First Heartland Jusan Bank
Joint Stock Company

Separate Financial Statements

for 2023
with Independent Auditors' Report

Contents

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Independent Auditors' Report

To the Shareholders and Board of Directors of First Heartland Jusan Bank Joint Stock Company

Opinion

We have audited the separate financial statements of First Heartland Jusan Bank Joint Stock Company (the "Bank"), which comprise the separate statement of financial position as at 31 December 2023, the separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising material accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the unconsolidated financial position of the Bank as at 31 December 2023, and its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

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 Separate Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (*IESBA Code*) together with the ethical requirements that are relevant to our audit of the separate financial statements in the Republic of Kazakhstan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Expected Credit Losses (ECL) on loans to customers measured at amortised cost	
Please refer to the Notes 3, 4, 5, 7 and 19 in the separate financial statements.	
Key audit matter	***How the matter was addressed in our audit***
Loans to customers measured at amortised cost represent 33.2% of total assets and are stated net of allowance for expected credit losses ("ECL") that is estimated on a regular basis and is sensitive to assumptions used. The Bank uses ECL valuation model, which requires management to apply professional judgement and to make assumptions related to the following key areas: — timely identification of significant increase in credit risk and default events related to loans to customers (allocation between stages 1, 2 and 3) in accordance with IFRS 9 *Financial Instruments*; — assessment of probability of default (PD) and loss given default (LGD); — assessment of adjustment to account for forward-looking information. 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: — measurement of the fair value of underlying real estate collateral; and — expected realisation periods for such underlying collateral. Due to the significant volume of loans to customers measured at amortised cost and the related estimation uncertainty in estimating of ECL allowance, this area is a key audit matter.	We analysed the key aspects of the Bank'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. 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: — 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 separate financial statements, we tested whether stages are correctly assigned by the Bank by analysing financial and non-financial information, as well as assumptions and professional judgements, applied by the Bank. — 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 Bank 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 separate 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. — 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. We assessed the predictive capability of the Bank's models used for ECL assessment by comparing the estimates made as at 1 January 2023 with actual results for 2023. We also assessed whether the separate financial statements disclosures appropriately reflect the Bank's exposure to credit risk.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report of the Bank for the year 2023 but does not include the separate financial statements and our auditors' report thereon. The Annual Report of the Bank for the year 2023 is expected to be made available to us after the date of this auditors' report.

Our opinion on the separate 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 separate 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 separate 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 Separate Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Separate Financial Statements

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

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

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

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

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

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

KPMG Audit LLC
State 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

29 March 2024

(in millions of Kazakhstani tenge unless otherwise stated)

	Note	*2023*	*2022*
Interest income calculated using the effective interest method	6	329,341	248,914
Other interest income	6	10	305
Interest expense	6	(142,457)	(114,280)
Net interest income	6	**186,894**	**134,939**
Credit loss expenses	7	(24,928)	(39,621)
Net interest income after credit loss expenses		**161,966**	**95,318**
Fee and commission income	8	53,913	34,624
Fee and commission expense	8	(36,933)	(20,544)
Net fee and commission income		**16,980**	**14,080**
Net gains on financial instruments at fair value through profit or loss	9	3,871	22,346
Net losses on derecognition of investment securities at fair value through other comprehensive income		(83)	(40)
Modification gain on subordinated debt	27	2,436	–
Net foreign exchange gain	10	22,250	43,857
Other income	11	7,611	4,691
Other operating income		**36,085**	**70,854**
Personnel expenses	12	(43,138)	(40,058)
Other general and administrative expenses	13	(41,270)	(33,371)
Gain/(loss) on reversal of impairment/(impairment) on investments in subsidiaries and other investments/(impairment loss on investments in subsidiaries and other investments)	21	7,253	(3,659)
Other impairment losses		(2,859)	(33)
Other expenses	11	(125)	(1,085)
Other operating expenses		**(80,139)**	**(78,206)**
Profit before corporate income tax expense		**134,892**	**102,046**
Corporate income tax expense	14	(1,600)	(13,399)
Profit for the year		**133,292**	**88,647**

The accompanying explanatory notes set out on pages 15 to 103 form an integral part of these separate financial statements.

(in millions of Kazakhstani tenge unless otherwise stated)

	Note	*2023*	*2022*
Profit for the year		**133,292**	**88,647**
Other comprehensive income			
Other comprehensive income/(loss) that may be reclassified subsequently to profit or loss:			
Net change in fair value of debt instruments at fair value through other comprehensive income	30	5,932	(11,714)
Change in loss allowance for expected credit losses on debt instruments at fair value through other comprehensive income	7	130	(32)
Amount reclassified to profit or loss as a result of derecognition of securities at fair value through other comprehensive income	30	83	40
Total other comprehensive income/(loss) items that are or may be reclassified subsequently to profit or loss		*6,145*	*(11,706)*
Other comprehensive income that will not be reclassified subsequently to profit or loss:			
Gain on equity instruments at fair value through other comprehensive income	30	3,949	1,168
Revaluation reserve for property, plant and equipment, net of income tax *(2022: KZT 1,357 million, Note 14)*	30	–	5,392
Total other comprehensive income items that will not be reclassified subsequently to profit or loss:		*3,949*	*6,560*
Other comprehensive income/(loss) for the year		**10,094**	**(5,146)**
Total comprehensive income for the year		**143,386**	**83,501**
Earnings per share			
Basic and diluted earnings per share (KZT)	30	925.60	685.47

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

Alan Yerikovich Jabayev
Acting Chairman of the Management Board

Nikara Miratovna Salikhova
Chief Accountant

29 March 2024

The accompanying explanatory notes set out on pages 15 to 103 form an integral part of these separate financial statements.

(in millions of Kazakhstani tenge)

	Note	*31 December 2023*	*31 December 2022**
Assets			
Cash and cash equivalents	15	527,455	707,161
Derivative financial instruments	16	194	134
Amounts due from banks and other financial institutions	17	56,373	39,556
Trading securities		–	192
Investment securities			
- Held by the Bank	18	854,477	753,697
- Pledged under sale and repurchase agreements	18	29,038	119,555
Loans to customers	19	947,932	813,976
Promissory notes from the Ministry of Finance of the Republic of Kazakhstan		105,458	103,068
Current corporate income tax assets		78	78
Property, plant and equipment and intangible assets	20	66,447	68,170
Non-current assets held for sale		4,906	5,731
Investments in subsidiaries	21	170,032	152,627
Other assets	22	65,693	55,169
Total assets		**2,828,083**	**2,819,114**
Liabilities			
Due to banks and other financial institutions	23	73,933	45,410
Amounts payable under repurchase agreements	24	29,038	119,555
Derivative financial liabilities	16	316	1,325
Current accounts and deposits from customers	25	1,452,771	1,492,104
Debt securities issued	26	213,241	246,868
Subordinated debt	27	201,874	198,580
Amounts due to the mortgage organisation	28	9,319	10,817
Lease liabilities		1,944	2,111
Deferred corporate income tax liabilities	14	164,447	162,847
Other liabilities	29	27,107	25,943
Total liabilities		**2,173,990**	**2,305,560**
Equity	30		
Share capital		258,201	258,201
Treasury shares acquired		(2,638)	(2,638)
Additional paid-in capital		686	686
Property, plant and equipment revaluation reserve		6,323	6,966
Fair value reserve		9,877	(217)
Other reserves		–	2,847
Retained earnings		381,644	247,709
Total equity		**654,093**	**513,554**
Total equity and liabilities		**2,828,083**	**2,819,114**

** Some of the amounts presented in this column do not match the amounts presented in the separate financial statements for 2022 as they reflect the reclassifications made. For more details, see Note 2.*

The accompanying explanatory notes set out on pages 15 to 103 form an integral part of these separate financial statements.

(in millions of Kazakhstani tenge)

	Note	*2023*	*2022**
Cash flows from operating activities			
Interest receipts	6	308,763	201,335
Interest payments	6	(113,821)	(87,202)
Fee and commission receipts		52,162	33,997
Fee and commission payments		(36,378)	(20,239)
Realised gains on financial instruments at fair value through profit or loss	9	3,334	20,533
Realised foreign exchange gains	10	20,096	32,999
Personnel and other general and administrative expenses payments		(80,593)	(63,803)
Other operating income receipts		419	2,052
Cash flows from operating activities before changes in operating assets and liabilities		**153,982**	**119,672**
Net decrease/(increase) in operating assets			
Derivative financial instruments		104	(3,653)
Trading securities		200	–
Amounts due from banks and other financial institutions		(17,823)	1,860
Loans to customers		(166,101)	(78,631)
Other assets		9,716	5,912
Net (decrease)/increase in operating liabilities			
Due to banks and other financial institutions		27,698	13,738
Amounts payable under repurchase agreements		(91,082)	117,378
Current accounts and deposits from customers		(27,434)	(34,220)
Amounts due to the mortgage organisation		(1,498)	(1,268)
Other liabilities		(97)	1,715
Net cash (used in)/from operating activities before corporate income tax paid		**(112,335)**	**142,503**
Corporate income tax paid		–	–
Net cash (used in)/from operating activities		**(112,335)**	**142,503**
Cash flows from investing activities			
Purchase of investment securities measured at fair value through other comprehensive income		(6,443,961)	(2,130,535)
Sale and repayment of investment securities measured at fair value through other comprehensive income		6,623,962	1,620,788
Purchase of investment securities measured at amortised cost		(176,789)	(955,066)
Repayment of investment securities measured at amortised cost		9,163	1,108,039

The accompanying explanatory notes set out on pages 15 to 103 form an integral part of these separate financial statements.

(in millions of Kazakhstani tenge)

	Note	*2023*	*2022**
Cash flows from investing activities, continued			
Acquisition of property, plant and equipment and intangible assets		(17,926)	(5,901)
Proceeds from disposal of non-current assets held for sale		1,398	539
Increase in investments in subsidiaries	21	(6,300)	(100)
Net cash used in investing activities		**(10,453)**	**(362,236)**
Cash flows from financing activities			
Repayment of debt securities issued	26	(46,899)	(12,668)
Repayment of subordinated debt	27	(5,000)	–
Repayment of lease liabilities		(1,061)	(1,189)
Net cash used in financing activities		**(52,960)**	**(13,857)**
Effect of changes in exchange rates on cash and cash equivalents		(3,810)	20,814
Effect of changes in expected credit losses on cash and cash equivalents	9	(148)	(1,065)
Net decrease in cash and cash equivalents		**(179,706)**	**(213,841)**
Cash and cash equivalents as at the beginning of the reporting year		707,161	921,002
Cash and cash equivalents as at the end of the reporting year	15	**527,455**	**707,161**
Non-cash transactions			
Repossessed collateral for loans to customers		9,315	20,124
Transfer of properties to subsidiaries		3,852	13,639

** Some of the amounts presented in this column do not match the amounts presented in the separate statement of cash flows for 2022 as they reflect the reclassifications made. For more details, see Note 2.*

(in millions of Kazakhstani tenge)

		Attributable to equity holders of the Bank							
	Note	***Share capital***	***Treasury shares acquired***	***Additional paid-in capital***	***Property, plant and equipment revaluation reserve***	***Fair value reserve***	***Other reserves related to equity instruments***	***Retained earnings***	***Total equity***
Balance at 1 January 2023		**258,201**	**(2,638)**	**686**	**6,966**	**(217)**	**2,847**	**247,709**	**513,554**
Profit for the year		–	–	–	–	–	–	133,292	**133,292**
Other comprehensive income for the year	30	–	–	–	–	10,094	–	–	**10,094**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**10,094**	**–**	**133,292**	**143,386**
Transactions with owners recorded directly in equity									
Other changes									
Share-based payment arrangements	30	–	–	–	–	–	(2,847)	–	**(2,847)**
Amortisation of property, plant and equipment revaluation reserve	30	–	–	–	(643)	–	–	643	–
Balance at 31 December 2023		**258,201**	**(2,638)**	**686**	**6,323**	**9,877**	**–**	**381,644**	**654,093**

(in millions of Kazakhstani tenge)

		Attributable to equity holders of the Bank							
	Note	***Share capital***	***Treasury shares acquired***	***Additional paid-in capital***	***Property, plant and equipment revaluation reserve***	***Fair value reserve***	***Other reserves related to equity instruments***	***Retained earnings***	***Total equity***
Balance at 1 January 2022		**258,201**	**(2,638)**	**686**	**1,744**	**10,321**	**2,847**	**171,406**	**442,567**
Profit for the year		–	–	–	–	–	–	88,647	**88,647**
Other comprehensive income for the year	30	–	–	–	5,392	(10,538)	–	–	**(5,146)**
Total comprehensive income for the year		**–**	**–**	**–**	**5,392**	**(10,538)**	**–**	**88,647**	**83,501**
Transactions with owners recorded directly in equity									
Loss on transaction with the intermediate parent company	16	–	–	–	–	–	–	(12,514)	**(12,514)**
Other changes									
Amortisation of property, plant and equipment revaluation reserve	30	–	–	–	(170)	–	–	170	–
Balance at 31 December 2022		**258,201**	**(2,638)**	**686**	**6,966**	**(217)**	**2,847**	**247,709**	**513,554**

The accompanying explanatory notes set out on pages 15 to 103 form an integral part of these separate financial statements.

(in millions of Kazakhstani tenge unless otherwise stated)

1. Background

Organisation and operations

First Heartland Jusan Bank Joint Stock Company (the "Bank") was registered as Tsesnabank Open Joint Stock Company on 17 January 1992 under the laws of the Republic of Kazakhstan. As a result of changes made to the legislation in 2003, the Bank was re-registered as a joint stock company (the "JSC") on 26 December 2003.

On 6 February 2019, First Heartland Securities JSC, an investment arm of the financial holding company owned by 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 undertook a rebranding of the Bank. After rebranding, the Bank was named First Heartland Jýsan Bank JSC with the retail brand named 'Jýsan Bank'.

On 2 September 2019, based on the results of the General Meeting of Shareholders held in June 2019, the Bank underwent a voluntary reorganisation in the form of a merger of First Heartland Bank JSC and First Heartland Jýsan Bank JSC, in accordance with the procedure and on terms stipulated by the legislation of the Republic of Kazakhstan.

On 16 March 2021, the general meeting of shareholders made a decision to change the Bank's trade name, First Heartland Jýsan Bank, for 'First Heartland Jusan Bank', with the retail brand named 'Jusan Bank'.

On 28 May 2021, the Republic State Institution "Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market" (the "ARDFM") decided to issue a permission to the Bank for voluntary reorganisation in the form of a takeover of its subsidiary ATFBank JSC.

On 14 July 2023, as part of a consensual dispute resolution on the Jusan group, and for the purpose of returning/transferring assets to Kazakh jurisdiction, as many as 8, 262, 711 ordinary shares of First Heartland Securities JSC (99,745% of the voting shares) were purchased from Jusan Technologies LTD, by Mr G.Sh. Yessenov. The ultimate controlling party of the Bank and of its subsidiaries has also been transferred from New Generation Foundation, Inc. to Mr G.Sh. Yessenov.

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 licence No.1.2.35/225/37 to conduct banking and other operations and engage in activities on securities market was re-issued as a result of changes in the legislation. On 7 April 2021, the Bank's licence No.1.2.35/225/37 to conduct banking and other operations and engage in activities on securities market was re-issued due to a change of the name and following the re-registration procedure.

The principal activities of the Bank are commercial banking operations, lending issuing guarantees, deposit taking, customer accounts opening and maintenance, cash and settlement operations, and securities and foreign exchange transactions. The Bank's issued securities are listed on the Kazakhstan Stock Exchange ("KSE").

The Bank is a member of the Kazakhstan Deposit Insurance Fund (the "KDIF"). The main goal of the KDIF is to protect the interests of depositors in the event of forced liquidation of a bank, the participant of the Fund. As at 31 December 2023, the deposit insurance coverage limit for saving deposits in the national currency is KZT 20 million; for cards, accounts and other deposits in the national currency, up to KZT 10 million and in a foreign currency, up to KZT 5 million (31 December 2022: KZT 15 million, KZT 10 million, and KZT 5 million, respectively).

As at 31 December 2023, the Bank has 19 branches and 103 sub-branches (31 December 2022: 19 branches and 116 sub-branches) through which it operates in the Republic of Kazakhstan.

The Bank's registered head office is: 242 Nazarbayev Avenue, Medeusky District, Almaty, Republic of Kazakhstan.

(in millions of Kazakhstani tenge unless otherwise stated)

1. Background, continued

Organisation and operations, continued

The majority of the Bank's assets and liabilities are located in the Republic of Kazakhstan.

The Bank's subsidiaries as at 31 December 2023 and 31 December 2022 are as follows:

			Ownership interest, %	
Name	***Country of incorporation***	***Principal activity***	***31 December 2023***	***31 December 2022***
First Heartland Capital JSC	Republic of Kazakhstan	Investment portfolio management	100.00	100.00
Jusan Development LLP	Republic of Kazakhstan	Doubtful and bad assets management	100.00	100.00
OMAD YUG LLC	Republic of Kazakhstan	Doubtful and bad assets management	100.00	100.00
Jusan Inkassatsiya LLP	Republic of Kazakhstan	Cash collection services	100.00	100.00
Jusan Property LLP	Republic of Kazakhstan	Doubtful and bad assets management	100.00	100.00
Insurance Company Jusan Garant JSC	Republic of Kazakhstan	Insurance activities	100.00	100.00
First Heartland Jusan Invest JSC	Republic of Kazakhstan	Brokerage and dealing activities	100.00	100.00
Optima Bank OJSC	Kyrgyz Republic	Banking	97.14	97.14

Jusan Development LLP

On 5 January 2022, the trade name of the subsidiary of Jusan Development LLP was changed, specifically, Concern Tsesna-Astyk LLP was renamed JFood Kazakhstan LLP.

Shareholders

As at 31 December 2023 and 31 December 2022, the following shareholders owned more than 5% of the outstanding shares of the Bank:

Shareholders	***31 December 2023, %***	***31 December 2022, %***
First Heartland Securities JSC	79.63	78.73
Galymzhan Shakhmardanovich Yessenov	20.11	20.11
Other shareholders	0.25	1.16
Total	**100.00**	**100.00**

During 2023, the Bank repurchased ordinary shares held by the Bank's minority shareholders, as many as 1,487,869 shares, for a total of KZT 283 million. The ratio of the number of ordinary shares of the Bank owned by First Heartland Securities JSC to the total number of voting ordinary shares of the Bank was 79.63%.

At 31 December 2023, the major shareholders of the Group are First Heartland Securities JSC, a broker in Kazakhstan, which owns 79.63% of outstanding ordinary shares, and Mr Galimzhan Shakhmardanovich Yessenov, who owns 20.11% of outstanding ordinary shares (31 December 2022: First Heartland Securities JSC which owns 78.73% of outstanding ordinary shares, and Mr G.Sh. Yessenov, who owns 20.11% of outstanding ordinary shares).

As at 31 December 2023, the ultimate controlling party of the Bank and of its subsidiaries is Mr G.Sh. Yessenov (31 December 2022: NU Generation Foundation, Inc.).

The separate financial statements of the Bank for the year 2023 were authorised for issue by the Board of the Bank on 29 March 2024.

(in millions of Kazakhstani tenge unless otherwise stated)

1. Background, continued

Kazakhstan business environment

The Bank's operations are primarily located in Kazakhstan. Consequently, the Bank is exposed to the economic and financial markets of Kazakhstan which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Kazakhstan. Depreciation of the Kazakhstan Tenge and volatility in the global price of oil also increases the level of uncertainty in the business environment.

In February 2022, because of the military conflict between the Russian Federation and Ukraine, a number of countries imposed sanctions against the Russian Federation. The conflict affects not only the economic activity of two countries but the global economy as well. As a result of sanctions, commodity and food prices have risen in many countries around the world, the established links between supply of resources have been disrupted, inflation also affects the prices, and analysts also forecast economic implications for the global industry.

27 November 2023, the Monetary Policy Committee of the National Bank of the Republic of Kazakhstan (the "NBRK") has made decision to cut the base rate to 15.75% per annum, setting the interest rate corridor of +/- 1.0 percentage points.

According to the official data of the Bureau of National Statistics of the Agency for Strategic Planning and Reforms of the Republic of Kazakhstan, in December 2023, the annual inflation in the Republic of Kazakhstan fell to 9.8% (31 December 2022: 20.3%). There has been an increase in prices for foodstuffs by 8.5%, non-food products by 9.1% and chargeable services by 12.4% (31 December 2022: 25.3%, 19.4% and 14.1%, respectively).

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

2. Basis of preparation

General

These separate financial statements have prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board ("IFRS Accounting Standards").

These separate financial statements present information about the Bank as an individual entity. The consolidated financial statements of the Bank and its subsidiaries (the "Group") for the year ended 31 December 2023 is available for interested users at the Bank's registered office and on the Bank's official website.

Basis of measurement

The separate financial statements are prepared on the historical cost basis except as stated in the section *Material Accounting Policies*. Derivative financial instruments, trading securities, investment securities at fair value through other comprehensive income, loans to customers at fair value through profit or loss, the acquired right of claim to the Ministry of Finance of the Republic of Kazakhstan (the "MFRK") on promissory note at fair value through other comprehensive income and land plots and buildings (classified as property, plant and equipment) were measured at revalued amounts.

Functional and presentation currency of the separate financial statements

The functional currency of the Bank is the Kazakhstani 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.

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

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

(in millions of Kazakhstani tenge unless otherwise stated)

2. Basis of preparation, continued

Reclassification

The following reclassifications were made in the separate statement of financial position for 2022 and in the separate statement of cash flows for 2022 to conform to changes in presentation in 2023:

	For the year ended 31 December 2022		
Separate statement of financial position	***As previously reported***	***Effect of reclassifications***	***As reclassified***
Amounts due from banks and other financial institutions	37,652	1,904	**39,556**
Other assets	57,073	(1,904)	**55,169**

	For the year ended 31 December 2022		
Separate statement of cash flows	***As previously reported***	***Effect of reclassifications***	***As reclassified***
Amounts due from banks and other financial institutions	(4,631)	6,491	**1,860**
Other assets	12,403	(6,491)	**5,912**

The above reclassifications had no impact on the separate statement of profit or loss and other comprehensive income of the Bank for the year ended 31 December 2022.

3. Material accounting policies

The Bank has consistently applied the following accounting policies to all periods presented in these separate financial statements.

In addition, the Bank adopted the *Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)* from 1 January 2023. The amendments require the disclosure of “material”, rather than “significant”, accounting policies. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information disclosed in certain instances.

The amendments also provide guidance on the application of materiality to disclosure of accounting policies, assisting entities to provide useful, entity-specific accounting policy information that users need to understand other information in the separate financial statements.

Management reviewed the accounting policies and made updates to the information disclosed in *Note 3 Material Accounting Policies* (2022: *Significant Accounting Policies*) in certain instances in line with the amendments.

Accounting for investments in subsidiaries

Subsidiaries are investees controlled by the Bank. The Bank controls an investee when Bank is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Investments in subsidiaries are accounted for in the Bank’s separate financial statements at cost.

Loss of control

Upon loss of control of a subsidiary, the Bank derecognises the assets and liabilities of the subsidiary, any non-controlling interests and other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Bank retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an investment in an associate (an equity-accounted investee) or as a financial asset at fair value through other comprehensive income, depending on the level of influence retained.

Impairment of investments in subsidiaries

The Bank assesses at each reporting date whether there is any indication that investments in subsidiaries may be impaired. If any indication exists, or when annual impairment testing for investment is required, the Bank estimates the investment’s recoverable amount. The recoverable amount of investment is the greater of an asset's fair value less costs to sell and its value in use.

3. Material accounting policies, continued

Accounting for investments in subsidiaries, continued

Impairment of investments in subsidiaries, continued

A recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset generating cash flows exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate, which reflects current market assessments of the time value of money and the risks specific to the assets. In determining a fair value less costs of disposal, recent market transactions are taken into account. In their absence the relevant valuation model is applied. These calculations are corroborated by valuation multiples, quoted prices for publicly traded shares or other available fair value indicators. The Bank estimates the impairment amount based on detailed budgets and forecast calculations which are prepared separately for each of the cash generating units to which individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. A long-term growth rate is determined and applied to future cash flows expected after the fifth year.

Impairment losses on investments in subsidiaries are recognised in the separate statement of profit or loss and other comprehensive income in the 'Impairment losses on investments in subsidiaries and other investments' line item. An assessment is made by the Bank at each reporting date to determine whether there is any indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Bank estimates the recoverable amount of investments.

A previously recognised impairment loss is reversed only if there has been a change in the assumption used to determine the investments' recoverable amount since when the last impairment loss was recognised. Any impairment loss is only reversed to the extent that the investment's carrying amount does not exceed its recoverable amount and also does not exceed the carrying amount that would have been determined, if no impairment loss had been recognised. Such reversal is recognised in the separate statement of profit or loss and other comprehensive income.

Foreign currency translation

Transactions in foreign currencies are translated to the respective functional currency of the Bank 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 separate 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 2023, the official exchange rate used for translation of foreign currency balances was KZT 454.56 for USD 1.00 (31 December 2022: KZT 462.65 to USD 1.00).

Measurement of fair values

The Bank 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.

3. Material accounting policies, continued

Measurement of fair values, continued

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

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

- Level 1: quoted 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 financial statements on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Recognition of income and expenses

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

Interest income and expense

The Bank 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 Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

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

For purchased or originated credit-impaired ("POCI") financial assets, the Bank 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 separate statement of profit or loss and other comprehensive income.

3. Material 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 a point in time or as the Bank 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;
- a commission fee on guarantees and letters of credit issued is paid in advance and is recognised as income over the life 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 Bank's separate 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 Bank 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 comprise mainly transaction support and service fees, which are expensed as the services are received.

Segment reporting

An operating segment is a component of the Bank that engages in business activities from which the Bank may earn revenues and incur expenses (including revenues and expenses related to transactions with other components of the Bank); 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 Bank's operations are highly integrated and constitutes one operating business segment 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 Bank commits to purchase the asset or liability. Regular way purchases or sales of financial assets and liabilities are those that require delivery of assets and liabilities within the period generally established by regulation or convention in the marketplace.

Initial measurement

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

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

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

3. Material accounting policies, continued

Financial assets and liabilities, continued

Initial measurement, continued

Measurement categories of financial assets and liabilities, continued

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 investment securities at amortised cost

The Bank 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 (SPPI).

These criteria are detailed below.

Business model assessment

The Bank 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 Bank 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;
- 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 Bank's original expectations, the Bank 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.

'Solely payments of principal and interest on the principal amount outstanding' test (SPPI test)

As a second step of its classification process, the Bank 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 Bank 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.

3. Material accounting policies, continued

Financial assets and liabilities, continued

Initial measurement, continued

Debt securities and promissory notes measured at FVOCI

The Bank measures debt securities and promissory notes 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
- the contractual terms of the financial asset meet the SPPI test.

Debt securities and promissory notes 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 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.

Equity instruments at FVOCI

Upon initial recognition, the Bank 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 Bank 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

Bank 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 Bank'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 Bank 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 Bank 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 Bank 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 Bank did not reclassify any of its financial assets and liabilities in 2023 and 2022.

(in millions of Kazakhstani tenge unless otherwise stated)

3. Material accounting policies, continued

Financial assets and liabilities, continued

Initial measurement, continued

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 and are used by the Bank in the management of short-term commitments. Cash and cash equivalents are recognised at amortised cost in the separate statement of financial position.

Repurchase and reverse repurchase agreements and securities lending

Securities sold under sale and repurchase agreements ("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 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 profit or loss and other comprehensive 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 Bank 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 Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments.

Such instruments include loans from a state-owned company, amounts due to banks and other financial institutions, current accounts and deposits from customers, debt securities issued, subordinated debts and other borrowed funds. 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 Bank purchases its own debt, it is removed from the 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. Material accounting policies, continued

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the separate statement of financial position when, and only when, the Bank 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 Bank 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 Bank and all counterparties.

Restructuring of loans

Where possible, the Bank 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 Bank 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 Bank's financial assets is performed in a similar way. Assessment of the Bank's financial assets, other than loans to customers, is performed in a similar way.

The Bank 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 Bank considers the following:

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

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, not related to the deterioration of the borrower's financial condition, the Bank recognises gains or losses from the modification that are recorded within interest income calculated using the effective interest rate method, in profit or loss before impairment loss is recognised.

If the modification does not result in derecognition, the Bank 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.

Impairment

The Bank recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at fair value through profit and loss:

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

No impairment loss is recognised on equity investments.

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

- 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.

(in millions of Kazakhstani tenge unless otherwise stated)

3. Material accounting policies, continued

Impairment, continued

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

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of 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)

ECLs 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 Bank in accordance with the contract and the cash flows that the Bank 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 Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- *financial guarantee contracts*: the present value of expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL. The Bank formulates three economic scenarios: a base case, which is a central scenario assigned a 60% probability of occurring, and two less likely scenarios, one upside and one downside scenario, each assigned a 20% probability of occurring. The central scenario is aligned with information used by the Bank for other purposes such as strategic planning and budgeting.

External information on macroeconomic variables considered includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Bank operates, such as the NBRK and Ministry of National Economy of the Republic of Kazakhstan, and information available from public official sources as well as information on listed assets.

Periodically, the Bank carries out stress testing of more extreme shocks to calibrate its determination of the upside and downside representative scenarios. A review is performed by the Bank at least annually on the design of the scenarios.

The Bank has identified and documented key drivers of credit risk and credit losses such as a consumer price index, Brent crude oil prices and change in the share of non-performing loans, for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macroeconomic variables and credit risk and credit losses.

In the course of a regression analysis, the Bank identified key macroeconomic indicators that affect the average default rates on various segments of the Bank's loan portfolio. The Bank has developed a regression model based on the results of the regression analysis, which is used to forecast the average default rates on the loan portfolio, depending on the macroeconomic indicators forecast.

These key drivers are Brent crude oil prices and a consumer price index.

(in millions of Kazakhstani tenge unless otherwise stated)

3. Material accounting policies, continued

Impairment, continued

Incorporation of forward-looking information, continued

The economic scenarios used as at 31 December 2023 included the following key indicators for the years 2024-2025.

	1 January 2024	***1 January 2025***
Brent crude oil price	Base scenario 96.89 Downside scenario 89.50 Upside scenario 102.47	Base scenario 100.06 Downside scenario 88.20 Upside scenario 111.40
A consumer price index in % on a year-over-year basis	Base scenario 9.59% Downside scenario 10.45% Upside scenario 8.65%	Base scenario 6.89 Downside scenario 7.45% Upside scenario 6.19%

Predicted relationships between the key indicator and default and loss rates on various portfolios of financial assets have been developed based on the analysis of historical data over the past years.

The results of the regression analysis may be limited to take account of significant changes in borrowers' behaviour due to that some institutional changes occurred, and the quantitative assessment of the changes in the NBRK's regulatory policies and the Bank's lending policy. However, the cross-validation of the developed models has shown positive results, which may indicate that the model is deemed to be stable to changes in the above factors.

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 ECLs are measured as follows:

- If the expected restructuring does 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 results 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 Bank 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.

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;
- the restructuring of a loan or advance on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition 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, a retail loan that is overdue for 90 days or more is considered credit-impaired.

(in millions of Kazakhstani tenge unless otherwise stated)

3. Material accounting policies, continued

Impairment, continued

Restructured financial assets, continued

In making an assessment of whether an investment in sovereign debt (other financial assets) is credit-impaired, the Bank 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 Bank 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 Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

Write-off

Financial assets are written off in part or in full, only when the Bank 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.

(in millions of Kazakhstani tenge unless otherwise stated)

3. Material accounting policies, continued

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 separate financial statements.

Where the Bank 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 live thereof.

The benefit of a government loan at a below-market rate of interest 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, plant and equipment

Owned assets

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

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

The carrying values of property, plant 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, plant 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, plant and equipment.

An annual transfer from the revaluation reserve for property, plant 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 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.

Depreciation

The estimated useful lives of items of property, plant and equipment are as follows:

	Years
Buildings	20-100
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.

(in millions of Kazakhstani tenge unless otherwise stated)

3. Material accounting policies, continued

Intangible assets

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

Licences, patents, trademarks and permits valid within twelve months are accounted for by the Bank 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 ranges from 2 to 30 years.

Provisions

A provision is recognised in the separate statement of financial position when the Bank 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.

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 separate statement of financial position, net of transaction costs. The corresponding cumulative dividends on those shares are charged as interest expense in the separate 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 separate financial statements.

Dividends

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

Dividends are recognised as a liability and deducted from equity at the reporting period only if they are declared before or on the reporting date. Dividends are disclosed in the financial statements when they are proposed before the reporting date or proposed or declared after the reporting date but before the separate 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 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 adjustment 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. Material accounting policies, continued

Taxation, continued

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 utilised. 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 Bank 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 Bank takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Bank believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of Kazakhstan 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 Bank 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.

New standards and interpretations not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2024 with earlier application permitted. However, the Bank has not early adopted the new or amended standards in preparing these separate financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Bank's separate financial statements.

- *Amendments to IAS 1 - Classification of Liabilities as Current or Non-current;*
- *Amendment to IFRS 16 Leases - Lease Liability in a Sale and Leaseback*;
- *Additional disclosures to IAS 7 Statements of Cash Flows;*
- *IFRS 7 Financial instruments: Disclosures.*

New standards, interpretations and amendments to existing standards and interpretations effective from 1 January 2023

The Bank applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2023 (unless otherwise specified).

- *IFRS 17 Insurance Contracts;*
- *Amendment to IAS 8 – Definition of Accounting Estimates;*
- *Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of Accounting policies;*
- *Amendments to IAS 12 Income Tax – Deferred Tax related to Assets and Liabilities arising from a Single Transaction.*

These amendments had no impact on the separate financial statements of the Bank. Financial guarantees issued by the Bank are accounted for in compliance with the requirements of IFRS 9 *Financial Instruments: Recognition and Measurement*.

(in millions of Kazakhstani tenge unless otherwise stated)

4. Significant accounting judgements and estimates

Estimation uncertainty

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

Where the fair values of financial assets and financial liabilities recorded in the separate statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Based on the entire information available as at 31 December 2023, when measuring fair value of financial instruments, the Bank stated the remeasured expected future cash flows *(Note 37)*.

Impairment losses on financial assets

Measurement of losses for all categories of financial assets requires management to make judgement, in particular, when measuring impairment losses (ECL) and determining whether there has been a significant increase in credit risk, management has to assess the amount and timing of future cash flows and collateral values. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. Moreover, large-scale business interruptions may result in liquidity problems for certain entities and customers. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies.

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

- the internal credit grading model, which is used by the Bank to estimate the probability of default ("PD");
- the criteria used by the Bank, including qualitative assessments, for assessing if there has been a significant increase in credit risk as a result of which the impairment allowance for financial assets has to be measured in the amount equal to lifetime ECL;
- grouping of financial assets, including various formulas and selection of inputs;
- 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 Bank 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 Bank remeasured expected credit losses 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 Bank's customers.

Based on entire information available as at 31 December 2023, when calculating ECL, the Bank stated the remeasured expected future cash flows.

The loss allowance for expected credit losses for loans to customers recognised in the separate statement of financial position as at 31 December 2023 was KZT 270,188 million (31 December 2022: KZT 305,141 million). For more information on loans to customers, see *Note 19*.

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.

(in millions of Kazakhstani tenge unless otherwise stated)

4. Significant accounting judgements and estimates, continued

Estimation uncertainty, continued

Taxation, continued

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 2023 and 2022 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. Analysis of credit risks

For information on the Bank's financial risk management policy, see *Note 31*. The related accounting policies are set out 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 Bank 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 Bank’s historical experience and expert credit assessment and including forward-looking information.

The Bank 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 Bank 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 may 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.

Corporate exposure

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.

- Information obtained during periodic review of borrowers’ files – e.g. financial statements, 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.
- 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.

5. Analysis of credit risks, continued

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 Bank collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading.

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

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For the majority of exposures the key macroeconomic indicators would be inflation forecast, Brent crude oil prices and change in share of non-performing loans.

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

Determining whether credit risk has increased significantly

The Bank 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 Bank's quantitative modelling, it is determined that there are the objective factors resulting in deterioration of financial and economic position of the counterparty. 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 Bank'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 hightened 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 Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 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 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 Bank determines a probation period of 3 months during which the financial asset is required to demonstrated good behaviour to provide evidence that its credit risk has declined sufficiently.

When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes history of up-to-date payment performance against the modified contractual terms.

The Bank 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).

5. Analysis of credit risks, continued

Definition of default

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

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank 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 Bank, 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 a borrower is in default, the Bank 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 Bank; 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.

The Bank 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 Bank uses external information.

Incorporation of forward-looking information

The Bank 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 forecast, Brent crude oil prices and change in share of non-performing loans.

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 originated loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at the recognition date).

The Bank renegotiates loans to customers in financial difficulties (referred to as ‘forbearance activities’) to maximise collection opportunities and minimise the risk of default. Under the Bank’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.

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 Bank’s forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Bank’s ability to collect interest and principal and the Bank’s previous experience of similar forbearance action.

As part of this process, the Bank evaluates the borrower’s payment performance against the modified contractual terms and considers various behavioural indicators.

5. Analysis of credit risks, continued

Modified financial assets, continued

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 12 months 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 (ECL)

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.

The Bank generally estimates these parameters based on statistics 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 Bank 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 Bank 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 Bank 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.

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, LTV ratio for retail mortgages, date of initial recognition, remaining term to maturity, industry, and 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 Bank has limited historical data, external benchmark information will be used to supplement the internally available data.

(in millions of Kazakhstani tenge unless otherwise stated)

5. Analysis of credit risks, continued

Measurement of ECLs, continued

The portfolios at 31 December 2023 for which external benchmark information represents a significant input into measurement of ECLs are as follows.

Item	*At 31 December 2023*	*External benchmarks used* PD	LGD
Cash and cash equivalents	462,589	Moody's Default study	100%; 0% – if the Government acts as a counterparty
Amounts due from banks and other financial institutions	56,373	Moody's Default study	100%; 0% – if a state-controlled entity acts as a counterparty
Investment securities	815,905	Moody's Default study	Moody's recovery rates study
Acquired right of claim on promissory note to the MFRK	105,458	Moody's Default study	0%

The portfolios at 31 December 2022 for which external benchmark information represents a significant input into measurement of ECLs are as follows.

Item	*At 31 December 2022*	*External benchmarks used* PD	LGD
Cash and cash equivalents	611,412	Moody's Default study	100%; 0% – if the Government acts as a counterparty
Amounts due from banks and other financial institutions	39,556	Moody's Default study	100%; 0% – if a state-controlled entity acts as a counterparty
Investment securities	841,958	Moody's Default study	Moody's recovery rates study
Acquired right of claim on promissory note to the MFRK	103,068	Moody's Default study	0%

Credit quality analysis

The following table provides information on the credit quality of financial assets measured at amortised cost, debt instruments measured at fair value through other comprehensive income as at 31 December 2023 and 2022. Unless specially indicated, for financial assets, the amounts in the table represent gross carrying amounts.

	31 December 2023	
	Stage 1	*Total*
Investment securities measured at FVOCI		
- rated from AAA- to AAA+	22,233	22,233
- rated from BBB- to BBB+	560,161	560,161
Total	**582,394**	**582,394**
Expected credit losses (for reference only)	(215)	(215)
Total gross carrying amount of investment securities measured at FVOCI	**570,382**	**570,382**

(in millions of Kazakhstani tenge unless otherwise stated)

5. Analysis of credit risks, continued

Credit quality analysis, continued

	31 December 2023	
	Stage 1	***Total***
Investment securities measured at FVOCI		
- rated from AAA- to AAA+	22,233	22,233
- rated from BBB- to BBB+	560,161	560,161
Total	**582,394**	**582,394**
Expected credit losses (for reference only)	(215)	(215)
Total gross carrying amount of investment securities measured at FVOCI	**570,382**	**570,382**

	31 December 2022	
	Stage 1	***Total***
Investment securities measured at FVOCI		
- rated from AAA- to AAA+	4,652	**4,652**
- rated from BBB- to BBB+	779,371	**779,371**
Total	**784,023**	**784,023**
Expected credit losses (for reference only)	(85)	**(85)**
Total gross carrying amount of investment securities measured at FVOCI	**784,023**	**784,023**

	31 December 2023	
	Stage 1	***Total***
Investment securities measured at amortised cost		
- rated from AAA- to AAA+	32,942	**32,942**
- rated from BBB- to BBB+	200,686	**200,686**
	233,628	**233,628**
Expected credit losses	(117)	**(117)**
Total	**233,511**	**233,511**

	31 December 2022	
	Stage 1	***Total***
Investment securities measured at amortised cost		
- rated from AAA- to AAA+	5,202	**5,202**
- rated from BBB- to BBB+	52,776	**52,776**
	57,978	**57,978**
Expected credit losses	(43)	**(43)**
Total	**57,935**	**57,935**

	31 December 2023	
	Stage 1	***Total***
Acquired right of claim on promissory note to the MFRK		
- rated from BBB- to BBB+	105,458	**105,458**
Total	105,458	**105,458**

	31 December 2022	
	Stage 1	***Total***
Acquired right of claim on promissory note to the MFRK		
- rated from BBB- to BBB+	103,068	**103,068**
Total	**103,068**	**103,068**

(in millions of Kazakhstani tenge unless otherwise stated)

5. Analysis of credit risks, continued

Credit quality analysis, continued

The following table provides information on the credit quality of loans to customers measured at amortised cost, based on internal credit risk grades, as at 31 December 2023.

	31 December 2023				
	Stage 1	***Stage 2***	***Stage 3***	***POCI***	***Total***
Loans to corporate customers at amortised cost					
- rated from A- to A+	5,957	–	–	–	**5,957**
- rated from BBB- to BBB+	37,070	–	–	–	**37,070**
- rated from BB- to BB+	45,971	–	–	–	**45,971**
- rated from B- to B+	200,665	726	–	–	**201,391**
- rated from CCC- to CCC+	2,106	431	–	–	**2,537**
- not rated*	143,134	3,833	6,715	12,292	**165,974**
- defaulted	–	–	46,174	221,672	**267,846**
	434,903	**4,990**	**52,889**	**233,964**	**726,746**
Expected credit losses	(3,969)	(291)	(29,796)	(187,348)	**(221,404)**
Loans to corporate customers	**430,934**	**4,699**	**23,093**	**46,616**	**505,342**
ECL allowance in relation to loans to customers before ECL allowance, %	0.9	5.8	56.3	80.1	30.5

The following table provides information on the credit quality of loans to customers measured at amortised cost as at 31 December 2022.

	31 December 2022				
	Stage 1	***Stage 2***	***Stage 3***	***POCI***	***Total***
Loans to corporate customers at amortised cost					
- rated from A- to A+	34,645	–	–	–	**34,645**
- rated from BBB- to BBB+	15,686	–	–	–	**15,686**
- rated from BB- to BB+	83,832	32	–	–	**83,864**
- rated from B- to B+	112,850	3,861	–	–	**116,711**
- rated from CCC- to CCC+	9,510	5,026	–	–	**14,536**
- not rated*	148,890	1,106	5,525	15,149	**170,670**
- defaulted	–	–	49,537	276,967	**326,504**
	405,413	**10,025**	**55,062**	**292,116**	**762,616**
Expected credit losses	(2,849)	(129)	(34,914)	(230,781)	**(268,673)**
Loans to corporate customers	**402,564**	**9,896**	**20,148**	**61,335**	**493,943**
ECL allowance in relation to loans to customers before ECL allowance, %	0.7	1.3	63.4	79.0	35.2

* *"Not rated" category comprises collectively assessed loans, for which probability of default is assessed on the basis of the migration matrix.*

(in millions of Kazakhstani tenge unless otherwise stated)

5. Analysis of credit risks, continued

Credit quality analysis, continued

The following table provides information on the credit quality of loans to corporate and retail customers measured at amortised cost as at 31 December 2023.

	31 December 2023				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Loans to corporate customers at amortised cost					
Not overdue	427,631	3,300	9,542	135,071	**575,544**
Overdue less than 30 days	7,272	131	37	3,526	**10,966**
Overdue 30-89 days	–	1,556	69	708	**2,333**
Overdue 90-179 days	–	3	707	82	**792**
Overdue 180-360 days	–	–	5,984	11,133	**17,117**
Overdue more than 360 days	–	–	36,550	83,444	**119,994**
	434,903	**4,990**	**52,889**	**233,964**	**726,746**
Expected credit losses	(3,969)	(291)	(29,796)	(187,348)	**(221,404)**
Loans to corporate customers	**430,934**	**4,699**	**23,093**	**46,616**	**505,342**

	31 December 2023				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Loans to retail customers at amortised cost					
Not overdue	405,450	278	1,806	2,545	**410,079**
Overdue less than 30 days	14,271	135	568	49	**15,023**
Overdue 30-89 days	–	10,499	1,300	87	**11,886**
Overdue 90-179 days	–	457	9,813	30	**10,300**
Overdue 180-360 days	–	–	11,916	532	**12,448**
Overdue more than 360 days	–	–	19,693	2,936	**22,629**
	419,721	**11,369**	**45,096**	**6,179**	**482,365**
Expected credit losses	(10,681)	(3,478)	(32,498)	(2,127)	**(48,784)**
Loans to retail customers	**409,040**	**7,891**	**12,598**	**4,052**	**433,581**

The following table provides information on the credit quality of loans to corporate and retail customers measured at amortised cost as at 31 December 2022.

	31 December 2022				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Loans to corporate customers at amortised cost					
Not overdue	401,243	9,745	6,788	186,366	**604,142**
Overdue less than 30 days	4,157	46	3,165	2,995	**10,363**
Overdue 30-89 days	13	234	2,253	290	**2,790**
Overdue 90-179 days	–	–	372	16,433	**16,805**
Overdue 180-360 days	–	–	12,815	8,453	**21,268**
Overdue more than 360 days	–	–	29,669	77,579	**107,248**
	405,413	**10,025**	**55,062**	**292,116**	**762,616**
Expected credit losses	(2,849)	(129)	(34,914)	(230,781)	**(268,673)**
Loans to corporate customers	**402,564**	**9,896**	**20,148**	**61,335**	**493,943**

(in millions of Kazakhstani tenge unless otherwise stated)

5. Analysis of credit risks, continued

Credit quality analysis, continued

	31 December 2022				
	Stage 1	***Stage 2***	***Stage 3***	***POCI***	***Total***
Loans to retail customers at amortised cost					
Not overdue	277,584	388	1,922	3,541	**283,435**
Overdue less than 30 days	10,654	194	655	241	**11,744**
Overdue 30-89 days	–	7,159	1,194	636	**8,989**
Overdue 90-179 days	–	–	10,400	126	**10,526**
Overdue 180-360 days	–	–	15,953	158	**16,111**
Overdue more than 360 days	–	–	8,616	3,556	**12,172**
	288,238	**7,741**	**38,740**	**8,258**	**342,977**
Expected credit losses	(8,898)	(2,490)	(22,743)	(2,337)	**(36,468)**
Loans to retail customers	**279,340**	**5,251**	**15,997**	**5,921**	**306,509**

The following table provides information on quality of other financial assets measured at amortised cost as at 31 December 2023.

	31 December 2023				
	Stage 1	***Stage 2***	***Stage 3***	***POCI***	***Total***
Other financial assets at amortised cost					
Not overdue	21,417	–	–	–	**21,417**
Overdue 30-89 days	–	8	–	–	**8**
Overdue 90-179 days	–	–	231	–	**231**
Overdue 180-360 days	–	–	581	–	**581**
Overdue more than 360 days	–	–	2,758	–	**2,758**
	21,417	**8**	**3,570**	–	**24,995**
Expected credit losses	(2,681)	(1)	(2,862)	–	**(5,544)**
Other financial assets at amortised cost	**18,736**	**7**	**708**	–	**19,451**

The following table provides information on quality of other financial assets measured at amortised cost as at 31 December 2022.

	31 December 2022				
	Stage 1	***Stage 2***	***Stage 3***	***POCI***	***Total***
Other financial assets at amortised cost					
Not overdue	13,523	–	–	–	**13,523**
Overdue less than 30 days	12	–	–	–	**12**
Overdue 30-89 days	–	8	–	–	**8**
Overdue 180-360 days	–	–	191	–	**191**
Overdue more than 360 days	–	–	3,841	–	**3,841**
	13,535	**8**	**4,032**	–	**17,575**
Expected credit losses	(2,419)	(2)	(3,835)	–	**(6,256)**
Other financial assets at amortised cost	**11,116**	**6**	**197**	–	**11,319**

(in millions of Kazakhstani tenge unless otherwise stated)

6. Net interest income

Net interest income comprises the following:

	2023	*2022*
Interest income calculated using the effective interest rate method		
Cash and cash equivalents	23,784	38,534
Amounts due from banks and other financial institutions	687	88
Investment securities measured at FVOCI	111,523	45,391
Investment securities measured at amortised cost	9,817	12,270
Loans to customers measured at amortised cost	178,211	147,590
Acquired right of claim on promissory note to the MFRK	4,260	4,300
Other financial assets	1,059	741
	329,341	**248,914**
Other interest income		
Trading securities	10	23
Loans to customers measured at FVTPL	–	282
	10	**305**
Total interest income	**329,351**	**249,219**
Interest expense		
Amounts due to banks and other financial institutions	(1,294)	(1,337)
Accounts payable under repurchase agreements	(4,358)	(1,059)
Current accounts and deposits from customers	(83,246)	(55,580)
Debt securities issued	(24,897)	(28,539)
Subordinated debt	(26,922)	(26,044)
Liabilities to mortgage organisation	(482)	(524)
Lease liabilities	(299)	(378)
Other financial liabilities	(959)	(819)
Total interest expense	**(142,457)**	**(114,280)**
Net interest income	**186,894**	**134,939**

Interest income calculated using the effective interest rate method for 2023 comprises an interest of KZT 13,645 million on credit-impaired loans to customers (2022: KZT 17,157 million).

Interest income receipts comprise the following:

	2023	*2022*
Cash and cash equivalents	23,784	38,534
Trading securities	7	14
Amounts due from banks and other financial institutions	94	72
Investment securities	104,532	56,959
Loans to customers	175,852	101,333
Acquired right of claim on promissory note to the MFRK	4,288	4,215
Other financial assets	206	208
Total	**308,763**	**201,335**

Interest expense payments comprise the following:

	2023	*2022*
Amounts due to banks and other financial institutions	(379)	(1,451)
Accounts payable under repurchase agreements	(4,358)	(1,058)
Current accounts and deposits from customers	(80,785)	(54,059)
Debt securities issued *(Note 26)*	(11,625)	(13,468)
Subordinated debt *(Note 27)*	(16,192)	(16,641)
Liabilities to mortgage organisation	(482)	(525)
Total	**(113,821)**	**(87,202)**

(in millions of Kazakhstani tenge unless otherwise stated)

7. Credit loss expenses

Credit loss expenses on financial instruments recognised in profit or loss for 2023 and 2022 comprise:

	Note	*2023*	*2022*
Cash and cash equivalents	15	(148)	(1,065)
Amounts due from banks and other financial institutions	17	21	(35)
Investment securities	18	(283)	(32)
Loans to customers	19	(23,539)	(38,241)
Financial guarantees		–	(6)
Other financial assets	22	(979)	(242)
Credit loss expenses		**(24,928)**	**(39,621)**

8. Fee and commission income and expenses

Fee and commission income and expenses comprise the following:

	2023	*2022*
Transfer operations	34,743	17,974
Client card account maintenance fees	9,082	7,679
Settlement	4,031	3,270
Guarantees and letters of credit	1,983	1,522
Cash operation	1,462	2,303
Agent services	1,300	434
Foreign exchange	583	647
Safe deposit transactions services	188	176
Operations on the securities market	150	116
Other fee and commission income	391	503
Fee and commission income	**53,913**	**34,624**
Client card account maintenance fees	(34,475)	(18,083)
Transfer operations	(1,105)	(852)
Fee and commission expense on agent services received	(620)	(356)
Broker services	(258)	(207)
Foreign exchange	(247)	(601)
Correspondent accounts maintenance	(37)	(272)
Guarantees and letters of credit	–	(1)
Other fee and commission expense	(191)	(172)
Fee and commission expense	**(36,933)**	**(20,544)**
Net fee and commission income	**16,980**	**14,080**

The Bank 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 contract liabilities

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

	31 December 2023	*31 December 2022*
Fee and commission receivable *(Note 22)*	4,227	2,476

As of 31 December 2023 and 31 December 2022, there are no performance obligations with an original expected duration of one year or less as required by IFRS 15.

(in millions of Kazakhstani tenge unless otherwise stated)

8. Fee and commission income and expenses, continued

Performance obligations and revenue recognition policies

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

Below there is 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 (fee and commission for transfer operations).

Fee and commission income for payment card maintenance comprises interchange fee from transactions with credit and debit cards carried out in trade and service enterprises. Revenue is recognised upon receipt of compensation from payment systems. Other payment card fees are recognised at the time of transaction completion.

Money transfer services include:

- accepting, processing and paying out the domestic money transfer (within Kazakhstan) without opening current and card account;
- accepting, processing and paying out the international money transfer (abroad) without opening current and card account.

Money transfer services are provided on a prepayment basis.

9. Net gain on financial instruments at fair value through profit or loss

Net gain on financial instruments at fair value through profit or loss comprises the following:

	2023	*2022*
Net realised gain on foreign currency derivative financial instruments (*Note 16*)	3,334	20,533
Net gain on change in fair value of loans to customers at fair value through profit or loss	338	3,021
Net unrealised gain/(loss) on currency derivative financial instruments *(Note 16)*	194	(1,203)
Gain/(loss) on change in fair value of trading securities	5	(5)
Total	**3,871**	**22,346**

Net realised gain on currency financial instruments for 2023 comprises loss on forward exchange contracts of KZT 31 million (2022: gain on forward exchange contracts of KZT 20,289 million) and gain on foreign currency swaps of KZT 3,365 million (2022: KZT 244 million).

10. Net foreign exchange gain

Net foreign exchange gain is as follows:

	2023	*2022*
Gain on spot transactions	20,096	32,999
Revaluation of foreign currency items, net	2,154	10,858
Total	**22,250**	**43,857**

11. Other income and expenses

Other income comprises the following:

	2023	*2022*
Income from sale of inventories and non-current assets held for sale	5,756	2,263
Other income	1,855	2,428
Total	**7,611**	**4,691**

Other expenses comprise the following:

	2023	*2022*
Loss on change in net realisable value of foreclosed collateral	(125)	(1,085)
Total	**(125)**	**(1,085)**

(in millions of Kazakhstani tenge unless otherwise stated)

12. Personnel expenses

Personnel expenses are as follows:

	2023	*2022*
Employee benefits	(39,076)	(36,308)
Social contributions and payroll related taxes	(4,062)	(3,750)
Total	**(43,138)**	**(40,058)**

13. Other general and administrative expenses

Other general and administrative expenses are as follows:

	2023	*2022*
Repair and maintenance	(9,160)	(6,077)
Depreciation and amortisation (*Note 20*)	(7,737)	(6,510)
Advertising and marketing services	(4,695)	(4,170)
Taxes other than corporate income tax	(4,256)	(3,644)
Communication and information services	(2,331)	(1,951)
Guaranteed deposit insurance expenses	(1,953)	(2,149)
Professional services	(2,281)	(662)
Security	(1,377)	(1,061)
Lease *(Notes 34)*	(719)	(1,309)
Cash collection expenses	(717)	(507)
Business travel expenses	(386)	(276)
Transportation expenses	(315)	(302)
Stationery and office equipment supplies	(293)	(429)
Postal and courier services	(168)	(195)
Recruitment and training	(113)	(223)
Insurance	(108)	(36)
Fines and penalties	(36)	(21)
Representation expenses	(25)	(18)
Expenses on impairment of property, plant and equipment and intangible assets	(12)	(650)
Other	(4,588)	(3,181)
Total	**(41,270)**	**(33,371)**

14. Corporate income tax expense

Corporate income tax expense is as follows:

	2023	*2022*
Current corporate income tax expenses	–	–
Increase in deferred corporate income tax expense - origination and decrease of temporary differences	(1,600)	(13,399)
Total corporate income tax expense	**(1,600)**	**(13,399)**

The Bank income is subject to taxation only in the Republic of Kazakhstan. Under the tax legislation, the applicable corporate income tax rate was 20.0% in 2023 and 2022.

(in millions of Kazakhstani tenge unless otherwise stated)

14. Corporate income tax expense, continued

Below is a reconciliation of corporate income tax expenses calculated using a statutory tax rate with corporate income tax expenses recognised in the separate financial statements for 2023 and 2022:

	2023	*Rate, %*	*2022*	*Rate, %*
Profit before corporate income tax expense	**134,892**		**102,046**	
Theoretical corporate income tax expense at the statutory rate	**(26,978)**	**20.0**	**(20,409)**	**20.0**
Non-deductible expenses				
Non-deductible impairment losses	(1,872)	1.4	(1,878)	1.8
Other non-deductible expenses	(60)	–	–	–
Non-taxable income				
Exempt income on government securities listed at KASE	22,312	(16.5)	11,537	(11.3)
Change in unrecognised deferred tax assets	4,670	(3.5)	–	–
Adjustment of tax losses on CIT recalculation for prior periods	293	(0.2)	(4,254)	4.2
Non-taxable income from remeasurement of fair value of financial assets	35	–	1,002	(1.0)
Other non-taxable income	–	–	603	(0.6)
Total	**(1,600)**	**1.2**	**(13,399)**	**13.1**

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 2023 and 31 December 2022. Deferred tax assets in respect of tax losses carried forward are recognised in these separate financial statements. Future tax benefits will only be realised if profits is available against which unused tax losses can be utilised and there are no changes to the law and regulations that adversely affect the Bank’s ability to claim deductions in future periods.

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 are recognised in full with regard to tax losses for 2017-2019. Tax losses expire in 2027-2029. Total profit before corporate income tax expenses for 2023 amounted to KZT 134,892 million (2022: KZT 102,046 million).

(in millions of Kazakhstani tenge unless otherwise stated)

14. Corporate income tax expense, continued

Deferred tax assets and liabilities as at 31 December 2023 as well as their movement during the year are as follows:

	1 January 2023	*Recognised in profit or loss*	*Recognised in equity*	*31 December 2023*
Tax effect of deductible temporary differences				
Tax losses carried forward	**12,661**	307	–	**12,968**
Loans to customers	**10,912**	(9,707)	–	**1,205**
Lease liability	**423**	(34)	–	**389**
Derivative financial instruments	**152**	(128)	–	**24**
Other assets	**3,259**	(990)	–	**2,269**
Deferred tax assets	**27,407**	**(10,552)**	**-**	**16,855**
Tax effect of taxable temporary differences				
Bonds issued	**(99,256)**	2,902	–	**(96,354)**
Subordinated debt	**(68,203)**	1,541	–	**(66,662)**
Provision for tax losses carried forward	**(10,632)**	4,670	–	**(5,962)**
Amounts due to banks and other financial institutions	**(9,964)**	184	–	**(9,780)**
Property, plant and equipment and intangible assets	**(1,824)**	(373)	–	**(2,197)**
Right-of-use assets	**(375)**	28	–	**(347)**
Deferred tax liabilities	**(190,254)**	**8,952**	–	**(181,302)**
Total deferred corporate income tax liabilities, net	**(162,847)**	**(1,600)**	–	**(164,447)**

Deferred tax assets and liabilities as at 31 December 2022 as well as their movement during the year are as follows:

	1 January 2022	*Recognised in profit or loss*	*Recognised in equity*	*31 December 2022*
Tax effect of deductible temporary differences				
Tax losses carried forward	**30,763**	(18,102)	–	**12,661**
Loans to customers	**14,005**	(3,093)	–	**10,912**
Lease liability	**616**	(193)	–	**423**
Other liabilities	**2,317**	942	–	**3,259**
Deferred tax assets	**47,701**	**(20,446)**	–	**27,255**
Tax effect of taxable temporary differences				
Bonds issued	**(102,007)**	2,751	–	**(99,256)**
Subordinated debt	**(69,969)**	1,766	–	**(68,203)**
Provision for tax losses carried forward	**(10,632)**	–	–	**(10,632)**
Amounts due to banks and other financial institutions	**(9,530)**	(434)	–	**(9,964)**
Derivative financial instruments	**(1,767)**	1,919	–	**152**
Property, plant and equipment and intangible assets	**(1,336)**	869	(1,357)	**(1,824)**
Right-of-use assets	**(551)**	176	–	**(375)**
Deferred tax liabilities	**(195,792)**	**7,047**	**(1,357)**	**(190,102)**
Total deferred corporate income tax liabilities, net	**(148,091)**	**(13,399)**	**(1,357)**	**(162,847)**

(in millions of Kazakhstani tenge unless otherwise stated)

15. Cash and cash equivalents

Cash and cash equivalents consist of the following:

	31 December 2023	*31 December 2022*
Cash on hand	64,841	95,690
Balances on current accounts with NBRK rated BBB-	31,055	69,777
Balances on current bank accounts with other banks:		
- rated from A- to A+	45,108	3,320
- rated from BBB- to BBB+	2,086	12,077
- rated from BB- to BB+	–	1,545
- not rated	2,096	12,650
Precious metals	25	59
Term deposits with NBRK rated BBB-	267,842	464,045
Term deposits with other banks:		
- rated from AA- to AA+	50,591	34,371
- rated from BBB- to BBB+	52,429	13,921
Accounts receivable under reverse repurchase agreements	12,156	351
Gross cash and cash equivalents	**528,229**	**707,806**
Impairment allowance	(774)	(645)
Total	**527,455**	**707,161**

The credit ratings are presented by reference to the credit ratings of international rating agencies. None of cash and cash equivalents are past due.

All cash and cash equivalents are categorised into Stage 1 of the credit risk grading, except for cash and cash equivalents of KZT10,081 million that are categorised into Stage 2 of the credit risk grading (31 December 2022: KZT 8,988 million and KZT 5 million that are categorised into Stage 2 and Stage 3 of the credit risk grading, respectively).

Current account balances with other non-rated banks comprise balances of KZT 2,096 million with Central Securities Depository JSC (31 December 2022: comprised mainly balances of KZT 9,707 million on current accounts with Russian banks).

As at 31 December 2023, the Bank concluded reverse repurchase agreements with contractual maturity of up to 90 days at KASE. The subject-matter of the said agreements are debt securities of state-owned companies with fair value of KZT 12,399 million at 31 December 2023 (31 December 2022: debt securities of the state-owned companies with fair value of KZT 351 million).

Minimum reserve requirements

As at 31 December 2023 and 31 December 2022 minimum reserve requirements are calculated in accordance with regulations issued by the NBRK. To meet the requirements the Bank places cash in reserve assets, which should be maintained at the level not less than average of cash on hand in the national currency and balances on current account with the NBRK in the national currency for a 4-week period, calculated as certain minimum level of residents' and non-residents' customer deposits and current accounts balances as well as other Bank’s liabilities.

As at 31 December 2023 the minimum reserve requirements amounted to KZT 33,390 million (31 December 2022: KZT 34,251 million), and the reserve asset is KZT 43,004 million (31 December 2022: KZT 70,106 million).

The table below provides an analysis of the changes in allowances for ECL for 2023:

	2023			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
Balance at 1 January	–	(640)	(5)	**(645)**
Net charge (*Note 7*)	(3)	(150)	5	(148)
Effect of movements in foreign exchange rates	–	19	–	19
Balance at 31 December	**(3)**	**(771)**	–	**(774)**

(in millions of Kazakhstani tenge unless otherwise stated)

15. Cash and cash equivalents, continued

Minimum reserve requirements, continued

The table below provides an analysis of the changes in allowances for ECL for 2022:

	2022			
	Stage 1	***Stage 2***	***Stage 3***	***Total***
Balance at 1 January	(3)	(13)	(5)	**(21)**
Net charge (*Note 7*)	3	(662)	(406)	**(1,065)**
Write-off	–	–	466	**466**
Effect of movements in foreign exchange rates	–	35	(60)	**(25)**
Balance at 31 December	–	**(640)**	**(5)**	**(645)**

Concentration of cash and cash equivalents

As at 31 December 2023 and 2022 the Bank held accounts and term deposits with NBRK, whose balances exceed 10% of the Bank's equity as at the reporting date. The gross value of these balances as of 31 December 2023 was KZT 298,897 million (31 December 2022: KZT 533,822 million).

16. Derivative financial instruments

Foreign currency contracts

The Bank 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 2023			*31 December 2022*		
	Notional amount	***Fair value***		***Notional amount***	***Fair value***	
		Asset	***Liability***		***Asset***	***Liability***
Foreign currency contracts						
Currency swaps – domestic contracts	93,612	67	(316)	42,389	81	(1,296)
Currency swaps - foreign contracts	25,112	127	–	37,393	53	(29)
Total	**118,724**	**194**	**(316)**	**79,782**	**134**	**(1,325)**

Foreign contracts in the table above stand for contracts concluded with RK non-resident entities and domestic contracts mean contracts concluded with RK resident entities.

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.

During 2022 the Bank closed its forward contracts with a related party for the total amount of USD 72 million, which is equivalent to KZT 29,136 million. The amount of USD 27 million, which is equivalent to KZT 12,514 million, not paid by a counterparty, is recognised in equity as a loss on transaction with an intermediate parent company, as the intermediate parent company has no intention to repay the outstanding balance of receivables in the foreseeable future.

In July 2023, the Bank and Jusan Technologies Ltd. concluded a debt forgiveness agreement and terminated the contract of general terms of non-cash foreign currency purchase.

Swaps

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

In 2023 net profit on operations with foreign currency swaps amounted to KZT 3,528 million (2022: KZT 19,330 million) (*Note 9*).

(in millions of Kazakhstani tenge unless otherwise stated)

17. Amounts due from banks and other financial institutions

Due from banks and other financial institutions

	31 December 2023	*31 December 2022*
Restricted cash with NBRK rated BBB-	838	1.405
Loans and deposits with other banks and financial institutions		
- rated from A- to A+	6,011	6,002
- rated BBB- to BBB+	411	502
- rated from BB- to BB+	–	4,114
- rated B- to B+	–	243
- not rated	49,145	27,347
Due from banks and other financial institutions, gross	**56,405**	**39,613**
Foreign currency contracts (“spot”)	4	–
Allowance for expected credit losses	(36)	(57)
Total	**56,373**	**39,556**

The credit ratings are presented by reference to the credit ratings of international rating agencies.

As at 31 December 2023 all amounts due from banks and other financial institutions are categorised into Stage 1 of credit risk gradings (31 December 2022: Into Stage 1).

As at 31 December 2022, restricted cash balances on current accounts with NBRK include funds provided by Development Bank of Kazakhstan JSC (“DBK”) for a total amount of KZT 838 million (31 December 2022: KZT 1,405 million). The funds may be granted as loans to large-size businesses operating in the manufacturing industry, and to individuals to purchase locally manufactured motor vehicles on special preferential terms, only after approval by DBK.

In March 2022 the funds provided by Damu Entrepreneurship Development Fund JSC (“Damu”) were early repaid for a total amount of KZT 4,991 million.

Due from banks and other financial institutions (not rated)

As at 31 December 2023, loans and deposits with other banks (not rated) comprise security deposits and a margin with KASE for the total amount of KZT 41,025 million (31 December 2022: KZT 20,466 million), and restricted deposits in the international payment systems in the amount of KZT 8,120 (31 December 2022: KZT 6,881 million).

The table below provides an analysis of the changes in allowance for ECL for 2023:

	2023		
	Stage 1	*Stage 3*	*Total*
Balance at 1 January	(57)	–	**(57)**
Net reversal (*Note 7*)	21	–	**21**
Balance at 31 December	**(36)**	–	**(36)**

The table below provides an analysis of the changes in allowance for ECL for 2022:

	2022		
	Stage 1	*Stage 3*	*Total*
Balance at 1 January	(22)	–	**(22)**
Net charge (*Note 7*)	(35)	–	**(35)**
Balance at 31 December	**(57)**	**–**	**(57)**

Concentration of amounts due from banks and other financial institutions

As at 31 December 2023 the Bank has no amounts due from banks and other financial institutions, whose balances exceed 10% of the Bank’s equity as at the reporting date (31 December 2022: none).

(in millions of Kazakhstani tenge unless otherwise stated)

18. Investment securities

Investment securities comprise:

	31 December 2023	*31 December 2022*
Investment securities measured at fair value through other comprehensive income	650,004	815,317
Investment securities measured at amortised cost	233,511	57,935
Total	**883,515**	**873,252**

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

	31 December 2023	*31 December 2022*
Debt securities		
- Government bonds		
Notes of NBRK	305,432	382,655
- Bonds of MFRK	115,531	169,667
- Bonds of KSF JSC	75,003	88,667
- US Treasury bonds	22,233	4,652
- bonds of SWF Samruk-Kazyna JSC	8,805	19,205
- Eurobonds of MFRK	5,394	4,545
Total government bonds	**532,398**	**669,391**
Equity securities		
Corporate shares		
- corporate shares of Kcell JSC	35,244	31,294
- corporate shares of Kazakhtelecom JSC	32,366	–
Total corporate shares	**67,610**	**31,294**
Corporate bonds		
- rated from BBB- to BBB+	37,766	–
Total corporate bonds	**37,766**	–
Pledged under sale and repurchase agreements		
- Government bonds		
- bonds of SWF Samruk-Kazyna JSC (*Note 24*)	12,230	1,026
- NBRK notes *(Note 24)*	–	113,606
Total government bonds pledged under sale and repurchase agreements	**12,230**	**114,632**
Total	**650,004**	**815,317**

(in millions of Kazakhstani tenge unless otherwise stated)

18. Investment securities, continued

Debt investment securities measured at amortised cost include:

	31 December 2023	*31 December 2022*
Debt securities		
- Government bonds		
- Bonds of MFRK	122,174	19
- Bonds of KSF JSC	25,424	–
- US Treasury bonds	17,699	–
- Eurobonds of MFRK	15,986	15,440
Total government bonds	**181,283**	**15,459**
Corporate bonds		
- rated from AAA- to AAA+	15,243	5,202
- rated from BBB- to BBB+	20,294	32,394
	35,537	**37,596**
Allowance for expected credit losses	(117)	(43)
Total corporate bonds	**35,420**	**37,553**
Pledged under sale and repurchase agreements		
- Government bonds		
- Corporate bonds (*Note 24*)	12,876	–
- Eurobonds of MFRK (*Note 24*)	3,932	4,923
Total government bonds pledged under sale and repurchase agreements	**16,808**	**4,923**
Total	**233,511**	**57,935**

The credit ratings are presented by reference to the credit ratings of international rating agencies.

All investment securities balances are not past due and allocated to Stage 1 of credit risk gradings *(Note 5)*. Net charge of ECL allowance for 2023 amounted to KZT 283 million (2022: KZT 32 million) *(Note 8)*.

As at 31 December 2023 the Bank has accounts payable under repo agreements concluded at KASE, which are secured by coupon Eurobonds of MFRK, bonds of international financial organisations and international coupon bond of SWF Samruk-Kazyna JSC with fair value of KZT 29,038 million (31 December 2022: coupon Eurobonds of MFRK, discount notes of NBRK and international coupon bond of SWF Samruk-Kazyna JSC with fair value of KZT 119,555 million (*Note 24*). All transactions were closed during next reporting month.

These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities.

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

19. Loans to customers

Loans to customers comprise the following items:

	31 December 2023	*31 December 2022*
Loans to customers measured at amortised cost	1,209,111	1,105,593
Allowance for expected credit losses	(270,188)	(305,141)
Loans to customers measured at amortised cost, net of allowance for expected credit losses	**938,923**	**800,452**
Loans to customers measured at fair value through profit or loss	9,009	13,524
Total	**947,932**	**813,976**

Loans to 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 37*.

(in millions of Kazakhstani tenge unless otherwise stated)

19. Loans to customers, continued

Loans to customers measured at fair value through profit or loss, continued

Loans to customers measured at fair value through profit or loss as at 31 December 2023 and 2022 comprise the following items:

	31 December 2023	*31 December 2022*
Loans to small and medium-size businesses	9,009	13,524
Loans to customers measured at FVTPL	**9,009**	**13,524**

Loans to customers measured at amortised cost

Loans to customers measured at amortised cost as at 31 December 2023 comprise the following items:

	31 December 2023				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Loans to corporate customers					
Loans to large corporates	147,421	61	6,730	54,373	**208,585**
Loans to small and medium-size businesses	287,482	4,929	46,159	179,591	**518,161**
Total loans to corporate customers	**434,903**	**4,990**	**52,889**	**233,964**	**726,746**
Loans to retail customers					
Express loans	360,299	9,963	29,714	38	**400,014**
Consumer loans	32,471	1,222	11,312	3,511	**48,516**
Mortgage loans	25,882	173	3,395	2,591	**32,041**
Credit cards	620	11	424	-	**1,055**
Car loans	449	-	251	39	**739**
Total loans to retail customers	**419,721**	**11,369**	**45,096**	**6,179**	**482,365**
Gross loans to customers	**854,624**	**16,359**	**97,985**	**240,143**	**1,209,111**
Allowance for expected credit losses	(14,650)	(3,769)	(62,294)	(189,475)	**(270,188)**
Net loans to customers	**839,974**	**12,590**	**35,691**	**50,668**	**938,923**

Loans to customers measured at amortised cost as at 31 December 2022 comprise the following items:

	31 December 2022				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Loans to corporate customers					
Loans to large corporates	126,137	3,735	7,207	94,722	**231,801**
Loans to small and medium-size businesses	279,276	6,290	47,855	197,394	**530,815**
Total loans to corporate customers	**405,413**	**10,025**	**55,062**	**292,116**	**762,616**
Loans to retail customers					
Express loans	210,534	5,227	22,954	429	**239,144**
Consumer loans	43,371	2,248	10,587	4,707	**60,913**
Mortgage loans	32,427	232	4,291	3,081	**40,031**
Credit cards	1,177	34	743	–	**1,954**
Car loans	729	–	165	41	**935**
Total loans to retail customers	**288,238**	**7,741**	**38,740**	**8,258**	**342,977**
Gross loans to customers	**693,651**	**17,766**	**93,802**	**300,374**	**1,105,593**
Allowance for expected credit losses	(11,747)	(2,619)	(57,657)	(233,118)	**(305,141)**
Net loans to customers	**681,904**	**15,147**	**36,145**	**67,256**	**800,452**

** Credit-impaired POCI loans to customers purchased or originated*

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

(in millions of Kazakhstani tenge unless otherwise stated)

19. Loans to customers, continued

Loans to customers measured at amortised cost, continued

However, due to the limitations of the automated banking information system, the related separate 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 separate statement of financial position.

As required by IFRS 9 gross carrying amount of POCI loans to corporate customers recognised in the separate statement of financial position of the Bank as at 31 December 2023 amounted to KZT 72,072 million (31 December 2022: KZT 95,371 million) and the related ECL allowance balance amounted to KZT 22,570 million (31 December 2022: KZT 28,152 million).

Impairment allowance for loans to customers measured at amortised cost

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 2023:

	2023				
Loans to corporate customers	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
Gross carrying amount at 1 January	**405,413**	**10,025**	**55,062**	**292,116**	**762,616**
New assets originated or purchased	285,201	–	–	242	**285,443**
Assets that have been derecognised or repaid (except for write-offs)	(247,290)	(8,808)	(4,896)	(21,403)	**(282,397)**
Transfers to Stage 1	897	(722)	(175)	–	–
Transfers to Stage 2	(4,669)	4,714	(45)	–	–
Transfers to Stage 3	(4,147)	(98)	4,245	–	–
Net change in interest accrued	271	(121)	(2,353)	336	**(1,867)**
Recoveries/(write-offs)	–	–	1,094	(36,186)	**(35,092)**
Effect of movements in foreign exchange rates	(773)	–	(43)	(1,141)	**(1,957)**
Gross carrying amount at 31 December	**434,903**	**4,990**	**52,889**	**233,964**	**726,746**

Loans to	*2023*				
corporate customers	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
ECL balance at 1 January	**(2,849)**	**(129)**	**(34,914)**	**(230,781)**	**(268,673)**
New assets originated or purchased	(1,751)	–	–	(1)	**(1,752)**
Assets that have been derecognised or repaid (except for write-offs)	489	117	2,235	1,194	**4,035**
Transfers to Stage 1	(186)	87	99	–	–
Transfers to Stage 2	369	(384)	15	–	–
Transfers to Stage 3	997	17	(1,014)	–	–
Net remeasurement of loss allowance	(1,042)	1	3,042	4,258	**6,259**
Unwinding of discount	–	–	1,795	670	**2,465**
(Write-offs)/recoveries	–	–	(1,094)	36,186	**35,092**
Effect of movements in foreign exchange rates	4	–	40	1,126	**1,170**
ECL balance at 31 January	**(3,969)**	**(291)**	**(29,796)**	**(187,348)**	**(221,404)**

(in millions of Kazakhstani tenge unless otherwise stated)

19. Loans to customers, continued

Impairment allowance for loans to customers measured at amortised cost, continued

Below is an analysis of changes in gross carrying amount and corresponding ECL allowance for loans to retail customers for the year ended 31 December 2023:

			2023		
Loans to retail customers	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
Gross carrying amount at 1 January	**288,238**	**7,741**	**38,740**	**8,258**	**342,977**
New assets originated or purchased	377,069	–	–	–	**377,069**
Assets that have been derecognised or repaid (except for write-offs)	(207,247)	(3,267)	(21,257)	(2,608)	**(234,379)**
Transfers to Stage 1	3,164	(729)	(2,435)	–	**–**
Transfers to Stage 2	(11,817)	11,884	(67)	–	**–**
Transfers to Stage 3	(33,409)	(5,647)	39,056	–	**–**
Net change in interest accrued	3,723	1,387	9,309	1.278	**15,697**
Write-offs	–	–	(18,231)	(746)	**(18,977)**
Effect of movements in foreign exchange rates	–	–	(19)	(3)	**(22)**
Gross carrying amount at 31 December	**419,721**	**11,369**	**45,096**	**6,179**	**482,365**

			2023		
Loans to retail customers	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
ECL balance at 1 January	**(8,898)**	**(2,490)**	**(22,743)**	**(2,337)**	**(36,468)**
New assets originated or purchased	(8,340)	–	–	–	**(8,340)**
Assets that have been derecognised or repaid (except for write-offs)	2,691	238	1,007	–	**3,936**
Transfers to Stage 1	182	(323)	505	–	**–**
Transfers to Stage 2	665	(689)	24	–	**–**
Transfers to Stage 3	6,044	(877)	(5,167)	–	**–**
Net remeasurement of loss allowance	(2,661)	663	(25,078)	(601)	**(27,677)**
Unwinding of discount	–	–	704	62	**766**
Write-offs	–	–	18,231	746	**18,977**
Effect of movements in foreign exchange rates	–	–	19	3	**22**
ECL balance at 31 January	**(10,681)**	**(3,478)**	**(32,498)**	**(2,127)**	**(48,784)**

During 2023 the Bank wrote off the loans of KZT 37,878 million which resulted in decrease in the ECL allowance for loans categorised into Stage 3 in the same amount (2022: KZT 12,836 million).

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 2022:

			2022		
Loans to corporate customers	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
Gross carrying amount at 1 January	**330,628**	**35,657**	**48,858**	**270,135**	**685,278**
New assets originated or purchased	220,001	–	–	2,366	**222,367**
Assets that have been derecognised or repaid (except for write-offs)	(142,829)	(23,446)	(4,383)	(12,991)	**(183,649)**
Transfers to Stage 1	3,295	(3,176)	(119)	–	**–**
Transfers to Stage 2	(5,172)	5,172	–	–	**–**
Transfers to Stage 3	967	(3,719)	4,686	–	**–**
Net change in interest accrued	436	(471)	444	8,789	**9,198**
Recovery	–	–	5,387	14,939	**20,326**
Effect of movements in foreign exchange rates	21	8	189	8,878	**9,096**
Gross carrying amount at 31 December	**405,413**	**10,025**	**55,062**	**292,116**	**762,616**

(in millions of Kazakhstani tenge unless otherwise stated)

19. Loans to customers, continued

Impairment allowance for loans to customers measured at amortised cost, continued

Loans to corporate customers	*2022* Stage 1	Stage 2	Stage 3	POCI	Total
ECL balance at 1 January	**(1,212)**	**(431)**	**(23,651)**	**(198,503)**	**(223,797)**
New assets originated or purchased	(1,210)	–	–	(1,968)	(3,178)
Assets that have been derecognised or repaid (except for write-offs)	305	130	3,832	2,409	6,676
Transfers to Stage 1	(480)	460	20	–	–
Transfers to Stage 2	33	(33)	–	–	–
Transfers to Stage 3	37	121	(158)	–	–
Net remeasurement of loss allowance	(306)	(370)	(9,596)	(9,681)	(19,953)
Unwinding of discount	–	–	171	(1,153)	(982)
Recoveries	–	–	(5,387)	(14,939)	(20,326)
Effect of movements in foreign exchange rates	(16)	(6)	(145)	(6,946)	(7,113)
ECL balance at 31 January	**(2,849)**	**(129)**	**(34,914)**	**(230,781)**	**(268,673)**

Below is an analysis of changes in gross carrying amount and corresponding ECL allowance for loans to retail customers for the year ended 31 December 2022:

Loans to retail customers	*2022* Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 1 January	**242,977**	**2,370**	**14,870**	**12,348**	**272,565**
New assets originated or purchased	176,468	–	–	46	**176,514**
Assets that have been derecognised or repaid (except for write-offs)	(96,190)	(1,209)	(6,805)	(2,330)	**(106,534)**
Transfers to Stage 1	1,602	(422)	(1,180)	–	**–**
Transfers to Stage 2	(7,588)	7,662	(74)	–	**–**
Transfers to Stage 3	(29,407)	(1,775)	31,182	–	**–**
Net change in interest accrued	376	1,115	4,825	70	**6,386**
Write-offs	–	–	(4,077)	(1,876)	**(5,953)**
Effect of movements in foreign exchange rates	–	–	(1)	–	**(1)**
Gross carrying amount at 31 December	**288,238**	**7,741**	**38,740**	**8,258**	**342,977**

Loans to retail customers	*2022* Stage 1	Stage 2	Stage 3	POCI	Total
ECL balance at 1 January	**(8,236)**	**(809)**	**(7,380)**	**(4,433)**	**(20,858)**
New assets originated or purchased	(7,023)	–	–	(24)	**(7,047)**
Assets that have been derecognised or repaid (except for write-offs)	1,566	25	257	1,284	**3,132**
Transfers to Stage 1	(344)	56	288	–	**–**
Transfers to Stage 2	815	(828)	13	–	**–**
Transfers to Stage 3	7,503	482	(7,985)	–	**–**
Net remeasurement of loss allowance	(3,179)	(1,416)	(12,291)	(985)	**(17,871)**
Unwinding of discount	–	–	(191)	(55)	**(246)**
Write-offs	–	–	4,545	1,876	**6,421**
Effect of movements in foreign exchange rates	–	–	1	–	**1**
ECL balance at 31 January	**(8,898)**	**(2,490)**	**(22,743)**	**(2,337)**	**(36,468)**

Modified and restructured loans

The Bank 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.

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 Bank recognises profit or loss from modification before impairment loss is recognised.

(in millions of Kazakhstani tenge unless otherwise stated)

19. 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 2023:

Loans to customers	*Loans to large corporates*	*Loans to small and medium-size businesses*	*Express loans*	*Mortgage loans*	*Consumer loans*	*Credit cards*	*Car loans*	*Total*
- not overdue	190,952	384,592	349,404	27,383	32,228	613	451	**985,623**
- overdue less than 30 days	–	10,966	13,052	267	1,692	12	**–**	**25,989**
- overdue 30-89 days	–	2,333	10,189	267	1,419	11	**–**	**14,219**
- overdue 90-179 days	–	792	8,592	130	1,563	15	**–**	**11,092**
- overdue more than 180 days and less than 1 year	–	17,117	9,061	288	3,044	32	23	**29,565**
- overdue more than 1 year	17,633	102,361	9,716	3,706	8,570	372	265	**142,623**
Gross loans to customers	**208,585**	**518,161**	**400,014**	**32,041**	**48,516**	**1,055**	**739**	**1,209,111**
Allowance for expected credit losses	(52,664)	(168,740)	(34,241)	(1,732)	(12,226)	(413)	(172)	**(270,188)**
Net loans to customers	**155,921**	**349,421**	**365,773**	**30,309**	**36,290**	**642**	**567**	**938,923**

The following table provides information on the credit quality of loans to customers measured at amortised cost as at 31 December 2022:

Loans to customers	*Loans to large corporates*	*Loans to small and medium-size businesses*	*Express loans*	*Mortgage loans*	*Consumer loans*	*Credit cards*	*Car loans*	*Total*
- not overdue	210,910	393,232	204,209	34,069	42,957	1,464	736	**887,577**
- overdue less than 30 days	1,546	8,817	8,230	830	2,633	21	30	**22,107**
- overdue 30-89 days	2,006	784	5,519	526	2,889	34	21	**11,779**
- overdue 90-179 days	–	16,805	6,234	584	3,629	46	33	**27,331**
- overdue more than 180 days and less than 1 year	829	20,439	10,113	536	5,355	105	2	**37,379**
- overdue more than 1 year	16,510	90,738	4,839	3,486	3,450	284	113	**119,420**
Gross loans to customers	**231,801**	**530,815**	**239,144**	**40,031**	**60,913**	**1,954**	**935**	**1,105,593**
Allowance for expected credit losses	(89,796)	(178,877)	(24,750)	(1,477)	(9,597)	(519)	(125)	**(305,141)**
Net loans to customers	**142,005**	**351,938**	**214,394**	**38,554**	**51,316**	**1,435**	**810**	**800,452**

19. Loans to customers, continued

Key assumptions and judgments used in estimation of expected credit losses

Loans to corporate customers

In determining the loss allowance for expected credit losses on loans to corporate customers, management makes the following key assumptions:

- a discount of between 0.0% to 60.0% to the originally appraised value if the property pledged is sold (31 December 2022: between 0.0% to 60.0%).
- a delay from 36 months up to 60 months in obtaining proceeds from the foreclosure of collateral; (31 December 2022: from 36 to 60 months).
- PD for loans referred to as Stage 1 in terms of credit quality was 0.11% - 17.73% (31 December 2022: 0.05% - 17.38%); PD for loans referred to as Stage 2 in terms of credit quality was 0.24% - 67.73% (31 December 2022: 0.76%-67.73%), depending on the borrower's internal rating.
- LGD for loans referred to as Stages 1 and 2 was from 0% to 81.54% (31 December 2022:from 0% to 81.54%).

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 ten percent, allowance for expected credit losses on loans to corporate customers as at 31 December 2023 would be KZT 5,995 million lower and KZT 6,412 million higher, respectively (31 December 2022: KZT 6,977 million lower and KZT 9,938 million higher, respectively). To the extent that the delay in obtaining proceeds from the foreclosure of collateral differs by plus/minus one year, allowance for expected credit losses on loans to corporate customers as at 31 December 2023 would be KZT 9,361 million higher and KZT 10,310 million lower, respectively (31 December 2022: KZT 8,344 million higher and KZT 8,141 million lower, respectively).

Loans to retail customers

The Bank 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 1.46% - 23.49% (31 December 2022: 2.28% - 48.88%); lifetime PD referred to as Stage 2 in terms of credit quality was 40.17% - 81.67% (31 December 2022: 30.55% - 94.80%), 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 for the first year was 22.85% (31 December 2022: 34.86%), for the second year - 9.99% (31 December 2022: 18.67%), and for the third year - 0.91% (31 December 2022: 8.24%).
- A discount of between 30.0% and 70.0% (31 December 2022: 30.0% -70.0%) to the annually appraised value if the property pledged is sold.
- An average period of 24 months for sale of foreclosed collateral (31 December 2022: an average period of 24 months).

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, ECL allowance for loans to retail customers as at 31 December 2023 would be KZT 16,162 million lower/higher (31 December 2022: KZT 10,175 million lower/higher).

Loan maturities

The maturities of the loans to customers as at the reporting date are presented in Note 31 and show the contractual maturities of the loans.

(in millions of Kazakhstani tenge unless otherwise stated)

19. Loans to customers, continued

Analysis of collateral and other credit enhancements

Loans to corporate customers

The following table provides information on collateral and other credit enhancements securing loans to corporate customers, net of ECL allowance, by types of collateral.

	31 December 2023			
	Carrying amount of loans to customers	***Fair value of collateral - for collateral assessed as of reporting date***	***Fair value of collateral - for collateral assessed as of loan inception date***	***Fair value of collateral not determined***
Stage 1				
Cash and deposits	7,994	7,994	–	–
Real estate	192,166	64,351	127,815	–
Movable property	4,186	3,704	482	–
Vehicles	42,838	35,849	6,989	–
Equipment	4,431	1,909	2,522	–
Guarantees	117,607	–	–	117,607
No collateral or other credit enhancement	61,712	–	–	61,712
Total Stage 1 loans	**430,934**	**113,807**	**137,808**	**179,319**
Stage 2				
Cash and deposits	154	1	153	–
Real estate	3,518	325	3193	–
Movable property	194	2	192	–
Vehicles	103	2	101	–
Equipment	58	16	42	–
Guarantees	460	–	–	460
No collateral or other credit enhancement	212	–	–	212
Total Stage 2 loans	**4,699**	**346**	**3,681**	**672**
Stage 3				
Cash and deposits	28	28	–	–
Real estate	21,746	10,839	10,907	–
Vehicles	872	–	872	–
Equipment	154	–	154	–
Guarantees	273	–	–	273
No collateral or other credit enhancement	20	–	–	20
Total Stage 3 loans	**23,093**	**10,867**	**11,933**	**293**
POCI				
Cash and deposits	12	8	4	–
Real estate	46,525	35,407	11,118	–
Movable property	32	–	32	–
Vehicles	40	39	1	–
Equipment	6	–	6	–
Guarantees	1	–	–	1
Total POCI-loans	**46,616**	**35,454**	**11,161**	**1**
Loans to customers measured at FVTPL				
Cash and deposits	1	1	–	–
Real estate	8,984	8,572	412	–
Equipment	24	–	24	–
Total loans to customers measured at FVTPL	**9,009**	**8,573**	**436**	**–**
Total loans to corporate customers	**514,351**	**169,047**	**165,019**	**180,285**

(in millions of Kazakhstani tenge unless otherwise stated)

19. Loans to customers, continued

Analysis of collateral and other credit enhancements, continued

Loans to corporate customers, continued

	31 December 2022			
	Carrying amount of loans to customers	***Fair value of collateral - for collateral assessed as of reporting date***	***Fair value of collateral - for collateral assessed as of loan inception date***	***Fair value of collateral not determined***
Stage 1				
Cash and deposits	7,392	7,392	–	–
Real estate	191,298	58,456	132,842	–
Movable property	4,168	2,871	1,297	–
Vehicles	39,253	34,622	4,631	–
Equipment	6,340	3,055	3,285	–
Guarantees	97,416	–	–	97,416
No collateral or other credit enhancement	56,697	–	–	56,697
Total Stage 1 loans	**402,564**	**106,396**	**142,055**	**154,113**
Stage 2				
Cash and deposits	5,682	5,682	–	–
Real estate	3,989	3,088	901	–
Vehicles	31	–	31	–
Equipment	10	–	10	–
Guarantees	183	–	–	183
No collateral or other credit enhancement	1	–	–	1
Total Stage 2 loans	**9,896**	**8,770**	**942**	**184**
Stage 3				
Cash and deposits	7	7	–	–
Real estate	14,553	4,647	9,906	–
Movable property	13	1	12	–
Vehicles	512	471	41	–
Equipment	221	21	200	–
Guarantees	4,660	–	–	4,660
No collateral or other credit enhancement	182	–	–	182
Total Stage 3 loans	**20,148**	**5,147**	**10,159**	**4,842**
POCI				
Cash and deposits	24	24	–	–
Real estate	61,226	50,534	10,692	–
Movable property	59	–	59	–
Vehicles	16	–	16	–
Equipment	1	–	1	–
Guarantees	9	–	–	9
Total POCI-loans	**61,335**	**50,558**	**10,768**	**9**
Loans to customers measured at FVTPL				
Cash and deposits	1	1	–	–
Real estate	13,480	13,422	58	–
Equipment	43	43	–	–
Total loans to customers measured at FVTPL	**13,524**	**13,466**	**58**	–
Total loans to corporate customers	**507,467**	**184,337**	**163,982**	**159,148**

The tables above exclude overcollateralisation.

(in millions of Kazakhstani tenge unless otherwise stated)

19. Loans to customers, continued

Analysis of collateral and other credit enhancements, continued

Loans to corporate customers, continued

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

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.

Loans to retail customers

Mortgage loans are secured by the underlying housing real estate. The Bank's policy is to issue retail loans with a loan-to-value ratio of maximum 80%. Car loans are secured by the underlying cars. The Bank's policy is to issue car loans with a loan-to-value ratio of a maximum of 80%. 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 (net of loss allowance for expected credit losses) and POCI-loans by types of collateral.

As at 31 December 2023	*Carrying amount of loans to customers*	*Fair value of collateral - for collateral assessed as of reporting date*	*Fair value of collateral - for collateral assessed as of loan inception date*	*Fair value of collateral not determined*
Stage 3				
Cash and deposits	6	6	–	–
Real estate	3,555	–	3,555	–
Vehicles	77	–	77	–
Guarantees	20	–	–	20
No collateral or other credit enhancement	8,940	–	–	8,940
Total Stage 3 loans	**12,598**	**6**	**3,632**	**8,960**
POCI				
Cash and deposits	8	8	–	–
Real estate	4,040	–	4,040	–
Vehicles	2	–	2	–
Guarantees	2	–	–	2
Total POCI-loans	**4,052**	**8**	**4,042**	**2**
Total loans to retail customers	**433,581**	**280**	**37,828**	**395,473**

(in millions of Kazakhstani tenge unless otherwise stated)

19. Loans to customers, continued

Analysis of collateral and other credit enhancements, continued

***Loans to retail customers*, continued**

At 31 December 2022	***Carrying amount of loans to customers***	***Fair value of collateral - for collateral assessed as of reporting date***	***Fair value of collateral - for collateral assessed as of loan inception date***	***Fair value of collateral not determined***
Stage 3				
Cash and deposits	7	7	–	–
Real estate	4,372	–	4,372	–
Vehicles	60	–	60	–
Guarantees	31	–	–	31
No collateral or other credit enhancement	11,527	–	–	11,527
Total Stage 3 loans	**15,997**	**7**	**4,432**	**11,558**
POCI				
Cash and deposits	10	10	–	–
Real estate	5,884	–	5,884	–
Movable property	2	–	2	–
Vehicles	9	–	9	–
Guarantees	16	–	–	16
Total POCI-loans	**5,921**	**10**	**5,895**	**16**
Total loans to retail customers	**306,509**	**388**	**50,493**	**255,628**

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:

	31 December 2023	***31 December 2022***
Loans to corporate customers		
Services	212,119	290,578
Production	165,621	150,100
Construction	95,698	105,348
Trade	79,012	99,867
Finance and insurance	96,447	55,651
Transport	42,683	32,581
Education	20,221	16,486
Agriculture	11,546	8,515
Other	3,399	3,490
	726,746	**762,616**
Loans to retail customers		
Express loans	400,014	239,144
Consumer loans	48,516	60,913
Mortgage loans	32,041	40,031
Credit cards	1,055	1,954
Car loans	739	935
	482,365	**342,977**
	1,209,111	**1,105,593**
Allowance for expected credit losses	(270,188)	(305,141)
Total loans to customers measured at amortised cost	**938,923**	**800,452**

(in millions of Kazakhstani tenge unless otherwise stated)

19. Loans to customers, continued

Industry analysis of the loan portfolio, continued

	31 December 2023	*31 December 2022*
Loans to corporate customers		
Construction	6,977	11,270
Services	1,209	1,351
Trade	822	903
Agriculture	1	–
Total loans to customers measured at FVTPL	**9,009**	**13,524**

Significant credit exposures

As at 31 December 2023 the Bank had one group of borrowers (31 December 2022: one group) whose loan balance exceeded 10% of equity, net of impairment allowance, for the total amount of KZT 70,452 million (31 December 2022: KZT 68,640 million).

In December 2023 the Bank issued an unsecured loan of KZT 46,000 million to an individual using its own funds, which matures in 7 months and bears an interest rate of 18.2% per annum. This loan was classified in a corporate loan portfolio, and ECL allowance was calculated using PD value of 4.3% categorised to Stage 1 of credit quality.

(in millions of Kazakhstani tenge unless otherwise stated)

20. Property, plant and equipment and intangible assets

Movements of property, plant and equipment for 2023 are as follows:

	Note	*Land plots and buildings*	*Computers*	*Vehicles*	*Construction in progress*	*Other*	*Intangible assets*	*Right-of-use assets*	*Total*
Cost									
At 1 January 2023		46,809	12,624	576	541	20.804	12,699	3,830	**97,883**
Additions		676	1,365	–	–	2,563	3,207	913	**8,724**
Disposals and write-offs		(2,411)	(2,208)	(55)	–	(1,493)	(623)	(1,731)	**(8,521)**
Impairment		–	–	–	–	–	(12)	–	**(12)**
At 31 December 2023		**45,074**	**11,781**	**521**	**541**	**21,874**	**15,271**	**3,012**	**98,074**
Depreciation and amortisation									
At 1 January 2023		(440)	(7,154)	(444)	–	(11,385)	(8,336)	(1,954)	**(29,713)**
Depreciation charge	13	(739)	(1,904)	(27)	–	(2,720)	(1,578)	(769)	**(7,737)**
Disposals and write-offs		66	2,208	51	–	1,430	623	1,445	**5,823**
At 31 December 2023		**(1,113)**	**(6,850)**	**(420)**	–	**(12,675)**	**(9,291)**	**(1,278)**	**(31,627)**
Carrying amount									
At 31 December 2023		**43,961**	**4,931**	**101**	**541**	**9,199**	**5,980**	**1,734**	**66,447**

At 31 December 2023, the cost of fully depreciated property, plant and equipment used by the Bank amounted to KZT 12,508 million (31 December 2022: KZT 13,550 million).

The Bank measures the fair value of land and buildings once every three years resulting from accounting for land and buildings at fair value in accordance with the Bank's accounting policy. In case of significant change in specific market or property indicators, the Bank can perform revaluation more often. In 2023 the Bank did not revalue the land plots and buildings.

As at 31 December 2022 the Bank revalued the land plots and buildings as required by IAS 16. Fair value was measured using predominantly the income approach, which was built on cash flow testing based on data from internal information sources, including the Bank's forecasts and statistics available from different published sources, information guides, etc. Revaluation resulted in increase of carrying amount of land plots and buildings by KZT 6,749 million, which were recognised in the Bank's other comprehensive income.

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

(in millions of Kazakhstani tenge unless otherwise stated)

20. Property, plant and equipment and intangible assets, continued

Movements of property, plant and equipment for 2022 are as follows:

	Note	*Land plots and buildings*	*Computers*	*Vehicles*	*Construction in progress*	*Other*	*Intangible assets*	*Right-of-use assets*	*Total*
Cost									
At 1 January 2022		52,323	11,203	620	541	19,494	11,476	4,581	**100,238**
Additions		1,869	2,814	–	–	4,289	1,687	619	**11,278**
Disposals and write-offs		(9,750)	(1,393)	(44)	–	(2,979)	(464)	(1,370)	**(16,000)**
Accumulated depreciation		(3,732)	–	–	–	–	–	–	**(3,732)**
Effect of revaluation	30	6,099	–	–	–	–	–	–	**6,099**
At 31 December 2022		**46,809**	**12,624**	**576**	**541**	**20.804**	**12,699**	**3,830**	**97,883**
Depreciation and amortisation									
At 1 January 2022		(3,534)	(7,086)	(431)	–	(11,230)	(7,586)	(1,828)	**(31,695)**
Depreciation charge	13	(721)	(1,459)	(37)	–	(2,253)	(1,193)	(847)	**(6,510)**
Disposals and write-offs		3,815	1,391	24	–	2,098	443	721	**8,492**
At 31 December 2022		**(440)**	**(7,154)**	**(444)**	–	**(11,385)**	**(8,336)**	**(1,954)**	**(29,713)**
Carrying amount									
At 31 December 2022		**46,369**	**5,470**	**132**	**541**	**9,419**	**4,363**	**1,876**	**68,170**

If the cost of land plots and buildings had not been revalued, their carrying amount as at 31 December 2023 would have been KZT 47,688 million (31 December 2022: KZT 50,388 million).

There are no capitalised borrowing costs related to the acquisition or construction of items of property, plant and equipment during 2023 and 2022. The Bank has no property, plant and equipment and intangible assets pledged as collateral.

(in millions of Kazakhstani tenge unless otherwise stated)

21. Investments in subsidiaries

Investments in the Bank's subsidiaries as at 31 December 2023 and 31 December 2022 include the following items:

			31 December 2023		*31 December 2022*	
Item	***Country of registration***	***Principal activity***	***Equity share, %***	***Carrying amount***	***Equity share, %***	***Carrying amount***
First Heartland Jusan Invest JSC	Republic of Kazakhstan	Broker and dealer services	100.00	40,006	95.00	40,006
First Heartland Capital JSC	Republic of Kazakhstan	Investment portfolio management	100.00	29,748	100.00	26,127
Jusan Development LLP	Republic of Kazakhstan	Doubtful and bad assets management	100.00	27,492	100.00	24,086
Optima Bank OJSC	Kyrgyz Republic	Banking	97.14	23,790	97.14	23,790
OMAD Yug LLP	Republic of Kazakhstan	Doubtful and bad assets management	100.00	19,417	100.00	16,683
Jusan Property LLP	Republic of Kazakhstan	Doubtful and bad assets management	100.00	15,284	100.00	13,910
SK Jusan Garant JSC	Republic of Kazakhstan	Insurance activity	100.00	14,039	100.00	7,739
Jusan Inkassatsiya LLP	Republic of Kazakhstan	Cash collection services	100.00	256	100.00	286
Total				**170,032**		**152,627**

SK Jusan Garant JSC

In accordance with the decision of the Board of Directors of the Bank dated 28 December 2023 the Bank carried out additional capitalisation of SK Jusan Garant JSC in the amount of KZT 6,300 million by issue of 63,000 shares at the price of KZT 100,000 per one ordinary share.

OMAD Yug LLP

During 2023 the Bank increased investments in the charter capital of OMAD Yug LLP in the form of transfer of property for the total amount of KZT 970 million (during 2022: KZT 13,639 million).

Jusan Property LLP

During 2023 the Bank increased investments in the charter capital of Jusan property LLP in the form of transfer of property for the total amount of KZT 860 million.

Jusan Development LLP

During 2023 the Bank increased investments in the charter capital of Jusan Development LLP in the form of transfer of property for a total amount of KZT 2,022 million.

During 2022 the Bank withdrew investments as part of the early repayment of loans of KZT 689 million issued to Jusan Development LLP.

On 5 January 2022 the brand name of the subsidiary of Jusan Development LLP change, namely, Concern Tsesna-Astyk LLP was renamed to JFood Kazakhstan LLP.

Jusan Inkassatsiya LLP

According to the decision of the Bank’s Board of Directors dated 17 November 2022, the Bank increased the charter capital of Jusan Inkassatsiya LLP by the total amount of KZT 100 million.

(in millions of Kazakhstani tenge unless otherwise stated)

21. Investments in subsidiaries, continued

First Heartland Jusan Invest JSC (hereinafter Jusan Invest JSC)

In May 2022, 996,720 ordinary shares were bought out from the minority shareholders of Jusan Invest JSC for the total amount of KZT 12,7 million. Thus, the ratio of ordinary shares of Jusan Invest JSC owned by the Bank to the total number of ordinary voting shares of Jusan Invest JSC is 100%.

Movement in the carrying amount of investments in capital of the subsidiaries and other investments included in other receivables (*Note 22*) is as follows:

	Investments in subsidiaries		***Other investments***	
	2023	***2022***	***2023***	***2022***
Balance at 1 January	**152,627**	**143,924**	**1,285**	**1,285**
Increase of investments in subsidiaries during the year	10,152	13,857	–	–
Decrease of investments in subsidiaries during the year	–	(1,495)	–	–
Reversal/(charge) of investment impairment loss	7,253	(3,659)	–	–
Balance at 31 December	**170,032**	**152,627**	**1,285**	**1,285**

The Bank uses its own experience and judgments to assess the amount of provision for impairment of investments in subsidiaries. For the investments in subsidiaries, whose assets are measured predominantly at fair value, management believes that adjusted net assets is the most appropriate technique for estimation of the recoverable amount of the investments at the reporting date. For other investments in subsidiaries, the recoverable amount of investment is determined with the reference to the discounted projected future cash flows from operational activity of each particular subsidiary with the evidence of impairment indicators.

Movements in impairment allowance for investments in subsidiaries and other investments for 2023 and 2022 are as follows:

	Investments in subsidiaries		***Other Investments***	
	2023	***2022***	***2023***	***2022***
Balance at 1 January	**(22,263)**	**(18,604)**	**(3,158)**	**(3,158)**
Reversal/(charge) of investment impairment loss	7,253	(3,659)	-	-
Balance at 31 December	**(15,010)**	**(22,263)**	**(3,158)**	**(3,158)**

Net gain on reversal of impairment in investments in subsidiaries and other investments for 2023 in the amount of KZT 7,253 million were recognised in the separate statement of profit or loss and other comprehensive income (2022: impairment losses on investments in subsidiaries of KZT 3,659 million).

22. Other assets

Other assets include the following items:

	31 December 2023	***31 December 2022***
Receivables from sale of owned assets	14,319	5,471
Fee and commission receivables (*Note 8*)	4.227	2,476
Receivables from guarantees issued	2,540	2,861
Accounts receivable for the Bank’s participation in auctions	1,021	1,235
Receivables from collection agencies	–	815
Other receivables	2,888	4,717
Allowance for expected credit losses	(5,544)	(6,256)
Other financial assets	**19,451**	**11,319**
Repossessed collateral	33,454	38,290
Prepayments	18,525	8,478
Materials and supplies	376	912
Prepayments for intangible assets	224	280
Prepayments for office buildings	120	631
Other non-financial assets	2	12
Impairment allowance	(6,459)	(4,753)
Other non-financial assets	**46,242**	**43,850**
Total	**65,693**	**55,169**

(in millions of Kazakhstani tenge unless otherwise stated)

22. Other assets, continued

As at 31 December 2023, prepayments included prepayment under contract of sale and purchase of the movable and immovable property related to purchase of an administrative building for the amount of KZT 11,900 million.

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

	2023	*2022*
ECL balance at 1 January	(6,256)	(6,220)
Net charge (*Note 7*)	(979)	(242)
Write-offs	1,527	257
Effect of movements in foreign exchange rates	164	(51)
ECL balance at 31 January	**(5,544)**	**(6,256)**

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

	2023	*2022*
Balance at 1 January	(4,753)	(10,160)
Net remeasurement of impairment allowance	(1,706)	4,525
Write-offs	–	882
Balance at 31 December	**(6,459)**	**(4,753)**

As at 31 December 2023, included in other non-financial assets are total overdue other receivables of KZT 3,730 million, of which KZT 3,669 million are overdue for more than 90 days (31 December 2022: other overdue receivables of KZT 4,852 million, of which KZT 4,665 million are overdue for more than 90 days).

23. Amounts due to banks and other financial institutions

Due to banks and other financial institutions comprise the following items:

	31 December 2023	*31 December 2022*
Correspondent accounts of other banks	49,023	20,184
Deposits from other banks	13,773	14,667
Loans from state-owned companies	11,133	10,550
	73,929	**45,401**
Foreign currency contracts ("spot")	4	9
Total	**73,933**	**45,410**

As at 31 December 2023, loans received from state-owned companies included loans of KZT 6,610 million from Damu, loans of KZT 4,523 million from DBK (31 December 2022: Damu - loans of KZT 5,947 million, DBK - loans of KZT 4,496 million from DBK) as part of the state programme of support to small and medium-size enterprises and large-size enterprises by the banking sector. In January 2023, loans issued by Agrarian Credit Corporation JSC were repaid ahead of schedule in the total amount of KZT 106 million (31 December 2022: KZT 107 million). The loans issued by Damu, and DBK are denominated in KZT, bear the nominal interest rates from 0.1% to 2.0% per annum and mature in 2034−2035.

At 31 December 2023 deposits from other banks included deposits received from foreign banks in the amount of KZT 6,326 million and a Kazakh second-tier bank in the amount of KZT 7,447 million (31 December 2022: from foreign banks in the amount of KZT 6,802 million and a Kazakh second-tier bank in the amount of KZT 7,865 million).

Concentration of amounts due to banks and other financial institutions

As at 31 December 2023 and 31 December 2022, the Bank has no amount due to banks and other financial institutions whose balance exceeds 10% of equity.

(in millions of Kazakhstani tenge unless otherwise stated)

24. Amounts payable under repo agreements

At 31 December 2023the Bank has amounts payable under repo agreements of KZT 29,038 million (31 December 2022: KZT 119,555 million), which are secured by investment securities measured at fair value through profit or loss and investment securities measured at amortised cost of KZT 12,230 million and KZT 16,808 million, respectively (31 December 2022: KZT 114,632 million and KZT 4,923 million, respectively) *(Note 18)*.

25. Current accounts and deposits from customers

Current accounts and deposits from customers comprise:

	31 December 2023	*31 December 2022*
Current accounts and demand deposits		
- Corporate	344,885	346,876
- Retail	93,827	94,132
Term deposits		
- Corporate	397,508	497,815
- Retail	557,369	495,870
Savings deposits		
- Corporate	11,603	32,906
- Retail	47,579	24,505
Current accounts and deposits from customers	**1,452,771**	**1,492,104**
Held as security of guarantees and letters of credit (*Note 33)*	(5,037)	(6,035)

As at 31 December 2023 the deposits of the Bank's customers for the total amount of KZT 18,597 million are subject to a registered debenture to secure loans and unrecognised credit instruments provided by the Bank (31 December 2022: KZT 31,464 million).

During 2022 the Bank closed its forward contracts with a related party, including at the expense of repayment of security (pledge) provided by the related party to fulfil its liabilities under said forward contracts for the total amount of USD 18,7 million, which is equivalent to KZT 24,432 million.

Participation in the state financing programmes

As at 31 December 2023, corporate term deposits also include deposits in the total amount of KZT 14,253 million, received from KSF under the state program for refinancing of mortgage housing loans approved by the NBRK (31 December 2022: KZT 17,115 million). Deposits are denominated in tenge, bear an interest rates of 0.10%-2.99% per annum and are repayable in 2045-2050.

During the year ended 31 December 2022 the Bank made amendments to two contracts with KSF JSC by merging them into a single contract. Due to substantial modification of the contracts, the Bank derecognised the old deposits and recognised new financial liabilities. Therefore, the deposits were discounted to fair value as at the date of merging the contracts using a market interest rate of 12.20%, which resulted in recognition of effect from modification of terms and conditions of KZT 1,520 million within interest expenses in the separate statement of profit or loss and other comprehensive income.

Concentration of amounts due to customers

As at 31 December 2023, the Bank has one customer (31 December 2022: two customers), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2023 is KZT 67,906 million (31 December 2022: KZT 168,434 million).

(in millions of Kazakhstani tenge unless otherwise stated)

26. Debt securities issued

Debt securities issued included:

					Carrying amount	
	Date of issue	*Year of maturity*	*Coupon rate p.a.*	*Effective rate p.a.*	*31 December 2023*	*31 December 2022*
Third bond issue as part of the fifth bond issue program	14.03.2019	14.03.2026	10.95%	13.44%	59,089	58,243
KZT-denominated bonds of the first issue	15.10.2018	15.01.2034	0.10%	11.50%	41,254	37,110
KZT-denominated bonds of the fourth issue	22.01.2019	22.01.2034	0.10%	11.50%	28,777	25,893
KZT-denominated bonds of the fifth issue	11.12.2020	05.10.2045	0.10%	12.50%	25,557	23,014
First bond issue as part of the fourth bond issue program	10.02.2015	10.02.2025	9.90%	13.41%	19,887	19,405
KZT-denominated bonds of the third issue	28.01.2019	28.01.2034	0.10%	11.50%	17,029	15,322
KZT-denominated bonds of the fourth issue	28.01.2019	28.01.2034	0.10%	11.50%	10,217	9,193
KZT-denominated bonds of the third issue	28.01.2019	28.01.2034	0.10%	11.50%	7,629	6,864
KZT-denominated bonds of the first issue	11.07.2007	11.07.2027	7.50%	10.90%	3,144	3,046
KZT-denominated bonds of the second issue	22.01.2019	22.01.2034	0.10%	11.50%	658	591
Third bond issue as part of the fourth bond issue program	10.02.2015	10.02.2023	9.70%	13.49%	–	38,156
KZT-denominated bonds of the twelfth issue	04.06.2013	04.06.2023	Inflation rate +1.0%	8.90%	–	10,031
Total					**213,241**	**246,868**

The Bank’s debt securities issued are quoted at KASE.

On 7 November 2022 the Bank redeemed USD-denominated bonds due to their maturity using its own funds. The total amount of payments on these bonds was KZT 12,668 million.

On 10 February 2023 the Bank paid off the third issued bonds as part of the fourth bond issue program due to their maturity, using the Bank's own funds. The total amount of payments on these bonds was KZT 36,899 million.

On 4 June 2023 the Bank paid off the bonds of the twelfth issue due to their maturity, using the Bank's own funds. The total amount of payments on these bonds was KZT 10,000 million.

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

	2023	*2022*
Balance at 1 January	**246,868**	**244,465**
Changes from financing cash flows		
Repayment of debt securities issued	(46,899)	(12,668)
Interest expense	24,897	28,539
Interest paid	(11,625)	(13,468)
Balance at 31 December	**213,241**	**246,868**

(in millions of Kazakhstani tenge unless otherwise stated)

27. Subordinated debts

Subordinated debt comprises the following items:

	31 December 2023	*31 December 2022*
Subordinated bonds	201,528	195,830
Preference shares	346	2,750
Subordinated debts	**201,874**	**198,580**

As at 31 December 2023, subordinated debt comprises quoted bonds and 2,500,000 cumulative non-redeemable preference shares for the total amount of KZT 346 million (31 December 2022: KZT 2,750 million).

In case of bankruptcy, the subordinated debt would be repaid after the repayment in full of all other liabilities by the Bank but before repayment of the preferred shares.

(a) Subordinated bonds

A summary of bond issues at 31 December 2023 and 31 December 2022 is presented below:

					Carrying amount	
	Date of issue	*Year of maturity*	*Coupon rate p.a.*	*Effective rate p.a.*	*31 December 2023*	*31 December 2022*
KZT-denominated bonds of the first issue	24.12.2020	24.12.2025	9.00%	13.80%	92,297	89,036
First bond issued as part of the fifth bond issue program	10.02.2015	10.02.2025	10.00%	14.93%	40,437	39,055
Second bond issued as part of the fifth bond issue program	10.02.2015	10.02.2025	10.00%	14.93%	21,005	20,287
KZT-denominated registered unsecured coupon bonds	22.12.2020	01.11.2035	0.10%	15.29%	12,977	11,315
KZT-denominated bonds of the sixth issue	11.12.2020	25.10.2040	0.10%	14.60%	10,723	9,447
KZT-denominated registered unsecured coupon bonds	11.12.2020	01.11.2040	0.10%	15.29%	9,713	8,514
KZT-denominated registered unsecured coupon bonds	23.12.2020	01.11.2040	0.10%	15.29%	7,272	6,373
KZT-denominated bonds of the eighth issue	04.06.2013	04.06.2028	9.00%	10.01%	4,867	4,838
KZT-denominated bonds of the second issue	11.12.2020	26.10.2040	0.10%	14.60%	2,237	1,972
KZT-denominated bonds of the seventh issue	04.06.2013	04.06.2023	8.00%	10.01%	–	4,993
Total					**201,528**	**195,830**

The Bank’s subordinated bonds issued are quoted at KASE.

On 4 June 2023 the Bank paid off the bonds of the seventh issue due to their maturity, using the Bank's own funds. The total amount of payments on these bonds was KZT 5,000 million.

(in millions of Kazakhstani tenge unless otherwise stated)

27. Subordinated debts, continued

(a) Subordinated bonds, continued

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

	2023	*2022*
Balance at 1 January	**198,580**	**189,177**
Changes from financing cash flows		
Repayment of subordinated debt	(5,000)	–
	(5,000)	–
Changes in carrying amount from recognition of discount	(2,436)	–
Interest expense *(Note 6)*	26,922	26,044
Interest paid *(Note 6)*	(16,192)	(16,641)
Balance at 31 December	**201,874**	**198,580**

(b) Cumulative non-redeemable preference shares

Holders of cumulative non-redeemable preference shares receive a minimum cumulative dividends of KZT 100 per share. 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 Bank'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.

On 19 July 2022, the Bank paid dividends on preference shares for 2021 in the amount of KZT 250 million (KZT 100.00 per share).

Due to the amendments to the Law of the Republic of Kazakhstan "On Banks and Banking Activities in the Republic of Kazakhstan", the Bank, which financial stability and recovery require use of the funds allocated from the national budget, National Fund of the Republic of Kazakhstan (hereinafter, "NFRK"), NBRK and its subsidiaries, from the date of making decision to provide funds from the state budget, NFRK, NBRK and its subsidiaries and until the Bank discharges its obligations to repay the funds received in full, shall distribute profit, accrue dividends on ordinary and preference shares, as well as repurchase its own shares, subject to compliance with the terms and conditions prescribed by the regulatory legal act of the authorised body, for the year ended 31 December 2023, the Bank neither declared nor paid dividends, including on preference share.

As a result of the above amendments, in 2023 the Bank recognised the difference between the carrying amount and fair value of the debt component of the preference shares in the amount of KZT 2,436 million, given the final period of payments of the funds provided as part of the state programmes. This difference was recognised as gain from modification of the subordinated debt in the separate statement of profit or loss and other comprehensive income using a fixed interest rate of 10.0% per year. This difference was recognised as gain from modification of the subordinated debt in the separate statement of profit or loss and other comprehensive income using a fixed interest rate of 10.0% per year.

28. Liabilities to the mortgage organisation

Accounts payable to Mortgage Organisation "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. No commission for issue and servicing a loan is charged.

(in millions of Kazakhstani tenge unless otherwise stated)

28. Liabilities to the mortgage organisation, continued

Accounts payable to Mortgage Organisation "Baspana" JSC, continued

As part of the programmes the Bank issued mortgage loans to customers and transferred it to Kazakhstan Sustainability Fund JSC (the "Operator") (previously Mortgage Organisation "Baspana" JSC whose activity was terminated in March 2020 through consolidation with KFS), in exchange for consideration in cash in the amount of the loans' nominal value. The Bank acts as an agent under this programme and receives a commission fee of 4.0% p.a. of the interest receipts.

Under the conditions of transfer of the Bank's assets to the Operator, if a default event in relation to the transferred loans occurs, the Bank is obligated to repurchase the transferred loans from the Operator. Therefore, the Bank retains all the credit risks and rewards of ownership of the loans transferred and continues to recognise these loans in its assets. As at 31 December 2023, the carrying amount of loans transferred is KZT 9,680 million and the carrying amount of the liabilities to the Operator is KZT 9,319 million (31 December 2022: the carrying amount of loans transferred is KZT 11,320 million and the carrying amount of liabilities to the Operator is KZT 10,817 million).

29. Other liabilities

Other liabilities comprise the following items:

	31 December 2023	*31 December 2022*
Accrued expenses on deposit guarantee fund	440	584
Liabilities on electronic money issued	152	184
Other lenders	2,261	1,765
Other financial liabilities	**2,853**	**2,533**
Provision for accrued vacation and other amounts due to employees	7,030	9,199
Estimated liabilities	6,393	5,580
Provisions for guarantees and letters of credit	3,726	3,431
Other prepayments	1,651	971
Deferred income on guarantees and letters of credit issued	1,566	1,350
Other taxes payable	80	1,352
Other liabilities	3,808	1,527
Other non-financial liabilities	**24,254**	**23,410**
Total	**27,107**	**25,943**

30. Equity

Share capital

As at 31 December 2023 the authorised share capital of the Bank comprises 697,500,000 ordinary shares (31 December 2022: 697,500,000 ordinary shares). The authorised, issued and outstanding share capital comprises 165,318,620 ordinary shares of which 164,078,731 ordinary shares are outstanding (31 2022: 165,318,620 ordinary shares of which 164,078,731 ordinary shares are outstanding). The shares have no nominal value.

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 Bank shareholders.

Nature and purpose of reserves

Revaluation reserve for property, plant and equipment

The revaluation reserve of property, plant 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.

(in millions of Kazakhstani tenge unless otherwise stated)

30. Equity, continued

Nature and purpose of reserves, continued

Fair value remeasurement reserve

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

Other reserves related to equity instruments

Share-based payments

The Bank implements a program under which certain senior executives receive remuneration in the form of Bank's shares.

In 2021 the Bank established the share-based payment reserve used to record the amount of share-based payment settled with equity instruments made by key management personnel as part of their remuneration.

In November 2023 the Bank wrote back the entire provision related to payment of lump-sum variable remuneration in the form of ordinary shares held by certain members of the Bank's Management Board due to their retirement.

Movement in provision items for 2023

	Revaluation reserve for property, plant and equipment	*Fair value remeasure-ment reserve*	*Other reserves related to equity instruments*	*Total*
At 1 January 2023	**6,966**	**(217)**	**2,847**	**9,596**
Depreciation of revaluation reserve, net of income tax	(643)	–	–	**(643)**
Share-based payments	–	–	(2,847)	**(2,847)**
Net change in fair value of debt instruments measured at FVOCI	–	5,932	–	**5,932**
Change in ECL allowance of debt instruments measured at FVOCI	–	130	–	**130**
Amount reclassified to profit or loss as a result of derecognition of investment securities measured at FVOCI	–	83	–	**83**
Net change in fair value of debt instruments measured at FVOCI	–	3,949	–	**3,949**
At 31 December 2023	**6,323**	**9,877**	–	**16,200**

(in millions of Kazakhstani tenge unless otherwise stated)

30. Equity, continued

Nature and purpose of reserves, continued

Movement in provision items for 2022

	Revaluation reserve for property, plant and equipment	*Fair value remeasure-ment reserve*	*Other reserves related to equity instruments*	*Total*
At 1 January 2022	**1,744**	**10,321**	**2,847**	**14,912**
Depreciation of revaluation reserve, net of income tax	170	–	–	**(170)**
Revaluation reserve for property, plant and equipment, net of income tax (*KZT 1,357 million, Note 14*)	5,392			**5,392**
Net change in fair value of debt instruments measured at FVOCI	–	(11,714)	–	**(11,714)**
Change in ECL allowance of debt instruments measured at FVOCI	–	(32)	–	**(32)**
Amount reclassified to profit or loss as a result of derecognition of investment securities measured at FVOCI	–	40	–	**40**
Net change in fair value of debt instruments measured at FVOCI	–	1,168	–	**1,168**
At 31 December 2022	**6,966**	**(217)**	**2,847**	**9,596**

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.

Although ordinary shareholders have voting rights, the dividend payment is not guaranteed. Distributable income is determined on the basis of income recognised in the Bank's separate statement of profit or loss and other comprehensive income prepared in accordance with IFRS.

Due to the amendments to the Law of the Republic of Kazakhstan "On Banks and Banking Activities in the Republic of Kazakhstan", the Bank, which financial stability and recovery require use of the funds allocated from the national budget, National Fund of the Republic of Kazakhstan (hereinafter, "NFRK"), NBRK and its subsidiaries, from the date of making decision to provide funds from the state budget, NFRK, NBRK and its subsidiaries and until the Bank discharges its obligations to repay the funds received in full, shall distribute profit, accrue dividends on ordinary and preference shares, as well as repurchase its own shares, subject to compliance with the terms and conditions prescribed by the regulatory legal act of the authorised body, for the year ended 31 December 2023, the Bank neither declared nor paid dividends, including on preference shares.

Earnings per share

Basic and diluted earnings per share

Basic and diluted earnings per share are presented on consolidated basis in accordance with IAS 33 *Earnings per share*.

(in millions of Kazakhstani tenge unless otherwise stated)

30. Equity, continued

Earnings per share, continued

Basic and diluted earnings per share, continued

The following table shows the profit and number of shares used to calculate basic and diluted earnings per ordinary share:

	2023	*2022*
Net consolidated profit attributable to ordinary shareholders	151,872	112,471
Weighted average number of ordinary shares for the year ended 31 December	164,078,731	164,078,731
Basic and diluted earnings per ordinary share (KZT)	**925.60**	**685.47**

As at 31 December 2023 and 31 December 2022, the Bank has no financial instruments, which dilute earnings per share.

31. Risk management

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

Risk management policies and procedures

The Bank's risk management policies aim to identify, analyse and manage the risks faced by the Bank, 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, bank products and services offered and emerging best practice.

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

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 Bank 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 Bank. 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 judgments 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 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 Bank 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 Bank;
- 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;

(in millions of Kazakhstani tenge unless otherwise stated)

31. Risk management, continued

Market risk, continued

- 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 Bank's ability to withstand changes;
- performing back-testing to check the effectiveness of the risk measurement procedures using historical data on the Bank's operations;
- minimising risks related to the failure of the Bank's staff to comply with the established limits and market risk powers;
- developing mechanisms to address unexpected or extraordinary situations of the Bank 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 Bank manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits. These are monitored on a regular basis and reviewed by the Management Board and approved by the Board of Directors.

The Bank also utilises Value-at-Risk (VAR) methodology to monitor market risk of its trading positions.

During 2023 and 2022 the Bank 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.

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 Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

Interest rate 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 2023 and 2022 is as follows:

	2023		***2022***	
	Profit or loss	***Equity***	***Profit or loss***	***Equity***
100 bp parallel fall	(3,765)	(3,765)	(4,846)	(4,846)
100 bp parallel rise	3,765	3,765	4,846	4,846

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 2023 and 31 December 2022 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:

	2023		***2022***	
	Profit or loss	***Equity***	***Profit or loss***	***Equity***
100 bp parallel fall	293	4,600	492	4,407
100 bp parallel rise	(293)	(4,600)	(492)	(4,328)

(in millions of Kazakhstani tenge unless otherwise stated)

31. 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 2023 is as follows:

	Less than 1 month	*From 1 to 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*More than 5 years*	*Non-interest bearing*	*31 December 2023*
Assets							
Cash and cash equivalents	404,061	6,831	–	–	–	116,563	**527,455**
Amounts due from banks and other financial institutions	410	–	–	–	–	55,963	**56,373**
Investment securities	340,597	40,301	280,678	154,329	–	67,610	**883,515**
Loans to customers	48,643	38,684	193,063	535,200	132,342	–	**947,932**
Acquired right of claim on promissory note to the MFRK	–	–	719	104,739	–	–	**105,458**
	793,711	**85,816**	**474,460**	**794,268**	**132,342**	**240,136**	**2,520,733**
Liabilities							
Amounts due to banks and other financial institutions	13,147	–	627	–	11,133	49,026	**73,933**
Amounts payable under repurchase agreements	29,038	–	–	–	–	–	**29,038**
Current accounts and deposits from customers	110,685	169,979	656,534	38,742	38,370	438,461	**1,452,771**
Debt securities issued	299	2,972	26	79,296	130,648	–	**213,241**
Subordinated debt	–	2,435	251	155,977	42,865	346	**201,874**
	153,169	**175,386**	**657,438**	**274,015**	**223,016**	**487,833**	**1,970,857**
	640,542	**(89,570)**	**(182,978)**	**520,253**	**(90,674)**	**(247,697)**	**549,876**

(in millions of tenge unless otherwise stated)

31. Risk management, continued

Market risk, continued

Interest rate gap analysis, continued

A summary of the interest gap position for major interest bearing financial instruments as at 31 December 2022 is as follows:

	Less than 1 month	*From 1 to 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*More than 5 years*	*Non-interest bearing*	*31 December 2022*
Assets							
Cash and cash equivalents	511,376	27,769	–	–	–	168,016	**707,161**
Amounts due from banks and other financial institutions	–	–	4,320	–	–	35,236	**39,556**
Trading securities	–	–	192	–	–	–	**192**
Investment securities	516,303	1,599	179,205	141,579	3,272	31,294	**873,252**
Loans to customers	59,630	36,612	128,338	443,355	146,041	–	**813,976**
Acquired right of claim on promissory note to the MFRK	–	–	731	102,337	–	–	**103,068**
	1,087,309	**65,980**	**312,786**	**687,271**	**149,313**	**234,546**	**2,537,205**
Liabilities							
Amounts due to banks and other financial institutions	14,667	–	–	–	10,550	20,193	**45,410**
Amounts payable under repurchase agreements	119,555	–	–	–	–	–	**119,555**
Current accounts and deposits from customers	43,006	140,423	745,618	86,147	46,961	429,949	**1,492,104**
Debt securities issued	10,330	41,128	26	77,869	117,515	–	**246,868**
Subordinated debt	–	2,685	5,244	145,783	42,368	2,500	**198,580**
	187,558	**184,236**	**750,888**	**309,799**	**217,394**	**452,642**	**2,102,517**
	899,751	**(118,256)**	**(438,102)**	**377,472**	**(68,081)**	**(218,096)**	**434,688**

(in millions of tenge unless otherwise stated)

31. Risk management, continued

Market risk, continued

Average effective interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2023 and 2022. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	31 December 2023			*31 December 2022*		
	KZT	***USD***	***Other currencies***	***KZT***	***USD***	***Other currencies***
Interest-bearing assets						
Cash and cash equivalents	15.42	4.50	–	16.50	4.06	–
Amounts due from banks and other financial institutions	–	–	–	–	4.64	4.50
Trading securities	–	–	–	7.00	–	–
Investment securities measured at fair value through other comprehensive income	15.06	5.03	–	16.15	4.60	–
Investment securities measured at amortised cost	14.73	4.94	–	13.97	4.78	–
Loans to customers	23.22	7.92	–	17.83	6.88	–
Acquired right of claim on promissory note to the MFRK	–	3.93	–	–	3.93	–
Interest-bearing liabilities						
Amounts due to banks and other financial institutions	13.41	3.54	1.50	11.17	1.54	–
Amounts payable under repurchase agreements	–	3.81	–	16.70	3.00	–
Current accounts and deposits from customers						
- *term deposits*	13.31	1.69	1.40	12.54	1.05	0.22
Debt securities issued	12.33	–	–	12.40	–	–
Subordinated debt	14.33	–	–	14.20	–	–
Lease liabilities	14.76	–	–	13.57	–	–

(in millions of tenge unless otherwise stated)

31. Risk management, continued

Currency risk

The Bank 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 2023:

	KZT	*USD*	*EUR*	*RUB*	*Other currencies*	*Total*
Assets						
Cash and cash equivalents	245,866	216,233	36,253	22,560	6,543	**527,455**
Amounts due from banks and other financial institutions	904	55,059	410	–	–	**56,373**
Investment securities	769,662	113,853	–	–	–	**883,515**
Loans to customers	855,057	92,808	11	55	1	**947,932**
Acquired right of claim on promissory note to the MFRK	–	105,458	–	–	–	**105,458**
Other financial assets	18,501	763	100	85	2	**19,451**
Total financial assets	**1,889,990**	**584,174**	**36,774**	**22,700**	**6,546**	**2,540,184**
Liabilities						
Amounts due to banks and other financial institutions	13,037	38,794	21,625	138	339	**73,933**
Amounts payable under repurchase agreements	–	29,038	–	–	–	**29,038**
Current accounts and deposits from customers	999,932	372,150	55,621	20,312	4,756	**1,452,771**
Debt securities issued	213,241	–	–	–	–	**213,241**
Subordinated debt	201,874	–	–	–	–	**201,874**
Lease liabilities	1,944	–	–	–	–	**1,944**
Other financial liabilities	1,319	1,181	314	39	–	**2,853**
Total financial liabilities	**1,431,347**	**441,163**	**77,560**	**20,489**	**5,095**	**1,975,654**
The effect of derivatives held for risk management	78,228	(120,663)	42,354	(4)	227	**142**
Net position as at 31 December 2023	**536,871**	**22,348**	**1,568**	**2,207**	**1,678**	**564,672**

Promissory notes from the Ministry of Finance of the Republic of Kazakhstan are denominated in KZT, including interest, but are indexed to the change in US dollar to KZT exchange rate from the date of issue of promissory notes.

(in millions of tenge unless otherwise stated)

31. Risk management, continued

Currency risk, continued

The following table shows the currency structure of financial assets and liabilities at 31 December 2022:

	KZT	*USD*	*EUR*	*RUB*	*Other currencies*	*Total*
Assets						
Cash and cash equivalents	326,366	310,217	38,669	24,822	7,087	**707,161**
Amounts due from banks and other financial institutions	1,616	37,398	542	–	–	**39,556**
Trading securities	192	–	–	–	–	**192**
Investment securities	791,110	82,142	–	–	–	**873,252**
Loans to customers	746,091	67,820	7	58	–	**813,976**
Acquired right of claim on promissory note to the MFRK	–	103,068	–	–	–	**103,068**
Other financial assets	9,754	473	135	486	471	**11,319**
Total financial assets	**1,875,129**	**601,118**	**39,353**	**25,366**	**7,558**	**2,548,524**
Liabilities						
Amounts due to banks and other financial institutions	10,831	31,863	1,718	354	644	**45,410**
Amounts payable under repurchase agreements	113,606	5,949	–	–	–	**119,555**
Current accounts and deposits from customers	923,276	480,207	63,584	19,307	5,730	**1,492,104**
Debt securities issued	246,868	–	–	–	–	**246,868**
Subordinated debt	198,580	–	–	–	–	**198,580**
Lease liabilities	2,111	–	–	–	–	**2,111**
Other financial liabilities	1,707	537	287	2	–	**2,533**
Total financial liabilities	**1,496,979**	**518,556**	**65,589**	**19,663**	**6,374**	**2,107,161**
The effect of derivatives held for risk management	16,172	(38,426)	28,093	(5,744)	–	**95**
Net position as at 31 December 2022	**394,322**	**44,136**	**1,857**	**(41)**	**1,184**	**441,458**

A weakening of the KZT, as indicated below, against the following currencies at 31 December 2023 and 31 December 2022, 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 Bank 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.

	31 December 2023		*31 December 2022*	
	Profit or loss	*Equity*	*Profit or loss*	*Equity*
30% appreciation of USD against KZT	5,364	5,364	10,593	10,593
30% appreciation of EUR against KZT	376	376	446	446
30% appreciation of RUB against KZT	530	530	(10)	(10)

A strengthening of the KZT against the above currencies at 31 December 2023 and 2022 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.

31. Risk management, continued

Currency risk, continued

Other price risks

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

Credit risk

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

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

- aims and objectives of the Bank'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 Bank;
- internal control system for the credit risk management process.

On the basis of the Credit Policy, which covers the key directions of the Bank's activity and the system of the credit risk management instruments, the Bank 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 Bank'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.

Currently the Bank 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 Bank'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);

31. Risk management, continued

Credit risk, continued

- losses if the borrower defaults;
- funding costs;
- cost of capital;
- the Bank'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 Bank exercises the ongoing monitoring of the status of individual loans, and regularly revaluates 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 Bank.

Also, requirements to collateral are very important for the management of credit risk. The Bank 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 Bank uses such methods as diversification of the loan portfolio and system of management reporting, which allows exercising the regular monitoring of the Bank lending activity, identifying the major problems and implementing the risk minimisation instruments as well as stress-testing of credit risk.

The Bank 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 Bank 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 Bank, 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 Bank and individual segments on a monthly/quarterly basis, and submitted for consideration to the Management Board/Board of Directors of the Bank.

The Bank applies the methodology of credit risk stress testing, which is performed using a scenario analysis and sensitivity analysis. While performing the stress testing, the Bank 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 Bank's business, which is based on assessment of influence of the local stress factors, including those related to the specifics of the Bank'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 Bank'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 separate 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.

(in millions of tenge unless otherwise stated)

31. Risk management, continued

Credit risk, continued

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

	31 December 2023	*31 December 2022*
Assets		
Cash and cash equivalents	462,589	611,412
Amounts due from banks and other financial institutions	56,373	39,556
Trading securities	–	192
Investment securities	883,515	873,252
Loans to customers	947,932	813,976
Acquired right of claim on promissory note to the MFRK	105,458	103,068
Other financial assets	19,451	11,319
Total	**2,475,318**	**2,452,775**

For the analysis of concentration of credit risk in respect of loans to customers refer to *Note 19*.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in *Note 33*.

As at 31 December 2023 the Bank has no debtors or groups of connected debtors (31 December 2022: none), credit risk exposure to whom exceeds 10% of maximum credit risk exposure.

Offsetting financial assets and financial liabilities

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

- are offset in the Bank's separate statement of financial position; or
- subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the separate 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.

The Bank 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 transactions 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 2023:

At 31 December 2023	*Gross amounts of recognised financial assets/liabilities*	*Gross amounts of recognised financial liability/asset offset in the separate statement of financial position*	*Net amount of financial asset/liability presented in the separate statement of financial position*	*Related amounts not offset in the separate statement of financial position*		
				Financial instruments	*Cash collateral received*	*Net amount*
Loans to customers	55,600	–	55,600	–	(8,469)	**47,131**
Amounts receivable under reverse repurchase agreements	12,156	–	12,156	(12,156)	–	–
Total financial assets	**67,756**	–	**67,756**	**(12,156)**	(8,469)	**47,131**
Current accounts and deposits from customers	8,469	–	8,469	(8,469)	–	–
Amounts payable under repurchase agreements	29,038	–	29,038	(29,038)	–	–
Total financial liabilities	**37,507**	–	**37,507**	**(37,507)**	–	–

(in millions of tenge unless otherwise stated)

31. Risk management, continued

Offsetting financial assets and financial liabilities, continued

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2022:

				Related amounts not offset in the separate statement of financial position		
At 31 December 2022	***Gross amounts of recognised financial assets/liabilities***	***Gross amounts of recognised financial liability/asset offset in the separate statement of financial position***	***Net amount of financial asset/liability presented in the separate statement of financial position***	***Financial instruments***	***Cash collateral received***	***Net amount***
Loans to customers	57,508	–	57,508	–	(13,122)	**44,386**
Amounts receivable under reverse repurchase agreements	351	–	351	(351)	–	–
Total financial assets	**57,859**	–	**57,859**	**(351)**	**(13,122)**	**44,386**
Current accounts and deposits from customers	13,122	–	13,122	(13,122)	–	–
Amounts payable under repurchase agreements	119,555	–	119,555	(119,555)	–	–
Total financial liabilities	**132,677**	–	**132,677**	**(132,677)**	–	–

The securities pledged under repurchased agreements represent the transferred financial assets that are not derecognised in their entirety.

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the separate statement of financial position that are disclosed in the above tables are measured in the separate statement of financial position at amortised cost. The amounts in the above tables that are offset in the separate statement of financial position are measured on the same basis.

Liquidity risk

Liquidity risk is a risk of losses to which the Bank is exposed if it is unable to fulfil its liabilities in time without unacceptable losses. 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 Bank 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 Bank's liquidity risk management are as follows:

- to ensure that the Bank is able to discharge its liabilities in time and in full scope;
- to invest the Bank's free cash flows in high income earning and highly liquid assets.

In the process of liquidity risk management the Bank 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 Bank, its officials and business units;

31. Risk management, continued

Liquidity risk, continued

- setting of limits that ensure the adequate level of liquidity and meet the size, nature of business and financial position of the Bank;
- 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 following:

- the Bank's strategy and those types of activity, which expose the Bank to the liquidity risk;
- the Banks' risk appetite strategy;
- size, nature and complexity of the Bank's business;
- size of the Bank's exposure to liquidity risk and assessment of its impact on the Bank'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 Bank;
- 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 banking laws and best global practices. The liquidity risk management system meets the current market situation, strategy, size and level of complexity of the Bank's operations and ensures the efficient identification, measurement, monitoring and control of the Bank's liquidity risk, with due consideration of the intra-group transactions.

The Bank seeks to actively support a diversified and stable funding base comprising debt securities in issue, long- and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and efficiently to unforeseen liquidity requirements.

The 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.

(in millions of tenge unless otherwise stated)

31. Risk management, continued

Liquidity risk, continued

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 2023 is as follows:

At 31 December 2023	*Demand and less than 1 month*	*From 1 to 3 months*	*From 3 months to 1 year*	*From 1 to 5 years*	*More than 5 years*	*No maturity*	*Total gross amount outflow*	*Carrying amount*
Liabilities								
Amounts due to banks and other financial institutions	62,359	20	750	243	31,111	–	**94,483**	**73,933**
Amounts payable under repurchase agreements	29,038	–	–	–	–	–	**29,038**	**29,038**
Current accounts and deposits from customers	549,609	173,459	701,246	42,394	54,816	–	**1,521,524**	**1,452,771**
Debt securities issued	440	4,232	4,663	96,643	616,544	–	**722,522**	**213,241**
Subordinated debt	–	3,089	12,902	181,894	367,783	–	**565,668**	**201,874**
Lease liabilities	12	318	1,129	2,781	45	–	**4,285**	**1,944**
Other financial liabilities	2,780	26	20	27	–	–	**2,853**	**2,853**
Derivative financial instruments								
- Inflow	–	–	10,044	–	–	–	**10,044**	
- Outflow	–	–	(10,360)	–	–	–	**(10,360)**	**316**
Total liabilities	**644,238**	**181,144**	**720,394**	**323,982**	**1,070,299**	**-**	**2,940,057**	**1,975,970**
Credit related commitments	5,037	–	–	–	–	–	**5,037**	**5,037**

Future interest payments for non-redeemable cumulative preference shares are not included in the table above.

(in millions of tenge unless otherwise stated)

31. Risk management, continued

Liquidity risk, continued

The maturity analysis for financial liabilities as at 31 December 2022 is as follows:

At 31 December 2022	*Demand and less than 1 month*	*From 1 to 3 months*	*From 3 months to 1 year*	*From 1 to 5 years*	*More than 5 years*	*No maturity*	*Total gross amount outflow*	*Carrying amount*
Liabilities								
Amounts due to banks and other financial institutions	34,972	21	42	254	31,416	–	**66,705**	**45,410**
Amounts payable under repurchase agreements	119,653	–	–	–	–	–	**119,653**	**119,555**
Current accounts and deposits from customers	481,193	152,740	780,111	92,953	60,948	–	**1,567,945**	**1,492,104**
Debt securities issued	319	43,221	14,984	105,368	617,263	–	**781,155**	**246,868**
Subordinated debt	–	3,109	18,082	192,153	373,510	–	**586,854**	**198,580**
Lease liabilities	5	357	1,366	2,867	–	–	**4,595**	**2,111**
Other financial liabilities	2,364	12	48	59	–	50	**2,533**	**2,533**
Derivative financial instruments								
- Inflow	18,125	–	9,904	–	–	–	**28,029**	–
- Outflow	(18,124)	–	(11,200)	–	–	–	**(29,324)**	**1,325**
Total liabilities	**638,507**	**199,460**	**813,337**	**393,654**	**1,083,137**	**50**	**3,128,145**	**2,108,486**
Credit related commitments	6,035	–	–	–	–	–	**6,035**	**6,035**

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. 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 Article 765 of the Civil Code of the Republic of Kazakhstan, depositors can withdraw their term, savings, escrow and demand deposits from the Bank on demand, generally losing, in most of the cases, the accrued interest. The Bank is obliged to return term and/or escrow deposits or part thereof not later than seven calendar days from the date of receipt of the depositor's request, and savings deposits – not earlier than thirty calendar days from the date of receipt of the depositor's request.

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 Bank indicates that these customer accounts provide a long-term and stable source of funding.

(in millions of tenge unless otherwise stated)

31. Risk management, continued

Liquidity risk, continued

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 separate statement of financial position as at 31 December 2023:

At 31 December 2023	*Demand and less than 1 month*	*From 1 to 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*More than 5 years*	*No maturity*	*Overdue*	*Total*
Non-derivative assets								
Cash and cash equivalents	520,624	6,831	–	–	–	–	–	**527,455**
Amounts due from banks and other financial institutions	42,291	–	–	14,082	–	–	–	**56,373**
Investment securities	340,597	40,301	280,678	154,329	-	67,610	-	**883,515**
Loans to customers	4,177	38,684	193,063	535,200	132,342	–	44,466	**947,932**
Acquired right of claim on promissory note to the MFRK	–	–	719	104,739	–	–	–	**105,458**
Current corporate income tax assets	–	–	78	–	–	–	–	**78**
Property, equipment and intangible assets	–	–	–	–	–	66,447	–	**66,447**
Non-current assets held for sale	–	–	4,906	–	–	–	–	**4,906**
Investments in subsidiaries	–	–	–	–	–	170,032	–	**170,032**
Other assets	3,446	11,999	12,796	34,532	21	2,031	868	**65,693**
Total assets	**911,135**	**97,815**	**492,240**	**842,882**	**132,363**	**306,120**	**45,334**	**2,827,889**
Non-derivative liabilities								
Amounts due to banks and other financial institutions	62,173	–	627	–	11,133	–	–	**73,933**
Amounts payable under repurchase agreements	29,038	–	–	–	–	–	–	**29,038**
Current accounts and deposits from customers	549,146	169,979	656,534	38,742	38,370	–	–	**1,452,771**
Debt securities issued	299	2,972	26	79,296	130,648	–	–	**213,241**
Subordinated debt	–	2,435	251	155,977	42,865	346	–	**201,874**
Liabilities to the mortgage company	–	1	6	286	9,026	–	–	**9,319**
Lease liabilities	3	151	479	1,266	45	–	–	**1,944**
Deferred corporate income tax liabilities	–	–	–	164,447	–	–	–	**164,447**
Other liabilities	19,087	180	5,032	2,125	18	–	665	**27,107**
Total liabilities	**659,746**	**175,718**	**662,955**	**442,139**	**232,105**	**346**	**665**	**2,173,674**
Net position	**251,389**	**(77,903)**	**(170,715)**	**400,743**	**(99,742)**	**305,774**	**44,669**	**654,215**
Net accumulated position	**251,389**	**173,486**	**2,771**	**403,514**	**303,772**	**609,546**	**654,215**	

(in millions of tenge unless otherwise stated)

31. Risk management, continued

Liquidity risk, continued

The table below shows an analysis, by contractual maturities, of the amounts recognised in the separate statement of financial position as at 31 December 2022:

At 31 December 2022	*Demand and less than 1 month*	*From 1 to 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*More than 5 years*	*No maturity*	*Overdue*	*Total*
Non-derivative assets								
Cash and cash equivalents	679,392	27,769	–	–	–	–	–	**707,161**
Amounts due from banks and other financial institutions	28,735	–	4,821	–	6,000	–	–	**39,556**
Trading securities	–	–	192	–	–	–	–	**192**
Investment securities	516,303	1,599	179,205	141,579	3,272	31,294	–	**873,252**
Loans to customers	8,171	36,612	128,338	443,355	146,041	–	51,459	**813,976**
Acquired right of claim on promissory note to the MFRK	–	–	731	102,337	–	–	–	**103,068**
Current corporate income tax assets	–	–	78	–	–	–	–	**78**
Property, equipment and intangible assets	–	–	–	–	–	68,170	–	**68,170**
Non-current assets held for sale	–	–	5,731	–	–	–	–	**5,731**
Investments in subsidiaries	–	–	–	–	–	152,627	–	**152,627**
Other assets	2,394	697	3,061	45,231	364	1,289	2,133	**55,169**
Total assets	**1,234,995**	**66,677**	**322,157**	**732,502**	**155,677**	**253,380**	**53,592**	**2,818,980**
Non-derivative liabilities								
Amounts due to banks and other financial institutions	34,860	–	–	–	10,550	–	–	**45,410**
Amounts payable under repurchase agreements	119,555	–	–	–	–	–	–	**119,555**
Current accounts and deposits from customers	472,929	140,439	745,629	86,146	46,961	–	–	**1,492,104**
Debt securities issued	299	41,128	10,057	77,869	117,515	–	–	**246,868**
Subordinated debt	–	2,685	5,244	145,783	42,368	2,500	–	**198,580**
Liabilities to the mortgage company	–	1	5	283	10,528	–	–	**10,817**
Lease liabilities	–	187	604	1,319	1	–	–	**2,111**
Deferred corporate income tax liabilities	–	–	–	162,847	–	–	–	**162,847**
Other liabilities	15,085	555	7,942	975	371	491	524	**25,943**
Total liabilities	**642,728**	**184,995**	**769,481**	**475,222**	**228,294**	**2,991**	**524**	**2,304,235**
Net position	**592,267**	**(118,318)**	**(447,324)**	**257,280**	**(72,617)**	**250,389**	**53,068**	**514,745**
Net accumulated position	**592,267**	**473,949**	**26,625**	**283,905**	**211,288**	**461,677**	**514,745**	

31. Risk management, continued

Operational risk

Operational risk is the probability of loss arising from a wide variety of causes associated with the Bank'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 Bank had developed the policy on operational risk management, which was approved by the Board of Directors.

The Bank is establishing the system of operational risk management that is organised in three levels:

- Level 1- risk management by the departments of the Bank.
- 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 Bank, 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 Bank and controls the work performed by risk coordinators.

The Bank uses automated base 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 Bank. Self-assessment is conducted by the first level of defence 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.

32. Capital management

The Bank maintains an actively managed capital base to cover risks inherent in the business. The capital adequacy of the Bank is monitored using, among other approaches, the coefficients set by the banking legislation.

As at 31 December 2023 and 31 December 2022 the Bank fully complied with all externally imposed capital requirements.

The Bank's capital management policy is to ensure the compliance by the Bank with externally imposed capital requirements and maintain a credit rating and capital adequacy ratios, which ensure the sustainable operation of the Bank and maximize shareholder value.

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

Under the current legal requirements, the banks have to maintain:

- 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 0.075, including a capital conservation buffer;
- 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 0.085, including a capital conservation buffer;
- 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 0.010, including a capital conservation buffer.

(in millions of tenge unless otherwise stated)

32. Capital management, continued

The following table shows the composition of the capital position of the Bank as at 31 December 2023 and 2022 calculated in accordance with the requirements established by the NBRK:

	31 December 2023	*31 December 2022*
Tier 1 capital	655,126	473,585
Tier 2 capital	252,696	277,954
Total statutory capital	**907,822**	**751,539**
Total risk-weighted statutory assets, contingent liabilities and operational and market risks	**1,843,707**	**1,584,475**
k1 ratio	0.355	0.299
k1.2 ratio	0.355	0.299
k2 ratio	0.492	0.474

The Bank is subject to minimum capital adequacy requirements, calculated in accordance with the NBRK's requirements established by covenants under liabilities incurred by the Bank. The Bank complied with all externally imposed capital requirements as at 31 December 2023 and 31 December 2022.

33. Credit related commitments

The Bank has outstanding commitments to extend loans. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Bank 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 Bank also provides guarantees by acting as settlement agent in securities borrowing and lending transactions.

The Bank 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 commitments are set out in the following table by category. The amounts reflected in the table for 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.

	31 December 2023	*31 December 2022*
Credit card commitments	3,304	3,921
Financial guarantees issued	1,426	920
Letters of credit	307	1,194
	5,037	**6,035**

Agreements for credit- and credit line-related commitments provide for the Bank's right to unilaterally withdraw from an agreement once conditions unfavourable to the Bank 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.

The following table summarises the quality of commitments as at 31 December 2023:

	31 December 2023		*31 December 2022*	
	Stage 1	*Total*	*Stage 1*	*Total*
- rated from BBB- to BBB+	5,037	**5,037**	6,035	**6,035**
	5,037	**5,037**	**6,035**	**6,035**

As at 31 December 2023 the amount of current accounts and deposits from customers held to secure the guarantees and letters of credit is KZT 5,037 million (31 December 2022: KZT 6,035 million).

As at 31 December 2023, the Bank has no outstanding off-balance sheet commitments that exceed 10% of equity (31 December 2022: none).

(in millions of tenge unless otherwise stated)

34. Lease liabilities

Leases as lessee

Non-cancellable lease rentals are payable as follows:

	31 December 2023	*31 December 2022*
Less than 1 year	633	791

The Bank leases a number of premises and equipment under 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 2023 KZT 719 million were recognised as expense in the separate statement of profit or loss and other comprehensive income under the lease agreements (31 December 2022: KZT 1,309 million) *(Note 13)*.

35. 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 Bank does not have full coverage for its plant facilities, business interruption, or third-party liability in respect of property or environmental damage arising from accidents on Bank property or relating to Bank operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Bank’s operations and financial position.

Litigations

In the ordinary course of business, the Bank 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 and the results of future operations.

Taxation contingencies in Kazakhstan

The taxation system in the Republic of Kazakhstan is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities.

Taxes are subject to review and investigation by various levels of authorities, which have the authority to impose severe fines and interest charges. A tax year 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.

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.

36. Related party transactions

Control relationship

As at 31 December 2023, the major shareholders of the Bank are the Kazakhstani brokerage company First Heartland Securities JSC that owns 79.63% of outstanding ordinary shares and Mr. G.Sh. Yessenov, who owns 20.11% of outstanding ordinary shares (31 December 2022: First Heartland Securities JSC that owns 78.73% of outstanding ordinary shares and Mr. G.Sh. Yessenov, who owns 20.11% of outstanding ordinary shares *)(Note 1)*.

As at 31 December 2023, the ultimate controlling party of the Bank and its subsidiaries is Mr. G.Sh. Yessenov (31 December 2022: New Generation Foundation, Inc.).

Remuneration to the key management personnel

Total remuneration paid to the key management personnel included in personnel expenses in the separate statement of profit or loss and other comprehensive income for 2023 and 2022 is as follows:

	2023	*2022*
Personnel expenses		
Remuneration to the key management personnel	(1,737)	(2,616)

(in millions of tenge unless otherwise stated)

36. Related party transactions, continued

Remuneration to the key management personnel, continued

These amounts include long-term remuneration to the members of the Board of Directors and the Management Board and related taxes of KZT 523 million (2022: KZT 358 million) recognised in accordance with the NBRK Resolution No. 74 dated 24 February 2012, payable over a period of at least three years, subject to the established conditions.

Transactions with the key management personnel

The outstanding balances and average interest rates as at 31 December 2023 and 31 December 2022 for transactions with the members of the key management personnel are as follows:

	31 December 2023	*Average interest rate, % per annum*	*31 December 2022*	*Average interest rate, % per annum*
Liabilities				
Current accounts and deposits from customers	498	5.14	944	5.46
Other liabilities *	92	–	7,398	–

** As at 31 December 2022 other liabilities include an accrued variable interest payable in the form of ordinary shares, which were dissolved during 2023.*

Amounts included in profit or loss in relation to transactions with the key management personnel in 2023 and 2022 are as follows:

	2023	*2022*
Interest expense		
Key management personnel	(54)	(20)

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 2023 and related profit or loss amounts of transactions for 2023 with other related parties are as follows:

	Subsidiaries		*Other**		
	Amount, mln. KZT	*Average interest rate, % per annum*	*Amount, mln. KZT*	*Average interest rate, % per annum*	*Total KZT mln*
Separate statement of financial position					
Assets					
Cash and cash equivalents					
- other currency	26	–	–	–	**26**
Loans to customers					
principal, in KZT	1,368	0.10	613	14.03	**1,981**
Investments in subsidiaries, before impairment *(Note 21)*	186,027	–	–	–	**186,027**
Investments in subsidiaries, impairment allowance *(Note 21)*	(15,995)	–	–	–	**(15,995)**
Other assets	9,080	–	–	–	**9,080**
Liabilities					
Amounts due to banks and other financial institutions					
- in KZT	160	–	–	–	**160**
- in USD	2,223	–	–	–	**2,223**
- other currency	51	–	–	–	**51**
Current accounts and deposits from customers					
- in KZT	31,334	13.36	4,249	13.80	**35,583**
- in USD	12,515	0.80	3,273	1.32	**15,788**
- other currency	270	–	1,243	3.00	**1,513**
Debt securities issued	200	–	–	–	**200**
Subordinated debt	306	–	–	–	**306**
Lease liabilities	–	–	–	409	**409**
Other liabilities	294	–	–	71	**365**

(in millions of tenge unless otherwise stated)

36. Related party transactions, continued

Transactions with other related parties, continued

	Subsidiaries		*Other**		
	Amount, mln. KZT	*Average interest rate, % per annum*	*Amount, mln. KZT*	*Average interest rate, % per annum*	*Total KZT mln*
Separate statement of profit or loss and other comprehensive income					
Interest income	220	–	98	–	**318**
Interest expense	(540)	–	(2,863)	–	**(3,403)**
Fee and commission income	137	–	–	–	**137**
Fee and commission expense	(22)	–	–	–	**(22)**
Other income	14	–	51	–	**65**
Gains from reversal of impairment of investments in subsidiaries and other investments	7,253	–	–	–	**7,253**
Other general and administrative expenses	(772)	–	(11)	–	**(783)**

** Other related parties include other entities under common control.*

As at 31 December 2023, amounts due to customers include current accounts in the amounts of KZT 725 million and KZT 73 million related to the ultimate controlling party and the major shareholder of the Bank, respectively (31 December 2022: KZT 706 million and KZT 3 million, respectively) and also, interest expense on current accounts and deposits from customers of KZT 3 million related to the ultimate controlling party.

The outstanding balances and the related average interest rates as at 31 December 2022 and related profit or loss amounts of transactions for 2022 with other related parties are as follows:

	Subsidiaries		*Other**		
	Amount, KZT mln	*Average interest rate, % per annum*	*Amount, KZT mln*	*Average interest rate, % per annum*	*Total KZT mln*
Separate statement of financial position					
Assets					
Cash and cash equivalents					
- other currency	70	–	–	–	**70**
Loans to customers					
principal, in KZT	1,546	0.10	761	14.05	**2,307**
Investments in subsidiaries, before impairment allowance *(Note 21)*	175,730	–	–	–	**175,730**
Investments in subsidiaries, impairment allowance *(Note 21)*	(23,103)	–	–	–	**(23,103)**
Other assets	354	–	35	–	**517**
Liabilities					
Amounts due to banks and other financial institutions					
- in KZT	158	–	–	–	**158**
- in USD	2,445	–	–	–	**2,445**
- other currency	1	–	–	–	**1**
Current accounts and deposits from customers					
- in KZT	7,802	14.60	38,197	14.47	**45,999**
- in USD	10,052	0.6	99,530	0.80	**109,582**
- other currency	17	–	6,926	–	**6,943**
Debt securities issued	175	–	–	–	**175**
Subordinated debt	306	–	–	–	**306**
Lease liabilities	40	–	527	–	**567**
Other liabilities	39	–	10	–	**49**

(in millions of tenge unless otherwise stated)

36. Related party transactions, continued

Transactions with other related parties, continued

	Subsidiaries		*Other**		
	Amount, KZT mln	***Average interest rate, % per annum***	***Amount, KZT mln***	***Average interest rate, % per annum***	***Total KZT mln***
Separate statement of profit or loss and other comprehensive income					
Interest income	627	–	218	–	**845**
Interest expense	(335)	–	(7,503)	–	**(7,838)**
Fee and commission income	352	–	–	–	**352**
Fee and commission expense	(21)	–	–	–	**(21)**
Net gains on FX derivatives transactions	–	–	20,289	–	**20,289**
Other income	357	–	42	–	**399**
Impairment loss on investments in subsidiaries and other investments	(3,659)	–	–	–	**(3,659)**
Other general and administrative expenses	(572)	–	(121)	–	**(693)**

* *Other related parties include other entities under common control as well Nazarbayev Fund Private Fund and autonomous educational organisations Nazarbayev University and Nazarbayev Intellectual Schools.*

During 2022 the Bank closed its forward contracts with a related party for the total amount of USD 72 million, which is equivalent to KZT 29,136 million. The amount of USD 27 million, which is equivalent to KZT 12,514 million, not paid by a counterparty, is recognised as a loss on transaction with an intermediate parent company (*Note 16*).

In July 2023 the Bank and Jusan Technologies Ltd. have concluded a debt forgiveness agreement and have terminated the master agreement of purchase of non-cash currency.

(in millions of tenge unless otherwise stated)

37. Fair value of financial instruments

Accounting classifications and fair values

For the purposes of fair value disclosures, the Bank 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 of the Bank as at 31 December 2023:

	FVTPL	*Amortised cost*	*FVOCI*	*Carrying amount*	*Fair value*
Financial assets					
Cash and cash equivalents	–	527,455	–	**527,455**	**527,698**
Derivative financial instruments	194	–	–	**194**	**194**
Amounts due from banks and other financial institutions	–	56,373	–	**56,373**	**56,373**
Investment securities at FVOCI	–	–	650,004	**650,004**	**650,004**
Investment securities measured at amortised cost	–	233,511	–	**233,511**	**232,477**
Loans to customers	9,009	938,923	–	**947,932**	**934,288**
Acquired right of claim on promissory note to the MFRK	–	–	105,458	**105,458**	**105,458**
Other financial assets	–	19,451	–	**19,451**	**19,451**
	9,203	**1,775,713**	**755,462**	**2,540,378**	**2,525,943**
Financial liabilities					
Amounts due to banks and other financial institutions	–	73,933	–	**73,933**	**69,857**
Amounts payable under repurchase agreements	–	29,038	–	**29,038**	**29,038**
Derivative financial liabilities	316	–	–	**316**	**316**
Current accounts and deposits from customers	–	1,452,771	–	**1,452,771**	**1,452,771**
Debt securities issued	–	213,241	–	**213,241**	**172,505**
Subordinated debt	–	201,874	–	**201,874**	**199,767**
Lease liabilities	–	1,944	–	**1,944**	**1,944**
Other financial liabilities	–	2,853	–	**2,853**	**2,853**
	316	**1,975,654**	–	**1,975,970**	**1,929,051**

(in millions of tenge unless otherwise stated)

37. 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 of the Bank as at 31 December 2022:

	FVTPL	*Amortised cost*	*FVOCI*	*Carrying amount*	*Fair value*
Financial assets					
Cash and cash equivalents	–	707,161	–	**707,161**	**707,161**
Derivative financial instruments	134	–	–	**134**	**134**
Amounts due from banks and other financial institutions	–	39,556	–	**39,556**	**39,556**
Trading securities	192	–	–	**192**	**192**
Investment securities at FVOCI	–	–	815,317	**815,317**	**815,317**
Investment securities measured at amortised cost	–	57,935	–	**57,935**	**57,097**
Loans to customers	13,524	800,452	–	**813,976**	**759,651**
Acquired right of claim on promissory note to the MFRK	–	–	103,068	**103,068**	**103,068**
Other financial assets	–	11,319	–	**11,319**	**11,319**
	13,850	**1,616,423**	**918,385**	**2,548,658**	**2,493,495**
Financial liabilities					
Amounts due to banks and other financial institutions	–	45,410	–	**45,410**	**43,672**
Amounts payable under repurchase agreements	–	119,555	–	**119,555**	**119,555**
Derivative financial liabilities	1,325	–	–	**1,325**	**1,325**
Current accounts and deposits from customers	–	1,492,104	–	**1,492,104**	**1,492,104**
Debt securities issued	–	246,868	–	**246,868**	**201,961**
Subordinated debt	–	198,580	–	**198,580**	**184,037**
Lease liabilities	–	2,111	–	**2,111**	**2,111**
Other financial liabilities	–	2,533	–	**2,533**	**2,533**
	1,325	**2,107,161**	**–**	**2,108,486**	**2,047,298**

37. 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 orderly transaction between market participants at the measurement date. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or 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 Bank determines fair values using other valuation techniques.

The objective of valuation techniques is to arrive at a fair value measurement 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 Bank 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 such as interest rate swaps.

For more complex instruments, the Bank 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 2023:

- discount rates of 20.35%-23.68% p.a. and 7.20%-8.00% p.a. are used for discounting future cash flows from loans to corporate customers denominated in KZT and USD, respectively (31 December 2022: 18.57%-19.94% p.a. and 5.50%-7.00% p.a., respectively);
- discount rates of 9.68%-40.11% p.a. are used for discounting future cash flows from loans to retail customers denominated in USD and KZT (31 December 2022: 9.52%-39.38% p.a.);
- the fair value of current accounts and deposits of customers approximates their carrying amount given the depositors' rights to withdraw their funds prior to maturity in accordance with the laws of the Republic of Kazakhstan (*Note 31*);
- discount rates of 14.60%-16.20% p.a. are used for discounting future cash flows from debt securities issued denominated in KZT (31 December 2022: 14.16%-20.12% p.a.);
- discount rates of 14.70%-16.40% p.a. are used for discounting future cash flows from subordinated debt (31 December 2022: 14.34%-20.63% p.a.).

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.

(in millions of tenge unless otherwise stated)

37. Fair value of financial instruments, continued

Fair value hierarchy

The table below analyses financial instruments measured at fair value at 31 December 2023 and 2022, 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 separate statement of financial position:

		Fair value measurement using			
At 31 December 2023	***Measurement date***	***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 2023	−	194	−	**194**
- loans to customers	31 December 2023	−	−	9,009	**9,009**
- derivative financial liabilities	31 December 2023	−	316	−	**316**
Equity financial instruments at FVOCI:					
- corporate shares	31 December 2023	67,610	−	−	**67,610**
Debt financial instruments at FVOCI:					
- investment securities at FVOCI	31 December 2023	27,627	554,767	−	**582,394**
- acquired right of claim on promissory note to the MFRK	31 December 2023	−	105,458	−	**105,458**

		Fair value measurement using			
At 31 December 2022	***Measurement date***	***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 2022	−	134	−	**134**
- trading securities	31 December 2022	−	192	−	**192**
- loans to customers	31 December 2022	−	−	13,524	**13,524**
- derivative financial liabilities	31 December 2022	−	1,325	−	**1,325**
Equity financial instruments at FVOCI:					
- corporate shares	31 December 2022	−	31,294	−	**31,294**
Debt financial instruments at FVOCI:					
- investment securities at FVOCI	31 December 2022	4,652	779,371	−	**784,023**
- acquired right of claim on promissory note to the MFRK	31 December 2022	−	103,068	−	**103,068**

Securities, which are listed on Kazakh Stock Exchange but which do not have an active market as at 31 December 2023 and 2022 are classified as Level 2 in the fair value hierarchy. As at 31 December 2023, the financial instruments classified as Level 2, include government securities for the amount of KZT 554,767 million (31 December 2022: KZT 779,371 million) and acquired right of claim on promissory note to the MFRK in the amount of KZT 105,458 million (31 December 2022: KZT 103,068 million).

During 2023 and 2022 the Bank 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 Bank uses valuation techniques that rely on unobservable inputs.

(in millions of tenge unless otherwise stated)

37. Fair value of financial instruments, continued

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 19.20%-22.20% p.a. (31 December 2022: from 20.54%-23.54% 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 19*.

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:

	Fair value measurement using input data of Level 3	
	2023	***2022***
Loans to customers measured at fair value through profit or loss		
At 1 January	**13,524**	**17,910**
Net interest income *(Note 6)*	–	282
Interest paid	(2,008)	(2,320)
Repayments	(2,845)	(5,369)
Net profit on change in fair value *(Note 9)*	338	3,021
At 31 December	**9,009**	**13,524**

Although the Bank believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value.

Fair value of financial assets and financial liabilities that are not measured at fair value

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 Bank's financial instruments is designated, and which are not presented at fair value in the separate statement of financial position. The fair values of non-financial assets and non-financial liabilities are not presented in the table.

At 31 December 2023	*Level 1*	*Level 2*	*Level 3*	*Fair value*	*Carrying amount*
Financial assets					
Cash and cash equivalents	–	527,698	–	**527,698**	**527,455**
Amounts due from banks and other financial institutions	–	56,373	–	**56,373**	**56,373**
Investment securities measured at amortised cost	37,517	194,960	–	**232,477**	**233,511**
Loans to customers	–	838,920	86,359	**925,279**	**938,923**
Other financial assets	–	19,451	–	**19,451**	**19,451**
Financial liabilities					
Amounts due to banks and other financial institutions	–	69,857	–	**69,857**	**73,933**
Amounts payable under repurchase agreements	–	29,038	–	**29,038**	**29,038**
Current accounts and deposits from customers	–	1,452,771	–	**1,452,771**	**1,452,771**
Debt securities issued	–	172,505	–	**172,505**	**213,241**
Subordinated debt	–	199,767	–	**199,767**	**201,874**
Lease liabilities	–	1,944	–	**1,944**	**1,944**
Other financial liabilities	–	2,853	–	**2,853**	**2,853**

(in millions of tenge unless otherwise stated)

37. Fair value of financial instruments, continued

At 31 December 2022	*Level 1*	*Level 2*	*Level 3*	*Fair value*	*Carrying amount*
Financial assets					
Cash and cash equivalents	–	707,161	–	**707,161**	**707,161**
Amounts due from banks and other financial institutions	–	39,556	–	**39,556**	**39,556**
Investment securities measured at amortised cost	19,585	37,512	–	**57,097**	**57,935**
Loans to customers	–	647,761	98,366	**746,127**	**800,452**
Other financial assets	–	11,319	–	**11,319**	**11,319**
Financial liabilities					
Amounts due to banks and other financial institutions	–	43,672	–	**43,672**	**45,410**
Amounts payable under repurchase agreements	–	119,555	–	**119,555**	**119,555**
Current accounts and deposits from customers	–	1,492,104	–	**1,492,104**	**1,492,104**
Debt securities issued	–	201,961	–	**201,961**	**246,868**
Subordinated debt	–	184,037	–	**184,037**	**198,580**
Lease liabilities	–	2,111	–	**2,111**	**2,111**
Other financial liabilities	–	2,533	–	**2,533**	**2,533**

38. Subsequent events

On 23 February 2024, the Monetary Policy Committee of the NBRK made a decision to decrease the base rate by 50 bp and had set it at 14.75% p.a. with a corridor of +/– 1 bp.

In January 2024, the Bank placed a short-term syndicated loan of USD 5 million, equivalent to KZT 2,241 million, with a foreign bank.