Joint Stock Company
"Kazakhstan bank "Trust-Bank"

Financial statements

For 2022
together with independent auditor's report

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

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

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

Independent auditor's report

To the Shareholders and Board of Directors of Joint Stock Company "Kazakhstan bank "Trust-Bank"

Opinion

We have audited the financial statements of Joint Stock Company "Kazakhstan bank Trust-Bank" (hereinafter, the "Bank"), which comprise the statement of financial position as at 31 December 2022, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

Emphasis of matter

We draw attention to *Note 17* to the financial statements, which describes a significant concentration of the Bank's customers current accounts. Our opinion is not modified in respect of this matter.

Responsibilities of management and the Board of Directors for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Ernst & Young LLP

Olga Khegay
Auditor

Auditor Qualification Certificate
№ МФ-0000286 dated 25 September 2015

Rustamzhan Sattarov
General Director
Ernst & Young LLP

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

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

3 July 2023

STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

(In thousands of tenge)

	Notes	*31 December 2022*	*31 December 2021*
Assets			
Cash and cash equivalents	6	**16,915,962**	6,309,846
Receivables from Islamic finance activities	7	**14,297,125**	14,724,953
Loans to customers	8	**–**	11,779
Bank participation in Wakala and Mudaraba pool	9	**238,894**	818,108
Property and equipment	10	**74,229**	88,703
Right-of-use assets	11	**285,773**	237,447
Intangible assets	12	**258,966**	339,770
Inventory	13	**191,229**	190,565
Current corporate income tax assets	14	**65,375**	42,363
Deferred corporate income tax assets	14	**98,808**	–
Other assets	15	**307,710**	887,324
Total assets		**32,734,071**	23,650,858
Liabilities			
Amounts due to credit institutions	16	**724,993**	780,866
Amounts due to customers	17	**18,464,756**	8,592,757
Amounts due to Wakala and Mudaraba pool	19	**328,054**	73,366
Provisions for commitments and contingencies	19	**647,101**	629,588
Lease liabilities	11	**296,239**	261,684
Deferred corporate income tax liabilities	14	**–**	10,063
Other liabilities	15	**197,477**	284,694
Total liabilities		**20,658,620**	10,633,018
Equity			
Share capital	18	**10,050,000**	10,050,000
Additional paid-in capital		**122,037**	122,037
Retained earnings		**1,903,414**	2,845,803
Total equity		**12,075,451**	13,017,840
Total liabilities and equity		**32,734,071**	23,650,858

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

Assayeva Gulfairuz Yerlanovna — Chairwoman of the Management Board

Shatanova Gaukhar Konyrbayevna — Chief Accountant

3 July 2023

The accompanying notes on pages 5 to 54 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

(In thousands of tenge)

	Notes	*2022*	*2021*
Revenue from Islamic finance activities			
Revenue from Commodity Murabaha agreements	20	**1,386,932**	1,219,992
Revenue from Tawarruq agreements		**75,651**	114,480
		1,462,583	1,334,472
Other finance expense			
Lease liabilities	11	**(29,113)**	(26,050)
		(29,113)	(26,050)
Net finance income		**1,433,470**	1,308,422
Credit loss expense	21	**(1,469,005)**	(905,198)
Net finance (expense)/income after credit loss expense		**(35,535)**	403,224
Net fee and commission income	22	**635,065**	439,179
Net gains from financial instruments at fair value through profit or loss		**–**	17,606
Net gains from foreign currencies:			
- dealing		**28,531**	289,117
- translation differences		**199,338**	35,593
Other income		**43,259**	19,808
Non-finance income		**906,193**	801,303
Personnel expenses	23	**(448,161)**	(396,484)
Other operating expenses	23	**(581,464)**	(545,880)
Loss on initial recognition of receivables from Islamic finance activities	7	**(593,640)**	–
Other impairment	21	**(298,653)**	–
Non-finance expense		**(1,921,918)**	(942,364)
(Loss)/profit before corporate income tax expense		**(1,051,260)**	262,163
Corporate income tax benefit/(expense)	14	**108,871**	(102,399)
(Loss)/profit for the year		**(942,389)**	159,764
Other comprehensive income		**–**	–
Total comprehensive (loss)/income for the year		**(942,389)**	159,764

The accompanying notes on pages 5 to 54 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

(In thousands of tenge)

	Share capital	*Additional paid-in capital*	*Retained earnings*	*Total equity*
As at 1 January 2021	10,050,000	122,037	2,686,039	12,858,076
Total comprehensive income for the year	–	–	159,764	159,764
As at 31 December 2021	10,050,000	122,037	2,845,803	13,017,840
Total comprehensive loss for the year	–	–	**(942,389)**	**(942,389)**
As at 31 December 2022	**10,050,000**	**122,037**	**1,903,414**	**12,075,451**

The accompanying notes on pages 5 to 54 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

(In thousands of tenge)

	Notes	2022	2021
Cash flows from operating activities			
Revenue received from Islamic finance activities		1,191,728	864,952
Fees and commissions received		637,504	610,598
Fees and commissions paid		(86,473)	(117,040)
Net realised gains from financial instruments at fair value through profit or loss		–	17,606
Realised gains less losses from dealing in foreign currencies		28,531	289,117
Other income received		9,100	3,023
Personnel expenses paid		(444,826)	(391,080)
Other operating expenses paid		(328,288)	(291,635)
Cash flows from operating activities before changes in operating assets and liabilities		1,007,276	985,541
Net (increase)/decrease in operating assets			
Receivables from Islamic finance activities		(780,481)	(2,224,185)
Loans to customers		6,500	6,000
Bank participation in Wakala and Mudaraba pool		133,379	733,367
Other assets		234,954	(245,787)
Net (decrease)/increase in operating liabilities			
Amounts due to credit institutions		(47,081)	(97,213)
Amounts due to customers		9,929,854	1,148,662
Amounts due to Wakala and Mudaraba pool		253,934	(59,179)
Other liabilities		(34,574)	(14,468)
Net cash flows from operating activities before corporate income tax		10,703,761	232,738
Corporate income tax paid		(27,049)	(69,533)
Net cash from operating activities		10,676,712	163,205
Cash flows from investing activities			
Purchase of property and equipment	10	(18,643)	(62,645)
Purchase of intangible assets		(1,633)	(236,159)
Net cash used in investing activities		(20,276)	(298,804)
Cash flows from financing activities			
Lease payments	11	(165,693)	(127,314)
Net cash used in financing activities		(165,693)	(127,314)
Effect of expected credit losses on cash and cash equivalents	6	(10,786)	(24,168)
Effect of exchange rates changes on cash and cash equivalents		126,159	25,007
Net increase/(decrease) in cash and cash equivalents		10,606,116	(262,074)
Cash and cash equivalents, as at 1 January		6,309,846	6,571,920
Cash and cash equivalents, as at 31 December	6	16,915,962	6,309,846

The accompanying notes on pages 5 to 54 are an integral part of these financial statements.

(In thousands of tenge, unless otherwise indicated)

1. Principal activities

Joint Stock Company "Islamic bank "Zaman-Bank" (hereinafter – the "Bank") operates in the Republic of Kazakhstan since 1991 in accordance with the legislation of the Republic of Kazakhstan. In 2017, the Bank was converted into Islamic bank, renamed and officially registered as Joint Stock Company "Islamic bank "Zaman-Bank".

The Bank operates under a general banking license No. 1.3.51 issued by the National Bank of the Republic of Kazakhstan (hereinafter – the "NBRK") on 17 August 2017, which replaces previous licenses. The Bank's activities are regulated by the Agency for Regulation and Development of Financial Market of the Republic of Kazakhstan (hereinafter – the "AFM").

The Bank is involved in Islamic banking activities and carries out its operations through its head office in Astana and branches in Almaty and Ekibastuz. The Bank accepts deposits from the public and conducts finance transactions based on Sharia principles and rules, transfers payments within the Kazakhstan and abroad, exchanges currencies and provides other banking services to legal entities and individuals.

Registered address of the Bank's head office is: 14/3 Dinmukhamed Kunayev Str., Nursaya BC, Esil district, Astana, Republic of Kazakhstan.

As at 31 December 2022 and 2021 the following legal entities and individuals were shareholders of the Bank:

Shareholders	***2022 (%)***	***2021 (%)***
Abguzhinov A.T.	**70.0**	61.9
Svarov Sh.D.	**9.6**	8.3
Beisembayeva S.E.	**7.3**	8.3
Islamic Corporation for the Development of the Private Sector	**5.0**	5.0
Abguzhinov T.S.	**4.0**	4.0
Cherubayev D.S.	**–**	8.4
Other shareholders, individually holding less than 3%	**4.1**	4.1
Total	**100.0**	100.0

As at 31 December 2022 and 2021, members of the Board of Directors and the Management Board controlled 491,000 common shares or 4.91% of the Bank.

2. Basis of preparation

General

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

The financial statements have been prepared under the historical cost convention except as disclosed in the Summary of accounting policies below. These financial statements are presented in thousands of tenge ("tenge" or "KZT"), except share amounts and unless otherwise indicated.

Effect of COVID-19 pandemic

On 11 March 2020, the World Health Organisation declared the COVID-19 outbreak to be a pandemic. In recent months, the COVID-19 pandemic has shown considerable signs of easing as, on the whole, travel bans have been lifted, lockdowns ended and quarantine measures eased. Many governments have also ended or announced curtailment of measures to provide financial and non-financial assistance to affected entities. Nevertheless, COVID-19 may continue to affect companies and economies, and entities may still be dealing with lost revenue, disrupted supply chains and loss of jobs.

Geopolitical events

As a result of the conflict between the Russian Federation and Ukraine many countries have imposed, and continue to impose, new sanctions on specified Russian entities and individuals. Sanctions have also been imposed on the Republic of Belarus.

2. Basis of preparation (continued)

Geopolitical events (continued)

Volatility in stock and currency markets, restrictions to imports and exports, availability of local materials and services and access to local resources, will directly impact entities that have significant operations or exposures with the Russian Federation, Republic of Belarus or Ukraine. However, the consequences of the current situation may directly or indirectly impact entities other than those with direct interests in the involved in conflict countries.

In order to manage country risk, the Bank controls transactions with counterparties within the limits set by the collegiate body of the Bank, which are reviewed on a regular basis.

As at 31 December 2022, the concentration of amount due from Russian counterparties represented by cash and cash equivalents amounted to KZT 758,135 thousand (as at 31 December 2021: KZT 3,258,427 thousand). As at 31 December 2022, amounts due from the Russian counterparties included in the US sanctions list, represented by cash and cash equivalents amounted to KZT 16,206 thousand (as at 31 December 2021: KZT 3,259,011 thousand).

Inflation and the current economic environment

The impact of the macroeconomic and geopolitical environment has exacerbated inflationary pressures in almost all economies around the world. High and rising energy prices are having a negative impact on the cost of other goods and services, resulting in significant consumer-price increases in many countries.

Prices of many commodities, including food, remain high. In 2022, inflation in Kazakhstan was 20.3%.

Due to the growth of geopolitical tension in 2022, there has been a significant growth of volatility in the stock and currency markets, although the value of the tenge in 2022 was virtually the same in relation to the Euro and only 6% lower in value in relation to the US dollar. On 6 December 2022, the Monetary Policy Committee of the NBRK made an extraordinary decision to raise the base rate to 16.75% per annum with an interest band of +/-1%.

The Bank continues to assess the effect of these events and changing economic conditions on its activities, financial position and financial results.

Current inflationary pressures, macroeconomic and geopolitical uncertainty, including the impacts of the conflict in Ukraine, and the residual impacts of the COVID-19 pandemic affect the assumptions and estimation uncertainties associated with the measurement of assets and liabilities.

3. Definitions of significant terms

Sharia

Sharia – is the Body of Islamic law and is derived from the Holy Quran and the Sunna'h of Holy Prophet (peace be upon him). The Bank being an Islamic financial institution incorporates the principles and rules of Sharia in its activities, as interpreted by its Islamic Financial Principles Board.

Commodity Murabaha and Tawarruq

Murabaha is a method of financing where the Bank / counterparty bank purchases a Commodity from a Broker or supplier and takes actual or constructive ownership possession of that Commodity and then sells it to a customer / the Bank on a deferred payment basis with profit margin. Under Commodity Murabaha / Tawarruq the customer / the Bank then sells the same asset to a third party for immediate delivery and payment, the end result being that the customer / the Bank receives a cash amount from proceeds of the second sale. The asset is typically a freely tradable commodity such as platinum or palladium. Gold and silver are treated by Sharia as currency and cannot be used.

Ijara

Leasing of an identified asset ending with ownership transfer (also known as Ijara Muntahia Bitamleek) – is an agreement whereby the Bank buys an asset according to the customer's intention, presented in an intent notice and then leases it, in its capacity as a lessor, to the customer as lessee for the specified rental over a specific period.

3. Definitions of significant terms (continued)

Ijara (continued)

The duration of the lease term, as well as the basis for rental, are set and agreed in the lease agreement. The Bank possesses ownership of the asset throughout the lease term. The arrangement could end by transferring the ownership of the asset to the lessee upon completion by the lessee of its obligation during or at the end of the lease term.

Mudaraba

Mudaraba is a contractual arrangement whereby two or more parties undertake an economic activity. Mudaraba is a partnership in profit between capital and work. It may be conducted between an investment account holder as the provider of funds and the Bank as a Mudarib. The Bank announces its willingness to accept the funds of the investment account holder, the sharing of the profits being as agreed between the two parties and the losses being borne by the provider of the funds except if they were due to misconduct, negligence or violation of the conditions agreed upon by the Bank, in which case, such losses would be borne by the Bank.

Depositors pool

Pools (funds) are a form of integration of deposits for joint investment purposes by currency, in which the participants' profit goes to the pool and it is distributed according to preliminary agreements. The internal policies of the Bank stipulate depositors' pool by currency for both Mudaraba and Wakala depositors (USD pool and KZT pool), Sukuk pool and Shareholders' pool depending on funding sources, as well as co-financing of multiple pools.

Given potential maturity mismatch and restrictions on re-designation of assets, funding shortages arising in a pool may be funded by other pools. Inter-pool funding takes the Sharia form (vehicle) of the funding pool and is subject to the funding pool distribution rules.

Wakala

An agreement whereby the Investor provides a certain sum of money to an agent, who invests it according to specific conditions in return for a certain fee (a lump sum of money or percentage of the amount invested). The agent may be granted any excess over and above a certain pre-agreed expected rate of return as a performance incentive. The agent is obliged to return the invested amount in the case of the agent's negligence or violation of the terms and conditions of the Wakala.

Qard Hassan

Qard Hassan short-term receivables are non-profit bearing financing activities whereby the customer borrows funds for a specific time with an understanding that the same amount will be paid at the end of the agreed period.

Zakah

Zakah is a right which becomes due in certain types of wealth and disbursable to specific categories of recipients. It is an in rem duty when its conditions are satisfied.

4. Summary of accounting policies

Changes in accounting policies

The Bank applied for the first-time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2022 (unless otherwise indicated). The Bank has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

4. Summary of accounting policies (continued)

Changes in accounting policies (continued)

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

An onerous contract is a contract under which the unavoidable costs (i.e., the costs that the Bank cannot avoid because it has the contract) of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services including both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract as well as costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments had no impact on the financial statements of the Bank as there were no onerous contracts within the scope of these amendments that arose during the period.

Reference to the Conceptual Framework – Amendments to IFRS 3

The amendments replace a reference to a previous version of the IASB's *Conceptual Framework* with a reference to the current version issued in March 2018 without significantly changing its requirements.

The amendments add an exception to the recognition principle of IFRS 3 *Business Combinations* to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or IFRIC 21 *Levies*, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the *Conceptual Framework*, to determine whether a present obligation exists at the acquisition date.

The amendments also add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

These amendments had no impact on the financial statements of the Bank as there were no contingent assets, liabilities and contingent liabilities within the scope of these amendments that arose during the period.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

These amendments had no impact on the financial statements of the Bank as there were no sales of such items produced by property, plant and equipment made available for use on or after the beginning of the earliest period presented.

IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter

The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported in the parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

These amendments had no impact on the financial statements of the Bank as it is not a first-time adopter.

4. Summary of accounting policies (continued)

Changes in accounting policies (continued)

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

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39 *Financial Instruments: Recognition and Measurement.*

These amendments had no impact on the financial statements of the Bank as there were no modifications of the Bank's financial liabilities during the period.

IAS 41 Agriculture – Taxation in fair value measurements

The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41.

These amendments had no impact on the financial statements of the Bank as it did not have assets in scope of IAS 41 as at the reporting date.

Fair value measurement

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

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

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

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

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

4. Summary of accounting policies (continued)

Fair value measurement (continued)

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

Financial assets and liabilities

Initial recognition

Date of recognition

All normal course 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. Normal course purchases or sales are purchases or sales of financial assets and liabilities that require delivery of assets and liabilities within the period generally established by regulation or convention in the marketplace.

Initial measurement

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

Measurement categories of financial assets and liabilities

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

- Amortised cost;
- FVOCI;
- FVPL.

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

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

Amounts due from financial institutions, receivables from Islamic finance activities and loans to customers at amortised cost

The Bank classifies and measures amounts due from financial institutions, receivables from Islamic finance activities and loans to customers at amortised cost if both of the following conditions are met:

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

The details of these conditions are outlined below.

4. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Initial measurement (continued)

Business model

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

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

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

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

The SPPI test

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

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

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

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

Financial guarantees and undrawn commitments on receivables from Islamic finance activities

The Bank issues financial guarantees and undrawn commitments on receivables from Islamic finance activities.

Financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the statement of comprehensive income, and an expected credit losses (ECL) provision.

Undrawn commitments on receivables from Islamic finance activities are commitments under which, over the duration of the commitment, the Bank is required to provide financing with pre-specified terms to the customers. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

Performance guarantees

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

(In thousands of tenge, unless otherwise indicated)

4. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Initial measurement (continued)

Receivables from Islamic finance activities and loans to customers

Loans to customers and receivables from Islamic finance activities, which include receivables under Murabaha agreements, are non-derivative financial assets with fixed payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale but to receive contractual cash flows. Assets are carried at amortised cost using the effective profit rate method. Gains and losses are recognised in the profit or loss when the receivables are derecognised or impaired, as well as through the amortisation process. The Bank's receivables from Islamic finance activities consist of Murabaha receivables. Murabaha receivables are stated at amortised cost less any allowance for impairment.

Islamic finance activities are funded from two sources: 1) the Bank's own funds which are accounted on balance sheet; and 2) funds received under Wakala and Mudaraba agreements. Under the terms of Wakala and Mudaraba agreements the Bank bears no risk, and such funds are accounted off balance sheet. In case of early termination or maturity of the Wakala and Mudaraba agreements, which may give potential maturity mismatches in assets, funding shortages arising in the respective pool could be financed by the Bank from its own funds and accounted on statement of financial position as asset.

Reclassification of financial assets and liabilities

The Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank changes the business model for managing financial assets. Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets and liabilities in 2022.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, obligatory reserves, amounts due from the NBRK and amounts due from other banks that mature within ninety (90) days of the date of origination and are free from contractual encumbrances.

Borrowings

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

Leases

i. Bank as a lessee

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

Right-of-use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

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

4. Summary of accounting policies (continued)

Leases (continued)

i. Bank as a lessee (continued)

Lease liabilities

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

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

Short-term leases and leases of low-value assets

The Bank applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). The Bank also applies the low value assets lease recognition exemption to leases of office equipment that are considered of low value (i.e., below KZT 2,400 thousand). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

ii. Operating – Bank as a lessor

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

iii. Finance – Bank as a lessor

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

Offsetting of financial instruments

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

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

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

4. Summary of accounting policies (continued)

Renegotiated financing

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

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

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

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

For modifications not resulting in derecognition, the Bank also reassesses whether there has been a significant increase in credit risk or whether the assets should be classified as credit-impaired. Once an asset has been classified as credit-impaired as the result of modification, it will remain in Stage 3 for a minimum 12-months probation period. In order for the restructured financing to be reclassified out of Stage 3, regular payments of more than an insignificant amount of principal or profit have been made during at least half of the probation period in accordance with the modified payment schedule.

Derecognition of financial assets and liabilities

Financial assets

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

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

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

Write-off

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

Financial liabilities

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

Where an existing financial liability is replaced by another from the same creditor 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.

4. Summary of accounting policies (continued)

Taxation

Current corporate income tax expense is calculated in accordance with the regulations of the Republic of Kazakhstan.

Deferred corporate income tax assets and liabilities are calculated in respect of all temporary differences using the liability method. Deferred corporate income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, except where the deferred corporate income tax arises from the initial recognition of an asset or liability in a transaction that at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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

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

Property and equipment

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

Carrying amount of property and equipment is reviewed for impairment when events or changes in circumstances indicate that carrying amount may not be recoverable.

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

	Depreciation rates
Computers and office equipment	20-50%
Motor vehicles	15-20%
Other	15-30%

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

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

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 1 to 7 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

Provisions

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

Retirement and other employee benefit obligations

The Bank does not have any pension arrangements separate from the State pension system of the Republic of Kazakhstan, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Bank has no significant post-retirement benefits.

4. Summary of accounting policies (continued)

Share capital

Share capital

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

Dividends

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

Contingent assets and liabilities

Contingent liability is not recognised in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. Contingent asset is not recognised in the statement of financial position but is disclosed when an inflow of economic benefits is almost certain.

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:

Profit and similar revenue and expense

The Bank calculates profit revenue on debt financial assets measured at amortised cost or at FVOCI by applying the effective profit rate to the gross carrying value of financial assets other than credit-impaired assets. Effective profit rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective profit 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 profit rate and the change in carrying amount is recorded as profit revenue or expense.

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

For POCI financial assets, the Bank calculates profit revenue by calculating the credit-adjusted effective profit rate and applying that rate to the amortised cost of the asset. The credit-adjusted effective profit rate is the profit rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI assets.

Profit revenue on all financial assets at FVPL is recognised using the contractual profit rate in "Other profit revenue" in the statement of comprehensive income.

Fee and commission income

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

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

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

4. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

Fee and commission income (continued)

Fee and commission income from providing transaction services

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

Foreign currency translation

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

Differences between the contractual exchange rate of a transaction in a foreign currency and the market exchange rate quoted by KASE on the date of the transaction are included in gains from transactions in foreign currencies. The market exchange rates quoted by KASE as at 31 December 2022 and 2021 were KZT 462.65 and KZT 431.80 to USD 1, respectively.

Standards issued but not yet effective

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

IFRS 17 Insurance contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. IFRS 17 introduces new accounting requirements for banking products with insurance features that may affect the determination of which instruments or which components thereof will be in the scope of IFRS 9 or IFRS 17. Credit cards and similar products that provide insurance coverage: most issuers of these products will be able to continue with their existing accounting treatment as a financial instrument under IFRS 9. IFRS 17 excludes from its scope credit card contracts (and other similar contracts that provide credit or payment arrangements) that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer.

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

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

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

4. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

IFRS 17 Insurance contracts (continued)

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

The Bank has completed the assessment of the impacts of adopting IFRS 17 and, also taking into consideration the scope exclusions for certain banking products, such as credit cards, in IFRS 17.7(h), it has concluded that it does not expect any material impact on its financial statements from the adoption of the new standard in 2023.

Amendments to IAS 1 Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right;
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification;
- Disclosures.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must be applied retrospectively. The Bank is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Definition of Accounting Estimates - Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

he amendments are not expected to have a material impact on the Bank.

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 *Making Materiality Judgements*, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Bank is currently revisiting its accounting policy information disclosures to ensure consistency with the amended requirements going forward.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12

May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

The amendments should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability should also be recognised for all deductible and taxable temporary differences associated with leases and decommissioning obligations.

The Bank is currently assessing the impact of the amendments.

4. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

Lease Liability in a Sale and Leaseback – Amendments to IFRS 16

In September 2022, the Board issued *Lease Liability in a Sale and Leaseback* (Amendments to IFRS 16). The amendment to IFRS 16 specifies the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains.

After the commencement date in a sale and leaseback transaction, the seller-lessee applies paragraphs 29 to 35 of IFRS 16 to the right-of-use asset arising from the leaseback and paragraphs 36 to 46 of IFRS 16 to the lease liability arising from the leaseback. In applying paragraphs 36 to 46, the seller- lessee determines 'lease payments' or 'revised lease payments' in such a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use retained by the seller-lessee. Applying these requirements does not prevent the seller-lessee from recognising, in profit or loss, any gain or loss relating to the partial or full termination of a lease, as required by paragraph 46(a) of IFRS 16.

The amendment does not prescribe specific measurement requirements for lease liabilities arising from a leaseback. The initial measurement of the lease liability arising from a leaseback may result in a seller-lessee determining 'lease payments' that are different from the general definition of lease payments in Appendix A of IFRS 16. The seller-lessee will need to develop and apply an accounting policy that results in information that is relevant and reliable in accordance with IAS 8.

The amendment applies to annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted and that fact must be disclosed. A seller-lessee applies the amendment retrospectively in accordance with IAS 8 to sale and leaseback transactions entered into after the date of initial application (i.e., the amendment does not apply to sale and leaseback transactions entered into prior to the date of initial application). The date of initial application is the beginning of the annual reporting period in which an entity first applied IFRS 16.

The amendment is not expected to have a material impact on the Bank's financial statements.

5. Significant accounting judgements and estimates

Judgements

In the process of applying the Bank's accounting policies, management has made the following judgements, apart from those involving estimates, which have the most significant effect on the amounts recognised in the financial statements:

Determining the lease term of contracts with renewal options

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

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

Estimation uncertainty

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

(In thousands of tenge, unless otherwise indicated)

5. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Expected credit losses

The measurement of expected credit losses across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining expected credit losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's internal financing grading model, which assigns probabilities of default (PDs);
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulae and the choice of inputs;
- Determination of associations between macroeconomic scenarios and economic inputs such as GDP growth and financial condition of the borrower, and the effect on PDs, exposure at default (EADs) and loss given default (LGDs).

Taxation

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. Implementation of regulations are often unclear or non-existent and insignificant amount of precedents has been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organisations; thus, creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties, and forfeits. These facts create tax risks in Kazakhstan substantially more significant than typically found in countries with more developed tax systems.

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

Leases – estimating the incremental borrowing rate

The Bank cannot readily determine the profit rate implicit in the lease, therefore, it uses its incremental borrowing rate to measure lease liabilities. The incremental borrowing rate is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The incremental borrowing rate therefore reflects what the Bank 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease.

The Bank estimates the incremental borrowing rate using observable inputs (such as market profit rates) when available and is required to make certain entity-specific estimates.

6. Cash and cash equivalents

As at 31 December, cash and cash equivalents comprise the following:

	2022	*2021*
Cash on hand	**1,605,360**	430,699
Current accounts with the NBRK	**11,426,810**	630,989
Murabaha Tawarruq with the NBRK with contractual terms of up to 90 days	**2,001,750**	2,000,486
Current accounts with other banks	**1,916,996**	3,271,840
	16,950,916	6,334,014
Less: ECL allowance	**(34,954)**	(24,168)
Cash and cash equivalents	**16,915,962**	6,309,846

(In thousands of tenge, unless otherwise indicated)

6. Cash and cash equivalents (continued)

Under legislation of the Republic of Kazakhstan, the Bank is required to maintain certain obligatory reserves, which are calculated as a percentage of certain liabilities of the Bank. Such reserves must be held on current accounts with the NBRK or cash on hand based on average monthly balances of the aggregate of cash balances on current accounts with the NBRK or cash on hand in national or foreign currencies during the period of reserve creation. However, the Bank is not restricted from using these funds in its day-to-day operations.

As at 31 December 2022, obligatory reserves were equal to KZT 133,786 thousand (as at 31 December 2021: KZT 158,038 thousand).

An analysis of changes in the ECL allowance in relation to cash equivalents during the year ended 31 December 2022 is as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
ECL allowance as at 1 January 2022	**(24,168)**	**–**	**–**	**(24,168)**
New assets originated or purchased	**–**	**(6,671)**	**–**	**(6,671)**
Assets repaid	**22,868**	**–**	**–**	**22,868**
Transfers to Stage 3	**64**	**–**	**(64)**	**–**
Net change in ECL	**(452)**	**(13,630)**	**(12,901)**	**(26,983)**
ECL allowance as at 31 December 2022	**(1,688)**	**(20,301)**	**(12,965)**	**(34,954)**

An analysis of changes in the ECL allowance in relation to cash equivalents during the year ended 31 December 2021 is as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
ECL allowance as at 1 January 2021	–	–	–	–
Net change in ECL	(24,168)	–	–	(24,168)
ECL allowance as at 31 December 2021	(24,168)	–	–	(24,168)

7. Receivables from Islamic finance activities

As at 31 December, receivables from Islamic finance activities comprise the following:

	2022	*2021*
Commodity Murabaha – corporate	**18,210,769**	17,572,693
Qard Hassan	**20,389**	38,369
Commodity Murabaha – retail	**17,259**	26,543
Gross receivables from Islamic finance activities	**18,248,417**	17,637,605
Less: ECL allowance	**(3,951,292)**	(2,912,652)
Receivables from Islamic finance activities	**14,297,125**	14,724,953

In 2022, the Bank recognised a loss on initial recognition of receivables from Islamic finance activities issued at below market rates in the amount of KZT 479,826 thousand and a loss on initial recognition of POCI assets in the amount of KZT 113,814 thousand in the statement of comprehensive income.

As at 31 December 2022, receivables from Islamic finance activities bear profit rates of 8%-19% per annum (as at 31 December 2021: 8%-22% per annum) and mature in 2023-2028 (as at 31 December 2021: in 2022-2028).

(In thousands of tenge, unless otherwise indicated)

7. Receivables from Islamic finance activities (continued)

ECL allowance

An analysis of changes in the gross carrying value and corresponding ECL allowance in relation to Commodity Murabaha – corporate during the year ended 31 December 2022 is as follows:

Commodity Murabaha – corporate	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying value as at 1 January 2022	1,027,778	10,860,002	5,262,357	422,556	17,572,693
New assets originated or purchased	9,940,000	–	–	1,120,000	11,060,000
Assets repaid	(1,733,554)	(6,456,849)	(1,372,071)	(695,611)	(10,258,085)
Transfers to Stage 1	614,388	(521,119)	(93,269)	–	–
Transfers to Stage 2	(7,990,596)	11,488,883	(3,498,287)	–	–
Transfers to Stage 3	(1,825,369)	(4,092,778)	5,918,147	–	–
Changes in contractual cash flows due to modifications not resulting in derecognition	–	–	(310,714)	–	(310,714)
Unwinding of discount	–	–	146,875	–	146,875
As at 31 December 2022	32,647	11,278,139	6,053,038	846,945	18,210,769

Commodity Murabaha – corporate	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL allowance as at 1 January 2022	(37,243)	(1,325,852)	(1,481,854)	(65,426)	(2,910,375)
New assets originated or purchased	(504,715)	–	–	–	(504,715)
Assets repaid	57,860	693,279	655,806	270,858	1,677,803
Transfers to Stage 1	(74,366)	58,323	16,043	–	–
Transfers to Stage 2	573,153	(1,345,393)	772,240	–	–
Transfers to Stage 3	62,561	467,906	(530,467)	–	–
Impact on ECL of exposures transferred between stages and changes to models and inputs used for ECL calculations	(78,390)	618,023	(2,140,319)	(604,707)	(2,205,393)
Changes in contractual cash flows due to modifications not resulting in derecognition	–	–	141,374	–	141,374
Unwinding of discount	–	–	(146,875)	–	(146,875)
As at 31 December 2022	(1,140)	(833,714)	(2,714,052)	(399,275)	(3,948,181)

(In thousands of tenge, unless otherwise indicated)

7. Receivables from Islamic finance activities (continued)

ECL allowance (continued)

An analysis of changes in the gross carrying value and corresponding ECL allowance in relation to Commodity Murabaha – corporate during the year ended 31 December 2021 is as follows:

Commodity Murabaha – corporate	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying value as at 1 January 2021	316,844	4,848,941	9,622,718	–	14,788,503
New assets originated or purchased	10,292,909	–	–	757,597	11,050,506
Assets repaid	(288,443)	(2,811,452)	(4,794,508)	(340,262)	(8,234,665)
Transfers to Stage 1	1,362,862	(1,362,862)	–	–	–
Transfers to Stage 2	(9,891,377)	14,295,711	(4,404,334)	–	–
Transfers to Stage 3	(765,017)	(4,110,336)	4,875,353	–	–
Changes in contractual cash flows due to modifications not resulting in derecognition	–	–	(147,900)	–	(147,900)
Unwinding of discount	–	–	111,028	5,221	116,249
As at 31 December 2021	1,027,778	10,860,002	5,262,357	422,556	17,572,693

Commodity Murabaha – corporate	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL allowance as at 1 January 2021	(8,199)	(538,434)	(1,750,786)	–	(2,297,419)
New assets originated or purchased	(432,086)	–	–	–	(432,086)
Assets repaid	9,748	333,665	993,093	74,401	1,410,907
Transfers to Stage 1	(32,211)	32,211	–	–	–
Transfers to Stage 2	482,697	(1,225,927)	743,230	–	–
Transfers to Stage 3	40,444	479,696	(520,140)	–	–
Impact on ECL of exposures transferred between stages and changes to models and inputs used for ECL calculations	(97,636)	(407,063)	(881,272)	(134,606)	(1,520,577)
Changes in contractual cash flows due to modifications not resulting in derecognition	–	–	45,049	–	45,049
Unwinding of discount	–	–	(111,028)	(5,221)	(116,249)
As at 31 December 2021	(37,243)	(1,325,852)	(1,481,854)	(65,426)	(2,910,375)

(In thousands of tenge, unless otherwise indicated)

7. Receivables from Islamic finance activities (continued)

ECL allowance (continued)

An analysis of changes in the gross carrying value and corresponding ECL allowance in relation to Qard Hassan during the year ended 31 December 2022 is as follows:

Qard Hassan	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2022	**38,369**	**–**	**–**	**38,369**
New assets originated	**2,000**	**–**	**–**	**2,000**
Assets repaid	**(19,980)**	**–**	**–**	**(19,980)**
As at 31 December 2022	**20,389**	**–**	**–**	**20,389**

Qard Hassan	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL allowance as at 1 January 2022	**(152)**	**–**	**–**	**(152)**
New assets originated	**(31)**	**–**	**–**	**(31)**
Assets repaid	**137**	**–**	**–**	**137**
As at 31 December 2022	**(46)**	**–**	**–**	**(46)**

An analysis of changes in the gross carrying value and corresponding ECL allowance in relation to Qard Hassan during the year ended 31 December 2021 is as follows:

Qard Hassan	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2021	32,602	–	–	32,602
New assets originated	34,800	–	–	34,800
Assets repaid	(27,233)	(1,800)	–	(29,033)
Transfers to Stage 2	(1,800)	1,800	–	–
As at 31 December 2021	38,369	–	–	38,369

Qard Hassan	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL allowance as at 1 January 2021	(73)	–	–	(73)
New assets originated	(549)	–	–	(549)
Assets repaid	86	476	–	562
Transfers to Stage 2	476	(476)	–	–
Impact on ECL of exposures transferred between stages and changes to inputs used for ECL calculations	(92)	–	–	(92)
As at 31 December 2021	(152)	–	–	(152)

(In thousands of tenge, unless otherwise indicated)

7. Receivables from Islamic finance activities (continued)

ECL allowance (continued)

An analysis of changes in the gross carrying value and corresponding ECL allowance in relation to Commodity Murabaha – retail during the year ended 31 December 2022 is as follows:

Commodity Murabaha – retail	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2022	20,562	5,981	–	26,543
New assets originated	2,500	–	–	2,500
Assets repaid	(11,218)	(566)	–	(11,784)
Transfers to Stage 2	(2,500)	2,500	–	–
Transfers to Stage 3	–	(2,658)	2,658	–
As at 31 December 2022	9,344	5,257	2,658	17,259

Commodity Murabaha – retail	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL allowance as at 1 January 2022	(405)	(1,720)	–	(2,125)
New assets originated	(49)	–	–	(49)
Assets repaid	343	77	–	420
Transfers to Stage 2	49	(49)	–	–
Transfers to Stage 3	–	719	(719)	–
Impact on ECL of exposures transferred between stages and changes to inputs used for ECL calculations	–	(194)	(1,117)	(1,311)
As at 31 December 2022	(62)	(1,167)	(1,836)	(3,065)

An analysis of changes in the gross carrying value and corresponding ECL allowance in relation to Commodity Murabaha – retail during the year ended 31 December 2021 is as follows:

Commodity Murabaha – retail	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2021	–	7,025	–	7,025
New assets originated	22,500	–	–	22,500
Assets repaid	(1,938)	(1,044)	–	(2,982)
As at 31 December 2021	20,562	5,981	–	26,543

Commodity Murabaha – retail	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL allowance as at 1 January 2021	–	(2,505)	–	(2,505)
New assets originated	(437)	–	–	(437)
Assets repaid	38	339	–	377
Impact on ECL of exposures transferred between stages and changes to inputs used for ECL calculations	(6)	446	–	440
As at 31 December 2021	(405)	(1,720)	–	(2,125)

Modified and restructured receivables from Islamic finance activities

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

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

(In thousands of tenge, unless otherwise indicated)

7. Receivables from Islamic finance activities (continued)

Modified and restructured receivables from Islamic finance activities (continued)

During 2022 and 2021, the Bank modified the terms and conditions of certain corporate and retail Commodity Murabaha. The Bank considered these modifications to be non-substantial. As a result, the Bank recognised a loss on modification of corporate and retail Commodity Murabaha, not resulting in derecognition in the amount of KZT 310,714 thousand (in 2021: KZT 147,900 thousand).

The table below includes assets that were modified during the period and treated as restructured, with the related modification loss suffered by the Bank:

	2022	*2021*
Receivables from Islamic finance activities modified during the period		
Amortised cost before the modification	**2,949,149**	1,979,518
Net loss from modification of receivables from Islamic finance activities not resulting in derecognition	**(310,714)**	(147,900)

Collateral and other credit enhancements

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

As at 31 December 2022 and 2021, receivables from Islamic finance activities are secured by real estate, movable property, inventory and corporate guarantees. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for expected credit losses on receivables from Islamic finance activities.

In absence of collateral or other credit enhancements, ECL in respect of Stage 3 receivables from Islamic finance activities as at 31 December would have been higher by:

	2022	*2021*
Commodity Murabaha – corporate	**1,584,056**	3,780,503
	1,584,056	3,780,503

Concentration of receivables from Islamic finance activities

As at 31 December 2022, the Bank has one counterparty under receivables from Islamic finance activities (as at 31 December 2021: two counterparties) whose balances exceed 10% of the Bank's equity. As at 31 December 2022, the total gross value of these balances equals to KZT 1,433,100 thousand (as at 31 December 2021: KZT 2,692,018 thousand). An ECL allowance of KZT 19,137 thousand (as at 31 December 2021: KZT 548,415 thousand) was recognised against these receivables.

Receivables from Islamic finance activities are concentrated in the Republic of Kazakhstan in the following industry sectors:

	2022	*2021*
Trade	**5,224,594**	5,753,830
Construction and maintenance	**3,202,215**	3,185,966
Engineering	**1,798,687**	2,126,216
Services	**1,752,606**	1,572,907
Agriculture and food processing	**913,930**	745,248
Metal goods manufacturing	**874,896**	271,093
Industrial production	**492,549**	684,045
Individuals and entrepreneurs	**37,648**	64,912
Transport	**–**	320,736
Receivables from Islamic finance activities	**14,297,125**	14,724,953

(In thousands of tenge, unless otherwise indicated)

8. Loans to customers

As at 31 December, loans to customers comprise the following:

	2022	*2021*
Corporate lending	**31,803**	38,303
Gross loans to customers	**31,803**	38,303
Less: ECL allowance	**(31,803)**	(26,524)
Loans to customers	**–**	11,779

ECL allowance

An analysis of changes in the gross carrying value and corresponding ECL allowance in relation to corporate lending during the year ended 31 December 2022 is as follows:

Corporate lending	*Stage 3*	*Total*
Gross carrying value as at 1 January 2022	**38,303**	**38,303**
Assets repaid	**(6,500)**	**(6,500)**
As at 31 December 2022	**31,803**	**31,803**

Corporate lending	*Stage 3*	*Total*
ECL allowance as at 1 January 2022	**(26,524)**	**(26,524)**
Assets repaid	**6,500**	**6,500**
Impact on ECL of changes in inputs used for ECL calculations	**(11,779)**	**(11,779)**
As at 31 December 2022	**(31,803)**	**(31,803)**

An analysis of changes in the gross carrying value and corresponding ECL allowance in relation to corporate lending during the year ended 31 December 2021 is as follows:

Corporate lending	*Stage 3*	*Total*
Gross carrying value as at 1 January 2021	44,303	44,303
Assets repaid	(6,000)	(6,000)
As at 31 December 2021	38,303	38,303

Corporate lending	*Stage 3*	*Total*
ECL allowance as at 1 January 2021	(24,367)	(24,367)
Assets repaid	3,697	3,697
Impact on ECL of changes in inputs used for ECL calculations	(5,854)	(5,854)
As at 31 December 2021	(26,524)	(26,524)

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties, production equipment, inventory and other collateral.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the ECL allowance.

(In thousands of tenge, unless otherwise indicated)

8. Loans to customers (continued)

Collateral and other credit enhancements (continued)

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

	2022	*2021*
Loans to customers	–	11,779
	–	11,779

Concentration of loans to customers

As at 31 December 2022 and 2021, the Bank has no counterparties whose loan balances exceed 10% of the Bank's equity.

Loans to customers are made within the Republic of Kazakhstan in food processing industry sector.

9. Bank participation in Wakala and Mudaraba pool

Investments in Wakala and Mudaraba pool are investments of the Bank in assets financed by the Wakala and Mudaraba pool and are governed by the pool allocation and financing rules. Given the potential mismatch between assets and depositors' investments owing to early termination or maturity of respective deposits, shortages arising in a pool could be financed from the Bank's own funds. As at 31 December 2022, carrying amount of the Bank's participation in Wakala and Mudaraba pool was equal to KZT 238,894 thousand (as at 31 December 2021: KZT 818,108 thousand).

ECL allowance

An analysis of changes in the gross carrying value and corresponding ECL allowance in relation to the Bank's participation in Wakala and Mudaraba pool during the year ended 31 December 2022 is as follows:

Bank participation in Wakala and Mudaraba pool	*Stage 3*	*Total*
Gross carrying value as at 1 January 2022	**1,870,478**	**1,870,478**
Assets repaid	**(133,379)**	**(133,379)**
As at 31 December 2022	**1,737,099**	**1,737,099**

Bank participation in Wakala and Mudaraba pool	*Stage 3*	*Total*
ECL allowance as at 1 January 2022	**(1,052,370)**	**(1,052,370)**
Assets repaid	**73,455**	**73,455**
Impact on ECL of changes to models and inputs used for ECL calculations	**(519,290)**	**(519,290)**
As at 31 December 2022	**(1,498,205)**	**(1,498,205)**

An analysis of changes in the gross carrying value and corresponding ECL allowance in relation to the Bank's participation in Wakala and Mudaraba pool during the year ended 31 December 2021 is as follows:

Bank participation in Wakala and Mudaraba pool	*Stage 3*	*Total*
Gross carrying value as at 1 January 2021	2,588,352	2,588,352
Assets repaid	(717,874)	(717,874)
As at 31 December 2021	1,870,478	1,870,478

Bank participation in Wakala and Mudaraba pool	*Stage 3*	*Total*
ECL allowance as at 1 January 2021	(738,018)	(738,018)
Assets repaid	282,253	282,253
Impact on ECL of changes to models and inputs used for ECL calculations	(596,605)	(596,605)
As at 31 December 2021	(1,052,370)	(1,052,370)

An analysis of changes in the gross carrying value and corresponding ECL allowance in the tables above is presented on a pro rata basis based on the Bank's share of investments in the Wakala and Mudaraba pool.

(In thousands of tenge, unless otherwise indicated)

10. Property and equipment

Movements in property and equipment are as follows:

	Computers and office equipment	*Motor vehicles*	*Other*	*Total*
Cost				
As at 1 January 2021	33,137	–	44,737	77,874
Additions	8,663	–	53,982	62,645
Disposals	(385)	–	(735)	(1,120)
As at 31 December 2021	41,415	–	97,984	139,399
Additions	**1,254**	**15,940**	**1,449**	**18,643**
Disposals	**(11,415)**	**–**	**(4,868)**	**(16,283)**
As at 31 December 2022	**31,254**	**15,940**	**94,565**	**141,759**
Accumulated depreciation				
As at 1 January 2021	(12,981)	–	(15,815)	(28,796)
Charge for the year	(7,906)	–	(15,002)	(22,908)
Disposals	385	–	623	1,008
As at 31 December 2021	(20,502)	–	(30,194)	(50,696)
Charge for the year	**(7,721)**	**(2,125)**	**(22,574)**	**(32,420)**
Disposals	**11,329**	**–**	**4,257**	**15,586**
As at 31 December 2022	**(16,894)**	**(2,125)**	**(48,511)**	**(67,530)**
Net book value				
As at 1 January 2021	20,156	–	28,922	49,078
As at 31 December 2021	20,913	–	67,790	88,703
As at 31 December 2022	**14,360**	**13,815**	**46,054**	**74,229**

11. Right-of-use assets and lease liabilities

Movements in right-of-use assets and lease liabilities are as follows:

	Right-of-use assets	*Lease liabilities*
As at 1 January 2021	195,851	200,527
Additions	181,182	181,182
Disposals	(18,761)	(18,761)
Depreciation expense	(120,825)	–
Financial expense	–	26,050
Payments	–	(127,314)
As at 31 December 2021	237,447	261,684
Additions	**216,142**	**216,142**
Disposals	**(29,498)**	**(45,007)**
Depreciation expense	**(138,318)**	**–**
Financial expense	**–**	**29,113**
Payments	**–**	**(165,693)**
As at 31 December 2022	**285,773**	**296,239**

Right-of-use assets are represented by the Bank's right to use premises under lease agreements.

(In thousands of tenge, unless otherwise indicated)

12. Intangible assets

Movements in intangible assets are as follows:

	Computer software and licenses
Cost	
As at 1 January 2021	30,264
Additions	384,444
Disposals	(6,532)
As at 31 December 2021	408,176
Additions	**1,633**
As at 31 December 2022	**409,809**
Accumulated amortisation	
As at 1 January 2021	(12,302)
Charge for the year	(62,636)
Disposals	6,532
As at 31 December 2021	(68,406)
Charge for the year	**(82,437)**
As at 31 December 2022	**(150,843)**
Net book value	
As at 1 January 2021	17,962
As at 31 December 2021	339,770
As at 31 December 2022	**258,966**

13. Inventory

As at 31 December 2022 and 2021, inventories comprise real estate property repossessed by the Bank from a borrower who failed to meet its obligations to repay a loan to the Bank.

14. Taxation

Corporate income tax (benefit)/expense comprises the following:

	2022	*2021*
Current corporate income tax charge	–	43,949
Deferred corporate income tax (benefit)/charge – origination and reversal of temporary differences	**(108,871)**	58,450
Corporate income tax (benefit)/expense	**(108,871)**	102,399

The Republic of Kazakhstan is the only tax jurisdiction in which the Bank's income is taxable. In accordance with tax legislation the applied corporate income tax rate is 20% in 2022 and 2021.

As at 31 December 2022, current corporate income tax assets comprised KZT 65,375 thousand (as at 31 December 2021: KZT 42,363 thousand).

(In thousands of tenge, unless otherwise indicated)

14. Taxation (continued)

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

	2022	*2021*
(Loss)/profit before corporate income tax expense	**(1,051,260)**	262,163
Statutory tax rate	**20%**	20%
Theoretical corporate income tax (benefit)/expense at the statutory rate	**(210,252)**	52,433
Non-taxable income	**(3,692)**	–
Non-deductible credit loss expense	**3,142**	45,656
Non-deductible administrative expenses	**2,291**	29
Other non-deductible expenses	**15,133**	4,281
Change in unrecognised deferred tax assets	**84,507**	–
Corporate income tax (benefit)/expense	**(108,871)**	102,399

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

	2020	*Origination and reversal of temporary differences in profit or loss*	*2021*	*Origination and reversal of temporary differences in profit or loss*	*2022*
Tax effect of deductible temporary differences					
Tax losses carried forward	–	–	–	**84,507**	**84,507**
Receivables from Islamic finance activities	19,738	(19,738)	–	**89,377**	**89,377**
Lease liabilities	40,106	12,231	52,337	**6,911**	**59,248**
Accounts receivable	20,117	(3,357)	16,760	**(3,140)**	**13,620**
Accrued expenses on unused vacations	3,461	1,081	4,542	**667**	**5,209**
Accrued expenses on professional services	1,662	2,640	4,302	**492**	**4,794**
Property and equipment and intangible assets	696	(696)	–	**–**	**–**
Other taxes	1,778	943	2,721	**367**	**3,088**
	87,558	(6,896)	80,662	**179,181**	**259,843**
Unrecognised deferred tax asset	–	–	–	**(84,507)**	**(84,507)**
Deferred corporate income tax assets	87,558	(6,896)	80,662	**94,674**	**175,336**
Tax effect of taxable temporary differences					
Receivables from Islamic finance activities	–	(24,346)	(24,346)	**24,346**	**–**
Property and equipment and intangible assets	–	(18,890)	(18,890)	**(483)**	**(19,373)**
Right-of-use assets	(39,171)	(8,318)	(47,489)	**(9,666)**	**(57,155)**
Deferred corporate income tax liabilities	(39,171)	(51,554)	(90,725)	**14,197**	**(76,528)**
Net deferred corporate income tax assets/(liabilities)	48,387	(58,450)	(10,063)	**108,871**	**98,808**

(In thousands of tenge, unless otherwise indicated)

15. Other assets and liabilities

As at 31 December other assets comprise the following:

	2022	*2021*
Other financial assets		
Accounts receivable on guarantees	**399,771**	404,158
Receivables from sale of inventory	**118,603**	125,226
Guarantee deposit	**25,000**	25,000
Commissions receivables	**7,176**	15,883
Other financial assets	**11,188**	230,694
	561,738	800,961
Less: ECL allowance	**(317,661)**	(219,834)
Total other financial assets	**244,077**	581,127
Other non-financial assets		
Prepaid expenses on software and information and consulting services	**350,264**	301,859
Prepayments for other goods and services	**7,445**	3,543
Other	**4,577**	795
	362,286	306,197
Less: allowance for impairment of other non-financial assets (*Note 21*)	**(298,653)**	–
Total other non-financial assets	**63,633**	306,197
Other assets	**307,710**	887,324

An analysis of changes in ECL allowance in relation to other financial assets during the year ended 31 December 2022 is as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
ECL allowance as at 1 January 2022	**(1,797)**	**(9,444)**	**(208,593)**	**(219,834)**
Net change in ECL during the year (*Note 21*)	**684**	**1,410**	**(99,921)**	**(97,827)**
As at 31 December 2022	**(1,113)**	**(8,034)**	**(308,514)**	**(317,661)**

An analysis of changes in ECL allowance in relation to other financial assets during the year ended 31 December 2021 is as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
ECL allowance as at 1 January 2021	(1,485)	–	(97,699)	(99,184)
Net change in ECL during the year (*Note 21*)	(312)	(9,444)	(110,894)	(120,650)
As at 31 December 2021	(1,797)	(9,444)	(208,593)	(219,834)

As at 31 December, other liabilities comprise the following:

	2022	*2021*
Other financial liabilities		
Professional fees payable	**33,600**	21,510
Total other financial liabilities	**33,600**	21,510
Other non-financial liabilities		
Deferred income	**110,817**	182,205
Accrued unused vacations expenses	**26,045**	22,710
Charity payable	**719**	1,856
Other	**26,296**	56,413
Total other non-financial liabilities	**163,877**	263,184
Other liabilities	**197,477**	284,694

16. Amounts due to credit institutions

As at 31 December 2022, amounts due to credit institutions comprise amounts held on current accounts of foreign banks totalling to KZT 724,993 thousand (as at 31 December 2021: KZT 780,866 thousand).

(In thousands of tenge, unless otherwise indicated)

17. Amounts due to customers

As at 31 December, amounts due to customers comprise the following:

	2022	*2021*
Current accounts	**16,684,670**	6,321,191
Time deposits	**1,780,086**	2,271,566
Amounts due to customers	**18,464,756**	8,592,757
Held as collateral against guarantees (*Note 19*)	**1,780,086**	2,271,566

As at 31 December 2022, amounts due to customers of KZT 17,180,924 thousand (93.05% of total amounts due to customers) were due to the ten largest customers (as at 31 December 2021: KZT 6,940,534 thousand (80.77% of total amounts due to customers)). As at 31 December 2022, the total amounts due to the three largest customers comprised KZT 14,945,842 thousand (80.94%), including amounts placed by one customer in the amount of KZT 10,916,541 thousand (59.12%).

In January 2023, the customer withdrawn the funds in full from its current accounts for investment purposes.

In 2022, gain from foreign currency conversion on transactions of this customer recorded in net gains from foreign currencies (dealing) amounted to KZT 243,595 thousand.

As at 31 December, amounts due to customers comprise the following:

	2022	*2021*
Current accounts		
Private enterprises	**16,501,560**	6,289,109
Individuals	**183,110**	32,082
	16,684,670	6,321,191
Time deposits		
Private enterprises	**1,780,086**	2,271,566
	1,780,086	2,271,566
Amounts due to customers	**18,464,756**	8,592,757

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

	2022	*2021*
Transport and communication	**11,016,618**	19,456
Construction	**4,779,436**	5,865,900
Industrial production	**1,639,140**	1,460,545
Power generation	**263,033**	167,998
Trade	**222,893**	204,173
Individuals	**183,110**	32,082
Fuel industry	**4,022**	702,559
Finance leasing	**801**	81
Agriculture	**79**	55
Other	**355,624**	139,908
Amounts due to customers	**18,464,756**	8,592,757

18. Equity

As at 31 December 2022 and 2021 authorised and outstanding 10,000,000 common shares are issued and fully paid by the shareholders of the Bank at placement value of KZT 1,005 per common share.

The share capital of the Bank was contributed by the shareholders in tenge, and they are entitled to dividends and any capital distribution in tenge. Each common share entitles to one vote. In 2022 and 2021, no dividends were declared or paid.

19. Commitments and contingencies

Political and economic environment

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

(In thousands of tenge, unless otherwise indicated)

19. Commitments and contingencies (continued)

Political and economic environment (continued)

In 2022, the volatility of world crude oil prices and the depreciation of tenge against the US dollar and the euro continued to negatively affect the Kazakhstan economy. Profit rates of attracting funds in tenge remain high. Combination of these factors resulted in limited access to capital, a high cost of capital and increased uncertainty regarding further economic growth, which could negatively affect the Bank's future financial position, results of operations and business prospects. The management of the Bank believes it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances.

Legal actions and claims

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

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

Tax contingencies

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

Kazakhstan legislation and tax practices are continually evolving and are therefore subject to varying interpretations and frequent changes that may be retroactive. In certain cases, in order to determine the tax base, tax legislation refers to the provisions of IFRS, whereas the interpretation of the respective provisions of IFRS by the Kazakh tax authorities may differ from accounting policies, judgements and estimates applied by the management in preparation of these financial statements, which may result in additional tax liabilities for the Bank. The tax authorities may perform a retrospective tax audit during five years after the ending of the tax year.

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

Financial commitments and contingencies

As at 31 December, the Bank's financial commitments and contingencies comprise the following:

	2022	*2021*
Credit related commitments		
Guarantees issued	**9,327,559**	11,389,019
Undrawn commitments on receivables from Islamic finance activities	**1,033,733**	706,342
	10,361,292	12,095,361
Amounts due to customers held as collateral against guarantees issued (*Note 17*)	**(1,780,086)**	(2,271,566)
Provisions for ECL for credit related commitments	**(647,101)**	(629,588)

The finance commitments agreements stipulate the right of the Bank to unilaterally withdraw from the agreement should any conditions unfavourable to the Bank arise, including breach of contracts by borrowers, worsening of their financial performance and other conditions.

(In thousands of tenge, unless otherwise indicated)

19. Commitments and contingencies (continued)

Financial commitments and contingencies (continued)

An analysis of changes in the ECL allowance during the year ended 31 December 2022 is as follows:

Guarantees issued	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL allowance as at 1 January 2022	**(362,820)**	**(33,511)**	**(177,085)**	**(573,416)**
New assets originated or purchased	**(112,203)**	–	–	**(112,203)**
Assets repaid	**195,853**	**33,511**	**35,467**	**264,831**
Transfers to Stage 2	**13,528**	**(13,528)**	–	–
Transfers to Stage 3	**6,765**	–	**(6,765)**	–
Net change in ECL during the year	**39,237**	**(895)**	**(237,101)**	**(198,759)**
As at 31 December 2022	**(219,640)**	**(14,423)**	**(385,484)**	**(619,547)**

Undrawn commitments on receivables from Islamic finance activities	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL allowance as at 1 January 2022	**(21,477)**	–	**(34,695)**	**(56,172)**
New assets originated or purchased	**(6,659)**	–	–	**(6,659)**
Assets repaid	**952**	–	**34,426**	**35,378**
Net change in ECL during the year	**127**	–	**(228)**	**(101)**
As at 31 December 2022	**(27,057)**	–	**(497)**	**(27,554)**

An analysis of changes in the ECL allowance during the year ended 31 December 2021 is as follows:

Guarantees issued	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL allowance as at 1 January 2021	(78,676)	(15,930)	(573,760)	(668,366)
New assets originated or purchased	(440,847)	–	–	(440,847)
Assets repaid	65,648	345,697	206,757	618,102
Transfers to Stage 2	–	(361,980)	361,980	–
Transfers to Stage 3	172,062	–	(172,062)	–
Net change in ECL during the year	(81,007)	(1,298)	–	(82,305)
As at 31 December 2021	(362,820)	(33,511)	(177,085)	(573,416)

Undrawn commitments on receivables from Islamic finance activities	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL allowance as at 1 January 2021	(7,207)	–	(6,550)	(13,757)
New assets originated or purchased	(33,981)	–	–	(33,981)
Assets repaid	2,038	–	–	2,038
Transfers to Stage 3	19,970	–	(19,970)	–
Net change in ECL during the year	(2,297)	–	(8,175)	(10,472)
As at 31 December 2021	(21,477)	–	(34,695)	(56,172)

(In thousands of tenge, unless otherwise indicated)

19. Commitments and contingencies (continued)

Trust activities

The Bank acts in agent capacity for investing amounts received under Wakala and acts as a Mudarib in Mudaraba agreements as follows:

	2022	*2021*
Mudaraba		
Unutilised portion of Mudaraba deposits as at 1 January	**73,366**	132,545
Deposits received	**579,663**	846,539
Deposits withdrawn	**(325,730)**	(905,718)
Translation differences	**755**	–
Unutilised portion of Mudaraba deposits as at 31 December	**328,054**	73,366
Profit accrued on receivables from Islamic finance activities	**–**	15,920
Profit attributable to customers on Wakala and Mudaraba deposits	**–**	427

The Bank carries no risk for utilised portion of Wakala and Mudaraba deposits except when the deposits are lost due to misconduct, negligence or violation of the conditions agreed upon by the Bank, in which case, such losses would be borne by the Bank.

20. Revenue from Commodity Murabaha agreements

In 2022, revenue from Commodity Murabaha agreements comprised KZT 1,386,932 thousand (in 2021: KZT 1,219,992 thousand), including net modification loss arising from changes in contractual cash flows under Commodity Murabaha agreements not resulting in derecognition of KZT 310,714 thousand (in 2021: KZT 147,900 thousand).

21. Credit loss expense and other impairment

The table below shows the ECL charges on financial instruments recognised in profit or loss for the year ended 31 December 2022:

	Note	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Cash and cash equivalents	6	**22,416**	**(20,301)**	**(12,901)**	**–**	**(10,786)**
Receivables from Islamic finance activities	7	**(524,845)**	**1,311,185**	**(1,344,256)**	**(333,849)**	**(891,765)**
Loans to customers	8	**–**	**–**	**(5,279)**	**–**	**(5,279)**
Bank participation in Wakala and Mudaraba pool	9	**–**	**–**	**(445,835)**	**–**	**(445,835)**
Other financial assets	15	**684**	**1,410**	**(99,921)**	**–**	**(97,827)**
Credit related commitments	19	**117,307**	**32,616**	**(167,436)**	**–**	**(17,513)**
		(384,438)	**1,324,910**	**(2,075,628)**	**(333,849)**	**(1,469,005)**

The table below shows the ECL charges on financial instruments recognised in profit or loss for the year ended 31 December 2021:

	Note	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Cash and cash equivalents	6	(24,168)	–	–	–	(24,168)
Receivables from Islamic finance activities	7	(520,934)	(72,137)	156,870	(60,205)	(496,406)
Loans to customers	8	–	–	(2,157)	–	(2,157)
Bank participation in Wakala and Mudaraba pool	9	–	–	(314,352)	–	(314,352)
Other financial assets	15	(312)	(9,444)	(110,894)	–	(120,650)
Credit related commitments	19	(490,446)	344,399	198,582	–	52,535
		(1,035,860)	262,818	(71,951)	(60,205)	(905,198)

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

	2022	*2021*
As at 1 January	**–**	–
Charge	**(298,653)**	–
As at 31 December	**(298,653)**	–

(In thousands of tenge, unless otherwise indicated)

22. Net fee and commission income

Net fee and commission income comprise the following:

	2022	*2021*
Guarantees issued	**613,924**	482,448
Cash operations	**73,899**	11,813
Transfer operations	**23,831**	34,851
Customer accounts maintenance	**5,456**	3,271
Agency fee under Wakala and Mudarib share of profit under Mudaraba agreements (*Note 19*)	**–**	15,493
Other	**4,428**	5,462
Fee and commission income	**721,538**	553,338
Transfer operations	**(10,539)**	(9,864)
Other	**(75,934)**	(104,295)
Fee and commission expenses	**(86,473)**	(114,159)
Net fee and commission income	**635,065**	439,179

23. Personnel and other operating expenses

Personnel and other operating expenses comprise the following:

	2022	*2021*
Salaries and bonuses	**401,383**	359,236
Social security costs	**46,778**	37,248
Personnel expenses	**448,161**	396,484
Depreciation and amortisation (*Notes 10, 11* and *12*)	**253,175**	206,369
Technical support and software	**63,417**	69,192
Taxes other than corporate income tax	**41,269**	44,170
Professional services	**33,744**	42,967
Communication	**33,328**	31,554
Security	**29,321**	24,343
Business trips	**14,027**	11,351
Encashment	**11,087**	20,464
Utilities	**8,002**	7,697
Membership fees	**6,187**	15,767
Office supplies	**5,236**	2,553
Rent	**4,715**	5,803
Repair and maintenance	**3,893**	9,964
Advertising and marketing	**2,385**	840
Transportation	**2,172**	1,490
Representative expenses	**248**	145
Other	**69,258**	51,211
Other operating expenses	**581,464**	545,880

24. Risk management

Introduction

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

The independent risk control process does not include business risks such as changes in the environment, technology, and industry. They are monitored through the Bank's strategic planning process.

24. Risk management (continued)

Introduction (continued)

Risk management process comprises identification, measuring, control and limitation of risks that are carried out by the Bank on a regular basis.

Risk management structure

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

Board of Directors

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

Management Board

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

Risk management

The Risk Management Department is responsible for implementing and maintaining risk related procedures to ensure an independent control process.

The main purpose of the Department is generating and functioning of the Bank's effective risk management system providing application of methods of risk detection and control, ensuring effective determination, evaluation and limitation of the Bank's risks considering the type and scope of transactions conducted by the Bank. This unit also ensures the complete capture of the risks in risk measurement and reporting systems.

Bank Treasury

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

Internal audit

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

Risk measurement and reporting systems

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

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

Information compiled from all the businesses is examined and processed in order to analyse, control, and identify early risks. This information is presented and explained to the Management Board and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. Credit committee assesses the appropriateness of the allowance for credit losses on a monthly basis. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

24. Risk management (continued)

Introduction (continued)

Risk measurement and reporting systems (continued)

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

The Management Board holds weekly meetings with the participation of heads and other relevant employees of the Bank to discuss activities to maintain the acceptable level of risk. When there are identified cases of increase in risks and/or violation of the risk limit the meeting is held more frequently.

Risk mitigation

As part of its overall risk management, the Bank monitors its exposures resulting from changes in profit rates, foreign currencies, credit risks, and exposures arising from forecast transactions.

The Bank actively uses collateral to reduce its credit risks (see below for more details).

Excessive risk concentration

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

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

Credit risk

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

Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Credit-related commitments risks

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

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

For more details on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is presented in *Note 7* "Receivables from Islamic finance activities", *Note 8* "Loans to customers", *Note 9* "Bank participation in Wakala and Mudaraba pool" and *Note 19* "Commitments and contingencies".

(In thousands of tenge, unless otherwise indicated)

24. Risk management (continued)

Credit risk (continued)

Impairment assessment

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

PD — The *Probability of Default* is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period if the facility has not been previously derecognised and is still in the portfolio.

EAD — The *Exposure at Default* is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and profit, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued fines from missed payments.

LGD — The *Loss Given Default* is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

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

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

Stage 1: When finance instruments are first recognised, the Bank recognises an allowance based on 12mECL. Stage 1 finance instruments also include facilities where the credit risk has improved, and the finance instruments have been reclassified from Stage 2.

Stage 2: When finance instruments have shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL. Stage 2 finance instruments also include facilities, where the credit risk has improved, and the finance instruments have been reclassified from Stage 3.

Stage 3: Finance instruments considered credit-impaired. The Bank records an allowance for the LTECL.

POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and profit revenue is subsequently recognised based on a credit-adjusted effective profit rate. ECL are only recognised or released to the extent that there is a subsequent change in the lifetime ECL.

Definition of default and cure

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 60 days past due on its contractual payments. The Bank considers amounts due from banks defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

24. Risk management (continued)

Credit risk (continued)

Definition of default and cure (continued)

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

- Internal rating of the borrower indicating default or near-default;
- Write-off of a portion and/or the entire outstanding amount of the borrower, which was caused by a significant increase in credit risk since financing has been provided;
- A material decrease in the underlying collateral value where the recovery of the finance instruments is expected from the sale of the collateral;
- Restructuring due to deterioration of the financial condition of the borrower;
- Availability of reasonable and reliable information about the significant financial difficulties of the debtor; and
- The debtor filing for bankruptcy.

It is the Bank's policy to consider a financial instrument as "cured" and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least twelve consecutive months or when rating of the finance instruments has changed for the better. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

Internal rating and PD estimation process

Rating of the financial instrument's quality by borrowers is based on the creditworthiness category (assigned based on the results of analysis of the financial and economic condition of the borrower) to secure financing (collateral), according to the business plan provided (except for retail financing). In addition, the following factors are taken into account: the term of financing, the availability of the client's own funds in the financed project, area of activities, the life of the enterprise, the existence of accounts payable to other enterprises, the borrower's credit history and repayment discipline on current obligations.

Depending on the assigned internal credit ratings, a financial instrument is distributed by Stages of impairment for further calculation of ECL taking into account such factors as the presence of the current overdue days, the number of restructurings, the availability of a grace period, information on the intended use/misuse, information on significant financial difficulties, seizures, etc.

Treasury and interbank relationships

The Bank had no treasury relationship, which included relations with counterparties, such as broker-dealers, stock exchanges and clearing organisations in the reporting year. In the event of occurrence of these relations, the analysis is carried out by the Bank's Treasury.

Borrowers are assessed by the Bank depending on the type of a financial instrument (corporate/retail). Valuation model is used for corporate finance instruments, including that one based on the borrower's accounting data, a forecast of future cash flows, the presented business plan. The borrowers' credit scoring model is used for evaluation of a retail financial instrument.

Corporate financing

In corporate financing, borrowers are consistently assessed by the Lending Department, Legal Department and Risk Management Department. Risk assessment is based on various data, such as the financial condition of the borrower, financing collateral, period of financing, assessment of the presented business plan, availability of the borrower's own funds in the financed project, area of activity, period of existence of the enterprise, accounts payable to other enterprises, credit history of the borrower and repayment discipline on current obligations. The borrower's financial condition is evaluated based on the cash flow forecast, historical financial information, calculation of the probability of bankruptcy, calculation of current financial ratios, such as liquidity ratios, financial leverage (solvency), profitability and debt service.

(In thousands of tenge, unless otherwise indicated)

24. Risk management (continued)

Credit risk (continued)

Corporate financing (continued)

The Bank's internal credit rating grades are as follows:

Internal rating grade	*International external rating agency*	*Internal rating description*	*Lifetime PD*
91-150	Not relevant	Reliable borrower	5%-13%
71-90	Not relevant	Borrower with minimum risk	5%-32%
56-70	Not relevant	Borrower with medium risk	6%-32%
41-55	Not relevant	Borrower with high risk	100%
40 and below	Not relevant	Borrower with unacceptable risk	100%

Retail financing

Retail financing includes secured receivables from Islamic financing to individuals. Evaluation of this product is also carried out by assigning the internal rating grade, which is based on the scoring results supported by various qualitative and quantitative characteristics of the borrower, as well as taking into account the analysis of the borrower's financial and economic condition, collateral, the borrower's own funds in the financed project, repayment discipline on current obligations. The number of overdue days for each loan is a key factor in calculating the impairment.

Exposure at default

The exposure at default (EAD) represents the gross carrying value of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too. To calculate the EAD for Stage 1 financial instruments, the Bank assesses the possible default events within 12 months for the calculation of the 12mECL. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

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

Loss given default

In the event of commercial financing, the LGD indicator is evaluated monthly by the Department for Analysis and Administration of Credit and Deposit Operations and is reviewed by the Bank's Risk Management Department.

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

The Bank segments its lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics. In the absence of loss data for the past periods, it is allowed to use data for similar groups of financial instruments from second-tier banks of Kazakhstan.

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

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

24. Risk management (continued)

Credit risk (continued)

Significant increase in credit risk

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition. The Bank considers an exposure to have significantly increased in credit risk since initial recognition, if one or more indicators of significant financial difficulties of the borrower were identified:

For legal entities:

- The growing trend of losses for the previous 12-month period;
- The adverse value of ratios calculated in accordance with the internal regulatory document, indicating a low level of solvency, high dependence on borrowed funds;
- The presence of negative equity;
- Decrease in cash flows from the main type of activities (over 3 or more reporting periods (quarters), which indicates a decrease in market share, lack of the Bank's confidence that the measures taken by the borrower (debtor, co-borrower) are effective for stabilising the financial condition;
- Provision of financing to the borrower (debtor, co-borrower) for the purpose of repayment of previously provided financing due to deterioration in financial condition of the borrower (debtor, co-borrower).

For legal entities with intended use of financial resources "investment objectives" (investment financing):

- Significant deterioration in the financial condition of the borrower (co-borrower);
- The measures taken by the borrower (co-borrower) are not effective for stabilising the financial condition;
- Bailout for a period not exceeding 1 (one) year;
- The presence of force majeure, as well as other circumstances that caused the borrower (co-borrower) material damage (in the amount of 6 or more average monthly proceeds from the borrower's main activity), but did not entail the termination of its activities.

The Bank also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a borrower/financial instrument to the watch list, or the account becoming restructured due to credit event. In certain cases, the Bank may also consider that events explained in "Definition of default" section above are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

When estimating ECLs on a collective basis for a group of similar assets, the Bank applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

Grouping financial assets measured on a collective basis

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

An individual financial asset is an asset whose gross carrying value at the balance sheet date exceeds 0.2% of equity according to the financial statements, but is not less than fifty million tenge, or a financial asset that represents receivables from a related party.

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

- All Stage 3 assets, regardless of the class of financial assets;
- Exposures that have been classified as POCI when the original financing was derecognised and a new financing was recognised as a result of a credit driven debt restructuring.

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

- Stage 1 and 2 retail and corporate lending portfolios.

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

(In thousands of tenge, unless otherwise indicated)

24. Risk management (continued)

Credit risk (continued)

Forward-looking information and multiple economic scenarios

In its ECL models, the Bank relies on forward-looking information of GDP growth for the next year as economic inputs.

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

The Bank adjusts the value of the macroeconomic indicator in order to smooth out the effect of historical fluctuations by normalising the current value of GDP growth based on the average value of GDP for the current year and the standard deviation of the historical value of GDP. When calculating ECL as at 31 December 2022, the Bank used a forecast value for 2022 of -0.063 after adjustment.

The Bank obtains the forward-looking information from third party sources (external rating agencies, governmental bodies e.g., central banks, statistical agencies, reputable analytical agencies). The analysis of this indicator is carried out by experts of the Bank's Risk Management Department.

Key drivers	*ECL scenario*	*Value*	*Period*
GDP growth, %	Base case	4.8	2012
		6.0	2013
		4.2	2014
		1.2	2015
		1.1	2016
		4.1	2017
		4.1	2018
		4.5	2019
		(2.1)	2020
		3.7	2021
		2.5	2022

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank internal credit ratings, as described above. The table below shows the credit quality by class of financial assets and credit related commitments, based on the Bank's credit rating system as at 31 December 2022:

	Notes		*Borrower with minimum risk*	*Borrower with medium risk*	*Borrower with high risk*	*Borrower with unacceptable risk*	*Total*
Cash and cash equivalents, except for cash on hand	6						
		Stage 1	14,585,733	–	–	–	14,585,733
		Stage 2	–	721,628	–	–	721,628
		Stage 3	–	–	–	3,241	3,241
Receivables from Islamic finance activities:	7						
Commodity Murabaha – corporate		Stage 1	31,507	–	–	–	31,507
		Stage 2	–	10,444,425	–	–	10,444,425
		Stage 3	–	–	1,918,353	1,420,633	3,338,986
		POCI	–	–	447,670	–	447,670
Qard Hassan		Stage 1	20,343	–	–	–	20,343
Commodity Murabaha – retail		Stage 1	9,282	–	–	–	9,282
		Stage 2	–	4,090	–	–	4,090
		Stage 3	–	–	822	–	822
Loans to customers:	8						
Corporate lending		Stage 3	–	–	–	–	–
Bank participation in Wakala and Mudaraba pool	9	Stage 3	–	–	–	238,894	238,894
Other financial assets		Stage 1	59,276	–	–	–	59,276
		Stage 2	–	91,462	–	–	91,462
	15	Stage 3	–	–	92,434	905	93,339
Financial guarantees		Stage 1	8,181,085	–	–	–	8,181,085
		Stage 2	–	299,734	–	–	299,734
	19	Stage 3	–	–	227,193	–	227,193
Undrawn commitments on receivables from Islamic finance activities		Stage 1	1,005,687	–	–	–	1,005,687
	19	Stage 3	–	–	–	492	492
Total			23,892,913	11,561,339	2,686,472	1,664,165	39,804,889

(In thousands of tenge, unless otherwise indicated)

24. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets (continued)

The table below shows the credit quality by class of financial assets and credit related commitments, based on the Bank's credit rating system as at 31 December 2022:

	Notes		*Borrower with minimum risk*	*Borrower with medium risk*	*Borrower with high risk*	*Borrower with unacceptable risk*	*Total*
Cash and cash equivalents, except for cash on hand	6						
		Stage 1	5,879,147	–	–	–	5,879,147
Receivables from Islamic finance activities:	7						
Commodity Murabaha – corporate		Stage 1	990,535	–	–	–	990,535
		Stage 2	–	5,729,606	3,804,544	–	9,534,150
		Stage 3	–	–	3,508,622	271,881	3,780,503
		POCI	–	–	357,130	–	357,130
Qard Hassan		Stage 1	38,217	–	–	–	38,217
Commodity Murabaha – retail		Stage 1	20,157	–	–	–	20,157
		Stage 2	–	4,261	–	–	4,261
Loans to customers:	8						
Corporate lending		Stage 3	–	–	–	11,779	11,779
Bank participation in Wakala and Mudaraba pool	9	Stage 3	–	–	298,554	519,554	818,108
		Stage 1	321,681	–	–	–	321,681
Other financial assets		Stage 2	–	63,882	–	–	63,882
	15	Stage 3	–	–	54,382	141,182	195,564
		Stage 1	10,107,043	–	–	–	10,107,043
Financial guarantees		Stage 2	–	277,351	–	–	277,351
	19	Stage 3	–	–	431,209	–	431,209
Undrawn commitments on receivables from Islamic finance activities		Stage 1	599,777	–	–	–	599,777
	19	Stage 3	–	–	37,435	12,958	50,393
Total			17,956,557	6,075,100	8,491,876	957,354	33,480,887

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

(In thousands of tenge, unless otherwise indicated)

24. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets (continued)

The geographical concentration of the Bank's financial assets and liabilities as at 31 December is set out below:

	2022			2021		
	Kazakhstan	*Other countries*	*Total*	*Kazakhstan*	*Other countries*	*Total*
Assets						
Cash and cash equivalents	**16,179,945**	**736,017**	**16,915,962**	3,065,254	3,244,592	6,309,846
Receivables from Islamic finance activities	**14,297,125**	**–**	**14,297,125**	14,724,953	–	14,724,953
Loans to customers	**–**	**–**	**–**	11,779	–	11,779
Bank participation in Wakala and Mudaraba pool	**238,894**	**–**	**238,894**	818,108	–	818,108
Other financial assets	**244,077**	**–**	**244,077**	581,127	–	581,127
Total financial assets	**30,960,041**	**736,017**	**31,696,058**	19,201,221	3,244,592	22,445,813
Liabilities						
Amounts due to credit institutions	**–**	**724,993**	**724,993**	–	780,866	780,866
Amounts due to customers	**16,594,882**	**1,869,874**	**18,464,756**	6,960,147	1,632,610	8,592,757
Amounts due to Wakala and Mudaraba pool	**328,054**	**–**	**328,054**	73,366	–	73,366
Provisions for commitments and contingencies	**647,101**	**–**	**647,101**	629,588	–	629,588
Lease liabilities	**296,239**	**–**	**296,239**	261,684	–	261,684
Other financial liabilities	**33,600**	**–**	**33,600**	21,510	–	21,510
Total financial liabilities	**17,899,876**	**2,594,867**	**20,494,743**	7,946,295	2,413,476	10,359,771
Net position	**13,060,165**	**(1,858,850)**	**11,201,315**	11,254,926	831,116	12,086,042

Credit related assets and liabilities have been presented based on the country in which the counterparty is located. Cash on hand has been allocated based on the country in which they are physically held. Other countries include the Russian Federation, EU countries and Turkey.

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base. Management also manages assets with liquidity in mind and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high-grade collateral which could be used to secure additional funding if required.

The Treasury is the main body for managing the current liquidity of the Bank, as well as constant monitoring of the Bank's balance sheet liquidity and any changes thereof. The Bank's liquidity analysis is performed by the Treasury on a monthly basis, and the results are communicated to all members of the Asset and Liability Management Committee (ALMC).

(In thousands of tenge, unless otherwise indicated)

24. Risk management (continued)

Liquidity risk and funding management (continued)

The Bank uses internal methodologies to analyse the Bank's liquidity.

The ALMC performs weekly monitoring of liquidity risk by future expected cash flows – gap liquidity analysis. When the liquidity indicators worsen, the ALMC identifies the reasons and determines the strategy to mitigate the risk. The Risk Management Department performs regularly monitoring of compliance with the liquidity requirements determined by the Liquidity Management Policy, such as immediate, current, short-term, common, and expected liquidity ratios.

The Board of Directors and Management Board of the Bank receive information from the ALMC on the Bank's liquidity position at least once a month and, when the current or expected liquidity positions worsen, on immediately basis.

Analysis of financial liabilities by remaining contractual maturities

The tables below summarise the maturity profile of the Bank's financial liabilities at 31 December based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay, and the tables do not reflect the expected cash flows indicated by the Bank's deposit retention history.

	2022				
Financial liabilities	*Less than 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*Over 5 years*	*Total*
Amounts due to credit institutions	**724,993**	**–**	**–**	**–**	**724,993**
Amounts due to customers	**16,690,670**	**54,800**	**1,689,286**	**30,000**	**18,464,756**
Amounts due to Wakala and Mudaraba pool	**328,054**	**–**	**–**	**–**	**328,054**
Lease liabilities	**34,793**	**104,379**	**218,854**	**–**	**358,026**
Other financial liabilities	**–**	**33,600**	**–**	**–**	**33,600**
Total undiscounted financial liabilities	**17,778,510**	**192,779**	**1,908,140**	**30,000**	**19,909,429**

	2021				
Financial liabilities	*Less than 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*Over 5 years*	*Total*
Amounts due to credit institutions	780,866	–	–	–	780,866
Amounts due to customers	6,607,387	–	1,955,370	30,000	8,592,757
Amounts due to Wakala and Mudaraba pool	73,366	–	–	–	73,366
Lease liabilities	40,643	113,840	135,109	–	289,592
Other financial liabilities	21,510	–	–	–	21,510
Total undiscounted financial liabilities	7,523,772	113,840	2,090,479	30,000	9,758,091

Amounts due to customers are allocated by contractual maturities, despite the fact that they can be withdrawn at short notice.

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

(In thousands of tenge, unless otherwise indicated)

24. Risk management (continued)

Liquidity risk and funding management (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)

The table below shows the contractual expiry by maturity of the Bank's financial commitments and contingencies. Each undrawn commitment on receivables from Islamic finance activities is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	2022				
	Less than 3 months	*From 3 to 12 months*	*From 1 to 5 years*	*Over 5 years*	*Total*
Guarantees issued	**9,327,559**	**–**	**–**	**–**	**9,327,559**
Undrawn commitments on receivables from Islamic finance activities	**1,032,750**	**–**	**983**	**–**	**1,033,733**
	10,360,309	**–**	**983**	**–**	**10,361,292**

	2021				
	Less than 3 months	*From 3 to 12 months*	*From 1 to 5 years*	*Over 5 years*	*Total*
Guarantees issued	11,389,019	–	–	–	11,389,019
Undrawn commitments on receivables from Islamic finance activities	705,359	–	983	–	706,342
	12,094,378	–	983	–	12,095,361

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

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as profit rates, foreign exchanges, and equity prices. The Bank has exposures to market risk for non-trading portfolios. Non-trading positions are managed and monitored using sensitivity analysis. Except for the concentrations within foreign currency, the Bank has no significant concentration of market risk.

Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future cash flows or the fair values of financial instruments. The Bank's exposure to profit rate risk is not significant as the Bank borrows and places its funds with fixed rates.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board has set limits on positions by currency based on the NBRK regulations related to the activities of the second-tier banks.

(In thousands of tenge, unless otherwise indicated)

24. Risk management (continued)

Market risk (continued)

Currency risk (continued)

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

	2022		*2021*	
Currency	*Increase in currency rate, in %*	*Effect on profit before tax*	*Increase in currency rate, in %*	*Effect on profit before tax*
US dollar	**21.00%**	**84,688**	+13%	311,073
Euro	**17.99%**	**(41,480)**	+13%	(6,519)
Russian ruble	**22.05%**	**25,347**	+13%	(189,382)
Renminbi	**22.19%**	**25,521**	+13%	–

	2022		*2021*	
Currency	*Decrease in currency rate, in %*	*Effect on profit before tax*	*Decrease in currency rate, in %*	*Effect on profit before tax*
US dollar	**-21.00%**	**(84,688)**	-10%	(239,287)
Euro	**-17.99%**	**41,480**	-10%	5,014
Russian ruble	**-22.05%**	**(25,347)**	-13%	189,382
Renminbi	**-22.19%**	**(25,521)**	-10%	–

Operational risk

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

25. Fair value measurements

Fair value hierarchy

At each reporting date, management of the Bank analyses the movements in values of assets and liabilities which are required to be re-measured or re-assessed as per the Bank's accounting policies. For this analysis, management of the Bank verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. Management of the Bank, in conjunction with the Bank's external appraisers, also compares each change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

(In thousands of tenge, unless otherwise indicated)

25. Fair value measurements (continued)

Fair value hierarchy (continued)

For the purpose of fair value disclosures, the Bank determined classes of assets and liabilities based on the nature, characteristics and risks of those assets or liabilities and the level of the fair value hierarchy.

		Fair value measurement using			
2022	*Date of valuation*	*Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant non-observable inputs (Level 3)*	*Total*
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2022	**1,605,360**	**15,310,602**	**–**	**16,915,962**
Receivables from Islamic finance activities	31 December 2022	**–**	**–**	**13,415,214**	**13,415,214**
Loans to customers	31 December 2022	**–**	**–**	**–**	**–**
Bank participation in Wakala and Mudaraba pool	31 December 2022	**–**	**–**	**238,894**	**238,894**
Other financial assets	31 December 2022	**–**	**–**	**216,730**	**216,730**
Liabilities for which fair values are disclosed					
Amounts due to credit institutions	31 December 2022	**–**	**724,993**	**–**	**724,993**
Amounts due to customers	31 December 2022	**–**	**18,464,756**	**–**	**18,464,756**
Amounts due to Wakala and Mudaraba pool	31 December 2022	**–**	**328,054**	**–**	**328,054**
Lease liabilities	31 December 2022	**–**	**–**	**279,581**	**279,581**
Other financial liabilities	31 December 2022	**–**	**–**	**33,600**	**33,600**

		Fair value measurement using			
2021	*Date of valuation*	*Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant non-observable inputs (Level 3)*	*Total*
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2021	430,699	5,879,147	–	6,309,846
Receivables from Islamic finance activities	31 December 2021	–	–	14,106,147	14,106,147
Loans to customers	31 December 2021	–	–	11,779	11,779
Bank participation in Wakala and Mudaraba pool	31 December 2021	–	–	818,108	818,108
Other financial assets	31 December 2021	–	–	575,525	575,525
Liabilities for which fair values are disclosed					
Amounts due to credit institutions	31 December 2021	–	780,866	–	780,866
Amounts due to customers	31 December 2021	–	8,592,757	–	8,592,757
Amounts due to Wakala and Mudaraba pool	31 December 2021	–	73,366	–	73,366
Lease liabilities	31 December 2021	–	–	245,893	245,893
Other financial liabilities	31 December 2021	–	–	21,510	21,510

During 2022 and 2021, there were no transfers between levels of the fair value hierarchy.

(In thousands of tenge, unless otherwise indicated)

25. Fair value measurements (continued)

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

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

	2022			*2021*		
	Carrying amount	*Fair value*	*Unrecognised gain/(loss)*	*Carrying amount*	*Fair value*	*Unrecognised gain/(loss)*
Financial assets						
Cash and cash equivalents	**16,915,962**	**16,915,962**	–	6,309,846	6,309,846	–
Receivables from Islamic finance activities	**14,297,125**	**13,415,214**	**(881,911)**	14,724,953	14,106,147	(618,806)
Loans to customers	–	–	–	11,779	11,779	–
Bank participation in Wakala and Mudaraba pool	**238,894**	**238,894**	–	818,108	818,108	–
Other financial assets	**244,077**	**216,730**	**(27,347)**	581,127	575,525	(5,602)
Financial liabilities						
Amounts due to credit institutions	**724,993**	**724,993**	–	780,866	780,866	–
Amounts due to customers	**18,464,756**	**18,464,756**	–	8,592,757	8,592,757	–
Amounts due to Wakala and Mudaraba pool	**328,054**	**328,054**	–	73,366	73,366	–
Lease liabilities	**296,239**	**279,581**	**(16,658)**	261,684	245,893	(15,791)
Other financial liabilities	**33,600**	**33,600**	–	21,510	21,510	–
Total unrecognised change in fair value			**(925,916)**			(640,199)

Valuation techniques and assumptions

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

Assets for which fair value approximates carrying amount

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

Financial assets and financial liabilities carried at amortised cost

Fair value of unquoted instruments, receivables from Islamic finance activities, loans to customers, amounts due to customers, and other financial assets and liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

(In thousands of tenge, unless otherwise indicated)

26. Maturity analysis of assets and liabilities

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

	2022			*2021*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Cash and cash equivalents	**16,915,962**	**–**	**16,915,962**	6,309,846	–	6,309,846
Receivables from Islamic finance activities	**4,414,359**	**9,882,766**	**14,297,125**	3,941,121	10,783,832	14,724,953
Loans to customers	**–**	**–**	**–**	11,779	–	11,779
Bank participation in Wakala and Mudaraba pool	**238,894**	**–**	**238,894**	733,686	84,422	818,108
Property and equipment	**–**	**74,229**	**74,229**	–	88,703	88,703
Right-of-use assets	**–**	**285,773**	**285,773**	–	237,447	237,447
Intangible assets	**–**	**258,966**	**258,966**	–	339,770	339,770
Inventory	**191,229**	**–**	**191,229**	190,565	–	190,565
Current corporate income tax assets	**65,375**	**–**	**65,375**	42,363	–	42,363
Deferred corporate income tax assets	**–**	**98,808**	**98,808**	–	–	–
Other assets	**53,167**	**254,543**	**307,710**	395,474	491,850	887,324
Total	**21,878,986**	**10,855,085**	**32,734,071**	11,624,834	12,026,024	23,650,858
Amounts due to credit institutions	**724,993**	**–**	**724,993**	780,866	–	780,866
Amounts due to customers	**16,745,470**	**1,719,286**	**18,464,756**	6,321,191	2,271,566	8,592,757
Amounts due to Wakala and Mudaraba pool	**328,054**	**–**	**328,054**	73,366	–	73,366
Provisions for commitments and contingencies	**–**	**647,101**	**647,101**	–	629,588	629,588
Lease liabilities	**104,287**	**191,952**	**296,239**	129,784	131,900	261,684
Deferred corporate income tax liabilities	**–**	**–**	**–**	–	10,063	10,063
Other liabilities	**175,774**	**21,703**	**197,477**	185,705	98,989	284,694
Total	**18,078,578**	**2,580,042**	**20,658,620**	7,490,912	3,142,106	10,633,018
Net amount	**3,800,408**	**8,275,043**	**12,075,451**	4,133,922	8,883,918	13,017,840

27. Related party disclosures

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

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

(In thousands of tenge, unless otherwise indicated)

27. Related party disclosures (continued)

The amount of related party transactions and balances as at 31 December 2022 and 2021, as well as the respective amounts of income and expenses for the years than ended are as follows:

	2022				*2021*			
	Share-holders	*Entities under common control*	*Key Mana-gement personnel*	*Other related parties*	*Share-holders*	*Entities under common control*	*Key Mana-gement personnel*	*Other related parties*
Receivables from Islamic finance activities as at 1 January	–	–	–	153,102	–	–	–	247,984
Repaid during the year	–	–	–	–	–	–	–	(94,882)
Change in ECL	–	–	–	(63,603)	–	–	–	–
Receivables from Islamic finance activities as at 31 December	–	–	–	89,499	–	–	–	153,102
Current accounts as at 31 December	1,079	2,779	34	2,248	874	84,878	289	86,041

The income and expense arising from transactions with related parties for the years ended 31 December 2022 and 2021 are as follows:

	2022				*2021*			
	Share-holders	*Entities under common control*	*Key mana-gement personnel*	*Other related parties*	*Share-holders*	*Entities under common control*	*Key mana-gement personnel*	*Other related parties*
Revenue from Commodity Murabaha agreements	–	–	–	8,277	–	–	–	14,598
Fee and commission income	599	652	14	436	–	79	–	–
Other operating expenses	–	–	(25,867)	(778)	(2,198)	–	(69,714)	(10,800)

Below is the information about compensation of 8 members of key management personnel (in 2021: 7 members):

	2022	*2021*
Salaries and other short-term benefits	(88,345)	(72,321)
Social security costs	(8,622)	(6,643)
Total key management personnel compensation	(96,967)	(78,964)

28. Capital adequacy

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

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

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

The NBRK requires banks to maintain Tier 1 capital adequacy ratio of not less than 6.5% of the total assets and Tier 2 capital adequacy ratio of not less than 7.5% of risk weighted assets, computed based on the requirements of the NBRK.

(In thousands of tenge, unless otherwise indicated)

28. Capital adequacy (continued)

As at 31 December 2022 and 2021, the Bank's capital adequacy ratios on this basis exceeded the required minimum.

The following table shows the composition of the Bank's capital position calculated in accordance with the NBRK requirements as at 31 December 2022 and 2021:

	2022	*2021*
Tier 1 capital	**11,816,485**	12,678,070
Total capital	**11,816,485**	12,678,070
Risk weighted assets and liabilities, possible claims and liabilities	**39,090,510**	31,657,938
Market risk	**2,033,085**	1,060,581
Operational risk	**649,325**	596,100
Risk weighted statutory assets, contingent liabilities, operational and market risk	**41,772,920**	33,314,619
Capital adequacy ratio k1-1 (minimum 5.5%)	**28%**	38%
Capital adequacy ratio k1-2 (minimum 6.5%)	**28%**	38%
Capital adequacy ratio k2 (minimum 8.0%)	**28%**	38%

29. Zakah

The Articles of Association of the Bank do not require management of the Bank to pay Zakah on behalf of the Shareholder. Consequently, the Zakah obligation is to be discharged by the Shareholder.