(569,341)**	**241**	**67,065**	(39,473)	727	6,062
Net gains from transactions in foreign currencies	**49,107**	**84**	**87,690**	–	1,759	24,081
Other operating expense	**–**	**(2,965)**	**(39,985)**	(59,063)	–	(313,496)

(in thousands of tenge)

27. Related party transactions (continued)

As at 31 December 2021 and 2020, interest rates and maturity dates on transactions with related parties are as follows:

	31 December 2021			*31 December 2020*		
	Parent	*Key management personnel*	*Other related parties*	*Parent*	*Key management personnel*	*Other related parties*
Amounts due to customers						
Maturity	**2022**	**2022**	**2022-2026**	2020	2021-2023	2021-2023
Annual interest rate in tenge	**9.0%**	**8.6%-14.0%**	**6.0%-9.5%**	4.31%	7.07%	1.98%
Annual interest rate in USD /EUR	**–**	**0.8%-1.0%**	**0.3%-0.4%**	–	0.80%	0.01%
Subordinated loan						
Maturity	**No term**	**–**	**–**	No term	–	2033
Annual interest rate in tenge	**8.00%**	**–**	**–**	8.00%	–	6.16%

Below is information on compensation to 7 members of key management personnel at 31 December of key management personnel:

	2021	*2020*
Salaries and other short-term benefits	**144,771**	140,946
Social security contributions	**13,202**	13,001
Total	**157,973**	153,947

28. Changes in liabilities arising from financing activities

Subordinated loan	*2021*	*2020*
Carrying amount at 1 January	**3,392,737**	3,303,255
Forgiveness of subordinated loan	**(2,400,340)**	–
Foreign exchange adjustments	**6,950**	36,210
Other	**40,653**	53,272
Carrying amount as at 31 December	**1,040,000**	3,392,737

"Other" represents the effect of accrued, but not yet paid interest. The Bank classifies interest paid as cash flows from operating activities.

(in thousands of tenge)

29. 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 norms established by the NBRK in supervising the Bank.

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 maximize 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.

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 (k1.1);
- 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 statutory 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).

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.

29. Capital adequacy (continued)

As at 31 December 2021 and 2020, the Bank's capital adequacy ratio, calculated in accordance with the requirements of the NBRK was as follows:

	31 December 2021	*31 December 2020*
Tier 1 capital	**47,691,800**	16,694,777
Tier 2 capital	**–**	–
Deduction of the positive difference with regulatory reserves	**–**	–
Total statutory capital	**47,691,800**	16,694,777
Risk-weighted statutory assets, contingent liabilities, operational and market risk	**104,130,223**	16,747,916
Capital adequacy ratio k1-1 (at least 7.5%)	**45.8%**	99.7%
Capital adequacy ratio k1-2 (at least 8.5%)	**45.8%**	99.7%
Capital adequacy ratio k2 (at least 10.0%)	**45.8%**	99.7%

(in thousands of tenge)

30. Disposal of assets held for sale

On 29 July 2020, ForteBank JSC and Freedom Finance JSC signed an agreement for the purchase and sale of 100% of the Bank's ordinary shares. In accordance with the terms of the agreement, in 2020, the Bank reclassified the following assets as held for sale sold to ForteBank JSC prior to the closing date of the transaction on 25 December 2020:

- loans to customers, except for loans provided that are fully secured by cash collateral, credit cards and debit card overdrafts. The carrying amount of these loans to customers before deducting the provision for ECL at the date of sale was KZT 52,782,026 thousand. As at the date of sale, ECL allowance recognized by the Bank in respect of loans to customers amounted to KZT 5,260,887 thousand. Profit from the sale of the loan portfolio to customers amounted to KZT 1,689,434 thousand.
- property and equipment of 7 items and the total carrying amount of KZT 520,530 thousand. Immediately prior to classification of these items of property and equipment as assets held for sale, an assessment of the fair value of these items of property and equipment was made. The fair value revaluation loss, net of costs, was KZT 309,479 thousand, including KZT 267,094 thousand recorded through profit or loss and a loss of KZT 42,385 thousand recorded through other comprehensive income.
- inventory in the form of non-core property of 33 items with the carrying amount of KZT 1,958,278 thousand. Loss from the sale of inventory to ForteBank JSC amounted to KZT 41,863 thousand. As at 31 December 2020, the Bank has no registered movable and immovable collateral.
- issued guarantees, except for guarantees secured by cash collateral (including cash collateral receivable in the future), and tender guarantees with the total carrying amount of KZT 643 thousand. Loss from transfer of risks under guarantees amounted to KZT 4,705 thousand.

In addition, by agreement of the parties, the KFU deposit placed with the Bank under the program of refinancing foreign currency loans with a nominal value of KZT 3,258,126 thousand was transferred to ForteBank JSC. Loss from derecognition of the deposit amounted to KZT 180,861 thousand.

31. Events after the reporting period

In early January 2022, mass protests took place in Kazakhstan, which turned into riots. On 5 January 2022, a state of emergency was introduced on the territory of the Republic of Kazakhstan, which lasted until 19 January 2022. During the period of mass protests, access to the Internet was limited throughout Kazakhstan, the work of banks was suspended, transactions were not carried out on the stock exchanges, trading on commodity exchanges, air traffic was suspended, which prevented the efficient operation of enterprises.

By 15 January 2022, the situation in the Republic of Kazakhstan had stabilized and was taken under control by the authorities. The government has taken a course towards stabilizing the political and socio-economic situation.

In February 2022, tenge depreciated significantly against major foreign currencies amid the external geopolitical situation. In order to reduce the negative impact of external factors on the Kazakh economy, the National Bank of the Republic of Kazakhstan ("NBK") raised the base rate from 10.25% to 13.5% per annum with a corridor of +/- 1,0 percentage points, and interventions were also carried out in the foreign exchange market to support the tenge exchange rate against foreign currencies. However, there is uncertainty regarding the future evolution of geopolitical risks and their impact on the economy of Kazakhstan.

As at 13 April 2022, cash on current accounts with four Russian banks amounted to KZT 2,779,213 thousand, of which KZT 2,041,958 thousand were on the accounts of PJSC Transcapitalbank, KZT 673,904 thousand on the accounts of JSC Alfa-Bank (Russia), KZT 63,032 thousand on the accounts of PJSC Bank FC Otkrytie and KZT 319 thousand on the accounts of PJSC Sberbank. The Bank uses these funds in its operating activities to carry out foreign exchange transactions, as well as to make client payments. At the moment, work is underway to transfer the main turnover on client payments and conversions to other banks.

As at 13 April 2022, the Bank has debt securities at fair value through profit or loss issued by entities related to the Russian Federation with a carrying amount of KZT 4,154,784 thousand.

The management of the Bank monitors the current developments in the economic and political environment and takes the measures it deems necessary to maintain the sustainability and development of the Bank's business in the near future. However, the consequences of past events and related future changes may have a material impact on the Bank's operations.