

Joint Stock Company
"Trust-Bank"

Financial statements

*For 2020
together with independent auditor's report*

CONTENTS

INDEPENDENT AUDITOR'S REPORT

FINANCIAL STATEMENTS

Statement of financial position.....	1
Statement of comprehensive income.....	2
Statement of changes in equity.....	3
Statement of cash flows.....	4

NOTES TO THE FINANCIAL STATEMENTS

1. Principal activities.....	5
2. Basis of preparation.....	5
3. Definition of significant terms.....	6
4. Summary of accounting policies.....	6
5. Significant accounting judgments and estimates.....	16
6. Cash and cash equivalents.....	17
7. Receivables from Islamic finance activities.....	17
8. Loans to customers.....	21
9. Bank participation in Wakala and Mudaraba pool.....	22
10. Property and equipment.....	24
11. Right-of-use assets and lease liabilities.....	24
12. Intangible assets.....	25
13. Inventory.....	25
14. Taxation.....	25
15. Other assets and liabilities.....	26
16. Amounts due to credit institutions.....	27
17. Amounts due to customers.....	27
18. Equity.....	28
19. Commitments and contingencies.....	28
20. Credit loss expense.....	30
21. Net fee and commission income.....	30
22. Personnel and other operating expenses.....	31
23. Risk management.....	31
24. Fair value measurement.....	43
25. Maturity analysis of assets and liabilities.....	45
26. Related party disclosures.....	46
27. Capital adequacy.....	46
28. Zakah.....	47

Independent auditor's report

To the Shareholders and Board of Directors of "Trust-Bank" JSC

Opinion

We have audited the financial statements of "Trust-Bank" JSC (hereinafter - the "Bank"), which comprise the statement of financial position as at 31 December 2020, 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 2020 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), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and Board of Directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

We communicate with 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

Audit Qualification Certificate
№ МФ-0000286 dated 25 September 2015

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

29 April 2021



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

STATEMENT OF FINANCIAL POSITION**As at 31 December 2020***(In thousands of tenge)*

	<i>Notes</i>	<i>2020</i>	<i>2019</i>
Assets			
Cash and cash equivalents	6	6,571,920	5,165,428
Receivables from Islamic finance activities	7	12,528,133	10,923,146
Loans to customers	8	19,936	26,252
Bank participation in Wakala and Mudaraba pool	9	1,850,334	2,805,502
Property and equipment	10	49,078	48,616
Right-of-use assets	11	195,851	196,314
Intangible assets	12	17,962	9,134
Inventory	13	190,565	190,565
Current corporate income tax assets	14	16,779	56,277
Deferred corporate income tax assets	14	48,387	31,910
Other assets	15	904,844	581,329
Total assets		22,393,789	20,034,473
Liabilities			
Amounts due to credit institutions	16	884,233	673,545
Amounts due to customers	17	7,446,428	5,231,114
Amounts due to Wakala and Mudaraba pool	19	132,545	580,930
Provisions for commitments and contingencies	19	682,123	535,678
Lease liabilities	11	200,527	202,904
Other liabilities	15	189,857	154,968
Total liabilities		9,535,713	7,379,139
Equity			
Share capital	18	10,050,000	10,050,000
Additional paid-in capital		122,037	122,037
Retained earnings		2,686,039	2,483,297
Total equity		12,858,076	12,655,334
Total liabilities and equity		22,393,789	20,034,473

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

Asayeva Gulfairuz Yerlanovna

Chairwoman of the Management Board

Smagulov Diar Nurlanovich

Chief Accountant

29 April 2021



The accompanying notes on page 5 to 47 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

(In thousands of tenge)

	<i>Notes</i>	<i>2020</i>	<i>2019</i>
Revenue from Islamic finance activities			
Revenue from Commodity Murabaha agreements		990,984	1,049,550
Revenue from Tawarruq agreements		103,919	91,272
		<u>1,094,903</u>	<u>1,140,822</u>
Other finance expense			
Lease liabilities	11	(25,683)	(18,134)
Loss from initial recognition on accounts receivables		-	(117,798)
		<u>(25,683)</u>	<u>(135,932)</u>
Net finance income		1,069,220	1,004,890
Credit loss expense	20	(647,397)	(1,428,391)
Net finance income/(expense) after credit loss expense		<u>421,823</u>	<u>(423,501)</u>
Net fee and commission income	21	502,870	1,020,897
Net gains/(losses) from transactions in foreign currencies:			
- dealing		98,474	228,000
- translation differences		(105,679)	(981)
Other income		19,646	12,508
Non-finance income		<u>515,311</u>	<u>1,260,424</u>
Personnel expenses	22	(307,725)	(277,545)
Other operating expenses	22	(347,444)	(347,877)
Non-finance expense		<u>(655,169)</u>	<u>(625,422)</u>
Profit before corporate income tax expense		281,965	211,501
Corporate income tax expense	14	(79,223)	(44,304)
Profit for the year		<u>202,742</u>	<u>167,197</u>
Other comprehensive income		-	-
Total comprehensive income for the year		<u>202,742</u>	<u>167,197</u>

The accompanying notes on page 5 to 47 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

(In thousands of tenge)

	<i>Share capital</i>	<i>Additional paid-in capital</i>	<i>Retained earnings</i>	<i>Total equity</i>
As at 1 January 2019	10,050,000	122,037	2,466,102	12,638,139
Dividends to shareholders of the Bank <i>(Note 18)</i>	–	–	(150,002)	(150,002)
Total comprehensive income for the year	–	–	167,197	167,197
As at 31 December 2019	10,050,000	122,037	2,483,297	12,655,334
Total comprehensive income for the year	–	–	202,742	202,742
As at 31 December 2020	10,050,000	122,037	2,686,039	12,858,076

The accompanying notes on page 5 to 47 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

(In thousands of tenge)

	<i>Notes</i>	<i>2020</i>	<i>2019</i>
Cash flows from operating activities			
Revenue received from Islamic finance activities		996,269	1,052,578
Fees and commissions received		446,179	1,016,158
Fees and commissions paid		(36,662)	(67,092)
Realised gains less losses from dealing in foreign currencies		98,474	228,000
Other income received		15,528	12,224
Personnel expenses paid		(313,871)	(276,049)
Other operating expenses paid		(243,556)	(279,032)
Cash flows from operating activities before changes in operating assets and liabilities		962,361	1,686,787
<i>Net (increase)/decrease in operating assets</i>			
Receivables from Islamic finance activities		(1,603,278)	347,244
Loans to customers		4,500	-
Bank participation in Wakala and Mudaraba pool		712,808	(2,262,714)
Other assets		(271,933)	(199,003)
<i>Net increase/(decrease) in operating liabilities</i>			
Amounts due to credit institutions		101,890	115,351
Amounts due to customers		2,176,926	3,373,770
Amounts due to Wakala and Mudaraba pool		(448,385)	574,214
Other liabilities		38,761	83,145
Net cash flows from operating activities before corporate income tax		1,673,650	3,718,794
Corporate income tax paid		(56,202)	(71,293)
Net cash flows from operating activities		1,617,448	3,647,501
Cash flows from investing activities			
Purchase of property and equipment	10	(15,887)	(38,463)
Purchase of intangible assets		(111,809)	(66,425)
Net cash flows used in investing activities		(127,696)	(104,888)
Cash flows from financing activities			
Lease payments	11	(105,364)	(63,969)
Dividends paid to shareholders of the Bank		-	(150,002)
Net cash flows used in financing activities		(105,364)	(213,971)
Effect of exchange rates changes on cash and cash equivalents		22,104	-
Net increase in cash and cash equivalents		1,406,492	3,328,642
Cash and cash equivalents, as at 1 January		5,165,428	1,836,786
Cash and cash equivalents, as at 31 December	6	6,571,920	5,165,428

The accompanying notes on page 5 to 47 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 is involved in Islamic banking activities and carries out its operations through its head office in Nur-Sultan 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. The Bank’s activity is regulated by the NBRK.

Registered address of the Bank’s head office is: 14/3 Kunaev Str., Nursaya BC, 141206, Esil district, Nur-Sultan, Republic of Kazakhstan.

As at 31 December 2020 and 2019 the following individuals and legal entities were shareholders of the Bank:

<i>Shareholder</i>	<i>2020</i> <i>(%)</i>	<i>2019</i> <i>(%)</i>
Abguzhinov A.T.	61.9	61.9
Cherubayev D.S.	8.4	8.4
Beisembayeva S.E.	8.3	8.3
Svarov Sh.D.	8.3	8.3
Islamic Corporation for the Development of the Private Sector	5.0	5.0
Abguzhinov T.S.	4.0	4.0
Other shareholders, individually holding less than 3%	4.1	4.1
Total	100.0	100.0

As at 31 December 2020 and 2019, members of the Board of Directors and the Management Board controlled 991,021 common shares or 9.9% of the Bank.

2. Basis of preparation

General

These financial statements are prepared in accordance with International Financial Reporting Standards (hereinafter – the “IFRS”).

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

Effect of COVID-19 pandemic

Due to the rapid spread of the COVID-19 pandemic in 2020 many governments, including the Republic of Kazakhstan Government, have introduced various measures to combat the outbreak, including travel restrictions, quarantines, closures of business and other venues and lockdowns of certain areas. These measures have affected the global supply chain, demand for goods and services, as well as scale of business activity. It is expected that the pandemic itself as well as the related public health and social measures may influence the business of the entities in a wide range of industries.

Support measures were introduced by the Government and the Agency of the Republic of Kazakhstan for Regulation and Development of Financial Market (hereinafter – the “Agency”) to counter the economic downturn caused by the COVID-19 pandemic. These measures include, among others, subsidised lending to affected industries and individuals, payment holidays and easing of certain regulatory restrictions to help the financial sector maintain its capabilities to provide resources and to help customers avoid liquidity shortages as a result of the COVID-19 containment measures.

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

(In thousands of tenge, unless otherwise indicated)

3. Definition 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 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 sell. 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. 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 sharing profits between the party that provided capital and the party that provided its entrepreneurial skills. 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.

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 receivables whereby the customer borrows funds for a specific time with an understanding that the same amount will be repaid at the end of the agreed period.

Zakah

Zakah is a right which becomes due in certain types of wealth and disburseable 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

Amendments effective since 1 January 2020 which were applied but do not have an impact on the financial statements of the Bank are described below:

Amendments to IFRS 3 Definition of a Business

The amendment to IFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarified that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the financial statements of the Bank, but may impact future periods should the Bank enter into any business combinations.

(In thousands of tenge, unless otherwise indicated)

4. Summary of accounting policies (continued)

Changes in accounting policies (continued)

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

The amendments to IFRS 9 and IAS 39 *Financial Instruments: Recognition and Measurement* provide certain relief, which applies to all hedging relationships that are directly affected by profit or interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments had no impact on the financial statements of the Bank as it does not have any profit rate hedge relationships.

Amendments to IAS 1 and IAS 8 Definition of Material

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

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the financial statements of, nor is there expected to be any future impact to, the Bank.

Conceptual Framework for Financial Reporting issued on 29 March 2018

The *Conceptual Framework* is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the *Conceptual Framework* is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The revised *Conceptual Framework* includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the financial statements of the Bank.

Fair value measurement

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

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.

(In thousands of tenge, unless otherwise indicated)

4. Summary of accounting policies (continued)

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 costs are added to, or subtracted from, this amount.

Measurement categories of financial assets and liabilities

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

- 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 finance 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 credit institutions, receivables from Islamic finance activities and loans to customers at amortised cost

The Bank only measures amounts due from credit 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.

Business model assessment

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

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

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

The business model assessment is based on reasonably expected scenarios without taking "worst case" or "stress case" scenarios into account. If cash flows after initial recognition are 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.

(In thousands of tenge, unless otherwise indicated)

4. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Initial measurement (continued)

The SPPI test

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

“Principal” for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset.

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 lending 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.

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 profit or loss, and an 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 customer. 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.

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.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the NBRK and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

(In thousands of tenge, unless otherwise indicated)

4. Summary of accounting policies (continued)

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 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.

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). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e. below KZT 2,100 thousand). Lease payments on short-term leases and leases of low-value assets are recognised as expenses 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.

(In thousands of tenge, unless otherwise indicated)

4. Summary of accounting policies (continued)

Leases (continued)

iii. Finance lease – Bank as 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 assets

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.

Renegotiated financing instruments

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 a 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 instruments 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 SPPI criterion.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original 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.

(In thousands of tenge, unless otherwise indicated)

4. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

Financial assets (continued)

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.

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

Write-off

Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying 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.

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.

(In thousands of tenge, unless otherwise indicated)

4. Summary of accounting policies (continued)

Property and equipment (continued)

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

	<i>Depreciation rates</i>
Computers and office equipment	20-50%
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.

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.

(In thousands of tenge, unless otherwise indicated)

4. Summary of accounting policies (continued)

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.

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.

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 2020 and 2019 were KZT 420.91 and KZT 382.59 to 1 USD, respectively.

(In thousands of tenge, unless otherwise indicated)

4. Summary of accounting policies (continued)

Standards and interpretations 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; and
- 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.

Financing 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 financing contracts – e.g. a financing 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.

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 is currently in the process of assessing the impact of adopting IFRS 17 on its financial statements.

IFRS 9 Financial Instruments – fees in the ‘10 per cent’ test for derecognition of financial liabilities

As part of its 2018-2020 Annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 9. 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 obligor and the financier, including fees paid or received by either the obligor or financier on the other's behalf.

An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Bank will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual period in which it will first apply the amendment and does not expect this will result in a material impact on its financial statements.

Interest Rate Benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

In August 2020 the IASB issued *Interest Rate Benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16*, (IBOR reform Phase 2) to address the accounting issues which arise upon the replacement of an inter-bank offer rate (IBOR) with a risk-free-rate (RFR).

IBOR reform Phase 2 includes a number of reliefs and additional disclosures. The reliefs apply upon the transition of a financial instrument from an IBOR to a RFR.

Changes to the basis for determining contractual cash flows as a result of interest rate benchmark reform are required as a practical expedient to be treated as changes to a floating interest rate, provided that, for the financial instrument, the transition from the IBOR benchmark rate to RFR takes place on an economically equivalent basis.

The Bank will apply IBOR reform Phase 2 from 1 January 2021.

(In thousands of tenge, unless otherwise indicated)

5. Significant accounting judgments and estimates

Estimation uncertainty

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

COVID-19

The rapid spread of the COVID-19 pandemic in 2020, as well as related public health and social measures, have had an impact on the activities of entities in various sectors of the economy. The following changes in the economic environment continue to affect the Bank's activities:

- Reduced industrial production and activities in many sectors of the economy as a result of government restrictions related to the COVID-19 pandemic;
- Implementation of measures of state support to the population and business related to the COVID-19 pandemic;
- Significant depreciation of the tenge against major foreign currencies and high volatility in the foreign exchange market;
- Offering obligors changes to certain financing terms, including government support programs;
- Expansion of the product offering to clients via remote service channels; and
- Changes in the macroeconomic indicators used in the models for estimating ECL allowance.

Due to the high level of uncertainty, as well as limited up-to-date and consistent information about the actual financial position of the Bank's counterparties and obligors, it is not possible to present a comprehensive quantitative assessment of the impact of changes in the economic environment on the Bank's 2020 financial performance in these financial statements.

Expected credit losses

The measurement of impairment losses across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. Deterioration in the credit quality of loan portfolios and trade receivables (among others) as a result of the COVID-19 pandemic may have a significant impact on the Bank's ECL measurement. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's internal 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.

(In thousands of tenge, unless otherwise indicated)

5. Significant accounting judgments and estimates (continued)

Estimation uncertainty (continued)

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).

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:

	<i>2020</i>	<i>2019</i>
Cash on hand	866,686	348,031
Current accounts with the NBRK	188,729	5,892
Murabaha Tawarruq with the NBRK	4,501,000	2,270,520
Current accounts with other banks	1,015,505	2,540,985
Cash and cash equivalents	<u>6,571,920</u>	<u>5,165,428</u>

Under legislation of the Republic of Kazakhstan, the Bank is required to maintain certain obligatory reserves, which are computed 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 and 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 2020, obligatory reserves were equal to KZT 139,821 thousand (as at 31 December 2019: KZT 97,593 thousand).

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

7. Receivables from Islamic finance activities

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

	<i>2020</i>	<i>2019</i>
Commodity Murabaha – corporate	14,788,503	13,225,516
Qard Hassan	32,602	3,678
Commodity Murabaha – retail	7,025	476
Gross receivables from Islamic finance activities	<u>14,828,130</u>	<u>13,229,670</u>
Less: ECL allowance	<u>(2,299,997)</u>	<u>(2,306,524)</u>
Receivables from Islamic finance activities	<u>12,528,133</u>	<u>10,923,146</u>

(In thousands of tenge, unless otherwise indicated)

7. Receivables from Islamic finance activities (continued)

As at 31 December 2020 receivables from Islamic finance activities bear profit rate of 8%-22% per annum (as at 31 December 2019: 8%-28% per annum) and mature in 2021-2028 (as at 31 December 2019: in 2020-2028).

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 2020 is as follows:

<i>Commodity Murabaha – corporate</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Gross carrying value as at 1 January 2020	1,231,096	5,699,648	6,294,772	13,225,516
New assets originated	6,285,036	–	–	6,285,036
Assets repaid	(378,287)	(2,307,414)	(1,834,685)	(4,520,386)
Transfers to Stage 1	1,489,177	(1,464,327)	(24,850)	–
Transfers to Stage 2	(7,907,785)	13,674,285	(5,766,500)	–
Transfers to Stage 3	(383,570)	(10,723,069)	11,106,639	–
Changes due to modifications not resulting in derecognition	(18,823)	(30,182)	(49,687)	(98,692)
Amounts written-off	–	–	(102,971)	(102,971)
As at 31 December 2020	316,844	4,848,941	9,622,718	14,788,503

<i>Commodity Murabaha – corporate</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECL allowance as at 1 January 2020	(135,443)	(659,018)	(1,512,043)	(2,306,504)
New assets originated	(472,416)	–	–	(472,416)
Assets repaid	32,072	304,964	561,829	898,865
Transfers to Stage 1	(178,051)	174,177	3,874	–
Transfers to Stage 2	648,688	(1,717,759)	1,069,071	–
Transfers to Stage 3	29,111	1,294,744	(1,323,855)	–
Impact on ECL of exposures transferred between stages and changes to models and inputs used for ECL calculations	67,219	62,170	(702,320)	(572,931)
Changes due to modifications not resulting in derecognition	621	2,288	49,687	52,596
Amounts written-off	–	–	102,971	102,971
As at 31 December 2020	(8,199)	(538,434)	(1,750,786)	(2,297,419)

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 2019 is as follows:

<i>Commodity Murabaha – corporate</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Gross carrying value as at 1 January 2019	458,200	6,793,789	6,435,018	13,687,007
New assets originated	4,616,787	–	–	4,616,787
Assets repaid	(364,882)	(2,788,122)	(1,925,274)	(5,078,278)
Transfers to Stage 1	1,926,006	(1,926,006)	–	–
Transfers to Stage 2	(5,405,015)	8,678,042	(3,273,027)	–
Transfers to Stage 3	–	(5,058,055)	5,058,055	–
As at 31 December 2019	1,231,096	5,699,648	6,294,772	13,225,516

<i>Commodity Murabaha – corporate</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECL allowance as at 1 January 2019	(984)	(146,463)	(1,660,473)	(1,807,920)
New assets originated	(327,311)	–	–	(327,311)
Assets repaid	31,948	295,820	917,360	1,245,128
Transfers to Stage 1	(124,511)	124,511	–	–
Transfers to Stage 2	415,105	(777,051)	361,946	–
Transfers to Stage 3	–	830,421	(830,421)	–
Impact on ECL of exposures transferred between stages and changes to inputs used for ECL calculations	(129,690)	(986,256)	(300,455)	(1,416,401)
As at 31 December 2019	(135,443)	(659,018)	(1,512,043)	(2,306,504)

(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 2020 is as follows:

<i>Qard Hassan</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Gross carrying value as at 1 January 2020	264	–	3,414	3,678
New assets originated	45,800	–	–	45,800
Assets repaid	(16,876)	–	–	(16,876)
Transfers to Stage 1	23,414	(23,414)	–	–
Transfers to Stage 2	(20,000)	23,414	(3,414)	–
As at 31 December 2020	32,602	–	–	32,602

<i>Qard Hassan</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECL allowance as at 1 January 2020	(10)	–	(8)	(18)
New assets originated	(659)	–	–	(659)
Assets repaid	35	–	–	35
Transfers to Stage 1	(610)	610	–	–
Transfers to Stage 2	602	(610)	8	–
Impact on ECL of exposures transferred between stages and changes to inputs used for ECL calculations	569	–	–	569
As at 31 December 2020	(73)	–	–	(73)

An analysis of changes in the gross carrying value and corresponding ECL allowance in relation to Qard Hassan during the year ended 31 December 2019 is as follows:

<i>Qard Hassan</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Gross carrying value as at 1 January 2019	1,814	331	3,965	6,110
Assets repaid	(1,550)	(331)	(551)	(2,432)
As at 31 December 2019	264	–	3,414	3,678

<i>Qard Hassan</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECL allowance as at 1 January 2019	(19)	(1)	(11)	(31)
Assets repaid	9	1	3	13
As at 31 December 2019	(10)	–	(8)	(18)

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 2020 is as follows:

<i>Commodity Murabaha agreements – retail</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Gross carrying value as at 1 January 2020	476	–	–	476
New assets originated	7,037	–	–	7,037
Assets repaid	(488)	–	–	(488)
Transfers to Stage 2	(7,025)	7,025	–	–
As at 31 December 2020	–	7,025	–	7,025

<i>Commodity Murabaha agreements – retail</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECL as at 1 January 2020	(2)	–	–	(2)
New assets originated	(603)	–	–	(603)
Assets repaid	2	–	–	2
Transfers to Stage 2	603	(603)	–	–
Impact on ECL of exposures transferred between stages and changes to inputs used for ECL calculations	–	(1,902)	–	(1,902)
As at 31 December 2020	–	(2,505)	–	(2,505)

(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 2019 is as follows:

<i>Commodity Murabaha agreements – retail</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Gross carrying value as at 1 January 2019	1,691	–	–	1,691
Assets repaid	(1,215)	–	–	(1,215)
As at 31 December 2019	476	–	–	476

<i>Commodity Murabaha agreements – retail</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECL allowance as at 1 January 2019	(10)	–	–	(10)
Assets repaid	8	–	–	8
As at 31 December 2019	(2)	–	–	(2)

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 new finance instruments, 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.

As at 31 December 2020, the Bank introduced certain changes in its process of estimation of expected credit losses in the context of the ongoing COVID-19 pandemic. In particular, the Bank has revised indicators of significant increase in credit risk and does not automatically consider the credit risk to have significantly increased in the case of modification of Commodity Murabaha agreements being part of the Government support measures. The Bank also updated forward-looking information, including forecast of macroeconomic indicators and scenarios weights.

During 2020, the Bank has modified the terms and conditions of certain Commodity Murabaha, including introduction of payment holidays, as part of the measures introduced by the Government related to consequences of COVID-19 pandemic. The Bank considered these modifications to be non-substantial. As a result, the Bank recognised loss on modification of Commodity Murabaha, not resulting in derecognition in the amount of KZT 23,924 thousand.

The table below includes Stage 3 assets that were modified during the period, with the related modification loss suffered by the Bank:

	<i>2020</i>	<i>2019</i>
Receivables from Islamic finance activities modified during the period		
Amortised cost before modification	7,243,019	–
Net loss from modification of receivables from Islamic finance activities not resulting in derecognition	(98,692)	–

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 2020 and 2019, 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:

	<i>2020</i>	<i>2019</i>
Commodity Murabaha – corporate	7,871,932	4,786,135
	7,871,932	4,786,135

*(In thousands of tenge, unless otherwise indicated)***7. Receivables from Islamic finance activities (continued)**

Concentration of receivables from Islamic finance activities

As at 31 December 2020 and 2019, the Bank has two counterparties under receivables from Islamic finance activities whose balances exceed 10% of the Bank's equity. As at 31 December 2020 total gross value of these balances equals to KZT 2,738,363 thousand (as at 31 December 2019: KZT 3,049,239 thousand). An ECL allowance of KZT 725,142 thousand (as at 31 December 2019: KZT 853,342 thousand) was recognised against these receivables.

Receivables arise from Islamic finance activities which are made within the Republic of Kazakhstan in the following industry sectors:

	<i>2020</i>	<i>2019</i>
Trade	3,786,617	2,711,825
Construction and maintenance	3,345,170	3,229,460
Engineering	1,612,510	1,419,254
Industrial production	1,477,300	1,464,573
Services	1,046,146	875,347
Agriculture and food processing	756,198	706,607
Metal goods manufacturing	336,604	330,678
Transport	130,539	174,988
Individuals and entrepreneurs	37,049	4,134
Other	–	6,280
Receivables from Islamic finance activities	<u>12,528,133</u>	<u>10,923,146</u>

8. Loans to customers

As at 31 December loans to customers comprise the following:

	<i>2020</i>	<i>2019</i>
Corporate lending	44,303	62,356
Gross loans to customers	44,303	62,356
Less: ECL allowance	(24,367)	(36,104)
Loans to customers	<u>19,936</u>	<u>26,252</u>

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 2020 is as follows:

<i>Corporate lending</i>	<i>Stage 3</i>	<i>Total</i>
Gross carrying value as at 1 January 2020	62,356	62,356
Assets repaid	(4,499)	(4,499)
Amounts written-off	(13,554)	(13,554)
As at 31 December 2020	<u>44,303</u>	<u>44,303</u>

<i>Corporate lending</i>	<i>Stage 3</i>	<i>Total</i>
ECL allowance as at 1 January 2020	(36,104)	(36,104)
Assets repaid	2,855	2,855
Impact on ECL of changes to inputs used for ECL calculations	(4,672)	(4,672)
Amounts written-off	13,554	13,554
As at 31 December 2020	<u>(24,367)</u>	<u>(24,367)</u>

An analysis of changes in the gross carrying value and corresponding ECL allowance in relation to corporate lending during the year ended 31 December 2019 is as follows:

<i>Corporate lending</i>	<i>Stage 3</i>	<i>Total</i>
Gross carrying value as at 1 January 2019	62,561	62,561
Assets repaid	(205)	(205)
As at 31 December 2019	<u>62,356</u>	<u>62,356</u>

(In thousands of tenge, unless otherwise indicated)

8. Loans to customers (continued)

ECL allowance (continued)

<i>Corporate lending</i>	<i>Stage 3</i>	<i>Total</i>
ECL allowance as at 1 January 2019	(17,754)	(17,754)
Impact on ECL of changes to inputs used for ECL calculations	(18,350)	(18,350)
As at 31 December 2019	(36,104)	(36,104)

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, 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 for loan impairment.

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:

	<i>2020</i>	<i>2019</i>
Loans to customers	19,936	26,252
	19,936	26,252

Concentration of loans to customers

As at 31 December 2020 and 2019, 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 agriculture and food processing industry sectors.

9. Bank participation in Wakala and Mudaraba pool

Investments in Wakala and Mudaraba pools are investments of the Bank in assets financed by the Wakala and Mudaraba pools 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 2020, carrying amount of the Bank's participation in Wakala and Mudaraba pool was equal to KZT 1,850,334 thousand (as at 31 December 2019: KZT 2,805,502 thousand).

ECL allowance

An analysis of changes in the gross carrying value and corresponding ECL allowance in relation to the Bank participation in Wakala and Mudaraba pool during the year ended 31 December 2020 is as follows:

<i>Bank participation in Wakala and Mudaraba pool</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Gross carrying value as at 1 January 2020	807	942,020	2,262,286	3,205,113
New assets originated	80,110	–	–	80,110
Assets repaid	(2,504)	(9,190)	(685,177)	(696,871)
Transfers to Stage 1	122,680	(122,680)	–	–
Transfers to Stage 2	(129,274)	649,577	(520,303)	–
Transfers to Stage 3	(71,819)	(1,459,727)	1,531,546	–
As at 31 December 2020	–	–	2,588,352	2,588,352

(In thousands of tenge, unless otherwise indicated)

9. Bank participation in Wakala and Mudaraba pool (continued)

ECL allowance (continued)

<i>Bank participation in Wakala and Mudaraba pool</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECL allowance as at 1 January 2020	–	(42,345)	(357,266)	(399,611)
New assets originated	5,608	–	–	5,608
Assets repaid	168	1,122	187,386	188,676
Transfers to Stage 1	(16,999)	16,999	–	–
Transfers to Stage 2	12,002	(87,279)	75,277	–
Transfers to Stage 3	5,132	120,164	(125,296)	–
Impact on ECL of exposures transferred between stages and changes to models and inputs used for ECL calculations	(5,911)	(8,661)	(518,119)	(532,691)
As at 31 December 2020	–	–	(738,018)	(738,018)

An analysis of changes in the gross carrying value and corresponding ECL allowance in relation to the Bank participation in Wakala and Mudaraba pool during the year ended 31 December 2019 is as follows:

<i>Bank participation in Wakala and Mudaraba pool</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Gross carrying value as at 1 January 2019	–	470,332	285,915	756,247
New assets originated	2,934,538	–	–	2,934,538
Assets repaid	–	(382,678)	(102,994)	(485,672)
Transfers to Stage 1	6,502	(6,502)	–	–
Transfers to Stage 2	(2,940,233)	2,740,003	200,230	–
Transfers to Stage 3	–	(1,879,135)	1,879,135	–
As at 31 December 2019	807	942,020	2,262,286	3,205,113

<i>Bank participation in Wakala and Mudaraba pool</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECL allowance as at 1 January 2019	–	–	–	–
New assets originated	(129,846)	–	–	(129,846)
Assets repaid	–	130,242	94,219	224,461
Transfers to Stage 1	(740)	740	–	–
Transfers to Stage 2	166,437	(169,060)	2,623	–
Transfers to Stage 3	–	299,250	(299,250)	–
Impact on ECL of exposures transferred between stages and changes to models and inputs used for ECL calculations	(35,851)	(303,517)	(154,858)	(494,226)
As at 31 December 2019	–	(42,345)	(357,266)	(399,611)

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 pools.

*(In thousands of tenge, unless otherwise indicated)***10. Property and equipment**

Movements in property and equipment are as follows:

	<i>Computers and office equipment</i>	<i>Other</i>	<i>Total</i>
Cost			
As at 1 January 2019	21,342	15,439	36,781
Additions	9,864	28,599	38,463
Disposals	(6,656)	(1,043)	(7,699)
As at 31 December 2019	24,550	42,995	67,545
Additions	11,834	4,053	15,887
Disposals	(3,247)	(2,311)	(5,558)
As at 31 December 2020	33,137	44,737	77,874
Accumulated depreciation			
As at 1 January 2019	(10,549)	(3,563)	(14,112)
Charge for the year	(5,182)	(7,334)	(12,516)
Disposals	6,656	1,043	7,699
As at 31 December 2019	(9,075)	(9,854)	(18,929)
Charge for the year	(7,153)	(8,272)	(15,425)
Disposals	3,247	2,311	5,558
As at 31 December 2020	(12,981)	(15,815)	(28,796)
Net book value			
As at 1 January 2019	10,793	11,876	22,669
As at 31 December 2019	15,475	33,141	48,616
As at 31 December 2020	20,156	28,922	49,078

11. Right-of-use assets and lease liabilities

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

	<i>Right-of-use assets</i>	<i>Lease liability</i>
As at 1 January 2019	124,264	124,264
Additions	124,475	124,475
Depreciation expense	(52,425)	–
Financial expense	–	18,134
Payments	–	(63,969)
As at 31 December 2019	196,314	202,904
Additions	101,353	101,353
Disposals	(24,049)	(24,049)
Depreciation expense	(77,767)	–
Financial expense	–	25,683
Payments	–	(105,364)
As at 31 December 2020	195,851	200,527

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:

	<i>Computer software and licenses</i>
Cost	
As at 1 January 2019	23,069
Additions	7,520
Disposals	(13,234)
As at 31 December 2019	<u>17,355</u>
Additions	12,909
As at 31 December 2020	<u>30,264</u>
Accumulated amortisation	
As at 1 January 2019	(17,505)
Charge for the year	(3,950)
Disposals	13,234
As at 31 December 2019	<u>(8,221)</u>
Charge for the year	(4,081)
As at 31 December 2020	<u>(12,302)</u>
Net book value	
As at 1 January 2019	5,564
As at 31 December 2019	<u>9,134</u>
As at 31 December 2020	<u><u>17,962</u></u>

13. Inventory

As at 31 December 2020 and 2019, 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 expense comprise the following:

	<i>2020</i>	<i>2019</i>
Current corporate income tax charge	95,700	68,637
Deferred corporate income tax benefit – origination and reversal of temporary differences	(16,477)	(24,333)
Corporate income tax expense	<u>79,223</u>	<u>44,304</u>

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 2020 and 2019.

As at 31 December 2020, current corporate income tax assets comprised KZT 16,779 thousand (as at 31 December 2019: KZT 56,277 thousand).

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

	<i>2020</i>	<i>2019</i>
Profit before corporate income tax expense	281,965	211,501
Statutory tax rate	20%	20%
Theoretical corporate income tax expense at the statutory rate	<u>56,393</u>	<u>42,300</u>
Non-taxable income		
Non-deductible credit loss expense	20,071	–
Non-deductible administrative expenses	753	–
Other non-deductible expenses	2,006	2,004
Corporate income tax expense	<u>79,223</u>	<u>44,304</u>

(In thousands of tenge, unless otherwise indicated)

14. Taxation (continued)

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

	<i>2018</i>	<i>Effect of adopting IFRS 16</i>	<i>Origination and reversal of temporary differences in profit or loss</i>	<i>2019</i>	<i>Origination and reversal of temporary differences in profit or loss</i>	<i>2020</i>
Tax effect of deductible temporary differences						
Lease liabilities	–	24,853	15,728	40,581	(475)	40,106
Receivables from Islamic finance activities	–	–	–	–	19,738	19,738
Accounts receivables	–	–	23,503	23,503	(3,386)	20,117
Property and equipment and intangible assets	3,379	–	(940)	2,439	(1,743)	696
Accrued bonuses	718	–	(718)	–	–	–
Accrued expenses on unused vacations	1,453	–	419	1,872	1,589	3,461
Accrued expenses on professional services	1,815	–	207	2,022	(360)	1,662
Other taxes	212	–	818	1,030	748	1,778
Deferred corporate income tax assets	<u>7,577</u>	<u>24,853</u>	<u>39,017</u>	<u>71,447</u>	<u>16,111</u>	<u>87,558</u>
Tax effect of taxable temporary differences						
Right-of-use assets	–	(24,853)	(14,684)	(39,537)	366	(39,171)
Deferred corporate income tax liabilities	–	(24,853)	(14,684)	(39,537)	366	(39,171)
Net deferred corporate income tax assets	<u>7,577</u>	<u>–</u>	<u>24,333</u>	<u>31,910</u>	<u>16,477</u>	<u>48,387</u>

15. Other assets and liabilities

Other assets comprise the following:

	<i>2020</i>	<i>2019</i>
Other financial assets		
Accounts receivable on guarantees	386,065	144,282
Receivables from sale of inventory	125,868	132,324
Guarantee deposit	25,000	–
Commissions receivables	12,957	5,759
Other financial assets	8,957	–
	<u>558,847</u>	<u>282,365</u>
Less: ECL allowance	(99,184)	(34,900)
Total other financial assets	<u>459,663</u>	<u>247,465</u>
Other non-financial assets		
Prepaid expenses on software and information and consulting services	431,650	302,612
Prepayments for goods and services	11,648	22,068
Other	1,883	9,184
Total other non-financial assets	<u>445,181</u>	<u>333,864</u>
Other assets	<u>904,844</u>	<u>581,329</u>

In 2019, the Bank sold repossessed collateral based on installment payment terms. Effect from initial recognition of receivables from sold inventories were equal to KZT 117,798 thousand and was recognised as loss from initial recognition on accounts receivables in the statement of comprehensive income.

*(In thousands of tenge, unless otherwise indicated)***15. Other assets and liabilities (continued)**

An analysis of change in ECL allowance in relation to other financial assets during the year ended 31 December 2020 is as follows:

	<i>Stage 1</i>	<i>Stage 3</i>	<i>Total</i>
ECL allowance as at 1 January 2020	(20,299)	(14,601)	(34,900)
Transfers to Stage 3	68,921	(68,921)	-
Net change in ECL during the year (<i>Note 20</i>)	(50,107)	(14,177)	(64,284)
As at 31 December 2020	(1,485)	(97,699)	(99,184)

An analysis of change in ECL allowance in relation to other financial assets during the year ended 31 December 2019 is as follows:

	<i>Stage 1</i>	<i>Stage 3</i>	<i>Total</i>
ECL allowance as at 1 January 2019	-	-	-
Transfers to Stage 3	14,601	(14,601)	-
Net change in ECL during the year (<i>Note 20</i>)	(34,900)	-	(34,900)
As at 31 December 2019	(20,299)	(14,601)	(34,900)

Other liabilities comprise the following:

	<i>2020</i>	<i>2019</i>
Other financial liabilities		
Charity payable	21,721	8,629
Professional fees payable	8,310	10,110
Total financial liabilities	30,031	18,739
Other non-financial liabilities		
Deferred income	119,882	120,105
Accrued unused vacations expenses	17,306	9,360
Other	22,638	6,764
Total non-financial liabilities	159,826	136,229
Other liabilities	189,857	154,968

16. Amounts due to credit institutions

As at 31 December 2020, amounts due to credit institutions comprise amounts held on current accounts of foreign banks totaling to KZT 884,233 thousand (as at 31 December 2019: KZT 673,545 thousand).

17. Amounts due to customers

Amounts due to customers comprise the following:

	<i>2020</i>	<i>2019</i>
Current accounts	6,457,076	4,395,043
Time deposits	989,352	836,071
Amounts due to customers	7,446,428	5,231,114
Held as collateral against guarantees (<i>Note 19</i>)	989,352	834,489

As at 31 December 2020, amounts due to customers of KZT 6,668,273 thousand (89.5% of total amounts due to customers) were due to the ten largest customers (as at 31 December 2019: KZT 4,393,152 thousand (84.0% of total amounts due to customers)).

Amounts due to customers comprise the following:

	<i>2020</i>	<i>2019</i>
Current accounts		
Private enterprises	6,445,006	4,379,678
Individuals	12,070	15,365
	6,457,076	4,395,043
Time deposits		
Private enterprises	989,352	836,071
	989,352	836,071
Amounts due to customers	7,446,428	5,231,114

(In thousands of tenge, unless otherwise indicated)

17. Amounts due to customers (continued)

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

	<i>2020</i>	<i>2019</i>
Real estate construction	5,460,885	2,592,059
Industrial production	1,422,976	1,431,426
Power generation	205,528	109,432
Trade	150,277	799,047
Individuals	12,070	15,365
Transport and communication	6,521	4,180
Fuel industry	1,812	2,752
Finance leasing	94	79
Agriculture	60	63
Other	186,205	276,711
Amounts due to customers	<u>7,446,428</u>	<u>5,231,114</u>

18. Equity

As at 31 December 2020 and 2019 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 2020, no dividends were declared or paid. In accordance with the decision made at the Bank shareholders annual meeting dated 31 May 2019, in 2019 the Bank declared and paid dividends in the amount of KZT 150,002 thousand based on the Bank's performance in 2018.

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. Since March 2020, there has been significant volatility in the capital, currency and commodity markets, including a decline in oil prices and a depreciation of the tenge against the US dollar and the euro, which has led to increased uncertainty about further economic growth, which could negatively affect the financial position, results of operations and economic prospects of the Bank.

Due to the current situation with the COVID-19 pandemic, there remains uncertainty about further development of the pandemic and its duration, as well as the extent of possible economic recovery in the near term. The Government continues to take various measures, and their influence continues to develop. Therefore, the management of the Bank continually assesses the increased risks, as well as the consequences of the pandemic and the measures taken by the Government.

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

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

*(In thousands of tenge, unless otherwise indicated)***19. Commitments and contingencies (continued)**

Tax contingencies (continued)

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:

	<i>2020</i>	<i>2019</i>
Credit related commitments		
Guarantees issued	7,387,134	6,364,217
Undrawn commitments on finance instruments	327,856	84,790
	<u>7,714,990</u>	<u>6,449,007</u>
Amounts due to customers held as collateral against guarantees issued (<i>Note 17</i>)	(989,352)	(834,489)
Provisions for ECL allowance for credit related commitments	(682,123)	(535,678)

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

An analysis of changes in the ECL allowance during the year ended 31 December 2020 is as follows:

<i>Guarantees issued</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECL allowance as at 1 January 2020	(438,745)	(71,670)	(25,263)	(535,678)
Net change in ECL during the year (<i>Note 20</i>)	346,312	55,740	(548,497)	(146,445)
As at 31 December 2020	<u>(92,433)</u>	<u>(15,930)</u>	<u>(573,760)</u>	<u>(682,123)</u>

An analysis of changes in the ECL allowance during the year ended 31 December 2019 is as follows:

<i>Guarantees issued</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECL allowance as at 1 January 2019	(833)	(6,942)	(50,936)	(58,711)
Net change in ECL during the year (<i>Note 20</i>)	(437,912)	(64,728)	25,673	(476,967)
As at 31 December 2019	<u>(438,745)</u>	<u>(71,670)</u>	<u>(25,263)</u>	<u>(535,678)</u>

Trust activities

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

	<i>2020</i>	<i>2019</i>
<i>Mudaraba</i>		
Unutilised portion of Mudaraba deposits as at 1 January	580,930	6,716
Mudaraba deposits received	534,126	8,105,579
Amount utilised for issuance of receivables from Islamic finance activities	(982,511)	(7,531,365)
Unutilised portion of Mudaraba deposits as at 31 December	<u>132,545</u>	<u>580,930</u>
Profit accrued on receivables from Islamic finance activities	96,376	277,389
Profit attributable to customers on Wakala and Mudaraba deposits	<u>329</u>	<u>16,544</u>

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. Profit attributable to customers also includes depositors profit reserves and the Zakah due on these reserves. The Bank is discharging this Zakah on behalf of the depositors.

*(In thousands of tenge, unless otherwise indicated)***20. Credit loss expense**

The table below shows the ECL charges on finance instruments recognised in the statement of comprehensive income for the year ended 31 December 2020:

	<i>Notes</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Receivables from Islamic finance activities	7	(373,160)	367,520	(90,804)	(96,444)
Loans to customers	8	–	–	(1,817)	(1,817)
Bank participation in Wakala and Mudaraba pool	9	(135)	(7,539)	(330,733)	(338,407)
Other financial assets	15	(50,107)	–	(14,177)	(64,284)
Credit related commitments	19	346,312	55,740	(548,497)	(146,445)
		<u>(717,685)</u>	<u>995,948</u>	<u>(925,660)</u>	<u>(647,397)</u>

The table below shows the ECL charges on finance instruments recognised in the statement of comprehensive income for the year ended 31 December 2019:

	<i>Notes</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Receivables from Islamic finance activities	7	(425,036)	(690,435)	616,908	(498,563)
Loans to customers	8	–	–	(18,350)	(18,350)
Bank participation in Wakala and Mudaraba pool	9	(165,697)	(173,275)	(60,639)	(399,611)
Other financial assets	15	(34,900)	–	–	(34,900)
Credit related commitments	19	(437,912)	(64,728)	25,673	(476,967)
		<u>(1,063,545)</u>	<u>(928,438)</u>	<u>563,592</u>	<u>(1,428,391)</u>

21. Net fee and commission income

Net fee and commission income comprise the following:

	<i>2020</i>	<i>2019</i>
Guarantees issued	338,260	293,544
Agency fee under Wakala and Mudarib share of profit under Mudaraba agreements (<i>Note 19</i>)	96,047	260,845
Transfer operations	81,924	478,465
Cash operations	9,284	16,178
Customer accounts maintenance	2,954	3,467
Other	8,525	39,887
Fee and commission income	<u>536,994</u>	<u>1,092,386</u>
Transfer operations	(15,021)	(68,190)
Other	(19,103)	(3,299)
Fee and commission expenses	<u>(34,124)</u>	<u>(71,489)</u>
Net fee and commission income	<u>502,870</u>	<u>1,020,897</u>

(In thousands of tenge, unless otherwise indicated)

22. Personnel and other operating expenses

Personnel and other operating expenses comprise the following:

	<i>2020</i>	<i>2019</i>
Salaries and bonuses	277,796	250,506
Social security costs	29,929	27,039
Personnel expenses	<u>307,725</u>	<u>277,545</u>
Depreciation and amortisation (<i>Notes 10, 11 and 12</i>)	97,273	68,891
Professional services	30,554	72,017
Taxes other than income tax	29,176	5,538
Technical support and software	27,798	18,254
Communication	26,135	20,285
Rent	25,513	53,759
Security	17,523	13,483
Representative expenses	14,902	319
Business trips	13,062	28,795
Membership fees	9,445	–
Professional services	8,050	–
Utilities	5,822	7,758
Encashment	3,034	970
Transportation	1,924	3,922
Advertising and marketing	1,461	1,579
Office supplies	1,380	4,117
Repair and maintenance	633	3,105
Other	33,759	45,085
Other operating expenses	<u>347,444</u>	<u>347,877</u>

23. 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 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.

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.

Assets and Liabilities Management Committee

The Assets and Liabilities Management Committee (hereinafter – “ALMC”) has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental liquidity risk issues and manages and monitors relevant risk decisions.

(In thousands of tenge, unless otherwise indicated)

23. Risk management (continued)

Introduction (continued)

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

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, the ALMC, 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.

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

A regular briefing is given to the Management Board and all other relevant employees of the Bank on the utilisation of credit limits, liquidity, plus any other risk developments.

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.

(In thousands of tenge, unless otherwise indicated)

23. Risk management (continued)

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 pools"* and *Note 19 "Commitments and contingencies"*.

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 mechanics of the ECL calculations are outlined below and the key elements are as follows:

PD	The <i>Probability of Default</i> 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 <i>Exposure at Default</i> 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 <i>Loss Given Default</i> 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.

(In thousands of tenge, unless otherwise indicated)

23. Risk management (continued)

Credit risk (continued)

Impairment assessment (continued)

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Bank groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

- | | |
|----------|--|
| Stage 1: | When 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 expected credit losses. |

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.

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 unlikelihood 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:

- 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;
- 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.

(In thousands of tenge, unless otherwise indicated)

23. Risk management (continued)

Credit risk (continued)

Internal rating and PD estimation process (continued)

Depending on the assigned internal credit ratings, a financial instrument is distributed by levels of impairment for further calculation of expected credit losses 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 Finance Department – 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 lending

In corporate financing, borrowers are consistently assessed by the Legal Department, Lending 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 client'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.

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

<i>Internal rating grade</i>	<i>International external rating agency</i>	<i>Internal rating description</i>	<i>Lifetime PD</i>
91-150	Not relevant	Reliable borrower	0%-12%
71-90	Not relevant	Borrower with minimum risk	8%-16%
56-70	Not relevant	Borrower with medium risk	6%-19%
41-55	Not relevant	Borrower with high risk	19%-41%
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 customer'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 a Stage 1 finance 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 Bank's models.

(In thousands of tenge, unless otherwise indicated)

23. Risk management (continued)

Credit risk (continued)

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

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 period is at least twelve months;
- The adverse value of ratios calculated in accordance with the internal regulatory document, indicating a low level of solvency, a large dependence on borrowed funds;
- The presence of negative equity;
- Stable (over 3 or more reporting periods) decrease in cash flows from the main type of activities, which indicates a decrease in market share, lack of the Bank's confidence that measures taken by the borrower (debtor, co-borrower) are effective for stabilizing 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):

- Permanent and (or) 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 customer/facility 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.

*(In thousands of tenge, unless otherwise indicated)***23. Risk management (continued)**

Credit risk (continued)

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 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 finance instruments were derecognised and new finance instruments were 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 portfolio.

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.

Forward-looking information and multiple economic scenarios

In its ECL models, the Bank relies on a 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 obtains the forward-looking information from third party sources (external rating agencies, governmental bodies e.g. central banks, and international financial institutions). Experts of the Bank's Credit Risk Department determine the weights attributable to the multiple scenarios.

<i>Key drivers</i>	<i>ECL scenario</i>	<i>Value</i>	<i>Period</i>
		7.3	2010
		7.4	2011
		4.8	2012
		6.0	2013
		4.2	2014
GDP growth, %	Base case	1.2	2015
		1.1	2016
		4.1	2017
		4.1	2018
		4.5	2019
		(2.1)	2020 (forecast)

(In thousands of tenge, unless otherwise indicated)

23. Risk management (continued)

Credit risk (continued)

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 asset for finance related lines in the statement of financial position, based on the Bank's credit rating system as at 31 December 2020.

	Notes	Reliable borrower	Borrower with minimum risk	Borrower with medium risk	Borrower with high risk	Borrower with unacceptable risk	Total
Receivables from Islamic finance activities	7						
Commodity Murabaha agreements – corporate	Stage 1	308,645	–	–	–	–	308,645
	Stage 2	–	–	3,468,522	841,985	–	4,310,507
	Stage 3	–	–	4,604,522	2,962,092	305,318	7,871,932
Qard Hassan	Stage 1	32,529	–	–	–	–	32,529
Commodity Murabaha agreements – retail	Stage 2	–	4,520	–	–	–	4,520
Loans to customers	8						
Corporate lending	Stage 3	–	–	–	–	19,936	19,936
Bank participation in Wakala and Mudaraba pool	9						
Other financial assets	Stage 3	–	–	–	788,187	1,062,147	1,850,334
	15						
	Stage 3	–	–	5,218	58,052	294,486	357,756
Undrawn commitments on receivables from Islamic finance activities	19						
	Stage 1	272,474	–	–	–	–	272,474
	Stage 3	–	–	54,393	989	–	55,382
Guarantees issued	19						
	Stage 1	3,049,059	–	–	–	–	3,049,059
	Stage 2	–	–	131,702	–	–	131,702
	Stage 3	–	–	3,293,354	230,896	–	3,524,250
Total		3,764,614	4,520	11,557,711	4,882,201	1,681,887	21,890,933

The table below shows the credit quality by class of asset for finance related lines in the statement of financial position, based on the Bank's credit rating system as at 31 December 2019.

	Notes	Reliable borrower	Borrower with minimum risk	Borrower with medium risk	Borrower with high risk	Borrower with unacceptable risk	Total
Receivables from Islamic finance activities	7						
Commodity Murabaha agreements – corporate	Stage 1	1,095,653	–	–	–	–	1,095,653
	Stage 2	–	–	1,389,999	3,650,631	–	5,040,630
	Stage 3	–	–	1,216,524	3,561,373	4,832	4,782,729
Qard Hassan	Stage 1	254	–	–	–	–	254
	Stage 3	–	–	–	3,406	–	3,406
Commodity Murabaha agreements – retail	Stage 1	474	–	–	–	–	474
Loans to customers	8						
Corporate lending	Stage 3	–	–	–	–	26,252	26,252
Bank participation in Wakala and Mudaraba pool	9						
	Stage 1	807	–	–	–	–	807
	Stage 2	–	–	899,675	–	–	899,675
	Stage 3	–	–	–	1,905,020	–	1,905,020
Other financial assets	14						
	Stage 1	117,784	–	–	–	–	117,784
	Stage 3	–	–	129,681	–	–	129,681
Undrawn commitments on receivables from Islamic finance activities	19						
	Stage 1	84,790	–	–	–	–	84,790
Guarantees issued	19						
	Stage 1	5,317,775	–	–	–	–	5,317,775
	Stage 2	–	–	283,578	–	–	283,578
	Stage 3	–	–	53,083	174,103	–	227,186
Total		6,617,537	–	3,972,540	9,294,533	31,084	19,915,694

(In thousands of tenge, unless otherwise indicated)

23. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets (continued)

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit 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.

Payment deferrals and customer support

Support for individuals and small- and medium-sized businesses following imposition of the state of emergency

In accordance with the Order of the Chairman of the Agency No. 167 dated 26 March 2020 *On Approval of the Procedure for Suspension of Payments of Principal Amounts and Interest on Loans to Customers, Small- and Medium-sized Businesses Affected by Imposition of the State of Emergency* (taking into account amendments and additions No. 193 dated 17 April 2020 and No. 223 dated 26 May 2020), a grace period for payment of the principal and profit under Commodity Murabaha agreements and Qard Hassan was provided for payments for the period from 16 March 2020 to 15 June 2020, with the allocation of deferred payments for future periods.

In accordance with the Order of the Chairman of the Agency No. 251 dated 15 June 2020 *On Additional Measures to Support Small- and Medium-sized Businesses* (subject to amendments and additions No. 311 dated 3 August 2020), a grace period for payment of the principal amount under financing agreements was provided for payments falling for the period from 15 June 2020 to 1 October 2020 (but not less than 3 months, unless otherwise specified in the obligor's application), and a grace period for payment of profit under financing agreements was provided for payments falling for the period from 15 June 2020 to 1 October 2020, with the allocation of deferred payments for future periods.

Payments of principal and profit during grace periods from 16 March 2020 to 15 June 2020 (inclusive) and from 15 June 2020 to 1 October 2020 (inclusive) were deferred as follows:

- On unsecured financing of individuals, the profit accrued on the outstanding balance during the grace period was spread until the end of the term of the contract. To maintain the debt burden and prevent an increase in the monthly payment, the financing term was extended for the corresponding period;
- For secured financing of individuals, the profit accrued on the outstanding balance within the grace period was spread over the remaining term of the financing without increasing the term of the financing; and
- On overdue financing as at 16 March 2020, the amount of overdue principal, overdue profit and profit accrued on overdue principal was spread until the end of the financing term. The decision to grant deferral on financing with overdue for more than 90 days to obligors who are not socially vulnerable, recipients of targeted social aid, registered unemployed, was made by the authorised body of the Bank individually.

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

The grace period was granted on the basis of the obligor's application (in any form containing the reason for the suspension of payments) and submitted to the Bank by any available means in the period from 16 March 2020 to 1 October 2020 (inclusive). At that, it was not required to receive an application from obligors belonging to socially vulnerable segments of the population, recipients of targeted social aid, and registered unemployed, but with the information and consent of the obligor in accessible ways, without the requirement of supporting documents.

Granting of the grace period was carried out:

- a) Without receiving and attaching expert reports to the credit files; and
- b) Without signing additional agreements with obligors and without applying any commission and other fees to obligors. Additional agreements with a new payment schedule were signed with obligors after cancellation of the emergency when the obligor applied to the Bank.

(In thousands of tenge, unless otherwise indicated)

23. Risk management (continued)

Credit risk (continued)

*Credit quality per class of financial assets (continued)**Payment deferrals and customer support (continued)*Support for individuals and small- and medium-sized businesses following imposition of the state of emergency (continued)

The table below shows the number of client accounts that are subject to the government programs as at 31 December 2020:

	<i>Commodity Murabaha – corporate</i>	<i>Qard-Hassan</i>	<i>Total</i>
Grace period			
Number of pending applications	–	–	–
Number of approved applications	3	1	4

The table below shows the gross carrying amount and the corresponding ECL by Stages for Commodity Murabaha and Qard-Hassan that are subjects to grace periods provided under the government programs as at 31 December 2020:

	<i>Stage 1</i>	<i>Stage 3</i>	<i>Total</i>
Grace period			
<i>Commodity Murabaha agreements – corporate</i>			
Gross carrying value	–	249,332	249,332
ECL allowance	–	(126,873)	(126,873)
<i>Qard-Hassan</i>			
Gross carrying value	297	–	297
ECL allowance	(1)	–	(1)
<i>Total</i>			
Gross carrying value	297	249,332	249,629
ECL allowance	(1)	(126,873)	(126,874)

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

	<i>2020</i>			<i>2019</i>		
	<i>Kazakhstan</i>	<i>Other countries</i>	<i>Total</i>	<i>Kazakhstan</i>	<i>Other countries</i>	<i>Total</i>
Assets						
Cash and cash equivalents	6,012,303	559,617	6,571,920	3,492,507	1,672,921	5,165,428
Receivables from Islamic finance activities	12,528,133	–	12,528,133	10,923,146	–	10,923,146
Loans to customers	19,936	–	19,936	26,252	–	26,252
Bank participation in Wakala and Mudaraba pool	1,850,334	–	1,850,334	2,805,502	–	2,805,502
Other financial assets	459,663	–	459,663	247,465	–	247,465
Total financial assets	20,870,369	559,617	21,429,986	17,494,872	1,672,921	19,167,793
Liabilities						
Amounts due to credit institutions	–	884,233	884,233	–	673,545	673,545
Amounts due to customers	5,796,467	1,649,961	7,446,428	4,395,443	835,671	5,231,114
Amounts due to Wakala and Mudaraba pool	116,225	16,320	132,545	7,396	573,534	580,930
Provisions for commitments and contingencies	682,123	–	682,123	535,678	–	535,678
Lease liabilities	200,527	–	200,527	202,904	–	202,904
Other financial liabilities	30,031	–	30,031	18,739	–	18,739
Total financial liabilities	6,825,373	2,550,514	9,375,887	5,160,160	2,082,750	7,242,910
Net position	14,044,996	(1,990,897)	12,054,099	12,334,712	(409,829)	11,924,883

Credit related assets and liabilities have been 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 comprise Russian Federation, European Union countries and Turkey.

*(In thousands of tenge, unless otherwise indicated)***23. Risk management (continued)****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 Department is responsible for management of the current open position of the Bank. The Treasury performs the 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 all members of the ALMC are informed appropriately.

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 the Management Board of the Bank, receive the information on the Bank's current liquidity at least on monthly basis and, when the current or expected liquidity positions worsen, on immediate 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 table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

<i>Financial liabilities</i>	<i>2020</i>				<i>Total</i>
	<i>Less than 3 months</i>	<i>From 3 to 12 months</i>	<i>From 1 to 5 years</i>	<i>Over 5 years</i>	
Amounts due to credit institutions	884,233	–	–	–	884,233
Amounts due to customers	6,457,076	–	989,352	–	7,446,428
Amounts due to Wakala and Mudaraba pool	132,545	–	–	–	132,545
Lease liabilities	31,793	95,379	99,682	–	226,854
Other financial liabilities	30,031	–	–	–	30,031
Total undiscounted financial liabilities	7,535,678	95,379	1,089,034	–	8,720,091
<i>Financial liabilities</i>	<i>2019</i>				<i>Total</i>
	<i>Less than 3 months</i>	<i>From 3 to 12 months</i>	<i>From 1 to 5 years</i>	<i>Over 5 years</i>	
Amounts due to credit institutions	673,545	–	–	–	673,545
Amounts due to customers	4,396,625	–	834,489	–	5,231,114
Amounts due to Wakala and Mudaraba pool	580,930	–	–	–	580,930
Lease liabilities	25,101	75,303	137,260	–	237,664
Other financial liabilities	18,739	–	–	–	18,739
Total undiscounted financial liabilities	5,694,940	75,303	971,749	–	6,741,992

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)

23. 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.

	2020				Total
	Less than 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	
Guarantees issued	7,387,134	–	–	–	7,387,134
Undrawn commitments on receivables from Islamic finance activities	–	114,096	213,760	–	327,856
	7,387,134	114,096	213,760	–	7,714,990

	2019				Total
	Less than 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	
Guarantees issued	6,364,217	–	–	–	6,364,217
Undrawn commitments on receivables from Islamic finance activities	–	8,800	75,001	989	84,790
	6,364,217	8,800	75,001	989	6,449,007

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 into non-trading portfolios. Non-trading positions are managed and monitored using other 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.

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, with all other variables held constant 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 statement of comprehensive income or equity, while a positive amount reflects a net potential increase.

Currency	2020		2019	
	Increase in currency rate in %	Effect on profit before tax	Increase in currency rate in %	Effect on profit before tax
US dollar	+14%	15,201	+12%	26,273
Euro	+14%	(94,394)	+12%	(102,224)
Russian ruble	+15%	(44,399)	+12%	(21,223)

(In thousands of tenge, unless otherwise indicated)

23. Risk management (continued)

Market risk (continued)

Currency risk (continued)

<i>Currency</i>	<i>2020</i>		<i>2019</i>	
	<i>Decrease in currency rate in %</i>	<i>Effect on profit before tax</i>	<i>Decrease in currency rate in %</i>	<i>Effect on profit before tax</i>
US dollar	-11%	(11,944)	-9%	(19,705)
Euro	-11%	74,166	-9%	76,668
Russian ruble	-15%	44,399	-12%	21,223

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.

24. Fair value measurement

Fair value hierarchy

At each reporting date, management of the Bank analyses the movements in value 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 appraiser also compares each change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of disclosing the fair values, the Bank determined classes of assets and liabilities based on the nature, characteristics and risks of those assets and liabilities as well as the hierarchy of fair value sources.

	<i>Date of valuation</i>	<i>Fair value measurement using</i>			<i>Total</i>
		<i>Quoted prices in active markets (Level 1)</i>	<i>Significant observable inputs (Level 2)</i>	<i>Significant unobservable inputs (Level 3)</i>	
<i>2020</i>					
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2020	866,686	5,705,234	–	6,571,920
Receivables from Islamic finance activities	31 December 2020	–	–	12,236,402	12,236,402
Loans to customers	31 December 2020	–	–	19,936	19,936
Bank participation in Wakala and Mudaraba pool	31 December 2020	–	–	1,850,334	1,850,334
Other financial assets	31 December 2020	–	–	459,663	459,663
Liabilities for which fair values are disclosed					
Amounts due to credit institutions	31 December 2020	–	884,233	–	884,233
Amounts due to customers	31 December 2020	–	7,446,428	–	7,446,428
Amounts due to Wakala and Mudaraba pool	31 December 2020	–	132,545	–	132,545
Lease liabilities	31 December 2020	–	–	200,257	200,257
Other financial liabilities	31 December 2020	–	–	30,031	30,031

(In thousands of tenge, unless otherwise indicated)

24. Fair value measurement (continued)

Fair value hierarchy (continued)

2019	Date of valuation	Fair value measurement using			Total
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2019	348,031	4,817,397	–	5,165,428
Receivables from Islamic finance activities	31 December 2019	–	–	10,444,271	10,444,271
Loans to customers	31 December 2019	–	–	26,252	26,252
Bank participation in Wakala and Mudaraba pool	31 December 2019	–	–	2,805,502	2,805,502
Other financial assets	31 December 2019	–	–	247,465	247,465
Liabilities for which fair values are disclosed					
Amounts due to credit institutions	31 December 2019	–	673,545	–	673,545
Amounts due to customers	31 December 2019	–	5,231,114	–	5,231,114
Amounts due to Wakala and Mudaraba pool	31 December 2019	–	580,930	–	580,930
Lease liabilities	31 December 2019	–	–	202,904	202,904
Other financial liabilities	31 December 2019	–	–	18,739	18,739

During 2020 and 2019, there were no transfers between levels of the fair value hierarchy.

Financial instruments not carried at fair value in the statement of financial position

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

	2020			2019		
	Carrying amount	Fair value	Unrecognised gain/(loss)	Carrying amount	Fair value	Unrecognised gain/(loss)
Financial assets						
Cash and cash equivalents	6,571,920	6,571,920	–	5,165,428	5,165,428	–
Receivables from Islamic finance activities	12,528,133	12,236,402	(291,731)	10,923,146	10,444,271	(478,875)
Loans to customers	19,936	19,936	–	26,252	26,252	–
Bank participation in Wakala and Mudaraba pool	1,850,334	1,850,334	–	2,805,502	2,805,502	–
Other financial assets	459,663	459,663	–	247,465	247,465	–
Financial liabilities						
Amounts due to credit institutions	884,233	884,233	–	673,545	673,545	–
Amounts due to customers	7,446,428	7,446,428	–	5,231,114	5,231,114	–
Amounts due to Wakala and Mudaraba pool	132,545	132,545	–	580,930	580,930	–
Lease liabilities	200,527	200,527	–	202,904	202,904	–
Other financial liabilities	30,031	30,031	–	18,739	18,739	–
Total unrecognised change in unrealised fair value			(291,731)			(478,875)

*(In thousands of tenge, unless otherwise indicated)***24. Fair value measurement (continued)**

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 amount. 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 the quoted notes and bonds is based on price quotations at the reporting date. The fair value of unquoted instruments, receivables from Islamic finance activities, loans to customers, customer deposits, amounts due from credit institutions and credit institutions and other financial assets and liabilities, obligations under finance leases is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

25. 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 23 "Risk Management"* for the Bank's contractual undiscounted repayment obligations.

	2020			2019		
	<i>Within one year</i>	<i>More than one year</i>	<i>Total</i>	<i>Within one year</i>	<i>More than one year</i>	<i>Total</i>
Cash and cash equivalents	6,571,920	–	6,571,920	5,165,428	–	5,165,428
Receivables from Islamic finance activities	5,603,082	6,925,051	12,528,133	4,168,856	6,754,290	10,923,146
Loans to customers	19,936	–	19,936	–	26,252	26,252
Bank participation in Wakala and Mudaraba pool	1,467,781	382,553	1,850,334	2,805,502	–	2,805,502
Property and equipment	–	49,078	49,078	–	48,616	48,616
Intangible assets	–	17,962	17,962	–	9,134	9,134
Inventory	190,565	–	190,565	190,565	–	190,565
Current corporate income tax assets	16,779	–	16,779	56,277	–	56,277
Deferred corporate income tax assets	–	48,387	48,387	–	31,910	31,910
Right-of-use assets	–	195,851	195,851	–	196,314	196,314
Other assets	488,926	415,918	904,844	352,728	228,601	581,329
Total	14,358,989	8,034,800	22,393,789	12,739,356	7,295,117	20,034,473
Amounts due to credit institutions	884,233	–	884,233	673,545	–	673,545
Amounts due to customers	6,457,076	989,352	7,446,428	4,410,354	820,760	5,231,114
Amounts due to Wakala and Mudaraba pool	132,545	–	132,545	580,930	–	580,930
Provisions for commitments and contingencies	–	682,123	682,123	–	535,678	535,678
Lease liabilities	120,174	80,353	200,527	100,404	102,500	202,904
Other liabilities	189,857	–	189,857	154,968	–	154,968
Total	7,783,885	1,751,828	9,535,713	5,920,201	1,458,938	7,379,139
Net assets	6,575,104	6,282,972	12,858,076	6,819,155	5,836,179	12,655,334

*(In thousands of tenge, unless otherwise indicated)***26. 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.

The amount of related party transactions and balances as at 31 December 2020 and 2019, as well as the respective amounts of income and expenses for the years then ended are as follows:

	2020				2019			
	<i>Share-holders</i>	<i>Entities under common control</i>	<i>Key management personnel</i>	<i>Other related parties</i>	<i>Share-holders</i>	<i>Entities under common control</i>	<i>Key management personnel</i>	<i>Other related parties</i>
Receivables from Islamic finance activities as at 1 January	–	–	–	461,226	–	–	–	656,933
Issued during the year	–	–	–	18,800	–	–	–	–
Repaid during the year	–	–	–	(232,042)	–	–	–	(195,707)
Receivables from Islamic finance activities as at 31 December	–	–	–	247,984	–	–	–	461,226
Current accounts as at 31 December	896	228	2,865	1,704	2	285	3,972	3,443

The income and expense arising from transactions with related parties for the years ended 31 December 2020 and 2019 were as follows:

	2020				2019			
	<i>Share-holders</i>	<i>Entities under common control</i>	<i>Key management personnel</i>	<i>Other related parties</i>	<i>Share-holders</i>	<i>Entities under common control</i>	<i>Key management personnel</i>	<i>Other related parties</i>
Revenue from Commodity Murabaha agreements	–	–	–	31,825	–	–	–	45,425
Fee and commission income	68	988	–	185	31	990	44	1,082
Other operating expenses	(4,211)	–	(60,917)	(11,758)	–	–	(19,632)	(358)

Below is the information about compensation of 5 members of key management personnel:

	2020	2019
Salaries and other short-term benefits	(65,633)	(53,731)
Social security costs	(5,022)	(4,608)
Total key management personnel compensation	(70,655)	(58,339)

27. 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 the Bank to maintain a capital adequacy ratio (Tier 1) of not less than 6.5% of the total assets and a capital adequacy ratio (Tier 2) 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)***27. Capital adequacy (continued)**

As at 31 December 2020 and 2019, the Bank's capital adequacy ratios on this basis exceeded the required minimums.

The following table shows the composition of the Bank's capital position calculated in accordance with the NBRK requirements as at 31 December 2020 and 2019:

	<i>2020</i>	<i>2019</i>
Tier 1 capital	12,840,114	12,646,200
Total capital	12,840,114	12,646,200
Risk weighted assets and liabilities, possible claims and liabilities	24,342,167	18,415,807
Operational risk	1,076,059	916,099
Market risk	674,200	851,863
Risk weighted statutory assets, contingent liabilities, operational and market risk	26,092,426	20,183,769
Capital adequacy ratio k1-1 (minimum 5.5%)	49%	50%
Capital adequacy ratio k1-2 (minimum 6.5%)	49%	50%
Capital adequacy ratio k2 (minimum 7.5%)	49%	50%

28. 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.