Shinhan Bank Kazakhstan JSC

Financial Statements according to IFRS
for the Year Ended 31 December 2020

and Independent Auditor's Report

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Statement of the management's responsibility for the preparation and approval of the financial statements for the year ended 31 December 2020

The following statement which should be read together with the Auditor's Responsibilities section of the accompanying Independent Auditor's Report is made to distinguish the respective responsibilities of the Auditors concerning the financial statements of Shinhan Bank Kazakhstan JSC (the Bank).

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Bank as at 31 December 2020, the results of its operations, its cash flows and changes in equity for the year then ended under the International Financial Reporting Standards (IFRS).

In preparing the financial statements, management is responsible for:

- Selecting appropriate accounting principles and applying them consistently
- Applying reasonable judgements and estimates
- Ensuring compliance with the IFRS, or disclosing all significant deviations from the IFRS in notes to the financial statements; and
- Preparing the financial statements based on the assumption that the Bank will continue as a going concern in the foreseeable future unless such assumption is illegal.

Management is also responsible for:

- Design, implementation and ensuring reliable internal control in the Bank
- Record keeping that allows for the disclosure of the transactions and providing sufficiently accurate information on the Bank's financial position as of any date and ensuring financial statements comply with IFRS
- Record keeping under the legislation of the Republic of Kazakhstan
- Taking all reasonable efforts to ensure the safety of the Bank assets, and
- Financial mismanagement detection and prevention.

The financial statements for the year ended 31 December 2020, were approved by Shinhan Bank Kazakhstan JSC management on 9 April 2021.

On behalf of management:

Chairman of the Board
Cho Yongeun

Chief Accountant
G.Sh. Zhaksybayeva

9 April 2021
Almaty, Republic of Kazakhstan

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Management Board of Shinhan Bank Kazakhstan JSC

Audit Report

Opinion

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

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and ethical requirements that are relevant to our audit of the financial statements in 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.

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

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

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

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

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 it does not 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 judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of financial statements due to fraud or errors; we develop and conduct audit procedures in response to these risks; we obtain audit evidence that is sufficient and appropriate to serve as a basis for expressing our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than the one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of the internal control system that is relevant for 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 Company'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 and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company'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 Company 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.

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

Auditor Talgat Omarov

Auditor Qualifying Certificate No. 0000237 issued by the Qualifying Commission for Certification of the RK Auditors dated 29 April 1996

BDO Kazakhstan LLP

State license No. 15003448 for audit issued on 19 February 2015 by the Committee for Financial Control of the Ministry of Finance of the Republic of Kazakhstan

Director Talgat Omarov

9 April 2021

Almaty

SHINHAN BANK KAZAKHSTAN JSC

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2020

Thousands of tenge	Note	For the year ended 31.12.2020	For the year ended 31.12.2019
Interest income	4	3,911,056	3,158,049
Interest expense	4	(1,764,864)	(1,410,125)
Net interest income	4	**2,146,192**	**1,747,924**
Fee and commission income	5	113,158	116,297
Commission expense	6	(94,849)	(79,484)
Net fee and commission income		**18,309**	**36,813**
Net foreign exchange gain	7	225,940	238,834
Other operating income (expenses), net		(10,248)	(39,380)
Operating income		**2,380,193**	**1,984,191**
Reversal of impairment losses/ (impairment losses)	9	44,834	131,812
Staff costs	8	(814,493)	(758,309)
Other general and administrative expenses	10	(426,817)	(439,857)
Profit before income tax		**1,183,717**	**917,837**
Income tax expenses	11	(129,385)	(84,186)
Profit for the year		**1,054,332**	**833,651**
Other comprehensive income nets of income tax			
Items that have been reclassified or may subsequently be reclassified to profit or loss:			
Revaluation reserve for financial assets at fair value through other comprehensive income			
- Net change in fair value		45,401	(616)
Other comprehensive income for the year net of income tax		**45,401**	**(616)**
Total comprehensive income for the year		**1,099,733**	**833,035**
Earnings per share			
Basic and diluted earnings per share (in KZT)	24	1,051.31	831.26

On behalf of management:

Chairman of the Board
Cho Yongeun

Chief Accountant
G.Sh. Zhaksybayeva

Shinhan Bank Kazakhstan

9 April 2021
Almaty, Republic of Kazakhstan

SHINHAN BANK KAZAKHSTAN JSC

STATEMENT OF FINANCIAL POSITION as of 31 December 2020

Thousands of tenge	Note	31.12.2020	31.12.2019
ASSETS			
Cash and cash equivalents	12	37,279,674	31,422,707
Accounts and deposits in banks	13	174,885	72,653
Financial assets at fair value through OCI	14	1,213,618	1,173,343
Loans issued to corporate customers:			
- loans to large entities	15	1,844,821	2,978,919
- loans to small and medium size entities	15	5,928,416	6,629,416
- loans to retail customers	15	6,607,375	5,347,894
Financial assets at amortised cost	16	7,534,624	4,907,381
Corporate income tax assets		20,066	286
Non-current asset held for sale	17	598,014	645,014
Property, plant and equipment and intangible assets	18	460,458	443,832
Deferred income tax assets	11	37,403	38,184
Other assets	19	130,071	164,977
Total assets		**61,829,425**	**53,824,606**
LIABILITIES			
Accounts and deposits in banks	20	173,031	198,342
Current accounts and deposits of customers			
- Current accounts and deposits due to corporate customers	21	32,723,237	28,254,084
- Current accounts and deposits due to retail customers	21	6,195,371	4,632,581
Loans from international financial organisations	22	6,784,218	5,757,924
Other liabilities	23	546,229	674,069
Total liabilities		**46,422,086**	**39,517,000**
EQUITY			
Issued capital	24	10,028,720	10,028,720
Additional paid-in capital	24	144,196	144,196
Capital reserves		279,516	279,516
Revaluation reserve for financial assets at fair value through other comprehensive income		(121,412)	(166,813)
Retained earnings		5,076,319	4,021,987
Total equity		**15,407,339**	**14,307,606**
Total equity and liabilities		**61,829,425**	**53,824,606**

Chairman of the Board
Cho Yongeun

Chief Accountant
G.Sh. Zhaksybayeva

9 April 2021
Almaty, Republic of Kazakhstan

Notes on pages 11-60 are an integral part of these financial statements.

SHINHAN BANK KAZAKHSTAN JSC

STATEMENT OF CASH FLOWS for the year ended 31 December 2020

Thousands of tenge	For the year ended 31.12.2020	For the year ended 31.12.2019
Operating activities		
Interest income earned	3,985,226	3,247,298
Interest income paid	(1,749,646)	(1,355,125)
Fee and commission income earned	122,261	134,177
Fee and commission income paid	(90,287)	(80,017)
Net foreign exchange gains	176,238	231,029
Other operating income/(expenses)	(31,152)	(91,645)
Employee benefits	(816,725)	(747,738)
Other general and administrative expenses	(491,985)	(375,772)
(Increase)/ decrease in operating assets		
Accounts and deposits in banks	(95,358)	809
Loans to customers	770,578	(4,843,960)
Increase/ (decrease) in operating liabilities		
Accounts and deposits in banks	(46,783)	(1,264,383)
Current accounts and deposits of customers	5,049,635	12,853,962
Net cash flows from operating activities before income tax	6,782,002	**7,708,635**
Income tax paid	(62,979)	(52,534)
Net cash flows from/(used in) operating activities	6,719,023	**7,656,101**
Investing activities		
Purchase of property, plant and equipment and intangible assets	(54,641)	-
Purchase of financial assets at fair value through OCI	46,565	(155,328)
Purchase of financial assets carried at amortised cost	(2,722,418)	(196,790)
Net cash flows used in investing activities	(2,730,494)	**(352,118)**
Financing activities		
Loans obtained	1,045,958	-
Loans repaid	-	(719,931)
Lease liability paid	(88,486)	(19,664)
Net cash flows from/ (used in) financing activities	957,472	**(739,595)**
Net change in cash and cash equivalents	4,946,001	**6,564,388**
Effect of exchange rate changes on cash and cash equivalents	912,597	(22,987)
Provision for expected credit losses	(1,631)	(1,219)
Cash and cash equivalents at the year-beginning	31,422,707	24,882,525
Cash and cash equivalents at the year-end	37,279,674	**31,422,707**

Chairman of the Board
Cho Yongeun

Chief Accountant
G.Sh. Zhaksybayeva

Shinhan Bank Kazakhstan

9 April 2021
Almaty, Republic of Kazakhstan

STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2020

Thousands of tenge	Authorised capital	Additional paid-in capital	Capital reserves	Revaluation reserve for financial assets at fair value through other comprehensive income	Retained earnings	Total capital
As of 31 December 2018	**10,028,720**	**144,196**	**279,516**	**(166,197)**	**3,233,787**	**13,520,022**
Effect of adoption of IFRS 16	-	-	-	-	(45,451)	(45,451)
Restated opening balance under IFRS 16	**10,028,720**	**144,196**	**279,516**	**(166,197)**	**3,188,336**	**13,474,571**
Profit for the year	-	-	-	-	833,651	833,651
Net change in fair value of financial assets at fair value through OCI	-	-	-	(616)	-	(616)
Total other comprehensive income	-	-	-	(616)	-	(616)
Total comprehensive income for the year	-	-	-	(616)	833,651	833,035
As of 31 December 2019	**10,028,720**	**144,196**	**279,516**	**(166,813)**	**4,021,987**	**14,307,606**
Profit for the year	-	-	-	-	1,054,332	1,054,332
Net change in fair value of financial assets at fair value through OCI	-	-	-	45,401	-	45,401
Total other comprehensive income	-	-	-			
Total comprehensive income for the year	-	-	-	45,401	1,054,332	1,099,733
As of 31 December 2020	**10,028,720**	**144,196**	**279,516**	**(121,412)**	**5,076,319**	**15,407,339**

Chairman of the Board
Cho Yongeun

Chief Accountant
G.Sh. Zhaksybayeva

Shinhan Bank Kazakhstan

9 April 2021, Almaty, Republic of Kazakhstan

Notes on pages 11-60 are an integral part of these financial statements.

1. CORPORATE INFORMATION AND BUSINESS ENVIRONMENT

(a) Corporate information

The Bank was established in Kazakhstan as a Joint Stock Company in 2008. The principal activities of the Bank include attracting deposits, maintaining customer accounts, providing loans and guarantees, cash and settlement operations, and transactions with securities and foreign currencies. Bank's operations are regulated by the National Bank of the Republic of Kazakhstan (NBRK).

The legal status of the Bank was established by the State Registration with the Ministry of Justice of the Republic of Kazakhstan (Legal Entity State Registration Certificate No. 5037-1900-AO (ИУ)). The Bank is authorised to carry out banking operations by the Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Market and Financial Organizations (banking license No. 1.1.258 dated 28 November 2008).

In January 2015 after enacting the Law of the Republic of Kazakhstan On Introduction of Amendments and Addenda to Certain Legislative Acts of the Republic of Kazakhstan on the Issues of Permit System, the name of the banking operation 'organisation of foreign exchange transactions' was changed to 'organisation of foreign exchange transactions including organisation of exchange transactions with foreign currency cash'. The license held by the Bank was re-issued (License issued by the National Bank of the Republic of Kazakhstan No. 1.1.258 dated 20 January 2015). In January 2017, due to the changed registered office address, the license held by the Bank was re-issued (License issued by the National Bank of the Republic of Kazakhstan No. 1.1.258 dated 27 January 2017).

The registered office address of the Bank is 38 Dostyk Avenue, Almaty, 050010, Kazakhstan. The Bank has no branches. The majority of the assets and liabilities are located in Kazakhstan.

The Bank is fully owned by Shinhan Bank JSC (Seoul, Republic of Korea) (the Parent Bank or the Shareholder). The ultimate parent company of the Bank is Shinhan Financial Group Co. Ltd (Korea), which has the power to direct the activities of the Bank at its discretion and in its interests. Details of related party transactions are disclosed in Note 28.

(b) Business environment

The Bank operates mainly in Kazakhstan. Accordingly, the Bank is exposed to risks specific to the economic and financial markets of Kazakhstan, whose economy shows specific features of an emerging economy. Legal, tax and regulatory frameworks continue to develop but are subject to varying interpretations and frequent changes, which together with other legal and financial impediments contribute to the challenges faced by entities operating in Kazakhstan.

In early 2020, a new coronavirus (COVID-19) began to spread rapidly all over the world. This fact caused the World Health Organization (WHO) to announce a pandemic in March 2020. The measures are taken by many countries to contain the COVID-19 spread resulted in significant operational difficulties for many companies and adversely affected the global financial markets. Kazakhstan, like all other countries, is experiencing a decline in economic activity, a drop in incomes of the population, an increase in underemployment and unemployment. The development of effective vaccines increased optimism in financial and product markets in late 2020. However, COVID-19 pandemic progress remains uncertain. If the increase in infections cannot be quickly managed, and the mass circulation of vaccines is delayed, the economic decline will be much more serious, and the tenge may again come under pressure due to the growth of global uncertainty and the withdrawal of investors into protective assets.

Kazakhstan economy is particularly sensitive to changes in world oil and gas prices as Kazakhstan is producing and exporting large volumes of oil and gas. The country's economy is also significantly influenced by government spending on major infrastructure projects and various socio-economic development state programs.

In 2020, oil prices dropped dramatically amid the consumption crisis due to the coronavirus pandemic, with the average price of Brent crude at $ 41.73 per barrel ($ 62.35 per barrel in 2019). Kazakhstan's GDP decreased by 2.6% in 2020 compared to 4.5% growth in 2019. In 2020, the growth of the real economy became an economic driver, amounting to 2%. For the service sector, the year ended with a 5.6% loss. Almost all real economy and certain types of services show positive growth rates:

construction, information and communications, agriculture, manufacturing, education (in 2019, the main drivers of the economy were construction, transport, trade and communications). At the same time, the manufacturing sector outstripped the mining industry in growth, showing a growth of 4.4% versus 3.7%.

As of 31 December 2020, the base rate of the NBRK was 9% ± 1% (31 December 2019: 9.25% ± 1%). Until mid-2020, there was a slowdown in the issuance of loans, but despite the situation with the coronavirus and the associated deterioration in the financial condition of borrowers, thanks to government programs in Q3 and Q4 2020, lending recovered.

The accompanying financial statements reflect Bank management's estimate of the possible impact of the existing business environment on the Bank's performance and financial position. However, currently, it is difficult to determine the effect of changes in the economic situation on the future performance and financial position of the Bank.

In Q3 and Q4 2019, the National Bank of the Republic of Kazakhstan arranged the Assets Quality Review (AQR) of the banking sector of the Republic of Kazakhstan. The AQR scope included the 14 largest banks covering 87% of the total assets in the banking sector and 90% of the loan portfolio of the sector. To ensure the review transparency and objectivity the NBRK engaged an international consultant and independent audit companies for the AQR. The AQR was made in line with the European Central Bank methodology as well as Kazakhstan laws on accounting and prudential regulation.

According to the AQR results published by the NBRK, as of 1 April 2019 there is no capital deficit at the consolidated level of the banking sector (as per consolidation of all the AQR banks-participants results); prudential standards k1 and k2 have complied with a margin at the system level.

The Bank was not included in the AQR scope; the Bank operates under the requirements of the laws and regulations and IFRS requirements; therefore, the AQR results had an insignificant impact on the Bank's financial standing affect the financial condition and soundness.

2. BASIS OF PREPARATION

(a) Statement of compliance

These financial statements have been prepared under International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(b) Cost basis

The financial statements have been prepared on a historical cost basis except for financial assets at fair value through other comprehensive income.

(c) Functional and presentation currency

The Bank's functional currency is Kazakhstan tenge (tenge and KZT); being the national currency of the Republic of Kazakhstan, it best reflects the economic substance of the most of Bank's transactions and related circumstances that affect the Bank's operations.

Tenge is also the presentation currency of these financial statements. All the values are presented in tenge are rounded to the nearest thousands, except when indicated otherwise.

(d) Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are regularly reviewed. Adjustments to accounting estimates are recognised in the reporting period in which the estimates are revised and in any future periods affected.

The following notes present information about significant areas of estimation uncertainty and critical judgements in applying accounting policies:

- Note 15 - Measurement of loan impairment
- Note 16 - Classification of financial assets carried at amortised cost

- Note 29 - Fair value of financial instruments.

(e) Going concern

The accompanying financial statements have been prepared on a going concern basis, which assumes the realisation of assets and the settlement of liabilities in the Bank's normal course of business. In making the related estimates, the management of the Bank has considered a wide range of information regarding current and future economic conditions, including forecasts of cash flows, profit and capital resources.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies described below have been consistently applied by the Bank in all reporting periods presented in these financial statements.

(a) Foreign currency transactions

Foreign currency transactions are translated into the Bank's functional currency at the exchange rates prevailing at the transaction dates.

Monetary assets and liabilities denominated in foreign currencies as at the reporting date are translated into the functional currency at the exchange rate prevailing at the reporting date. Gains or losses from transactions with monetary assets and liabilities denominated in foreign currencies is the difference between the amortised cost in the functional currency as at the period-beginning adjusted for the amount of accrued interest and payments over the period at the effective interest rate, and the amortised cost in the foreign currency translated to the functional currency at the exchange rate prevailing at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies at fair value are translated into the functional currency at the exchange rates prevailing at the fair value measurement dates. Non-monetary assets and liabilities denominated in foreign currencies and recognised at actual costs are translated into the functional currency at the exchange rates prevailing at the transaction dates.

Exchange differences arising from foreign currency translation are recognised in profit or loss.

(b) Cash and cash equivalents

Cash and cash equivalents include cash banknotes and coins, unrestricted balances (Nostro accounts) with NBRK and other banks, and highly liquid financial assets with original maturities of less than three months that are not exposed to a substantial risk of change in their fair values and are used by the Bank to settle its current liabilities. Compulsory reserves with NBRK are not treated as cash and cash equivalents due to restrictions on their use. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(c) Accounts and deposits in banks

In the course of its business, the Bank opens current accounts or places deposits for various periods with other banks. Cash with fixed maturities is subsequently measured at amortised cost using the effective interest method. Cash that does not have fixed maturities are carried at the original cost. Those assets are accounted for less any provision for impairment.

(d) Financial instruments

(i) Recognition and measurement of financial instruments

Financial assets and financial liabilities are recognised in the Bank's statement of financial position, where the Bank becomes a party to a contract in respect of the relevant financial instrument. The Bank records regular purchases and sales of financial assets and liabilities using the settlement date accounting method. Financial instruments acquired so, which will subsequently be measured at fair value, are accounted for in the same way as purchased instruments from the transaction time and till the settlement date.

Financial assets and financial liabilities are initially recorded at fair value. Transaction costs directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss (FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are charged directly to profit or loss. Accounting principles used for the subsequent measurement of financial assets and liabilities are disclosed in the relevant accounting policies set out below.

Financial assets

All financial assets are recognised and derecognised on the transaction date when the purchase or sale of a financial asset is made under a contract that requires the delivery of the financial asset within the time frame set by the relevant market and is initially measured at fair value plus transaction costs, except for those financial assets that are classified as measured at fair value through profit or loss. Transaction costs that are directly attributable to the acquisition of financial assets at fair value through profit or loss are immediately recognised in profit or loss.

All recognised financial assets that are within the scope of IFRS 9 Financial Instruments should be subsequently measured either at amortised cost or at fair value based on the Bank's business model for managing financial assets and the contractual characteristics of cash flows of the financial assets.

Herewith:

• *An asset held to collect contractual cash flows.*

The objective of this business model is to generate contractual cash flows of financial assets through collecting payments of principal and interest over the life of a financial instrument.

Within this business model holding a financial asset to maturity is preferred; however, its early realisation is not prohibited;

• *An asset held to collect contractual cash flows and to sell financial assets.*

Under the 'hold to collect and sell' business model, the objective is to both collect the contractual cash flows and sell the financial assets. Under the 'hold to collect and sell' business model, the objective is to both collect the contractual cash flows and sell the financial assets. In contrast to the 'hold to collect' business model, sales are integral rather than incidental, and consequently, this business model typically involves a greater frequency and volume of sales.

• *An asset held for other purposes*

Under this business model, the objectives of managing financial assets may include:

a. Managing for generating cash flows through the sale of financial assets

b. Managing liquidity to satisfy the daily needs for funding

c. A portfolio which is managed and performance evaluated on a fair value basis

d. A portfolio that is qualified as held for trading. Financial assets are deemed to be held for trading if they are acquired mainly to be sold in the near term (up to 180 days), to obtain short-term profits, or are derivative financial instruments (except for financial guarantees or derivative financial instruments that have been designated as a hedging instrument).

Under IFRS 9, the financial assets of the Bank are classified as follows:

- Loans issued to customers are classified as assets measured at amortised cost; they are held within a business model intended to collect contractual cash flows that represent solely payments of principal and interest (SPPI)
- Balances of correspondent accounts, interbank loans/ deposits, REPO transactions are typically classified as assets measured at an amortised cost since they are managed under a business model intended to obtain contractual cash flows that include SPPI
- Debt securities can be classified into any of the three classification categories, taking into consideration the business model chosen and subject to meeting SPPI qualifying criteria
- Equity securities are typically classified as instruments at fair value through profit or loss
- Trading securities and derivative financial instruments are classified as financial assets at fair value through profit or loss.

Financial liabilities

Financial liabilities are classified either as financial liabilities at fair value through profit or loss or as other financial liabilities.

A financial liability is classified as held for trading if:

- Primary accepted for repurchases shortly
- Upon initial recognition, it is part of a portfolio of identified financial instruments that are managed by the Bank as a single portfolio for which there is a recent history of short-term purchases and resales, or
- It is a derivative that is not classified and used as a hedging instrument.

A financial liability, other than held-for-trading financial liabilities or a contingent consideration that may be paid by a purchaser in the business combination, may qualify as a financial liability at fair value through profit or loss at the time of recognition, where:

- Such designation eliminates or considerably reduces inconsistency in the measurement or recognition of assets or liabilities that would otherwise appear
- The financial liability forms part of a group of financial assets or financial liabilities, or group of financial assets and financial liabilities, which is managed and measured based on the fair value under the Bank's formalised risk management strategy or investment strategy, and information about such group of financial liabilities is provided internally on that basis
- The financial liability forms part of an instrument containing one or more embedded derivatives, and IFRS 9 permits classifying the entire instrument (asset or liability) as the instrument at fair value with changes thereof recognised in the statement of profit or loss.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at their fair values. Changes in fair value are recorded in net (loss)/ gains on financial assets and liabilities at fair value through profit or loss. Interest earned or incurred is recorded in interest income or expense, respectively, under the terms of a contract, while dividend income is recorded in the "Other Income" line item once the right to receive dividends is established.

Debt instruments measured at amortised cost or fair value through other comprehensive income

The Bank classifies and measures a financial asset based on the characteristics of contractual cash flows and the Bank's business model used to manage the asset.

To classify and measure an asset at amortised cost or fair value through other comprehensive income, the terms of the relevant contract should give rise to cash flows that are solely payments of principal and interest on the outstanding principal amount.

When testing the contractual cash flows for meeting the above requirements, the principal amount is considered as the fair value of the financial asset at initial recognition. During the life of the financial asset, the principal amount may change (for example, in the case of repayments of the principal amount). Interest includes compensation for the time value of money and credit risk of the principal amount outstanding for a certain period and also includes compensation for other lending risks and costs and a profit margin. Payments of principal and interest are measured in the currency of the financial asset.

Contractual cash flows that are solely payments of principal and interest are consistent with a basic lending arrangement. Contractual terms resulting in risks or volatility of contractual cash flows that are not related to the basic lending arrangement, such as the risk of changes in the prices of shares or goods, do not give rise to the contractual cash flows that are solely payments of principal and interest. An originated or purchased financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

Assessment of business models used to manage financial assets was carried out at the date of the first-time adoption of the IFRS 9 for the financial asset classification. The business model was applied retrospectively to all financial assets recognised on the balance sheet of the Bank as of the date of the first-time adoption of IFRS 9. The business model used by the Bank is determined at a level that reflects the mechanism for managing the financial assets grouped to achieve a certain business objective. Since the Bank's business model does not depend on the management's intentions in respect of an individual instrument, the assessment is carried out not at the level of individual instruments, but a higher aggregated level.

To manage its financial instruments, the Bank uses several business models that describe a mechanism for managing financial assets to generate cash flows. The business model determines whether cash flows result from the receipt of contractual cash flows, the sale of financial assets, or both.

In assessing the business model the Bank takes into consideration all available information. However, the assessment is not made based on scenarios that the Bank can reasonably expect, such as the "worst-case" scenario or the "stressful" scenario. The Bank takes into consideration all relevant data such as:

- The mechanism for evaluating the efficiency of the business model and financial assets held within that business model, and reporting to key management personnel
- Risks affecting the efficiency of the business model (and financial assets held within that business model) and the method of managing those risks; and
- The mechanism for paying compensation to management (for example, the grounds to pay compensations are analysed: the fair value of the relevant assets or the contractual cash flows received).

On initial recognition of a financial asset, the Bank determines whether the newly recognised financial assets are part of an existing business model or they give rise to a new business model. The Bank reviews its business models in each reporting period to identify any changes from the prior period. In the current reporting period, the Bank has identified no changes in its business models.

Upon derecognition of a debt instrument at fair value through other comprehensive income, the profit or loss accumulated that was previously recognised in other comprehensive income is reclassified from equity to profit or loss. Debt instruments which are subsequently measured at amortised cost or fair value through other comprehensive income are subject to impairment.

(ii) Derecognition

The Bank derecognises a financial asset when it loses the contractual rights to the cash flows from the financial asset, or it transfers the financial asset in a transaction under which all substantial risks and rewards of ownership of the asset are transferred to the other party, or under which the Bank neither transfers, nor retains substantially all the risks and rewards of ownership of the financial asset, nor retains control over the financial asset. Any interest in transferred financial assets (that qualify for derecognition), which is created or retained by the Bank is recognised as a separate asset or liability in the statement of financial position. The Bank derecognises a financial liability when the related contractual obligations are discharged, cancelled or expire.

The Bank enters into transactions whereunder it transfers assets recognised in its statement of financial position, while retains either all risks or rewards of ownership of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised by the Bank.

In transactions where the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

If the Bank retains control of the transferred asset, it continues to recognise the transferred asset to the extent of its continuing involvement. The extent of the Bank's continuing involvement in the transferred asset is the extent to which it is exposed to changes in the value of the transferred asset.

The Bank writes off assets that are recognised as uncollectible.

(iii) Offsetting

Financial assets and liabilities are offset with the net amount presented in the statement of financial position only when, the Bank at that time has a legally enforceable right to offset the recognised amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously. The Bank currently has a legally enforceable right to set-off, provided that the right is not conditional on a future event and is enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the Bank or any of its counterparties.

(iv) Impairment

Impairment loss on financial assets is calculated considering the following factors:

- To calculate the expected credit losses ("ECLs"), the Bank assesses loans on an individual basis and a group basis grouping assets based on the common characteristics of credit risk
- ECLs represent the estimated present value of the credit losses considering their probability. Those losses estimated represent the present value (discounted at the effective interest rate of the relevant asset) of the difference between the cash flows due to the Bank under a contract and the cash flows that the Bank expects to receive based on an analysis of probable economic scenarios
- The calculation is made based on reasonable and supportable information that can be obtained without undue cost or effort. Calculation of the present value of the expected future cash flow of a secured financial asset represents cash flows, which may result from the foreclosure minus the cost of obtaining and realising the collateral, regardless of whether the foreclosure is likely or not.

  The provisions made are based on the analysis of the Bank's experience of losses and management's assumptions regarding the level of losses that are most likely to be recognised on assets in each category of credit risk, based on the borrower's debt servicing abilities and his credit report.
- Impairment for treasury transactions (investments in debt securities, reverse REPO transactions, interbank loans and deposits, correspondent account transactions, receivables under treasury transactions) is calculated taking into account the counterparty's rating, probability of default, the term of the transaction and the loss given default
- Expected credit losses on treasury operations are estimated on an individual basis (except for certain assets represented in the form of receivables).

Financial assets are segments into categories under the following approach:

- Stage 1: there is no significant increase in credit risk since the asset is recognised; impairment is recognised in the amount of 12-month expected credit losses
- Stage 2: there is a significant increase in credit risk since the asset is recognised, impairment is recognised in the amount of lifetime expected credit losses;
- Stage 3: a financial asset is in default or has indications of impairment.

Provisions for expected credit losses

Expected credit losses should be estimated using a loss provision, which is equal to:

- To credit losses expected within the next 12 months, i.e. that portion of the lifetime credit losses of the financial instrument that represents the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date ("Stage 1")
- The amount of lifetime expected credit losses on the financial instrument, which result from default events on the instrument that is possible within the instrument lifetime ("Stage 2" and "Stage 3")

It is required to make a provision for ECLs on an instrument in the amount of its lifetime ECLs, where credit risk on the instrument significantly increases since the initial recognition thereof. In all other cases, the provisions for ECLs are to be made in the amount of 12-month ECLs.

- Concerning undrawn credit facilities, ECLs represent the difference between the present value of the difference between the cash flows due to the Bank under the contract in the event of a drawdown of the credit facilities by the obligation holder and the cash flows that the Bank expects to receive in the event of a drawdown of the credit facilities.
- Concerning financial guarantees, ECLs represent the difference between the expected payments to pay interest to the holder of a secured debt instrument minus any amounts that the Bank expects to receive from the holder, borrower or any other party.

ECLs are estimated for individual loans and portfolios of loans with similar risk characteristics. Provision for ECLs (whether on an individual or group basis) is calculated based on the present value of cash flows expected for the asset using the original effective interest rate (EIR).

In determining the amount of ECLs it is extremely important to apply a default definition. The definition of default is used to estimate the ECLs amount and determine whether the provision is calculated for the next 12 months or the entire lending period since the concept of default is part of the concept of probability of default, which affects both the estimation of ECLs and identification of a significant increase in credit risk.

Definition of default

Defaulted financial assets have maximum credit risk and there is no likelihood of compensation in the initial terms requiring restructuring or, if necessary, such restructuring, recognition of the loss in full or in part. Deterioration in the financial condition of the issuer/borrower below a critical level, including significant losses, decrease in value, and cost of capital decreased below zero.

Due to the specific nature of each of the financial assets in the Bank's portfolio, a decision on recognition of default is made after an individual review by the Bank's Credit Committee. As a rule, this decision is made as a result of events that have occurred or highly probable and expected.

Qualitative factors for the impairment of financial assets may include remuneration accrual suspension due to deterioration of the financial standing of the counterparty, writing off of a part and/or the entire debt, which is caused by a significant increase in credit risk since the financial asset was provided, sale of financial assets at a significant discount (15% and more), loan restructuring, filing an action seeking a declaration of the counterparty’s bankruptcy, as well as lack of an active market for a security, decrease in the cost of security or other observable inputs.

(v) Credit-impaired financial assets

A financial asset is considered credit-impaired if one or more events occur that adversely affect the estimated future cash flows of the financial asset. Credit-impaired financial assets are called the “Stage 3 assets”. Indications of credit impairment include observable information on the following events:

- Significant financial difficulties of the borrower or lender
- Breach of contract, such as default or delinquency in payments
- Granting by the lender concessions to the borrower due to economic reasons or contractual terms in connection with the financial difficulties of the borrower, which the lender would not grant otherwise
- The disappearance of an active market for security as a result of financial difficulties; or
- Purchase of a financial asset with a large discount, which reflects credit losses incurred.

In some cases, it is impossible to identify an individual event, since credit impairment of a financial asset might be caused by the cumulative effect of several events. As at each reporting date, the Bank assesses whether its debt instruments that are financial assets measured at amortised cost or fair value through other comprehensive income are credit-impaired. The Bank considers factors such as bond yields, credit ratings and the borrower’s ability to raise funding in assessing whether the government and corporate debt instruments are credit-impaired.

The loan is considered to be credit-impaired if a borrower is granted a concession due to the deteriorated financial situation, provided that there is no evidence that the concession granted has resulted in a significant reduction of the payment risk of contractual cash flows, and other indications of impairment do not exist. Financial assets in respect of which the Bank has considered but did not provide a concession are considered credit-impaired where there are observable indications of impairment of loans, including those that correspond to the definition of default. The definition of default includes indications of a lack of likelihood of payment and the expiration of maturity (past due for 90 days and more). The decision to use cross-default is based on a case-by-case assessment of the customer’s facility conditions such as collateral and materiality of credit exposure.

(e) Property, plant and equipment

(i) Owned assets

Items of property, plant, and equipment (PPE) are recorded in the financial statements at actual cost less accumulated depreciation and accumulated impairment losses. Where an item of PPE consists of several components with different useful lives, such components are accounted for as separate items of PPE.

(ii) Depreciation

Depreciation of property, plant and equipment is accrued using the reducing balance method at the rates not exceeding 20% for all types of property, plant and equipment, except for cases when the useful life of an asset is determined by special conditions of the use of the asset and is recognised in profit or loss. Depreciation begins from the date of acquisition of an asset, and for items of property, plant and equipment constructed in-house - from the time of construction completion and readiness thereof for use. The land is not depreciated.

If the Bank invests in leaseholds, those costs are amortised on a straight-line basis over the shorter the lease duration and the useful life of the leasehold improvements.

(f) Intangible assets

Acquired intangible assets are recognised in the financial statements at actual cost less accumulated amortisation and impairment losses. Costs of acquisition of licenses for specially designed software and its implementation are capitalised in the value of the relevant intangible asset.

Amortisation of intangible assets is accrued using the reducing balance method at the rates not exceeding 20% for all types of intangible assets, except for cases when the useful life of an asset is determined by special conditions of the use of the asset and is recognised in profit or loss.

(g) Lease

The Bank, as a lessee, recognizes a right-of-use asset represented by the right to use the assets, and a liability to make lease payments.

For all leases (except for those stated below) the Bank:

- Recognizes in the statement of financial position the right-of-use assets and lease liabilities in Property, Plant and Equipment and Other Liabilities, respectively.
- Recognizes in the statement of profit and loss the amortisation of right-of-use assets as depreciation and amortization costs in Operating Expenses and interest on lease liabilities in Interest Expenses
- Separates in the statement of cash flows the total amount of cash allocated for the repayment of the principal (presented in financing activities) and interest (presented in operating activities).

Testing of the right-of-use assets for impairment is carried out under IAS 36 Impairment of Assets.

For short-term leases (up to 12 months) and leases of low-value assets, the Bank recognized lease expenses evenly.

Incentive lease payments (for example, a free (grace) period) are recognized as part of the measurement of right-of-use assets and lease liabilities upon initial recognition.

(h) Asset held for sale

Long-term assets and the liabilities directly associated with long-term assets are classified as held-for-sale (“disposal group”) if it is highly probable that the net asset’s carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for immediate sale in its present condition. Management must have a firm intention to sell such assets within one year from the time of qualifying thereof as held-for-sale.

Assets held-for-sale are measured at the lower of their carrying amount and fair value less costs to sell. If the fair value less costs to sell of an asset held-for-sale is lower than its carrying amount, the entity should recognise an impairment loss in its statement of profit and loss as the loss on the assets held-for-sale.

Any subsequent increase in asset's fair value less costs to sell is recognised to the extent of the cumulative impairment loss that was previously recognised concerning that specific asset.

(i) Impairment of non-financial assets

Non-financial assets, other than deferred tax assets, are reviewed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In determining the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate, which reflects the current market assessment of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or cash-generating unit exceeds its recoverable amount.

All impairment losses on non-financial assets are recognised in profit or loss and reverse only where the estimates used to determine the recoverable amount change. Any impairment loss can reverse to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined (net of amortisation); if no impairment loss had been recognised in the financial statements.

(j) Provisions

Provisions are recognised in the statement of financial position, when the Bank has a legal or constructive obligation arising from past events, and it is probable that outflow of resources will be required to settle the obligation. If the amount of such obligation is significant, provisions are determined by discounting the estimated future cash flows at the pre-tax discount rate that reflects the current market assessment of the time value of money and, where applicable, risks specific to the obligation.

(k) Credit-related contingencies

In the normal course of business, the Bank undertakes credit-related commitments, comprising undrawn credit lines, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder of a financial guarantee for losses incurred for the reason that a specified debtor failed to make payment in time under the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value less associated transaction costs and is measured subsequently at the greater of the amount initially recognised less accumulated amortisation and the provision for potential losses on the guarantee. Provisions for potential losses under financial guarantees and other credit-related commitments are recognised where losses are considered highly probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit-related commitments are included in other liabilities.

Commitments to extend credit are not recognised in the financial statements except for the following:

- Commitments to extend credit that the Bank designates as financial liabilities at fair value through profit or loss for the period
- If the Bank has experience of selling the assets resulting from its Commitments to extend credit shortly after origination, the Commitments to extend credit in the same class that are treated as derivative financial instruments
- Commitments to extend credit that can be settled net in cash or by delivering or issuing another financial instrument
- Commitments to extend credit at a below-market interest rate.

(l) Issued capital

(i) Ordinary shares

Ordinary shares are classified as equity. Costs directly attributable to the issue of ordinary shares and share options are recognised as a reduction of capital, net of any tax effects.

(ii) Dividends

The ability of the Bank to declare and distribute dividends is regulated by the current laws and regulations of the Republic of Kazakhstan.

Dividends on ordinary shares are reported in the financial statements as the use of retained earnings as they are declared.

(m) Taxes

Income tax includes the current tax and deferred tax. Income tax is recognised in profit or loss in full, except for amounts related to transactions recorded in other comprehensive income or to transactions with owners directly recorded in equity, which are accordingly recorded in other comprehensive income or directly in equity.

Current income tax expense is calculated based on the estimated taxable profit for the year at the income tax rates that were in effect at the reporting date, as well as the liabilities arising from the adjustment of income tax amounts for prior reporting years.

Deferred tax assets and deferred tax liabilities are recorded for temporary differences arising between carrying amounts of assets and liabilities determined for financial reporting purposes and their tax bases. Deferred tax assets and deferred tax liabilities are not recognised for the following temporary differences: differences related to assets and liabilities, the initial recognition of which affects neither the accounting nor taxable profit. Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply in the future, at the time of reversal of temporary differences, based on the enacted or substantively enacted laws as at the reporting date.

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

Deferred tax assets are recorded to the extent that it is probable to earn in the future taxable profit sufficient to cover temporary differences, non-recorded tax expenses and unused tax benefits.

Deferred tax assets are reduced to the extent of a likelihood that taxable profit will be available against which the deductible temporary differences can be utilised.

(n) Recognition of income and expense in the financial statements

Interest income and expense on all financial instruments, except for financial assets at fair value through profit or loss, are recognised using the effective interest method in Net Interest Income as Interest Income Calculated Using the Effective Interest Method and Interest Expense in the statement of profit and loss.

The effective interest rate is the rate of discounting the estimated future cash flows of a financial instrument to the net carrying amount over the expected lifetime of a financial asset or liability or (if applicable) over a shorter period. Future cash flows are estimated considering all contractual terms of the instrument.

If a financial asset or a group of financial assets is written-off (or written down) as a result of impairment, interest income is determined at the rate of interest used to discount the future cash flows to the net amortised cost of the financial asset to measure the impairment loss. If a financial asset is no longer in default and is no longer credit-impaired, the Bank returns to the calculation of interest income based on the gross value.

Fee and commission income is recognised to reflect the transfer of services to customers at an amount that reflects the consideration that is expected to be received in exchange for such services. The Bank identifies a performance obligation, i.e. the services agreed with a customer, and the consideration, and recognises income in line with the transfer of services, the performance obligation agreed with the customer.

For each performance obligation identified, the Bank determines at contract inception whether it satisfies the performance obligation over time or at a point in time and whether the consideration is fixed or variable, including whether consideration is constrained by, for instance, external factors outside the Bank's influence. The consideration is subsequently allocated to the identified performance obligation.

Other fees and commissions and other income and expenses are recognised in profit or loss on the date of delivery of the service.

Operating lease payments are recognised in profit or loss of the period on a straight-line basis over the lease duration. Lease incentives obtained to reduce the total lease expense over the whole lease duration.

(o) Financial guarantees

Financial guarantees and letters of credit issued by the Bank are credit insurance that provides for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make a payment when due under the original or modified terms of a debt instrument. Such financial guarantees and letters of credit are initially recognised at fair value. Subsequently, they are measured at the higher of (a) the amount recognised as a provision and (b) the amount initially recognised less, where appropriate, cumulative amortisation of deferred premium revenue received under the financial guarantee contracts or letters of credit issued.

(p) New standards, interpretations and amendments to the effective standards and interpretations

The Bank adopted several new standards and interpretations effective for the annual periods beginning on or after 1 January 2020. The Bank did not prematurely apply the standards, clarifications or amendments issued but not yet effective.

Definition of a Business - Amendments to IFRS 3
The amendments clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. They also clarify that a business can exist without including all of the inputs and processes needed to create outputs. These amendments did not affect the Bank's financial statements but can be applied in future if the Bank is a party to a business combination.

Interest Rate Benchmark Reform - Amendments to IFRS 39, IFRS 9 and IFRS 7
The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR). A hedging relationship is affected if the reform gives rise to uncertainties about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments did not affect the Bank's financial statements as it has no hedging relationship based on the interest rate.

Definition of Material - Amendments to IAS 1 and IAS 8
Amendment provides for the new definition of material. The new definition states that 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make based on those financial statements, which provide financial information about a specific reporting entity.' The amendments explain that information is obscured if it is communicated in a way that would have a similar effect as omitting or misstating the information. These amendments did not affect the Bank's financial statements and we expect either no influence in future.

Revised Conceptual Framework for Financial Reporting issued on 29 March 2018
The revised Conceptual Framework for Financial Reporting (the Conceptual Framework) is not a standard, and none of the concepts overrides those in any standard or any requirements in a standard. The purpose of the Conceptual Framework is to assist the IAS Board in developing standards, to help preparers to develop consistent accounting policies if there is no applicable standard in place and to assist all parties to understand and interpret the standards. The Conceptual Framework may affect the entities developing their accounting policies in line with the Conceptual Framework. The Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. Revision of the Conceptual Framework did not affect the Bank's financial statements.

Thousands of tenge

Covid-19-Related Rent Concessions – Amendment to IFRS 16
In May 2020, the IASB amended IFRS 16 to provide relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the covid-19 pandemic. The amendment does not apply to lessors. As a practical expedient, a lessee may elect not to assess whether a covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the covid-19 related rent concession the same way it would account for the change under IFRS 16 if the change were not a lease modification. A lessee will apply the amendment for annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment did not affect the Bank's financial statements.

4. NET INTEREST INCOME

	2020	2019
Interest income		
Cash and cash equivalents	1,607,442	1,336,276
Loans to customers	1,650,105	1,306,313
Financial assets at amortised cost	591,994	453,721
Financial assets at fair value through OCI	61,515	61,739
Accounts and deposits in banks	-	-
	3,911,056	**3,158,049**
Interest expense		
Current accounts and deposits of customers	(1,167,709)	(869,157)
Interest on loans obtained from international financial institutions	(554,962)	(498,604)
Lease liability	(39,666)	(41,415)
Accounts and deposits in banks	-	(737)
Reverse repurchase agreements liabilities	(2,527)	(212)
	(1,764,864)	**(1,410,125)**
	2,146,192	**1,747,924**

5. FEE AND COMMISSION INCOME

	2020	2019
Transfer operations	77,031	67,144
Guarantees and letters of credit	11,939	21,934
Cash transactions	17,528	20,521
Other	6,660	6,698
	113,158	**116,297**

6. FEE AND COMMISSION EXPENSES

	2020	2019
Guarantee received	38,700	31,127
Transfer operations	34,242	28,187
Other	21,907	20,170
	94,849	**79,484**

Thousands of tenge

7. NET FOREIGN EXCHANGE GAIN

	2020	2019
Dealing operations, net	176,241	231,028
Foreign currency translation differences, net	49,699	7,806
	225,940	**238,834**

8. STAFF COSTS

	2020	2019
Employee benefits	743,530	693,402
Payroll taxes and deductions	70,963	64,907
	814,493	**758,309**

9. PROVISIONS FOR EXPECTED CREDIT LOSSES

	Cash and cash equivalents	Accounts and deposits in banks	Loans to customers	Financial assets carried at amortised cost	Financial assets at fair value through OCI	Other assets	Total
As of 1 January 2019	**1,674**	**41**	**255,042**	**1,444**	**593**	**13,125**	**271,919**
Provisions made	9,126	-	130,807	2,003	296	-	142,232
Provisions recovery	(9,581)	(2)	(255,367)	(2,470)	(331)	(11,529)	(279,280)
Write-off	-	-	(21,940)	-	-	-	(21,940)
Foreign currency translation difference	-	-	98	-	-	-	98
As of 31 December 2019	**1,219**	**39**	**108,640**	**977**	**558**	**1,596**	**113,029**
Provisions made	8,382	100	54,595	3,324	369	1,918	68,688
Provisions recovery	(8,028)	(51)	(99,866)	(2,860)	(398)	(1,835)	(113,038)
Write-off							-
Foreign currency translation difference	58		1,711			3	1,772
As of 31 December 2020	**1,631**	**88**	**65,080**	**1,441**	**529**	**1,682**	**70,451**

In the year ended 31 December 2020, the Bank did not write off loans based on court decisions. In 2019, a portion of loans from individual borrowers that were not subject to reimbursement under court decisions was written off for KZT 21,940 thousand, the balance of claims for such loans, before deducting provisions, as of 31 December 2019 is KZT 19,624 thousand.

Thousands of tenge

Movement in accumulated provisions for the expected credit losses on loans to the customers:

	2020				2019			
Loans to customers	*Stage 1*	*Stage 2*	*Stage 3*	*Total*	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Balance as of 1 January	**27,106**	**462**	**81,072**	**108,640**	**7,394**	**8**	**247,640**	**255,042**
Transfer to Stage 1	1	-	(1)	-	1	(1)	-	-
Transfer to Stage 2	(181)	182	(1)	-	(457)	462	(5)	-
Transfer to Stage 3	(126)	-	126	-	(9)	-	9	-
Net change in provisions	(28,009)	(168)	(21,659)	(49,836)	(396)	(7)	(176,951)	(177,354)
Purchase of new financial assets	4,395	142	28	4,565	20,573	-	10,281	30,854
Foreign currency translation difference	1,394	148	169	1,711	-	-	98	98
Balance as of 31 December	**4,580**	**766**	**59,734**	**65,080**	**27,106**	**462**	**81,072**	**108,640**

Movement in accumulated provisions for the expected credit losses on financial assets for 2020:

	Financial assets at amortised cost	*Financial assets at fair value through OCI*	*Cash and cash equivalents*	*Accounts and deposits in banks*	*Other assets*	*Credit-related contingencies*
2020	*Stage 1*	*Stage 1*	*Stage 1*	*Stage 1*	*Stage 3*	*Total*
Balance as of 1 January	**977**	**558**	**1,219**	**39**	**1,596**	**1,584**
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
Net change in provisions	(977)	(29)	(266)	1	-	(989)
Purchase of new financial assets	1,441	-	620	48	83	505
Foreign currency translation difference	-	-	58	-	3	(595)
Balance as of 31 December	**1,441**	**529**	**1,631**	**88**	**1,682**	**505**

Thousands of tenge

Movement in accumulated provisions for the expected credit losses on financial assets for 2019:

2019	*Financial assets at amortised cost*	*Financial assets at fair value through OCI*	*Cash and cash equivalents*	*Accounts and deposits in banks*	*Other assets*	*Credit-related contingencies*
	Stage 1	*Stage 1*	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Balance as of 1 January	**1,444**	**593**	**1,674**	**41**	**13,125**	**1,567**
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
Net change in provisions	(1,217)	(35)	(1,071)	(2)	(11,529)	(168)
Purchase of new financial assets	750	-	616	-	-	185
Foreign currency translation difference	-	-	-	-	-	-
Balance as of 31 December	**977**	**558**	**1,219**	**39**	**1,596**	**1,584**

Thousands of tenge

10. OTHER GENERAL ADMINISTRATIVE EXPENSES

	2020	2019
Depreciation and amortisation	106,896	102,203
Software maintenance	46,595	55,783
Communication and information services	49,711	47,187
Taxes, charges and other compulsory payments	55,992	42,806
Professional services	11,159	28,483
Operating expenses	21,099	19,830
Insurance costs	16,718	16,455
Security	15,927	16,281
Processing services	15,770	16,271
Writing-off of property, plant and equipment	147	12,737
Advertising and marketing	4,948	10,978
Membership fees	12,763	9,571
Entertainment expenses	7,730	9,133
Stationary	4,603	6,477
Transportation costs	5,706	5,906
Travel expenses	3,739	5,132
Repairs and maintenance	3,845	4,997
Operating lease costs	1,634	1,338
Other	41,835	28,289
	426,817	**439,857**

11. INCOME TAX EXPENSES

The Bank assesses income tax for the current period based on tax accounting records maintained in compliance with the tax laws of the Republic of Kazakhstan. For the years ended 31 December 2020 and 2019, income tax expenses are detailed below:

	2020	2019
Income tax expenses		
Reporting period	(130,000)	(104,438)
Adjustment of prior period	1,396	8,945
Change in deferred taxes resulting from the origination and reversal of temporary differences	(781)	11,307
Total income tax expenses	**(129,385)**	**(84,186)**

The statutory rate of the income tax rate in Kazakhstan was 20% during 2020 and 2019. Income on government securities and certain other securities are not subject to income tax.

Because certain types of expenses are not taken into account for tax purposes, as well as due to the presence of non-taxable income, certain permanent tax differences arise for the Bank.

Thousands of tenge

Calculation of the effective rate of income tax for the year ended 31 December 2020 and 2019:

	2020	2019
Profit before income tax	**1,183,717**	**917,837**
Income tax calculated at the applicable income tax rate	236,743	183,567
Non-taxable income from transactions with securities	(130,702)	(103,092)
Other non-deductible expenses (income)	23,344	3,711
	129,385	**84,186**
Effective income tax rate	**10.9%**	**9.2%**

Deferred tax assets and liabilities

Temporary differences between the values of assets and liabilities reported in the financial statements and the amounts used to calculate the tax bases gave rise to deferred tax assets on 31 December 2020 and liabilities on 31 December 2019.

Movements in temporary differences during the years ended 31 December 2020 and 2019 are detailed below:

2020	Balance as of 1 January 2020	Reported in profit or loss	Reported in equity	Totally as of 31 December 2020
PPE and intangible assets	(49,159)	8,341	-	(40,818)
Other liabilities	87,343	(9,122)	-	78,221
	38,184	**(781)**	**-**	**37,403**

2019	Balance as of 1 January 2019	Reported in profit or loss	Reported in equity	Totally as of 31 December 2019
PPE and intangible assets	3,636	4,410	(57,205)	(49,159)
Other liabilities	11,877	6,897	68,569	87,343
	15,513	**11,307**	**11,364**	**38,184**

12. CASH AND CASH EQUIVALENTS

	31.12.2020	31.12.2019
Cash on hand	615,331	670,725
Nostro accounts with NBRK	9,462,077	8,103,799
Nostro accounts with other banks		
- with credit rating A- to A+	*4,736,166*	*2,329,948*
- with credit rating from BB- to BB+	*94,481*	*33,315*
- with credit rating B-	*585*	*-*
- unrated	*145,132*	*69,131*
Total nostro accounts with other banks	4,976,364	2,432,394
Cash equivalents		
Term deposits in NBRK	22,227,533	20,217,008
Provision for expected credit losses	(1,631)	(1,219)
Total cash and cash equivalents	**37,279,674**	**31,422,707**

Thousands of tenge

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

Cash and cash equivalents are not past due.

Minimum reserve requirements

As of 31 December 2020 and 31 December 2019, under the resolution of NBRK, the minimum reserve requirements are calculated as the average of the sum of certain shares of various groups of bank's liabilities for twenty-eight calendar days. Banks are obliged to comply with those requirements by maintaining average reserve assets (in the form of cash on hand in the national currency and balances on correspondent accounts with the National Bank in the national currency) in an amount equal to or exceeding the average minimum requirements. As of 31 December 2020, the minimum reserve required amounted to KZT 828,848 thousand (31 December 2019: KZT 656,803 thousand).

The concentration of cash and cash equivalents

As of 31 December 2020 and 31 December 2019, the Bank has accounts with two banks (31 December 2019: two banks), each of which accounts for more than 10% of the equity. The gross value of balances with those banks as of 31 December 2020 amounted to KZT 36,425,706 thousand (31 December 2019: KZT 30,650,705 thousand).

13. ACCOUNTS AND DEPOSITS IN BANKS

	31.12.2020	31.12.2019
Cash restricted in use	174,973	72,692
Provision for expected credit losses	(88)	(39)
Total accounts and deposits in banks	**174,885**	**72,653**

As of 31 December 2020 and 31 December 2019, respectively, the Bank had no deposits that would exceed 10% of the Bank's equity.

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH OCI

	31.12.2020	31.12.2019
Held by the Bank		
Debt financial instruments		
- Bonds issued by the Ministry of Finance of the Republic of Kazakhstan	*1,213,618*	*1,173,343*
Total financial assets	**1,213,618**	**1,173,343**

As of 31 December 2020 and 2019, those financial assets are not past due.

15. LOANS TO CUSTOMERS

	31.12.2020	31.12.2019
Loans to corporate customers		
- Loans to large entities	*1,844,821*	*3,000,695*
- Loans to small and medium-sized entities	*5,992,828*	*6,715,767*
Total loans to corporate customers	**7,837,649**	**9,716,462**
Loans to retail customers		
- Consumer loans	*6,608,043*	*5,348,407*
Total loans to retail customers	**6,608,043**	**5,348,407**
Impairment provision	(65,080)	(108,640)
Total loans to the customers net of provision	**14,380,612**	**14,956,229**

Thousands of tenge

(a) The credit quality of loans to customers

The following table presents information about the quality of the loans provided to customers as of 31 December 2020.

	Loans before impairment provision	Impalement provision	Loans after impairment provision	The ratio of impairment loss to loans before impairment provision
Loans to corporate customers				
- not past due	*7,741,338*	*(4,846)*	*7,736,492*	*-*
- pat due for less than 90 days	*10,270*	*-*	*10,270*	*-*
- past due for over than 90 days	*86,041*	*(59,566)*	*26,475*	*0.69*
Total loans to corporate customers	**7,837,649**	**(64,412)**	**7,773,237**	**0.01**
Loans to retail customers				
- not past due	*6,550,842*	*(570)*	*6,550,272*	*-*
- pat due for less than 90 days	*28,108*	*(34)*	*28,074*	*-*
- past due for over than 90 days	*29,093*	*(64)*	*29,029*	*-*
Total loans to retail customers	**6,608,043**	**(668)**	**6,607,375**	**-**

The following table presents information about the quality of the loans provided to customers as of 31 December 2019.

	Loans before impairment provision	Impalement provision	Loans after impairment provision	The ratio of impairment loss to loans before impairment provision
Loans to corporate customers				
- not past due	*9,375,131*	*(38,393)*	*9,336,738*	*0,00*
- pat due for less than 90 days	*264,162*	*-*	*264,162*	*0,00*
- past due for over than 90 days	*77,169*	*(69,734)*	*7,435*	*0,90*
Total loans to corporate customers	**9,716,462**	**(108,127)**	**9,608,335**	**0,01**
Loans to retail customers				
- not past due	*5,323,725*	*(483)*	*5,323,242*	*0,00*
- pat due for less than 90 days	*9,808*	*(30)*	*9,778*	*0,00*
- past due for over than 90 days	*14,874*	*-*	*14,874*	*0,00*
Total loans to retail customers	**5,348,407**	**(513)**	**5,347,894**	**0,00**

In 2020 the provision for impairment includes provisions for loans assessed on an individual basis for KZT 59,568 thousand (31 December 2019: KZT 80,899 thousand), the provision for collective impairment amounted to KZT 5,512 thousand (31 December 2019: KZT 27,741 thousand).

Changes in the estimates can affect the provision for impairment of loans. For example, if the net present value of the estimated cash flows changes by one per cent upwards or downwards, the provision for impairment of loans to customers as of 31 December 2020 would be by KZT 143,806 thousand lower/higher (31 December 2019: KZT 149,562 thousand).

As of 31 December 2020, the credit portfolio included renegotiated loans to corporate and retail customers in the total amount of KZT 3,992,763 thousand (31 December 2019: KZT 1,299,077 thousand).

(b) Measurement of expected credit losses

For loans issued, the expected credit losses are calculated considering the potential estimated effect of changes in macroeconomic parameters on forecast cash flows, migration of collective loans and collateral coverage.

When measuring the credit losses, the Bank uses reasonable and supportable forward-looking information, which is based on assumptions regarding future changes in various economic factors and how these factors will affect each other.

The key inputs used for measuring the expected credit losses include the following:
- Probability of default (PD) is a key input in measuring credit losses. The probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

The probability of default for individually assessed loans of corporate, small and medium-sized businesses is estimated using an internal rating model based on the quantitative and qualitative characteristics of a borrower. The probability of default of collectively assessed loans is calculated based on historical data using the migration matrices.

- Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral.

LGD for collectively assessed loans is calculated based on an assessment of the recoverability of debts in case of realisation of collateral using a discounting period that corresponds to the collateral realisation timing.

- Exposure at default (EAD) 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, and expected drawdown of committed facilities. The Bank's modelling approach for EAD reflects expected changes in the balance outstanding over the repayment period that are permitted by the current contractual terms, such as amortisation profiles, early repayment or overpayment, changes in utilisation of undrawn commitments and risk mitigation actions taken before default. The Bank uses models that reflect the characteristics of the relevant portfolios to assess credit exposure.

In the financial statements, the provisions for ECLs on loans were calculated based on the existing economic and political conditions. The Bank can predict neither the changes that will take place in a business environment in the Republic of Kazakhstan nor their effect on the adequacy of the provisions for ECLs on financial assets in future periods.

(c) Analysis of collateral and other credit enhancements

(i) Loans to corporate customers

Loans to corporate customers are subject to individual assessment and impairment testing. The general creditworthiness of a corporate customer tends to be the most relevant indicator of the credit quality of the loan provided to it. However, collateral provides additional security and the Bank generally requests corporate borrowers to provide it.

The following tables provide information on types of collateral and other credit enhancements securing loans to corporate customers.

31 December 2020	**Carrying value of loans to customers**	**The fair value of the collateral - measured as at the reporting date**	**The fair value of the collateral - measured as at the loan issue date**	**The fair value of the collateral - not measured**
Loans without individual indications of impairment				
Corporate guarantees (from related parties with "A-" credit rating)	1,202,636			1,202,636
Other guarantees (from companies with A and higher credit rating)	1,333,443	-	-	1,333,443

Thousands of tenge

Real estate	1,877,885	1,877,885	-	-
Cash and deposits	50,019	50,019	-	-
Other collateral	2,119,013	-	2,119,013	-
	6,583,996	**1,927,904**	**2,119,013**	**2,537,079**
Loans having individual indications of impairment				
Corporate guarantee (from the related party with A- to A+ credit rating)	337,304	-	-	337,304
Other collateral	851,937	-	851,937	-
	1,189,241	**-**	**851,937**	**337,304**
Total loans to corporate customers	**7,773,237**	**1,927,904**	**2,970,950**	**2,874,383**

31 December 2019	**Carrying value of loans to customers**	**The fair value of the collateral - measured as at the reporting date**	**The fair value of the collateral - measured as at the loan issue date**	**The fair value of the collateral - not measured**
Loans without individual indications				
Corporate guarantees (from related parties with "A" and higher credit rating)	1,014,095	-	-	1,014,095
Other guarantees (from companies with A and higher credit rating)	2,001,109	-	-	2,001,109
Real estate	3,503,604	3,503,604	-	-
Other collateral	1,410,263	-	1,410,263	-
	7,929,071	**3,503,604**	**1,410,263**	**3,015,204**
Loans having individual indications of impairment				
Corporate guarantee (from the related party with A- to A+ credit rating)	343,359	-	-	343,359
Real estate	1,335,905	1,335,905	-	-
	1,679,264	**1,335,905**	**-**	**343,359**
Total loans to corporate customers	**9,608,335**	**4,839,509**	**1,410,263**	**3,358,563**

The above tables exclude the value of over security.

As the recoverability of loans that are neither past due nor impaired is primarily dependent on the creditworthiness of the borrowers rather than the collateral value, the Bank does not necessarily update the evaluation of collateral at each reporting date.

For most of the loans, the fair value of the collateral was measured as of the reporting date. Information on the collateral value is presented based on the measurement date if such measurement is carried out.

In respect of the loans secured by several types of collateral, information is disclosed for the type that is most material to the measurement of collateral.

(ii) Loans to retail customers

Loans to retail customers are secured mainly by residential real estate. According to the Bank's policy, a loan-to-value ratio as of the date of loan issue shall be a maximum of 60%.

The following tables provide the information on collaterals for the loans to retail customers:

Thousands of tenge

	Carrying value of loans to customers	The fair value of the collateral - for the collateral measured as at the reporting date	The fair value of the collateral - for the collateral measured as at the loan issue date	The fair value of the collateral - not measured
31 December 2020				
Not past due	6,550,272	6,550,272	-	-
Past due	57,103	57,103	-	-
Total loans to retail customers	**6,607,375**	**6,607,375**	**-**	**-**
31 December 2019				
Not past due	5,323,242	5,323,242	-	-
Past due	24,652	24,652	-	-
Total loans to retail customers	**5,347,894**	**5,347,894**	**-**	**-**

The above tables exclude the value of over security.

d) Loan maturities

The maturity of the loan portfolio as at the reporting date is presented in Note 25 (d), which shows the remaining period from the reporting date to the contractual maturities of the loans. Given the short-term nature of loans issued by the Bank, many of them may be extended. Accordingly, actual maturities may differ significantly from the maturities stipulated in loan agreements.

(e) Analysis of the loan portfolio by industries and geographic regions

Loans were issued mainly to customers operating in Kazakhstan in the following industries:

	31.12.2020	**31.12.2019**
Loans to retail customers	6,607,375	5,347,894
Finance	3,289,773	4,111,652
Trading	1,756,727	2,119,123
Real estate	1,002,888	1,289,643
Information and communication (manufacture of computers, electronic and optical products)	8,886	553,264
Warehousing facilities and supporting transportation activities	360,533	343,359
Construction	93,386	268,261
Rent, hire and lease	230,776	194,742
Vehicles	90,940	139,531
Individual services	214,724	129,610
Electrical equipment manufacturing	129,865	111,630
Other professional, scientific and technical activity	169,114	79,407
Advertising	-	54,659
Printing and reproducing of recordings	-	47,778
Single-purpose construction	-	36,319
Veterinary	-	-
Computer programming, advisory and other related services	91,723	-
Other	333,902	129,357
	14,380,612	**14,956,229**

(f) The concentration of loans to customers

As of 31 December 2020, the Bank has no borrowers, whose loan balances exceed 10% of the equity (31 December 2019: one borrower with a total aggregate value of the loan balances as of 31 December 2019 for KZT 2,001,109 thousand).

Thousands of tenge

16. FINANCIAL ASSETS CARRIED AT AMORTISED COST

	31.12.2020	31.12.2019
Held by the Bank		
- Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	*1,862,384*	*1,003,189*
- Notes of the National Bank of the Republic of Kazakhstan	*5,673,681*	*3,905,169*
Provision for expected credit losses	(1,441)	(977)
	7,534,624	**4,907,381**

The entire amount of held-to-maturity investments is represented by the treasury bills of the Ministry of Finance of the Republic of Kazakhstan and notes of the National Bank of the Republic of Kazakhstan denominated in KZT and having a credit rating of “BBB-”.

Under the Bank’s Investment Policy and business model, management has the intention and ability to hold these securities until their maturities. The published price quotations for the same debt securities with identical terms are available on the local stock exchange.

For treasury operations, the Bank calculates expected credit losses on a financial asset based not only on current assessments of the credit quality of a counterparty/ issuer as at the reporting date but also considering possible deterioration in the financial condition in future due to adverse macroeconomic factors of the business environment of the counterparty (issuer). In particular, the amount of provisions for treasury operations is influenced by the rating outlook (positive, stable, negative) assigned by international rating agencies, which affects the probability of default (PD).

The probability of default for treasury operations is determined according to the Default Study from international rating agencies (S&P, Fitch, Moody’s), which publish tabular data with the values of the probabilities of default. The probabilities of default are maintained up to date and are updated periodically as the default statistics are updated.

Loss given default (LGD) for treasury operations is determined according to the Default Study from international rating agencies (S&P, Fitch, Moody’s) and depends on the type of debt on the financial asset: senior secured/unsecured, subordinated, sovereign. Besides, LGD may be adjusted if the collateral is provided for the asset, as well as if there are indications of impairment of the financial asset (Stage 2 or Stage 3).

17. NON-CURRENT ASSETS HELD-FOR-SALE

As of 31 December 2020, the carrying amounts of non-current assets held-for-sale amounted to KZT 598,014 thousand (as of 31 December 2019: KZT 645,014 thousand). Non-current assets held-for-sale are represented by assets that were accepted by the Bank as repayment of indebtedness on loans to customers. The Bank has developed a realisation plan, according to which the assets are planned to be realised within the next 12 months. Non-current assets held-for-sale were recorded at the purchase price determined on the auction.

18. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

The Bank leases an office based on a lease without the right to early termination. The lease term is 60 months, with the possibility of extending the lease term. Besides, the Bank leases vehicles based on a lease agreement; the remaining validity period is more than 3 years. Leases do not include contingent rent provisions. The receipt of right-of-use assets of the Bank for the year ended 31 December 2019 amounted to KZT 322,822 thousand. Right-of-use assets amortisation for the year ended 31 December 2020 included in amortisation in the statement of profit or loss and other comprehensive income amounted to KZT 46,094 (2019: KZT 41,412). In calculating the lease obligations, I used the assumption at a discount rate of 12.00%.

Future undiscounted lease payments payable under concluded long-term lease agreements by maturity are presented as follows:

	31.12.2020	**31.12.2019**
Up to 12 months	91,332	85,112
1 to 5 years	342,914	326,582
Total	**434,246**	**411,694**

Thousands of tenge

18. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	Computers	Other	Intangible assets	Leasehold improvements	Assets in the form of ownership rights	Total
Actual costs						
Balance as of 1 January 2019	91,530	62,113	93,372	147,544	-	394,559
Additions	4,041	4,471	6,906	-	322,882	338,300
Disposals	(8,094)	(5,810)	(29,152)	-	-	(43,056)
Balance as of 31 December 2019	**87,477**	**60,774**	**71,126**	**147,544**	**322,882**	**689,803**
Depreciation and amortisation						
Balance as of 1 January 2019	(47,855)	(40,984)	(37,970)	(59,558)	-	(186,367)
Depreciation and amortisation accrued for the year	(9,391)	(4,980)	(17,367)	(29,510)	(41,412)	(102,660)
Disposals	8,094	5,810	29,152	-	-	43,056
Balance as of 31 December 2019	**(49,152)**	**(40,154)**	**(26,185)**	**(89,068)**	**(41,412)**	**(245,971)**
Book value as of 31 December 2019	**38,325**	**20,620**	**44,941**	**58,476**	**281,470**	**443,832**
Actual costs						
Balance as of 1 January 2020	**87,477**	**60,774**	**71,126**	**147,544**	**322,882**	**689,803**
Additions	53,527	2,007	41,089	-	22,514	119,137
Disposals	(821)	(69)	-	-	-	(890)
Balance as of 31 December 2020	**140,183**	**62,712**	**112,215**	**147,544**	**345,396**	**808,050**
Depreciation and amortisation						
Balance as of 1 January 2020	**(49,152)**	**(40,154)**	**(26,185)**	**(89,068)**	**(41,412)**	**(245,971)**
Depreciation and amortisation accrued for the year	(12,946)	(3,866)	(10,097)	(29,508)	(46,094)	(102,511)
Disposals	821	69	-	-	-	890
Balance as of 31 December 2020	**(61,277)**	**(43,951)**	**(36,282)**	**(118,576)**	**(87,506)**	**(347,592)**
Carrying value as of 31 December 2020	**78,906**	**18,761**	**75,933**	**28,968**	**257,890**	**460,458**

Thousands of tenge

19. OTHER ASSETS

	31.12.2020	31.12.2019
Card account settlements	14,466	2,805
Fines and penalties charged	349	2,493
Other assets	2,729	11,294
Provision for expected credit losses	(1,596)	(1,596)
Total other financial assets	**15,948**	**14,996**
Other prepayments to the state budget	1,956	76,772
Guarantee deposit	23,863	23,863
Prepayment for rent	21,805	21,805
Deferred expenses	54,016	9,113
Other prepayments	2,797	2,675
Receivables from employees	1,584	2,038
Other assets	8,188	13,715
Provision for expected credit losses	(86)	-
Total other non-financial assets	**114,123**	**149,981**
Total other assets	**130,071**	**164,977**

20. ACCOUNTS AND DEPOSITS OF BANKS

	31.12.2020	31.12.2019
Vostro accounts	173,031	198,342
	173,031	**198,342**

As of 31 December 2020 and 31 December 2019, the Bank had no other banks' deposits that exceeded 10% of the Bank's equity.

21. CURRENT ACCOUNTS AND DEPOSITS OF CUSTOMERS

	31.12.2020	31.12.2019
Current accounts and on-call deposits		
- Retail customers	*1,451,529*	*1,514,772*
- Corporate customers	*9,462,477*	*7,875,477*
	10,914,006	9,390,249
Fixed-term deposits		
- Retail customers	*4,743,842*	*3,117,809*
- Corporate customers	*23,260,760*	*20,378,607*
	28,004,602	23,496,416
	38,918,608	**32,886,665**

Blocked amounts

As of 31 December 2020, deposits of the Bank's customers amounting to KZT 289,284 thousand (31 December 2019: KZT 17,826 thousand) secure the loans provided to customers and off-balance-sheet credit instruments issued by the Bank.

The concentration of customers' current accounts and deposits

As of 31 December 2020, the Bank has six customers (31 December 2019: seven), whose accounts and deposits account for more than 10% of the equity. The aggregate balance of those accounts and deposits as of 31 December 2020 amounted to KZT 27,277,605 thousand (31 December 2019: KZT 24,138,634 thousand).

Thousands of tenge

22. LOANS FROM INTERNATIONAL FINANCIAL ORGANISATIONS

	31.12.2020	31.12.2019
EBRD loan	6,784,218	5,757,924
	6,784,218	**5,757,924**

In 2016, the Bank entered into 2 loan agreements with the European Bank for Reconstruction and Development:

- Loan Agreement No. 47953 dated 28 June 2016 to support small and medium-sized business in KZT in the amount equivalent to US dollars 15,000,000 with maturity up to 25 January 2023
- Loan Agreement No. 47954 dated 28 June 2016 to support the Women in Business Project in KZT in the amount equivalent to USD 5,000,000 maturing on 25 January 2023.

Each loan is to be issued in 2 tranches. Under the terms of the loan agreement, it is possible to receive each tranche in two portions. The first tranche and the first portion of the second tranche were received in 2017 in KZT; the remaining portion - in 2018.

In 2020, the Bank entered into additional two loan agreements with the European Bank for Reconstruction and Development:

- Loan Agreement No. 50791 dated 13 February 2020 to support small and medium-sized business in KZT in the amount equivalent to USD 10,000,000 10,000,000 with a maturity of the first tranche up to 29 September 2025
- Loan Agreement No. 50792 dated 13 February 2020 to support Women in Business Project in KZT in the amount equivalent to USD 5,000,000 with a maturity of the first tranche up to 29 September 2025.

Each loan is to be issued in 2 tranches. The first tranche was received in 2020. Interest on the loan is accrued at a floating rate and paid quarterly, under the terms of the loan agreement. As of the end of the reporting period interest rate under the Loan Agreement dated 28 June 2016 amounted to 9,05%, and under Loan Agreements dated 13 February 2020 - 9,85%.

The Bank shall comply with certain financial covenants of the above loan agreements. Those covenants include maintenance of the specified ratios of financial performance. The Bank has not breached those covenants as of 31 December 2020 and 2019.

Changes in liabilities arising from financing activities

The following table shows changes in liabilities arising from financing activities, including both changes arising from cash flows and those not related to cash flows. Liabilities arising from financing activities are those liabilities, whose cash flows were classified or future cash flows will be classified in the cash flow statement as cash flows from financing activities.

	31.12.2020	31.12.2019
Balance at the year-beginning	5,757,924	6,472,871
Cash flows	1,045,958	(719,931)
Other changes	(19,664)	4,984
	6,784,218	**5,757,924**

* Other changes include interest expense and payments of interest.

Thousands of tenge

23. OTHER LIABILITIES

	31.12.2020	31.12.2019
Lease liability	337,590	356,915
Accounts payable to suppliers	80,108	74,745
Banking transactions payables	15,307	55,425
Other liabilities	1,417	9,783
Total other financial liabilities	**434,422**	**496,868**
Settlements on taxes and other obligatory payments to the budget	17,134	90,662
Accounts payable to employees	51,058	50,233
Provision for vacations	25,919	29,430
Other transit accounts	17,191	5,211
Other liabilities	505	1,665
Total other non-financial liabilities	**111,807**	**177,201**
Total other liabilities	**546,229**	**674,069**

24. ISSUED CAPITAL

(a) Issued and additional paid-in capital

Authorised, issued and outstanding issued capital of the Bank consists of 1,002,872 ordinary shares (in 2019: 1,002,872 ordinary shares). All of the shares have a nominal value of KZT 10,000.

Ordinary shareholders are entitled to receive dividends as declared and vote (one vote per share) at annual and general shareholders' meetings of the Bank.

(b) Earnings per share

	31.12.2020	31.12.2019
Net profit for the year	1,054,332	833,651
Number of issued ordinary shares	1,002,872	1,002,872
Earnings per share		
Basic and diluted earnings per share (in KZT)	**1,051.31**	**831.26**

Ordinary shares of the Bank are not traded on the open market, however, the Bank decided to disclose information on the net earnings per share calculated under IAS 33 Earnings per Share.

(c) The nature and purpose of reserves

Reserve for general banking risks

Until 2013, under the amendments to the Decree No. 196 dated 31 January 2011 (which became void in 2013) of the Committee for the Control and Supervision of Financial Market and Financial Organisations (FSC) On Establishment of Minimum Capital Reserves for Second-Tier Banks, the Bank had to create a capital reserve by transferring an amount from retained earnings to a non-distributable capital reserve. The amount to be transferred annually was calculated as the net profit for the preceding year before distribution of dividends, attributable to the common shareholders, multiplied by a factor of increase in classified assets and contingent liabilities (under Decree No. 296 On Approval of the Rules of Classification of Assets, Contingent Liabilities and Creation of Provisions (Reserves) against Assets and Contingent Liabilities issued by the FSC on 25 December 2006) (which became void in 2013) for the preceding year. Such an increase in the percentage had to be at least 10% but no more than 100%.

Under the amendments made on 25 December 2013 to Decree No. 358 On Approval of the Instruction on Statutory Values and Prudential Standards Calculation Method for Second Tier Banks, the statutory capital reserve is not subject to distribution.

During the year ended 31 December 2020 and 2019, the Bank made no transfers to the reserve for general banking risks.

(d) Reserve for revaluation of financial assets at fair value through other comprehensive income/ available-for-sale

The revaluation reserve for available-for-sale financial assets comprises the cumulative net change in the fair value until the assets are derecognised.

(e) Dividends

The ability of the Bank to declare and distribute dividends is subject to the laws and regulations of the Republic of Kazakhstan.

Dividends on common shares are recognised as a distribution of retained earnings for the period in which they are declared. No dividends were declared for 2020 and 2019.

25. RISK MANAGEMENT

Risk management is fundamental to the activities of the Bank and is an essential element of the Bank's operations. Market risk, credit risk and liquidity risk are the main risks that the Bank faces in the course of its business.

(a) Risk management policies and procedures

The Bank's risk management policies are aimed at identifying, analysing and managing the risks faced by the Bank, and at establishing appropriate risk limits and controls, as well as continuous monitoring the risk levels and ensuring that they comply with the limits established. Risk management policies and procedures are reviewed regularly in response to changes in market conditions, offered banking products and services and new best practices.

The Bank's Board of Directors is responsible for ensuring the proper functioning of the risk management control system, for managing key risks, and approving policies and procedures for risk management, as well as for approving major transactions.

The Management Board of the Bank is responsible for monitoring and implementing risk mitigation measures and ensuring that the Bank operates within the established risk limits. The Management Board of the Bank is responsible for the overall risk management and control over the compliance with requirements of the current laws and regulations, and supervision over the application of common principles and methods for identifying, assessing, managing and reporting both financial and non-financial risks.

Credit, market and liquidity risks are managed and controlled by the Credit Committee and Assets and Liabilities Management Committee both at the portfolio level and the level of individual transactions.

Both external and internal risk factors are identified and managed within the Bank. Special attention is paid to identifying the full list of risk factors and determining the level of adequacy of current risk mitigation procedures.

In addition to the standard credit and market risk analysis, the Management Board of the Bank monitors financial and non-financial risks by holding regular meetings with operational departments to obtain expert judgements in their areas of expertise.

(b) Market risk

Market risk is the risk that changes in market prices will cause fluctuations of the fair value or future cash flows from financial instruments. Market risk includes currency risk, interest rate risk, and other price risks. Market risk arises from net foreign exchange positions concerning interest-bearing foreign 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 ensure that exposure to market risk is within the acceptable parameters while optimising the profitability to be reached at the accepted level of risk. Assets and Liabilities Management Committee headed by the Chairman is responsible for managing market risk and liquidity risk. Market risk and liquidity risk limits are approved by the Assets and Liabilities Management Committee based on recommendations of the Risk Management Department.

The Bank manages market risk by setting open position limits in respect of the amount of certain financial instruments portfolio, terms for change of interest rates, currency position, stop-loss limits and by regular monitoring of compliance therewith, the results of which are considered and approved by the Management Board.

(i) Interest rate risk

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

Interest rate risk is managed primarily through monitoring interest rate changes. Summarised information on the terms of revision of interest rates on major interest-bearing financial instruments as of 31 December 2019 is presented below:

Thousands of tenge

Analysis of the terms for interest rates review

Interest rate risk is managed primarily through monitoring interest rate changes. Summarised information on the terms of revision of interest rates on major interest-bearing financial instruments as of 31 December 2020 is presented below:

	Less than 1 months	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Interest-free	Total
ASSETS							
Cash and cash equivalents	22,226,913	-	-	-	-	15,052,761	37,279,674
Accounts and deposits in banks		-	-	-	-	174,885	174,885
Financial assets at fair value through OCI	-	-	43,541	1,170,077	-	-	1,213,618
Loans to customers	256,817	2,281,223	3,213,025	4,428,376	4,201,171	-	14,380,612
Financial assets at amortised cost	1,397,033	2,369,462	1,906,527	1,861,602	-	-	7,534,624
	23,880,763	**4,650,685**	**5,163,093**	**7,460,055**	**4,201,171**	**15,227,646**	**60,583,413**
LIABILITIES							
Accounts and deposits in banks	-	-	-	-	-	173,031	173,031
Current accounts and deposits of customers	18,719,927	4,507,328	5,280,466	-	-	10,410,887	38,918,608
Loans from international financial institutions	3,774,599	3,009,619	-	-	-	-	6,784,218
	22,494,526	**7,516,947**	**5,280,466**	**-**	**-**	**10,583,918**	**45,875,857**
	1,386,237	**(2,866,262)**	**(117,373)**	**7,460,055**	**4,201,171**	**4,643,728**	**14,707,556**

Summarised information on the terms of revision of interest rates on major interest-bearing financial instruments as of 31 December 2019 is presented below:

Thousands of tenge

	Less than 1 months	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Interest-free	Total
ASSETS							
Cash and cash equivalents	20,216,392	-	-	-	-	11,206,315	31,422,707
Accounts and deposits in banks	-		-	-	-	72,653	72,653
Financial assets at fair value through OCI	-	-	43,541	1,129,802	-	-	1,173,343
Loans to customers	244,658	615,694	5,356,655	5,633,832	3,105,390	-	14,956,229
Financial assets at amortised cost	-	-	3,834,808	1,072,573	-	-	4,907,381
	20,461,050	**615,694**	**9,235,004**	**7,836,207**	**3,105,390**	**11,278,968**	**52,532,313**
LIABILITIES							
Accounts and deposits in banks	-	-	-	-	-	198,342	198,342
Current accounts and deposits of customers	18,953,288	1,618,790	3,607,497	-	-	8,707,090	32,886,665
Loans from international financial institutions	571,165	-	1,475,715	3,711,044	-	-	5,757,924
	19,524,453	**1,618,790**	**5,083,212**	**3,711,044**	**-**	**8,905,432**	**38,842,931**
	936,597	**(1,003,096)**	**4,125,163**	**4,125,163**	**3,105,390**	**2,373,536**	**13,689,382**

Thousands of tenge

Average effective interest rate

The following table presents the average effective interest rates on interest-bearing assets and liabilities as of 31 December 2020 and 2019.

	2020 Average effective interest rate, %		2019 Average effective interest rate, %	
	KZT	US dollar	KZT	US dollar
Interest-bearing assets				
Cash and cash equivalents	8,77	-	9.01	-
Financial assets at fair value through OCI	4,35	-	5.46	-
Loans to customers	12,64	4.69	12.62	3.38
Financial assets at amortised cost	8,15	-	6.97	-
Interest-bearing liabilities				
Accounts and deposits in banks				
- Term deposits	-	-	-	-
Current accounts and deposits of customers				
- Term deposits	5,08	0,46	6.22	0.08
Loans from international financial organisations	8,5		7.90	-

Analysis of sensitivity to changes in interest rates

Interest rate risk is managed through the analysis of the terms of interest rates revision and monitoring the sensitivity of financial assets and liabilities. Analysis of sensitivity of net profit or loss and equity of the Bank (net of taxes) to the interest rate changes (interest rate risk) based on a simplified scenario of parallel 100 basis point shift in the yield curves towards increase or decrease in interest rates, and revised positions of interest-bearing assets and liabilities as at 31 December 2020 and 2019 are shown below.

	2020		2019	
	Profit or loss	Equity	Profit or loss	Equity
100 basis point parallel shift towards a decrease in interest rates	(30,934)	(30,934)	(12,949)	(12,949)
100 basis point parallel shift towards an increase in interest rates	30,934	30,934	12,949	12,949

Analysis of sensitivity of profit or loss and equity of the Bank to changes in the fair values of financial assets at fair value through other comprehensive income/ available-for-sale due to changes in interest rates (based on items that existed as of 31 December 2020 and 2019, and a simplified scenario of parallel 100 basis point shift in the yield curve towards an increase or decrease in interest rates) is presented below:

	2020		2019	
	Profit or loss	Equity	Profit or loss	Equity
100 basis point parallel shift towards a decrease in interest rates	-	22,070	-	30,580
100 basis point parallel shift towards an increase in interest rate	-	(21,451)	-	(29,476)

(ii) Currency risk

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

Currency risk is the risk that the fair value of or future cash flows from financial instruments will fluctuate due to changes in foreign exchange rates. Although the Bank hedges its exposure to currency risk, such transactions do not qualify as hedging relationships under the IFRS.

The structure of financial assets and liabilities in terms of foreign currencies as of 31 December 2020 is detailed below:

Thousands of tenge

	KZT	US dollar	Euro	Russian rouble	Other	Total
ASSETS						
Cash and cash equivalents	22,798,083	14,317,711	144,721	18,982	177	37,279,674
Accounts and deposits in banks	94,952	79,933	-	-	-	174,885
Financial assets at FVTOCI	1,213,618	-	-	-	-	1,213,618
Loans to customers	13,332,989	1,047,623	-	-	-	14,380,612
Financial assets at amortised cost	7,534,624	-	-	-	-	7,534,624
Other financial assets	15,948	-	-	-	-	15,948
Total assets	**44,990,214**	**15,445,267**	**144,721**	**18,982**	**177**	**60,599,361**
LIABILITIES						
Accounts and deposits in banks	8,187	164,650	194	-	-	173,031
Current accounts and deposits of customers	23,813,865	14,954,511	141,246	8,986	-	38,918,608
Loans from international financial organisations	6,784,218	-	-	-	-	6,784,218
Other financial liabilities	366,427	67,910	85	-	-	434,422
Total liabilities	**30,972,697**	**15,187,071**	**141,525**	**8,986**	**-**	**46,310,279**
Net position	**14,017,517**	**258,196**	**3,196**	**9,996**	**177**	**14,289,082**

The structure of financial assets and liabilities in terms of foreign currencies as of 31 December 2019 is detailed below:

	KZT	US dollar	Euro	Russian rouble	Other	Total
ASSETS						
Cash and cash equivalents	20,761,536	10,584,761	47,476	28,794	140	31,422,707
Accounts and deposits in banks	-	72,653	-	-	-	72,653
Financial assets at FVTOCI	1,173,343	-	-	-	-	1,173,343
Loans to customers	13,643,103	1,313,126	-	-	-	14,956,229
Financial assets at amortised cost	4,907,381	-	-	-	-	4,907,381
Other financial assets	6,344	8,652	-	-	-	14,996
Total assets	**40,491,707**	**11,979,192**	**47,476**	**28,794**	**140**	**52,547,309**
LIABILITIES						
Accounts and deposits in banks	2,635	192,594	3,113	-	-	198,342
Current accounts and deposits of customers	21,103,411	11,705,882	69,362	8,010	-	32,886,665
Loans from international financial organisations	5,757,924	-	-	-	-	5,757,924
Other financial liabilities	423,610	73,187	71	-	-	496,868
Total liabilities	**27,287,580**	**11,971,663**	**72,546**	**8,010**	**-**	**39,339,799**
Net position	**13,204,127**	**7,529**	**(25,070)**	**20,784**	**140**	**13,207,510**

The effect on profit before tax and equity based on the value of financial assets is calculated using the volatility analysis of the exchange rate. Management of the Bank believes that as of 31 December 2020 and 31 December 2019 exchange rates can change by 15%.

Depreciation of KZT against the foreign currencies, as shown below, as of 31 December 2020 and 2019 would have increased (decreased) the equity and profit or loss by the amounts mentioned below. This analysis is presented net of taxes and based on fluctuations of exchange rates, which the Bank considered reasonably possible as at the end of the reporting period. This analysis was based on the assumption that all other variables, in particular interest rates, will remain unchanged:

Thousands of tenge

	2020		2019	
	Profit or loss	**Equity**	**Profit or loss**	**Equity**
15% strengthening of the US dollar against KZT	30,984	30,984	903	903
15% strengthening of the Euro against KZT	384	384	(3,008)	(3,008)
15% strengthening of the Russian rouble against KZT	1,200	1,200	2,494	2,494

(c) Credit risk

Credit risk is the risk of financial loss arising from the failure of the Bank's borrower or counterparty to perform their obligations. The Bank manages credit risk (for recognised financial assets and unrecognised contractual commitments) through applying the approved policies and procedures, which include the requirements to establish and comply with limits of credit risk concentration, as well as through establishing a Credit Committee, which is responsible for active monitoring of credit risk. Credit policies are reviewed and approved by the Board of Directors.

The credit policies establish:

- Procedures for consideration and approval of credit applications
- Methodology for evaluation of the borrowers' (corporate customers and individuals) creditworthiness
- Methodology for evaluation of the counterparties' creditworthiness
- Methodology for evaluation of the offered collateral
- Requirements to credit documentation
- Procedures for permanent monitoring of loans and other products bearing the credit risk.

Applications from corporate customers for loans are made by the relevant customer relationship managers and then submitted to the Credit Office, which is responsible for a portfolio of loans issued to legal entities. Reports of analysts of the Credit Office are based on a structural analysis of the business and financial position of borrowers. Then applications and reports undergo an independent review made by the Risk Management Department, which issues a second opinion; the proper fulfilment of the credit policies requirements is also reviewed. Credit Committee approves applications for loans based on documents provided by the Credit Office, Integrated Security Department, Collateral Evaluation Department, Legal Department and Risk Management Department.

The Bank constantly monitors the performance of certain loans and regularly revaluates the creditworthiness of its borrowers. Revaluation procedures are based on an analysis of the borrower's financial statements as at the latest reporting date or other information provided by the borrower or obtained by the Bank from other sources. At the same time, a decision to provide each loan is made by the Credit Committee, upon completion of all necessary procedures, which allows controlling the entire credit process in case of a small number of incoming applications.

In addition to the analysis of individual borrowers, Risk Management Department evaluates the loan portfolio as a whole in terms of credit concentration and market risks.

The maximum exposure to credit risk is usually represented by the carrying amounts of financial assets reported in the statement of financial position and unrecognised contractual commitments. The possibility of offsetting assets against liabilities is not significant in reducing potential exposure to credit risk.

The banking sector is generally exposed to credit risk arising from financial assets and contingent liabilities. Bank's credit risk is concentrated in Kazakhstan. The exposure to credit risk is constantly monitored to ensure that the credit limits and requirements to creditworthiness established by the Bank's risk management policies are complied with.

Thousands of tenge

Maximum exposure to credit risk arising from financial assets as at the reporting date is detailed below:

	31.12.2020	31.12.2019
ASSETS		
Cash and cash equivalents	37,279,674	31,422,707
Accounts and deposits in banks	174,885	72,653
Financial assets at fair value through OCI	1,213,618	1,173,343
Loans to customers	14,380,612	14,956,229
Financial assets at amortised cost	7,534,624	4,907,381
Other financial assets	15,948	14,996
Total maximum exposure to credit risk	**60,599,361**	**52,547,309**

31 December 2020	Stage 1 On a group basis	Stage 2 On a group basis	Stage 3 On a group basis	Stage 3 Individually	Total
Cash and cash equivalents	37,279,674	-	-	-	37,279,674
Accounts and deposits in banks	174,885	-	-	-	174,885
Financial assets at FVTOCI	1,213,618	-	-	-	1,213,618
Loans to customers	11,759,665	1,259,232	131,496	1,230,219	14,380,612
Financial assets at amortised cost	7,534,624	-	-	-	7,534,624
Other assets	15,948	-	-	-	15,948
Total assets	**57,978,414**	**1,259,232**	**131,496**	**1,230,219**	**60,599,361**

31 December 2019	Stage 1 On a group basis	Stage 2 On a group basis	Stage 3 On a group basis	Stage 3 Individually	Total
Cash and cash equivalents	31,422,707	-	-	-	31,422,707
Accounts and deposits in banks	72,653	-	-	-	72,653
Financial assets at FVTOCI	1,173,343	-	-	-	1,173,343
Loans to customers	12,694,593	499,496	68,002	1,694,138	14,956,229
Financial assets at amortised cost	4,907,381	-	-	-	4,907,381
Other assets	14,996	-	-	-	14,996
Total assets	**50,285,673**	**499,496**	**68,002**	**1,694,138**	**52,547,309**

Analysis of collateral for loans to customers and concentration of credit risk on loans to customers is presented in Note 15.

Maximum exposure to credit risk arising from unrecognised contractual commitments as at the reporting date is presented in Note 27.

As of 31 December 2020, the Bank had no debtors (31 December 2019: no debtors), who expose the Bank to credit risk exceeding 10% of the maximum credit risk exposure.

Significant increase in credit risk

The Bank monitors all financial assets that are subject to impairment requirements to identify whether credit risk has increased significantly from the date of initial recognition of the assets. In the event of a significant increase in credit risk, the Bank calculates the provision amount based on the lifetime expected credit losses rather than the 12-month expected credit losses.

The Bank uses credit risk grades as a primary input into the determination of the term structure of the probability of default for exposures. The Bank collects performance and default information about its credit risk exposures analysed in terms of jurisdiction or region and type of product and borrower, as well as in terms of credit risk grading. The information used is both internal and external depending on the portfolio assessed.

The Bank uses various criteria to determine whether credit risk has increased significantly per portfolio of assets. The criteria used include both quantitative and qualitative changes in the probability of default.

For bank loans assessed on a collective basis, a significant increase in credit risk is determined based on the increase in lifetime probability of default since initial recognition using the defined thresholds for segmented homogeneous portfolios and loans with an overdue more than 30 days since initial recognition, for loans assessed on an individual basis - additionally in case of the decrease of external/ internal credit rating by 2 (two) grades (fact of restructuring because of deterioration of the financial position to classify as Stage 3), expert opinions of the Bank's specialists based on the changes in the qualitative and quantitative indicators of the borrower, a significant deterioration of collateral and other objective evidence of significant financial difficulties since initial recognition.

Stage 3 is determined for loans that are assessed on a collective basis with an overdue of over 60-90 days, for loans assessed on an individual basis - over 60 days past due, restructuring related to the deterioration of financial position, deterioration of the internal credit rating and expert opinion of the Bank's specialists.

Management of the Bank believes that certain financial instruments with low credit risk at the reporting date have not experienced a significant increase in credit risk. The Bank applies this policy to financial instruments issued to sovereign and financial institutions only. It is believed that a financial instrument has low credit risk when its external credit rating is equivalent to the definition of "investment grade" given by international rating agencies.

The Bank has monitoring procedures in place to make sure that the criteria used to identify significant increases in credit are effective, meaning that a significant increase in credit risk is identified before the exposure has defaulted or when the asset becomes 30 days past due.

Forward-looking information

The Bank uses forward-looking information that is available without undue cost or effort in its assessment of a significant increase in credit risk as well as in its measurement of expected credit losses.

The incorporation of forward-looking elements reflects the expectations of the Bank. The Bank considers scenarios, the number of which depends on an assessment of the probability and materiality of the scenario, changes in circumstances and macroeconomic factors.

The purpose of using multiple scenarios is to model the non-linear impact of macroeconomic factors on the expected credit losses.

The Bank has identified and documented key indicators affecting portfolios of financial instruments and, using statistical analysis of historical data, has assessed the relationship between macroeconomic variables and credit risk and credit losses.

(d) Liquidity risk

Liquidity risk is the risk that the Bank can encounter difficulties in raising cash to perform its obligations. Liquidity risk exists when the maturities of assets and liabilities do not match. 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 to have maturities of their assets and liabilities completely matching since business transacted is often of an uncertain term and different types. An unmatched position potentially enhances profitability but can also increase the risk of losses.

The Bank maintains an appropriate liquidity level to ensure the continued availability of cash necessary to settle all liabilities as they fall due. Liquidity management policies are reviewed and approved by the Board of Directors. The Bank seeks to actively support a diversified and stable structure of funding sources consisting of long-term loans from international financial institutions, short-term loans from other banks, deposits of key corporate customers and individuals, and a diversified portfolio of highly liquid assets for the Bank to be able to promptly and smoothly respond to unforeseen liquidity requirements.

Section of corporate risk management policies that relates to liquidity risk management consists of:

- Forecasting cash flows in terms of major currencies and estimating the required level of liquid assets related to those cash flows
- Maintaining a diversified structure of funding sources
- Managing the concentration and structure of borrowed funds
- Developing debt financing plans
- Maintaining a portfolio of highly liquid assets that can easily be realised as a defensive measure in the event of a cash liquidity gap
- Developing contingency plans to maintain liquidity and an established level of financing
- Monitoring the compliance of liquidity ratios with statutory ratios.

The Treasury receives information from divisions on the liquidity structure of their financial assets and liabilities and on forecasting cash flows expected from planned future business.

Afterwards, the Treasury forms an appropriate portfolio of short-term liquid assets, mainly consisting of short-term liquid held-for-sale securities, deposits placed with banks and other inter-bank products to ensure the required level of liquidity for the Bank as a whole.

The Treasury monitors its liquidity position daily and regularly conducts stress tests, taking into account a variety of possible market scenarios under both normal and adverse environment. Under a normal market environment, liquidity reports are provided to the senior management weekly. Decisions on liquidity management policy are taken by the Assets and Liabilities Management Committee and fulfilled by the Treasury.

The following tables show the undiscounted cash flows of financial assets, financial liabilities and credit-related contingent liabilities at the earliest contractual maturities. The total cash inflows and outflows shown in the tables are contractual undiscounted cash flows of financial assets, liabilities or credit-related contingent liabilities. For financial guarantee contracts issued, the maximum amount of the guarantees relates to the earliest period when the guarantee can be used.

Thousands of tenge

The analysis of financial liabilities in terms of their maturities as of 31 December 2018 is shown below.

	On-call and less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Total cash outflows	Book value
Current financial liabilities							
Accounts and deposits in banks	173,031					173,031	173,031
Current accounts and deposits of customers	28,867,767	4,521,642	1,089,580	4,434,786	97,017	39,010,792	38,918,608
Loans from international financial organisations	572,548	71,730	707,330	1,167,829	5,532,897	8,052,334	6,784,218
Other financial liabilities	99,035	13,135	13,452	26,210	282,590	434,422	434,422
Total liabilities	**29,712,381**	**4,606,507**	**1,810,362**	**5,628,825**	**5,912,504**	**47,670,579**	**46,310,279**
Credit-related contingencies	**2,202,493**	**-**	**-**	**-**	**-**	**2,202,493**	**2,202,493**

The analysis of financial liabilities in terms of their maturities as of 31 December 2019 is shown below.

	On call and less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Total cash outflows	Book value
Current financial liabilities							
Accounts and deposits in banks	198,342	-	-	-	-	198,342	198,342
Current accounts and deposits of customers	27,672,066	1,624,909	653,538	3,003,046	8,242	32,961,801	32,886,665
Loans from international financial organisations	617,640	-	603,436	1,176,002	4,076,353	6,473,431	5,757,924
Other financial liabilities	133,518	13,177	22,187	25,741	302,245	496,868	496,868
Total liabilities	**28,621,566**	**1,638,086**	**1,279,161**	**4,204,789**	**4,386,840**	**40,130,442**	**39,339,799**
Credit-related contingencies	**2,332,421**	**-**	**-**		**-**	**2,332,421**	**2,332,421**

Thousands of tenge

Under the laws of the Republic of Kazakhstan, depositors have the right to withdraw their fixed-term deposits from a bank at any time, and in most cases, they lose the right to receive an interest income accrued. The deposits are presented based on their contractual maturities.

Nevertheless, management believes that regardless of the availability of early withdrawal option and the fact that a significant portion of the deposits is on-call accounts, diversification of those accounts and deposits across their number and types of depositors, as well as experience of the Bank allow considering those accounts a long-term and stable source of funding.

Management expects that cash flows of certain financial assets and liabilities can differ from contractual cash flows, either because management is authorised to manage cash flows or because the experience shows that the timing of cash flows of those financial assets and liabilities can differ from contractual cash flows.

The table below shows an analysis of the maturities of the amounts reported in the statement of financial position as of 31 December 2020:

	On-call and less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	No stated maturity	Past due	Total
Non-derivative assets								
Cash and cash equivalents	37,279,674	-	-	-	-	-	-	**37,279,674**
Accounts and deposits in banks	174,885	-	-	-	-	-	-	**174,885**
Financial assets at FVTPL	-	-	43,541	1,170,077	-	-	-	**1,213,618**
Loans to customers	259,664	1,081,223	4,413,025	4,422,932	4,201,171	-	2,597	**14,380,612**
Financial assets at amortised cost	1,397,033	2,369,462	1,906,527	1,861,602	-	-	-	**7,534,624**
Current income tax	-	20,066	-	-	-	-	-	**20,066**
Non-current assets held for sale	-	598,014	-	-	-	-	-	**598,014**
Property, plant and equipment and intangible assets	-	-	-	-	-	460,458	-	**460,458**
Deferred income tax	-	-	-	37,403	-	-	-	**37,403**
Other assets	28,605	20,849	54,530	628	23,863	-	1,596	**130,071**
Total assets	**39,139,861**	**4,089,614**	**6,417,623**	**7,492,642**	**4,225,034**	**460,458**	**4,193**	**61,829,425**
Current financial liabilities								
Accounts and deposits in banks	173,031	-	-	-	-	-	-	**173,031**
Current accounts and deposits of customers	28,841,529	4,507,327	5,472,735	97,017	-	-	-	**38,918,608**
Loans from international financial organisations	556,996	-	1,475,012	4,752,210	-	-	-	**6,784,218**
Other liabilities	133,864	13,134	116,641	252,424	30,166	-	-	**546,229**

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	On-call and less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	No stated maturity	Past due	Total
Total liabilities	**29,705,420**	**4,520,461**	**7,064,388**	**5,101,651**	**30,166**	**-**	**-**	**46,422,086**
Net position	**9,434,441**	**(430,847)**	**(646,765)**	**2,390,991**	**4,194,868**	**460,458**	**4,193**	**15,407,339**

The table below shows an analysis of the maturities of the amounts reported in the statement of financial position as of 31 December 2019:

	On-call and less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	No stated maturity	Past due	Total
Non-derivative assets								
Cash and cash equivalents	31,422,707	-	-	-	-	-	-	**31,422,707**
Accounts and deposits in banks	-	-	72,653	-	-	-	-	**72,653**
Financial assets at FVTPL	-	-	43,541	1,129,802	-	-	-	**1,173,343**
Loans to customers	219,171	615,694	5,356,655	5,633,832	3,105,390	-	25,487	**14,956,229**
Financial assets at amortised cost	-	-	3,834,808	1,072,573	-	-	-	**4,907,381**
Current income tax	-	286	-	-	-	-	-	**286**
Non-current assets held for sale	47,000	442,323	155,691	-	-	-	-	**645,014**
Property, plant and equipment and intangible assets	-	-	-	-	-	443,832	-	**443,832**
Deferred income tax	-	-	-	38,184	-	-	-	**38,184**
Other assets	16,359	94,277	28,881	-	23,864	-	1,596	**164,977**
Total assets	**31,705,237**	**1,152,580**	**9,492,229**	**7,874,391**	**3,129,254**	**443,832**	**27,083**	**53,824,606**
Current financial liabilities								
Accounts and deposits in banks	198,342	-	-	-	-	-	-	**198,342**
Current accounts and deposits of customers	27,642,552	1,618,789	3,617,082	8,242	-	-	-	**32,886,665**
Loans from international financial organisations	571,165	-	1,475,715	3,711,044	-	-	-	**5,757,924**
Other liabilities	231,056	13,177	127,591	215,729	86,516	-	-	**674,069**
Total liabilities	**28,643,115**	**1,631,966**	**5,220,388**	**3,935,015**	**86,516**	**-**	**-**	**39,517,000**
Net position	**3,062,122**	**(479,386)**	**4,271,841**	**3,939,376**	**3,042,738**	**443,832**	**27,083**	**14,307,606**

26. CAPITAL MANAGEMENT

The National Bank of the Republic of Kazakhstan establishes requirements to the capital adequacy of the Bank and monitors the compliance of the Bank with those requirements.

The Bank determines as capital those items that are determined by the laws as the items constituting the capital of credit organisations. As of 31 December 2020 the statutory minimum required ratio of tier 1 capital to risk-weighted asset value, contingent liabilities, operational and market risks is 0.055 (31 December 2019: 0.055), while the statutory minimum required ratio of the total capital to risk-weighted asset value, contingent liabilities, operational and market risk is 0.08 (31 December 2019: 0.08).

As of 31 December 2020 and 31 December 2019, the Bank met all of the statutory requirements to the capital, and its minimum ratio of tier 1 capital to risk-weighted asset value, contingent liabilities, operational and market risks as of 31 December 2020 was 0.885 (31 December 2019: 0.763), while the statutory minimum required ratio of the total capital to risk-weighted asset value, contingent liabilities, operational and market risk is 0.885 (31 December 2019: 0.763).

27. CREDIT-RELATED CONTINGENT LIABILITIES

(a) Credit-related contingent liabilities

The Bank issues bank guarantees and letters of credit to secure the performance of its customers' obligations to third parties. Those agreements establish the limits of obligations and are usually valid for a term of up to five years.

When issuing financial guarantees, credit-related commitments, and letters of credit, the Bank applies the same risk management policies and procedures as those applied in issuing loans to customers.

As of 31 December 2020, the Bank had outstanding contractual contingent liabilities for credit lines amounting to KZT 1,995,225 thousand (31 December 2019: KZT 1,656,022 thousand), and for guarantees and letters of credit amounting to KZT 207,268 thousand (31 December 2019: KZT 676,399 thousand).

(b) Pending judicial proceedings

Management is not aware of any substantial actual or pending judicial proceedings, as well as the potential suits that might be filed against the Bank.

(c) Insurance

The insurance market in Kazakhstan is developing and insurances available in the other countries are non-available in Kazakhstan. The Bank does not have full coverage for its buildings and equipment, business interruption, or third party liability in respect of property or environmental damage arising from the use of the Bank's property.

The Bank entered into a package insurance agreement with London-Almaty JSC insurance company against banking risks related to electronic and cyber-crimes. The agreement is valid 12 months following the signing date.

Until the Bank obtains adequate insurance coverage for its operations, there is a risk that losses incurred or loss of certain assets can have a material adverse effect on operations and financial position of the Bank.

(d) Tax liabilities

Kazakhstan's tax system, being relatively new, is characterised by frequent changes in legislative regulations, official pronouncements and court rulings, which are often unclear, contradictory, and can be differently interpreted by various tax authorities, including opinions on the accounting treatment of income, expenses and other items of financial statements under IFRS. Accuracy of tax assessment is subject to inspections and investigations by several regulatory bodies authorised to impose heavy fines and interests. The tax year is open for inspection by tax authorities during the subsequent five calendar years; however, under certain circumstances, this period may be extended.

These circumstances might result in the tax risks in Kazakhstan being considerably higher than in other countries. Management believes that tax liabilities were reported in full in these financial statements based on its interpretation of the applicable tax laws and official comments to the regulations and court rulings. However, since interpretations of tax laws by various regulatory authorities can differ from the opinion of the Bank's management, in cases of enforced actions by the regulatory authorities, their impact on the financial statements of the Bank can be material.

Thousands of tenge

28. RELATED PARTY TRANSACTIONS

(a) Control relationships

The parent company of the Bank is Shinhan Bank JSC (Seoul, Republic of Korea). The Bank's parent company prepares financial statements available to external users.

The ultimate parent company of the Bank is Shinhan Financial Group Co. Ltd (Korea), which has the power to direct the activities of the Bank at its discretion and in its interests; (b) Transactions with members of the Board of Directors and Management Board

(b) Transactions with members of the Board of Directors and Management Board

Total compensation included in Staff Costs item for the years ended 31 December 2020 and 2019 is detailed below:

	2020	**2019**
Board of Directors	7,000	10,500
Management Board	303,845	287,925
	310,845	**298,425**

As of 31 December 2020 and 2019, the balances of accounts and the average interest rates for the transactions with members of the Board of Directors and Management Board were as follows:

Statement of financial position	**2020**	**Average interest rate, %**	**2019**	**Average interest rate, %**
Other assets	1,185	-	1,338	-
Current accounts and deposits	(50,913)	0,91	(54,118)	0,17
Other liabilities	(34,072)	-	(42,632)	-

Amounts included in profit or loss on operations with members of the Board of Directors and the Management Board for the year ended 31 December may be presented as follows:

Statement of profit or loss and other comprehensive income	**2020**	**2019**
Foreign currency transactions income/(loss)	1,090	(868)
Fee and commission income/(expenses)	352	(267)
Interest expense	379	(139)
Other general and administrative expenses	283	-

(b) Transactions with other related parties

As of 31 December 2020 and 2019, the balances of accounts and average interest rates, as well as the relevant gains or losses on the transactions with other related parties for the years then ended were as follows:

	Parent bank		**Other related parties**	
Statement of financial position	**2020**	**Average interest rate, %**	**2020**	**Average interest rate, %**
ASSETS				
Cash and cash equivalents	-	-	-	-
- in Euro	-	-	126,251	-
- in other currency	-	-	177	-

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Loans to customers				
- in KZT	-	-	1,202,050	10,58
Other assets				
- in KZT	-	-	-	-
LIABILITIES				
Accounts and deposits in banks				
- in KZT	8,187	-	-	-
- in US dollar	164,650	-	-	-
- in Euro	193	-	-	-
Current accounts and deposits of customers				
- in KZT	-	-	732,120	6,51
- in US dollar	-	-	468	0,90
Other liabilities				
- in KZT	6,710	-	37	-
- in US dollar	46,512	-	-	-
Items that were not recognised in the statement of financial position				
Guarantees received*	378,819		1,200,000	

	Parent bank		Other related parties	
Statement of profit or loss and other comprehensive income	**2020**	**Average interest rate, %**	**2020**	**Average interest rate, %**
Income from transactions with foreign currencies	386	-	1,101	-
Interest income	-	-	121,299	-
Interest expense	-	-	18,852	-
Fee and commission income	4,630	-	1,238	-
Commission expense	65,865	-	3,456	-
Other general and administrative expenses	89,263	-	0	-
Other operating income (expenses), net	-	-	0	-

The guarantees received from other related parties include the guarantee in KZT provided by a company belonging to the Shinhan Financial Group Co. Ltd for the loan issued to its subsidiary in Kazakhstan. These interest-free guarantees mature on 27 May 2021 and 26 August 2022.

	Parent bank		Other related parties	
Statement of financial position	**2019**	**Average interest rate, %**	**2019**	**Average interest rate, %**
ASSETS				
Cash and cash equivalents				
- in Euro	-	-	41,295	-
- in other currency	-	-	140	-
Loans to customers				
- in KZT	-	-	1,000,655	10.75
Other assets				
- in KZT	-	-	1,749	-

Thousands of tenge

LIABILITIES				
Accounts and deposits in banks				
- in KZT	2,635	-	-	-
- in US dollar	192,594	-	-	-
- in Euro	3,113	-	-	-
Current accounts and deposits of customers				
- in KZT	-	-	202,290	6.59
- in US dollar	-	-	25,702	0.10
Other liabilities				
- in KZT	103	-	33	-
- in US dollar	55,892	-	-	-
Items that were not recognised in the statement of financial position				
Guarantees received*	368,472	-	1,000,000	-

	Parent bank		Other related parties	
Statement of profit or loss and other comprehensive income	**2019**	**Average interest rate, %**	**2019**	**Average interest rate, %**
Income from transactions with foreign currencies	(40)	-	952	-
Interest income	-	-	64,203	-
Interest expense	(737)	-	(16,886)	-
Fee and commission income	-	-	5,933	-
Commission expense	(31,127)	-	(21,908)	-
Other general and administrative expenses	(49,812)	-	-	-
Other operating income (expenses), net	(37)	-	-	-

* As of 31 December 2019, the guarantees received include the USD-denominated guarantee provided by the parent bank include guarantees for USD 900 thousand and KZT 24,140 thousand for the loan issued to the corporate customers. The guarantees are interest-free expiring on 10 April 2020 and 15 April 2020, respectively.

The guarantees received from other related parties include the guarantee in KZT provided by a company belonging to the Shinhan Financial Group Co. Ltd for the loan issued to its subsidiary in Kazakhstan. The guarantee is interest-free; the expiry date is 21 March 2021.

Thousands of tenge

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

(a) Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and liabilities as of 31 December 2020.

	Carried at amortised cost	Creditors and receivables	Carried at fair value through other comprehensive income	Others carried at amortised cost	Total carrying value	Fair value
Financial assets						
Cash and cash equivalents	-	37,279,674	-	-	37,279,674	**37,279,674**
Accounts and deposits in banks	-	174,885	-	-	174,885	**174,885**
Financial assets at fair value through OCI	-	-	1,213,618	-	1,213,618	**1,213,618**
Loans to customers						
- to corporate customers	-	7,773,237	-	-	7,773,237	**6,639,221**
- to retail customers	-	6,607,375	-	-	6,607,375	**6,653,719**
Financial assets at amortised cost	7,534,624	-	-	-	7,534,624	**7,500,355**
Other financial assets	-	15,948	-	-	15,948	**15,948**
	7,534,624	**51,851,119**	**1,213,618**	**-**	**60,599,361**	**59,477,420**
Financial liabilities						
Accounts and deposits in banks	-	-	-	173,031	173,031	**173,031**
Current accounts and deposits of customers	-	-	-	38,918,608	38,918,608	**38,918,608**
Loans from international financial organisations	-	-	-	6,784,218	6,784,218	**6,784,218**
Other financial liabilities	-	434,422	-	-	434,422	**434,422**
	-	**434,422**	**-**	**45,875,857**	**46,875,857**	**46,310,279**

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The following table shows the carrying amounts and fair values of financial assets and liabilities as of 31 December 2019.

	Carried at amortised cost	Creditors and receivables	Carried at fair value through other comprehensive income	Others carried at amortised cost	Total carrying value	Fair value
Financial assets						
Cash and cash equivalents	-	31,422,707	-	-	31,422,707	**31,422,707**
Accounts and deposits in banks	-	72,653	-	-	72,653	**72,653**
Financial assets at fair value through OCI	-	-	1,173,343	-	1,173,343	**1,173,343**
Loans to customers						
- to corporate customers	-	9,608,335	-	-	9,608,335	**7,463,271**
- to retail customers	-	5,347,894	-	-	5,347,894	**4,674,918**
Financial assets at amortised cost	4,907,381	-	-	-	4,907,381	**4,865,848**
Other financial assets						
	-	14,996	-	-	14,996	**14,996**
	4,907,381	**46,466,585**	**1,173,343**	**-**	**52,547,309**	**49,687,736**
Financial liabilities						
Accounts and deposits in banks	-	-	-	198,342	198,342	**198,342**
Current accounts and deposits of customers	-	-	-	32,886,665	32,886,665	**32,886,665**
Loans from international financial organisations	-	-	-	5,757,924	5,757,924	**5,757,924**
Other financial liabilities	-	496,787	-	81	496,868	**496,868**
	-	**496,787**	**-**	**38,843,012**	**39,339,799**	**39,339,799**

Fair value measurement is aimed at determining the price that would be received when selling an asset or paid when transferring a liability in a transaction carried out on an organised market between market participants at the measurement date. However, given the uncertainties and the use of subjective judgments, the fair value should not be interpreted as being realisable in case of an immediate sale of assets or transfer of liabilities.

The fair value of financial assets and financial liabilities that are traded on an active market is based on market quotations or dealer prices. The Bank measures the fair values of its other financial instruments using other valuation techniques.

Valuation techniques include the net present value model and cash flow discounting model, comparison with similar instruments having known market quotations. Judgements and inputs used in measurement include risk-free and base interest rates, credit spreads and other adjustments used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity indexes and expected price fluctuations and their comparison. The objective of valuation techniques is to arrive at a fair value that reflects the price of a financial instrument as at the reporting date that would have been determined by market participants acting at arm's length.

Management used an assumed discount rate of 13.87% and 13.62% (2019: 11.08% and 12.97%) to discount future cash flows to measure the KZT fair value of loans issued to corporate customers and loans issued to retail customers, respectively, and 5.20% (in 2019: 5.16%) to discount future cash flows to measure the USD fair value of loans issued to corporate customers.

(b) Fair value hierarchy

The Bank measures the fair value using the following fair value hierarchy that considers the significance of inputs used in making the measurements.

- Level 1: Quoted prices (unadjusted) of identical financial instruments in an active market.
- Level 2: Inputs other than those mentioned under Level 1 and either directly observable (i.e., as prices) or indirectly observable (i.e., derived from prices). This category includes instruments measured using: quoted market prices of similar instruments in active markets; quoted market prices of similar instruments in markets that are not considered active; or other valuation techniques where all inputs are directly or indirectly observable.
- Level 3: Unobservable inputs. This category includes instruments measured using the unobservable inputs and those inputs are significant to the valuation of the instruments. This category includes instruments that are measured based on quoted prices for similar instruments where significant unobservable adjustments or judgements are required to reflect the differences between the instruments.

The Bank has a control system related to fair value measurement. This system includes the Risk Management Department, which is independent of the front office management and reports to the CFO and is responsible for an independent review of the results of trading and investment transactions, as well as all significant fair value measurements. Special control mechanisms include:

- Review of observed quotations
- Recalculation of valuation models
- Review and approval process for new models and changes to models involving Risk Management Department
- Quarterly review and back-testing of the model concerning observable market transactions
- Analysis and study of significant daily changes in estimates
- Management Board's review of significant unobservable inputs, adjustments to estimates and significant changes in the fair value of instruments, related to Level 3, as compared to the previous month.

Where third party information is used to measure the fair value, including information about prices and market quotes, the Credit Products Control Department evaluates and documents the confirmation received from third parties to confirm that such measurements meet the requirements of IFRS, including:

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- Confirmation that information on prices or market quotations of brokers was approved by the Bank to be used in the pricing of financial instruments
- Understanding of how the fair value was arrived at to the extent that it represents actual market transactions
- Where quotations of similar instruments are used to measure the fair value, understanding of how the quoted prices have been adjusted to reflect characteristics of the instrument to be measured
- In cases where several quotations are used for similar financial instruments, understanding of how the fair value was measured using the mentioned quotations.

Significant measurement issues are reported to the Management Board.

The following table presents an analysis of financial instruments at fair value, as of 31 December 2020 and 31 December 2019, in the context of the level in the fair value hierarchy. The amounts are based on those reported in the statement of financial position.

	Level 2	
	31.12.2020	**31.12.2019**
Financial assets at fair value through OCI		
- Debt securities	1,213,618	1,173,343

The following tables analyse the fair values of financial instruments that are not measured at fair value in the context of the level in the fair value hierarchy as of 31 December 2020 and 31 December 2019:

2020	Level 2	Level 3	Fair value	Book value
Financial assets				
Cash and cash equivalents	37,279,674	-	37,279,674	37,279,674
Accounts and deposits in banks	174,885	-	174,885	174,885
Loans to customers	13,285,916	-	13,285,916	14,380,612
Financial assets at amortised cost	7,500,355	-	7,500,355	7,534,524
Other financial assets	15,948	-	15,948	15,948
	58,256,778	**-**	**58,256,778**	**59,385,743**
Financial liabilities				
Accounts and deposits in banks	173,031	-	173,031	173,031
Current accounts and deposits of customers	38,918,608	-	38,918,608	38,918,608
Loans from international financial organisations	6,784,218	-	6,784,218	6,784,218
Other financial liabilities	434,422	-	434,422	434,422
	46,310,279	**-**	**46,310,279**	**46,310,279**

2019	Level 2	Level 3	Fair value	Book value
Financial assets				
Cash and cash equivalents	31,422,707	-	31,422,707	31,422,707
Accounts and deposits in banks	72,653	-	72,653	72,653
Loans to customers	12,136,896	1,293	12,138,189	14,956,229
Financial assets at amortised cost	4,865,848	-	4,865,848	4,907,381
Other financial assets	14,996	-	14,996	14,996
	48,513,100	**1,293**	**48,514,393**	**51,373,966**

Thousands of tenge

2019	Level 2	Level 3	Fair value	Book value
Financial liabilities				
Accounts and deposits in banks	198,342	-	198,342	198,342
Current accounts and deposits of customers	32,886,665	-	32,886,665	32,886,665
Loans from international financial organisations	5,757,924	-	5,757,924	5,757,924
Other financial liabilities	496,868	-	496,868	496,868
	39,084,236	**-**	**39,084,236**	**28,247,277**

30. EVENTS AFTER THE REPORTING DATE

After the reporting date, there were no significant events in the Bank's financial and economic activities that would require adjustments to the financial statements or additional disclosures.

In late 2019, it was announced on the first cases of the 2019 Novel Coronavirus infection ("coronavirus") or COVID-19 revealed in China. In the first few months of 2020, the negative impact of coronavirus intensified. COVID-19 pandemic poses a serious public health threat. In connection with the announcement by the World Health Organization of the new coronavirus COVID-19 as a pandemic to protect the life and health of citizens throughout the Republic of Kazakhstan, a state of emergency was introduced from 16 March 2020 to 15 April 2020. Quarantine was enforced in Almaty and Nur-Sultan from 19 March 2020. On 11 May 2020, the state of emergency was lifted throughout the country, although the threat of infection in some regions remained. Due to the coronavirus infection increase, from 5 July 2020, Kazakhstan introduced new restrictive measures for 14 days with potential extension, and on 13 July 2020, the quarantine was extended until 2 August 2020. Currently, the strengthening or mitigation of quarantine has been regulated by the regional Chief State Sanitary Doctors of the region, depending on the number of new infections. On 30 March 2021, Kazakhstan moved into a high-risk zone for coronavirus incidence and the Minister of Health announced the discovery of the SarS-Cov-2 mutation throughout the country.

The Bank Management considers the coronavirus outbreak a non-adjusting event. However, it is impossible to forecast the consequences.

In March 2020, after the collapse of the OPEC+ deal amid the outbreak of the coronavirus pandemic, oil prices per day collapsed by a record value since 1991 and the price drop exceeded 30%. In December 2020, oil prices returned to pre-crisis levels. The oil prices gradually recovered after OPEC and non-member countries agreed to cut oil production from 1 May 2020 to 30 April 2022. Brent oil prices climbed higher in February 2021 and for the first time reached USD 66 since January 2020.

Since March 2020, due to pandemic and fall in oil prices, there has been significant volatility in the stock, foreign exchange and commodity markets, and the depreciation of the tenge against the US dollar and the Euro.

The Bank's management intends to take all possible measures for consequences mitigation.