

**First Heartland Jusan Bank
Joint Stock Company**

Consolidated Financial Statements

*for 2020
together with Independent Auditors' Report*



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Independent Auditors' Report

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

Opinion

We have audited the consolidated financial statements of First Heartland Jusan Bank JSC ("the Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the : the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the unconsolidated financial statements in the Republic of Kazakhstan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

«КПМГ Аудит» ЖШС, Қазақстан Республикасы заңнамасына сәйкес тіркелген компания, жауапкершілігі өз қатысушыларының кепілдіктерімен шектелген KPMG International Limited жекеше ағылшын компаниясының құрамына кіретін KPMG тәуелсіз фирмалары жаһандық ұйымының қатысушысы.

KPMG Audit LLC, a company incorporated under the Laws of the Republic of Kazakhstan and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee.



Expected Credit Losses (ECL) on loans to customers measured at amortised cost

Please refer to the Notes 3, 4, 6, 9 and 23 in the consolidated financial statements.

Key audit matter	How the matter was addressed in our audit
<p>Loans to customers measured at amortised cost represent 28.1% of total assets and are stated net of allowance for expected credit losses ("ECL") that is estimated on a regular basis and is sensitive to assumptions used.</p> <p>The Group uses ECL valuation model, which requires management to apply professional judgement and to make assumptions related to the following key areas:</p> <ul style="list-style-type: none"> — timely identification of significant increase in credit risk and default events related to loans to customers (allocation between stages 1, 2 and 3) in accordance with IFRS 9 Financial Instruments. During 2020 this process was adjusted as certain customers of the Group were provided with one-time or a few deferrals for repayment due to economic difficulties caused by COVID-19 pandemic; — assessment of probability of default (PD) and loss given default (LGD); — assessment of adjustment to account for forward-looking information. <p>There is an increased risk of material misstatement of expected credit losses next year due to the higher uncertainty related to judgements and estimates resulting from COVID-19.</p> <p>Moreover, a majority of the loan portfolio relates to loans classified to Stage 3, or purchased or originated credit-impaired (POCI) loans, whose carrying amount is determined based on an estimate of future cash flows derived from of subjective assumptions including:</p>	<p>We analysed the key aspects of the Group's methodology and policies related to the ECL estimate for compliance with the requirements of IFRS 9, with the involvement of our own financial risks management specialists.</p> <p>To analyse the adequacy of professional judgement and assumptions made by the management in relation to the allowance for ECL estimate, we performed the following audit procedures:</p> <ul style="list-style-type: none"> — We tested the design and implementation of the controls used over allocation of loans to customers by the credit risk stages. — For a sample of loans to customers, for which a potential changes in ECL estimate may have a significant impact on the consolidated financial statements, we tested whether stages are correctly assigned by the Group by analysing financial and non-financial information, as well as assumptions and professional judgements, applied by the Group. We paid special attention to allocation of the credit risk stage for the loans negotiated as a result of COVID-19 outbreak, as well as for counterparties related to the industries affected by COVID-19. — For a sample of stage 3 loans and POCI-loans for which ECL is assessed individually and which mostly comprise loans to legal entities, we critically assessed assumptions used by the Group to forecast future cash flows, including estimated proceeds from realisable collateral and their timing based on our understanding and publicly available market information. We specifically focused on exposures which potentially may have the most significant impact on the financial statements. — Regarding loans issued to customers and assigned to stages 1 and 2, for which ECL allowance is assessed collectively, we tested the design and implementation of the related PD and LGD models, as well as agreeing input data to supporting documents on a sample basis.



<ul style="list-style-type: none"> — measurement of the fair value of underlying real estate collateral; and — expected realisation periods for such underlying collateral. <p>Due to the significant volume of loans to customers measured at amortised cost and the related estimation uncertainty inherent in estimating of ECL allowance that has increased due to events related to COVID-19, this area is a key audit matter.</p>	<ul style="list-style-type: none"> — We also analysed the overall adequacy of the adjustment to account for forward-looking information and compared it with our estimates taking into account the current and future economic situation and operating conditions of the respective categories of borrowers. As part of this work we tested the appropriateness of the Group's assessment of the economic uncertainty related to COVID-19 pandemic. <p>We assessed the predictive capability of the Group's models used for ECL assessment by comparing the estimates made as at 1 January 2020 with actual results for 2020.</p> <p>We also assessed whether the consolidated financial statements disclosures appropriately reflect the Group's exposure to credit risk.</p>
Acquisition of ATFBank JSC subsidiary	
<p>Please refer to the Notes 3, 4, 5, 31 and 32 in the consolidated financial statements.</p>	
Key audit matter	How the matter was addressed in our audit
<p>On 29 December 2020, the Group acquired 99.88% of the ATFBank's voting shares by additional issue of its own ordinary shares equal to 19.96% interest in the Bank. The fair value of the consideration paid in the form of 19.96% of the Bank's ordinary shares, given the restrictive conditions for payment of dividends, to a new shareholder of the Group was estimated in the amount of KZT 34,513 million.</p> <p>The method of acquisition in accordance with IFRS 3 requires management to measure the fair value of the identifiable assets and liabilities of ATFBank JSC at the date of acquisition, which requires significant judgement. Management engaged an independent valuation expert to assist management with this measurement.</p> <p>Due to acquisition of a subsidiary, in December 2020 the Group restructured certain debt securities and subordinated bonds and issued new subordinated bonds. The holders of these debt securities and subordinated</p>	<p>We reviewed the contract documentation related to the acquisition of ATFBank JSC as well as the contract terms related to restructuring of the securities issued and subordinated bonds, and issue of new subordinated bonds, and sent inquiries to the Group management to confirm our understanding of this transaction.</p> <p>We considered the Group's professional judgments, in particular with respect to recognition of income from modification and initial recognition of financial liabilities to the government institutions in profit or loss.</p> <p>We checked the fair value measurement of the consideration paid for the controlling interest in ATFBank JSC, the fair value of identifiable assets and assumed liabilities that was estimated by an independent valuation expert, and the fair value measurement of recognised financial liabilities to the government institutions in 2020, and engaged our valuation specialists to analyse the methods and assumptions used.</p> <p>We critically assessed whether management had appropriately identified all assets acquired and liabilities assumed, in determining the resulting gain on acquisition.</p>



<p>bonds are government institutions. Substantially modified and initially issued debt securities and subordinated bonds were recognised at fair value measured using the appropriate market interest rates to discount the contractual future cash flows on financial liabilities.</p> <p>The difference between the fair value and nominal value of the bonds of KZT 102,816 million was recorded within income from modification and initial recognition of financial liabilities to the government institutions in the consolidated statement of profit or loss and other comprehensive income in 2020 since this approach, in the judgment of management, best reflects the nature of these operations.</p> <p>Because of the need to apply accounting judgments and estimates in accounting for acquisition of ATFBank JSC and related income from recognition of financial liabilities at fair value upon substantial modification and initial recognition, this area is a key audit matter.</p>	<p>We also assessed whether the consolidated financial statements disclosures appropriately reflect the acquisition of subsidiary and recognition of the transactions of modification and initial recognition of debt securities issued and subordinated bonds, including disclosures related to significant accounting judgements and estimates.</p>
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Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report but does not include the consolidated financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

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

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

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

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



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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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



First Heartland Jusan Bank JSC

Independent Auditors' Report

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

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



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

KPMG Audit LLC

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



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

19 April 2021

First Heartland Jusan Bank Joint Stock Company
Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2020
(in millions of Kazakhstani tenge unless otherwise stated)

	<i>Note</i>	<i>2020</i>	<i>2019</i>
Interest income calculated using the effective interest method	8	114,541	118,961
Other interest income	8	4,344	10,129
Interest expense	8	(74,710)	(62,636)
Net interest income before credit loss (expenses)/income		44,175	66,454
Credit loss (expenses)/income	9	(35,231)	1,594
Net interest income after credit loss (expenses)/income		8,944	68,048
Fee and commission income	10	10,158	10,037
Fee and commission expense	10	(7,158)	(5,021)
Net fee and commission income		3,000	5,016
Gross premiums written	12	13,607	6,408
Insurance premiums ceded to reinsurers	12	(1,920)	(1,521)
Net insurance premiums written		11,687	4,887
Change in the gross provision for unearned premiums	12	(2,975)	(347)
Reinsurers' share of change in the gross provision for unearned premiums	12	(147)	(461)
Net earned insurance premiums		8,565	4,079
Insurance claims incurred		(2,765)	(1,322)
Reinsurers' share in insurance claims incurred		882	145
Insurance claims incurred, net of reinsurance	13	(1,883)	(1,177)
Change in gross insurance contract provisions		(1,265)	(835)
Change in reinsurers' share in insurance claims provisions		2	949
Net insurance claims incurred	13	(3,146)	(1,063)
Net gains/(losses) on financial instruments measured at fair value through profit or loss	11	12,886	(855)
Net gain on change in fair value of loans to customers at fair value through other comprehensive income		336	—
Net (losses)/gains on derecognition of investment securities at fair value through other comprehensive income		(3,420)	1,365
Net foreign exchange gain	14	14,363	8,910
Gain on modification and initial recognition of the financial liabilities to government institutions	31, 32	124,592	—
Other income/(expenses)		4,099	(69)
Other operating income		152,856	9,351
Personnel expenses	15	(39,032)	(21,908)
Other general and administrative expenses	16	(19,737)	(22,103)
Revaluation expense on property and equipment and intangible assets		(264)	(1,240)
Gain on reversal of other provisions		1,149	3,058
Other operating expenses		(57,884)	(42,193)
Bargain purchase gain	5, 31, 32	170,609	—
Gain on a reverse acquisition	5	—	241,414
Profit before corporate income tax expense		282,944	284,652
Corporate income tax expense	17	(24,745)	(9,586)
Profit for the year		258,199	275,066
Profit attributable to:			
equity holders of the Bank		258,200	275,066
non-controlling interests		(1)	—

The notes set out on pages 16 to 148 form an integral part of these consolidated financial statements.

First Heartland Jusan Bank Joint Stock Company

**Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2020**

(in millions of Kazakhstani tenge unless otherwise stated)

	Note	2020	2019
Profit for the year		258,199	275,066
Other comprehensive income			
<i>Other comprehensive (loss)/income that are to be reclassified subsequently to profit or loss:</i>			
Net change in fair value of debt instruments at fair value through other comprehensive income		(8,542)	5,356
Change in loss allowance for expected credit losses on debt instruments at fair value through other comprehensive income		7,201	117
Amount reclassified to profit or loss as a result of derecognition of securities at fair value through other comprehensive income		3,420	(1,365)
Foreign currency differences arising on translation of foreign operations		(1,413)	649
<i>Total other comprehensive income items that are or may be reclassified subsequently to profit or loss</i>		<i>666</i>	<i>4,757</i>
<i>Other comprehensive income that will not be reclassified subsequently to profit or loss:</i>			
Revaluation reserve for property and equipment, net of income tax (2020: KZT 10 million, 2019: KZT 167 million).	17	48	837
<i>Total other comprehensive income items that will not be reclassified subsequently to profit or loss:</i>		<i>48</i>	<i>837</i>
Other comprehensive income for the year		714	5,594
Total comprehensive income for the year		258,913	280,660
Total comprehensive income attributable to:			
- owners of the Bank		258,914	280,660
- non-controlling interests		(1)	-
Total comprehensive income for the year		258,913	280,660
Earnings per share			
Basic and diluted earnings per ordinary share, KZT	36	1,948.71	2,411.39

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

A. T. Kanyp
Chairman of the Board



15 April 2021

N. M. Salikhova
Chief Accountant

First Heartland Jusan Bank Joint Stock Company

Consolidated Statement of Financial Position

at 31 December 2020

(in millions of Kazakhstani tenge unless otherwise stated)

	<i>Note</i>	31 December 2020	31 December 2019
Assets			
Cash and cash equivalents	18	1,404,257	298,047
Derivative financial instruments	19	12,114	13
Amounts due from banks and other financial institutions	20	83,729	3,548
Trading securities	21	39,504	5,027
Investment securities	22	336,193	606,861
Loans to customers	23	989,563	414,651
Promissory notes from the Ministry of Finance of the Republic of Kazakhstan		103,114	70,241
Insurance premiums and reinsurance assets		3,871	3,313
Property and equipment and intangible assets	24	101,019	54,272
Non-current assets held for sale	25	4,954	9,144
Investment property	26	10,033	5,441
Current corporate income tax assets		779	644
Deferred corporate income tax assets	17	2,154	2,284
Other assets	27	80,394	18,639
Total assets		3,171,678	1,492,125
Liabilities			
Amounts due to banks and other financial institutions	28	85,160	9,836
Amounts payable under repurchase agreements	29	2,411	4,987
Derivative financial instruments	19	266	42
Amounts due to customers	30	1,896,682	791,626
Debt securities issued	31	231,807	148,604
Subordinated debts	32	199,834	75,277
Accounts payable to the mortgage organisation	33	16,371	4,833
Lease liabilities		5,325	4,489
Current corporate income tax liabilities		701	24
Deferred corporate income tax liabilities	17	153,631	73,522
Insurance contract provisions		10,202	5,961
Other liabilities	34	29,995	13,618
Total liabilities		2,632,385	1,132,819
Equity			
Share capital	35	258,201	216,540
Additional paid-in capital	35	631	631
Property and equipment revaluation reserve		1,425	1,945
Fair value reserve		6,187	4,108
Cumulative reserve for translation to presentation currency		(764)	649
Reverse acquisition provision	5	(137,564)	(137,564)
Retained earnings		411,178	272,997
Total equity attributable to the equity holders of the Bank		539,294	359,306
Non-controlling interests		(1)	—
Total equity		539,293	359,306
Total equity and liabilities		3,171,678	1,492,125

The notes set out on pages 16 to 148 form an integral part of these consolidated financial statements.

First Heartland Jusan Bank Joint Stock Company

Consolidated Statement of Cash Flows

for the year ended 31 December 2020

(in millions of Kazakhstani tenge unless otherwise stated)

	<i>Note</i>	2020	2019
Cash flows from operating activities			
Interest receipts		115,315	82,635
Interest payments		(56,069)	(49,530)
Fee and commission receipts		9,534	10,120
Fee and commission payments		(7,171)	(4,900)
Insurance premiums received		12,925	6,185
Insurance premiums paid to reinsurers		(2,235)	(2,306)
Net insurance claims paid		(1,886)	(1,165)
Net receipts from foreign exchange	14	5,757	6,011
Gain on operations with derivatives	11	7,121	(2,034)
Other income receipts		2,100	1,537
Personnel and other general and administrative expenses payments		(42,579)	(40,877)
Cash from operating activities before changes in operating assets and liabilities		42,812	5,676
Net (increase)/decrease in operating assets			
Amounts due from banks and other financial institutions		(28,229)	8,075
Trading securities		(32,609)	795
Loans to customers		21,800	34,731
Other assets		7,641	8,677
Net (decrease)/ increase in operating liabilities			
Amounts due to banks and other financial institutions		(1,619)	(17,557)
Amounts due to customers		243,699	63,842
Amounts payable under repurchase agreements		(2,583)	(94,512)
Other liabilities		(2,626)	(6,150)
Cash flows from operations before corporate income tax paid		248,286	3,577
Corporate income tax paid		(114)	(374)
Net cash from operating activities		248,172	3,203
Cash flows from investing activities			
Cash and cash equivalents acquired due to business combination	5	559,133	672,696
Acquisition of the subsidiary	5	(41,678)	–
Purchase of investment securities measured at amortised cost		(592,306)	(4,356,715)
Repayment of investment securities measured at amortised cost		813,529	4,240,752
Purchase of investment securities measured at fair value through other comprehensive income		(851,455)	(598,877)
Sale and repayment of investment securities measured at fair value through other comprehensive income		928,055	310,027
Promissory notes from the Ministry of Finance of the Republic of Kazakhstan		(22,690)	(70,196)
Proceeds from sale of non-current assets held for sale		3,988	188
Acquisition of property and equipment and intangible assets		(3,287)	(4,376)
Proceeds from sale of property and equipment, and investment property		1,050	148
Net cash from investing activities		794,339	193,647

The notes set out on pages 16 to 148 form an integral part of these consolidated financial statements.

First Heartland Jusan Bank Joint Stock Company

Consolidated Statement of Cash Flows

for the year ended 31 December 2020

(in millions of Kazakhstani tenge unless otherwise stated)

	<i>Note</i>	2020	2019
Cash flows from financing activities			
Proceeds from issue of share capital	35	41,661	70,253
Repayment of subordinated debt	32	(5,900)	(15,159)
Placement of subordinated debt	32	120,758	–
Repayment of debt securities issued	31	–	(7,163)
Repayment of lease liabilities		(1,685)	(1,406)
Repayment of loans from other banks		(56)	–
Dividends paid to the Bank's shareholder	35	(113,440)	(5,250)
Net cash from financing activities		41,338	41,275
Effect of changes in exchange rates on cash and cash equivalents		22,368	5,330
Effect of ECL on cash and cash equivalents	9	(7)	(7)
Net increase in cash and cash equivalents		1,106,210	243,448
Cash and cash equivalents as at the beginning of the reporting year		298,047	54,599
Cash and cash equivalents as at the end of the reporting year	18	1,404,257	298,047

The notes set out on pages 16 to 148 form an integral part of these consolidated financial statements.

First Heartland Jusan Bank Joint Stock Company

Consolidated Statement of Changes in Equity

for the year ended 31 December 2020

(in millions of Kazakhstani tenge unless otherwise stated)

	Attributable to equity holders of the Bank									
Note	Share capital	Additional paid-in capital	Property and equipment revaluation reserve	Fair value reserve	Cumulative reserve for translation to presentation currency	Reverse acquisition reserve	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2020	216,540	631	1,945	4,108	649	(137,564)	272,997	359,306	–	359,306
Comprehensive income for the year										
Profit for the year	–	–	–	–	–	–	258,200	258,200	(1)	258,199
Other comprehensive income	–	–	48	2,079	(1,413)	–	–	714	–	714
Total comprehensive income for the year	–	–	48	2,079	(1,413)	–	258,200	258,914	(1)	258,913
Transactions with owners recorded directly in equity										
Amortisation of property and equipment revaluation reserve			(568)	–	–	–	568	–	–	–
Increase in share capital	35	41,661	–	–	–	–	(7,147)	34,514	–	34,514
Dividends to the Group’s shareholders		–	–	–	–	–	(113,440)	(113,440)	–	(113,440)
Total transactions with owners		41,661	–	(568)	–	–	(120,019)	(78,926)	–	(78,926)
Balance at 31 December 2020		258,201	631	1,425	6,187	(764)	(137,564)	411,178	(1)	539,293

The notes set out on pages 16 to 148 form an integral part of these consolidated financial statements.

First Heartland Jusan Bank Joint Stock Company

Consolidated Statement of Changes in Equity

for the year ended 31 December 2020

(in millions of Kazakhstani tenge unless otherwise stated)

<i>Attributable to equity holders of the Bank</i>								
<i>Note</i>	<i>Share capital</i>	<i>Additional paid-in capital</i>	<i>Property and equipment revaluation reserve</i>	<i>Fair value reserve</i>	<i>Cumulative reserve for translation to presentation currency</i>	<i>Reverse acquisition reserve</i>	<i>Retained earnings</i>	<i>Total equity</i>
Balance at 1 January 2019	9,280	74	1,108	–	–	–	3,181	13,643
Comprehensive income for the year								
Profit for the year	–	–	–	–	–	–	275,066	275,066
Other comprehensive income	–	–	837	4,108	649	–	–	5,594
Total comprehensive income for the year	–	–	837	4,108	649	–	275,066	280,660
Transactions with owners recorded directly in equity								
Adjustment to opening balance of reverse acquisition	(9,280)	(74)	–	–	–	9,354	–	–
Reverse acquisition transactions	146,287	631	–	–	–	(146,918)	–	–
Issue of shares	70,253	–	–	–	–	–	–	70,253
Dividends to the Group's shareholders	–	–	–	–	–	–	(5,250)	(5,250)
Total transactions with owners	207,260	557	–	–	–	(137,564)	(5,250)	65,003
Balance at 31 December 2019	216,540	631	1,945	4,108	649	(137,564)	272,997	359,306

The notes set out on pages 16 to 148 form an integral part of these consolidated financial statements.

1. General information

Organisation and operations

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

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

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

On 26 April 2019, the First Heartland Securities JSC rebranded the Bank. After the rebranding, the Bank was named First Heartland Jusan Bank JSC with the retail brand called “Jusan Bank”.

The Bank carries on its activity based on the general licence No.1.2.35/225/37 to conduct banking and other operations and engage in activities on securities market, granted on 29 August 2019 by the National Bank of the Republic of Kazakhstan (the “NBRK”). On 3 February 2020, the Bank’s license No.1.2.35/225/37 to conduct banking and other operations and engage in activities on securities market was re-issued due to changes introduced to the legislation.

The principal activity of the Bank is conducting commercial banking operations, lending, issuing guarantees, deposit taking, opening and maintenance of customer accounts, cash and settlement operations, and securities and foreign exchange transactions. The Bank is a member of Kazakhstan Deposit Insurance Fund.

A reverse acquisition

On 27 June 2019, at the joint general meeting of shareholders a decision was made on a voluntary reorganisation of the Bank in the form of a merger of First Heartland Bank JSC (i.e. a “legal subsidiary”) with the Bank (i.e. a “legal parent company”) in accordance with the procedure and on terms determined by the legislation of the Republic of Kazakhstan.

On 29 August 2019, First Heartland Bank JSC approved and signed a deed of transfer of its property, rights and liabilities to the Bank. On 2 September 2019, the merger of the Bank and First Heartland Bank was completed.

As part of the business combination under IFRS 3 *Business Combinations*, for the purpose of accounting, First Heartland Bank JSC was determined to be the “acquirer”, while the Bank and its subsidiaries are defined as the “acquired group” based on the following facts:

- The Bank was previously acquired by First Heartland Securities JSC from an unrelated party, on 6 February 2019, before being placed under a period of transitory common control with First Heartland Bank JSC, until the date of the legal merger.
- Following the acquisition by First Heartland Securities JSC, members of the Bank’s Board of Directors and Management Board were replaced by representatives of First Heartland Bank JSC.
- Following the acquisition by First Heartland Securities, the Bank and its subsidiaries were renamed using the elements of the name of First Heartland Bank JSC.
- Following the acquisition by First Heartland Securities JSC, management decided to transfer the Bank’s head office from Nur-Sultan to Almaty, where the head office of First Heartland Bank JSC and its parent company is located.

This accounting method in business combination is described as “reverse acquisition” under IFRS 3.

For the purpose of accounting for this business combination in these consolidated financial statements, the date of acquisition of the Bank and its subsidiaries is 6 February 2019 (*Note 5*), since that is the date when the Bank became the party under control of the shareholders of First Heartland Bank JSC.

1. General information, continued

A reverse acquisition, continued

The Group's consolidated statement of profit or loss and other comprehensive income reflects the financial performance of First Heartland Bank JSC for the year ended 31 December 2019, including financial performance of the Bank and its subsidiaries during the period from 6 February 2019 to 31 December 2019. The Group's consolidated statement of financial position as at 31 December 2019 reflects the assets and liabilities of First Heartland Bank JSC at the carrying value and the assets and liabilities of the Bank and its subsidiaries, initially recognised in these consolidated financial statements based on their fair value as at 6 February 2019 as adjusted to reflect movements during the period to 31 December 2019.

Acquisition of ATF Bank JSC

On 29 December 2020, the Group acquired 99.88% of the voting shares of ATF Bank JSC. Detailed information is disclosed in *Note 5*.

Information on the Bank's subsidiaries as at 31 December 2020 and 31 December 2019 is presented below:

Name	Country of registration	Principal activity	Ownership interest, %	
			31 December 2020	31 December 2019
First Heartland Capital JSC	The Republic of Kazakhstan	Investment portfolio management	100.00	100.00
Plus Bank PJSC	The Russian Federation	Banking	100.00	100.00
Jusan Garant Insurance Company JSC	The Republic of Kazakhstan	Insurance activity	100.00	100.00
Jusan Development LLP (formerly known as OMAD Centre LLC)	The Republic of Kazakhstan	Doubtful and bad assets management	100.00	100.00
OMAD YUG LLC	The Republic of Kazakhstan	Doubtful and bad assets management	100.00	100.00
First Heartland Jusan Invest JSC	The Republic of Kazakhstan	Brokerage and dealing activity	100.00	100.00
ATF Bank JSC	The Republic of Kazakhstan	Banking	99.88	—

Shareholders

As at 31 December 2020, the Bank's shareholders are First Heartland Securities JSC, a broker, which owns 80.04% of outstanding ordinary shares and Mr Galimzhan Shakhmardanovich Yessenov, which owns 19.96% of outstanding ordinary shares (31 December 2019: the Bank's sole shareholder is First Heartland Securities JSC, which owns 100% of outstanding ordinary shares).

As at 31 December 2020, Pioneer Capital Invest LLP exercises voting rights on the shares of Jysan Technologies Ltd, parent company of First Heartland Securities JSC for the ultimate benefit of and exclusively to support the financial activities of the autonomous educational organizations "Nazarbayev University" and "Nazarbayev Intellectual Schools" and their organizations. As at 31 December 2020, the Private Fund "Nazarbayev Fund" owns 67.53% of the share in Pioneer Capital Invest LLP.

As at 31 December 2019, the ultimate controlling party of the Bank and its subsidiaries is the Private Fund "Nazarbayev Fund", a non-profit organization created exclusively to support the financial activities of the autonomous educational organizations "Nazarbayev University" and "Nazarbayev Intellectual Schools" and their organizations.

On 16 March 2021, the general meeting of shareholders made a decision to change the Bank's trade name, First Heartland Jysan Bank, for "First Heartland Jusan Bank", with the retail brand called "Jusan Bank" (*Note 45*).

The consolidated financial statements of the Group for the year 2020 were authorised for issue by the Management Board of the Bank on 15 April 2021.

1. General information, continued

Kazakhstan business environment

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

Due to fast spread of the COVID-19 pandemic in 2020, many governments, including that of the Republic of Kazakhstan, took protective measures to control the coronavirus outbreak, including imposing quarantine restrictions, closing enterprises and institutions, imposing lockdown in some of the regions and ban on internal and external travel. These measures adversely impacted the global supply chain, goods and services demand, and scope of business activity on the whole. It is expected that the pandemic itself and related public health and social measures may have an impact on the activity of the entities operating in a broad range of industries.

During 2020, the Government of the Republic of Kazakhstan and NBRK adopted a set of support measures to mitigate negative impact on the economic indicators triggered by the pandemic in 2020. These measures include, among others, extending soft loans to entities, which operate in affected industries, and affected individuals, providing loan payment holidays and easing some of the regulatory restrictions, intended to support the financial sector and its ability to provide financial resources and help client avoid liquidity constraints resulting from measures introduced to stop the spread of COVID-19 pandemic.

The Group continues assessing the effect of the pandemic and changes in macro- and microeconomic situation on its operations, financial position and financial performance.

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

2. Basis of preparation

Statement of compliance

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

Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except as stated in the section *Significant accounting policies*. For example, derivative financial instruments, trading securities, investment securities measured at fair value through other comprehensive income ("FVOCI"), loans to customers measured at fair value through profit or loss ("FVTPL"), loans to customers measured at fair value through other comprehensive income and land and buildings classified as 'Property and equipment' and investment property are stated at fair value. Insurance liabilities were measured based on actuarial calculations.

Functional and presentation currency

The functional currency of the Bank and its subsidiaries, except for Plus Bank PJSC and Optima Bank OJSC, is the Kazakhstan tenge ("KZT") as, being the national currency of the Republic of Kazakhstan, it reflects the economic substance of the majority of underlying events and circumstances relevant to them. The functional currency of the subsidiary Plus Bank PJSC is the Russian rouble. The functional currency of Optima Bank OJSC (the subsidiary of ATF Bank JSC) is the Kyrgyz som.

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

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

2. Basis of preparation, continued

Reclassification

The following reclassifications were made in the consolidated statement of financial position as at 31 December 2019 and consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2019 to conform to changes in presentation as at 31 December 2020 and for 2020:

	<i>As at 31 December 2019</i>		
	<i>As previously reported</i>	<i>Effect of reclassifications</i>	<i>As reclassified</i>
Consolidated Statement of Financial Position			
Liabilities to the mortgage organisation	–	4,833	4,833
Other liabilities	18,451	(4,833)	13,618
For the year ended 31 December 2019			
	<i>As previously reported</i>	<i>Effect of reclassifications</i>	<i>As reclassified</i>
Consolidated Statement of Profit or Loss and Other Comprehensive Income			
Net loss on change in fair value of loans to customers at fair value through other comprehensive income	(416)	416	–
Loss on operations with derivatives	(992)	992	–
Net gain on trading securities	553	(553)	–
Net loss on change in fair value of financial instruments measured at fair value through profit or loss	–	(855)	(855)

3. Significant accounting policies

Changes in accounting policy

Accounting principles applied in preparation and presentation of the consolidated financial statements are consistent with those applied in preparation of the Group's consolidated financial statements for 2019, except for application of new standards which became effective from 1 January 2020. The Group has not early adopted any other standards, interpretation or amendments that have been issued but not yet effective. The new standards, interpretations or amendments which became effective from 1 January 2020 are set out below. These amendments had not had an impact on the Group's consolidated financial statements.

Definition of a Business (Amendments to IFRS 3)

The amendments to IFRS 3 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. It clarifies that a business can exist without including all of the inputs and processes needed to create outputs.

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

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

The amendments provide practical relief from certain requirements in IFRS 7, IFRS 9, and IAS 39 *Financial Instruments: Recognition and Measurement*, which are applied to all hedging relationships which Interest Rate Benchmark Reform directly affects. Interest Rate Benchmark Reform addresses issues that might affect hedging relationships, if application of the reform gives rise to uncertainty about timing and amount of cash flows of hedged items and hedging instruments, based on the benchmark interest rate.

These amendments had not had an impact on the Group's consolidated financial statements due to absence of hedge accounting which may be affected by IBOR transition.

3. Significant accounting policies, continued

Definition of Material (Amendments to IAS 1 and IAS 8)

In accordance with the amendments, new definition of ‘material’ is “Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity”.

The amendments clarify that materiality depends on nature or magnitude of information (where information is assessed whether on its own or when combined with other information) within the context of financial statements on the whole. Misstatements of items are material if it could reasonably be expected to influence the decisions of the primary users of financial statements.

These amendments had not had an impact on the Group’s consolidated financial statements and the Group does not expect any impact in future.

The Conceptual Framework for Financial Reporting (Conceptual Framework) issued 29 March 2018

The *Conceptual Framework* is not a Standard. Nothing in the *Conceptual Framework* overrides any Standard or any requirement in a Standard. The purpose of the *Conceptual Framework* is to: a) assist the International Accounting Standards Board (Board) to develop IFRS Standards (Standards) that are based on consistent concepts; b) assist preparers to develop consistent accounting policies when no Standard applies to a particular transaction or other event, or when a Standard allows a choice of accounting policy, and c) assist all parties to understand and interpret the Standards.

The revised Conceptual Framework sets out new concepts, updated definitions of an asset and a liability and criteria for recognition assets and liabilities in financial statements and clarifies a number of significant concepts.

The revision of *Conceptual Framework* had not had an impact on the Group’s consolidated financial statements.

Basis for consolidation

Business combination

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

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

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

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

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

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

3. Significant accounting policies

Basis of consolidation, continued

Combination of entities or businesses under common control

IFRS 3 excludes from its scope ‘a combination of entities or businesses under common control’. For the purpose of the exemption, a business combination involving entities or businesses under common control is ‘a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination’, and that control is not transitory’. This will include transactions such as the transfer of subsidiaries or businesses between entities within a group. In a business combination involving entities or businesses under common control, the assets and liabilities of the entity acquired under common control are recognised in the host (i.e. the Group) financial statements at their carrying amounts as at the date of transfer. The host (i.e. the Group) is taken to be the highest level reporting entity over which financial information of the acquired entity was consolidated.

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

Subsidiaries

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

Funds management

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

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

Acquisitions and disposals of non-controlling interests

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

Transactions eliminated on consolidation

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

3 Significant accounting policies, continued

Basis of consolidation, continued

A reverse acquisition

If a transaction is determined to be accounted for as a reverse acquisition, the Group applies all principles of recognition and measurement of IFRS 3, including the requirement for recognition of goodwill but a legal acquiree/subsidiary will be considered as an accounting acquirer from a viewpoint of the financial statements, while a legal acquirer/parent company will be considered as an accounting acquiree. The amount of goodwill recognised under reverse acquisition, is determined as the excess of (a) over (b) below:

- (a) the consideration (generally determined at acquisition-date fair value) transferred by the accounting acquirer, i.e. acquiree/subsidiary;
- (b) the net of the acquisition-date amounts (or other value measurements recognised in accordance with the requirements of this IFRS) of the identifiable assets acquired and the liabilities assumed by the accounting acquiree, i.e. legal acquirer/parent company. In a reverse acquisition, the accounting acquirer usually issues no consideration for the acquiree. Instead, the accounting acquiree usually issues its equity shares to the owners of the accounting acquirer. Accordingly, the acquisition-date fair value of the consideration transferred by the accounting acquirer for its interest in the accounting acquiree is based on the number of equity interests the legal subsidiary would have had to issue to give the owners of the legal parent the same percentage equity interest in the combined entity that results from the reverse acquisition. The fair value of the number of equity interests calculated in that way can be used as the fair value of consideration transferred in exchange for the acquiree.

The consolidated financial statements prepared following a reverse acquisition are issued under the name of the legal parent (accounting acquiree) but described in the notes as a continuation of the financial statements of the legal subsidiary (accounting acquirer) to adjust retroactively the accounting acquirer's legal capital to reflect the legal capital of the accounting acquiree. Comparative information presented is the information of the legal subsidiary (accounting acquirer), which was not initially presented in the previous financial statements of the legal parent (accounting acquiree), and also is retroactively adjusted to reflect the legal capital of the legal parent (accounting acquiree).

Because the consolidated financial statements represent the continuation of the financial statements of the legal subsidiary (accounting acquirer) except for its capital structure, the consolidated financial statements reflect:

- (a) the assets and liabilities of the legal subsidiary (the accounting acquirer) recognised and measured at their pre-combination carrying amounts;
- (b) the assets and liabilities of the legal parent (the accounting acquiree) recognised and measured at their acquisition-date fair value in accordance with IFRS 3;
- (c) the retained earnings and other equity balances of the legal subsidiary (accounting acquirer) before the business combination but not the retained earnings and other equity balances of the legal parent (accounting acquiree);
- (d) the amount recognised as issued equity interests in the consolidated financial statements determined by adding the issued equity interest of the legal subsidiary (the accounting acquirer) outstanding immediately before the business combination to the fair value of the legal parent (accounting acquiree) determined in accordance with IFRS 3. However, the equity structure (i.e. the number and type of equity interests issued) reflects the equity structure of the legal parent, including the equity interests the legal parent issued to effect the combination;
- (e) the statement of profit or loss and other comprehensive income for the current period reflects profits and losses of the legal subsidiary (accounting acquirer) for the entire period together with the results of the legal parent (accounting acquiree) in the period following acquisition (based on fair values attributable thereto).

Accounting for reverse acquisition is applied only in the consolidated financial statements of the Group.

3. Significant accounting policies, continued

Foreign currency translation

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

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to tenge at the exchange rate at that date. The foreign currency gain or loss on monetary items is recognised in the consolidated statement of profit or loss and other comprehensive income as 'net foreign exchange gain/ (loss) - revaluation of foreign currency items'.

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

Foreign currency differences arising on translation are recognised in profit or loss, except for differences arising on the translation of equity instruments designated as at FVOCI, which are recognised in other comprehensive income. As at 31 December 2020, the official exchange rate used for translation of foreign currency balances was KZT 420.91 for USD 1.00 (31 December 2019: KZT 382.59 for USD 1.00).

Foreign operations

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

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

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

Measurement of fair value

The Group measures financial instruments classified as at FVTPL and FVOCI, and some of non-financial assets such as land and buildings at fair value at each reporting date.

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

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

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

3. Significant accounting policies, continued

Measurement of fair value, continued

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3: valuation models, in which inputs that are significant to the fair value measurement are not observable in the market and the unobservable inputs have a significant effect on the instrument's valuation.

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

Revenue and expense recognition

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

Interest income and expense

The Group calculates interest income on debt financial assets measured at amortised cost or at FVOCI by applying the effective interest rate to the gross carrying amount of financial assets other than credit-impaired assets. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

The calculation takes into account all contractual terms of the financial instrument (for example, prepayment option) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

When a financial asset becomes credit-impaired, the Group calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets is cured and no longer credit-impaired, the Group reverts to calculating interest income on a gross basis.

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

Interest income on all financial assets at FVTPL is recognised using the contractual interest rate in 'Other interest income' in the consolidated statement of profit or loss and other comprehensive income.

3. Significant accounting policies, continued

Revenue and expense recognition, continued

Fee and commission income and expense

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

Fees and commissions for financial services, that are not integral to the effective interest rate on the appropriate financial instrument, is recognised depending on the type of the service either at the point in time or as the Group satisfies its performance obligation under the contract:

- fees and commissions for transfer operations, cash operations and foreign exchange is charged for execution of customers' payment orders in accordance with the tariffs depending on the type of transaction and is recognised as income at the time when transaction is performed;
- commission fee on guarantees and letters of credit issued is paid in advance and is recognised as income over the time of the relevant guarantee or letter of credit.
- client account maintenance fees are recognised over time as the services are provided.

If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

A contract with a customer that results in a recognised financial instrument in the Group's consolidated financial statements may be partially in the scope of IFRS 9 *Financial Instruments* and partially in the scope of IFRS 15 *Revenue from Contracts with Customers*. If this is the case, then the Group first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

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

Segment reporting

An operating segment is a component of a Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses related to transactions with other components of the same Group); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Group's operations are highly integrated and constitutes two operating business segments – banking and insurance activity – for the purposes of IFRS 8 *Operating Segments*.

Financial assets and liabilities

Initial recognition

Date of recognition

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

3. Significant accounting policies, continued

Financial assets and liabilities, continued

Initial measurement

The classification of financial assets at initial recognition depends on the contractual terms and business model used for managing instruments. Financial instruments are initially measured at their fair value, including transaction costs, except when financial assets and financial liabilities measured at FVTPL.

Measurement categories of financial assets and liabilities

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

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

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

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVTPL when they are instruments held for trading and derivative instruments, or the Bank may designate a financial liability to be measured at fair value.

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

The Group measures amounts due from banks and other financial institutions, loans to customers, and other financial investments at amortised cost, only when both of the following conditions are met:

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

These criteria are detailed below.

Business model assessment

The Group makes an assessment of the objective of the business model at the level that best reflects how groups of financial assets are managed to achieve its business objective.

The Group makes an assessment of the objective of the business model not at the level of individual instruments but at a higher level of aggregated portfolios, considering the observable factors, such as:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the business model is evaluated (and the financial assets held within that business model) and how this information is communicated to key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

3. Significant accounting policies, continued

Financial assets and liabilities, continued

Initial measurement, continued

Business model assessment, continued

- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity.

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

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

As a second step of its classification process, the Group assesses the contractual terms of the financial asset to identify whether contractual cash flows are solely payments of principal and interest (so called SPPI test).

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

The most significant elements of interest under lending arrangement are typically the consideration for the time value of money and credit risk. For SPPI testing, the Group applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

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

Debt securities and promissory notes measured at FVOCI

The Group measures debt securities and promissory notes measured at FVOCI, if both of the following conditions are met:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- contractual terms of the financial assets comply with the SPPI test criteria.

Debt securities and promissory notes measured at FVOCI, continued

Debt securities and promissory notes measured at FVOCI are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

Expected credit losses (“ECL”) on debt securities and promissory notes measured at FVOCI will not decrease the carrying amount of these financial assets in the statement of financial position that continue to be measured at fair value. Instead, the amount equal to the allowance for expected credit losses that would be created when measuring the asset at amortised cost is recognized in OCI as the cumulative amount of the impairment, with the recognition of corresponding amounts in profit or loss. The cumulative amount of losses recognised in OCI is reclassified to profit or loss when the asset is derecognised.

3. Significant accounting policies, continued

Financial assets and liabilities, continued

Equity instruments at FVOCI

Upon initial recognition, the Group occasionally elects to irrevocably designate some of its equity investments as measured at FVOCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never reclassified to profit or loss. Dividends are recognised in profit or loss as other income when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment. Upon disposal of such instruments, accumulated revaluation reserve is transferred to retained earnings.

Financial guarantees, letters of credit and credit related commitments

The Group issues financial guarantees, letters of credit and credit related commitments.

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

Credit related commitments and letters of credits are commitments under which, over the duration of the commitment, the Group is required to provide a loan on pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

The Group occasionally issues commitments to provide loans at below-market interest rates. Such commitments are initially recognised at fair value and subsequently measured at the greater of an ECL allowance and the amount initially recognised less cumulative income, where appropriate.

Performance guarantees

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

Reclassification of financial assets and financial liabilities

The Group does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances when the Bank changes the business model for managing financial assets. Financial liabilities are never reclassified. The Group has not reclassified any of its financial assets and liabilities in 2020.

Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted discretionary balances held with the NBRK and other banks and financial institutions, and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, not pledged under any agreements, and are used by the Group in the management of short-term commitments. Cash and cash equivalents are recognised at amortised cost in the consolidated statement of financial position.

3. Significant accounting policies, continued

Financial assets and liabilities, continued

Repurchase and reverse repurchase agreements and securities lending

Securities sold under sale and repurchase (“repo”) are accounted for as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position, and if the transferee has the contractual or constructive right to sell or repledge them, are reclassified as investment securities pledged under sale and repurchase agreements. The corresponding liabilities are recorded as accounts payable under repurchase agreements. Securities purchased under agreements to resell (“reverse repo”) are recorded as accounts receivable under reverse repurchase agreements. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective interest rate method.

Securities pledged under repo agreements are retained in the statement of financial position. Securities borrowed are recorded in the statement of financial position only if these are sold to third parties, in which case the purchase and sale transaction is recorded within gains less losses from trading securities in the statement of income. The obligation to return them is recorded as a trading liability and measured at fair value.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments, including futures, forwards, swaps and options) on currency markets and capital markets. Such financial instruments are held for trading and are initially recorded at fair value. The fair values are measured based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors.

Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the statement of profit or loss and other comprehensive income as ‘net gains/losses on financial instruments at fair value through profit or loss’.

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

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

Borrowings

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

If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in profit or loss.

3. Significant accounting policies, continued

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts and an intention to settle on a net basis or to realise the asset and settle the liability simultaneously. The Group currently has a legally enforceable right to set off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the Group and all counterparties.

Restructuring of loans

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

The Group assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. Assessment of the Group's financial assets is performed in a similar way. Assessment of the Group's financial assets, other than loans to customers, is performed in a similar way.

The Group derecognises a financial asset, e.g. a loan to a customer, if the related contractual terms are renegotiated to the extent that it in fact becomes a new loan, and records the difference as gains or losses arising from derecognition before impairment loss is recognised. Upon initial recognition the loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI. When assessing whether the loan to customer should be derecognised, the Group considers the following:

- change the currency of the financial asset;
- change of a counterparty (e.g. a borrower);
- change of terms of financial asset that lead to non-compliance with SPPI criterion (e.g. inclusion of conversion feature);
- combining and separating loan agreements.

If the modification does not imply a substantial change in cash flows, such modification does not result in a derecognition. Based on the changes in cash flows discounted at the original effective interest rate, the Group recognises gains or losses from the modification that are recorded within interest income calculated using the effective interest rate method in the statement of profit or loss before impairment loss is recognised.

If the modification does not result in derecognition, the Group also reassesses the significant increase in credit risk or the need to classify assets as credit-impaired. After the designation of an asset as credit-impaired as a result of modification, it remains within Stage 3 for a probation period of at least 12 months. To transfer a restructured loan from Stage 3, the following factors should be considered: a) gross carrying amount of all financial assets of the borrower reduced to the amount before it was allocated to Stage 3; b) no restructuring resulting from deterioration of the borrower's financial position was made; c) there is not any amounts outstanding past due more than 30 days; and d) there is not any other indication of impairment showed within twelve months.

Measurement of impairment

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

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

No impairment loss is recognised on equity investments.

3. Significant accounting policies, continued

Measurement of impairment, continued

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

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

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

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. Financial instruments, other than purchased or originated credit-impaired assets, for which a lifetime ECL is recognised are referred to as 'Stage 2' financial instruments (if the credit risk has increased significantly since initial recognition, but the financial instruments are not credit-impaired) and 'Stage 3' financial instruments (if the financial instruments are credit-impaired).

Measurement of expected credit losses (ECL)

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

- *financial assets that are not credit-impaired at the reporting date*: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive);
- *financial assets that are credit-impaired at the reporting date*: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- *undrawn loan commitments*: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- *financial guarantee contracts*: the present value of expected payments to reimburse the holder less any amounts that the Group expects to recover.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

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

3. Significant accounting policies, continued

Measurement of impairment, continued, continued

Restructured financial assets, continued

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

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

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

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

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

Derecognition of financial assets and liabilities

Financial assets

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

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

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

3. Significant accounting policies, continued

Derecognition of financial assets and liabilities, continued

Financial assets, continued

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

Write-offs

Financial assets are written off in part or in full, only when the Group does not expect to recover their value. If the amount to be written off is greater than the accumulated impairment allowance, the difference is at first recorded as the increase in the allowance that is subsequently applied to the gross carrying amount. All the subsequent reversals are recognised as credit loss expenses. The write-off relates to the derecognition event.

Financial liabilities

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

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

Government grants

Government grants are recognised when there is a reasonable assurance that they will be received and that the conditions associated with the grants will be complied with. If a government grant is issued to finance specific expenses, it is recognised as income on a systematic basis in the same periods in which costs, which the grant is to compensate, are expensed. Such grants are deducted from the appropriate expenses when such expenses are recognised in the consolidated financial statements.

Where the Group receives grants in the form of non-monetary assets, an asset and a grant are measured at nominal value and are recognised in profit or loss in equal parts, in accordance with the pattern of consumption of the economic benefits embodied in the underlying asset over the estimated useful life thereof.

The benefit of a government loan at a below-market rate of interest, and benefit from issued and restructured debt securities and/or subordinated debt at low interest rates under the state programmes, is treated as a government grant. These financial liabilities are recognised and measured in accordance with IFRS 9 *Financial Instruments*. The benefit of the below-market rate of interest is measured as the difference between the initial carrying value of the loan measured in accordance with IFRS 9 and the proceeds received.

Property and equipment

Owned assets

Items of property and equipment except for land and administrative buildings are stated in the consolidated financial statements at cost less accumulated depreciation and impairment losses.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

3. Significant accounting policies, continued

Property and equipment, continued

Owned assets, continued

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

Following initial recognition at cost, land and buildings are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluation is performed with sufficient frequency to avoid significant differences between the fair value of a revalued asset and its carrying amount.

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

An annual transfer from the revaluation reserve for property and equipment to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost. Upon disposal, the relevant amount included within revaluation reserve is transferred to retained earnings.

Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the first day of the month following the acquisition date or, in respect of internally constructed assets, on the first day of the month following the time an asset is completed and ready for use. Land, construction-in-progress and assets to be installed are not depreciated. The estimated useful lives of items of property and equipment are as follows:

	<u>Years</u>
Administrative buildings	25-100
Industrial buildings	25-55
Computers	5-10
Vehicles	7
Other	2-20

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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

Intangible assets

Acquired intangible assets are stated in the consolidated financial statements at cost less accumulated amortisation and impairment losses.

Licences, patents, trademarks and permits valid within 12 (twelve) months are accounted for by the Group as deferred expenses.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful life is from 2 to 30 years.

3. Significant accounting policies, continued

Foreclosed assets

Foreclosed assets are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Investment property

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

Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

i. Group as a lessee

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

The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

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

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

3. Significant accounting policies, continued

Leases, continued

Short-term leases and low-value assets leases

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

i. Operating lease - Group as a lessor

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

ii. Finance lease – Group as a lessor

The Group recognises lease payment receivables in the amount equal to net investments in lease from commencement of the lease term. Finance income is calculated based on a pattern reflecting a constant periodic rate of return on the book amount of net investments. Initial direct costs are recorded within initial amount of lease payment receivables.

Non-current assets held for sale

The Group classifies a non-current asset (or a disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current asset (or a disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (disposal group) and its sale must be highly probable.

High probability of sale implies the Group management's positive intent to follow a plan to sell the non-current asset (or a disposal group). In this case, it is necessary to start the programme of active measures to search for a buyer and fulfil this plan. In addition, a non-current asset (or a disposal group) must have been actively marketed for a sale at price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the non-current asset (or disposal group) as held for sale.

The Group measures the assets (or a disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Group recognises an impairment loss for any initial or subsequent write-down of the asset (or a disposal group) to fair value less costs to sell if events or changes in circumstance indicate that their carrying amount may be impaired.

Provisions

A provision is recognised in the consolidated statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the amount of such liability is significant, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

3. Significant accounting policies, continued

Pensions and other employee benefits liabilities

The Group does not have any pension arrangements separate from the State pension system of Kazakhstan, which requires current withholdings by the employer and employee calculated as a percentage from current gross salary payments. Such withholdings are expensed in the period in which the related salaries are earned and are included in 'Personnel expenses' in the consolidated statement of profit or loss and other comprehensive income. The Group makes social tax contributions for its employees to the budget of the Republic of Kazakhstan. The Group has no post-retirement benefit obligations or commitments to pay.

Equity

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares, other than on a business combination, are recognised as a deduction equity net of any tax effects. Any excess of the fair value of consideration received over the par value of shares issued is recorded as additional paid-in capital. *Cumulative non-redeemable preference shares*

The component of the cumulative non-redeemable preference shares that exhibits characteristics of a liability is recognised as a liability in the consolidated statement of financial position, net of transaction costs. The corresponding cumulative dividends on those shares are charged as interest expense in the consolidated statement of profit or loss and other comprehensive income. On issuance of the cumulative non-redeemable preference shares, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long-term liability on the amortised cost basis until extinguished on redemption.

Treasury shares

Where the Bank or its subsidiaries acquire the Bank's shares, their cost, including related transaction costs, net of corporate income tax, is deducted from total equity as treasury shares and recorded as a deduction from equity in the consolidated financial statements.

Dividends

The ability of the Group to declare and pay dividends is subject to acting legislation of the Republic of Kazakhstan.

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

Taxation

Corporate income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current income tax includes the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years. Current corporate income tax payable also includes any tax liability arising from dividends.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

3. Significant accounting policies, continued

Taxation, continued

A deferred tax assets are recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

Insurance contracts

i. Classification of contracts

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

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

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

ii. Recognition and measurement of insurance contracts

Premiums

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

3. Significant accounting policies, continued

Insurance contracts, continued

ii. Recognition and measurement of insurance contracts, continued

Provision for unearned premiums

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

Claims

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

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

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

iii. Reinsurance assets

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

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

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

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

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

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

3. Significant accounting policies, continued

Insurance contracts, continued

iv. Insurance acquisition costs

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

v. Liability adequacy test

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

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

vi. Insurance receivables and payables

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

Standards issued but not yet effective

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

- *IFRS 17 Insurance Contracts;*

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

- *IFRS 9 Financial instruments – “Fees in the ‘10 per cent’ test for derecognition of financial liabilities”;*

This amendment is not expected to have a significant effect on the consolidated financial statements of the Group.

- *“Interest Rate Benchmark Reform – Phase 2”: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16).*

The Group will adopt this amendment starting from January 2021.

4. Significant accounting judgements and estimates

Estimation uncertainty

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

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

Fair value of debt securities issued and subordinated bonds

During 2020, the Group made amendments to the prospectuses of issue of the Group debt securities and subordinated bonds in terms of their maturities and nominal interest rate per annum. The Group management considered the change in maturities and interest rate for debt securities to be a significant modification of their terms, and therefore, derecognised current liabilities and recognised new liabilities. The fair value of new liabilities of the Group was measured by discounting contractual future cash flows at the market interest rates in the range from 12.5% to 15.3% per annum (*Notes 31 and 32*).

In December 2020, the Group additionally placed subordinated bonds with total nominal value of KZT 100,000 million, bearing a coupon rate of 9.0% per annum and maturing in 2025. On initial recognition the Group measured fair value of such subordinated bonds by discounting contractual future cash flows at the market interest rate of 13.8% per annum (*Note 32*).

Management of the Group estimated the market rates using observable inputs, where possible, and has to make certain assessments for individual companies. Additional information is disclosed in *Notes 31 and 32*.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Based on the entire information available as at 31 December 2020, when measuring fair value of financial instruments, the Bank stated the remeasured expected future cash flows (*Note 44*).

For loans to customers measured at fair value and impaired upon initial recognition the Group changed upward the discount rate for expected cash flows as such events as the COVID-19 pandemic make expected cash flows more burdensome occur than it could have been reasonably anticipated upon initial recognition. When making such adjustment, the Group assessed potential economic downturn and recovery period given the ongoing COVID-19 pandemic.

Fair value of property and equipment - land and buildings and investment property

The Group measures the fair value of land and buildings and investment property once every three years resulting from accounting for land and buildings and investment property at revalued amount in accordance with the Group's accounting policy.

As at 31 December 2019, the fair value of land and buildings and investment property of the Group were determined by independent appraisers as required by IAS 16. The valuation resulted in an increase in the carrying amounts of land and buildings by KZT 1,093 million recognised within equity of the Group. Loss on revaluation of land and buildings in the amount of KZT 1,240 million and of investment property in the amount of KZT 936 million was recognised in the consolidated statement of profit or loss and other comprehensive income.

4. Significant accounting judgements and estimates, continued

Estimation uncertainty, continued

Classification of loans to customers

As a part of classification process, the Group assesses the contractual terms of the loans to customers to identify whether they represent solely payments of principal and interest on the amount outstanding. To make this assessment, the Group applies judgment and considers relevant factors such as asset performance and project risk related to loans, non- or limited-recourse characteristics, the extent of equity participation by the borrower, and the extent of other credit enhancements. Contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

Impairment losses on financial assets

The measurement of impairment losses across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining ECL / impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. Moreover, large-scale interruptions of business may result in problems with liquidity for certain entities and customers. Deterioration of credit quality of loan portfolios and trade receivables (among other things) as a result of COVID-19 pandemic may have a significant impact on ECL measurement by the Group. The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies.

Elements of the ECL models that are considered accounting judgements and estimates include:

- the Group's internal credit grading model, which assigns probabilities of default ("PD");
- the Group's criteria, including qualitative assessments, for assessing if there has been a significant increase in credit risk resulting in ECL for financial assets being measured on a lifetime basis;
- grouping of financial assets, including various formulas and choice of input data;
- determination of associations between macroeconomic scenarios and economic inputs such as unemployment levels and collateral values, and the resulting effect on PD, exposures at default ("EAD") and losses given default ("LGD");
- selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

Management of the Group monitors collateral on a regular basis. Management uses its judgments based on experience or independent estimates to adjust the value of collateral to reflect current market conditions.

The Group remeasured expected credit losses having updated macro-economic adjustments models to reflect current economic conditions. ECL on loans to customers estimated individually have also been recalculated based on the latest information on impact of current conditions on operations of the Group's customers.

Based on entire information available as at 31 December 2020, when calculating ECL, the Group stated the remeasured expected future cash flows (*Note 23*).

The amount of impairment allowance recognised in the consolidated statement of financial position as at 31 December 2020 was KZT 539,053 million (31 December 2019: KZT 510,276 million). Details are disclosed in *Note 23*.

4. Significant accounting judgements and estimates, continued

Estimation uncertainty, continued

Impairment losses on financial assets, continued

Accounting for acquisition of ATFBank JSC subsidiary including judgements on accounting for recognition of income in the form of a one-time financial support from state institutions and measurement of fair value of consideration paid

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

Measurement of fair value of consideration paid for acquisition of controlling interest in ATF Bank JSC requires selection of the most suitable measurement model based on the terms and conditions of a contract for sales of ordinary shares as well as a framework agreement. To measure fair value of consideration paid, the Bank applies the dividend discount model using the Capital Asset Pricing Model or “CAPM”. Information on assumptions and models used for measurement of fair value of transactions involving share-based payments is disclosed in *Note 5*.

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

Determining the lease term of contracts with renewal options

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

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

Taxation

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

Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges. These facts create tax risks in Kazakhstan substantially more significant than typically found in countries with more developed tax systems.

Management believes that as at 31 December 2020 and 2019 the Bank is in compliance with the tax laws of the Republic of Kazakhstan regulating its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretive tax issues.

5. Business combination

Acquisition of ATFBank JSC

On 4 November 2020 the Bank and ATFBank JSC shareholder - Mr G.Sh. Yessenov reached a preliminary agreement on purchase of shares of ATFBank JSC by the Bank. On 20 November 2020, under the signed agreement, the parties concluded a contract for sale and purchase of shares of ATFBank JSC. On 29 December 2020, the Group took control over ATFBank JSC having acquired 99.88% of voting shares upon approval by the Agency of the Republic of Kazakhstan for Regulation and Development of Financial Market (the “ARDFM”).

The Group acquired 81,763,048 voting shares of ATFBank JSC through additional issue of 33,001,596 ordinary shares at an offering price of KZT 1,262.39 per share, for a total amount of KZT 41,661 million.

ATFBank JSC provides retail and corporate banking services in Kazakhstan, accepts deposits from the public, extends loans, make transfers within Kazakhstan and abroad, exchanges currencies and provides other banking services to its corporate and retail customers. Obtaining control over ATFBank JSC and its subsidiaries will allow the Group to improve its operations. The acquisition is expected to increase the Group’s market share through access to the customer base of ATFBank JSC. The Group also expects to reduce costs through economies of scale.

Consideration transferred

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

The fair value of consideration paid was determined using an income approach and based on the following assumptions:

- A conditional dividend method (CDM) has been used as part of the income approach;
- A forecast period is 7 years (up to 2027, given the pre-terminal period);
- Terminal value was calculated using the Gordon growth model;
- Discount rate was estimated on the basis of CAPM model and amounted to 17.0% per annum.

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

- as part of the fourth bond issue program, the Group made amendments to the prospectus of bond issue, the holder of which is Kazakhstan Sustainability Fund JSC. New maturity of the bond is 320 months and maturity date is 5 October 2045 (*Note 31*);
- the Group issued subordinated bonds with total nominal value of KZT 100,000 million, bearing a coupon rate of 9.0% per annum and maturing in 2025. The holder of the bonds is Sovereign Wealth Fund “Samruk-Kazyna” JSC (*Note 32*),
- as part of the fourth bond issue program the Group made amendments to the prospectus of bond issue, the holder of which is Kazakhstan Sustainability Fund JSC. New maturity of the bond is 276 months and maturity date is 25 October 2040. The nominal interest rate has been reduced from 4.0% to 0.1% per annum. (*Note 32*).
- as part of the fourth bond issue program the Group made amendments to the prospectus of bond issue, the holder of which is Kazakhstan Sustainability Fund JSC. New maturity of the bonds is 247 months and maturity date is 26 October 2040 (*Note 32*).

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

5. Business combination, continued**Acquisition of ATFBank JSC, continued*****Identifiable assets acquired and liabilities assumed***

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

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

5. Business combination, continued

Acquisition of ATFBank JSC, continued

Bargain purchase gain

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

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

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

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

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

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

5. Business combination, continued

Acquisition of ATFBank JSC, continued

Bargain purchase gain

The methods and assumptions used to determine the fair value of the Group's financial instruments at the acquisition date were substantially consistent with the fair value estimation techniques described in *Note 43*.

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

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

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

Merger with First Heartland Bank JSC

On 6 February 2019, First Heartland Securities JSC purchased a controlling interest in the Bank from Financial Holding "Tsesna" JSC and became the holder of 99.8% of the voting shares of the Bank.

On 27 August 2019, the Bank has acquired 100% of shares of First Heartland Bank JSC by means of a share exchange at a ratio of 2.235149 shares of the Bank for 1 share of First Heartland Bank JSC.

On 2 September 2019, a legal merger of the Bank and First Heartland Bank was completed. The principal activities of the acquired bank are commercial operations, operations with securities, foreign exchange, derivatives transactions, lending, issuing guarantees and sureties, customer account opening and maintenance for legal entities and individuals, correspondent account opening and maintenance, cash transactions and other banking services provided to legal entities and individuals.

Taking control of the Bank and its subsidiaries will enable the Group to streamline operating processes and facilitate the Bank's profitable growth after the merger. The acquisition is expected to provide the Group with an increased share of the market through its access to the client base. The Group also expects to reduce costs through economies of scale.

As at the date of the merger, both legal entities were under common control of one ultimate shareholder – Private Fund Nazarbayev Fund. But common control existed only for a short period immediately before the merger, therefore, management determined the control to be "transitory" during that period.

The transaction has therefore been recognised in accordance with IFRS 3 in these consolidated financial statements (*Note 1*).

Furthermore, management considers that it is appropriate to reflect the business combination from date that the Bank was acquired from an unrelated party by First Heartland Securities JSC on 6 February 2019, instead of the date of the legal merger with First Heartland Bank JSC, on 2 September 2019. As a result, these consolidated financial statements include the results of both combining businesses during the seven-month period of transitory common control, in order to better reflect the substance of the business combination under IFRS 3.

The recognised amounts for acquired identifiable assets and liabilities of the Bank and its subsidiaries are summarised below:

5. Business combination, continued

Merger with First Heartland Bank JSC, continued

<i>Fair value of identifiable net assets</i>	<i>At 6 February</i>
<i>The Bank and its subsidiaries</i>	<i>2019</i>
Assets	
Cash and cash equivalents	672,696
Amounts due from banks and other financial institutions	12,272
Securities measured at fair value through profit or loss	5,748
Investment securities	91,448
Loans to customers	421,202
Property and equipment and intangible assets	40,338
Investment property	9,532
Insurance premiums and reinsurance assets	2,143
Non-current assets held for sale	3,538
Current tax asset	844
Deferred tax asset	2,274
Other assets	13,391
Total assets	1,275,426
Liabilities	
Due to/ loans from banks and other financial institutions	34,482
Accounts payable under repurchase agreements	98,432
Current accounts and deposits from customers	571,114
Debt securities issued	143,625
Subordinated debt	89,577
Insurance contract provisions	4,779
Deferred tax liability	63,350
Lease liabilities	3,954
Other liabilities	24,699
Total liabilities	1,034,012
Net identifiable assets	241,414

Fair value of identifiable net assets of the Bank and its subsidiaries as at 6 February 2019 was KZT 241,414 million.

Due to the distressed business situation of the Bank at the time of the acquisition, and the conditions of a forced sale that stipulated measures on the part of the National Bank of the RK and Government of the RK related to the attraction of a new investor for the Bank to allow for its subsequent additional capitalisation and recovery, it was necessary for the Group to complete the acquisition of the Bank in a short timeframe.

The consideration offered for the Bank was determined based on a conservative estimate of the fair value of the Bank's assets and liabilities at the date of the sale. In particular, significant judgement was required to estimate expected future cash flows from the Bank's impaired corporate loan portfolio, due to these cash flows being dependent on the realisation of diverse objects of underlying collateral, over an uncertain future time period. As a result of this significant uncertainty regarding the expected future cash flows at the date of agreeing the sales price for the Bank, the consideration agreed between the buyer and seller was de minimis.

A detailed estimate of the fair value of net identifiable assets of the Bank and its subsidiaries as at 6 February 2019 was completed by management of the Group at the end of 2019 and amounted to KZT 241,414 million. The Group therefore recognised a gain from reverse acquisition of KZT 241,414 million in the consolidated statement of profit or loss and other comprehensive income. Management believes that this income arose mainly due to the distressed business situation of the acquiree at the time of the transaction, and the resulting forced sale conditions.

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

5. Business combination, continued

Merger with First Heartland Bank JSC, continued

Assets acquired	Valuation technique
Investment securities	<i>Market comparison technique and discounted cash flow technique:</i> The valuation model considers quoted market prices for similar items when available, and the present value of expected future cash flows discounted using a risk-adjusted market rate.
Loans to customers	<i>Discounted cash flows technique:</i> The valuation model considers the present value of expected future cash flows from the foreclosure of collateral, discounted using a risk-adjusted discount rate.
Property and equipment	<i>Market comparison technique and cost technique:</i> The valuation model considers quoted market prices for similar items when available, and depreciated replacement cost when appropriate. Depreciated replacement cost reflects adjustments for physical deterioration as well as functional and economic obsolescence.

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

Liabilities assumed	Valuation technique
Debt securities issued and subordinated debt	<i>Discounted cash flows technique:</i> The valuation model considers the present value of expected future cash flows from the foreclosure of collateral, discounted using a risk-adjusted discount rate.

The methods and assumptions used to determine the fair value of the Bank's and its subsidiaries' financial instruments at the acquisition date were substantially consistent with the fair value estimation techniques described in *Note 43*, and used by the Group to determine fair values at the reporting date of 31 December 2019.

In addition to the above assumptions to determine the fair value of recognised assets, management also considered the existence of any previously unrecognised intangible assets, including the fair value of the existing brand name of the acquiree, and existing customer relationships. Management concluded that the value of such assets was not significant, and as a result they have not been recognised in the financial statements.

Given the significant amount of negative goodwill arising on acquisition, management also gave particular consideration to assessing the completeness of liabilities acquired, including the fair value of any contingent liabilities. Following a review of the Bank's contingent obligations, management considered that the fair value of any such obligations was not material, due to the low likelihood of any outstanding claims being successful.

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

- amounts due from banks and other financial institutions – KZT 13,258 million and KZT 986 million;
- investment securities – KZT 93,331 million and KZT 1,883 million;
- loans to customers – KZT 1,081,938 million and KZT 660,468 million;
- other financial assets – KZT 17,987 million and KZT 4,596 million.

From the date of acquisition to 31 December 2019 the Bank and its subsidiaries contributed net interest income of KZT 62,152 million and profit of KZT 47,571 million.

If acquisition of the business had occurred on 1 January 2019, management estimates that consolidated net interest income would have been KZT 68,887 million, and consolidated profit for the year would have been KZT 276,111 million. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2019.

6. Analysis of credit risks

For information on the Group's financial risk management framework, see *Note 38*. The corresponding description of accounting policies is presented in *Note 3*.

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment and including forward-looking information.

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

- quantitative test based on movement in PD (depending on the related group of risk of the financial instrument the movement of 100-200% increase in PD results in significant increase in credit risk);
- qualitative indicators; and
- backstop of 30 days past due.

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

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

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

Corporate exposure	All exposures (corporate and retail exposures)
<ul style="list-style-type: none"> • Information obtained during periodic review of borrowers' files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes; • Data from credit reference agencies, press articles, changes in external credit ratings; • Quoted bond and credit default swap (CDS) prices for the issuer where available; • Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities. 	<ul style="list-style-type: none"> • Payment record – this includes overdue status as well as a range of variable about payment ratios • Utilisation of the granted limit; • Requests for and granting of forbearance; • Existing and forecast changes in business, financial and economic conditions.

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analysed by jurisdiction or region, by type of product and borrower as well as by credit risk grading.

The Group employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

6. Analysis of credit risks, continued

Generating the term structure of PD, continued

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For the majority of exposures, the key driver would be GDP forecast growth and inflation.

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

Determining whether credit risk has increased significantly

The Group assesses whether credit risk has increased significantly since initial recognition at each reporting period. The criteria for determining whether credit risk has increased significantly vary depending on different types of lending, in particular between corporate and retail, as well as by portfolio and include both quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

Credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Group's quantitative modelling, it is determined that there are the objective factors resulting in deterioration of financial and economic position of the counteragent. When determining whether credit risk has increased significantly, remaining lifetime ECLs are adjusted for changes in maturity. The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Group's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as placement on a watch list. Such qualitative factors are based on its expert judgement and relevant historical experience.

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 (thirty) days past due, with the exception of amounts due from banks and investment securities, for which significant increase in credit risk occurs, if past due by more than 7 (seven) days. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Group determines a probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes history of up-to-date payment performance against the modified contractual terms.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement (Stage 1) to credit-impaired (Stage 3); and
- there is no unwarranted volatility in loss allowance from transfers between 12-month ECL (Stage 1) and lifetime ECL measurements (Stage 2).

6. Analysis of credit risks, continued

Definition of default

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

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or the borrower is past due more than 90 (ninety) days on any material credit obligation to the Group, with the exception of amounts due from banks and investment securities, which are considered to be in default if past due more than 7 (seven) days. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or
- debt has been restructured due to deterioration of financial status of any of the significant loan liabilities of the borrower, or
- it is probable that the borrower goes bankrupt.

In assessing whether an issuer is in default, the Group considers indicators that are:

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

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

Incorporating of forward-looking information

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

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variable and credit risk and credit losses. This key driver is inflation and GDP forecasts.

Incorporating of forward-looking information, continued

Predicted relationships between the key indicator and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data for the last 5 (five) years.

Modified financial assets

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

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

The Group renegotiates loans to customers in financial difficulties (referred to as ‘forbearance activities’) to maximise collection opportunities and minimise the risk of default. Under the Group’s forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

6. Analysis of credit risks, continued

Modified financial assets, continued

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy.

For financial assets modified as part of the Group's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Group's ability to collect interest and principal and the Group's previous experience of similar forbearance action. As part of this process, the Group evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

Measurement of expected credit losses

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD. ECL for exposures in Stage 2 and Stage 3 is calculated by multiplying lifetime PD by LGD and EAD.

For financial assets, which are individually credit-impaired, the amount of allowances is measured for the remaining lending period as difference between the gross carrying amount of assets and present value of future cash flows.

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on statistical models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where possible, the Group uses market inputs for assessment of PD of large counteragents - legal entities. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

The Group estimates LGD parameters based on the history of recovery rates of operating activities and sale of collateral, which are based on statistical data and judgements on defaulted borrowers. The LGD models consider the structure, collateral and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, loan-to-value ("LTV") ratios are a key parameter in determining LGD. LGDs are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

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

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

- instrument type;
- credit risk gradings;
- collateral type;

6. Analysis of credit risks, continued

Measurement of expected credit losses, continued

- LTV ratio for retail mortgages;
- date of initial recognition;
- remaining term to maturity;
- industry;

geographic location of the borrower.

The groupings must be subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous. For portfolios in respect of which the Group has limited historical data, external benchmark information will be used to supplement the internally available data.

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

<i>Item</i>	<i>Carrying amount at 31 December 2020</i>	<i>External benchmarks used</i>	
		<i>PD</i>	<i>LGD</i>
Cash and cash equivalents	1,296,844	Moody's default study	100%; 0% - if the Government acts as a counterparty
Amounts due from banks and other financial institutions	83,729	Moody's default study	100%; 0% - if the Government acts as a counterparty
Investment securities	336,195	Moody's default study	Moody's recovery rates study
Promissory notes from the MFRK	103,114	Moody's default study	0%

The portfolios at 31 December 2019 for which external benchmark information represents a significant input into measurement of ECLs are as follows.

<i>Item</i>	<i>Carrying amount at 31 December 2019</i>	<i>External benchmarks used</i>	
		<i>PD</i>	<i>LGD</i>
Cash and cash equivalents	256,857	Moody's default study	100%; 0% - if the Government acts as a counterparty
Amounts due from banks and other financial institutions	3,548	Moody's default study	100%; 0% - if the Government acts as a counterparty
Investment securities	606,799	Moody's default study	Moody's recovery rates study
Promissory notes from the MFRK	70,241	Moody's default study	0%

6. Analysis of credit risks, continued

Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost, and FVOCI debt instruments as at 31 December 2020 and 31 December 2019. Unless specially indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

	31 December 2020			
	Stage 1	Stage 2	POCI	Total
Cash and cash equivalents				
- rated from AA- to AA+	23,557	—	—	23,557
- rated from A- to A+	38,259	—	—	38,259
- rated from BBB- to BBB+	1,142,340	—	—	1,142,340
- rated from BB- to BB+	7,462	—	—	7,462
- rated from B- to B+	29,702	—	—	29,702
- not rated	3,212	—	—	3,212
Amounts receivable under reverse repurchase agreements»	52,349	—	—	52,349
	1,296,881	—	—	1,296,881
Expected credit losses	(37)	—	—	(37)
Total	1,296,844	—	—	1,296,844
Amounts due from banks and other financial institutions				
- rated from A- to A+	4,607	—	—	4,607
- rated from BBB- to BBB+	68,775	—	—	68,775
- rated from BB- to BB+	667	—	—	667
- rated from B- to B+	1,570	—	—	1,570
- not rated	8,209	—	4,256	12,465
	83,828	—	4,256	88,084
Expected credit losses	(99)	—	(4,256)	(4,355)
Total	83,729	—	—	83,729
Investment securities measured at FVOCI				
- rated from BBB- to BBB+	283,279	—	—	283,279
- rated from BB- to BB+	4,959	—	—	4,959
- not rated	—	614	—	614
Total	288,238	614	—	288,852
Expected credit losses (for information)	(27)	(129)	—	(156)
Total gross carrying amount of investment securities measured at FVOCI	288,265	743	—	289,008
Investment securities measured at amortised cost				
- rated from BBB- to BBB+	39,401	—	—	39,401
- rated from BB- to BB+	1,290	—	—	1,290
- rated from B- to B+	6,560	—	—	6,560
	47,251	—	—	47,251
Expected credit losses	(64)	—	—	(64)
Total	47,187	—	—	47,187
Promissory note from the MFRK				
- rated from BBB- to BBB+	103,114	—	—	103,114
Total	103,114	—	—	103,114

6. Analysis of credit risks, continued

Credit quality analysis, continued

	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
<i>Cash and cash equivalents</i>				
- rated from AA- to AA+	15,519	—	—	15,519
- rated from A- to A+	33,261	—	—	33,261
- rated from BBB- to BBB+	205,509	—	—	205,509
- rated from BB- to BB+	1,957	—	—	1,957
- rated from B- to B+	251	169	—	420
- not rated	120	76	—	196
	256,617	245	—	256,862
Expected credit losses	(5)	—	—	(5)
Total	256,617	240	—	256,857
<i>Amounts due from banks and other financial institutions</i>				
- rated from A- to A+	46	—	—	46
- rated from BBB- to BBB+	970	—	—	970
- rated from BB- to BB+	1,015	—	—	1,015
- rated from B- to B+	154	3	—	157
- rated from CCC- to CCC+	45	—	—	45
- not rated	1,317	—	—	1,317
	3,547	3	—	3,550
Expected credit losses	(2)	—	—	(2)
Total	3,545	3	—	3,548
<i>Investment securities measured at FVOCI</i>				
- rated from BBB- to BBB+	359,047	—	—	359,047
- rated from BB- to BB+	6,383	—	—	6,383
- rated from B- to B+	128	615	—	743
Total	365,558	615	—	366,173
Expected credit losses (for information)	(13)	(29)	—	(42)
<i>Total gross carrying amount of investment securities measured at FVOCI</i>	365,545	586	—	366,131
<i>Investment securities measured at amortised cost</i>				
- rated from BBB- to BBB+	240,423	203	—	240,626
Total	240,423	203	—	240,626
<i>Promissory notes to the MFRK</i>				
- rated from BBB- to BBB+	70,241	—	—	70,241
Total	70,241	—	—	70,241

6. Analysis of credit risks, continued**Credit quality analysis, continued**

<i>31 December 2020</i>					
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
<i>Loans to corporate customers at amortised cost</i>					
- rated from BBB- to BBB+	2,149	586	—	—	2,735
- rated from BB- to BB+	135,798	—	—	—	135,798
- rated from B- to B+	149,786	398	—	—	150,184
- rated from CCC- to CCC+	51,532	2,260	—	327	54,119
- not rated	107,304	12,348	1,075	25,015	145,742
- defaulted	113	—	13,187	634,627	647,927
	446,682	15,592	14,262	659,969	1,136,505
Expected credit losses	(123)	(94)	(12,252)	(493,186)	(505,655)
Loans to corporate customers	446,559	15,498	2,010	166,783	630,850

<i>31 December 2019</i>					
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
<i>Loans to corporate customers at amortised cost</i>					
- rated from A- to A+	548	—	—	—	548
- rated from BBB- to BBB+	2,724	—	—	—	2,724
- rated from BB- to BB+	4,015	—	—	—	4,015
- rated from B- to B+	24,327	—	35	—	24,362
- rated from CCC- to CCC+	5,884	817	—	4,874	11,575
- not rated	24,911	47	126	6,620	31,704
- defaulted	—	—	10,328	613,161	623,489
	62,409	864	10,489	624,655	698,417
Expected credit losses	(405)	(29)	(10,315)	(474,334)	(485,083)
Loans to corporate customers	62,004	835	174	150,321	213,334

6. Analysis of credit risks, continued**Credit quality analysis, continued**

	31 December 2020				
	Stage 1	Stage 2	Stage 3	POCI	Total
<i>Loans to corporate customers at amortised cost</i>					
Not overdue	441,824	14,673	340	246,708	703,545
Overdue less than 30 days	3,040	841	-	26,473	30,354
Overdue 30-89 days	1,818	78	54	11,359	13,309
Overdue 90-179 days	-	-	301	49,700	50,001
Overdue 180-360 days	-	-	4,965	61,536	66,501
Overdue more than 360 days	-	-	8,602	264,193	272,795
	446,682	15,592	14,262	659,969	1,136,505
Expected credit losses	(123)	(94)	(12,252)	(493,186)	(505,655)
Total	446,559	15,498	2,010	166,783	630,850

<i>Loans to retail customers at amortised cost</i>					
Not overdue	241,208	933	590	4,451	247,182
Overdue less than 30 days	5,626	544	87	2,193	8,450
Overdue 30-89 days	2,696	1,076	93	1,818	5,683
Overdue 90-179 days	11	-	1,463	2,408	3,882
Overdue 180-360 days	-	-	2,099	241	2,340
Overdue more than 360 days	9	-	12,156	16,490	28,655
	249,550	2,553	16,488	27,601	296,192
Expected credit losses	(1,494)	(772)	(13,430)	(17,702)	(33,398)
Total	248,056	1,781	3,058	9,899	262,794

	31 December 2019				
	Stage 1	Stage 2	Stage 3	POCI	Total
<i>Loans to corporate customers at amortised cost</i>					
Not overdue	61,568	825	960	262,418	325,771
Overdue less than 30 days	803	1	-	87,546	88,350
Overdue 30-89 days	38	38	1,434	1,121	2,631
Overdue 90-179 days	-	-	1,001	8,892	9,893
Overdue 180-360 days	-	-	3,622	134,317	137,939
Overdue more than 360 days	-	-	3,472	130,361	133,833
	62,409	864	10,489	624,655	698,417
Expected credit losses	(405)	(29)	(10,315)	(474,334)	(485,083)
Total	62,004	835	174	150,321	213,334

<i>Loans to retail customers at amortised cost</i>					
Not overdue	41,691	23	433	28	42,175
Overdue less than 30 days	736	400	112	5	1,253
Overdue 30-89 days	40	470	782	35	1,327
Overdue 90-179 days	13	-	1,358	-	1,371
Overdue 180-360 days	-	-	1,962	-	1,962
Overdue more than 360 days	-	2	9,735	18,266	28,003
	42,480	895	14,382	18,334	76,091
Expected credit losses	(441)	(173)	(10,939)	(13,640)	(25,193)
Total	42,039	722	3,443	4,694	50,898

6. Analysis of credit risks, continued**Credit quality analysis, continued**

31 December 2020					
	Stage 1	Stage 2	Stage 3	POCI	Total
<i>Loans to retail customers measured at fair value through other comprehensive income</i>					
Not overdue	58,913	3,073	—	—	61,986
Overdue less than 30 days	393	2,273	—	—	2,666
Overdue 30-89 days	—	2,515	—	—	2,515
Overdue 90-179 days	—	—	773	—	773
Overdue 180-360 days	—	—	1,583	—	1,583
Overdue more than 360 days	—	—	1,388	—	1,388
	59,306	7,861	3,744	—	70,911
Expected credit losses (for information)	(1,392)	(2,369)	(41,116)	—	(44,877)

31 December 2019					
	Stage 1	Stage 2	Stage 3	POCI	Total
<i>Loans to retail customers measured at fair value through other comprehensive income</i>					
Not overdue	112,143	—	—	—	112,143
Overdue less than 30 days	794	3,689	—	—	4,483
Overdue 30-89 days	—	130	1,603	—	1,733
Overdue 90-179 days	—	—	967	—	967
Overdue 180-360 days	—	—	1,025	—	1,025
Overdue more than 360 days	—	—	866	—	866
	112,937	3,819	4,461	—	121,217
Expected credit losses (for information)	(3,320)	(1,237)	(22,983)	—	(27,540)

31 December 2020					
	Stage 1	Stage 2	Stage 3	POCI	Total
<i>Other financial assets at amortised cost</i>					
Not overdue	6,905	—	6,762	381	14,048
Overdue less than 30 days	489	—	1	2	492
Overdue 30-89 days	—	68	1	45	114
Overdue 90-179 days	—	—	5	—	5
Overdue 180-360 days	—	31	892	4	927
Overdue more than 360 days	—	—	9,100	—	9,100
	7,394	99	16,761	432	24,686
Expected credit losses	(29)	(41)	(1,366)	(14)	(1,450)
Total	7,365	58	15,395	418	23,236

31 December 2019					
	Stage 1	Stage 2	Stage 3	POCI	Total
<i>Other financial assets at amortised cost</i>					
Not overdue	5,287	—	5	—	5,292
Overdue less than 30 days	118	—	1	—	119
Overdue 30-89 days	494	—	1	—	495
Overdue 90-179 days	9	—	15	—	24
Overdue 180-360 days	367	74	7	—	448
Overdue more than 360 days	34	—	3,507	—	3,541
	6,309	74	3,536	—	9,919
Expected credit losses	(223)	(74)	(1,196)	—	(1,493)
Total	6,086	—	2,340	—	8,426

7. Insurance risk management

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

Risk management objectives and policies for mitigating insurance risk

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

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

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

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

Underwriting strategy

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

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

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

Reinsurance strategy

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

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

The Group does not utilise any stop-loss reinsurance.

Terms and conditions of insurance contracts and nature of risks covered

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

7. Insurance risk management, continued

General insurance contract – Civil liability of a carrier to passengers

Product features

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

Risk management

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

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

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

Insurance contracts – Employer's civil liability

Product features

The purpose of the employer's civil liability obligatory insurance is to insure an employee in the event of death or injury whilst at work. Income from this product is generated from the receipt of insurance premiums less amounts paid to cover claims and expenses incurred by the Group. The amount payable to an employee in the event of death or injury, is set in accordance with the laws of the Republic of Kazakhstan. As a result of the long period that it typically takes to finalise and settle claims, employer's civil liability is regarded as "long tail" business.

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

- in case of persistent disablement of the employee:
 - amount of the lost future wages (income) to be reimbursed;
 - repayment period – the period of establishing physical disability by the medical expert committee (it may be several years or lifetime disability benefit);
 - degree of employer's culpability.
- in case of death:
 - funeral expenses;
 - number of persons having the right to be reimbursed for harm as required by the laws of the Republic of Kazakhstan;

7. Insurance risk management, continued

Insurance contracts – Employer’s civil liability, continued

Product features, continued

- age of persons having the right to be reimbursed for harm as required by the laws of the Republic of Kazakhstan;
- amount of the lost future wages (income) to be reimbursed;
- period of insurance payments.

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

Insurance contracts – Property

Product features

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

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

Risk management

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

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

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

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

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

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

Product features

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

7. Insurance risk management, continued

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

Risk management

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

Insurance contracts – Cargo

Product features

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

Risk management

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

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

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

Product features

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

7. Insurance risk management, continued

Insurance contracts – Cargo, continued

Risk management

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

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

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

Concentration of insurance risk

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

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

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

Total aggregate exposures

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

As at 31 December 2020 the Group has 276,318 insurance agreements in force (31 December 2019: 119,092 agreements).

7. Insurance risk management, continued*Exposure to various business lines*

The key concentrations identified as at 31 December 2020 are:

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

The key concentrations identified as at 31 December 2019 are:

<i>Type of insurance</i>	<i>Total insured amount</i>	<i>Reinsurance amount</i>	<i>Net retention (after reinsurance)</i>
Vehicles owner's liability - obligatory	800,846	–	800,846
Civil liability of passenger carrier - obligatory	151,055	–	151,055
Property – voluntary	1,491,341	1,137,886	353,455
Vehicles and cargo – voluntary	193,650	59,576	134,074
Civil liability – voluntary	778,643	476,854	301,789
Other obligatory	6,827	–	6,827
Other voluntary	39,407	3,149	36,258
Casualty - voluntary	13,899	11,000	2,899
Financial losses liability – voluntary	81,748	79,061	2,687
Total	3,557,416	1,767,526	1,789,890

Exposure by other countries

The Group is not exposed to risks in any countries other than the Republic of Kazakhstan, as the Group has no insurance contracts covering risk outside the Republic of Kazakhstan.

Exposure to catastrophe events

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

The key concentration identified is:

<i>Catastrophe events</i>	<i>Total insured amount</i>	<i>Estimated PML (before reinsurance)</i>	<i>Net retention (after reinsurance)</i>
Almaty earthquake with magnitude exceeding seven points under Richter scale	150,825	30,165	24,075

7. Insurance risk management, continued**Claims development**

The Group uses statistical methods for insurance contract provisioning. Uncertainty about the amount and timing of claims payment for all insurance contracts is typically resolved within one year. While the information in the table provides a historical perspective on the adequacy of unpaid claims estimates established in previous years, users of these consolidated financial statements are cautioned against extrapolating redundancies or deficiencies of the past on current unpaid loss balances. The Group believes that the estimate of total claims outstanding as of the end of 2020 is adequate. However, due to the inherent uncertainties in the provisioning process, it cannot be assured that such balances will ultimately prove to be adequate.

Analysis of claims development (gross) – total

	<i>Accident year</i>			
	<i>2017</i>	<i>2018</i>	<i>2019</i>	<i>2020</i>
Estimate of cumulative claims				
At end of accident year	2,827	1,946	2,972	4,299
- one year later	2,110	1,443	2,800	–
- two years later	2,206	1,496	–	–
- three years later	2,182	–	–	–
	2,182	1,496	2,800	4,299
Cumulative payments to date	(2,009)	(1,228)	(1,654)	(2,121)
Gross outstanding claims liabilities	173	268	1,146	2,178

8. Net interest income

Net interest income comprises the following:

	2020	2019
Interest income calculated using effective interest method		
Cash and cash equivalents	10,950	12,166
Amounts due from banks and other financial institutions	400	1,081
Investment securities measured at FVOCI	34,123	14,483
Investment securities measured at amortised cost	6,177	26,134
Loans to customers measured at FVOCI	18,109	17,625
Loans to customers measured at amortised cost	40,893	46,851
Promissory notes from the MFRK	3,564	541
Other financial assets	325	80
	114,541	118,961
Other interest income		
<i>Trading securities</i>	794	503
Loans to customers measured at FVTPL	3,550	9,626
	4,344	10,129
Net interest income	118,885	129,090
Interest expense		
Amounts due to banks and other financial institutions	(1,204)	(1,353)
Amounts payable under repurchase agreements	(2,245)	(1,708)
Current accounts and deposits from customers	(43,623)	(36,438)
Debt securities issued	(16,209)	(13,969)
Subordinated debts	(10,033)	(8,560)
Lease liabilities	(439)	(487)
Other financial liabilities	(957)	(121)
Total interest income	(74,710)	(62,636)
Net interest income	44,175	66,454

9. (Expenses)/gain on credit losses

(Expenses)/gain on credit losses on financial instruments recognised in profit or loss for 2020 comprise:

	Note	2020	2019
Cash and cash equivalents	18	(7)	(7)
Amounts due from banks and other financial institutions	20	(42)	80
Investment securities	22	(114)	(29)
Loans to customers measured at fair value through other comprehensive income	23	(9,054)	(11,679)
Loans to customers measured at amortised cost	23	(27,724)	12,331
Financial guarantees and letters of credit		(40)	(14)
Other financial assets	27	1,750	912
Total		(35,231)	1,594

10. Fee and commission income and expense

Fee and commission income comprises:

	2020	2019
Transfer operations	4,087	3,680
Cash withdrawal	1,593	1,574
Client card account maintenance fees	1,438	1,106
Settlements	674	718
Guarantee and letter of credit issuance fees	667	1,016
Foreign exchange	337	378
Internet banking	228	190
Fiduciary services	109	160
Safe deposit transactions services	102	82
Other	923	1,133
Total fee and commission income	10,158	10,037

Fee and commission expense comprises the following:

	2020	2019
Client card account maintenance fees	(3,282)	(1,804)
Insurance acquisition costs and insurance agents' services	(2,329)	(1,172)
Correspondent accounts maintenance	(369)	(527)
Fee and commission expense on foreign exchange	(363)	(379)
Transfer operations	(189)	(170)
Brokers' services	(151)	(216)
Fee and commission expense on agent services	(82)	(194)
Fee and commission expense on guarantees issued	(35)	(28)
Agency contracts with auto dealers	(25)	(28)
Fee and commission expense on letters of credit issued	(3)	(220)
Other fee and commission expense	(330)	(283)
Total fee and commission expense	(7,158)	(5,021)
Net fee and commission income	3,000	5,016

The Group recognises fee and commission income in accordance with IFRS 15 *Revenue from Contracts with Customers* based on the objective, for which the amount of fee and commission is determined, and according to the adopted accounting policy for the appropriate financial instrument (*Note 3*).

Contract assets and liabilities

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

	2020	2019
Fee and commission receivable (<i>Note 27</i>)	832	—

No information is disclosed about remaining performance obligations at 31 December 2020 and 31 December 2019 that have an original expected duration of one year or less, as allowed by IFRS 15.

10. Fee and commission income and expense, continued*Performance obligations and revenue recognition policies*

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

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies for significant types of services.

Type of product/service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15
Commission for money transfers	<p>The services for money transfers include the following:</p> <ul style="list-style-type: none"> - services for accepting, processing and paying out the domestic money transfer (within Kazakhstan) without opening current and card account; - services for accepting, processing and paying out the international money transfer (abroad) without opening current and card account. <p>Money transfer services are paid in advance.</p>	Revenue is recognised over time as the services are provided. The stage of completion for determining the amount of revenue to recognise is assessed based on output method based on volume of services provided.

11. Net gain/(loss) on change in fair value of financial instruments at fair value through profit or loss

Net gain/(loss) on change in fair value of financial instruments at fair value through profit or loss includes:

	2020	2019
Net unrealised gain/(loss) on currency derivative financial instruments	12,127	(64)
Net realised gain/(loss) on currency derivative financial instruments	7,121	(928)
Net gain/(losses) on trading securities	508	553
Net losses on change in fair value of loans to customers at fair value through profit or loss	(6,870)	(416)
Net gain/(losses) on financial instruments measured at fair value through profit or loss	12,886	(855)

Realised gain on currency financial instruments for 2020 comprises gain on foreign currency swaps of KZT 7,466 million (2019: loss of KZT 928 million) and loss on foreign currency forward contracts of KZT 345 million (2019: nil).

First Heartland Jusan Bank Joint Stock Company

Notes to the Consolidated Financial Statements for the year ended 31 December 2020

(in millions of Kazakhstani tenge unless otherwise stated)

12. Net earned insurance premiums

Net earned insurance premiums include:

	<i>Obligatory insurance</i>			<i>Voluntary insurance</i>			
	<i>Vehicle owner's liability</i>	<i>Other obligatory</i>	<i>Property</i>	<i>Civil liability</i>	<i>Transport and cargo</i>	<i>Other voluntary</i>	<i>Total</i>
2020							
Gross premiums written	3,302	223	3,161	3,833	1,778	1,310	13,607
Change in the gross provision for unearned premiums	(1,193)	(28)	(1,088)	(989)	66	257	(2,975)
Gross earned premiums	2,109	195	2,073	2,844	1,844	1,567	10,632
Less: written premiums ceded to reinsurers	–	(2)	(392)	(677)	(483)	(366)	(1,920)
Reinsurers' share of change in the gross provision for unearned premiums	–	1	(189)	288	(91)	(156)	(147)
Earned premiums ceded to reinsurers	–	(1)	(581)	(389)	(574)	(522)	(2,067)
Net earned insurance premiums	2,109	194	1,492	2,455	1,270	1,045	8,565

	<i>Obligatory insurance</i>			<i>Voluntary insurance</i>			
	<i>Vehicle owner's liability</i>	<i>Other obligatory</i>	<i>Property</i>	<i>Civil liability</i>	<i>Transport and cargo</i>	<i>Other voluntary</i>	<i>Total</i>
2019							
Gross premiums written	1,043	135	663	1,617	1,590	1,360	6,408
Change in the gross provision for unearned premiums	(247)	(4)	1,069	(614)	(90)	(461)	(347)
Gross earned premiums	796	131	1,732	1,003	1,500	899	6,061
Less: written premiums ceded to reinsurers	–	–	(215)	(288)	(588)	(430)	(1,521)
Reinsurers' share of change in the gross provision for unearned premiums	–	–	(939)	109	116	253	(461)
Earned premiums ceded to reinsurers	–	–	(1,154)	(179)	(472)	(177)	(1,982)
Net earned insurance premiums	796	131	578	824	1,028	722	4,079

First Heartland Jusan Bank Joint Stock Company

Notes to the Consolidated Financial Statements for the year ended 31 December 2020

(in millions of Kazakhstani tenge unless otherwise stated)

13. Net insurance claims incurred

Net earned insurance claims incurred include:

	Obligatory insurance			Voluntary insurance			Total
	<i>Vehicle owner's liability</i>	<i>Other obligatory</i>	<i>Property</i>	<i>Civil liability</i>	<i>Transport and cargo</i>	<i>Other obligatory</i>	
2020							
Insurance claims incurred, net of reinsurance	(757)	(63)	(34)	(47)	(223)	(759)	(1,883)
Change in provisions for incurred but not reported claims	(65)	(6)	(82)	(104)	30	(24)	(251)
Change in provisions for reported but not settled claims	(110)	(46)	(645)	(41)	(150)	(22)	(1,014)
Change in reinsurers' share in provisions for incurred but not reported claims	—	(1)	(23)	19	(2)	(6)	(13)
Change in reinsurers' share in provisions for reported but not settled claims	—	(1)	(50)	36	26	4	15
Change in net insurance contract provisions	(175)	(54)	(800)	(90)	(96)	(48)	(1,263)
Net insurance claims incurred	(932)	(117)	(834)	(137)	(319)	(807)	(3,146)
	Obligatory insurance			Voluntary insurance			Total
	<i>Vehicle owner's liability</i>	<i>Other obligatory</i>	<i>Property</i>	<i>Civil liability</i>	<i>Transport and cargo</i>	<i>Other obligatory</i>	
2019							
Insurance claims incurred, net of reinsurance	(318)	(46)	(93)	(7)	(141)	(572)	(1,177)
Change in provisions for incurred but not reported claims	(21)	(30)	83	(31)	(56)	(13)	(68)
Change in provisions for reported but not settled claims	127	97	(544)	(289)	(149)	(9)	(767)
Change in reinsurers' share in provisions for incurred but not reported claims	—	6	(27)	2	19	22	22
Change in reinsurers' share in provisions for reported but not settled claims	—	—	419	448	52	8	927
Change in net insurance contract provisions	106	73	(69)	130	(134)	8	114
Net insurance claims incurred	(212)	27	(162)	123	(275)	(564)	(1,063)

14. Net foreign exchange gain

Net foreign exchange gain includes:

	2020	2019
Revaluation of foreign currency items, net	8,606	3,850
Gain on spot transactions	5,757	5,060
Net foreign exchange gain	14,363	8,910

15. Personnel expenses

Personnel expenses are as follows:

	2020	2019
Employee benefits	(35,824)	(19,478)
Social contributions and payroll related taxes	(3,208)	(2,430)
Total	(39,032)	(21,908)

16. Other general and administrative expenses

Other general administrative expenses are as follows:

	2020	2019
Depreciation and amortisation (<i>Note 24</i>)	(4,396)	(4,541)
Repair and maintenance	(3,388)	(2,723)
Contributions to Deposit Insurance Fund	(2,509)	(4,034)
Taxes other than corporate income tax	(1,865)	(1,877)
Professional services	(1,446)	(1,202)
Communication and information services	(1,051)	(971)
Security	(880)	(727)
Advertising and marketing services	(869)	(567)
Rent	(704)	(1,121)
Transportation costs	(273)	(1,129)
Cash collection expenses	(268)	(319)
Postal and courier services	(149)	(103)
Stationery and office equipment supplies	(141)	(130)
Business travel	(122)	(228)
Personnel recruitment and training expenses	(34)	(37)
Representation expenses	(20)	(23)
Fines and penalties	(15)	(188)
Insurance	(6)	(22)
Charity and sponsorship	–	(28)
Other	(1,601)	(2,133)
Other general and administrative expenses	(19,737)	(22,103)

17. Corporate income tax expense

Corporate income tax expenses are as follows:

	2020	2019
Current corporate income tax expense	(450)	(70)
Deferred corporate income tax expense – origination and decrease of temporary differences	(24,295)	(9,516)
Corporate income tax expense	(24,745)	(9,586)

The Group's income, except for that of Plus Bank PJSC and Optima Bank OJSC, is subject to taxation only in the Republic of Kazakhstan. According to tax legislation, the applicable corporate income tax rate in 2020 and 2019 is 20.0%.

Income of Plus Bank PJSC is taxable in the Russian Federation at the income tax rate of 20% in 2020 and 2019. Income of Optima Bank OJSC is taxable in the Kyrgyz Republic at the income tax rate of 10% in 2020 and 2019.

Below is a reconciliation of corporate income tax expenses calculated using a statutory rate with corporate income tax expenses recognised in the consolidated financial statements for 2020 and 2019:

	2020	%	2019	%
Profit before corporate income tax	282,944		284,652	
Theoretical corporate income tax expense at the statutory rate	(56,589)	20.0	(56,930)	20.0
Non-deductible expenses				
Provision for tax losses carried forward	(7,930)	2.8	–	–
Non-deductible expenses on revaluation of fair value of financial assets	(1,903)	0.7	–	–
Non-deductible interest expenses	(759)	0.3	(192)	0.1
Unrecognised deferred tax assets	(563)	0.2	(4,797)	1.7
Non-deductible impairment losses	(478)	0.2	–	–
Current non-deductible expenses on prior year taxes	(6)	0.0	–	–
Other non-deductible expenses	(1,118)	0.4	–	–
Non-taxable income				
Non-taxable bargain purchase gain of subsidiary	34,122	(12.1)	–	–
Exempt income on government securities listed at KASE	7,888	(2.8)	–	–
Non-taxable income on reverse acquisition	–	–	48,283	(17.0)
Non-taxable income on recovery of provisions for investments and borrowings	1,255	(0.4)	612	(0.2)
Adjustments for tax loss carry forwards	1,093	(0.4)	–	–
Non-taxable income on financial instruments	241	(0.1)	3,438	(1.2)
Other non-taxable income	2	–	–	–
Corporate income tax expense	(24,745)	5.6	(9,586)	3.4

Deferred tax assets and liabilities

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to deferred tax liabilities as at 31 December 2020 and 31 December 2019. Deferred tax assets in respect of tax losses carried forward are recognised in these consolidated financial statements. The future tax benefits will only be realised if profit will be available against which the unused tax losses can be utilised and there are no changes to the law and regulations that adversely affect the Group's ability to claim the deductions in future periods.

17. Corporate income tax expense, continued**Deferred tax assets and liabilities, continued**

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

Deferred tax assets and liabilities as at 31 December 2020 as well as their movement during the year are as follows:

	<i>1 January 2020</i>	<i>Acquisitions from business combination</i>	<i>Recognised in profit or loss</i>	<i>Recorded directly in equity</i>	<i>31 December 2020</i>
Bonds issued	(99,184)	(1,575)	(7,269)	–	(108,028)
Subordinated debts	(12,241)	(48,883)	(14,284)	–	(75,408)
Unrecognised deferred tax assets	(5,841)	(8,251)	(8,442)	–	(22,534)
Loans to customers	3,334	(309)	13,939	607	17,571
Property and equipment and intangible assets	(201)	(1,438)	(228)	(10)	(1,877)
Other liabilities	2,034	(3,989)	(1,419)	–	(3,374)
Lease liabilities	(898)	223	(197)	–	(872)
Tax loss carry forwards	41,759	7,681	(6,348)	–	43,045
Deferred tax liability	(71,238)	(56,541)	(24,295)	597	(151,477)
<i>Including:</i>					
Deferred tax asset	2,284	48	–	(178)	2,154
Net deferred tax liabilities	(73,522)	(56,589)	(24,295)	775	(153,631)

Deferred tax assets and liabilities as at 31 December 2019 as well as their movement during the year are as follows:

	<i>1 January 2019</i>	<i>Acquisitions from business combination</i>	<i>Recognised in profit or loss</i>	<i>Recorded directly in equity</i>	<i>31 December 2019</i>
Bonds issued	–	(101,893)	2,709	–	(99,184)
Subordinated debt	–	(12,520)	279	–	(12,241)
Unrecognised deferred tax assets	–	(909)	(4,797)	(135)	(5,841)
Loans to customers	–	1,650	2,309	(625)	3,334
Property and equipment and intangible assets	(330)	(636)	(330)	209	(1,087)
Other liabilities	170	1,657	211	(4)	2,034
Lease liabilities	–	(791)	(122)	15	(898)
Right-of-use assets	–	802	84	–	886
Tax loss carry forwards	–	51,564	(9,859)	54	41,759
Deferred tax liability	(160)	(61,076)	(9,516)	(486)	(71,238)
<i>Including:</i>					
Deferred tax asset	–	2,274	10	–	2,284
Net deferred tax liabilities	(160)	(63,350)	(9,526)	(486)	(73,522)

18. Cash and cash equivalents

Cash and cash equivalents consist of the following:

	<i>31 December 2020</i>	<i>31 December 2019</i>
Cash on hand	107,372	41,185
Balances on current accounts with NBRK (rated BBB-)	133,574	81,403
Balances on current accounts with CBRF (rated BBB-)	3,879	5,863
Balances on current bank accounts with the NBKR (rated B)	13,065	–
Balances on current bank accounts with other banks:	–	–
- rated from AA- to AA+	4,348	–
- rated A- to A+	27,742	4,561
- rated from BBB- to BBB+	14,328	3,641
- rated from BB- to BB+	7,462	1,918
- rated B- to B+	1,129	339
- not rated	3,212	196
Precious metals	41	5
Term deposits with NBRK (rated BBB-)	986,346	90,072
Term deposits with NBRK (rated B)	8,399	–
Short-term notes of NBRK (rated B)	6,607	–
Term deposits with other banks:		
- rated from AA- to AA+	19,209	15,519
- rated from A- to A+	10,517	28,700
rated from BBB- to BBB+	4,213	180
rated from BB- to BB+	–	39
- rated from B- to B+	502	81
Accounts receivable under reverse repurchase agreements	52,349	24,350
Gross cash and cash equivalents	1,404,294	298,052
Allowance for expected credit losses	(37)	(5)
Cash and cash equivalents	1,404,257	298,047

The credit ratings are presented by reference to the credit ratings of Standard and Poor's / Fitch credit rating agencies or analogues of similar international agencies. None of cash and cash equivalents are impaired or past due. All cash and cash equivalents are categorised into Stage 1 of credit risk grading (*Note 6*).

As at 31 December 2020, the Group concluded reverse repurchase agreements with contractual maturity of up to 90 (ninety) days or less, the fair value of which as at 31 December 2020 was KZT 56,073 million (31 December 2019: KZT 24,350 million).

Minimum reserve requirements

As at 31 December 2020 and 31 December 2019 minimum reserve requirements are calculated in accordance with regulations issued by NBRK. To meet the minimum reserves requirements the Group places cash in reserve assets, which are required to be maintained at the level of not less than the average amount of cash on hand denominated in national currency and balance on the current account with the NBRK in the national currency for 4 weeks, calculated as certain minimum level of deposits and current accounts of the customers that are residents and non-residents of the Republic of Kazakhstan, and of other liabilities of the Group. As at 31 December 2020 the minimum reserve requirements amounted to KZT 27,915 million (31 December 2019: KZT 8,785 million) and reserve asset amounted to KZT 26,663 million (31 December 2019: KZT 25,246 million).

Optima Bank OJSC calculated the minimum reserve requirements in accordance with the rules of the National Bank of the Kyrgyz Republic (NBKR). As at 31 December 2020 Optima Bank OJSC was in compliance with the minimum reserve requirements, and its minimum reserve was KZT 13,109 million (31 December 2019: none).

18. Cash and cash equivalents, continued**Concentration of cash and cash equivalents**

As at 31 December 2020, the Group held cash on current accounts with NBRK and terms deposits (2019: with NBRK), whose balances exceed 10% of the Group's equity. The gross value of these balances as of 31 December 2020 was KZT 1,119,920 million (31 December 2019: KZT 171,475 million).

Below is analysis of changes in ECL allowances for 2020 and 2019:

	2020		
	Stage 1	Stage 2	Total
Balance at 1 January	(5)	–	(5)
Acquired as a result of business combination	(25)	–	(25)
Net charge (Note 9)	(7)	–	(7)
Balance at 31 December	(37)	–	(37)

	2019		
	Stage 1	Stage 2	Total
Balance at 1 January	(26)	14	(12)
Acquired as a result of business combination	(5)	–	(5)
Net charge (Note 9)	(7)	–	(7)
Write-off	33	(14)	19
Balance at 31 December	(5)	–	(5)

19. Derivative financial instruments**Foreign currency contracts**

The Group enters into derivative transactions. The table below shows the fair values of derivatives carried as assets or liabilities, and its notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, base rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	31 December 2020			31 December 2019		
	Notional amount	Fair value		Notional amount	Fair value	
		Asset	Liability		Asset	Liability
Foreign currency contracts						
Forwards – foreign contracts	168,645	11,987	–	133,593	–	–
Currency swaps – foreign contracts	172,396	100	(254)	133,593	13	(32)
Currency swaps – domestic contracts	38,342	27	(12)	8,253	–	(10)
Total	379,383	12,114	(266)	275,439	13	(42)

Foreign contracts in the table above stand for contracts concluded with the non-resident entities of the Republic of Kazakhstan, while domestic contracts mean contracts concluded with the resident entities of the Republic of Kazakhstan.

19. Derivative financial instruments, continued**Foreign currency contracts, continued****Forwards**

A forward contract is a contract to buy or sell a certain financial instrument at a specified price on a specified future date. Forwards are the specialised contracts traded in an OTC market. As at 31 December 2020, the Group has forward contracts with a related party to sell USD 361 million and buy KZT 186,645 million maturing in May 2021.

Swaps

Swaps are contractual agreements between two parties to exchange amounts corresponding to changes in the exchange rate based on the notional amounts.

In 2020, net profit on operations with foreign currency derivatives amounted to KZT 19,248 million (2019: net loss of KZT 992 million) (*Note 11*).

20. Due from banks and other financial institutions

Due from banks and other financial institutions

	<i>31 December 2020</i>	<i>31 December 2019</i>
Restricted cash with NBRK rated BBB-	54,421	–
Mandatory reserves with CBRF (rated BBB-)	746	946
Account with the NBKR (rated B)	123	–
Loans and deposits with other banks:		
- rated from A- to A+	4,607	46
- rated BBB- to BBB+	13,608	24
- rated from BB- to BB+	667	1,015
- rated B- to B+	1,447	157
- rated from CCC- to CCC+	–	45
- not rated	12,465	1,317
Gross loans and deposits with other banks	88,084	3,550
Allowance for expected credit losses	(4,355)	(2)
Due from banks and other financial institutions	83,729	3,548

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

Restricted cash with NBRK comprise cash on current accounts with NBRK that the Group received as part of its participation in state programmes of lending of business entities on special preferential terms. During 2020, the Group took part in the programme of preferential lending to small and medium-size enterprises approved by Resolution No.39 of the Management Board of the NBRK "On Approval of the Programme of Preferential Lending to Business Entities" dated 19 March 2020 (hereinafter the "Programme"). The operator of the Programme is Kazakhstan Sustainability Fund JSC (*Note 30*).

20. Due from banks and other financial institutions, continued**Mandatory reserves with the Central Bank of the Russian Federation**

Mandatory reserves with the CBRF are interest-free deposits calculated in accordance with the requirements of CBRF and the free use of which is restricted.

Concentration of amounts due from banks and other financial institutions

As at 31 December 2020, the Group has restricted cash on current accounts with NBRK (31 December 2019: none) whose balance exceeds 10% of the Group's equity. The gross value of this balance as at 31 December 2020 is KZT 54,421 million.

Below is analysis of changes in ECL allowances for 2020 and 2019:

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

	2019		
	Stage 1	Stage 3	Total
Balance at 1 January	–	–	–
Net decrease (<i>Note 9</i>)	80	–	80
Write-off	12	–	12
Foreign exchange differences	(94)	–	(94)
Balance at 31 December	(2)	–	(2)

21. Trading securities

Trading securities include the following items:

	<i>31 December 2020</i>	<i>31 December 2019</i>
Debt investment securities		
- Government bonds		
Notes of NBRK	3,847	840
Bonds of MFRK	1,402	–
Total government bonds	5,249	840
Bonds of the banks rated from BB- to BB+	–	459
Total bonds of the banks	–	459
Corporate bonds		
- rated from A- to A+	6,307	–
- rated BBB- to BBB+	16,317	100
- rated from BB- to BB+	3,592	1,285
- rated B- to B+	448	1,089
Total corporate bonds	26,664	2,474
Structured notes		
International structured notes	212	–
Total structured notes	212	–
Equity instruments		
ETF	2,198	–
Equity unit	1,502	–
Corporate shares	1,469	1,254
Total equity instruments	5,169	1,254
Pledged under sale and repurchase agreements		
- Government bonds		
Bonds of MFRK	2,210	–
Total government bonds pledged under sale and repurchase agreements	2,210	–
Total trading securities	39,504	5,027

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

As at 31 December 2020 and 31 December 2019 trading securities were neither past due nor impaired.

22. Investment securities

Investment securities comprise:

	<i>31 December 2020</i>	<i>31 December 2019</i>
Investment securities measured at fair value through other comprehensive income	288,908	366,235
Investment securities measured at amortised cost	47,285	240,626
Investment securities	336,193	606,861

22. Investment securities, continued

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

	<i>31 December 2020</i>	<i>31 December 2019</i>
Debt investment securities		
- Government bonds		
Notes of NBRK	257,340	295,719
Bonds of Kazakhstan Sustainability Fund JSC	12,834	–
Bonds of MFRK	8,537	53,851
Total government bonds	278,711	349,570
Corporate bonds		
- rated BBB- to BBB+	4,568	4,337
- rated from BB- to BB+	4,959	6,383
- rated B- to B+	–	743
- not rated	614	–
Total corporate bonds	10,141	11,463
Equity investment securities		
Corporate shares		
- not rated	56	62
Total equity instruments	56	62
Pledged under sale and repurchase agreements		
Debt investment securities		
- Government bonds		
Notes of NBRK	–	5,140
Total government bonds pledged under sale and repurchase agreements	–	5,140
Total	288,908	366,235

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

As at 31 December 2019, notes of NBRK with fair value of KZT 5,140 million are used to secure the repo agreements signed at KASE (*Note 29*) (31 December 2020: none).

All balances on investment securities measured at fair value through other comprehensive income are allocated to Stage 1 and Stage 2 for ECL purposes (*Note 9*).

The table below provides an analysis of the changes in allowance for ECL for 2020 and 2019:

	<i>2020</i>	<i>2019</i>
Balance at 1 January	(42)	–
Net charge (<i>Note 9</i>)	(114)	(83)
Foreign exchange differences	–	41
Balance at 31 December	(156)	(42)

22. Investment securities, continued

Investment securities measured at amortised cost include:

	<i>31 December 2020</i>	<i>31 December 2019</i>
Debt investment securities		
- Government bonds		
Notes of NBRK	20,698	223,346
Eurobonds of MFRK	18,685	17,059
Treasury bonds of the Ministry of Finance of the Kyrgyz Republic	6,560	–
Bonds of MFRK	18	18
Total government bonds	45,961	240,423
Equity investment securities	98	–
Corporate bonds		
- rated from BBB- to BBB+	–	203
- rated from BB- to BB+	1,290	–
	1,388	203
Allowance for expected credit losses	(64)	–
Total corporate bonds	1,324	203
Total	47,285	240,626

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

Corporate bonds are interest-bearing securities issued by local companies and banks. These securities are freely tradable on KASE.

All government bond balances are allocated to Stage 1 for ECL purposes. The table below provides an analysis of the changes in allowance for ECL for 2020:

	<i>2020</i>	<i>2019</i>
Balance at 1 January	–	–
Acquired as a result of business combination	(64)	(56)
Net charge (<i>Note 9</i>)	–	54
Foreign exchange differences	–	2
Balance at 31 December	(64)	–

23. Loans to customers

Loans to customers comprise the following items:

	<i>31 December 2020</i>	<i>31 December 2019</i>
Loans to customers - at amortised cost	1,432,697	774,508
Allowance for expected credit losses	(539,053)	(510,276)
Loans to customers measured at amortised cost, net of allowance for expected credit losses	893,644	264,232
Loans to customers measured at fair value through other comprehensive income	70,911	121,217
Loans to customers measured at fair value through profit or loss	25,008	29,202
Total loans to customers	989,563	414,651

23. Loans to customers, continued**Loans to customers - at amortised cost**

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

	31 December 2020				
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI*</i>	<i>Total</i>
Loans to corporate customers					
Loans to large corporates	191,538	1,172	3,327	245,365	441,402
Loans to small and medium-size businesses	255,144	14,420	10,935	414,604	695,103
Total loans to corporate customers	446,682	15,592	14,262	659,969	1,136,505
Loans to retail customers					
Express loans	109,597	227	1,423	4,761	116,008
Mortgage loans	66,731	518	1,714	7,250	76,213
Car loans	20,353	1,654	11,545	10,800	44,352
Consumer loans	51,408	139	1,684	4,653	57,884
Credit cards	1,461	15	122	137	1,735
Total loans to retail customers	249,550	2,553	16,488	27,601	296,192
Gross loans to customers	696,232	18,145	30,750	687,570	1,432,697
Allowance for expected credit losses	(1,617)	(866)	(25,682)	(510,888)	(539,053)
Loans to customers net of allowance for ECL	694,615	17,279	5,068	176,682	893,644
31 December 2019					
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI*</i>	<i>Total</i>
Loans to corporate customers					
Loans to large corporates	9,048	221	9,382	220,209	238,860
Loans to small and medium-size businesses	53,361	643	1,107	404,446	459,557
Total loans to corporate customers	62,409	864	10,489	624,655	698,417
Loans to retail customers					
Mortgage loans	22,725	242	1,869	4,286	29,122
Car loans	5,553	459	10,228	11,139	27,379
Express loans	9,011	163	135	760	10,069
Consumer loans	4,943	27	1,796	2,149	8,915
Credit cards	248	4	354	–	606
Total loans to retail customers	42,480	895	14,382	18,334	76,091
Gross loans to customers	104,889	1,759	24,871	642,989	774,508
Allowance for expected credit losses	(846)	(202)	(21,254)	(487,974)	(510,276)
Loans to customers, net of allowance for ECL	104,043	1,557	3,617	155,015	264,232

* In 2019 the Group reclassified certain previously existing loans to customers to POCI loans. This resulted in the derecognition of the previously recognised instruments, and recognition of new POCI loans.

23. Loans to customers, continued**Loans to customers - at amortised cost, continued**

However, due to the limitations of the automated banking information system of the Group, the related financial statement disclosures reflect the historic gross value of the existing loan contracts, prior to their derecognition, together with a related allowance for expected credit losses. The additional gross disclosure of the historic loan amount does not affect the carrying amount of the newly recognised POCI loans in the consolidated statement of financial position.

As required by IFRS 9, the carrying amount of corporate POCI-loans recognised in the consolidated statement of financial position of the Group as at 31 December 2020 was KZT 221,919 million (at 31 December 2019: KZT 155,015 million) and corresponding ECL allowance was KZT 45,236 million (31 December 2019: none).

Analysis of movements in impairment allowance

Below is an analysis of changes in gross carrying amount and corresponding ECL allowance for loans to corporate customers measured at amortised cost for the year ended 31 December 2020:

	2020				
	Stage 1	Stage 2	Stage 3	POCI*	Total
Loans to corporate customers					
Gross carrying amount at					
1 January	62,409	864	10,489	624,655	698,417
New assets acquired as a result of business combination (Note 5)	396,829	—	—	153,800	550,629
New assets originated or purchased	83,509	451	—	92	84,052
Assets that have been derecognised or repaid (except for write-offs)	(69,404)	(8,317)	(496)	(40,231)	(118,448)
Transfer to Stage 1	4,350	(4,350)	—	—	—
Transfer to Stage 2	(30,932)	30,932	—	—	—
Transfer to Stage 3	(216)	(4,462)	4,678	—	—
Net change in interest accrued	152	96	62	10,278	10,588
Write-offs	—	—	—	(118,652)	(118,652)
Effect of movements in foreign exchange rates	(15)	378	(471)	30,027	29,919
At 31 December	446,682	15,592	14,262	659,969	1,136,505

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

23. Loans to customers, continued*Analysis of movements in impairment allowance, continued*

Below is an analysis of changes in gross carrying amount and corresponding ECL allowance for loans to corporate customers for the year ended 31 December 2019:

	2019				
	Stage 1	Stage 2	Stage 3	POCI	Total
Loans to corporate customers					
Gross carrying amount at 1 January	–	–	–	–	–
New assets acquired as a result of business combination (Note 5)	55,385	2,775	8,727	688,000	754,887
New assets originated or purchased	78,705	–	–	4,261	82,966
Assets that have been derecognised or repaid (except for write-offs)	(68,664)	(206)	(414)	(82,214)	(151,498)
Transfer to Stage 1	724	(724)	–	–	–
Transfer to Stage 2	(2,979)	2,979	–	–	–
Transfer to Stage 3	(760)	(3,486)	4,246	–	–
Net change in interest accrued	(89)	(531)	(1,556)	13,373	11,197
Write-offs	–	–	(1,072)	(2,328)	(3,400)
Effect of movements in foreign exchange rates	87	57	558	3,563	4,265
Gross carrying amount at 31 December	62,409	864	10,489	624,655	698,417

	2019				
	Stage 1	Stage 2	Stage 3	POCI	Total
Loans to corporate customers					
ECL balance at 1 January	–	–	–	–	–
New assets acquired as a result of business combination (Note 5)	(465)	(1,029)	(7,478)	(486,875)	(495,847)
New assets originated or purchased	(211)	–	–	(4,261)	(4,472)
Assets that have been derecognised or repaid (except for write-offs)	266	1	(112)	30,112	30,267
Transfer to Stage 1	(107)	107	–	–	–
Transfer to Stage 2	61	(61)	–	–	–
Transfer to Stage 3	2	851	(853)	–	–
Net remeasurement of loss allowance	75	125	(2,097)	(9,371)	(11,268)
Unwinding of discount	–	–	(318)	(2,843)	(3,161)
Write-offs	–	–	1,072	2,328	3,400
Effect of movements in foreign exchange rates	(26)	(23)	(529)	(3,424)	(4,002)
At 31 December	(405)	(29)	(10,315)	(474,334)	(485,083)

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

23. Loans to customers, continued*Analysis of movements in impairment allowance, continued*

Below is an analysis of changes in gross carrying amount and corresponding ECL allowance for loans to retail customers measured at amortised cost for the year ended 31 December 2020:

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

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

23. Loans to customers, continued

Analysis of movements in impairment allowance, continued

Below is an analysis of changes in gross carrying amount and corresponding ECL allowance for loans to retail customers measured at amortised cost for the year ended 31 December 2019:

	2019				
	Stage 1	Stage 2	Stage 3	POCI	Total
<i>Loans to retail customers</i>					
Gross carrying amount at 1 January	39	–	–	–	39
New assets acquired as a result of business combination (<i>Note 5</i>)	42,517	1,478	12,006	18,631	74,632
New assets originated or purchased	19,660	163	170	–	19,993
Assets that have been derecognised or repaid (except for write-offs)	(8,668)	(108)	(1,613)	(602)	(10,991)
Transfer to Stage 1	643	(288)	(355)	–	–
Transfer to Stage 2	(1,464)	1,547	(83)	–	–
Transfer to Stage 3	(1,678)	(1,537)	3,215	–	–
Net change in interest accrued	(9,102)	(404)	(541)	359	(9,688)
Write-offs	(3)	–	(232)	(50)	(285)
Effect of movements in foreign exchange rates	536	44	1,815	(4)	2,391
At 31 December	42,480	895	14,382	18,334	76,091

	2019				
	Stage 1	Stage 2	Stage 3	POCI	Total
<i>Loans to retail customers</i>					
ECL balance at 1 January	–	–	–	–	–
New assets acquired as a result of business combination (<i>Note 5</i>)	(414)	(283)	(7,221)	(13,608)	(21,526)
New assets originated or purchased	(334)	(71)	(67)	–	(472)
Assets that have been derecognised or repaid (except for write-offs)	5	–	(99)	52	(42)
Transfer to Stage 1	(167)	87	80	–	–
Transfer to Stage 2	45	(97)	52	–	–
Transfer to Stage 3	55	416	(471)	–	–
Net remeasurement of loss allowance	383	(214)	(1,714)	(137)	(1,682)
Write-offs	2	–	233	50	285
Unwinding of discount	–	–	(1,192)	–	(1,192)
Effect of movements in foreign exchange rates	(16)	(11)	(540)	3	(564)
At 31 December	(441)	(173)	(10,939)	(13,640)	(25,193)

23. Loans to customers, continued

Analysis of movements in impairment allowance, continued

As at 31 December 2020, the Group has made certain changes to the process of measurement of expected credit losses due to the ongoing COVID-19 pandemic. In particular, the Group revised the indicators of a significant increase in credit risk and made no automatic conclusion that there has been a significant increase in credit risk if deferred payments on loans were granted as a result of implementation of the government support measures. The Group has also updated the forward-looking information, including macroeconomic forecasts. The Group has applied additional industry-specific adjustments based on changes in ratings or other stressed parameters to reflect appropriately the uncertainty associated with the spread of the COVID-19 pandemic. In addition, the Group, in respect of restructured corporate loans issued in the industries adversely affected by the implications of the COVID-19 pandemic (including the introduction of a lockdown regime in the country), which resulted in deterioration of the financial position and operations of borrowers, has transferred these assets to Stage 2 due to a significant increase in credit risk.

In addition, due to the impact of pandemic on the investment demand in the real estate and movable property market, the Group has updated the timing of receipt of expected cash flows based on the sale of collateral, which may be directly or indirectly affected by the COVID-19 pandemic.

Modified and restructured loans

The Group derecognises a financial asset, e.g. a loan to a customer, if the related contractual terms are renegotiated to the extent that it in fact becomes a new loan, and records the difference as gains or losses arising from derecognition before impairment loss is recognised. Upon initial recognition the loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI asset.

If the modification does not imply a substantial change in cash flows, such modification does not result in a derecognition. Based on changes in cash flows discounted at the initial effective interest rate, the Group recognises profit or loss from modification before impairment loss is recognised.

During 2020 the Group changed the terms of certain loans for retail business; the Bank provided, among other things, the repayment holiday (deferral of payments) as part of implementation of measures introduced by the government due to implications of COVID-19 pandemic. This concession has not resulted in change of future cash flows on loans, for which a deferral was provided.

23. Loans to customers, continued**Credit quality of loans to customers**

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

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

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

<i>Loans to customers</i>	<i>Loans to large corporates</i>	<i>Loans to small and medium-size businesses</i>	<i>Mortgage loans</i>	<i>Car loans</i>	<i>Express loans</i>	<i>Consumer loans</i>	<i>Credit cards</i>	<i>Total</i>
- not overdue	56,487	269,284	22,570	5,511	8,939	4,919	235	367,945
- overdue up to 30 days	67,792	20,558	601	475	73	90	14	89,603
- overdue 30-89 days	1,410	1,221	360	712	171	82	2	3,958
- overdue 90-179 days	5,766	4,127	211	688	70	398	5	11,265
- overdue more than 180 days and less than 1 year	64,144	73,795	373	1,442	24	114	9	139,901
- overdue more than 1 year	43,261	90,572	5,007	18,551	792	3,312	341	161,836
Total gross loans to customers	238,860	459,557	29,122	27,379	10,069	8,915	606	774,508
Allowance for expected credit losses	(183,895)	(301,188)	(3,506)	(17,936)	(1,152)	(2,243)	(356)	(510,276)
Total loans to customers, net of loss allowance for ECL	54,965	158,369	25,616	9,443	8,917	6,672	250	264,232

23. Loans to customers, continued

Key assumptions and judgments used in estimation of expected credit losses

Loans to corporate customers

In determining the EC allowance for loans to corporate customers, management makes the following key assumptions:

- a discount of between 20.0% and 80.0% to the originally appraised value if the property pledged is sold;
- exclusion from collateral value of unstable collateral;
- a delay up to 72 months in obtaining proceeds from the foreclosure of collateral;
- PD for loans referred to as Stage 1 in terms of credit quality was 0.13-40.18%, referred to as Stage 2 in terms of credit quality - 0.20% to 78.14%, depending on the borrower's internal rating;
- LGD for loans referred to as Stages 1 and 2 was 0 - 54.59%.

Changes in the above estimates may impact a loss allowance for expected credit losses. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the allowance for expected credit losses on loans to corporate customers as at 31 December 2020 would be KZT - 14,749/+14,458 million lower/higher. To the extent that the delay in obtaining proceeds from the foreclosure of collateral differs by plus/minus one year, loss allowance for expected credit losses for loans to corporate customers measured at amortised cost as at 31 December 2020 would be KZT 18,653 million lower and KZT 20,275 million higher, respectively.

Loans to retail customers

The Group estimates loss allowance for expected credit losses for loans to retail customers based on its past historical loss experience on each type of loan. The significant assumptions used by management in determining the loss allowance for expected credit losses for loans to retail customers include:

- migration rates are constant and can be estimated based on the migration model built using Markov chain, given the impact of macroeconomic information; a 12-month PD for groups of products referred to as Stage 1 in terms of credit quality was 2.68%-50.36%; lifetime PD referred to as Stage 2 in terms of credit quality was 30.90%-93.54%, depending on the group of products of homogeneous retail portfolio;
- recovery rates for uncollateralised loans are estimated based on a sample of contracts defaulted not more than 3 years; recovery rates for products of homogeneous portfolio referred to as Stage 1 and Stage 2 was 28.84%;
- a discount of between 30% and 70% to the annually appraised value if the property pledged is sold;
- an average period of 24 months for sale of foreclosed collateral.

Changes in the above estimates may impact a loss allowance for expected credit losses. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus three percent, loss allowance on loans to retail customers as at 31 December 2020 would be KZT 7,859 million lower/higher (31 December 2019: KZT 9,129 million lower/higher).

Loan maturities

The maturities of the loans to customers as at the reporting date are presented in *Note 38* and show the contractual maturities of the loans.

23. Loans to customers, continued**Loans to customers measured at fair value through other comprehensive income**

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

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

Loans to retail customers measured at fair value through other comprehensive income as at 31 December 2019 include the following items:

	2019			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Carrying amount				
<i>Car loans</i>				
At 31 December	112,937	3,818	4,462	121,217

During 2019, the Group sold car loans portfolios with fixed interest rates for the amount of KZT 15,151 million at the price of KZT 16,123 million to third parties. In this regard, in 2019 the Group undertook a commitment to repurchase individual loans during the period between four and eight months after their sale at notional value if loan was overdue for more than 30 calendar days. The Group has determined that it has transferred substantially all the risks and rewards to the transferee, and accordingly the loan portfolio has been derecognised.

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

	2020			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
<i>Car loans</i>				
ECL balance at 1 January	(3,320)	(1,238)	(22,982)	(27,540)
Transfer to Stage 1	(417)	225	192	—
Transfer to Stage 2	256	(471)	215	—
Transfer to Stage 3	269	662	(931)	—
Write-offs	—	—	878	878
Other net remeasurement	1,557	(1,683)	(8,928)	(9,054)
Unwinding of discount	-	-	(3,043)	(3,043)
Effect of movements in foreign exchange rates	263	135	3,140	3,538
At 31 December	(1,392)	(2,370)	(31,459)	(35,221)

23. Loans to customers, continued**Loans to customers measured at fair value through other comprehensive income, continued**

Below is analysis of changes in ECL for loans to retail customer measured at fair value through other comprehensive income for the year ended 31 December 2019:

	<i>2019</i>			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
<i>Car loans</i>				
ECL balance at 1 January	–	–	–	–
New assets acquired as a result of business combination (<i>Note 5</i>)	(1,563)	(872)	(12,505)	(14,940)
New assets originated or purchased	(2,318)	–	–	(2,318)
Assets that have been derecognised or repaid (except for write-offs)	307	1	24	332
Transfer to Stage 1	(398)	204	194	–
Transfer to Stage 2	185	(241)	56	–
Transfer to Stage 3	146	1,392	(1,538)	–
Write-offs	–	–	122	122
Other net remeasurement	481	(1,655)	(8,187)	(9,361)
Effect of movements in foreign exchange rates	(160)	(67)	(1,148)	(1,375)
At 31 December	(3,320)	(1,238)	(22,982)	(27,540)

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

Loans to customers measured at fair value through profit or loss comprise predominantly the loans for project financing without recourse due to economic reasons or under contract, as well as loans with embedded derivatives the terms and conditions of which do not comply with the framework loan agreement. Information on measurement of fair value of loans to customers measured at fair value through profit or loss is disclosed in *Note 38*.

Loans to customers measured at fair value through profit or loss as at 31 December 2020 and 31 December 2019 comprise the following items:

	<i>31 December 2020</i>	<i>31 December 2019</i>
Loans to large corporates	1,221	3,330
Loans to small and medium-size businesses	23,787	25,872
Total	25,008	29,202

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

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

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

The following table provides information on the credit quality of loans to corporate customers measured at fair value through profit or loss as at 31 December 2019:

	<i>Loans to large corporates</i>	<i>Loans to small and medium- size enterprises</i>	<i>Total</i>
Not overdue	2,661	3,553	6,214
Overdue 30-89 days	48	208	256
Overdue 90-179 days	—	660	660
Overdue 180-360 days	621	16,874	17,495
Overdue more than 360 days	—	4,577	4,577
Total	3,330	25,872	29,202

23. Loans to customers, continued**Analysis of collateral and other credit enhancements**

The following tables provides information on collateral and other credit enhancements securing loans to corporate customers (net of loss allowance for expected credit losses) by types of collateral.

	31 December 2020			
	<i>Carrying amount of loans to customers</i>	<i>Fair value of collateral - for assessed as of reporting date</i>	<i>Fair value of collateral - for assessed as of loan inception date</i>	<i>Fair value of collateral not determined</i>
Stage 1				
Cash and deposits	33,380	33,380	—	—
Real estate	287,921	172,722	115,199	—
Movable property	17,628	14,972	2,656	—
Transport	64,923	47,682	17,241	—
Equipment	5,387	4,869	518	—
Guarantees	25,009	—	—	25,009
Other	542	—	542	—
No collateral or other credit enhancement	11,769	—	—	11,769
Total Stage 1 loans	446,559	273,625	136,156	36,778
Stage 2				
Cash and deposits	12	12	—	—
Real estate	14,886	4,649	10,237	—
Movable property	8	—	8	—
Transport	129	—	129	—
Equipment	17	—	17	—
Guarantees	398	—	—	398
No collateral or other credit enhancement	48	—	—	48
Total Stage 2 loans	15,498	4,661	10,391	446
Stage 3				
Cash and deposits	2	2	—	—
Real estate	1,993	1,083	910	—
Guarantees	13	—	—	13
No collateral or other credit enhancement	2	—	—	2
Total Stage 3 loans	2,010	1,085	910	15
POCI				
Cash and deposits	1,420	1,420	—	—
Securities	554	554	—	—
Real estate	154,447	137,541	16,906	—
Movable property	4,699	4,600	99	—
Vehicles	526	194	332	—
Equipment	1,802	1,738	64	—
Guarantees	1,429	—	—	1,429
No collateral or other credit enhancement	1,906	—	—	1,906
Total loans of POCI stage	166,783	146,047	17,401	3,335
Measured at fair value through profit or loss				
Cash and deposits	1	1	—	—
Real estate	24,893	22,903	1,990	—
Equipment	114	114	—	—
Total loans to corporate customers measured at fair value through profit or loss	25,008	23,018	1,990	—
Total loans to corporate customers	655,858	448,436	166,848	40,574

23. Loans to customers, continued**Analysis of collateral and other credit enhancements, continued**

	31 December 2019			
	<i>Carrying amount of loans to customers</i>	<i>Fair value of collateral - for assessed as of reporting date</i>	<i>Fair value of collateral - for assessed as of loan inception date</i>	<i>Fair value of collateral not determined</i>
Stage 1				
Cash and deposits	1,648	1,648	—	—
Real estate	45,204	14,893	30,311	—
Movable property	845	185	660	—
Transport	325	—	325	—
Equipment	753	53	700	—
Guarantees	11,728	—	—	11,728
Other	354	—	354	—
No collateral or other credit enhancement	1,147	—	—	1,147
Total Stage 1 loans	62,004	16,779	32,350	12,875
Stage 2				
Real estate	479	—	479	—
Guarantees	13	—	—	13
No collateral or other credit enhancement	343	—	—	343
Total Stage 2 loans	835	—	479	356
Stage 3				
Real estate	148	—	148	—
Equipment	26	—	26	—
Total Stage 3 loans	174	—	174	—
POCI				
Cash and deposits	614	614	—	—
Securities	1,132	1,132	—	—
Real estate	123,458	117,578	5,880	—
Movable property	10,322	10,315	7	—
Vehicles	1,346	1,011	335	—
Equipment	4,536	4,122	414	—
Guarantees	2,791	—	—	2,791
No collateral or other credit enhancement	6,122	—	—	6,122
Total loans of POCI stage	150,321	134,772	6,636	8,913
Measured at fair value through profit or loss				
Vehicles	29,202	29,202	—	—
Total loans to corporate customers measured at fair value through profit or loss	29,202	29,202	—	—
Total loans to corporate customers	213,334	151,551	39,639	22,144

23. Loans to customers, continued

Analysis of collateral and other credit enhancements, continued

The tables above exclude overcollateralisation.

During 2020, the Group made no amendments to the policy securing performance of obligations by borrowers (2019: the Group approved the policy securing performance of obligations by borrowers).

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

Loans to retail customers

For loans secured by multiple types of collateral, collateral that is most relevant for assessment of allowance for expected credit losses is disclosed. Sureties received from individuals, such as shareholders of SME borrowers and corporate guarantees received from local companies not rated, are not considered for the assessment of allowance for expected credit losses' purposes.

Mortgage loans are secured by the underlying housing real estate. The Group's policy is to issue mortgage loans with a loan-to-value ratio of a maximum of 80% at loan inception date. Auto loans are secured by the underlying cars. The Group's policy is to issue auto loans with a loan-to-value ratio of a maximum of 90%. Consumer loans are generally secured by underlying properties and in certain cases by assets, including vehicles, cash deposits and guarantees.

The following tables provides information on collateral and other credit enhancements securing loans to retail customers at Stage 3 and POCI (net of loss allowance for expected credit losses) by types of collateral.

	31 December 2020			
	<i>Carrying amount of loans to customers</i>	<i>Fair value of collateral - for assessed as of reporting date</i>	<i>Fair value of collateral - for collateral assessed as of loan inception date</i>	<i>Fair value of collateral not determined</i>
Loans to retail customers at amortised cost				
Stage 3				
Cash and deposits	1	1	—	—
Real estate	1,653	—	1,653	—
Vehicles	864	—	864	—
Guarantees	4	—	—	4
No collateral or other credit enhancement	536	—	—	536
Total Stage 3 loans	3,058	1	2,517	540
POCI				
Cash and deposits	16	16	—	—
Real estate	5,713	3,240	2,473	—
Movable property	6	—	6	—
Vehicles	1,940	7	1,933	—
Equipment	22	—	22	—
Guarantees	634	—	—	634
No collateral or other credit enhancement	1,568	—	—	1,568
Total loans of POCI stage	9,899	3,263	4,434	2,202
Total loans to customers	262,794	60,718	59,199	142,877

23. Loans to customers, continued**Analysis of collateral and other credit enhancements, continued***Loans to retail customers*

31 December 2019				
<i>Loans to retail customers at amortised cost</i>	<i>Carrying amount of loans to customers</i>	<i>Fair value of collateral - for collateral assessed as of reporting date</i>	<i>Fair value of collateral - for collateral assessed as of loan inception date</i>	<i>Fair value of collateral not determined</i>
Stage 3				
Cash and deposits	10	10	—	—
Real estate	1,708	—	1,708	—
Movable property	1	—	1	—
Vehicles	1,421	—	1,421	—
Guarantees	26	—	19	7
No collateral or other credit enhancement	277	—	—	277
Total Stage 3 loans	3,443	10	3,149	284
POCI				
Cash and deposits	69	69	—	—
Real estate	2,424	—	2,424	—
Movable property	32	—	32	—
Vehicles	2,159	—	2,159	—
Guarantees	10	—	—	10
Total loans of POCI stage	4,694	69	4,615	10
Total loans to customers	50,898	388	34,500	16,010
31 December 2020				
<i>Loans to retail customers measured at fair value through other comprehensive income</i>	<i>Carrying amount of loans to customers</i>	<i>Fair value of collateral - for collateral assessed as of reporting date</i>	<i>Fair value of collateral - for collateral assessed as of loan inception date</i>	<i>Fair value of collateral not determined</i>
Stage 3				
Vehicles	3,744	—	3,744	—
Total Stage 3 loans	3,744	—	3,744	—
Total loans to retail customers measured at fair value through other comprehensive income	70,911	—	70,911	—
31 December 2019				
<i>Loans to retail customers measured at fair value through other comprehensive income</i>	<i>Carrying amount of loans to customers</i>	<i>Fair value of collateral - for collateral assessed as of reporting date</i>	<i>Fair value of collateral - for collateral assessed as of loan inception date</i>	<i>Fair value of collateral not determined</i>
Stage 3				
Vehicles	4,462	—	4,462	—
Total Stage 3 loans	4,462	—	4,462	—
Total loans to retail customers measured at fair value through other comprehensive income	121,217	—	121,217	—

23. Loans to customers, continued**Industry analysis of the loan portfolio**

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

	<i>31 December 2020</i>	<i>31 December 2019</i>
Construction	272,636	154,650
Services	227,593	203,716
Trade	195,929	104,190
Manufacturing	181,768	177,143
Transport	112,190	37,150
Finance and insurance	55,333	40,047
Agriculture	21,329	8,647
Education	5,656	1,542
Other	64,071	534
Total loans to corporate customers	1,136,505	727,619
Loans to retail customers		
Express loans	116,008	7,312
Mortgage loans	76,213	45,832
Car loans	44,352	12,803
Consumer loans	57,884	10,068
Credit cards	1,735	76
Total loans to retail customers	296,192	76,091
Total loans to customers before allowance for expected credit losses	1,432,697	803,710
Allowance for expected credit losses	(539,053)	(510,276)
Total loans to customers, net of allowance for expected credit losses	893,644	293,434

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

	<i>31 December 2020</i>	<i>31 December 2019</i>
<i>Loans to retail customers measured at fair value through other comprehensive income</i>		
Car loans	70,911	121,217
Total loans to retail customers measured at fair value through other comprehensive income	70,911	121,217

Significant credit exposures

As at 31 December 2020 the Group has three borrowers (31 December 2019: three borrowers) whose loan balance exceeded 10% of equity. The gross value of these loans as at 31 December 2020 is KZT 197,340 million (31 December 2019: KZT 193,509 million).

First Heartland Jusan Bank Joint Stock Company

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(in millions of Kazakhstani tenge unless otherwise stated)

24. Property and equipment and intangible assets

Movements of property and equipment for 2020 are as follows:

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

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(in millions of Kazakhstani tenge unless otherwise stated)

24. Property and equipment and intangible assets, continued

Movements of property and equipment for 2019 are as follows:

	<i>Land plots and buildings</i>	<i>Computer equipment</i>	<i>Vehicles</i>	<i>Construction in progress</i>	<i>Other</i>	<i>Intangible assets</i>	<i>Right-of-use assets</i>	<i>Total</i>
<i>Cost/ revalued amounts</i>								
Balance at 1 January 2019	2,869	–	–	–	625	199	–	3,693
Acquired as a result of business combination (<i>Note 5</i>)	26,013	1,090	279	128	4,881	3,940	4,007	40,338
Additions	15,564	1,550	44	1,672	1,707	886	1,579	23,002
Disposals and write-offs	(7,096)	(341)	(113)	(33)	(587)	(53)	(3)	(8,226)
Transfers	4	66	–	(83)	13	–	–	–
Effect of revaluation	(1,002)	–	–	(1,024)	–	962	(176)	(1,240)
Foreign exchange difference	346	–	–	–	173	138	–	657
Balance at 31 December 2019	36,698	2,365	210	660	6,812	6,072	5,407	58,224
<i>Depreciation and amortisation</i>								
Balance at 1 January 2019	1,098	–	–	–	519	89	–	1,706
Depreciation and amortisation for the year	621	647	106	–	1,252	805	1,110	4,541
Disposals and write-offs	(169)	(339)	(86)	–	(513)	(52)	–	(1,159)
Effect of revaluation	(1,212)	–	–	–	–	–	–	(1,212)
Foreign exchange difference	33	–	–	–	116	60	(133)	76
Balance at 31 December 2019	371	308	20	–	1,374	902	977	3,952
<i>Carrying amount</i>								
As at 31 December 2019	36,327	2,057	190	660	5,438	5,170	4,430	54,272

24. Property and equipment and intangible assets, continued

The Group has no property and equipment and intangible assets pledged as collateral.

The Group engaged independent appraisal companies, including Otsenka i Expertiza LLP, MKF “Russell Bedford A+ Partner” LLP, Crowe Consulting & CF Qazaqstan LLP and Market-Consulting LLP, to measure the fair value of major items of land and buildings owned by the Group. Fair value was determined using the comparative sales analysis method. The appraisal was conducted during the period from 2 September 2019 to 31 October 2019. With regard to other items of land and buildings the Group carried out an internal monitoring.

As at 31 December 2020, as there were no significant fluctuations in the value of similar facilities in the market, the Group did not revalue the land plots and buildings, except for the land plots and buildings that were acquired as a result of business combination (*Note 5*), which were measured at fair value at the date of initial recognition on the Group’s balance sheet.

The fair values of the land plots and buildings are categorised into Level 3 of the fair value hierarchy.

25. Non-current assets held for sale

	2020	2019
Balance at 1 January	9,144	–
Acquired as a result business combination (<i>Note 5</i>)	–	3,538
Additions	5,655	18,071
Disposal	(8,917)	(8,604)
Remeasurement	(579)	(4,185)
Foreign exchange difference	(349)	324
Balance at 31 December	4,954	9,144

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

26. Investment property

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

	2020	2019
Balance at 1 January	5,441	–
Additions as a result of business combination (<i>Note 5</i>)	–	9,532
Additions	5,646	479
Disposals	(378)	(3,886)
Remeasurement	(676)	(936)
Foreign exchange difference	–	252
Balance at 31 December	10,033	5,441

27. Other assets

Other assets include the following items:

	<i>31 December 2020</i>	<i>31 December 2019</i>
Restricted cash on accounts with Kazakhstan Stock Exchange	5,043	68
Receivables from collection agencies	2,253	180
Bank debtors	3,974	–
Accounts receivable for the Bank's participation in auctions	2,810	–
Receivables from guarantees issued	2,259	1,384
Trade payables	1,051	–
Fee and commission receivable	832	–
Cash receivables	479	–
Amount due from local commercial bank	214	217
Receivables from foreign exchange transactions and guarantees issued	35	4,679
Other receivables	4,286	3,391
Allowance for expected credit losses	–	(1,493)
Other financial assets	23,236	8,426
Foreclosed property	54,314	2,720
Prepayments	2,703	6,064
Materials and supplies	1,173	102
Prepayments for office buildings	1,609	3,757
Prepayments for intangible assets	329	245
Receivables from assignment of rights of claim on loans	–	186
Other non-financial assets	187	236
Impairment allowance	(3,157)	(3,097)
Other non-financial assets	57,158	10,213
Other assets	80,394	18,639

As at 31 December 2020, the foreclosed property and pledged property in the amount of KZT 54,314 million mainly include security in the form of real estate accepted by the Group as a result of business combinations (Note 5). These assets have been initially recognised at fair value and will be subsequently measured at the lower of fair value less cost to sell or the carrying value in accordance with the Group's accounting policy (Note 3).

Analysis of movement in allowance for ECL

Movements in allowance for expected credit losses for other financial assets for 2020 and 2019 are as follows:

	<i>2020</i>	<i>2019</i>
ECL balance at 1 January	(1,493)	–
Acquired as a result of business combination (Note 5)	–	(2,420)
Net decrease (Note 9)	1,750	912
Write-offs	–	15
Movements in foreign exchange rates and other movements	(257)	–
ECL balance at 31 December	–	(1,493)

27. Other assets, continued

Analysis of movement in allowance for ECL

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

	2020	2019
Balance at 1 January	(3,097)	–
Net charge	(128)	(3,124)
Write-offs	26	67
Movements in foreign exchange rates and other movements	42	(40)
Balance at 31 December	(3,157)	(3,097)

28. Amounts due to banks and other financial institutions

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

	31 December 2020	31 December 2019
Loans from state companies	51,966	6,023
Loans from other banks and financial institutions	28,935	3,643
Deposits from other banks	2,526	–
Vostro accounts	1,512	169
Other	214	–
	85,153	9,835
Derivative financial instruments		
Foreign currency contracts (“spot”)	7	1
Total	85,160	9,836

As at 31 December 2020, loans received from state companies included loans from Entrepreneurship Development Fund DAMU JSC (“Damu”) in the amount of KZT 32,983 million and Development Bank of Kazakhstan JSC (“DBK”) in the amount of KZT 8,932 million, National Bank of the Kyrgyz Republic in the amount of KZT 5,984 million, Ministry of Finance of the Kyrgyz Republic in the amount of KZT 3,920 million, and Agrarian Credit Corporation JSC in the amount of KZY 147 million (31 December 2019: Damu - KZT 4,342 million and DBK - KZT 1,681 million) as part of the state programme of support to small and medium-size enterprises and large-size enterprises by the banking sector. Loans provided by Damu, DBK and Agrarian Credit Corporation are denominated in KZT, bear a nominal interest rate from 0.1% p.a. to 9.7% p.a. and mature in 2021-2035. Loans provided by the National Bank of the Kyrgyz Republic and Ministry of Finance of the Kyrgyz Republic are denominated in Kyrgyz Soms and bear a nominal interest rate from 1.0% p.a. to 6.5% p.a. and mature in 2021-2025.

As at 31 December 2020, loans received from state companies of the Republic of Kazakhstan, including Damu, DBK and Agrarian Credit Corporation, in the amount of KZT 35,229 million, and loans from the National Bank of the Kyrgyz Republic and Ministry of Finance of the Kyrgyz Republic in the amount of KZT 9,904 million were transferred to the Group as a result of business combinations (*Note 5*). These financial liabilities were initially recognised at fair value, including application of the assumption that raising funds under market-based government lending programs represents a separate market segment.

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

Loans received from other banks and financial institutions were acquired as part of the business combination. The following table summarises information on loans from other banks and financial institutions as at 31 December 2020:

	<i>Currency</i>	<i>31 December 2020</i>
European Bank for Reconstruction and Development	KGS	5,906
Russian-Kyrgyz Development Fund	USD	5,275
Russian-Kyrgyz Development Fund	KGS	1,647
Simbiotics	USD	3,391
Simbiotics	KGS	6,395
INCOFIN CVBA	USD	6,321
Total		28,935

Covenants

In December 2020 the ultimate controlling party of Optima Bank OJSC, a subsidiary bank of ATFBank JSC, changed (*Note 5*). However, Optima Bank did not receive a waiver from the creditors prior to the reporting date, including EBRD, Simbiotics, Incofin, MFKR under the KfW programme, thus the covenant was violated. The early repayment waiver was received from these creditors after the reporting date:

- EBRD - 19 January 2021;
- Simbiotics - 5 February and 17 February 2021;
- Incofin - 16 February 2021;

MFKR did not provide waiver on the KfW programme. However, according to the loan agreement, if a creditor fails to provide a written response within 30 business days after receipt of the notice from the borrower, a creditor is deemed to have given consent to the transaction. This deadline expired on 11 January 2021.

Securities pledged under sale and repurchase agreements

As at 31 December 2020, the group has accounts payable under repo agreements in the amount of KZT 2,411 million (31 December 2019: KZT 4,987 million), which are secured by trading securities with fair value of KZT 2,210 million (31 December 2019: investment securities at fair value through profit or loss with fair value of KZT 5,140 million) (*Note 22*). All transactions were closed during next reporting month.

30. Amounts due to customers

Current accounts and deposits from customers comprise:

	<i>31 December 2020</i>	<i>31 December 2019</i>
Current accounts and demand deposits		
Corporate	357,818	82,975
Retail	130,786	20,261
Term deposits		
Corporate	327,499	173,086
Retail	799,301	515,304
Savings deposits		
Corporate	189,333	–
Retail	91,945	–
	1,896,682	791,626
Held as security of guarantees and letters of credit (<i>Note 40</i>)	(4,862)	(1,186)

As at 31 December 2020, the Group maintained customer deposit balances of KZT 50,772 million that serve as collateral for loans and unrecognised credit instruments granted by the Group (31 December 2019: KZT 9,588 million).

As at 31 December 2020, the Group maintained customer current accounts and on demand deposit balances of KZT 11,575 million that serve as collateral for currency forward contracts (31 December 2019: nil).

As at 31 December 2020 the corporate term deposits also included deposits for the total amount of KZT 42,861 million (31 December 2019: KZT 1,999 million) received from Kazakhstan Sustainability Fund JSC as part of the state programme for refinancing of residential mortgage loans and state programme of preferential lending for small and medium-sized enterprises approved by NBRK. Deposits are denominated in tenge, bear an interest rate of 0.1% per annum under the state programme of refinancing of mortgage housing loans, and 5.0% per annum under the state programme of preferential lending to small and medium-size enterprises, and are repayable in 2021-2050. The amount of KZT 39,778 million of the total amount of the above-mentioned deposits received from Kazakhstan Sustainability Fund JSC was transferred to the Group as part of the business combination on 29 December 2020. The Group recognised this deposit at fair value on initial recognition.

As at 31 December 2020, the corporate current accounts comprise NBRK funds of KZT 54,421 million (31 December 2019: none), which represent an undisbursed amount under the state programme of preferential lending to small and medium-size enterprises (*Note 20*).

As at 31 December 2020, the Group has four customers (31 December 2019: one customer), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2020 is KZT 321,400 million (31 December 2019: KZT 92,719 million).

31 Debt securities issued

Debt securities issued included:

	<i>Date of issue</i>	<i>Year of maturity</i>	<i>Coupon rate p.a.</i>	<i>Effective rate p.a.</i>	<i>Carrying amount</i>	
					<i>31 December 2020</i>	<i>31 December 2019</i>
KZT-denominated bonds of ATFBank JSC	14.03.2019	14.03.2026	10.95%	13.44%	56,808	–
KZT-denominated bonds of ATFBank JSC	10.02.2015	10.02.2023	9.70%	13.49%	36,052	–
KZT-denominated bonds of the first issue	15.10.2018	15.01.2034	0.10%	11.50%	30,061	27,071
KZT-denominated bonds of the fourth issue	22.01.2019	22.01.2034	0.10%	11.50%	20,986	18,906
KZT-denominated bonds of the fifth issue*	11.12.2020	05.10.2045	0.10%	12.50%	18,761	66,983
KZT-denominated bonds of ATFBank JSC	10.02.2015	10.02.2025	9.90%	13.41%	18,607	–
KZT-denominated bonds of the third issue	28.01.2019	28.01.2034	0.10%	11.50%	12,419	11,187
USD-denominated bonds of ATFBank JSC Dollar	01.11.2019	01.11.2022	4.00%	3.55%	12,178	–
KZT-denominated bonds of the twelfth issue	04.06.2013	04.06.2023	Inflation rate +1.0%	8.90%	9,823	9,714
KZT-denominated bonds of the fourth issue	28.01.2019	28.01.2034	0.10%	11.50%	7,451	6,712
KZT-denominated bonds of the third issue	28.01.2019	28.01.2034	0.10%	11.50%	5,564	5,012
KZT-denominated bonds of the first issue	11.07.2007	11.07.2027	7.50%	7.50%	2,881	2,813
KZT-denominated bonds of the second issue	22.01.2019	22.01.2034	0.10%	11.50%	216	206
					231,807	148,604

The Group's debt securities issued are quoted on KASE.

During 2019, the Group additionally placed debt securities as part of the 4th and the 5th bond issue programmes, with a total nominal value of KZT 488,666 million and a coupon rate of 0.1% p.a., which mature in 2034. The Group determined the fair value of debt securities issued on initial recognition by discounting the contractual future cash flows on the securities using an estimated market rate of 11.5% p.a. (Note 23).

* During 2020, as part of the fourth bond issue program the Group made amendments to the prospectus of bond issue, the holder of which is Kazakhstan Sustainability Fund JSC. New maturity of the bond is 320 months and maturity date is 5 October 2045. Previous maturity of the bond was 15 years and maturity date was 5 February 2034. The Agency of the RK for Regulation and Development of the Financial Market registered changes in the prospectus of issued of this bond on 11 December 2020.

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

The Group has used the following assumptions to estimate the market interest rate at the date of terms modification:

- yield on long-term bonds issued by the MFRK;
- the Group's credit risk premium.

31 Debt securities issued, continued

The difference between the nominal value and fair value of the issued debt securities arisen due to substantial modification on initial recognition in the total amount of KZT 47,267 million was recognised in the consolidated statement of profit or loss and other comprehensive income (2019: the difference as a result of issue of debt securities in the amount of KZT 419,101 million) within "Gain on modification and initial recognition of the financial liabilities to government institutions" (Note 5). The difference between the carrying amount and fair value of these issued securities at the date of substantial modification was KZT 7,801 million, which represents income from the settlement of the financial liability, which was also included in the "Gain on modification and initial recognition of the financial liabilities from government institutions" in the consolidated statement of profit or loss and other comprehensive income.

Changes in the above estimates may impact on the amount of income from change in original terms of financial liabilities. For example, to the extent that the estimated market interest rate differs by plus/minus one percent, income from change in original terms of financial liabilities for the year ended 31 December 2020 would be KZT 4,160 million higher and KZT 3,321 million lower respectively (2019: KZT 13,135 million and KZT 15,268 million, respectively).

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

	2020	2019
Balance at 1 January	148,604	–
Addition as a result of business combination (Note 5)	123,645	143,625
Changes from financing cash flows		
Redemption of debt securities issued	–	(7,163)
	–	(7,163)
Changes in carrying amount from recognition of discount	(55,102)	
Interest expense	16,209	13,969
Interest paid	(1,549)	(1,827)
Balance at 31 December	231,807	148,604

32. Subordinated debts

Subordinated bonds

Subordinated debt comprises the following:

	31 December 2020	31 December 2019
Subordinated bonds	197,356	72,799
Cumulative non-redeemable preference shares	2,478	2,478
	199,834	75,277

As at 31 December 2020 and 31 December 2019, subordinated debt comprises quoted bonds and 2,500,000 cumulative non-redeemable preferred shares for the total amount of KZT 2,478 million. In case of bankruptcy, the subordinated debt would be repaid once the Group fully repays all other liabilities but before repayment of the cumulative non-redeemable preferred shares.

32. Subordinated debts, continued

A summary of bond issues at 31 December 2020 and 31 December 2019 is presented below:

	<i>Date of issue</i>	<i>Year of maturity</i>	<i>Coupon rate p.a.</i>	<i>Effective rate p.a.</i>	<i>Carrying amount</i>	
					<i>31 December 2020</i>	<i>31 December 2019</i>
KZT-denominated bonds of the first issue	24.12.2020	24.12.2025	9.00%	13.80%	83,635	—
KZT-denominated bonds of ATFBank JSC	10.02.2015	10.02.2025	10.00%	14.93%	36,805	—
KZT-denominated bonds of ATFBank JSC	10.02.2015	10.02.2025	10.00%	14.93%	19,119	—
KZT-denominated bonds of the thirteenth issue	10.04.2014	10.04.2021	8.00%	10.01%	10,102	9,924
KZT-denominated bonds of ATFBank JSC	22.12.2020	01.11.2035	0.10%	15.29%	8,630	—
KZT-denominated bonds of the sixth issue*	11.12.2020	25.10.2040	0.10%	14.60%	7,824	39,528
KZT-denominated bonds of ATFBank JSC	11.12.2020	01.11.2040	0.10%	15.29%	7,095	—
KZT-denominated bonds of the fourteenth issue	10.04.2014	10.04.2021	8.00%	10.01%	5,042	4,953
KZT-denominated bonds of ATFBank JSC	23.12.2020	01.11.2040	0.10%	15.29%	4,924	—
KZT-denominated bonds of the seventh issue	04.06.2013	04.06.2023	8.00%	10.01%	4,828	4,764
KZT-denominated bonds of the eighth issue	04.06.2013	04.06.2028	9.00%	10.01%	4,771	4,750
KZT-denominated bonds of the fifteenth issue	10.04.2014	10.04.2021	8.00%	10.01%	3,038	2,983
KZT-denominated bonds of the second issue**	11.12.2020	26.10.2040	0.10%	14.60%	1,543	4,981
KZT-denominated bonds	19.03.2013	19.03.2020	8.00%	9.70%	—	916
					197,356	72,799

Issued subordinated bonds of the Bank and its subsidiaries are quoted on KASE.

Participation in the Program of Strengthening of the Banking Sector Financial Stability

By Resolution of the NBRK No.191 dated 10 October 2017, the Bank was approved to participate in the Programme of Strengthening Financial Stability of the Banking Sector in the Republic of Kazakhstan (the “Programme”).

According to the terms of the Programme, the Bank received cash funds from the NBRK’s subsidiary, Joint Stock Company “Kazakhstan Sustainability Fund”, by virtue of issue of the Bank’s registered coupon subordinated bonds (“Bonds”) convertible to the Bank’s ordinary shares according to the terms of the Bond Issue Prospectus.

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

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

32. Subordinated debts, continued

Due to execution by the Bank of the action plan in accordance with the Resolution of the Management Board of the NBRK No. 95 dated 4 June 2019, the regulator approved the withdrawal of the Bank from participation in the Program.

In December 2020, as part of the sixth bond issue programme the Group issued the subordinated bonds with a total nominal value of KZT 100,000 million and a coupon rate of 9.0% per annum, which mature in 2025. The holder of these bonds is National Wealth Fund “Samruk-Kazyna” JSC. The Group determined the fair value of debt securities issued on initial recognition using a market rate of 13.8% p.a. The difference between the nominal value and fair value of the subordinated bonds at the date of initial recognition in the total amount of KZT 16,580 million was recognised in the consolidated statement of profit or loss and other comprehensive income within “Gain on modification and initial recognition of the financial liabilities from government institutions”. The market interest rate of 13.8% per annum was calculated given the yield curve of government securities in KZT having similar maturity period and credit risks of the respective securities of the Group.

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

* During 2020, as part of the fourth bond issue program the Group made amendments to the prospectus of bond issue, the holder of which is Kazakhstan Sustainability Fund JSC. New maturity of the bond is 276 months and maturity date is 25 October 2040. Previous maturity of the bond was 15 years and maturity date was 25 October 2032. A nominal interest rate was reduced from 4.0% to 0.1% per annum. The Agency of the RK for Regulation and Development of the Financial Market registered changes in the bond issue prospectus on 11 December 2020.

Change of maturity and interest rate on these bonds was considered to represent a significant modification of the terms by management of the Group and, therefore, resulted in derecognition of the existed liability and recognition of a new liability. The fair value of a new liability of the Group was determined by discounting the future contractual cash flows using a market interest rate of 14.6% per annum. The difference between the nominal value and fair value of the bonds as a result of significant modification at the date of initial recognition in the total amount of KZT 31,854 million was recognised in the consolidated statement of profit or loss and other comprehensive income within “Gain on modification and initial recognition of the financial liabilities from government institutions” (Note 5). The difference between the carrying amount and fair value of these subordinated bonds at the date of substantial modification was KZT 1,316 million, which represents income from the settlement of the financial liability, which was also included in the “Gain on modification and initial recognition of the financial liabilities from government institutions” in the consolidated statement of profit or loss and other comprehensive income. The market interest rate of 14.6% per annum was calculated given the yield curve of government securities in KZT having similar maturity period and credit risks of the respective securities of the Group.

** In March 2020, as part of the fourth bond issue programme the Bank placed the subordinated bonds with total nominal value of KZT 20,758 million, bearing a coupon rate of 0.1% per annum and maturing in 2030, and having a market interest rate of 12.1% per annum. The holder of these bonds is Kazakhstan Sustainability Fund JSC.

The Group used the following assumptions to estimate the market interest rate as at the date of recognition of liabilities:

- yield on long-term bonds issued by the MFRK for 10-year period;
- the Group's credit risk premium.

The difference between the nominal value and fair value of the subordinated bonds at the date of initial recognition in the total amount of KZT 14,018 million was recognised in the consolidated statement of profit or loss and other comprehensive income within “Gain on modification and initial recognition of the financial liabilities from government institutions”.

32 Subordinated debts, continued

Participation in the Program of Strengthening of the Banking Sector Financial Stability, continued

In December 2020 amendments were made to the prospectus of issue of these bonds in terms of their maturity. New maturity of the bond is 247 months and maturity date is 26 October 2040. The Agency of the RK for Regulation and Development of the Financial Market registered changes in the prospectus of issued of this bond on 11 December 2020. The fair value of a new liability of the Group was determined by discounting the future contractual cash flows using a market interest rate of 14.6% per annum.

The difference between the nominal value and fair value of the bonds as a result of significant modification at the date of initial recognition was KZT 7,115 million and was recognised in the consolidated statement of profit or loss and other comprehensive income within "Gain on modification and initial recognition of the financial liabilities from government institutions" (Note 5). The negative difference between the carrying amount and fair value of these subordinated bonds at the date of substantial modification was KZT 1,359 million, which represents income from the settlement of the financial liability, which was also included in the "Gain on modification and initial recognition of the financial liabilities from government institutions" in the consolidated statement of profit or loss and other comprehensive income.

Cumulative non-redeemable preference shares

Holders of cumulative non-redeemable preference shares receive a minimum cumulative dividend of 10% p. a. of the par value of their shareholding. The preference shares do not carry the right to vote unless the dividend is in arrears. All shares rank equally with regard to distribution of residual value of the Group's net assets, except that preference shareholders participate only to the extent of the face value of the shares adjusted for any dividends in arrears. All preference shares were issued and fully paid at price of KZT 1,000 each.

At 31 December 2020, the dividends accrued on cumulative non-redeemable preference shares amounted to KZT 250 million (31 December 2019: KZT 250 million).

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

	2020	2019
Balance at 1 January	75,277	–
Addition as a result of business combination (Note 5)	76,573	89,577
Changes from financing cash flows		
Placement of subordinated debt	120,758	–
Redemption of subordinated debt	(5,900)	(15,159)
	114,858	(15,159)
Changes in carrying amount from recognition of discount	(69,507)	–
Interest expense	10,033	8,560
Interest paid	(7,400)	(7,701)
Balance at 31 December	199,834	75,277

33. Liabilities to the mortgage company

Accounts payable to Mortgage Organization “Baspana” JSC

In 2018, the NBRK approved the residential mortgage programmes “Mortgage Program “7-20-25” and “Baspana Hit”. Main objective of these programme is providing opportunities to population to buy primary housing and encouraging banks to provide related financing. According to the terms of “Mortgage Program “7-20-25”, loans are issued in KZT, carry an annual interest rate of 7.0% and mature in 25 years. The initial contribution makes up 20%. According to the terms of “Baspana Hit” programme, loans are issued in KZT, carry an annual nominal interest rate equal to a base rate of the National Bank of the RK + 175 basis points and mature in 15 years. The initial contribution makes up 20%. No commission for issue and servicing a loan is charged.

As part of the programmes “Mortgage Program “7-20-25” and “Baspana Hit”, the Group issued mortgage loans to customers and transferred it to Mortgage Organization “Baspana” JSC (the “Operator”) in exchange for consideration in cash in the amount of the loans’ nominal value. The Group acts as an agent under this programme and receives a commission fee of 4.0% p.a. of the interest received.

The Group has determined that it neither transferred nor retained substantially all the risks and rewards of ownership of the assets transferred, in particular it has not transferred credit risk; however, the Group has determined that it retains control over the assets transferred and continues recognising loans to the extent of continuing involvement in the assets transferred. As the Group’s continuing involvement takes a form of the guarantee on the asset transferred, the extent of the Group’s continuing involvement is determined equal to maximum amount of consideration received that the Group has to return. The Group believes that the value of the guarantee is high enough and this guarantee will prevent the Operator from selling the asset transferred thereto, as such sale will be impracticable. As at 31 December 2020, the carrying amount of loans transferred to the Operator amounts to KZT 16,390 million and the carrying amount of liabilities to the Operator amounted to KZT 16,371 million (at 31 December 2019: the carrying amount of loans transferred to the Operator amounts to KZT 4,833 million and the carrying amount of the liabilities amounts to KZT 4,833 million).

34. Other liabilities

Other liabilities comprise the following items:

	<i>31 December 2020</i>	<i>31 December 2019</i>
Insurance and reinsurance payables	860	1,201
Trade payables	815	–
Accrued commission expenses	726	–
Liabilities on electronic money issued	203	1,262
Other lenders	3,517	2,801
Other financial liabilities	6,121	5,264
Vacation and other amounts due to employees	16,914	3,456
Provision for guarantees and letters of credit issued	3,107	3,311
Other prepayments	1,507	83
Other taxes payable	460	639
Deferred income on guarantees and letters of credit issued	408	448
Other non-financial liabilities	1,478	417
Other non-financial liabilities	23,874	8,354
Total other liabilities	29,995	13,618

35. Equity

Share capital

As at 31 December 2020 the authorised share capital comprises 697,500,000 ordinary shares (31 December 2019: 697,500,000 ordinary shares). The authorised, issued and outstanding share capital comprises 165,318,620 ordinary shares (31 December 2019: 132,317,024 ordinary shares). The shares have no nominal value.

In December 2020, as part of the business combination (*Note 5*), 33,001,596 ordinary shares were additionally issued at an offer price of KZT 1,262.39 per share for a total amount of KZT 41,661 million.

During 2019, the ordinary shares were additionally issued, including 4,400,000 ordinary shares at an offer price of KZT 2,000 per share, 39,281,706 ordinary shares at an offer price of KZT 1,782 per share and 11,135,318 ordinary shares at an offer price of KZT 1,032.75 per share as part of the business combination (*Note 5*).

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Group shareholders.

Nature and purpose of reserves

Revaluation reserve for property and equipment

The revaluation reserve of property and equipment is used to recognise revaluation increase in fair value of land and building as well as revaluation decrease in fair value of land and building, however, revaluation decrease is recognised to the extent that it relates to a previous revaluation increase in the value of the same asset previously recognised in equity.

Fair value reserve

Fair value reserve comprises change in the fair value of financial assets designated at fair value through other comprehensive income.

Cumulative reserve for translation in presentation currency

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

Reverse acquisition reserve

Under the business combination (*Notes 1 and 5*), First Heartland Bank JSC was identified as the acquirer. However, due to the fact that the Bank is the parent of the Group, its legally issued share capital is reflected in these financial statements as a component of equity. The reverse acquisition reserve represents an adjustment to the Group's equity in accordance with IFRS, in order to allow the registered share capital of the Bank to be presented as a separate component.

Dividends

In accordance with Kazakhstan legislation and the Bank's charter documents, distributable reserves are subject to the rules and regulations of the Republic of Kazakhstan.

On 5 and 6 March 2020, in accordance with decision of the sole shareholder of First Heartland Securities JSC, No. 020320/A dated 2 March 2020, dividends on the Bank's ordinary shares for 2013, 2014 and 2015 were paid in the amount of KZT 19,289 million (KZT 145.57 per ordinary share).

On 20 April 2020, in accordance with decision of the sole shareholder of First Heartland Securities JSC, No. 170420/A dated 17 April 2020, dividends on the Bank's ordinary shares for 2015, 2016, 2017 and 2019 were paid in the amount of KZT 94,151 million (KZT 114.45, KZT 77.46, KZT 327.66 and KZT 191.24 per ordinary share, respectively).

35. Equity, continued

Nature and purpose of reserves, continued

Dividends, continued

According to the decision of the meeting of the shareholders on 29 April 2019 and 26 August 2019, it was decided to distribute dividends in the amount of KZT 2,500 million and KZT 2,750 million, respectively. The amount of dividends per one ordinary share is KZT 501.82 and KZT 552.00, respectively.

Movements in 'other provisions' captions

	<i>Revaluation reserve for property and equipment</i>	<i>Fair value reserve</i>	<i>Cumulative foreign currency translation reserve</i>	<i>Total</i>
At 1 January 2019	1,108	–	–	1,108
Revaluation reserve for property and equipment, net of tax (<i>KZT 167 million, Note 17</i>)	837	–	–	837
Net change in fair value of debt instruments measured at FVOCI	–	5,356	–	5,356
Change in ECL allowance of debt instruments measured at FVOCI (<i>Note 9</i>)	–	117	–	117
Amount reclassified to profit or loss on derecognition of investment securities measured at FVOCI	–	(1,365)	–	(1,365)
Foreign currency differences arising on translation of foreign operations			649	649
At 31 December 2019	1,945	4,108	649	6,702
Revaluation reserve for property and equipment, net of income tax (<i>KZT 3 million, Note 24</i>)	48	–	–	48
Depreciation of revaluation reserve, net of income tax (<i>KZT 142 million</i>)	(568)	–	–	(568)
Net change in fair value of debt instruments measured at FVOCI	–	(8,542)	–	(8,542)
Change in ECL allowance of debt instruments measured at FVOCI (<i>Note 9</i>)	–	7,201	–	7,201
Amount reclassified to profit or loss on derecognition of investment securities measured at FVOCI	–	3,420	–	3,420
Foreign currency differences arising on translation of foreign operations	–	–	(1,413)	(1,413)
At 31 December 2020	1,425	6,187	(764)	6,848

36. Earnings per share

Basic and diluted earnings per share

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

	<i>2020</i>	<i>2019*</i>
Basic earnings per share		
Profit attributable to ordinary shareholders	258,199	275,066
Weighted average number of ordinary shares	132,497,361	114,069,555
Basic earnings per share, in KZT	1,948.71	2,411.39

* Weighted average First Heartland Bank JSC's historical weighted average number of ordinary shares outstanding is adjusted multiplying the exchange ratio established in the merger agreement (*Note 5*).

37. Analysis by segment

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

- banking – includes extension of loans, taking deposits and other transactions with customers; trading and corporate finance activities, funding the Group's activities and banking risk management through borrowings, and issue of debt securities;
- insurance – conducting insurance and reinsurance activities.

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

Segment breakdown of assets and liabilities is set out below:

	<i>31 December 2020</i>	<i>31 December 2019</i>
Assets		
Banking	3,290,639	1,493,298
Insurance	22,724	17,043
Unallocated assets	66,420	15,804
Total assets	3,379,783	1,526,145
Liabilities		
Banking	2,618,862	1,126,005
Insurance	11,566	7,440
Unallocated liabilities	11,894	2,345
Total liabilities	2,642,322	1,135,790

37. Segment analysis, continued

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

	<i>Banking</i>	<i>Insurance</i>	<i>Unallocated segments</i>	<i>Total</i>
Interest income calculated using the effective interest method	113,332	741	572	114,645
Other interest income	3,579	159	833	4,571
Fee and commission income	9,866	9	576	10,451
Gross earned insurance premiums	—	10,523	—	10,523
Net gain on change in the fair value of loans to customers measured at fair value through other comprehensive income	336	—	—	336
Net gain on change in the fair value of financial instruments measured at fair value through profit or loss	12,380	41	465	12,886
Net foreign exchange gain	13,111	277	975	14,363
Gain on modification of the financial liabilities to entities with state ownership	124,592	—	—	124,592
Other income/(expense) from impairment of estimated liabilities	1,618	(104)	(365)	1,149
Other operating income	1,693	85	2,627	4,405
Total revenue	280,507	11,731	5,683	297,921
Interest expense	(73,691)	—	(1,518)	(75,209)
Fee and commission expense	(4,720)	(2,384)	(347)	(7,451)
Written premiums ceded to reinsurers	—	(1,920)	—	(1,920)
Net insurance claims incurred	—	(3,146)	—	(3,146)
(Accrual)/reversal of provisions for expected credit losses on debt financial assets	(36,374)	(121)	1,264	(35,231)
Net loss on securities measured at fair value through other comprehensive income	(3,317)	—	(103)	(3,420)
Impairment loss on investments in subsidiaries	(5,171)	—	—	(5,171)
Loss on revaluation of property and equipment and intangible assets	(264)	—	—	(264)
Personnel expenses	(35,085)	(1,863)	(2,084)	(39,032)
Other general and administrative expenses	(18,463)	(688)	(763)	(19,914)
Total expenses	(177,085)	(10,122)	(3,551)	(190,758)
Segment financial result	103,422	1,609	2,132	107,163
Corporate income tax expense				(24,745)
Net profit after corporate income tax				82,418
Other segment items				
Additions of property and equipment	345	2	13	360
Depreciation and amortisation	4,299	45	52	4,396

37. Segment analysis, continued

Segment information for the main reportable segments for the year ended 31 December 2019 is set out below:

	<i>Banking</i>	<i>Insurance</i>	<i>Unallocated segments</i>	<i>Total</i>
Interest income calculated using the effective interest method	117,924	752	403	119,079
Other interest income	9,724	259	145	10,128
Fee and commission income	9,713	296	138	10,147
Gross earned insurance premiums	–	5,694	–	5,694
Net gain on securities measured at fair value through other comprehensive income	1,364	–	1	1,365
Net gain/(loss) on trading securities transactions	132	(1)	426	557
Net foreign exchange gain/(loss)	8,942	(25)	(7)	8,910
Other income from impairment of estimated liabilities	6,923	–	–	6,923
Other operating income/(expense)	(422)	19	516	113
Total income	154,300	6,994	1,622	162,916
Interest expense	(62,660)	–	(291)	(62,951)
Fee and commission expense	(3,660)	(1,448)	(23)	(5,131)
Written premiums ceded to reinsurers	–	(1,521)	–	(1,521)
Net insurance claims incurred	–	(1,063)	–	(1,063)
(Accrual)/reversal of provisions for expected credit losses on debt financial assets	1,458	(84)	(195)	1,179
Impairment loss on investments in subsidiaries	(37,943)	–	–	(37,943)
Loss on impairment of property and equipment	(1,240)	–	–	(1,240)
Loss on impairment of assets held for sale and investment property	(4,192)	–	327	(3,865)
Personnel expenses	(20,437)	(1,169)	(302)	(21,908)
Other general and administrative expenses	(21,954)	(530)	(691)	(23,175)
Segment financial result	3,672	1,179	447	5,298
Corporate income tax expense				(9,586)
Net profit after corporate income tax				(4,288)
Other segment items				
Additions of property and equipment	1,155	31	15	1,201
Depreciation and amortisation	4,232	43	186	4,461

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

37. Segment analysis, continued

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

	2020	2019
Revenues		
Total revenue for reportable segments	297,921	162,916
Elimination of inter-segment revenue	(969)	(506)
Consolidated revenue	296,952	162,410
Profit or loss		
Gain on reverse acquisition	–	241,414
Bargain purchase gain	170,609	
Total profit for reportable segments	82,418	(4,288)
Elimination of inter-segment profit or loss	5,172	37,940
Consolidated profit for the year	258,199	275,066
	2020	2019
Assets		
Total assets for reportable segments	3,379,783	1,526,145
Elimination of inter-segment assets	(208,105)	(34,020)
Consolidated assets	3,171,678	1,492,125
Liabilities		
Total liabilities for reportable segments	2,642,322	1,135,790
Elimination of inter-segment liabilities	(9,937)	(2,971)
Consolidated liabilities	2,632,385	1,132,819

The geographic information for 2020 is as follows:

	<i>At 31 December 2020</i>		<i>At 31 December 2019</i>	
	<i>Revenues</i>	<i>Non-current assets</i>	<i>Revenues</i>	<i>Non-current assets</i>
Republic of Kazakhstan	272,327	103,064	137,398	59,082
Russian Federation	25,594	6,397	25,518	8,253
Kyrgyz Republic	–	5,028	–	–
Total	297,921	114,489	162,916	67,335

The majority of revenues from external customers relate to residents of the Republic of Kazakhstan. The majority of non-current assets are located in the Republic of Kazakhstan.

The Group operates in the Republic of Kazakhstan and foreign countries. In presenting the geographic information, the allocation of revenue has been based on the geographic location of customers and assets.

Major customers

For 2020 and 2019, no corporate customers of the reportable segments represented more than 10% of the Group's total revenue.

38. Risk management

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

Risk management policies and procedures

The risk management policies aim to identify, analyse and manage the risks faced by the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions and emerging best practice.

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

The Management Board is responsible for monitoring and implementing risk mitigation measures and ensuring that the Group operates within established risk parameters. The Heads of the Risk Departments are responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. The director of these Risk Departments is the Chief Risk Officer ("CRO").

Credit, market and liquidity risks are managed and controlled by the Board of Directors, Management Board and through a system of Credit Committees and the Authorised Collegial Bodies (ACB). In order to facilitate efficient and effective decision-making, the Group established a hierarchy of credit committees, depending on the type and amount of the exposure.

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

Market risk

Market risk is the probability of financial losses on balance sheet and off-balance sheet items, due to adverse changes in the market situation, expressed in changes in market interest rates, foreign exchange rates, market value of financial instruments, goods. The main types of market risk are interest rate, currency and price risks.

Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices and foreign currency rates.

The Group manages market risk through performance of the following tasks:

- determining and establishing the levels of market risk appetite and developing action plans in case of breaches of the established levels, including responsibility for taking risks that have been determined to be high;
- building up an effective market risk management system of the Group;
- ensuring an optimal ratio between profitability and the level of risk assumed;
- ensuring that the authorised collegial bodies (ACB) who make decisions involving risks, are aware of the market risk by establishing an effective corporate governance system and having complete, reliable and timely management information;
- identifying the participants to the process and determining the procedure for their interaction while managing market risk;
- ensuring continuous monitoring and control of established levels of risk appetite and internal limits of market risk;
- performing stress testing to identify the level of potential market risks, assessing the Group's ability to withstand changes;

38. Risk management, continued

Market risk, continued

- performing back-testing to check the effectiveness of the risk measurement procedures using historical data on the Group's operations;
- minimising risks related to the failure of the Group's staff to comply with the established limits and market risk powers;
- developing mechanisms to address unexpected or extraordinary situations of the Group related to a significant change in market indicators resulting in increase in market risk.

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

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

The Group also utilises Value-at-Risk ("VaR") methodology to monitor market risk of its trading positions.

During 2020 and 2019 the Group implemented the following measures: improved the market risk management procedures; improved procedures of the market risk stress testing; improved the system of the market risk management reporting; revised internal limits form market risk.

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

Interest rate risk

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

38. Risk management, continued

Market risk, continued

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major interest bearing financial instruments as at 31 December 2020 is as follows:

	<i>Less than 1 month</i>	<i>From 1 to 3 months</i>	<i>From 3 to 12 months</i>	<i>From 1 to 5 years</i>	<i>More than 5 years</i>	<i>Non-interest bearing</i>	<i>At 31 December 2019</i>
Assets							
Cash and cash equivalents	537,298	355	-	-	-	866,604	1,404,257
Amounts due from banks and other financial institutions	740	11,447	2,409	491	3,345	65,297	83,729
Trading securities	8,335	749	3,475	17,982	5,040	3,923	39,504
Investment securities	84,454	95,980	124,446	31,041	240	32	336,193
Loans to customers	146,301	43,407	192,433	452,707	154,563	152	989,563
Promissory notes from the MFRK	657	-	-	102,457	-	-	103,114
	777,785	151,938	322,763	604,678	163,188	936,008	2,956,360
Liabilities							
Amounts due to banks and other financial institutions	24,518	5,279	8,089	19,772	26,709	793	85,160
Amounts payable under repurchase agreements	2,411	-	-	-	-	-	2,411
Amounts due to customers	267,789	132,067	723,972	241,125	100,063	431,666	1,896,682
Debt securities issued	359	4,420	9,527	67,932	149,569	-	231,807
Subordinated debts	64	2,307	19,519	64,540	110,904	2,500	199,834
	295,141	144,073	761,107	393,369	387,245	434,959	2,415,894
	482,644	7,865	(438,344)	211,309	(224,057)	501,049	540,466

38. Risk management, continued

A summary of the interest gap position for major interest bearing financial instruments as at 31 December 2019 is as follows:

	<i>Less than 1 month</i>	<i>From 1 to 3 months</i>	<i>From 3 to 12 months</i>	<i>From 1 to 5 years</i>	<i>More than 5 years</i>	<i>Non-interest bearing</i>	<i>At 31 December 2019</i>
Assets							
Cash and cash equivalents	145,653	–	–	–	–	152,394	298,047
Amounts due from banks and other financial institutions	398	–	748	–	46	2,356	3,548
Trading securities	265	448	1,499	1,492	114	1209	5,027
Investment securities	274,160	232,026	26,974	20,013	53,626	62	606,861
Loans to customers	116,792	5,818	33,314	166,049	92,619	59	414,651
Promissory notes from the MFRK	–	–	536	69,705	–	–	70,241
	537,268	238,292	63,071	257,259	146,405	156,080	1,398,375
Liabilities							
Amounts due to banks and other financial institutions	244	–	–	3,375	6,217	–	9,836
Amounts due to customers	115,661	61,440	239,487	279,530	2,727	92,781	791,626
Debt securities issued	176	272	9,863	–	138,293	–	148,604
Subordinated debts	–	917	6,103	22,519	43,510	2,228	75,277
Amounts payable under repurchase agreements	4,987	–	–	–	–	–	4,987
	121,068	62,629	255,453	305,424	190,747	95,009	1,030,330
	416,200	175,663	(192,382)	(48,165)	(44,342)	61,071	368,045

38. Risk management, continued

Average effective interest rate

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2020 and 31 December 2019. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	31 December 2020			31 December 2019		
	Average effective interest rate, %			Average effective interest rate, %		
	p.a.			p.a.		
	KZT	US D	Other currencies	KZT	US D	Other currencies
Interest bearing assets						
Cash and cash equivalents	8.67	0.67	0.68	9.52	1.47	6.30
Amounts due from banks and other financial institutions	8.62	1.72	0.02	8.59	1.80	–
Trading securities	9.42	1.77	3.67	12.59	5.49	–
Investment securities measured at fair value through other comprehensive income	10.13	1.87	–	9.03	2.47	0.60
Investment securities measured at amortised cost	10.06	3.01	7.90	8.12	3.36	–
Loans to customers	14.35	7.73	10.34	17.70	10.44	19.88
Promissory notes from the MFRK	–	3.93	–	–	4.04	–
Interest bearing liabilities						
Amounts due to banks and other financial institutions	6.97	0.08	–	11.26	–	–
Amounts due to customers	8.36	0.91	2.71	10.40	1.74	1.15
Debt securities issued	10.69	3.55	–	11.28	–	–
Subordinated debt	12.88	–	–	12.57	–	–
Lease liabilities	11.30	4.92	7.91	13.25	4.00	7.45
Amounts payable under repurchase agreements	–	1.37	–	10.00	–	–

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. As the financial instruments have fixed interest rates, the interest rate gap analysis is consistent with the maturity analysis.

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities of banking book. An analysis of sensitivity of profit or loss and equity (net of taxes) to changes in interest rate repricing risk based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities expected for the period of up to twelve months existing as at 31 December 2020 and 2019 is as follows:

	31 December 2020		31 December 2019	
	Profit or loss	Equity	Profit or loss	Equity
100 bp parallel fall	(2,438)	(2,438)	(3,785)	(3,785)
100 bp parallel rise	2,438	2,438	3,785	3,785

38. Risk management, continued

Average effective interest rate, continued

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of financial assets at FVTPL and financial assets at FVOCI due to changes in the interest rates based on positions existing as at 31 December 2020 and 31 December 2019 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves using modified duration method is as follows:

	<i>31 December 2020</i>		<i>31 December 2019</i>	
	<i>Profit or loss</i>	<i>Equity</i>	<i>Profit or loss</i>	<i>Equity</i>
100 bp parallel fall	904	1,517	6,186	781
100 bp parallel rise	(1,870)	(2,350)	(6,186)	(781)

Currency risk

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

Currency risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates.

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

<i>At 31 December 2020</i>	<i>KZT</i>	<i>USD</i>	<i>EUR</i>	<i>RUR</i>	<i>Other currencies</i>	<i>Total</i>
Assets						
Cash and cash equivalents	690,081	600,732	46,562	29,822	37,060	1,404,257
Amounts due from banks and other financial institutions	57,494	23,450	1,743	919	123	83,729
Trading securities	9,408	30,023	—	—	73	39,504
Investment securities	297,504	32,230	—	—	6,459	336,193
Loans to customers	656,479	177,899	35	90,811	64,339	989,563
Promissory notes from the MFRK*	—	103,114	—	—	—	103,114
Insurance premiums under reinsurance contracts	2,842	1,029	—	—	—	3,871
Other financial assets	16,386	5,192	91	322	1,245	23,236
Total financial assets	1,730,194	973,669	48,431	121,874	109,299	2,983,467
Liabilities						
Amounts due to banks and other financial institutions	42,233	17,885	2	67	24,973	85,160
Amounts due to customers	967,864	725,721	40,604	100,760	61,733	1,896,682
Debt securities issued	219,628	12,179	—	—	—	231,807
Subordinated debt	199,834	—	—	—	—	199,834
Amounts payable under repurchase agreements	—	2,411	—	—	—	2,411
Lease liabilities	3,653	945	—	362	365	5,325
Other financial liabilities	4,136	933	283	287	482	6,121
Total financial liabilities	1,437,348	760,074	40,889	101,476	87,553	2,427,340
The effect of derivatives held for risk management	317,151	(301,145)	3,773	(6,303)	3,105	16,581
Net position as at 31 December 2020	609,997	(87,550)	11,315	14,095	24,851	572,708

* Promissory notes from the MFRK are denominated in KZT but are indexed to the change in US dollar to KZT exchange rate.

38. Risk management, continued

The following table shows the currency structure of finance assets and liabilities at 31 December 2019:

<i>At 31 December 2019</i>	<i>KZT</i>	<i>USD</i>	<i>EUR</i>	<i>RUR</i>	<i>Other currencies</i>	<i>Total</i>
Assets						
Cash and cash equivalents	122,232	62,976	83,463	27,710	1,666	298,047
Amounts due from banks and other financial institutions	2,329	112	—	1,105	2	3,548
Trading securities	4,150	815	—	—	62	5,027
Investment securities	533,899	19,318	53,644	—	—	606,861
Loans to customers	226,860	59,459	243	128,089	—	414,651
Promissory notes from the MFRK	—	70,241	—	—	—	70,241
Insurance premiums under reinsurance contracts	1,113	—	—	—	—	1,113
Other financial assets	1,999	58	6,016	353	—	8,426
Total financial assets	892,582	212,979	143,366	157,257	1,730	1,407,914
Liabilities						
Amounts due to banks and other financial institutions	9,713	115	8	—	—	9,836
Amounts due to customers	346,632	285,664	21,951	135,788	1,591	791,626
Debt securities issued	148,604	—	—	—	—	148,604
Subordinated debt	75,277	—	—	—	—	75,277
Amounts payable under repurchase agreements	4,987	—	—	—	—	4,987
Lease liabilities	3,540	30	—	919	—	4,489
Other financial liabilities	3,495	281	75	1,413	—	5,264
Total financial liabilities	592,248	286,090	22,034	138,120	1,591	1,040,083
The effect of derivatives held for risk management	1,291	124,570	(121,193)	(4,697)	—	(29)
Net position as at 31 December 2019	301,625	51,459	139	14,440	139	367,802

A weakening of the KZT, as indicated below, against the following currencies at 31 December 2020 and 31 December 2019, would have decreased/increased equity and profit or loss by the amounts shown below. This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	<i>31 December 2020</i>		<i>31 December 2019</i>	
	<i>Profit or loss</i>	<i>Equity</i>	<i>Profit or loss</i>	<i>Equity</i>
20% appreciation of USD against KZT	(14,008)	(14,008)	8,233	8,233
20% appreciation of EUR against KZT	1,810	1,810	22	22
20% appreciation of RUR against KZT	2,255	2,255	(20)	(20)

A strengthening of the KZT against the above currencies at 31 December 2020 and 2019 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

38. Risk management, continued

Currency risk, continued

Other price risk

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

An analysis of sensitivity of profit or loss and equity to changes in equity securities prices based on positions for equity instruments existing as at 31 December 2020 and 2019 and a simplified scenario of a 10% change in all equity securities prices is as follows:

	31 December 2020		31 December 2019	
	<i>Profit or loss</i>	<i>Equity</i>	<i>Profit or loss</i>	<i>Equity</i>
10% increase in securities prices	517	519	100	5
10% decrease in securities prices	(517)	(519)	(100)	(5)

Credit risk

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

The credit policy establishes and determines the major requirements to be followed in lending activity, including:

- aims and objectives of the Group's lending activity;
- priorities and restrictions in lending;
- credit risk allowable level;
- system of the credit risk limits;
- terms of granting loans to the individuals and legal entities, including entities having special relations with the Bank;
- stages and participants of the lending process;
- decision-making system;
- key principles and methods of credit risk management in the Group;
- internal control system for the credit risk management process.

On the basis of the Credit Policy, which covers the key directions of the Group's activity and the system of the credit risk management instruments, the Group has built a more efficient lending process in the segments of the corporate business, small and medium-size business and retail business, as described below.

Corporate and SME loan credit applications are analysed by the Credit Analysis Department and SME lending divisions in branches, respectively, which are responsible for the analysis of issuing loans. The minimum rating required for the borrower to obtain a loan has been established in accordance with the decision of the Board of Directors of the Bank.

Then, to consider a project at the meeting of the authorised body that makes decisions on concluding a transaction, the opinions of the Group's departments are provided, including: opinion of the Legal Department; opinion of the Security Department; opinion of the Collateral Department; and opinion of the Risk Management Department.

For the purpose of effective risk management, the Risk Management Department, while analysing the projects, assigns a rating (probability of default) to the borrower.

38. Risk management, continued

Credit risk, continued

Currently the Group uses the rating and scoring models for each business segment: small, medium, corporate and retail clients.

Based on the submitted opinions, the Credit Committee makes a decision depending on the level of authority to make decisions. In this case, transactions in excess of 5% of the Bank's equity are approved exclusively by the decision of the Board of Directors of the Bank.

Retail loan credit applications are reviewed by the Retail Lending Department through the use of models and application data verification procedures developed together with the Credit Risk Department.

To achieve the Group's key performance indicators, while setting the interest rates for the customers from the corporate business, SME and retail business, the level of credit risk accepted under each transaction is taken into account, and at least the following factors are analysed:

- rating/scoring (probability of default of the borrower),
- losses if the borrower defaults,
- funding costs,
- cost of capital,
- the Group's overheads.

As a part of this lending process, to ensure the timely response to the changes in the financial position and paying capacity of the Borrower and ability to make the appropriate management decisions, the Group exercises the ongoing monitoring of the status of individual loans, and regularly revalues the paying capacity of its borrowers. Revaluation procedures are based on analysis of the financial statements of the borrower as at the latest reporting date, or other information provided by the borrower itself or otherwise obtained by the Group.

Also, requirements to collateral are very important for the management of credit risk. The Group had developed and implemented effective procedures for the monitoring of collateral, in order to avoid the decrease of coverage of the credit portfolio by the collateral.

To ensure the effective risk management at the portfolio level the Group uses such methods as diversification of the loan portfolio and system of management reporting, which allows exercising the regular monitoring of the Group lending activity, identifying the major problems and implementing the risk minimisation instruments as well as stress-testing of credit risk.

The Group has improved the system of credit risk limits, which comprises:

- credit risk allowable level,
- limits by the categories of borrowers,
- limits on the types of lending,
- limits for the retail segment, comprising the portfolio limits and individual limits,
- limits on lending in terms of the industries, etc.

Monitoring and control are exercised periodically and findings are submitted for consideration to the Management Board/Board of Directors of the Bank.

This instrument allows the Group to control the lending activity based on the strategic development targets and risk taking in different areas.

The system of management reporting is functioning within the Group, the purpose of which is to provide the high quality, reliable and accurate information on the credit risk level and its deviation from the set value. The management reports are generated at the level of both the Group and individual segments on a monthly/quarterly basis, and submitted for consideration to the Management Board/Board of Directors of the Bank.

38. Risk management, continued

Credit risk, continued

The Group applies the methodology of credit risk stress testing, which is performed using a scenario analysis and sensitivity analysis. While performing the stress testing, the Group uses the following scenarios:

- general business scenario, which is based on assessment of influence of deterioration of the economic situation in the country, including decline in economic growth in general and in separate industries;
- scenario specific to the Group's business, which is based on assessment of influence of the local stress factors, including those related to the specifics of the Group's lending activity and structure of its loan portfolio.

Credit risk stress testing makes it possible to respond on a timely basis to changes in macroeconomic and other indicators that may adversely affect the Group's operations, and to forecast the impact of these factors and develop risk mitigation methods.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the unconsolidated statement of financial position and unrecognised contractual commitment amounts. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The maximum exposure to credit risk from financial assets at the reporting date is as follows:

	<i>31 December 2020</i>	<i>31 December 2019</i>
Assets		
Cash and cash equivalents	1,296,844	256,857
Amount due from banks and other financial institutions	83,729	3,548
Trading securities	34,123	3,773
Investment securities	335,983	606,799
Loans to customers	989,563	414,651
Promissory notes from the MFRK	103,114	70,241
Insurance premiums	3,871	3,313
Other financial assets	23,236	8,426
Total maximum exposure to credit risk	2,870,463	1,367,608

For the analysis of concentration of credit risk in respect of loans to customers refer to *Note 23*.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in *Note 38*.

As at 31 December 2020 the Group has no debtors or groups of connected debtors (31 December 2019: none), credit risk exposure to whom exceeds 10% of maximum credit risk exposure.

Offsetting financial assets and liabilities

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

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

Similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements and securities borrowing and lending agreements.

38. Risk management, continued

Offsetting financial assets and liabilities, continued

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

- loans to customers collateralised by cash on bank deposits; and
- repurchase and reverse repurchase agreements.

This means that securities received/given as collateral can be pledged or sold during the term of the transaction but must be returned on maturity of the transaction. The terms also give each counterparty the right to terminate the related transitions upon the counterparty's failure to post collateral.

The following table provides information on financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2020:

Types of financial assets/liabilities	Gross amounts of recognised financial assets/liabilities	Gross amount of recognised financial assets/liabilities offset in the consolidated statement of financial position	Net amount of financial assets/liabilities presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position		
				Financial instruments	Cash collateral received	Net amount
Loans to customers	17,613	–	17,613	–	(5,173)	12,440
Amounts receivable under reverse repurchase agreements	38,240	–	38,240	(38,240)	–	–
Total financial assets	55,853	–	55,853	(38,240)	(5,173)	12,440
Amounts due to customers	5,173	–	5,173	(5,173)	–	–
Amounts payable under repurchase agreements	2,411	–	2,411	(2,411)	–	–
Total financial liabilities	7,584	–	7,584	(7,584)	–	–

38. Risk management, continued

Offsetting financial assets and liabilities, continued

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

Types of financial assets/liabilities	Gross amounts of recognised financial assets/liabilities	Gross amount of recognised financial assets/liabilities offset in the consolidated statement of financial position	Net amount of financial assets/liabilities presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral received	
Loans to customers	14,688	–	14,688	–	(4,074)	10,614
Amounts receivable under reverse repurchase agreements	24,523	–	24,523	(24,523)	–	–
Total financial assets	39,211	–	39,211	(24,523)	(4,074)	10,614
Amounts due to customers	4,074	–	4,074	(4,074)	–	–
Amounts payable under repurchase agreements	4,987	–	4,987	(4,987)	–	–
Total financial liabilities	9,061	–	9,061	(9,061)	–	–

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

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

Liquidity risk

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

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

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

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

38. Risk management, continued

Liquidity risk, continued

In the process of liquidity risk management the Group is governed by the following principles:

- liquidity is managed on a day-to-day basis and continuously;
- sound management of assets and liabilities;
- management of access to the interbank market;
- diversification and stability of liabilities;
- application of the methods and instruments for the liquidity risk assessment, which do not contradict the regulatory legal acts of the NBRK;
- clear split of the powers and responsibility for liquidity management between the bodies of the Group, its officials and business units;
- setting of limits that ensure the adequate level of liquidity and meet the size, nature of business and financial position of the Group;
- in case of a conflict between the liquidity and returns, to make decision in favour of liquidity;
- planning of the liquidity requirements;
- regular monitoring of the decisions to provide liquidity, which have been made before.

Liquidity risk management policy provides for assessment of the total liquidity requirement under both normal and stressed conditions, taking into account

- the Group's strategy and those types of activity, which expose the Group to the liquidity risk;
- the Group's risk appetite strategy;
- size, nature and complexity of the Group's business;
- size of the Group's exposure to liquidity risk and assessment of its impact on the Group's financial position;
- the results of the risk assessment, including those obtained through stress testing;
- the effectiveness of the liquidity risk management procedures previously applied by the Group;
- expectations of internal organisational and/or external changes in market conditions;
- legislation of the Republic of Kazakhstan.

To manage the liquidity risk, a system of the liquidity risk management is established, which is based on the *Rules for the Formation of the Risk Management and Internal Control System for Second-tier Banks*, approved by Resolution No.188 of the NBRK's Management Board of dated 12 November 2019, and standards and instruments recommended by Basel Committee on Bank Supervision and complies with the requirements of the NBRK and best global practices. The liquidity risk management system meets the current market situation, strategy, size and level of complexity of the Group's operations and ensures the efficient identification, measurement, monitoring and control of the Group's liquidity risk, with due consideration of the intra-group transactions.

The Group seeks to actively support a diversified and stable funding base comprising debt securities in issue, long- and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and efficiently to unforeseen liquidity requirements.

38. Risk management, continued

Liquidity risk, continued

The liquidity position is monitored on a daily basis and liquidity forecasting is performed on a regular basis by the Strategic Risks Department both under normal and stress market conditions. Under normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a daily basis. Decisions on liquidity management are made by the authorised collegial body and implemented by the Strategic Risks Department.

The following tables show the undiscounted cash flows on financial liabilities and unrecognised credit related commitments on the basis of their earliest possible contractual maturity. The total gross outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial assets, liability or credit related commitment.

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

<i>As at 31 December 2020</i>	<i>Demand and less than 1 month</i>	<i>From 1 to 3 months</i>	<i>From 3 months to 1 year</i>	<i>From 1 to 5 years</i>	<i>More than 5 years</i>	<i>No maturity</i>	<i>Total gross amount outflow</i>	<i>Total</i>
Liabilities								
Amounts due to banks and other financial institutions	19,338	5,279	8,118	19,887	49,045	793	102,460	85,160
Derivative financial instruments	193	73	–	–	–	–	266	266
Amounts payable under repurchase agreements	2,411	–	–	–	–	–	2,411	2,411
Amounts due to customers	750,920	141,214	683,200	255,230	104,247	–	1,934,811	1,896,682
Debt securities issued	319	6,260	7,233	121,755	683,282	–	818,849	231,807
Subordinated debts	–	3,110	33,109	130,609	474,862	–	641,690	199,834
Lease liabilities	134	455	2,566	6,703	77	–	9,935	5,325
Other financial liabilities	4,044	1,528	6	–	–	994	6,572	5,306
Total liabilities	777,359	157,919	734,232	534,184	1,311,513	1,787	3,516,994	2,426,791
Credit related commitments	174,315	–	–	–	–	–	174,315	174,315

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

38. Risk management, continued

Liquidity risk, continued

The maturity analysis for financial liabilities as at 31 December 2019 is as follows:

<i>At 31 December 2019</i>	<i>Demand and less</i>	<i>From 1 to 3</i>	<i>From 3</i>	<i>From 1 to 5</i>	<i>More than 5</i>	<i>No maturity</i>	<i>Total gross</i>	
Liabilities	than 1 month	months	months	years	years		amount outflow	Total
Amounts due to banks and other financial institutions	246	341	1,469	2,083	28,976	—	33,115	9,836
Derivative financial instruments	42	—	—	—	—	—	42	42
Amounts payable under repurchase agreements	5,027	—	—	—	—	—	5,027	4,987
Amounts due to customers	328,996	50,002	190,670	263,949	3,605	—	837,222	791,626
Debt securities issued	319	300	881	15,929	618,882	—	636,311	148,604
Subordinated debts	—	936	11,474	46,917	134,061	—	193,388	75,277
Lease liabilities	25	382	1,603	7,019	159	—	9,188	4,489
Other financial liabilities	1,700	2,087	574	162	14	727	5,264	5,264
Total liabilities	336,355	54,048	206,671	336,059	785,697	727	1,719,557	1,040,125
Credit related commitments	2,531	—	—	—	—	—	2,531	2,531

The tables above show the undiscounted cash flows of non-derivative financial liabilities, including issued financial guarantee contracts, and unrecognised loan commitments, on the basis of their earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

In accordance with Kazakhstan legislation, depositors can withdraw their term deposits at any time, losing in most of the cases the accrued interest. These deposits are classified in accordance with their stated maturity dates. In accordance with legislation of the Russian Federation and the Republic of Kyrgyzstan, individuals can withdraw their term deposits at any time, losing in most of the cases the accrued interest. As at 31 December 2020, the carrying amount of these term deposits amounted to KZT 799,301 million (31 December 2019: KZT 515,304 million). The amount of such deposits, by each time band as at 31 December 2020, is as follows:

- demand and less than one month - KZT 54,428 million (31 December 2019: KZT 46,325 million),
- from 1 to 3 months - KZT 62,332 million (31 December 2019: KZT 31,228 million),
- from 3 months to 1 year - KZT 485,328 million (31 December 2019: KZT 190,670 million),
- from 1 to 5 years - KZT 191,583 million (31 December 2019: KZT 247,081 million),
- more than 5 years - KZT 5,630 million (31 December 2019: none).

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38. Risk management, continued
Liquidity risk, continued

However management believes that in spite of this early withdrawal option and the fact that a substantial portion of customer accounts are on demand, diversification of these customer accounts and deposits by number and type of depositors, and the past experience of the Group indicates that these customer accounts provide a long-term and stable source of funding.

Management expects that the cash flows from certain assets and liabilities will be different from their contractual terms, either because management has the discretionary ability to manage the cash flows, or because past experience indicates that cash flows will differ from contractual terms.

The table below shows an analysis, by contractual maturities, of the amounts recognised in the consolidated statement of financial position as at 31 December 2020:

<i>At 31 December 2020</i>	<i>Demand and less than 1 month</i>	<i>From 1 to 3 months</i>	<i>From 3 to 12 months</i>	<i>From 1 to 5 years</i>	<i>More than 5 years</i>	<i>No maturity</i>	<i>Overdue</i>	<i>Total</i>
Non-derivative assets								
Cash and cash equivalents	1,403,902	355	—	—	—	—	—	1,404,257
Amounts due from banks and other financial institutions	66,037	11,447	2,409	491	3,345	—	—	83,729
Trading securities	8,335	749	3,475	17,982	5,040	3,923	—	39,504
Investment securities	84,454	95,980	124,446	31,041	240	32	—	336,193
Loans to customers	47,519	43,407	192,433	452,707	154,563	—	98,934	989,563
Promissory notes from the MFRK	657	—	—	102,457	—	—	—	103,114
Property and equipment and intangible assets	—	—	—	—	—	101,019	—	101,019
Non-current assets held for sale	—	580	4,280	94	—	—	—	4,954
Investment property	—	—	—	—	—	10,033	—	10,033
Insurance premiums and reinsurance assets	1,713	488	1,450	220	—	—	—	3,871
Current tax asset	—	—	779	—	—	—	—	779
Deferred tax asset	—	—	—	—	2,154	—	—	2,154
Other assets	10,142	1,488	10,401	41,662	4,013	12,137	551	80,394
Total assets	1,622,759	154,494	339,673	646,654	169,355	127,144	99,485	3,159,564
Non-derivative liabilities								
Amounts due to banks and other financial institutions	25,311	5,279	8,089	19,772	26,709	—	—	85,160
Amounts due to customers	699,455	132,067	723,972	241,125	100,063	—	—	1,896,682
Debt securities issued	359	4,420	9,527	67,932	149,569	—	—	231,807
Subordinated debt	64	2,307	19,519	64,540	110,904	2,500	—	199,834
Liabilities to the mortgage company	42	—	7	10,877	5,445	—	—	16,371
Lease liabilities	44	211	988	3,805	277	—	—	5,325
Amounts payable under repurchase agreements	2,411	—	—	—	—	—	—	2,411
Deferred tax liabilities	—	—	—	153,631	—	—	—	153,631
Insurance contract provisions	23	1,044	8,457	678	—	—	—	10,202
Current tax liability	—	—	701	—	—	—	—	701
Other liabilities	14,143	1,257	1,890	10,963	7	1,564	171	29,995
Total liabilities	741,852	146,585	773,150	573,323	392,974	4,064	171	2,632,119
Net position	880,907	7,909	(433,477)	73,331	(223,619)	123,080	99,314	527,445

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38. Risk management, continued
Liquidity risk, continued

The table below shows an analysis, by contractual maturities, of the amounts recognised in the consolidated statement of financial position as at 31 December 2019:

<i>At 31 December 2019</i>	<i>Demand and less than 1 month</i>	<i>From 1 to 3 months</i>	<i>From 3 to 12 months</i>	<i>From 1 to 5 years</i>	<i>More than 5 years</i>	<i>No maturity</i>	<i>Overdue</i>	<i>Total</i>
Non-derivative assets								
Cash and cash equivalents	298,047	—	—	—	—	—	—	298,047
Amounts due from banks and other financial institutions	1,808	—	748	—	46	946	—	3,548
Trading securities	265	448	1,499	1,492	114	1,209	—	5,027
Investment securities	274,160	232,026	26,974	20,013	53,627	61	—	606,861
Loans to customers	26,552	5,818	33,314	166,049	92,619	59	90,240	414,651
Promissory notes from the MFRK	—	—	536	69,705	—	—	—	70,241
Property and equipment and intangible assets	—	—	—	1,550	6	52,716	—	54,272
Non-current assets held for sale	—	—	8,805	—	—	339	—	9,144
Investment property	—	—	—	—	5,378	63	—	5,441
Insurance premiums and reinsurance assets	1,810	135	496	362	—	—	510	3,313
Current tax asset	—	—	473	32	—	139	—	644
Deferred tax asset	—	—	41	37	—	2,206	—	2,284
Other assets	810	381	1,158	857	95	11,259	4,079	18,639
Total assets	603,452	238,808	74,044	260,097	151,885	68,997	94,829	1,492,112
Non-derivative liabilities								
Amounts due to banks and other financial institutions	244	—	—	3,375	6,217	—	—	9,836
Amounts due to customers	208,442	61,440	239,487	279,530	2,727	—	—	791,626
Debt securities issued	176	272	196	9,667	138,293	—	—	148,604
Subordinated debt	—	917	6,103	22,519	43,510	2,228	—	75,277
Lease liabilities	24	190	739	3,460	76	—	—	4,489
Amounts payable under repurchase agreements	4,987	—	—	—	—	—	—	4,987
Deferred tax liabilities	—	—	3,213	12,303	57,846	12	148	73,522
Insurance contract provisions	2,531	278	2,382	770	—	—	—	5,961
Current tax liability	—	—	24	—	—	—	—	24
Other liabilities	5,159	2,369	3,895	564	4,887	1,395	182	18,451
Total liabilities	221,563	65,466	256,039	332,188	253,556	3,635	330	1,132,777
Net position	381,889	173,342	(181,995)	(72,091)	(101,671)	65,362	94,499	359,335

38. Risk management, continued

Operational risk

Operational risk is the probability of loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors, such as those arising from legal and regulatory requirements (excluding strategic risk and reputational risk).

The Group had developed the policy on operational risk management, which was approved by the Board of Directors.

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

- Level 1- risk management by the departments of the Group.
- Level 2- risk management by the independent operational risk management department.
- Level 3- independent assessment of operational risk management system effectiveness by the internal audit department.

Level 1 relates to risk coordinators that were appointed in the departments of the Group, who are responsible for the collection and direction of information about the operational risk to the risk management department. Risk management department conducts the education of risk coordinators of the Group and controls the work performed by risk coordinators.

The Group uses automated systems for the collection and analysis of information about operation risk events. Risk coordinators collect the information about operation risk events, each event is evaluated by the risk management department together with process holders and then directed to the specialised collegial body.

Additional instrument of operational risk management is the process of self-assessment of operational risk in the departments of the Group. Self-assessment is conducted by the risk management coordinators directed by the risk management department. The results are organised in risk maps.

Separate operational risk assessment is conducted before implementation of new products, processes and systems.

On a monthly basis, Management Board and Board of Directors review the information on operational risk.

39. Capital management

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

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

39. Capital management, continued

In accordance with the regulations set by the NBRK the Group has to maintain total capital adequacy within the following coefficients:

- a ratio of basic capital to the sum of credit risk-weighted assets and contingent liabilities, market risk-weighted assets and contingent assets and liabilities, and quantified operational risk (k1) at least at 0.065;
- a ratio of tier 1 capital, net of investments, to the sum of credit risk-weighted assets and contingent liabilities, market risk-weighted assets and contingent assets and liabilities, and quantified operational risk (k1-2) at least at 0.075;
- a ratio of equity to the sum of credit risk-weighted assets and contingent liabilities, market risk-weighted assets and contingent assets and liabilities, and quantified operational risk (k2) at least at 0.090.

The following table shows the composition of the capital position of the Group as at 31 December 2020 and 2019 calculated in accordance with the requirements established by the NBRK:

	<i>31 December 2020</i>	<i>31 December 2019</i>
Tier 1 capital	267,403	339,028
Tier 2 capital	175,272	106,588
Positive difference deductible from equity	—	—
Total statutory capital	442,675	445,616
Total risk-weighted statutory assets, contingent liabilities and operational and market risks	718,562	551,180
k1	0.360	0.613
k1.2	0.360	0.615
k.2	0.597	0.808

NBRK's requirements established by covenants under liabilities incurred by the Bank and its subsidiary. The Bank and its subsidiaries complied with all externally imposed capital requirements as at 31 December 2020 (31 December 2019: The Group complied with all externally imposed capital requirements).

40. Credit related commitments

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

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years. The Group also provides guarantees by acting as settlement agent in securities borrowing and lending transactions.

The Group applies the same credit risk management policies and procedures when granting credit commitments, financial guarantees and letters of credit as it does for granting loans to customers.

The contractual amounts of credit related commitments are set out in the following table by category. The amounts reflected in the table for credit related commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if the counterparties failed completely to perform as contracted.

40. Credit related commitments, continued

	<i>31 December 2020</i>	<i>31 December 2019</i>
Loan and credit line commitments	134,195	–
Financial guarantees issued	30,598	1,979
Letters of credit	8,346	108
Credit card commitments	956	444
	174,095	2,531
Less: Reserves	(272)	–
Less: amounts due to customers held to secure the guarantees and letters of credits (<i>Note 30</i>)	(4,862)	(1,186)
	168,961	1,345

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

Total outstanding contractual amount of credit- and credit line-related commitments, and guarantees and letters of credit does not necessarily represent future cash claims as the term of commitments may expire or the said commitments may be cancelled without funds being provided to the borrower.

As at 31 December 2020, the credit related commitments in the amount of KZT 172,845 million are classified as Stage 1 of credit risk gradings (31 December 2019: KZT 550 million), KZT 634 million and KZT 616 million are classified as Stages 2 and 3, respectively (31 December 2019: Stage 2 - KZT 1,981 million).

As at 31 December 2020, the Group has no outstanding off-balance sheet commitments that exceed 10% of equity (2019: does not have).

41. Operating lease

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	<i>31 December 2020</i>	<i>31 December 2019</i>
Less than 1 year	31	90

The Group leases a number of premises and equipment under operating leases. The leases typically run for an initial period of one-to-five years, with an option to then renew the lease. Lease payments are usually increased annually to reflect market rentals. None of the leases include contingent rentals.

During the reporting period KZT 704 million were recognised as expense in the consolidated statement of profit or loss and other comprehensive income under the operating lease agreements (31 December 2019: KZT 1,121 million) (*Note 16*).

42. Contingencies

Insurance

The insurance industry in the Republic of Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on its property or relating to operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

Litigation

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

Taxation contingencies in Kazakhstan

The taxation system in the Republic of Kazakhstan continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the five subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

These circumstances may create tax risks in the Republic of Kazakhstan that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Kazakhstan tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position, if the authorities were successful in enforcing their interpretations, could be significant.

43. Related party transactions

Control relationship

The major shareholders of the Bank are First Heartland Securities JSC that owns 80.04% of ordinary shares, and Mr. G.Sh. Yessenov, who owns 19.96% of the ordinary shares. First Heartland Securities JSC produces publicly available consolidated financial statements.

As at 31 December 2020, Pioneer Capital Invest LLP exercises voting rights on the shares of Jysan Technologies Ltd, the parent company of First Heartland Securities JSC, solely for the benefit of, and specifically to ensure the financial activities of the autonomous educational organisations Nazarbayev University and Nazarbayev Intellectual Schools, as well as their organisations. As at 31 December 2020, the Private Fund "Nazarbayev Fund" owns 67.53% interest in Pioneer Capital Invest LLP.

As at 31 December 2019, the ultimate controlling party of the Bank and its subsidiaries is the Private Fund "Nazarbayev Fund", a non-profit organisation established specifically to support the financial activity of Nazarbayev University and Nazarbayev Intellectual Schools, as well as their organisations.

43. Related party transactions

Remuneration to the key management personnel

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

	<i>2020</i>	<i>2019</i>
Personnel expenses		
Key management personnel	14,957	1,767

Transactions with the key management personnel

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

	<i>31 December 2020</i>	<i>Average interest rate, % p.a.</i>	<i>31 December 2019</i>	<i>Average interest rate, % p.a.</i>
Assets				
Loans to customers	5	4.00	—	—
Other assets	114	—	—	—
Liabilities				
Amounts due to customers	2,213	2.60	2,065	6.28
Other liabilities	11,594	—	6	—

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

	<i>2020</i>	<i>2019</i>
Interest expense	(20)	(6)
Total	(20)	(6)

(in millions of tenge unless otherwise stated)

43. Related party transactions, continued

Transactions with other related parties

Other related parties include the parent company, ultimate parent company, fellow subsidiaries and other related entities. The outstanding balances and the related average interest rates as at 31 December 2020 and related profit or loss amounts of transactions for the year ended 31 December 2020 with other related parties are as follows:

	<i>Parent Company</i>		<i>Ultimate parent company and other fellow subsidiaries</i>		<i>Other*</i>		
	<i>Average interest rate, %</i>		<i>Average interest rate, % p.a.</i>		<i>Average interest rate, % p.a.</i>		<i>Total KZT million</i>
	<i>KZT mln</i>		<i>KZT mln</i>		<i>KZT mln</i>		
Consolidated statement of financial position							
ASSETS							
Derivative financial assets							
Forward contracts	—	—	—	—	11,987	—	11,987
Foreign currency swaps	—	—	—	—	112	—	112
Loans to customers							
in KZT							
Principal	—	—	—	—	994	2.08	994
Other assets	—	—	—	—	65	—	65
LIABILITIES							
Amounts due to customers							
in KZT	—	—	7	—	55,741	7.36	55,748
in USD	—	—	87,321	0.10	147,397	0.56	234,718
in other currency	—	—	—	—	6,904	0.10	6,904
Other liabilities	—	—	—	—	40	—	40
Consolidated statement of profit or loss and other comprehensive income							
Interest income	—	—	—	—	165	—	165
Interest expense	—	—	7	—	1,322	—	1,329
Fee and commission income	—	—	—	—	2	—	2
Fee and commission expense	19	—	—	—	—	—	19
Net gains on FX derivatives transactions	—	—	—	—	11,741	—	11,741
Other income	4	—	—	—	403	—	407
Other general and administrative expenses	—	—	—	—	13	—	13

* Other related parties are mainly presented by the balances of autonomous education organisation Nazarbayev University, autonomous education organisation Nazarbayev Intellectual Schools and corporate fund Social Development Fund.

(in millions of tenge unless otherwise stated)

43. Related party transactions, continued

The outstanding balances and the related average interest rates as at 31 December 2019 and related profit or loss amounts of transactions for 2019 with other related parties are as follows:

	<i>Parent</i>		<i>Ultimate parent company and other fellow subsidiaries</i>		<i>Other*</i>		
	<i>Company</i>	<i>Average interest rate, % p.a.</i>	<i>KZT mln</i>	<i>Average interest rate, % p.a.</i>	<i>KZT mln</i>	<i>Average interest rate, % p.a.</i>	<i>Total KZT million</i>
	<i>KZT mln</i>						
Consolidated statement of financial position							
ASSETS							
<i>Loans to customers</i>							
in KZT							
Principal	—	—	—	—	5,096	12.34	5,096
<i>Other assets</i>	—	—	—	—	89	—	89
LIABILITIES							
<i>Amounts due to banks and other financial institutions</i>							
in KZT	1	—	—	—	—	—	1
<i>Amounts due to customers</i>							
in KZT	—	—	48	—	38,116	6.46	38,164
in USD	—	—	9,603	—	53,814	0.31	63,417
in other currency	—	—	—	—	5,709	0.05	5,709
Consolidated statement of profit or loss and other comprehensive income							
Interest income	—	—	—	—	969	—	969
Interest expense	—	—	—	—	(213)	—	(213)
Other general and administrative expenses	—	—	—	—	(110)	—	(110)

Other related parties are mainly presented by the balances of autonomous education organisation Nazarbayev University and corporate fund Social Development Fund.

As at 31 December 2020, loans in the total amount of KZT 31,360 million with interest rates ranging from 7.26% to 16.29% p.a. and maturing by the end of 2022 were issued to First Collection Agency LLP, a borrower of ATFBank JSC, controlled by the former shareholder of ATFBank JSC, who owns 19.96% interest in the Group.

In February 2021, the Group terminated all forward contracts with the related party in force as at 31 December 2020 prior to their maturity date.

44. Fair value of financial instruments

Accounting classifications and fair values

For the purposes of fair value disclosures, the Group has determined categories of assets and liabilities based on their nature, characteristics and risks inherent to assets or liabilities as well as the level in the fair value hierarchy. The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2020:

	<i>FVTPL</i>	<i>Amortised cost</i>	<i>FVOCI</i>	<i>Carrying amount</i>	<i>Fair value</i>
Financial assets					
Cash and cash equivalents	—	1,404,257	—	1,404,257	1,404,257
Amounts due from banks and other financial institutions	—	83,729	—	83,729	83,729
Trading securities	39,504	—	—	39,504	39,504
Derivative financial instruments	12,114	—	—	12,114	12,114
Investment securities measured at fair value through other comprehensive income	—	—	288,908	288,908	288,908
Loans to customers	25,008	893,644	70,911	989,563	987,341
Investment securities measured at amortised cost	—	47,285	—	47,285	48,707
Promissory notes from the MFRK	—	—	103,114	103,114	103,114
Insurance premiums	—	1,817	—	1,817	1,817
Other financial assets	—	23,236	—	23,236	23,236
	76,626	2,453,968	462,933	2,993,527	2,992,727
Financial liabilities					
Amounts due to banks and other financial institutions	—	85,160	—	85,160	85,160
Amounts due to customers	—	1,896,682	—	1,896,682	1,883,757
Derivative financial instruments	266	—	—	266	266
Debt securities issued	—	231,807	—	231,807	220,242
Subordinated debt	—	199,834	—	199,834	198,575
Lease liabilities	—	5,325	—	5,325	5,325
Amounts payable under repurchase agreements	—	2,411	—	2,411	2,411
Other financial liabilities	—	6,121	—	6,121	6,121
	266	2,427,340	—	2,427,606	2,401,857

44. Fair value of financial instruments, continued

Accounting classifications and fair values, continued

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2019:

	<i>FVTPL</i>	<i>Amortised cost</i>	<i>FVOCI</i>	<i>Carrying amount</i>	<i>Fair value</i>
Financial assets					
Cash and cash equivalents	—	298,047	—	298,047	298,047
Amounts due from banks and other financial institutions	—	3,548	—	3,548	3,548
Securities measured at fair value through profit or loss	5,027	—	—	5,027	5,027
Derivative financial instruments	13	—	—	13	13
Investment securities measured at fair value through other comprehensive income	—	—	366,235	366,235	366,235
Loans to customers	29,202	264,232	121,217	414,651	416,302
Investment securities measured at amortised cost	—	240,626	—	240,626	241,431
Promissory notes from the MFRK	—	—	70,241	70,241	70,241
Insurance premiums	—	1,113	—	1,113	1,113
Other financial assets	—	8,426	—	8,426	8,426
	34,242	815,992	557,693	1,407,927	1,410,383
Financial liabilities					
Amounts due to banks and other financial institutions	—	9,836	—	9,836	9,836
Amounts due to customers	—	791,626	—	791,626	790,684
Derivative financial instruments	42	—	—	42	42
Debt securities issued	—	148,604	—	148,604	147,182
Subordinated debt	—	75,277	—	75,277	73,136
Lease liabilities	—	4,489	—	4,489	4,489
Amounts payable under repurchase agreements	—	4,987	—	4,987	4,987
Other financial liabilities	—	5,264	—	5,264	5,264
	42	1,040,083	—	1,040,125	1,035,620

44. Fair value of financial instruments, continued

Accounting classifications and fair values, continued

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date. However given the uncertainties and the use of subjective judgement, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

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

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

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

The Group uses widely recognised valuation models for determining the fair value of common and simpler financial instruments. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps.

For more complex instruments, the Group uses proprietary valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Example of instruments involving significant unobservable inputs includes certain securities for which there is no active market.

The following assumptions are used by the Management to estimate the fair values of financial instruments as at 31 December 2020:

- discount rates of 12.2% - 15.3% p.a. and 4.3% - 5.5% p.a. are used for discounting future cash flows from loans to corporate customers denominated in KZT and USD, respectively (31 December 2019: 12.0% - 13.4% p.a. and 4.4% - 5.2% p.a., respectively);
- discount rates of 4.6% - 22.0% p.a. are used for discounting future cash flows from loans to retail customers (31 December 2019: 10.0% - 40.0% p.a.);
- discount rates of 0.4% - 8.9% p.a. and 0.8% - 13.0% p.a. are used for discounting future cash flows from current accounts and deposits of corporate and retail customers, respectively (31 December 2019: 0.3% - 8.4% p.a. and 1.0% - 9.4% p.a., respectively);
- discount rate of 11.2% - 13.5% p.a. is used for discounting future cash flows from debt securities issued (31 December 2019: 11.5% p.a.);
- discount rate of 11.7% - 15.3% p.a. is used for discounting future cash flows from subordinated debt (31 December 2019: 14.0% p.a.).

44. Fair value of financial instruments, continued

Accounting classifications and fair values, continued

Assets for which fair value approximates carrying value

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

Fair value hierarchy

The table below analyses financial instruments measured at fair value at 31 December 2020 and 2019, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the consolidated statement of financial position:

As at 31 December 2020	Measurement date	Fair value measurement using			
		Input data of Level 1	Input data of Level 2	Input data of Level 3	Total
Financial instruments at FVTPL:					
- derivative financial assets	31 December 2020	—	12,114	—	12,114
- derivative financial liabilities	31 December 2020	—	266	—	266
- trading securities	31 December 2020	31,679	7,825	—	39,504
- loans to customers	31 December 2020	—	—	25,008	25,008
Debt financial instruments at FVOCI:					
- investment securities at FVOCI	31 December 2020	9,960	278,948	—	288,908
- loans to customers	31 December 2020	—	70,911	—	70,911
- promissory notes from the MFRK	31 December 2020	—	103,114	—	103,114
At 31 December 2019	Measurement date	Fair value measurement using			
		Input data of Level 1	Input data of Level 2	Input data of Level 3	Total
Financial instruments at FVTPL:					
- derivative financial assets	31 December 2019	—	13	—	13
- derivative financial liabilities	31 December 2019	—	42	—	42
- trading securities	31 December 2019	—	5,027	—	5,027
- loans to customers	31 December 2019	—	—	29,202	29,202
Debt financial instruments at FVOCI:					
- investment securities at FVOCI	31 December 2019	—	366,235	—	366,235
- loans to customers	31 December 2019	—	121,217	—	121,217
- promissory notes from the MFRK	31 December 2019	—	70,241	—	70,241

44. Fair value of financial instruments, continued

Fair value hierarchy, continued

Securities, which are listed on Kazakh Stock Exchange but which do not have an active market as at 31 December 2020 and 2019 are classified as Level 2 in the fair value hierarchy. As at 31 December 2020, the financial instruments classified as Level 2, include government securities for the amount of KZT 278,948 million (31 December 2019: KZT 352,995 million) and promissory notes from the MFRK in the amount of KZT 103,114 million (31 December 2019: KZT 70,241 million).

During 2020 and 2019, the Group did not make any transfers between levels 1 and 2, 2 and 3 of the fair value hierarchy.

In many cases all significant inputs into the valuation techniques are wholly observable, for example by reference to information from similar transactions in the currency market. In cases where all inputs are not observable, for example because there are no observable trades in a similar risk at the reporting date, the Group uses valuation techniques that rely on unobservable inputs – e.g. volatilities of certain underlying, expectations on termination periods.

Changes in Level 3 assets measured at fair value

The fair value of loans to customers measured at FVTPL is determined using the discounted cash flows valuation technique. The valuation model considers the present value of expected future cash flows from the foreclosure of collateral, discounted using a risk-adjusted discount rate from 11.95% to 14.95% p.a. (31 December 2019: from 11.54% to 14.54% p.a.). Unobservable inputs to valuation models include credit, market and liquidity risk adjustments associated with expected cash flows from the borrower's operations or the valuation of collateral. For the assumptions used in estimation of expected future cash flows from the foreclosure of collateral please refer to *Note 23*.

The following table shows a reconciliation of the amounts recognised at the beginning and at the end of the reporting period for Level 3 financial assets carried at fair value:

	<i>Fair value measurement using input data of Level 3</i>	
	<i>2020</i>	<i>2019</i>
<i>Loans to customers measured at fair value through profit or loss</i>		
At 1 January	29,202	–
Acquired as a result of business combinations (<i>Note 5</i>)	–	26,733
Net interest income	3,550	9,626
Interest paid	(874)	(6,741)
Net expense from movements in fair value	(6,870)	(416)
At 31 December	25,008	29,202

Although the Group believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value.

(in millions of tenge unless otherwise stated)

44. Fair value of financial instruments, continued

Unobservable valuation differences on initial recognition, continued

The table below provides a comparison between the carrying amount and the fair value by category and level in the fair value hierarchy to which the fair value measurement of the Group's financial instruments is designated, and which are not presented at fair value in the consolidated statement of financial position. The fair values of non-financial assets and non-financial liabilities are not presented in the table

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Fair value</i>	<i>Carrying amount</i>
Assets					
Cash and cash equivalents	—	1,404,257	—	1,404,257	1,404,257
Amounts due from banks and other financial institutions	—	83,729	—	83,729	83,729
Loans to customers	—	837,978	149,363	987,341	989,563
Investment securities measured at amortised cost	—	41,442	7,265	48,707	47,285
Other financial assets	—	23,236	—	23,236	23,236
Liabilities					
Amounts due to banks and other financial institutions	—	85,160	—	85,160	85,160
Amounts due to customers	—	1,883,757	—	1,883,757	1,896,682
Debt securities issued	—	220,242	—	220,242	231,807
Subordinated debt	—	198,575	—	198,575	199,834
Lease liabilities	—	5,325	—	5,325	5,325
Amounts payable under repurchase agreements	—	2,411	—	2,411	2,411
Other financial liabilities	—	6,121	—	6,121	6,121

44. Fair value of financial instruments, continued

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2019:

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Fair value</i>	<i>Carrying amount</i>
Assets					
Cash and cash equivalents	—	298,047	—	298,047	298,047
Amounts due from banks and other financial institutions	—	3,548	—	3,548	3,548
Loans to customers	—	107,251	158,632	265,883	264,232
Investment securities measured at amortised cost	—	241,229	202	241,431	240,626
Other financial assets	—	8,426	—	8,426	8,426
Liabilities					
Amounts due to banks and other financial institutions	—	9,836	—	9,836	9,836
Amounts due to customers	—	790,684	—	790,684	791,626
Debt securities issued	—	147,182	—	147,182	148,604
Subordinated debt	—	73,136	—	73,136	75,277
Lease liabilities	—	4,489	—	4,489	4,489
Amounts payable under repurchase agreements	—	4,987	—	4,987	4,987
Other financial liabilities	—	5,264	—	5,264	5,264

45. Subsequent events

On 1 February 2021, pursuant to a decision of the Board of Directors of the Bank, the right of demand of the Bank to other shareholders of ATFBank JSC to sell ATFBank's voting shares, was exercised. On 9 February 2021, 106,269 ordinary shares were repurchased from minority shareholders of ATFBank JSC at a price of KZT 922.53 per ordinary share. Thus, the ratio of number of ordinary shares of ATFBank JSC owned by the Bank to the total number of voting common shares of ATFBank JSC was 100.0%.

On 12 February 2021, the Bank decided to change the name of its subsidiary bank Plus Bank PJSC and approved a new name Public Joint Stock Company Quant Mobile Bank (hereinafter - "Quant Mobile Bank PJSC"). These changes were registered on 22 March 2021 according to the procedure prescribed by the law.

On 2 March 2021, the Bank announced that a joint General Meeting of Shareholders of the Bank and ATFBank JSC will be held on 16 March 2021 with the agenda as follows:

- on approval of the agenda for the Extraordinary General Meeting of Shareholders of the Bank;
- on merger of ATFBank JSC and the Bank and bringing this issue for consideration of joint General Meeting of Shareholders;
- on approval of draft Deed of Merger of ATFBank JSC and bringing draft Deed of Merger for consideration of joint General Meeting of Shareholders;
- on change of the brand name "First Heartland Jýsan Bank JSC" to "First Heartland Jusan Bank JSC";
- on approval of the charter of the Bank as amended.

45. Subsequent events, continued

A decision on merger of ATFBank JSC and the Bank was made at the joint General Meeting of Shareholders of the Bank and ATFBank JSC on 16 March 2021. The relevant documents to obtain permission for merger have been sent to the Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market.

On 16 March 2021, the General Meeting of Shareholders of the Bank adopted a decision to make a change in the brand name of our bank from “First Heartland Jýsan Bank” to “First Heartland Jusan Bank”. The Bank will continue its operations under the brand name “Jusan Bank” after the revised charter of the Bank has been approved and all necessary arrangements for state re-registration have been completed. On 7 April 2021 the Bank’s license No.1.2.35/225/37 for banking and other operations and activities on securities market was re-issued.