“Al Hilal” Islamic Bank” JSC

Financial statements

For 2020
together with independent auditor’s report

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Independent auditor's report

To the Shareholder and Board of Directors of
"Al Hilal" Islamic Bank" JSC

Opinion

We have audited the financial statements of "Al Hilal" Islamic 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.

Other matter

The financial statements of the Bank for the year ended 31 December 2019 were audited by another auditor who expressed an unmodified opinion on those statements on 14 April 2020.

Responsibilities of management and Board of Directors for the financial statements

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

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

The Board of Directors 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.

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- 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

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

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Al-Farabi ave., 77/7, Esentai Tower

29 April 2021

STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

(In thousands of tenge)

	Notes	*2020*	*2019*
Assets			
Cash and cash equivalents	6	**24,597,347**	16,767,871
Receivables under Murabaha agreements	7	**23,234,555**	13,674,208
Wakala investment deposits		**–**	1,529,800
Ijara	8	**239,188**	333,872
Property and equipment and right-of-use assets	9	**1,102,758**	1,448,554
Intangible assets	10	**173,911**	188,533
Current corporate income tax assets	11	**152,138**	76,480
Deferred corporate income tax assets	11	**76,223**	113,380
Other assets	12	**191,452**	224,849
Total assets		**49,767,572**	34,357,547
Liabilities			
Amounts due to other banks	13	**83,333**	124,423
Amounts due to customers	14	**18,113,429**	14,578,635
Amounts due to Wakala and Mudaraba pool	15	**2,263,234**	628,479
Reverse Murabaha	16	**10,215,312**	–
Lease liabilities	17	**549,096**	934,905
Unamortised commission income	18	**40,977**	45,942
Provisions	24	**328,216**	68,106
Other liabilities	12	**426,900**	661,780
Total liabilities		**32,020,497**	17,042,270
Equity			
Share capital	19	**10,732,338**	10,732,338
Retained earnings		**7,014,737**	6,582,939
Total equity		**17,747,075**	17,315,277
Total liabilities and equity		**49,767,572**	34,357,547

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

Gordon Haskins — Chairman of the Management Board

Aidyn Tairov — Chief Accountant

29 April 2021

The accompanying notes on pages 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)

	Notes	*2020*	*2019*
Revenue from Islamic finance activities			
Revenue from Ijara and receivables under Murabaha agreements	20	2,576,343	2,005,339
Revenue from Wakala investment deposits	20	3,772	39,616
		2,580,115	2,044,955
Finance expenses			
Expenses from Islamic finance activities	20	(569,583)	–
Expenses from lease liabilities	20	(64,907)	(88,832)
		(634,490)	(88,832)
Net revenue from Islamic finance activities		1,945,625	1,956,123
Credit loss expense	21	(133,550)	(46,645)
Net revenue after credit loss expense		1,812,075	1,909,478
Net fee and commission income	22	1,218,814	1,820,755
Net gains from foreign currencies:			
- Dealing		263,359	206,620
- Translation differences		(15,965)	(57,548)
Non-finance income		1,466,208	1,969,827
Personnel expenses	23	(1,328,873)	(1,473,693)
Other operating expenses	23	(1,129,094)	(991,996)
Other provisions	24	(258,928)	204,530
Non-finance expenses		(2,716,895)	(2,261,159)
Profit before corporate income tax expense		561,388	1,618,146
Corporate income tax expense	11	(129,590)	(232,367)
Profit for the year		431,798	1,385,779
Other comprehensive income		–	–
Total comprehensive income for the year		431,798	1,385,779

The accompanying notes on pages 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)

	Share capital	*Retained earnings*	*Total equity*
As at 1 January 2019	10,732,338	5,197,160	15,929,498
Profit for the year	–	1,385,779	1,385,779
Total comprehensive income for the year	–	1,385,779	1,385,779
As at 31 December 2019	10,732,338	6,582,939	17,315,277
Profit for the year	–	431,798	431,798
Total comprehensive income for the year	–	431,798	431,798
As at 31 December 2020	10,732,338	7,014,737	17,747,075

The accompanying notes on pages 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)

	Notes	*2020*	*2019*
Cash flows from operating activities			
Revenue received from Islamic finance activities		2,337,029	2,044,955
Expenses from Islamic finance activities paid		(354,271)	–
Fees and commissions received		1,289,982	1,878,981
Fees and commissions paid		(75,033)	(65,163)
Net realised gains from dealing in foreign currencies		263,359	206,620
Personnel expenses paid		(1,450,275)	(1,064,977)
Other operating expenses paid		(620,111)	(460,480)
Cash flows from operating activities before changes in operating assets and liabilities		1,390,680	2,539,936
Net (increase)/decrease in operating assets			
Receivables under Murabaha agreements		(9,506,475)	(5,264,444)
Wakala investment deposits		1,721,243	(1,408,163)
Ijara		89,857	173,985
Other assets		10,475	53,856
Net (decrease)/increase in operating liabilities			
Amounts due to other banks		(38,669)	91,021
Amounts due to customers		2,663,455	(3,083,198)
Amounts due to Wakala and Mudaraba pool		1,634,755	96,414
Reverse Murabaha		10,000,000	–
Other liabilities		(34,586)	(192,775)
Net cash flows from / (used in) operating activities before corporate income tax		7,930,735	(6,993,368)
Corporate income tax paid		(168,091)	(154,673)
Net cash flows from / (used in) operating activities		7,762,644	(7,148,041)
Cash flows from investing activities			
Purchase of property and equipment	9	(167,990)	(261,045)
Purchase of intangible assets	10	(54,827)	(86,315)
Net cash flows used in investing activities		(222,817)	(347,360)
Cash flows from financing activities			
Lease payments	17	(450,716)	(377,038)
Net cash flows used in financing activities		(450,716)	(377,038)
Effect of exchange rates changes on cash and cash equivalents		697,939	(198,352)
Effect of expected credit losses on cash and cash equivalents		42,426	(42,818)
Net increase/(decrease) in cash and cash equivalents		7,829,476	(8,113,609)
Cash and cash equivalents, as at 1 January		16,767,871	24,881,480
Cash and cash equivalents, as at 31 December	6	24,597,347	16,767,871

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

(In thousands of tenge, unless otherwise indicated)

1. Principal activities

"Al Hilal" Islamic Bank" JSC (hereinafter – the "Bank") was formed on 22 January 2010 as a joint stock company under the laws of the Republic of Kazakhstan. The Bank operates under a general banking license No. 1.1.261 issued by the Agency for Regulation and Supervision of Financial Markets and Financial Organizations on 17 March 2010 and re-issued by the National Bank of the Republic of Kazakhstan (hereinafter – the "NBRK") on 3 February 2020.

The Bank is involved in Islamic banking activities and carries out its operations through its head office in Almaty and branches in Almaty, Nur-Sultan and Shymkent. The Bank accepts deposits from the public and conducts finance transactions based on Sharia principles and rules, transfers payments within the Republic of Kazakhstan and abroad, exchanges currencies and provides other banking services to its commercial customers.

The sole shareholder of the Bank is Al Hilal Bank PJSC (Abu Dhabi, United Arab Emirates), the sole shareholder of which is Abu Dhabi Commercial Bank PJSC ("ADCB") (Abu Dhabi, United Arab Emirates). The majority shareholder of the ADCB is the Government of Abu Dhabi, represented by Abu Dhabi Investment Council.

The registered and actual address of the Bank is: Republic of Kazakhstan, Almaty, Al-Farabi Ave. 77/7, Esentai Tower.

2. Basis of preparation

General

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

The financial statements are prepared under the historical cost convention. The financial statements are presented in thousands of tenge ("tenge" or "KZT"), 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 "AFR") 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.

To the extent that information is available as at 31 December 2020, the Bank has reflected revised estimates of expected future cash flows in its expected credit loss (ECL) assessment *(Note 7)*.

3. Definition of significant terms

Sharia

The provisions of Islamic law derived from the Holy Qur'an, Prophetic Tradition "Sunnah", or binding authority of the dicta and decisions of the Prophet Mohammed (peace be upon him), ijma, or "consensus" of the community of Islamic scholars, and the qiyas, or analogical deductions as well as other Islamic law evidence, as may be determined or deduced by the Board. 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, Home Murabaha, Tawarruq and Reverse Murabaha

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

(In thousands of tenge, unless otherwise indicated)

3. Definition of significant terms (continued)

Ijara

Leasing of an identified asset ending with ownership transfer (also known as Ijara Muntahia Bitamleek) or leasing of a specified asset which will be constructed or manufactured with ownership transfer (also known as Ijarah Mawsufa Fi Zima and Muntahiya Bitamleek), Ijara 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 it obligation during or at the end of the lease term.

Mudaraba

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

Depositors pool

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

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

Wakala

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

Zakah

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

Qard Hassan

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

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 at fair value at each balance sheet date.

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

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

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

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

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

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.

Receivables from Islamic finance activities

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 ECL allowance.

Islamic finance activities are funded from two sources: 1) the Bank's own funds which are accounted on balance sheet; 2) funds received under Wakala and Mudaraba agreements; and 3) customers current and vostro accounts. 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 balance sheet. However, in relation to a restricted Wakala deposit, the Bank has the right to reject the customer's application for the termination of the restricted Wakala due to the non-maturing of the invested asset.

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 each asset's contractual terms, measured at either:

- Amortised cost;
- FVPL.

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

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

Amounts due from financing institutions, financing to customers at amortised cost

The Bank only measures amounts due from financing institutions, financing to customers and other financial investments 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 (SPPP).

The details of these conditions are outlined below.

(In thousands of tenge, unless otherwise indicated)

4. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Initial measurement (continued)

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.

The SPPP test

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

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

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

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

Financial guarantees, letters of credit and undrawn financing commitments

The Bank issues financial guarantees, letters of credit and financing commitments.

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

Undrawn financing commitments and letters of credit are commitments under which, over the duration of the commitment, the Bank is required to provide a 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 financing risk as per Shariah Board instruction. The risk under performance guarantee contracts is the possibility that the failure to perform the contractual obligation by another party occurs. Therefore, performance guarantees are not considered financial instruments and thus do not fall in scope of IFRS 9.

(In thousands of tenge, unless otherwise indicated)

4. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Reclassification of financial assets and liabilities

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

Cash and cash equivalents

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

Financing obligations

Financing obligations are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation to deliver cash or return a financial obligation amount to the counter party under Reverse Murabaha. Such instruments include amounts due to financing institutions. After initial recognition, financing obligations are subsequently measured at amortised cost using the effective profit method. Gains and losses are recognised in profit or loss when the financing obligations 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 1,900 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.

(In thousands of tenge, unless otherwise indicated)

4. Summary of accounting policies (continued)

Leases (continued)

ii. Operating – Bank as a lessor

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

iii. Ijara Muntahia Bitamleek (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.

For leasing of an identified asset ending with ownership transfer (also known as Ijara Muntahia Bitamleek), the Bank recognises Ijara assets at value equal to the net investment in the lease, starting from the date of commencement of the lease term. However, for leasing of a specified asset which will be constructed or manufactured with ownership transfer (also known as Ijarah Mawsufa Fi Zima and Muntahiya Bitamleek), the Bank recognises the Ijarah asset from the time of delivery of the asset and starting commencement of the lease term. Rental 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 financing under Ijara agreements.

Offsetting of financial instruments

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

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

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

Renegotiated financings

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, 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 is deemed to be purchased or originated credit-impaired (POCI). When assessing whether or not to derecognise a financing to a customer, amongst others, the Bank considers the following factors:

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

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original effective profit rate, the Bank records a modification gain or loss, presented within profit revenue calculated using effective profit rate in the statement of comprehensive income, 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 6-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.

(In thousands of tenge, unless otherwise indicated)

4. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

Write-off

Financial assets are written off 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 amount. 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 the profit or loss.

Taxation

Current corporate income tax expenses are 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 income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, 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 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.

(In thousands of tenge, unless otherwise indicated)

4. Summary of accounting policies (continued)

Property and equipment

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

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

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

	Years
Buildings	20
Leasehold improvements	7
Motor vehicles	4
Furniture and fixtures	4
Computers and office equipment	4

Assets' 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 are carried at cost less any accumulated amortisation. Intangible assets are amortised on a straight-line basis over the useful economic lives of 4 years and assessed for impairment whenever there is an indication that the intangible assets may be impaired.

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

Common shares with discretionary dividends 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 the equity.

Fiduciary assets

Assets held in a fiduciary capacity under Wakala and Mudaraba agreements are not reported in the financial statements, as they are not the assets of the Bank.

Since the Bank carries no risk and is not responsible for any losses incurred during normal investment activity for Mudaraba and Wakala products, unless this happened due to the Bank's gross negligence or willful misconduct, both Wakala and Mudaraba deposits are accounted for as off balance sheet items.

Contingent assets and liabilities

Contingent liabilities are not recognised in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. Contingent assets are not recognised in the statement of financial position but are 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 amount 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 financing losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective profit rate and the change in carrying amount is recorded as profit revenue or expense.

When a financial asset becomes 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 financing losses) to the amortised cost of the POCI assets.

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

Fee and commission income

Fees earned for the provision of services over a period are accrued over that period. These fees include commission income, Mudarib share of profit, Wakil's incentive and agency fee under Wakala agreements.

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, converted at the rate of exchange prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into tenge at the market exchange rate quoted by the Kazakhstan Stock Exchange (the "KASE") and communicated by the NBRK at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of comprehensive income as net gains/(losses) from 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 net gains/(losses) from foreign currencies – dealing. The market exchange rates quoted by KASE at 31 December 2020 and 2019 were KZT 420.91 and KZT 382.59 to USD 1, respectively.

Standards issued but not yet effective

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

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

(In thousands of tenge, unless otherwise indicated)

4. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

IFRS 17 Insurance Contracts (continued)

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 financer, including fees paid or received by either the obligor or financer 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 judgements and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgements 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.

To the extent that information was available as at 31 December 2020, the Bank has reflected revised estimates of expected future cash flows in its ECL measurement.

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 (IBR) to measure lease liabilities. The IBR is the rate of profit 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 IBR 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 IBR using observable inputs (such as market profit rates) when available and is required to make certain entity-specific estimates.

Contingent liability arising from litigations

Due to the nature of its operations, the Bank may be involved in litigations arising in the ordinary course of business. Provision for contingent liabilities arising from litigations is based on the probability of outflow of economic resources and reliability of estimating such outflow. Such matters are subject to many uncertainties and the outcome of individual matters is not predictable with certainty.

(In thousands of tenge, unless otherwise indicated)

5. Significant accounting judgments and estimates (continued)

Estimation uncertainty (continued)

Impairment losses on receivables under Murabaha, Wakala investment deposits and Ijara

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. 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) to the individual grades;
- 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, economic inputs and collateral values, and the effect on PDs, exposure at default (EADs) and loss given default (LGDs); and
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

6. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	2020	*2019*
Cash on hand	1,645,183	766,101
Current account with the NBRK	6,423,150	1,667,897
Murabaha Treasury Tawarruq with the NBRK	8,001,778	5,701,306
Current accounts with other financial institutions	8,559,308	8,704,943
	24,629,419	16,840,247
Less: ECL allowance	(32,072)	(72,376)
Cash and cash equivalents	24,597,347	16,767,871

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

As at 31 December 2020, obligatory reserves are equal to KZT 877,645 thousand (as at 31 December 2019: KZT 463,090 thousand).

All balances of cash equivalents are allocated to Stage 1 for ECL measurement purpose. An analysis of changes in the ECL allowances during the years ended 31 December are as follows:

	2020	*2019*
ECL allowance as at 1 January	(72,376)	(29,627)
Net changes in ECL *(Note 21)*	42,426	(42,333)
Foreign exchange adjustments	(2,122)	(416)
As at 31 December	(32,072)	(72,376)

(In thousands of tenge, unless otherwise indicated)

7. Receivables under Murabaha agreements

Receivables under Murabaha agreements comprise the following:

	2020	*2019*
Receivables under Commodity Murabaha agreements – corporate	19,629,000	11,760,646
Receivables under Home Murabaha agreements – retail	3,669,535	1,936,437
Receivables under Commodity Murabaha agreements – retail	228,843	79,494
Gross receivables under Murabaha agreements	23,527,378	13,776,577
Less: ECL allowance	(292,823)	(102,369)
Receivables under Murabaha agreements	23,234,555	13,674,208

As at 31 December 2020, receivables under Murabaha agreements bear profit rate of 9.00%-17.00% per annum (as at 31 December 2019: 9.00%-14.35% per annum) and mature in 2021-2035 (as at 31 December 2019: 2020-2035).

Concentration of receivables under Murabaha agreements

Receivables under Murabaha agreements are made within the Republic of Kazakhstan in the following industry sectors:

	2020	*2019*
Energy supply	7,733,999	4,522,466
Trade	4,514,351	4,411,980
Home Murabaha – retail	3,669,535	1,936,437
Transportation	2,544,509	–
Agriculture	2,042,791	1,018,046
Food trading	1,311,827	1,808,154
Construction	1,083,484	–
Commodity Murabaha – retail	228,843	79,494
Other	398,039	–
Gross receivables under Murabaha agreements	23,527,378	13,776,577
Less: ECL allowance	(292,823)	(102,369)
Receivables under Murabaha agreements	23,234,555	13,674,208

ECL allowance of receivables under Murabaha agreements

An analysis of changes in the gross carrying value and corresponding ECL allowance in relation to receivables under Commodity Murabaha agreements – corporate during the year ended 31 December 2020 is as follows:

Receivables under Commodity Murabaha agreements – corporate	*Stage 1*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2020	11,760,646	–	11,760,646
New assets originated	29,523,219	–	29,523,219
Assets paid	(21,586,304)	–	(21,586,304)
Transfers to Stage 3	(1,311,827)	1,311,827	–
Changes to contractual cash flows due to modifications not resulting in derecognition	(38,003)	(30,558)	(68,561)
As at 31 December 2020	18,347,731	1,281,269	19,629,000

Receivables under Commodity Murabaha agreements – corporate	*Stage 1*	*Stage 3*	*Total*
ECL allowance as at 1 January 2020	(101,968)	–	(101,968)
New assets originated	(217,003)	–	(217,003)
Assets paid	95,611	–	95,611
Transfers to Stage 3	4,842	(4,842)	–
Impact on period end ECL of exposures transferred between stages during the period	–	(98,866)	(98,866)
Changes due to modifications not resulting in derecognition	475	30,558	31,033
As at 31 December 2020	(218,043)	(73,150)	(291,193)

(In thousands of tenge, unless otherwise indicated)

7. Receivables under Murabaha agreements (continued)

ECL allowance of receivables under Murabaha agreements (continued)

An analysis of changes in the gross carrying value and corresponding ECL allowance in relation to receivables under Home Murabaha agreements – retail during the year ended 31 December 2020 is as follows:

Receivables under Home Murabaha agreements – retail	*Stage 1*	*Total*
Gross carrying value as at 1 January 2020	1,936,437	1,936,437
New assets originated	2,056,373	2,056,373
Assets paid	(323,275)	(323,275)
As at 31 December 2020	3,669,535	3,669,535

Receivables under Home Murabaha agreements – retail	*Stage 1*	*Total*
ECL allowance as at 1 January 2020	(401)	(401)
New assets originated	(809)	(809)
As at 31 December 2020	(1,210)	(1,210)

An analysis of changes in the gross carrying value and corresponding ECL allowance in relation to receivables under Commodity Murabaha agreements – retail during the year ended 31 December 2020 is as follows:

Receivables under Commodity Murabaha agreements – retail	*Stage 1*	*Total*
Gross carrying value as at 1 January 2020	79,494	79,494
New assets originated	174,417	174,417
Assets paid	(25,068)	(25,068)
As at 31 December 2020	228,843	228,843

Receivables under Commodity Murabaha agreements – retail	*Stage 1*	*Total*
ECL allowance as at 1 January 2020	–	–
New assets originated	(420)	(420)
As at 31 December 2020	(420)	(420)

An analysis of changes in the gross carrying value and corresponding ECL allowance in relation to receivables under Commodity Murabaha agreements – corporate during the year ended 31 December 2019 is as follows:

Receivables under Commodity Murabaha agreements – corporate	*Stage 1*	*Total*
Gross carrying value as at 1 January 2019	8,104,101	8,104,101
New assets originated	5,965,500	5,965,500
Assets paid	(2,308,955)	(2,308,955)
As at 31 December 2019	11,760,646	11,760,646

Receivables under Commodity Murabaha agreements – corporate	*Stage 1*	*Total*
ECL allowance as at 1 January 2019	(72,257)	(72,257)
New assets originated	(124,296)	(124,296)
Assets paid	94,585	94,585
As at 31 December 2019	(101,968)	(101,968)

An analysis of changes in the gross carrying value and corresponding ECL allowance in relation to receivables under Home Murabaha agreements – retail during the year ended 31 December 2019 is as follows:

Receivables under Home Murabaha agreements – retail	*Stage 1*	*Total*
Gross carrying value as at 1 January 2019	378,554	378,554
New assets originated	1,663,823	1,663,823
Asset paid	(105,940)	(105,940)
As at 31 December 2019	1,936,437	1,936,437

(In thousands of tenge, unless otherwise indicated)

7. Receivables under Murabaha agreements (continued)

ECL allowance of receivables under Murabaha agreements (continued)

Receivables under Home Murabaha agreements – retail	*Stage 1*	*Total*
ECL allowance as at 1 January 2019	(159)	(159)
New assets originated	(870)	(870)
Asset paid	628	628
As at 31 December 2019	(401)	(401)

An analysis of changes in the gross carrying value and corresponding ECL allowance in relation to receivables under Commodity Murabaha agreements – retail during the year ended 31 December 2019 is as follows:

Receivables under Commodity Murabaha agreements – retail	*Stage 1*	*Total*
Gross carrying value as at 1 January 2019	29,292	29,292
New assets originated	50,202	50,202
As at 31 December 2019	79,494	79,494

As at 31 December 2020, the Bank has introduced certain changes in its process of estimation of ECL in the context of the ongoing COVID-19 pandemic. In particular, it 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 a financing modification being part of the Government support measures. The Bank also updated forward-looking information, including forecasts of macroeconomic indicators and scenarios’ weights.

The table below demonstrates the additional adjustments made by management in assessing the ECL already recorded as at 31 December 2020 for those financings for which there was an increase in credit risk as a result of the COVID-19 pandemic:

	Modelled ECL	*Post-model adjustments*	*Total ECL*	*Adjustments as a % of total ECL*
Receivables under Commodity Murabaha agreements – corporate	151,227	139,966	291,193	48%
Receivables under Home Murabaha agreements – retail	325	885	1,210	62%
Receivables under Commodity Murabaha agreements – retail	319	101	420	47%
Total	151,871	140,952	292,823	48%

Post-model adjustments

Post-model adjustments represent adjustments in relation to data and model limitations as a result of the COVID-19 pandemic economic disruption and its negative impact on macroeconomic indicators. The adjustments are based on a combination of portfolio level credit risk analysis and an evaluation of ECL coverage at an exposure level. They include the effect of Government and other support programs.

Modified and restructured financings

The Bank derecognises a financial asset, such as a financing 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 is classified as Stage 1 for ECL measurement purposes, unless the new financing 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.

During 2020, the Bank has modified the terms and conditions of certain mortgage and consumer financing, 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 receivables under Murabaha agreements, not resulting in derecognition in the amount of KZT 68,561 thousand.

(In thousands of tenge, unless otherwise indicated)

7. Receivables under Murabaha agreements (continued)

Modified and restructured financings (continued)

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

	2020	*2019*
Financing modified during the period		
Amortised cost before modification	1,306,985	–
Net losses on modification of receivables under Murabaha agreements not resulting in derecognition	(30,558)	–

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 arising from Murabaha agreements are secured by real estate, movable property, inventory, cash collateral, corporate and personal guarantees. Management monitors the market value of collateral and requests additional collateral in accordance with the underlying agreement, during its review of the adequacy of the allowance for impairment on receivables under Murabaha agreements.

In absence of collateral or other credit enhancements, ECL allowance in respect of Stage 3 receivables under Murabaha agreements to customers as at 31 December 2020 would have been higher by:

	2020
Receivables under Commodity Murabaha agreements – corporate	1,208,119
Total	1,208,119

8. Ijara

Ijara represent net investment in assets leased for periods which either approximate or cover major part of the estimated useful lives of such assets. The documentation for Ijara includes a separate undertaking from the Bank to sell the leased assets to the lessee upon maturity of the lease:

As at 31 December 2020	*Not later than 1 year*	*Later than 1 year and not later than 5 years*	*Total*
Minimum Ijara payments – corporate	224,898	33,417	258,315
Less: future rental (deferred income) – corporate	(14,205)	(4,922)	(19,127)
Discounted value of minimum Ijara	210,693	28,495	239,188

As at 31 December 2019	*Not later than 1 year*	*Later than 1 year and not later than 5 years*	*Total*
Minimum Ijara payments – corporate	210,910	170,443	381,353
Less: future rental (deferred income) – corporate	(14,126)	(33,355)	(47,481)
Discounted value of minimum Ijara	196,784	137,088	333,872

As at 31 December 2020 and 2019, Ijara transactions bear profit rate of 15% per annum and mature in 2021. Ijara are made within the Republic of Kazakhstan in the trade industry sector.

As at 31 December 2020 and 2019, the Bank has no counterparties under Ijara, whose Ijara balances exceed 10% of the Bank's equity.

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

Ijara	*Stage 1*	*Stage 2*	*Total*
Gross carrying value as at 1 January 2020	333,872	–	333,872
Assets paid	(94,684)	–	(94,684)
Transfers to Stage 2	(239,188)	239,188	–
As at 31 December 2020	–	239,188	239,188

(In thousands of tenge, unless otherwise indicated)

8. Ijara (continued)

ECL allowance of Ijara

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

Ijara	*Stage 1*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2019	–	507,857	507,857
Assets paid	–	(173,985)	(173,985)
Transfers to Stage 1	333,872	(333,872)	–
As at 31 December 2019	333,872	–	333,872

Ijara	*Stage 1*	*Stage 3*	*Total*
ECL allowance as at 1 January 2019	–	41,982	41,982
Assets paid	(41,982)	–	(41,982)
Transfers to Stage 1	41,982	(41,982)	–
As at 31 December 2019	–	–	–

9. Property and equipment and right-of-use assets

Movements in property and equipment and right-of-use assets are as follows:

	Buildings	*Leasehold improve-ments*	*Motor vehicles*	*Furniture and fixtures*	*Computers and other office equipment*	*Right-of-use assets*	*Total*
Cost							
As at 1 January 2019	221,969	298,570	22,557	116,175	171,461	–	830,732
Effect of adopting IFRS 16	–	–	–	–	–	1,223,111	1,223,111
Additions	–	199,769	–	41,747	19,529	–	261,045
Disposals	–	–	–	(354)	–	–	(354)
As at 31 December 2019	221,969	498,339	22,557	157,568	190,990	1,223,111	2,314,534
Additions	–	1,985	–	13,596	152,409	–	167,990
Disposals	–	–	–	(2,180)	(1,189)	(658)	(4,027)
As at 31 December 2020	221,969	500,324	22,557	168,984	342,210	1,222,453	2,478,497
Accumulated depreciation							
As at 1 January 2019	(83,461)	(163,050)	(22,557)	(60,340)	(61,753)	–	(391,161)
Charge for the year	(11,025)	(71,838)	–	(25,033)	(40,190)	(327,087)	(475,173)
Disposals	–	–	–	354	–	–	354
As at 31 December 2019	(94,486)	(234,888)	(22,557)	(85,019)	(101,943)	(327,087)	(865,980)
Charge for the year	(11,025)	(84,505)	–	(30,309)	(47,323)	(339,966)	(513,128)
Disposals	–	–	–	2,180	1,189	–	3,369
As at 31 December 2020	(105,511)	(319,393)	(22,557)	(113,148)	(148,077)	(667,053)	(1,375,739)
Net book value							
As at 1 January 2019	138,508	135,520	–	55,835	109,708	–	439,571
As at 31 December 2019	127,483	263,451	–	72,549	89,047	896,024	1,448,554
As at 31 December 2020	116,458	180,931	–	55,836	194,133	555,400	1,102,758

Right-of-use assets are represented by the Bank's right to use office premises. The average lease term is 5 years.

(In thousands of tenge, unless otherwise indicated)

10. Intangible assets

Movements in intangible assets are as follows:

	Licenses	*Computer software*	*Total*
Cost			
As at 1 January 2019	65,544	148,779	214,323
Additions	45,181	41,134	86,315
As at 31 December 2019	110,725	189,913	300,638
Additions	34,961	19,866	54,827
As at 31 December 2020	145,686	209,779	355,465
Accumulated amortisation			
As at 1 January 2019	(11,888)	(43,874)	(55,762)
Charge for the year	(9,155)	(47,188)	(56,343)
As at 31 December 2019	(21,043)	(91,062)	(112,105)
Charge for the year	(10,668)	(58,781)	(69,449)
As at 31 December 2020	(31,711)	(149,843)	(181,554)
Net book value			
As at 1 January 2019	53,656	104,905	158,561
As at 31 December 2019	89,682	98,851	188,533
As at 31 December 2020	113,975	59,936	173,911

11. Taxation

Corporate income tax expenses comprise the following:

	2020	*2019*
Current corporate income tax charge	92,433	282,602
Deferred corporate income tax charge/(benefit) – origination and reversal of temporary differences	37,157	(50,235)
Corporate income tax expense	129,590	232,367

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.

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

	2020	*2019*
Profit before corporate income tax expense	561,388	1,618,146
Statutory tax rate	20%	20%
Theoretical corporate income tax expense at the statutory rate	112,278	323,629
Non-taxable income from Ijara	(42,348)	(66,036)
Non-taxable income from reversal of ECL and other provisions	–	(49,563)
Non-deductible impairment charge	49,000	17,612
Non-deductible operating expenses	10,660	6,725
Corporate income tax expense	129,590	232,367

As at 31 December 2020 current corporate income tax assets comprise KZT 152,138 thousand (as at 31 December 2019: KZT 76,480 thousand).

(In thousands of tenge, unless otherwise indicated)

11. Taxation (continued)

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

	2018	*Effect of adopting IFRS 16*	*Origination and reversal of temporary differences in profit or loss*	*2019*	*Origination and reversal of temporary differences in profit or loss*	*2020*
Tax effect of deductible temporary differences						
Accrued salaries and bonuses	61,352	–	22,322	83,674	(26,887)	56,787
Lease liabilities	–	237,626	(50,645)	186,981	(77,162)	109,819
Accrued expenses on professional services	14,541	–	9,333	23,874	(13,652)	10,222
Accrued expenses on unused vacations	1,318	–	(161)	1,157	1,330	2,487
Deferred corporate income tax assets	77,211	237,626	(19,151)	295,686	(116,371)	179,315
Tax effect of taxable temporary differences						
Right-of-use assets	–	(237,626)	58,421	(179,205)	68,125	(111,080)
Property and equipment	(14,066)	–	10,965	(3,101)	11,089	7,988
Deferred corporate income tax liabilities	(14,066)	(237,626)	69,386	(182,306)	79,214	(103,092)
Net deferred corporate income tax assets	63,145	–	50,235	113,380	(37,157)	76,223

12. Other assets and liabilities

Other assets comprise the following:

	2020	*2019*
Other financial assets		
Guarantee deposit	84,670	84,667
Due from employees under Qard Hassan agreements	11,162	15,441
Past due commission income	1,617	1,341
	97,449	101,449
Less: ECL allowance	(1,378)	(972)
Total other financial assets	96,071	100,477
Other non-financial assets		
Prepayments and other debtors	32,157	39,957
Rent prepayment	30,943	34,328
Prepaid expenses on information and consulting services	15,253	36,103
Prepaid insurance premium	7,240	24,641
Prepayments for air tickets	1,596	357
Other	8,192	3,870
	95,381	139,256
Less: ECL allowance	–	(14,884)
Total other non-financial assets	95,381	124,372
Other assets	191,452	224,849

(In thousands of tenge, unless otherwise indicated)

12. Other assets and liabilities (continued)

Other liabilities comprise the following:

	2020	*2019*
Other financial liabilities		
Accounts payable	89,756	127,704
Charity payable	9,295	7,657
Total other financial liabilities	99,051	135,361
Other non-financial liabilities		
Accrued bonuses	201,244	325,510
Salaries payable	93,939	92,862
Prepayment for receivables under Home Murabaha agreements	15,150	79,625
Accrued unused vacations expenses	12,439	5,786
Other	5,077	22,636
Total other non-financial liabilities	327,849	526,419
Other liabilities	426,900	661,780

13. Amounts due to other banks

As at 31 December 2020, amounts due to other banks comprise amounts on current accounts of Bank CenterCredit JSC and AsiaCredit Bank JSC totaling to KZT 81,276 thousand and KZT 2,057 thousand, respectively (as at 31 December 2019: KZT 122,553 thousand and KZT 1,870 thousand, respectively).

14. Amounts due to customers

Amounts due to customers comprise the following:

	2020	*2019*
Current accounts	18,113,429	14,578,635
Amounts due to customers	18,113,429	14,578,635

Amounts due to customers include current accounts with the following types of customers:

	2020	*2019*
Private enterprises	14,518,300	11,873,553
Government entities	1,827,734	1,156,607
Individuals	1,503,172	1,429,068
International organisations	194,064	96,686
Employees	70,159	22,721
Amounts due to customers	18,113,429	14,578,635

(In thousands of tenge, unless otherwise indicated)

14. Amounts due to customers (continued)

Amounts due to customers are geographically concentrated within the Republic of Kazakhstan in the following economic sectors:

	2020	*2019*
Trade	9,269,158	5,397,116
Government	1,827,734	1,156,607
Transport and communication	1,620,695	1,932,779
Construction	1,538,251	2,185,630
Individuals	1,503,172	1,429,068
Leasing	618,753	1,038,376
Services	551,746	568,750
Energy	331,413	208,569
Medical equipment and supplies	253,062	54,095
Charity	194,064	96,686
Hotels	155,074	16,199
Agriculture	73,881	324,538
Employees	70,159	22,721
Machinery and equipment trade	28,389	9,034
Education	26,049	85,154
Financial services	4,180	4,744
Food trading	274	187
Other	47,375	48,382
Amounts due to customers	18,113,429	14,578,635

15. Amounts due to Wakala and Mudaraba pool

	2020	*2019*
Unutilised portion of Wakala and Mudaraba investment deposits *(Note 25)*	2,263,234	628,479
Amounts due to Wakala and Mudaraba pool	2,263,234	628,479

The amounts represent unutilised investment deposits pending further investments and therefore considered as liabilities of the Bank towards Wakala depositors.

16. Reverse Murabaha

Reverse Murabaha comprise the following:

	2020	*2019*
Reverse Murabaha	10,215,312	–
Reverse Murabaha	10,215,312	–

As at 31 December 2020, Reverse Murabaha from «DAMU» Entrepreneurship Development Fund» JSC is denominated in tenge, bear profit rates of 8.5%-9.5% per annum and mature on 1 October 2027.

17. Lease liabilities

Movements in lease liabilities are as follows:

	2020	*2019*
As at 1 January	934,905	–
Additions	–	1,223,111
Expenses from lease liabilities *(Note 20)*	64,907	88,832
Payments	(450,716)	(377,038)
As at 31 December 2020	549,096	934,905

(In thousands of tenge, unless otherwise indicated)

18. Unamortised commission income

Unamortised commissions are the commissions charged by the Bank to its customers for studying and documenting Islamic financing. As unamortised commissions are transaction costs directly attributable to Islamic financing, they are amortised over the expected life of the respective agreements. As at 31 December 2020 and 2019, carrying amount of unamortised commission income was equal to KZT 40,977 thousand and KZT 45,942 thousand, respectively.

19. Equity

As at 31 December 2020 and 2019 authorised and outstanding 10,732,338 common shares are issued and fully paid by the sole shareholder of the Bank at placement value of KZT 1 thousand per common share. No dividends were declared or paid during 2020 and 2019.

20. Net revenue from Islamic finance activities

Revenue from Islamic finance activities comprises the following:

	2020	*2019*
Revenue from receivables under Murabaha agreements		
Revenue from receivables under Commodity Murabaha agreements – corporate	1,564,668	1,296,713
Revenue from Murabaha Treasury Tawarruq – banks	694,765	532,673
Revenue from receivables under Commodity Murabaha and Home Murabaha agreements – retail	284,747	113,795
	2,544,180	1,943,181
Revenue from Wakala investment deposits		
Revenue from Wakala investment deposits – banks	3,772	38,666
Revenue from Wakala investment deposits – corporate	–	950
	3,772	39,616
Revenue calculated using the effective profit rate	2,547,952	1,982,797
Revenue from Ijara – corporate	32,163	62,158
Revenue from Islamic finance activities	2,580,115	2,044,955
Finance expenses		
Expenses from Islamic finance activities	(569,583)	–
Expenses from lease liabilities *(Note 17)*	(64,907)	(88,832)
	(634,490)	(88,832)
Net revenue from Islamic finance activities	1,945,625	1,956,123

Revenue from receivables under Commodity Murabaha agreements for 2020 includes loss from modification of contractual terms of Commodity Murabaha agreements not resulting in derecognition of KZT 68,561 thousand.

21. Credit loss expense

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

		2020		
	Notes	*Stage 1*	*Stage 3*	*Total*
Cash and cash equivalents	6	42,426	–	42,426
Receivables under Murabaha agreements	7	(122,146)	(68,308)	(190,454)
Other assets		14,478	–	14,478
		(65,242)	(68,308)	(133,550)

(In thousands of tenge, unless otherwise indicated)

21. Credit loss expense (continued)

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

		2019		
	Notes	*Stage 1*	*Stage 3*	*Total*
Cash and cash equivalents	6	(42,333)	–	(42,333)
Receivables under Murabaha agreements	7	(29,953)	–	(29,953)
Wakala investment deposits		(611)	–	(611)
Ijara	8	41,982	–	41,982
Other assets		(15,730)	–	(15,730)
		(46,645)	–	(46,645)

22. Net fee and commission income

Net fee and commission income comprises the following:

	2020	*2019*
Agency commission and performance incentive under Wakala and Mudarib share of profit under Mudaraba agreements *(Note 25)*	1,124,261	1,702,122
Study and documentation fees in relation to financing	82,355	74,090
Letters of credit and guarantees	21,210	28,042
Transfer operations	46,867	49,553
Settlement and cash operations	8,479	23,572
Other	11,775	8,539
Fee and commission income	1,294,947	1,885,918
Card operations	(48,485)	(39,601)
Transfer operations	(5,346)	(5,498)
Other	(22,302)	(20,064)
Fee and commission expense	(76,133)	(65,163)
Net fee and commission income	1,218,814	1,820,755

23. Personnel and other operating expenses

Personnel and other operating expenses comprise the following:

	2020	*2019*
Salaries and bonuses	1,232,628	1,382,589
Social security costs	96,245	91,104
Personnel expenses	1,328,873	1,473,693
Depreciation and amortisation *(Note 9 and Note 10)*	582,577	531,516
Information technology services	130,893	97,579
Professional services	82,477	106,950
Taxes other than income tax	63,648	33,951
Communication	35,499	27,769
Security	22,712	20,178
Transportation	21,973	13,107
Marketing and advertising	20,494	7,773
Business trips	19,895	33,139
Cleaning services	13,935	9,855
Utilities	9,874	11,504
Trainings	9,571	14,367
Stationery	2,801	4,238
Sponsorship	770	2,106
Penalties	255	62
Rent	168	9,525
Other	111,552	68,377
Other operating expenses	1,129,094	991,996

(In thousands of tenge, unless otherwise indicated)

24. Other provisions

Movements in other provisions are as follows:

	Provision for trust activities	*Total*
As at 31 December 2018	273,940	273,940
Charge for the year	(204,530)	(204,530)
Translation difference	(1,304)	(1,304)
As at 31 December 2019	68,106	68,106
Charge for the year	258,928	258,928
Translation difference	1,182	1,182
As at 31 December 2020	328,216	328,216

25. Commitments and contingencies

Operating 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.

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.

The management of the Bank believes that it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances. The Bank's strategy for 2020 and for the next five years is to continue its expansion in the corporate segment in the Kazakhstan banking sector and in the key customer retail segment. The Bank intends to increase its share of the retail banking market in Kazakhstan. The Bank's strategy is to attract new high net worth and professional retail customers by offering a wide range of Islamic banking products.

Legal

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Bank, and no provision was recognised in the financial statements.

Taxation

Various types of legislation and regulations are not always clearly written and their interpretation is subject to the opinions of the local tax inspectors and the Ministry of Finance of the Republic of Kazakhstan. Instances of inconsistent opinions between local, regional and republican tax authorities are not unusual. The current regime of penalties and fines related to reported and discovered violations of Kazakhstan laws, decrees and related regulations are severe. Penalties include confiscation of the amounts at issue (for currency law violations), as well as fines of generally 50% of the taxes unpaid.

The Bank believes that it has paid or accrued all taxes which are applicable. Where legislation concerning the provision of taxes is unclear, the Bank has accrued tax liabilities based on management's best estimate. The Bank's policy is to recognise provisions in the accounting period in which a loss is deemed probable and the amount is reasonably determinable.

These circumstances may create tax risks in the Republic of Kazakhstan that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Kazakhstan tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

(In thousands of tenge, unless otherwise indicated)

25. Commitments and contingencies (continued)

Credit related commitments and contingencies

As at 31 December, the Bank's credit related commitments comprise:

	2020	*2019*
Undrawn commitments on receivables from Islamic finance activities	35,770,577	21,663,881
Guarantees issued	958,069	389,488
Credit related commitments	36,728,646	22,053,369

The agreements on the provision of credit lines provide for the right of the Bank to unilaterally withdraw from the contract in the event of any adverse conditions. At the same time, the Bank carries out an analysis of the borrower's credit risk before the date of provision of funds within the framework of credit lines. Therefore, the Bank's management believes that the Bank's exposure to credit risk is limited by the contractual period for filing a notice on cancellation of an unused portion of a credit line.

As a result of this contingency, the above amounts do not necessarily represent the future cash outflow. Measurement of the ECL allowance for such facilities is made only for issued financing tranches.

Trust activities

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

	2020	*2019*
Murabaha and Wakala placements with banks and financial institutions	–	1,147,806
Receivables from Islamic finance activities	60,914,653	46,316,786
Ijara	1,000,225	4,613,148
Total investments from Investment deposits	61,914,878	52,077,740
Investment deposits		
Wakala Deposits	55,563,623	35,028,701
Wakala Deposits from banks	6,313,650	16,451,370
Mudaraba	1,217,508	609,374
Other funds	1,083,331	616,774
Total received Investment deposits	64,178,112	52,706,219
Unutilised portion of Wakala and Mudaraba investment deposits as at 31 December *(Note 15)*	(2,263,234)	(628,479)
Revenue from Islamic finance activities and Ijara	2,943,188	3,558,355
Revenue from Murabaha and Wakala placements	2,072	37,535
Profit attributable to customers on Wakala and Mudaraba deposits	(1,820,999)	(1,893,768)
Agency commission attributable to the Bank *(Note 22)*	1,124,261	1,702,122

The Bank carries no risk for utilised portions 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.

The depositors' share of profits for the years ended 31 December 2020 and 2019 has been supported by the Shareholder. During 2020 and 2019, distributable profits generated by investment pools were supported by the Shareholders' donation of KZT 23,305 thousand and KZT 248 thousand, respectively.

26. Risk management

Introduction

Risk is inherent in the Bank's activities but it is managed 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 different types of risk such as: credit, liquidity, operational, market, compliance, information technology, Sharia and reputational 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.

(In thousands of tenge, unless otherwise indicated)

26. Risk management (continued)

Introduction (continued)

Risk management structure

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

Board of Directors

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

Management Board

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

Risk Management Department, Internal Control and Operational Risk Department and Compliance Department

The Risk Management Department and Internal Control and Operational Risk Department are responsible for control over compliance with principles, policies on risk-management and risk limits of the Bank for independent risk control, including positions subject to risk in comparison with established limits for estimation of risk of new products and structured transactions; and also for collecting full information in risk estimation systems and risk-management reports. The Risk Management Department is responsible for monitoring of the quality of the credit portfolio and coverage of credit risk by liquid collateral as well as provisions on assets bearing credit risks as per IFRS, regulatory requirements and internal procedures. Jointly with business units it is responsible for realisation of the credit policy of the Bank and requirements of other internal and regulatory documents. One of the main objectives of the department is to inform the Management Board and the Board of Directors about the risk level accepted by the Bank and the quality of assets. The Risk Management Department and Internal Control and Operational Risk Department develop methods of quantitative estimation of risks attributable to the Bank and provide recommendations to different departments of the Bank on ensuring effective control over different types of risk. The Risk Management Department develops and implements methodologies and analytical instruments, which allow for evaluating risks as well as controlling the level of risks and organising procedures to mitigate those risks.

The Compliance Department is responsible for Compliance and AML policy development and implementation, monitoring of compliance risk and compliance with the Bank and regulatory requirements.

Islamic Finance Principles Board

The Islamic Finance Principles Board is responsible to review the operating, financing and investing activities of the Bank ensuring their alignment and compliance with the principles and rules of Sharia. Being a supervisory board it is also required to audit the business activities undertaken and present an independent Sharia report to the shareholders with regard to the implementation of the principles and rules of Sharia in the Bank's overall activities.

The Sharia Supervisor and Coordinator represents the Islamic Finance Principles Board and is also responsible to ensure compliance with instructions issued by the Islamic Finance Principles Board including reviewing all standard and non-standard contracts, product parameters and financial statements and conducting the Sharia audit.

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 monitored 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.

(In thousands of tenge, unless otherwise indicated)

26. Risk management (continued)

Introduction (continued)

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 activities and risk types.

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 Asset and Liability Committee, and the Credit Committee as appropriate. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, capital adequacy ratios, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry and customer risks takes place. Senior management 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.

The Bank actively uses collateral to reduce its credit risk.

Excessive risk concentration

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. 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 procedures and risk appetite framework include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties fail 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.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. 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

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 letters of credit or guarantee. They expose the Bank to similar risks to receivables under Murabaha and these are mitigated by the same control processes and policies.

The maximum exposure to credit risk for the components of the statement of financial position, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying amounts.

Where financial instruments are recorded at fair value, the carrying amount represents the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

(In thousands of tenge, unless otherwise indicated)

26. Risk management (continued)

Credit risk (continued)

Impairment assessment

The Bank calculates ECL based on several probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to 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 *Probability of Default* is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
EAD	The *Exposure at Default* is an estimate of the amount of the credit risk that is at risk of default.
LGD	The *Loss Given Default* is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the financer would expect to receive, including from the realisation of tangible 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 financing 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 represents the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECL and 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Bank has established a Methodology on assessment of an allowance for impairment of receivables from Islamic finance activities and provisions for financing contingent liabilities in accordance with the IFRS to perform an assessment on a monthly basis by considering the change in the credit risk occurring over the remaining life of the financial instrument. Based on the above process, the Bank groups its Islamic finance instruments into Stage 1, Stage 2, Stage 3 and POCI, as described below:

Stage 1:	When Islamic 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 an asset under Islamic finance activities has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL. Stage 2 assets also include facilities, where the credit risk has improved and the asset has been reclassified from Stage 3.
Stage 3:	Islamic 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

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the obligor becomes 60 days past due on its contractual payments.

(In thousands of tenge, unless otherwise indicated)

26. Risk management (continued)

Credit risk (continued)

Definition of default (continued)

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

- Internal rating of the obligor indicating default or near-default;
- The obligor was included in the list of problem projects;
- The Bank made a restructuring of the financing due to deterioration of the obligor's financial condition during a period of less than 12 months from the reporting date;
- The availability of reasoned and verifiable information about the significant financial difficulties of the obligor;
- Availability of confirmed information on force majeure, as well as other circumstances that caused substantial material damage to the obligor or do not allow the obligor to continue its business activities;
- The obligor filing for bankruptcy.

Internal rating model for corporate customers

The Bank’s independent Risk Management Department operates its internal risk rating models. All corporate risk assessment models operate on Moody’s Analytics Risk System Platform provided by Moody’s Analytics, which automatically generates a risk rating. The basic principles and the obligor risk rating appropriation process are derived from the principles of Basel II and best practices. The Bank runs separate models in which its customers are rated from 1 to 10 using internal grades, with 10 representing the worst grade. The rating scale is divided into the following grades: Investment grades (from 1 to 4-), Sub Investment grades (from 5+ to 6-), Watch List grades (from 7+ to 7-) and Impaired (from 8 to 10). The models incorporate both qualitative and quantitative information and, in addition to information specific to the obligor, utilise supplemental external information that could affect the obligor’s behavior. PDs, incorporating forward looking information, are assigned for each grade.

PD estimation process for corporate portfolio

For its corporate portfolio, the Bank developed an expert model for calculating the 12mECL based on the available external (macro-indicators) and internal (level of defaults) information (macro indicators and the level of defaults of international rating agencies). Historical data on macroeconomic factors are obtained from independent sources, which are available without undue cost and effort. The Bank does not have its own statistical data on corporate customer’s events of defaults; therefore the model for calculating collective provisions for the Stage 1 corporate portfolio was developed on the basis of open data on defaults by international rating agencies. In order to include “forward-looking” information to assessment of the probability of default, as required by IFRS 9, the Bank makes the adjustment for Kazakhstan macroeconomic data.

PD estimation process for retail portfolio

The PD estimation process for the retail portfolio is carried out on statistical data acquired from “First Credit Bureau” LLP until the Bank accumulates its own sufficient statistics. The Bank groups the retail portfolio into pools of homogeneous assets based on the general characteristics of credit risk. The calculation of the 12 months PD for retail portfolio pools is carried out on a collective basis. PDs for each retail portfolio pool are adjusted for macroeconomic indicators.

Treasury and interbank relationships

The Bank’s treasury and interbank relationships and counterparties comprise banks and other financial services institutions. The Bank’s Risk Management Department analyses publicly available information such as financial information and other external data, e.g., the external ratings, and assigns the internal rating.

(In thousands of tenge, unless otherwise indicated)

26. Risk management (continued)

Credit risk (continued)

Corporate financing

For corporate financing activities, the obligors are assessed by the Corporate Banking Department with further review by the Risk Management Department of the Bank. The credit risk assessment is based on a risk rating model and financial analysis techniques that take into account various historical, current and forward-looking information such as:

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention;
- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports, publicly traded bond/sukuk prices or press releases and articles;
- Any macro-economic or geopolitical information, e.g., GDP growth relevant for the specific industry and geographical segments where the client operates;
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.

The complexity and granularity of the analysis varies based on the exposure of the Bank and the complexity and size of the customer.

Retail financing

Retail financing activities are rated by a scorecard tool primarily driven by application and credit behavioral data. Credit underwriting also considers finance-to-value (FTV) ratio, list of restricted employers and positions, quality of collateral, verification process etc.

Exposure at default

The EAD represents the gross carrying amount of the financial instruments subject to the impairment calculation.

Loss given default

LGD is calculated for each facility separately. LGD rates take into account the financing in comparison to the amount expected to be recovered or realised from any collateral held and restricted Wakala deposits.

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.

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

- Stage 2 and Stage 3 corporate financing portfolio;
- Stage 2 and Stage 3 related party exposures;
- Stage 2 and Stage 3 individual exposures to retail customers;
- Stage 2 and Stage 3 treasury and interbank relationships (such as amounts due from banks, cash equivalents and Islamic investment securities at amortised cost and FVOCI).

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

- Retail homogeneous portfolios;
- Stage 1 related party exposures;
- Stage 1 corporate financing portfolio;
- Stage 1 treasury and interbank relationships.

The Bank groups these exposures into smaller homogeneous portfolios, based on a combination of internal and external characteristics of the financing instruments, for example product type, type of collateral, purpose of financing etc.

(In thousands of tenge, unless otherwise indicated)

26. Risk management (continued)

Credit risk (continued)

Significant increase in credit risk

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition. The Bank considers an exposure to have significantly increased in credit risk when the internal rating of the obligor downgrades by 4 notches or more from the initial recognition.

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 a material decrease in the underlying collateral value. Regardless of the change in risk rating 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.

Forward-looking information and multiple economic scenarios

In its ECL models, the Bank relies on forward-looking information as economic inputs. The Bank obtains the forward-looking information from third party sources (external rating agencies, governmental bodies e.g. central banks, and statistic agencies, reputable analytic agencies).

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank's internal credit ratings, as described above. The table below shows the credit quality by class of financing-related assets in the statement of financial position, based on the Bank's credit rating system.

As at 31 December 2020	*Notes*		*Investment grade*	*Sub-investment grade*	*Watch list grade*	*Impaired*	*Total*
Cash and cash equivalents, except for cash on hand	6	Stage 1	22,749,231	235,005	–	–	22,984,236
Receivables under Murabaha agreements	7						
- Receivables under Commodity		Stage 1	4,980,348	13,367,383	–	–	18,347,731
Murabaha agreements – corporate		Stage 3	–	–	–	1,281,269	1,281,269
- Receivables under Home Murabaha agreements – retail		Stage 1	–	3,669,535	–	–	3,669,535
- Receivables under Commodity Murabaha agreements – retail		Stage 1	–	228,843	–	–	228,843
Ijara	8	Stage 1	–	–	239,188	–	239,188
Guarantees issued	25	Stage 1	–	958,069	–	–	958,069
Total			27,729,579	18,458,835	239,188	1,281,269	47,708,871

As at 31 December 2019	*Notes*		*Investment grade*	*Sub-investment grade*	*Watch list grade*	*Impaired*	*Total*
Cash and cash equivalents, except for cash on hand	6	Stage 1	16,074,146	–	–	–	16,074,146
Receivables under Murabaha agreements	7						
- Receivables under Commodity Murabaha agreements – corporate		Stage 1	–	11,760,646	–	–	11,760,646
- Receivables under Home Murabaha agreements – retail		Stage 1	–	1,936,437	–	–	1,936,437
- Receivables under Commodity Murabaha agreements – retail		Stage 1	–	79,494	–	–	79,494
Wakala investment deposits		Stage 1	–	1,530,408	–	–	1,530,408
Ijara	8	Stage 1	–	333,872	–	–	333,872
Guarantees issued	25	Stage 1	–	389,488	–	–	389,488
Total			16,074,146	16,030,345	–	–	32,104,491

(In thousands of tenge, unless otherwise indicated)

26. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets (continued)

In the table above instruments of investment grade are those having a minimal level of credit risk, normally with a credit rating on or close to sovereign level. Other obligors with good financial position, good debt service and which very well collateralised are included in the sub-investment grade categories.

It is the Bank's policy to maintain accurate and consistent risk ratings across the financing 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 AFR 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 financing agreements 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 AFR 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)

26. Risk management (continued)

Credit risk (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:

	Receivables under Commodity Murabaha agreements – corporate	*Receivables under Home Murabaha agreements – retail*	*Total*
Grace period			
Number of pending applications	–	–	–
Number of approved applications	7	37	44

The table below shows the gross carrying amount and the corresponding ECL by Stages for financing activities that are subject to grace periods provided under the government programs as at 31 December 2020:

	Stage 1	*Stage 3*	*Total*
Grace period			
Receivables under Commodity Murabaha agreements – corporate			
Gross carrying value	944,121	1,281,269	2,225,390
ECL allowance	–	(73,150)	(73,150)
Receivables under Home Murabaha agreements – retail			
Gross carrying value	517,199	–	517,199
ECL allowance	(173)	–	(173)
Total			
Gross carrying value	1,461,320	1,281,269	2,742,589
ECL allowance	(173)	(73,150)	(73,323)

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

	2020		
	Kazakhstan	*UAE*	*Total*
Assets			
Cash and cash equivalents	19,233,303	5,364,044	24,597,347
Receivables under Murabaha agreements	23,234,555	–	23,234,555
Ijara	239,188	–	239,188
Other financial assets	96,071	–	96,071
	42,803,117	5,364,044	48,167,161
Liabilities			
Amounts due to other banks	83,333	–	83,333
Amounts due to customers	18,113,429	–	18,113,429
Amounts due to Wakala and Mudaraba pool	2,263,234	–	2,263,234
Reverse Murabaha	10,215,312	–	10,215,312
Other financial liabilities	99,051	–	99,051
	30,774,359	–	30,774,359
Net financial assets	12,028,758	5,364,044	17,392,802

(In thousands of tenge, unless otherwise indicated)

26. Risk management (continued)

Credit risk (continued)

Payment deferrals and customer support (continued)

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

	2019		
	Kazakhstan	*UAE*	*Total*
Assets			
Cash and cash equivalents	10,938,921	5,828,950	16,767,871
Receivables under Murabaha agreements	13,674,208	–	13,674,208
Wakala investment deposits	–	1,529,800	1,529,800
Ijara	333,872	–	333,872
Other financial assets	100,477	–	100,477
	25,047,478	7,358,750	32,406,228
Liabilities			
Amounts due to other banks	124,423	–	124,423
Amounts due to customers	14,578,635	–	14,578,635
Amounts due to Wakala and Mudaraba pool	628,479	–	628,479
Other financial liabilities	135,361	–	135,361
	15,466,898	–	15,466,898
Net financial assets	9,580,580	7,358,750	16,939,330

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 stressed circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, 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 Bank maintains a portfolio of diverse assets the terms to maturity of which provide sufficient liquidity to manage unforeseen interruptions of cash flow. In addition, the Bank maintains a minimum cash balance (obligatory reserve) with the NBRK, the amount of which depends on the level of customer funds attracted.

The liquidity position is assessed and managed by the Bank primarily based on certain liquidity ratios established by the NBRK.

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 payment obligations. Payments, 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 payment 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.

As at 31 December 2020	*Less than 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*Over 5 years*	*Total*
Financial liabilities					
Amounts due to other banks	83,333	–	–	–	83,333
Amounts due to customers	18,113,429	–	–	–	18,113,429
Amounts due to Wakala and Mudaraba pool	2,263,234	–	–	–	2,263,234
Reverse Murabaha	446,562	462,500	3,700,000	11,491,771	16,100,833
Lease liabilities	85,684	293,329	214,005	–	593,018
Other financial liabilities	53,993	45,058	–	–	99,051
Total undiscounted financial liabilities	21,046,235	800,887	3,914,005	11,491,771	37,252,898

(In thousands of tenge, unless otherwise indicated)

26. Risk management (continued)

Liquidity risk and funding management (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)

As at 31 December 2019	*Less than 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*Over 5 years*	*Total*
Financial liabilities					
Amounts due to other banks	124,423	–	–	–	124,423
Amounts due to customers	14,578,635	–	–	–	14,578,635
Amounts due to Wakala and Mudaraba pool	628,479	–	–	–	628,479
Lease liabilities	85,684	255,396	630,952	–	972,032
Other financial liabilities	21,957	113,404	–	–	135,361
Total undiscounted financial liabilities	15,439,178	368,800	630,952	–	16,438,930

The table below shows the contractual maturity of the Bank's financial commitments and contingencies. Each undrawn commitment on a receivable is included in the time band containing the earliest date it can be drawn down.

2020	*Less than 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*Over 5 years*	*Total*
Undrawn commitments on receivables from Islamic finance activities	2,352,713	8,227,949	24,559,915	630,000	35,770,577
Guarantees issued	958,069	–	–	–	958,069

2019	*Less than 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*Over 5 years*	*Total*
Undrawn commitments on receivables from Islamic finance activities	194,551	1,191,768	20,277,562	–	21,663,881
Guarantees issued	389,488	–	–	–	389,488

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

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 accordance with Kazakhstan legislation, the Bank is obliged to pay term deposits of individuals upon demand of a depositor, subject to the term of the deposit agreement. The Bank is not obliged to return the utilised portion of Wakala and Mudaraba deposits, except when the deposit is 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. For information on expected maturity of assets and liabilities of the Bank, see *Note 28*.

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 foreign exchange rates and profit rates.

Profit rate risk

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

(In thousands of tenge, unless otherwise indicated)

26. Risk management (continued)

Market risk (continued)

Profit rate sensitivity analysis

The management of profit rate risk, based on a profit rate gap analysis, is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of the sensitivity of net profit or loss to changes in profit rates (re-pricing risk), based on a simplified scenario of a 100 basis point symmetrical fall or rise in all positions of profit-bearing assets and liabilities existing as at 31 December 2020 and 2019, is as follows:

	2020		*2019*	
Inflation	*Increase in basis points by*	*Sensitivity of net profit*	*Increase in basis points by*	*Sensitivity of net profit*
Currency				
KZT	100	35,264	100	16,370

	2020		*2019*	
Inflation	*Decrease in basis points by*	*Sensitivity of net profit*	*Decrease in basis points by*	*Sensitivity of net profit*
Currency				
KZT	100	(35,264)	100	(16,370)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Asset and Liability Committee has set limits on positions by currency based on the NBRK regulations. Positions are monitored on a daily basis.

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

As at 31 December 2020	*KZT*	*USD*	*EUR*	*AED*	*Total*
Assets					
Cash and cash equivalents	9,139,624	14,851,950	380,724	225,049	24,597,347
Receivables under Murabaha agreements	23,234,555	–	–	–	23,234,555
Ijara	239,188	–	–	–	239,188
Other financial assets	96,071	–	–	–	96,071
Total assets	32,709,438	14,851,950	380,724	225,049	48,167,161
Liabilities					
Amounts due to other banks	–	–	–	83,333	83,333
Amounts due to customers	4,580,109	13,018,186	368,173	146,961	18,113,429
Amounts due to Wakala and Mudaraba pool	2,263,234	–	–	–	2,263,234
Reverse Murabaha	10,215,312	–	–	–	10,215,312
Other financial liabilities	84,732	13,890	429	–	99,051
Total liabilities	17,143,387	13,032,076	368,602	230,294	30,774,359
Net position	15,566,051	1,819,874	12,122	(5,245)	17,392,802

(In thousands of tenge, unless otherwise indicated)

26. Risk management (continued)

Market risk (continued)

Currency risk (continued)

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2019:

As at 31 December 2019	*KZT*	*USD*	*EUR*	*AED*	*Total*
Assets					
Cash and cash equivalents	6,092,981	10,124,082	383,785	167,023	16,767,871
Receivables under Murabaha agreements	13,674,208	–	–	–	13,674,208
Wakala investment deposits	–	1,529,800	–	–	1,529,800
Ijara	333,872	–	–	–	333,872
Other financial assets	100,477	–	–	–	100,477
Total assets	20,201,538	11,653,882	383,785	167,023	32,406,228
Liabilities					
Amounts due to other banks	–	–	–	124,423	124,423
Amounts due to customers	2,679,774	11,527,524	313,953	57,384	14,578,635
Amounts due to Wakala and Mudaraba pool	628,479	–	–	–	628,479
Other financial liabilities	125,511	9,565	285	–	135,361
Total liabilities	3,433,764	11,537,089	314,238	181,807	15,466,898
Net position	16,767,774	116,793	69,547	(14,784)	16,939,330

The table below indicates the currencies to which the Bank had significant exposure at 31 December on certain monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against tenge, with all other variables held constant on the profit or loss (due to the fair value of certain currency-sensitive monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in the statement of comprehensive income, while a positive amount reflects a net potential increase.

	2020		*2019*	
Currency	*Change in currency rate, in %*	*Effect on profit before tax*	*Change in currency rate, in %*	*Effect on profit before tax*
USD	14%	5,292	15%	(66,657)
EUR	14%	1,697	15%	10,443
AED	14%	(794)	15%	(2,218)

	2020		*2019*	
Currency	*Change in currency rate, in %*	*Effect on profit before tax*	*Change in currency rate, in %*	*Effect on profit before tax*
USD	(11%)	(4,158)	(12%)	53,325
EUR	(11%)	(1,333)	(12%)	(8,354)
AED	(11%)	577	(12%)	1,774

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors (other than credit, market and liquidity risks) such as those arising from legal, Sharia and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

(In thousands of tenge, unless otherwise indicated)

26. Risk management (continued)

Operational risk (continued)

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management and the Internal Control and Operational Risk Department. This responsibility is supported by the development of overall Bank policies for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with Sharia, regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational losses and proposed remedial action;
- Development of contingency plans;
- Training and professional development;
- Ethical and business standards; and
- Risk mitigation.

Compliance with the Bank’s standards is supported by a program of periodic reviews undertaken by Internal Audit and Sharia Audit. The results of Internal Audit and Sharia Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Board of Directors, Islamic Finance Principles Board and senior management of the Bank.

27. Fair values of financial instruments

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

Fair value hierarchy

For the purpose of disclosing those 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.

		Fair value measurement using			
As at 31 December 2020	*Date of valuation*	*Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant non-observable inputs (Level 3)*	*Total*
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2020	1,645,183	22,952,164	–	24,597,347
Receivables under Murabaha agreements	31 December 2020	–	–	23,613,161	23,613,161
Ijara	31 December 2020	–	–	245,515	245,515
Other financial assets	31 December 2020	–	–	96,071	96,071
Liabilities for which fair values are disclosed					
Amounts due to other banks	31 December 2020	–	83,333	–	83,333
Amounts due to customers	31 December 2020	–	18,113,429	–	18,113,429
Amounts due to Wakala and Mudaraba pool	31 December 2020	–	2,263,234	–	2,263,234
Reverse Murabaha	31 December 2020	–	10,215,312	–	10,215,312
Other financial liabilities	31 December 2020	–	99,051	–	99,051

(In thousands of tenge, unless otherwise indicated)

27. Fair values of financial instruments (continued)

Fair value hierarchy (continued)

As at 31 December 2019	*Date of valuation*	*Fair value measurement using* — *Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant non-observable inputs (Level 3)*	*Total*
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2019	766,101	16,001,770	–	16,767,871
Receivables under Murabaha agreements	31 December 2019	–	–	13,505,649	13,505,649
Wakala investment deposits	31 December 2019	–	1,529,648	–	1,529,648
Ijara	31 December 2019	–	–	348,168	348,168
Other financial assets	31 December 2019	–	–	100,477	100,477
Liabilities for which fair values are disclosed					
Amounts due to other banks	31 December 2019	–	124,423	–	124,423
Amounts due to customers	31 December 2019	–	14,578,635	–	14,578,635
Amounts due to Wakala and Mudaraba pool	31 December 2019	–	628,479	–	628,479
Other financial liabilities	31 December 2019	–	135,361	–	135,361

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.

As at 31 December 2020	*Carrying amount*	*Fair value*	*Unrecognised gain/(loss)*
Financial assets			
Cash and cash equivalents	24,597,347	24,597,347	–
Receivables under Murabaha agreements	23,234,555	23,613,161	378,606
Ijara	239,188	245,515	6,327
Other financial assets	96,071	96,071	–
Financial liabilities			
Amounts due to other banks	83,333	83,333	–
Amounts due to customers	18,113,429	18,113,429	–
Amounts due to Wakala and Mudaraba pool	2,263,234	2,263,234	–
Reverse Murabaha	10,215,312	10,215,312	–
Other financial liabilities	99,051	99,051	–
Total unrecognised change in unrealised fair value			384,933

As at 31 December 2019	*Carrying amount*	*Fair value*	*Unrecognised gain/(loss)*
Financial assets			
Cash and cash equivalents	16,767,871	16,767,871	–
Receivables under Murabaha agreements	13,674,208	13,505,649	(168,559)
Wakala investment deposits	1,529,800	1,529,648	(152)
Ijara	333,872	348,168	14,296
Other financial assets	100,477	100,477	–
Financial liabilities			
Amounts due to other banks	124,423	124,423	–
Amounts due to customers	14,578,635	14,578,635	–
Amounts due to Wakala and Mudaraba pool	628,479	628,479	–
Other financial liabilities	135,361	135,361	–
Total unrecognised change in unrealised fair value			(154,415)

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

(In thousands of tenge, unless otherwise indicated)

27. Fair values of financial instruments (continued)

Methods of measurement and assumptions

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

Assets and liabilities for which fair value approximates carrying amount

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

Financial instruments with fixed and floating rates

If assets and liabilities are not measured at fair values but the fair values are disclosed in the financial statements, future cash flows are discounted at the average market rate of financial instruments with similar maturities and risk characteristics. The source of those rates is the NBRK statistics.

The future cash flows are calculated by applying the weighted average profit rate of the financing portfolio to the principal amount as at the end of the reporting period. The following assumptions are applied by the Bank while determining the fair values:

1. The principal amount of the financial instrument is paid at the weighted average maturity date of the portfolio.
2. Profit payments are made evenly each year until the weighted average maturity date of the portfolio.

The above calculation is applied in determining the fair value of receivables under Islamic finance activities, amounts due from customers and amounts due from financing institutions.

28. Maturity analysis of assets and liabilities

The tables below show an analysis of assets and liabilities according to when they are expected to be recovered or settled. See *Note 26* "Risk management" for the Bank's contractual undiscounted payment obligations.

	2020		
	Within one year	*More than one year*	*Total*
Cash and cash equivalents	24,597,347	–	24,597,347
Receivables under Murabaha agreements	10,033,915	13,200,640	23,234,555
Ijara	–	239,188	239,188
Property and equipment and right-of-use assets	–	1,102,758	1,102,758
Intangible assets	–	173,911	173,911
Current corporate income tax assets	152,138	–	152,138
Deferred corporate income tax assets	–	76,223	76,223
Other assets	106,782	84,670	191,452
Total	34,890,182	14,877,390	49,767,572
Amounts due to other banks	83,333	–	83,333
Amounts due to customers	18,113,429	–	18,113,429
Amounts due to Wakala and Mudaraba pool	2,263,234	–	2,263,234
Reverse Murabaha	215,312	10,000,000	10,215,312
Lease liabilities	343,319	205,777	549,096
Unamortised commission income	40,977	–	40,977
Provisions	328,216	–	328,216
Other liabilities	426,900	–	426,900
Total	21,814,720	10,205,777	32,020,497
Net assets	13,075,462	4,671,613	17,747,075

(In thousands of tenge, unless otherwise indicated)

28. Maturity analysis of assets and liabilities (continued)

	2019		
	Within one year	*More than one year*	*Total*
Cash and cash equivalents	16,767,871	–	16,767,871
Receivables under Murabaha agreements	11,658,678	2,015,530	13,674,208
Wakala investment deposits	1,529,800	–	1,529,800
Ijara	196,784	137,088	333,872
Property and equipment	–	1,448,554	1,448,554
Intangible assets	–	188,533	188,533
Current corporate income tax assets	76,480	–	76,480
Deferred corporate income tax assets	–	113,380	113,380
Other assets	139,256	85,593	224,849
Total	30,368,869	3,988,678	34,357,547
Amounts due to other banks	124,423	–	124,423
Amounts due to customers	14,578,635	–	14,578,635
Amounts due to Wakala and Mudaraba pool	628,479	–	628,479
Unamortised commission income	45,942	–	45,942
Provisions	68,106	–	68,106
Lease liabilities	328,052	606,853	934,905
Other liabilities	661,780	–	661,780
Total	16,435,417	606,853	17,042,270
Net assets	13,933,452	3,381,825	17,315,277

29. Related party transactions

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 outstanding balances of related-party transactions are as follows:

	2020				*2019*			
Statement of financial position	*Share-holder*	*Entities under common control*	*Key manage-ment personnel*	*Other related parties*	*Share-holder*	*Entities under common control*	*Key manage-ment personnel*	*Other related parties*
Cash and cash equivalents	5,370,024	–	–	–	5,828,950	–	–	–
Receivables under Murabaha agreements	–	–	172,906	78,164	–	–	123,137	–
Wakala investment deposits	–	–	–	–	1,529,800	–	–	–
Amounts due to customers	–	363,543	38,114	1,043	–	1,038,371	201	696

	2020				*2019*			
Off balance sheet (trust activities)	*Share-holder*	*Entities under common control*	*Key manage-ment personnel*	*Other related parties*	*Share-holder*	*Entities under common control*	*Key manage-ment personnel*	*Other related parties*
Amounts due to Wakala depositors	6,313,650	2,068,364	15,737	965,259	16,451,370	–	13,314	861,211
Amounts due to Mudaraba depositors	–	–	5,766	13,174	–	–	5,241	11,975
Wakala investment deposits	–	–	–	–	2,678,215	–	–	–

(In thousands of tenge, unless otherwise indicated)

29. Related party transactions (continued)

The income and expenses arising from related-party transactions are as follows:

	2020				*2019*			
	Share-holder	*Entities under common control*	*Key manage-ment personnel*	*Other related parties*	*Share-holder*	*Entities under common control*	*Key manage-ment personnel*	*Other related parties*
Off balance sheet (trust activities)								
Expense from Islamic finance activities	(200,864)	(32,582)	(384)	(19,659)	(718,160)	–	(863)	(17,750)
Revenue from Wakala investment deposits	5,843	–	–	–	76,138	–	–	–
Revenue from receivables under Murabaha agreements	–	–	8,580	3,186	–	–	6,084	–

Compensation of four members of key management personnel comprise:

	2020	*2019*
Salaries and other short-term benefits	279,433	251,244
Social security costs	25,324	22,647
Total compensation to key management personnel	304,757	273,891

30. 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 by management and the shareholder using, among other measures, the ratios established by the NBRK.

As at 31 December 2020, the Bank had complied with all its externally imposed capital requirements.

The primary objectives of the Bank's capital management policies are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains healthy 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 Tier 1 capital adequacy ratio (K1) of not less than 5.5% of the total assets and a capital adequacy ratio (K2) of not less than 6.5% of risk weighted assets, computed based on the requirements of the NBRK.

As at 31 December 2020 and 2019, the Bank's Tier 1 and Tier 2 capital adequacy ratios on this basis exceeded the required minimums.

As at 31 December 2020 and 2019, the capital adequacy ratios of the Bank calculated in accordance with the requirements of the NBRK are as follows:

	2020	*2019*
Tier 1 capital		
Share capital	10,732,338	10,732,338
Retained earnings	6,840,826	6,394,406
Total tier 1 capital	17,573,164	17,126,744
Total capital base	17,573,164	17,126,744
Risk weighted assets		
Credit risk	35,240,601	20,278,076
Market risk	459,075	198,725
Operational risk	1,122,869	1,273,786
Total risk weighted assets	36,822,545	21,750,587
Capital ratios		
Total capital expressed as a percentage of total risk weighted assets	48%	79%
Tier 1 capital expressed as a percentage of total risk weighted assets	48%	79%

31. 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.