“Al Hilal” Islamic Bank” JSC

Financial statements

For 2022
together with independent auditors’ report

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INDEPENDENT AUDITORS' REPORT

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«КПМГ Аудит» жауапкершілігі
шектеулі серіктестік
Қазақстан, A25D6T5, Алматы,
Достық д-лы, 180,
+7 (727) 298-08-98

KPMG Audit LLC
180 Dostyk Avenue, Almaty,
A25D6T5, Kazakhstan

Independent Auditors' 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 (the "Bank"), which comprise the statement of financial position as at 31 December 2022, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), as modified for the requirements of the Decree of the Board of the National Bank of the Republic of Kazakhstan №46 dated 27 March 2017.

Basis for Opinion

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

Other Matter

The financial statements of the Bank as at and for the year ended 31 December 2021 were audited by other auditors who expressed an unmodified opinion on those statements on 15 April 2022.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, as modified for the requirements of the Decree of the Board of the National Bank of the Republic of Kazakhstan №46 dated 27 March 2017, 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.

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

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

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

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

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

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

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

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

20 April 2023

STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

(In thousands of tenge)

	Notes	*2022*	*2021*
Assets			
Cash and cash equivalents	6	**9,282,375**	21,296,327
Receivables under Murabaha agreements	7	**33,352,793**	28,300,856
Bank participation in Wakala and Mudaraba pool	8	**3,818,303**	–
Ijara		**–**	66,981
Investment properties	9	**704,801**	625,038
Property and equipment and right-of-use assets	10	**2,253,349**	1,997,017
Intangible assets	11	**77,466**	150,129
Deferred corporate income tax assets	12	**135,677**	74,379
Other assets	13	**471,763**	228,632
Total assets		**50,096,527**	52,739,359
Liabilities			
Amounts due to other banks	14	**10,115**	22,954
Amounts due to customers	15	**15,814,224**	19,259,379
Amounts due to Wakala and Mudaraba pool	8	**–**	1,771,892
Reverse Murabaha	16	**10,231,250**	10,231,250
Lease liabilities	17	**1,370,497**	1,511,219
Liability measured at FVPL	17	**598,697**	–
Unamortised commission income		**92,407**	23,226
Current corporate income tax liabilities	12	**84,897**	28,361
Other provisions	23	**328,366**	1,575,197
Other liabilities	13	**585,238**	430,916
Total liabilities		**29,115,691**	34,854,394
Equity			
Share capital	18	**10,732,338**	10,732,338
Retained earnings		**10,248,498**	7,152,627
Total equity		**20,980,836**	17,884,965
Total liabilities and equity		**50,096,527**	52,739,359

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

20 April 2023

The accompanying notes on pages 5 to 45 are an integral part of these financial statements.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

(In thousands of tenge)

	Notes	*2022*	*2021*
Revenue from Islamic finance activities			
Revenue from Ijara and receivables under Murabaha agreements	19	**4,561,126**	3,410,943
		4,561,126	3,410,943
Finance expenses			
Expenses from Islamic finance activities	19	**(925,000)**	(925,000)
Expenses from lease liabilities	19	**(77,724)**	(32,774)
		(1,002,724)	(957,774)
Net revenue from Islamic finance activities		**3,558,402**	2,453,169
Income from recovery of credit losses/(Credit loss expense)	20	**228,049**	(846,518)
Net revenue from Islamic finance activities after credit loss expense		**3,786,451**	1,606,651
Net fee and commission income	21	**2,488,902**	1,760,772
Net gains from foreign currencies:			
- dealing		**1,396,219**	853,657
- translation differences		**27,927**	13,353
Non-finance income		**3,913,048**	2,627,782
Revenue from investment activities		**10,487**	–
Other income		**4,643**	–
Other operating income		**15,130**	–
Personnel expenses	22	**(1,764,103)**	(1,375,436)
Other operating expenses	22	**(1,387,166)**	(1,155,966)
Other provisions	23	**(543,335)**	(1,220,537)
Non-finance expenses		**(3,694,604)**	(3,751,939)
Profit before corporate income tax expense		**4,020,025**	482,494
Corporate income tax expense	12	**(924,154)**	(344,604)
Profit for the year		**3,095,871**	137,890
Other comprehensive income		**–**	–
Total comprehensive income for the year		**3,095,871**	137,890

The accompanying notes on pages 5 to 45 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

(In thousands of tenge)

	Share capital	*Retained earnings*	*Total equity*
As at 1 January 2021	10,732,338	7,014,737	17,747,075
Profit for the year	–	137,890	137,890
Total comprehensive income for the year	–	137,890	137,890
As at 31 December 2021	10,732,338	7,152,627	17,884,965
Profit for the year	**–**	**3,095,871**	**3,095,871**
Total comprehensive income for the year	**–**	**3,095,871**	**3,095,871**
As at 31 December 2022	**10,732,338**	**10,248,498**	**20,980,836**

The accompanying notes on pages 5 to 45 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

(In thousands of tenge)

	Notes	*2022*	*2021*
Cash flows from operating activities			
Revenue received from Islamic finance activities		**4,670,579**	3,469,616
Expenses from Islamic finance activities paid		**(925,000)**	(909,062)
Fees and commissions received		**2,568,374**	2,198,866
Fees and commissions paid		**(97,809)**	(65,261)
Net realised gains from dealing in foreign currencies		**1,396,219**	853,657
Personnel expenses paid		**(1,584,761)**	(1,458,006)
Other operating expenses paid		**(793,789)**	(510,045)
Cash flows from operating activities before changes in operating assets and liabilities		**5,233,813**	3,579,765
Net (increase)/decrease in operating assets			
Receivables under Murabaha agreements		**(4,312,241)**	(5,989,995)
Ijara		**68,421**	169,262
Bank participation in Wakala and Mudaraba pool		**(3,818,303)**	–
Other assets		**(21,775)**	(37,008)
Net (decrease)/increase in operating liabilities			
Amounts due to other banks		**(1,909)**	(60,640)
Amounts due to customers		**(3,991,434)**	852,397
Amounts due to Wakala and Mudaraba pool		**(1,771,892)**	(1,568,820)
Compensation under constructive obligation to Wakala and Mudaraba pool	23	**(1,979,917)**	–
Other liabilities		**(80,603)**	22,472
Net cash flows used in operating activities before corporate income tax		**(10,675,840)**	(3,032,567)
Corporate income tax paid		**(928,916)**	(162,261)
Net cash flows used in operating activities		**(11,604,756)**	(3,194,828)
Cash flows from investing activities			
Purchase of property and equipment		**(82,916)**	(106,278)
Purchase of intangible assets		**–**	(60,555)
Disposal of fixed assets		**4,642**	–
Other movements		**(63,678)**	–
Net cash flows used in investing activities		**(141,952)**	(166,833)
Cash flows from financing activities			
Lease payments	17	**(481,505)**	(327,434)
Net cash flows used in financing activities		**(481,505)**	(327,434)
Effect of exchange rates changes on cash and cash equivalents		**209,094**	366,798
Effect of expected credit losses on cash and cash equivalents	6	**5,167**	21,277
Net decrease in cash and cash equivalents		**(12,013,952)**	(3,301,020)
Cash and cash equivalents, as at 1 January		**21,296,327**	24,597,347
Cash and cash equivalents, as at 31 December	6	**9,282,375**	21,296,327
Non-cash transactions			
Repossessed property under trust activities	9	**-**	704,801

The accompanying notes on pages 5 to 45 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, Astana 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 ("AHB") (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 ADCB is the Government of Abu Dhabi, represented by Mubadala Investment Company (through its wholly owned subsidiary One Hundred and Fourteenth Investment Company – Sole Proprietorship LLC) and so the ultimate controlling party is the Government of Abu Dhabi.

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"), as modified for the requirements of the Decree of the Board of the NBRK №46 dated 27 March 2017 ("Decree of NBRK №46").

Islamic banking activity in Kazakhstan is regulated under special provisions of the Banking Law and rules established by the NBRK. The main modification is related to the accounting treatment of Islamic investment deposits. In accordance with the law of the Republic of Kazakhstan on Banks and banking activities, an Islamic bank operates as a fund manager and does not take any risk /responsibility to return the investment deposits or the respective income generated from using the funds. Based on this risk sharing provision, under the Decree of NBRK №46, all Islamic deposits (Mudaraba and Wakala) and assets funded from investment deposits are not recognised in an Islamic bank's statement of financial position and are separately accounted for off-balance sheet. *See also accounting policy on Fiduciary assets and Note 24.*

The corresponding numbers for 2021 are based on the published financial statements of the Bank for that year issued on 15 April 2022. The financial statements of the Bank for the year ended 31 December 2021 in the basis of preparation referred to IFRS, while in fact the Bank followed IFRS, as modified for the requirements of the Decree of NBRK №46.

The financial statements are prepared under the historical cost convention, except for investment properties and liabilities measured at fair value through profit or loss, which are measured at fair value.

The functional currency of the Bank is the Kazakhstan Tenge as, being the national currency of the Republic of Kazakhstan, it reflects the economic substance of the majority of underlying events and circumstances relevant to them. The KZT is also the presentation currency for the purposes of these financial statements. The financial statements are presented in thousands of tenge ("KZT"), unless otherwise indicated.

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 its obligation during or at the end of the lease term.

Mudaraba

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

Depositors pool

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

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

Wakala

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

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

Fair value measurement

The Bank measures financial instruments carried at fair value through profit or loss (FVPL) and investment properties 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.

(In thousands of tenge, unless otherwise indicated)

4. Summary of accounting policies (continued)

Fair value measurement (continued)

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.

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 three sources: 1) the Bank's own funds which are accounted on balance sheet; 2) funds received under Wakala and Mudaraba agreements which are accounted off balance sheet; and 3) customers' current and vostro accounts which are accounted on balance sheet. Under the terms of Wakala and Mudaraba agreements the Bank bears no risk and such funds are accounted off balance sheet *(Note 2)*. 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 and classification

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:

(In thousands of tenge, unless otherwise indicated)

4. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Initial measurement and classification (continued)

Measurement categories of financial assets and liabilities (continued)

- Amortised cost;
- FVPL;
- FVOCI.

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 financial institutions, financing to customers at amortised cost

The Bank only measures amounts due from financial 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.

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.

(In thousands of tenge, unless otherwise indicated)

4. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Initial measurement and classification (continued)

Financial guarantees, letters of credit and undrawn financing commitments

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

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the beneficiary for a loss it incurs because a specified party fails to meet a guaranteed obligation when due in accordance with the contractual terms. Financial guarantees are initially recognised at their fair value. The received fees are amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment.

Undrawn financing commitments, letters of guarantees 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.

Reclassification of financial assets and liabilities

The Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank changes the business model for managing financial assets. Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets and liabilities in 2022 and 2021.

Impairment of financial assets

Measurement of expected credit losses ("ECL"):

The impairment of financial assets is calculated in accordance with the Bank's IFRS 9 ECL model. The Bank recognises loss allowances for ECL on the following financial instruments that are not measured at FVPL: financial assets that are debt instruments, financial guarantee contracts issued and financing agreement signed.

The Bank's ECL model contains a three-stage approach, which is based on the change in credit quality of financial assets since initial recognition. The ECL model is forward looking and requires the use of reasonable and supportable forecasts of future economic conditions in the determination of significant increases in credit risk and measurement of ECL.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for financial instruments on which credit risk has not increased significantly since their initial recognition. 12-month ECL are the portion of lifetime ECL that result from default events on a financial instrument that are possible within the 12 months after the relevant reporting date.

ECL is calculated by multiplying three main components, being the probability of default ("PD"), loss given default ("LGD") and the exposure at default ("EAD"), and discounting at the initial effective profit rate. The Company has developed a range of models to estimate these parameters. *See also Note 25*.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, obligatory reserves, amounts due from the NBRK and amounts due from financial institutions that mature within ninety (90) days of the date of origination that are used by the Bank in the management of short-term commitments .

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. Such instruments include amounts due to financial institutions and Reverse Murabaha. 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.

(In thousands of tenge, unless otherwise indicated)

4. Summary of accounting policies (continued)

Derivatives held for risk management purposes

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets and liabilities. All derivatives are measured at fair value in the statement of financial position.

Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). The Bank accounts for embedded derivatives separately from the host contract when:

- the host contract is not an asset in the scope of IFRS 9;
- the host contract is not itself carried at FVPL;
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship.

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 re-measurement 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.

(In thousands of tenge, unless otherwise indicated)

4. Summary of accounting policies (continued)

Leases (continued)

i. Bank as lessee (continued)

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 744 thousand). Lease payments on short-term leases and leases of low-value assets are recognised as expenses on a straight-line basis over the lease term.

ii. Operating lease − Bank as 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 profit 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 criteria.

(In thousands of tenge, unless otherwise indicated)

4. Summary of accounting policies (continued)

Renegotiated financings (continued)

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 to be made during at least half of the probation period in accordance with the modified payment schedule.

Derecognition of financial assets and liabilities

Financial assets

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

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

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank'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.

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

* Or depends on period of lease, whichever is less.

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.

Investment properties

Investment properties are land or a buildings or a part of a buildings held to earn rental income or for capital appreciation and which is not used by the Bank or held for sale in the ordinary course of business.

Investment properties are initially measured at cost and subsequently at fair value with any change therein recognised in profit or loss. When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

During 2022, the Bank made changes to its accounting policy from cost to fair value method of accounting of investment properties. Change in accounting policy was made in accordance with the ADCB accounting policy.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is initially measured at fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 4 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

Impairment of non-financial assets

At each reporting date the Bank reviews the carrying amounts of its non-financial assets (other than investment properties and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Recoverable amount is determined based on the higher of value in use or fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators. The Bank is required to make estimates and assumptions that can materially affect the carrying amount of the asset being assessed.

(In thousands of tenge, unless otherwise indicated)

4. Summary of accounting policies (continued)

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. *See accounting policy on Fiduciary assets.*

Estimation of provisions for any constructive obligation in respect of compensation of credit risk on fiduciary assets is carried out in the same way as the estimation of provisions for financial assets *(See accounting policy on Impairment of financial assets and Note 25).*

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-employment 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 as per the requirements of the Decree of NBRK №46 *(Note 2).*

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.

Nevertheless, the Bank has concluded that it has a constructive obligation to support depositors based on the following factors:

- The Bank and its parent bank AHB have experience in supporting the profits of the pool of depositors based on the decisions of their respective Sharia Boards;
- During 2022, the Bank supported the pool of depositors in the amount of KZT 1,979,917 thousand in respect of a defaulted facility *(Note 23)*;
- The Bank will continue this practice in future and will support the depositors in similar circumstances and by following the similar earlier approach.

Contingent liabilities are not recognised in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is probable. Contingent assets are not recognised in the statement of financial position but are disclosed unless an inflow of economic benefits is virtually certain.

Recognition of income and expenses

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

Profit and similar revenue and expense

The Bank calculates profit revenue on debt financial assets measured at amortised cost 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.

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 asset 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.

(In thousands of tenge, unless otherwise indicated)

4. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers.

Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period

Fees earned for the provision of services over a period are accrued over that period. These fees include agency fee under Wakala agreements. Study and documentation fees for financings that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective profit rate on the financings. When it is unlikely that a facility will be drawn down, the finance study and documentation are recognised over the commitment period on an effective profit rate basis.

Fee income from providing transaction services

Fees arising from transfer operations, settlement and cash operations are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

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. Since the Bank controls the total foreign currency position of the Bank, all gains and losses resulting from the translation of foreign currency transactions, including gains and losses resulting from the translation of off-balance sheet transactions (trust activities) are recognised in the statement of profit or loss and other 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 2022 and 2021 were KZT 462.65 and KZT 431.80 to USD 1, respectively.

Standards issued but not yet effective

A number of new standards are effective for annual periods beginning on or after 1 January 2023 and earlier application is permitted; however, the Bank has not early adopted the new or amended standards in preparing these financial statements.

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

— Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12).

— IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts.

— Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2).

— Definition of Accounting Estimates (Amendments to IAS 8).

(In thousands of tenge, unless otherwise indicated)

5. Significant accounting judgments and estimates

Judgements

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

Determining the lease term of contracts with renewal options

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

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

Estimation uncertainty

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

Leases – estimating the incremental financing rate

The Bank cannot readily determine the profit rate implicit in the lease; therefore, it uses its incremental financing rate (IFR) to measure lease liabilities. The IFR is the rate of profit that the Bank would have to pay to financing 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 IFR 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 IFR using observable inputs (such as market profit rates) when available and is required to make certain entity-specific estimates.

Expected credit losses on receivables under Murabaha agreements and other provisions recognised for constructive obligations in respect of fiduciary assets ("other provisions")

The measurement of expected credit losses across all categories of financial assets and other provisions 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 and other provisions 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 and other provisions models that are considered accounting judgements and estimates include:

- The Bank's internal financing grading model, which assigns 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 the basis of the lifetime expected credit loss (or "LTECL") 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, EADs and LGDs; and
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

Fair value estimate of embedded derivative instruments in long-term lease contracts

The measurement of fair value of derivative instruments embedded in long-term lease contracts with significant unobservable inputs requires judgement, in particular, modeling of foreign exchange rates *(Note 26)*.

(In thousands of tenge, unless otherwise indicated)

5. Significant accounting judgments and estimates (continued)

Estimation uncertainty (continued)

Fair value of financial assets and liabilities

The measurement of the fair value of financial assets and liabilities with significant unobservable inputs requires judgement, in particular, determination of appropriate profit/expense rates *(Note 26).*

6. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	2022	*2021*
Cash on hand	**1,501,796**	1,867,411
Current account with the NBRK	**1,261,249**	7,135,118
Murabaha Treasury Tawarruq with the NBRK up to 90 days	**3,202,800**	3,500,851
Current accounts with other financial institutions	**3,322,497**	8,804,115
	9,288,342	21,307,495
Less: ECL allowance	**(5,967)**	(11,168)
Cash and cash equivalents	**9,282,375**	21,296,327

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 2022, obligatory reserves are equal to KZT 448,653 thousand (as at 31 December 2021: KZT 576,907 thousand).

As at 31 December 2022, the Bank had accounts in two financial institutions (31 December 2021: three financial institutions) which balances exceed 10% of equity. The total gross value of these balances as at 31 December 2022 is KZT 6,685,876 thousand (2021: KZT 19,275,528 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:

	2022	*2021*
ECL allowance as at 1 January	**(11,168)**	(32,072)
Net changes in ECL *(Note 20)*	**5,167**	21,277
Foreign exchange adjustments	**34**	(373)
As at 31 December	**(5,967)**	(11,168)

7. Receivables under Murabaha agreements

Receivables under Murabaha agreements comprise the following:

	2022	*2021*
Receivables under Commodity Murabaha agreements – corporate	**27,406,559**	23,843,231
Receivables under Home Murabaha agreements – retail	**5,164,010**	4,881,748
Receivables under Commodity Murabaha agreements – retail	**906,938**	735,951
Gross receivables under Murabaha agreements	**33,477,507**	29,460,930
Less: ECL allowance	**(124,714)**	(1,160,074)
Receivables under Murabaha agreements	**33,352,793**	28,300,856

(In thousands of tenge, unless otherwise indicated)

7. Receivables under Murabaha agreements (continued)

As of 31 December 2022, receivables under Murabaha agreements concluded with corporate customers bear profit rates of 12.00-19.00% per annum in KZT and 6.5-9.84% per annum in USD and mature in 2023-2027 (31 December 2021: 12.00-17.00% per annum in KZT with maturity in 2022-2028). Murabaha agreements concluded with retail customers bear profit rate 9.85-16.00% per annum and mature in 2023-2037 (31 December 2021: 10.42-14.35% per annum with maturity in 2022-2037).

As at 31 December 2022, the Bank has two groups of related customers under Murabaha agreements (31 December 2021: one customer and two groups of related customers) whose balances exceeded 10% of equity. The total gross value of these balances as at 31 December 2022 is KZT 5,229,140 thousand (2021: KZT 9,997,015 thousand).

Concentration of receivables under Murabaha agreements

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

	2022	*2021*
Home Murabaha – retail	**5,164,010**	4,881,748
Trade	**5,049,268**	6,945,270
Construction	**4,172,110**	1,494,550
Agriculture	**3,636,856**	1,628,761
Manufacturing	**3,418,567**	3,694,707
Transportation	**3,095,120**	2,298,920
Energy supply	**2,500,544**	3,382,839
Rent	**2,261,425**	1,098,808
Mining	**1,414,785**	788,430
Food trading	**1,315,800**	2,082,463
Commodity Murabaha – retail	**906,938**	735,951
Other	**542,084**	428,483
Gross receivables under Murabaha agreements	**33,477,507**	29,460,930
Less: ECL allowance	**(124,714)**	(1,160,074)
Receivables under Murabaha agreements	**33,352,793**	28,300,856

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 2022 is as follows:

Receivables under Commodity Murabaha agreements – corporate	***Stage 1***	***Stage 3***	***Total***
Gross carrying value as at 1 January 2022	**22,561,962**	**1,281,269**	**23,843,231**
New assets originated or purchased	**34,219,681**	**–**	**34,219,681**
Assets paid*	**(29,375,084)**	**(468,589)**	**(29,843,673)**
Write off	**–**	**(812,680)**	**(812,680)**
As at 31 December 2022	**27,406,559**	**–**	**27,406,559**

Receivables under Commodity Murabaha agreements − corporate	***Stage 1***	***Stage 3***	***Total***
ECL allowance as at 1 January 2022	**(122,277)**	**(1,037,278)**	**(1,159,555)**
New assets originated or purchased	**(224,980)**	**–**	**(224,980)**
Assets paid*	**223,896**	**224,598**	**448,494**
Foreign exchange adjustments	**(180)**	**–**	**(180)**
Write off	**–**	**812,680**	**812,680**
As at 31 December 2022	**(123,541)**	**–**	**(123,541)**

**Assets paid include payments of principal, revenue under Murabaha agreements and foreign exchange revaluations.*

(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 2022 is as follows:

Receivables under Home Murabaha agreements – retail	*Stage 1*	*Total*
Gross carrying value as at 1 January 2022	**4,881,748**	**4,881,748**
New assets originated or purchased	**1,302,907**	**1,302,907**
Assets paid*	**(1,020,645)**	**(1,020,645)**
As at 31 December 2022	**5,164,010**	**5,164,010**

Receivables under Home Murabaha agreements − retail	*Stage 1*	*Total*
ECL allowance as at 1 January 2022	**(482)**	**(482)**
New assets originated	**(1,395)**	**(1,395)**
Assets paid*	**815**	**815**
As at 31 December 2022	**(1,062)**	**(1,062)**

**Assets paid include payments of principal and revenue under Murabaha agreements.*

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 2022 is as follows:

Receivables under Commodity Murabaha agreements − retail	*Stage 1*	*Total*
Gross carrying value as at 1 January 2022	**735,951**	**735,951**
New assets originated	**183,401**	**183,401**
Assets paid*	**(12,414)**	**(12,414)**
As at 31 December 2022	**906,938**	**906,938**

Receivables under Commodity Murabaha agreements − retail	*Stage 1*	*Total*
ECL allowance as at 1 January 2022	**(37)**	**(37)**
New assets originated	**(251)**	**(251)**
Assets paid*	**177**	**177**
As at 31 December 2022	**(111)**	**(111)**

**Assets paid include payments of principal and revenue 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 2021 is as follows:

Receivables under Commodity Murabaha agreements – corporate	*Stage 1*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2021	18,347,731	1,281,269	19,629,000
New assets originated	20,278,329	−	20,278,329
Assets paid*	(16,064,098)	−	(16,064,098)
As at 31 December 2021	22,561,962	1,281,269	23,843,231

Receivables under Commodity Murabaha agreements – corporate	*Stage 1*	*Stage 3*	*Total*
ECL allowance as at 1 January 2021	(218,043)	(73,150)	(291,193)
New assets originated	(186,162)	−	(186,162)
Assets paid*	281,928	−	281,928
Changes to inputs used for ECL calculations	−	(964,128)	(964,128)
As at 31 December 2021	(122,277)	(1,037,278)	(1,159,555)

**Assets paid include payments of principal and revenue under Murabaha agreements.*

(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 2021 is as follows:

Receivables under Home Murabaha agreements − retail	***Stage 1***	***Total***
Gross carrying value as at 1 January 2021	3,669,535	3,669,535
New assets originated	2,732,537	2,732,537
Assets paid*	(1,520,324)	(1,520,324)
As at 31 December 2021	4,881,748	4,881,748

Receivables under Home Murabaha agreements − retail	***Stage 1***	***Total***
ECL allowance as at 1 January 2021	(1,210)	(1,210)
New assets originated	(921)	(921)
Assets paid*	1,649	1,649
As at 31 December 2021	(482)	(482)

**Assets paid include payments of principal and revenue under Murabaha agreements.*

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 2021 is as follows:

Receivables under Commodity Murabaha agreements − retail	***Stage 1***	***Total***
Gross carrying value as at 1 January 2021	228,843	228,843
New assets originated	705,006	705,006
Assets paid*	(197,898)	(197,898)
As at 31 December 2021	735,951	735,951

Receivables under Commodity Murabaha agreements − retail	***Stage 1***	***Total***
ECL allowance as at 1 January 2021	(420)	(420)
New assets originated	(388)	(388)
Assets paid*	771	771
As at 31 December 2021	(37)	(37)

**Assets paid include payments of principal and revenue under Murabaha agreements.*

Collateral and other credit enhancements

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

As at 31 December 2022 and 2021, receivables 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 expected credit losses on receivables under Murabaha agreements.

In the absence of collateral or other credit enhancements, ECL allowances in respect of Stage 3 receivables under Murabaha agreements to customers would have been higher by:

	2022	***2021***
Receivables under Commodity Murabaha agreements − corporate	−	165,601
Total	−	165,601

8. Bank participation in Wakala and Mudaraba pool / Amounts due to Wakala and Mudaraba pool

The Bank’s investments in the Wakala and Mudaraba pools of depositors (Inter-pool funding) takes the Sharia form (vehicle) of the funding pool and is subject to the funding pool distribution rules applicable to the funding pool. Given the potential mismatch between assets and depositors’ investments owing to early termination or maturity of respective deposits, shortages arising in a pool can be financed from the Bank’s own funds. As of 31 December 2022, the carrying amount of the Bank’s participation in the Wakala pool was equal to KZT 3,818,303 thousand. The balance is not past due and is categorised as Stage 1 of the credit risk grading.

As of 31 December 2021, the Bank had liabilities towards Wakala and Mudaraba depositors in the amount of KZT 1,771,892 thousand that represented the unutilised portion of investment deposits pending further investment. *See also Note 24.*

(In thousands of tenge, unless otherwise indicated)

9. Investment properties

	Commercial premises
Balance at 1 January 2021	–
Additions	625,038
Balance at 31 December 2021	625,038
Transfer from property and equipment *(Note 10)*	**79,763**
Balance at 31 December 2022	**704,801**

During 2021, the Bank took possession of premises as a repayment of Murabaha receivables under trust activities due from one obligor in the amount of KZT 704,801 thousand, classified in the statement of financial position as at 31 December 2021 as investment properties in the amount of KZT 625,038 thousand and property and equipment in the amount of KZT 79,763 thousand, as the Bank planned to occupy certain facilities for administrative purposes. As a result of this transaction, amounts due to the Wakala and Mudaraba pool of KZT 704,801 thousand were recognised by the Bank in the statement of financial position during 2021.

During 2022, the Bank made a transfer in the amount of KZT 79,763 thousand from property and equipment to investment properties. Starting from January 2022, the Bank made the premises available for operating lease and recognises rental income on a straight-line basis over the lease term in profit or loss. The Bank has no restrictions on sale of its investment properties and no contractual obligations to either purchase, construct or develop the investment properties or for repairs, maintenance and enhancements.

The fair value of investment properties as at 31 December 2022 was assessed by an independent appraiser on 5 October 2022. A market approach was used to measure the fair value of assets. The market approach is based on the analysis of the results of comparable sales of similar properties. The fair value of the investment properties is categorised as Level 2 of the fair value hierarchy (as at 31 December 2021, fair value of the investment properties was equal to its carrying value and was assessed by an independent appraiser on 9 September 2021).

10. 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 2021	221,969	500,324	22,557	168,984	342,210	1,222,453	2,478,497
Additions	79,763	–	–	45,423	60,855	–	186,041
Modification	–	–	–	–	–	1,249,576	1,249,576
Disposals	–	–	–	(1,742)	(2,936)	–	(4,678)
As at 31 December 2021	301,732	500,324	22,557	212,665	400,129	2,472,029	3,909,436
Additions	**–**	**–**	**47,960**	**16,852**	**18,104**	**–**	**82,916**
Modification	**–**	**–**	**–**	**–**	**–**	**768,796**	**768,796**
Transfer to investment properties *(Note 9)*	**(79,763)**	**–**	**–**	**–**	**–**	**–**	**(79,763)**
Disposals	**–**	**–**	**(22,557)**	**(18,543)**	**(28,355)**	**–**	**(69,455)**
Other movements	**–**	**–**	**–**	**–**	**–**	**63,678**	**63,678**
As at 31 December 2022	**221,969**	**500,324**	**47,960**	**210,974**	**389,878**	**3,304,503**	**4,675,608**
Accumulated depreciation							
As at 1 January 2021	(105,511)	(319,393)	(22,557)	(113,148)	(148,077)	(667,053)	(1,375,739)
Charge for the year	(11,025)	(84,833)	–	(34,950)	(76,561)	(333,989)	(541,358)
Disposals	–	–	–	1,742	2,936	–	4,678
As at 31 December 2021	(116,536)	(404,226)	(22,557)	(146,356)	(221,702)	(1,001,042)	(1,912,419)
Charge for the year	**(11,025)**	**(69,294)**	**(10,991)**	**(27,525)**	**(69,448)**	**(391,012)**	**(579,295)**
Disposals	**–**	**-**	**22,557**	**18,543**	**28,355**	**–**	**69,455**
As at 31 December 2022	**(127,561)**	**(473,520)**	**(10,991)**	**(155,338)**	**(262,795)**	**(1,392,054)**	**(2,422,259)**
Net book value							
As at 1 January 2021	116,458	180,931	–	55,836	194,133	555,400	1,102,758
As at 31 December 2021	185,196	96,098	–	66,309	178,427	1,470,987	1,997,017
As at 31 December 2022	**94,408**	**26,804**	**36,969**	**55,636**	**127,083**	**1,912,449**	**2,253,349**

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)

11. Intangible assets

Movements in intangible assets are as follows:

	Licenses	*Computer software*	*Total*
Cost			
As at 1 January 2021	145,686	209,779	355,465
Additions	47,414	13,141	60,555
As at 31 December 2021	193,100	222,920	416,020
Additions	–	–	–
As at 31 December 2022	**193,100**	**222,920**	**416,020**
Accumulated amortisation			
As at 1 January 2021	(31,711)	(149,843)	(181,554)
Charge for the year	(30,483)	(53,854)	(84,337)
As at 31 December 2021	(62,194)	(203,697)	(265,891)
Charge for the year	**(53,440)**	**(19,223)**	**(72,663)**
As at 31 December 2022	**(115,634)**	**(222,920)**	**(338,554)**
Net book value			
As at 1 January 2021	113,975	59,936	173,911
As at 31 December 2021	130,906	19,223	150,129
As at 31 December 2022	**77,466**	**–**	**77,466**

12. Taxation

Corporate income tax expenses comprise the following:

	2022	*2021*
Current corporate income tax charge	**985,452**	342,760
Deferred corporate income tax charge − origination and reversal of temporary differences	**(61,298)**	1,844
Corporate income tax expense	**924,154**	344,604

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

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:

	2022	*2021*
Profit before corporate income tax expense	**4,020,025**	482,494
Statutory tax rate	**20%**	20%
Theoretical corporate income tax expense at the statutory rate	**804,005**	96,499
Non-taxable income from Ijara	**(111)**	(7,903)
Non-deductible impairment charge	**107,869**	244,133
Non-deductible operating expenses	**12,391**	11,875
Corporate income tax expense	**924,154**	344,604

As at 31 December 2022 current corporate income tax liabilities comprised KZT 84,897 thousand (31 December 2021: KZT 28,361 thousand).

(In thousands of tenge, unless otherwise indicated)

12. Taxation (continued)

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

	2020	*Origination and reversal of temporary differences in profit or loss*	*2021*	*Origination and reversal of temporary differences in profit or loss*	*2022*
Tax effect of deductible temporary differences					
Accrued salaries and bonuses	56,787	(10,213)	46,574	**30,348**	**76,922**
Lease liabilities	109,819	192,425	302,244	**(28,145)**	**274,099**
Liabilities measured at FVTPL	–	–	–	**119,740**	**119,740**
Property and equipment	7,988	19,655	27,643	**18,965**	**46,608**
Accrued expenses on professional services	10,222	(7,635)	2,587	**21,165**	**23,752**
Accrued expenses on unused vacations	2,487	(458)	2,029	**363**	**2,392**
Deferred corporate income tax assets	187,303	193,774	381,077	**162,436**	**543,513**
Tax effect of taxable temporary differences					
Right-of-use assets	(111,080)	(183,117)	(294,197)	**(88,293)**	**(382,490)**
Investment properties	-	(12,501)	(12,501)	**(12,845)**	**(25,346)**
Deferred corporate income tax liabilities	(111,080)	(195,618)	(306,698)	**(101,138)**	**(407,836)**
Net deferred corporate income tax assets	76,223	(1,844)	74,379	**61,298**	**135,677**

13. Other assets and liabilities

Other assets comprise the following:

	2022	*2021*
Other financial assets		
Guarantee deposit	**108,693**	84,470
Accrued commission income	**87,518**	–
Due from employees under Qard Hassan agreements	**16,907**	10,693
Past due commission income	**1,682**	1,522
	214,800	96,685
Less: ECL allowance	**(1,532)**	(1,284)
Total other financial assets	**213,268**	95,401
Other non-financial assets		
Rent prepayments	**126,853**	34,116
Prepayments and other debtors	**101,205**	68,995
Prepaid insurance premium	**13,000**	9,630
Prepayments for air tickets	**2,602**	4,302
Other	**14,835**	16,188
Total other non-financial assets	**258,495**	133,231
Other assets	**471,763**	228,632

Financial assets of the Bank as at 31 December 2022 and 31 December 2021 are not past due and are categorised as Stage 1 of the credit risk grading.

(In thousands of tenge, unless otherwise indicated)

13. Other assets and liabilities (continued)

Other liabilities comprise the following:

	2022	*2021*
Other financial liabilities		
Accounts payable	**153,157**	91,965
Charity payable	**13,197**	15,140
Total other financial liabilities	**166,354**	107,105
Other non-financial liabilities		
Accrued bonuses	**331,705**	139,914
Salaries payable	**67,417**	75,465
Accrued unused vacation expenses	**11,959**	10,146
Customer funds from Otbasy Bank	–	48,587
Prepayments for receivables under Home Murabaha agreements	–	36,706
Other	**7,803**	12,993
Total other non-financial liabilities	**418,884**	323,811
Other liabilities	**585,238**	430,916

14. Amounts due to other banks

As at 31 December 2022, amounts due to other banks comprise amounts on current accounts with Bank CenterCredit JSC totaling to KZT 7,025 thousand, Islamic Bank Zaman-Bank JSC totaling to KZT 1,080 thousand, Bank Freedom Finance Kazakhstan JSC totaling to KZT 1,010 thousand, Eurasian Bank JSC totaling to KZT 1,000 thousand, totaling to KZT 10,115 thousand (31 December 2021: current accounts with Bank CenterCredit JSC totaling to KZT 22,954 thousand).

15. Amounts due to customers

Amounts due to customers comprise the following:

	2022	*2021*
Current accounts	**15,814,224**	19,259,379
Amounts due to customers	**15,814,224**	19,259,379

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

	2022	*2021*
Private enterprises	**11,051,280**	10,182,234
Government entities	**1,742,705**	7,107,379
Individuals	**1,941,806**	1,833,963
International organisations	**977,660**	96,318
Employees	**100,773**	39,485
Amounts due to customers	**15,814,224**	19,259,379

(In thousands of tenge, unless otherwise indicated)

15. Amounts due to customers (continued)

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

	2022	*2021*
Construction	**4,178,125**	2,503,305
Oil and gas industry	**2,652,648**	61,118
Individuals	**1,941,806**	1,833,963
Government	**1,742,705**	7,107,379
Transport and communication	**1,171,367**	224,557
Trade	**1,095,193**	3,172,758
Mining	**840,629**	1,323,263
Medical equipment and supplies	**525,627**	551,209
Leasing	**368,476**	1,028,959
Education	**364,720**	290,694
Services	**263,990**	125,068
Energy	**175,557**	465,960
Hotels	**109,220**	62,609
Employees	**100,773**	39,485
Manufacturing	**83,032**	296,240
Charity	**82,999**	96,318
Agriculture	**53,790**	2,073
Financial services	**28,839**	5,418
Food trading	**10,563**	18,654
Machinery and equipment trade	**2,764**	–
Other	**21,401**	50,349
Amounts due to customers	**15,814,224**	19,259,379

16. Reverse Murabaha

Reverse Murabaha comprise the following:

	2022	*2021*
Reverse Murabaha	**10,231,250**	10,231,250
Reverse Murabaha	**10,231,250**	10,231,250

As of 31 December 2022 and 31 December 2021, Reverse Murabaha from "DAMU" Entrepreneurship Development Fund" JSC are 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:

	2022	*2021*
As at 1 January	**1,511,219**	549,096
Modification	**170,098**	1,249,576
Expenses from lease liabilities *(Note 19)*	**77,724**	32,774
Forex	**92,961**	7,207
Payments	**(481,505)**	(327,434)
As at 31 December 2022	**1,370,497**	1,511,219

At the end of 2021, the Bank signed with the lessor an intention letter on prolongation of the lease contracts for rent of offices in Almaty for the next five years. The extension of the lease term resulted in a modification effect of KZT 1,249,576 thousand recognised in 2021. During 2022, the Bank concluded official lease contracts for the rent of these offices. The contracts included embedded derivative instruments, specifically a foreign currency indexation option with yearly changes of the USD exchange rate floor, set at the level of KZT/USD rate of 480, to the forward official exchange rate of the NBRK with additional discount provided to the Bank in respect of any excess indexation loss of more than 20% from the floor level. The fair value of the embedded derivative estimated by the Bank amounted to KZT 598,697 thousand as at 31 December 2022 *(Note 26)*.

(In thousands of tenge, unless otherwise indicated)

17. Lease liabilities (continued)

As well at the end of 2022, the Bank agreed with the lessor on prolongation of the lease contract for rent of premises in Astana for the next five years. Extension of the lease term resulted in a modification effect of KZT 170,098 thousand recognised in 2022.

18. Equity

As at 31 December 2022 and 2021, 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 2022 and 2021.

19. Net revenue from Islamic finance activities

Revenue from Islamic finance activities comprises the following:

	2022	*2021*
Revenue from receivables under Murabaha agreements		
Revenue from receivables under Commodity Murabaha agreements – corporate	**3,249,306**	2,395,921
Revenue from Murabaha Treasury Tawarruq – banks	**680,036**	521,788
Revenue from receivables under Commodity Murabaha and Home Murabaha agreements – retail	**631,229**	473,022
	4,560,571	3,390,731
Revenue from Ijara – corporate	**555**	20,212
Revenue from Islamic finance activities	**4,561,126**	3,410,943
Finance expenses		
Expenses from Islamic finance activities	**(925,000)**	(925,000)
Expenses from lease liabilities *(Note 17)*	**(77,724)**	(32,774)
	(1,002,724)	(957,774)
Net revenue from Islamic finance activities	**3,558,402**	2,453,169

20. Credit loss expense

The table below shows the ECL charges on receivables from Islamic finance activities recognised in the statement of profit or loss and other comprehensive income for the year ended 31 December 2022:

		2022		
	Notes	*Stage 1*	*Stage 3*	*Total*
Cash and cash equivalents	6	**5,167**	–	**5,167**
Receivables under Murabaha agreements	7	**222,860**	–	**222,860**
Ijara		**715**	–	**715**
Other assets		**(693)**	–	**(693)**
		228,049	–	**228,049**

The table below shows the ECL charges on receivables from Islamic finance activities recognised in the statement of profit or loss and other comprehensive income for the year ended 31 December 2021:

		2021		
	Notes	*Stage 1*	*Stage 3*	*Total*
Cash and cash equivalents	6	21,277	–	21,277
Receivables under Murabaha agreements	7	96,877	(964,128)	(867,251)
Ijara		–	(716)	(716)
Other assets		172	–	172
		118,326	(964,844)	(846,518)

(In thousands of tenge, unless otherwise indicated)

21. Net fee and commission income

Net fee and commission income comprises the following:

	2022	*2021*
Agency commission and performance incentive under Wakala and Mudarib share of profit under Mudaraba agreements *(Note 24)*	**2,230,339**	1,652,381
Study and documentation fees in relation to financing	**103,121**	74,689
Transfer operations	**154,555**	49,015
Letters of credit and guarantees	**60,964**	37,866
Settlement and cash operations	**20,480**	6,590
Other	**17,252**	6,386
Fee and commission income	**2,586,711**	1,826,927
Card operations	**(72,495)**	(48,426)
Transfer operations	**(6,657)**	(4,151)
Letters of credit and guarantees	**(5,153)**	–
Other	**(13,504)**	(13,578)
Fee and commission expense	**(97,809)**	(66,155)
Net fee and commission income	**2,488,902**	1,760,772

Fee and commission income is earned in the Republic of Kazakhstan. Fee and commission income that is not integral to the effective profit rate on a financial asset is recognised depending on the type of service either at the point in time or as the Bank satisfies its performance obligation under the relevant contract:

- Agency commissions under Wakala and Mudarib share of profit under Mudaraba agreements are charged for management of fiduciary assets, recognised over time, with payments generally being made on a monthly basis;
- Fees and commissions for transfer, settlement and cash operations are charged for the execution of operations in accordance with tariffs depending on the type of the transaction and are recognised as income at the time when the transactions are performed; and
- Commission fees on guarantees and letters of credit issued are paid in advance and are recognised as income over the lifetime of the relevant guarantee or letter of credit.

Contract balances

As at 31 December 2022 accrued commission income totaled to KZT 87,518 thousand (31 December 2021: nil) *(Note 13)*.

22. Personnel and other operating expenses

Personnel and other operating expenses comprise the following:

	2022	*2021*
Salaries and bonuses	**1,648,192**	1,274,905
Social security costs	**115,911**	100,531
Personnel expenses	**1,764,103**	1,375,436
Depreciation and amortisation	**651,958**	625,695
Information technology services	**219,175**	188,649
Professional services	**81,339**	46,847
Taxes other than income tax	**74,176**	49,425
Communications	**64,226**	28,807
Security	**55,760**	25,926
Marketing and advertising	**51,753**	26,865
Business trips	**45,906**	8,557
Utilities	**23,262**	12,746
Transportation	**9,890**	16,256
Cleaning services	**9,686**	9,551
Trainings	**7,756**	12,665
Stationery	**7,459**	4,034
Charity and Sponsorship	**2,896**	-
Penalties	**760**	28,536
Other	**81,164**	71,407
Other operating expenses	**1,387,166**	1,155,966

(In thousands of tenge, unless otherwise indicated)

23. Other provisions

Movements in other provisions are as follows:

	Constructive obligation reserves in respect of trust activities	*Total*
As at 1 January 2021	328,216	328,216
Charge for the year	1,220,537	1,220,537
Translation difference	26,444	26,444
As at 31 December 2021	1,575,197	1,575,197
Charge for the year	**543,335**	**543,335**
Translation difference	**189,751**	**189,751**
Repayment	**(1,979,917)**	**(1,979,917)**
As at 31 December 2022	**328,366**	**328,366**

During 2022, based on the decisions of the Sharia Board dd. 11 April 2022 and the Board of Directors dd. 28 December 2022, the Bank supported the Wakala and Mudaraba pool of depositors by compensation in amount of KZT 1,979,917 thousand in respect of a defaulted customer facility under trust activity of the Bank *(Note 24).*

24. 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. Volatility in the global price of oil, the lingering impacts of the COVID-19 pandemic, and the ongoing unstable geopolitical situation arising from the Russian invasion of Ukraine have also increased the level of uncertainty in the business environment.

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 2022 and for the next five years is to focus its expansion on the corporate segment in the Kazakhstan banking sector.

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)

24. Commitments and contingencies (continued)

Credit related commitments and contingencies

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

	2022	*2021*
Undrawn commitments on receivables from Islamic finance activities	**32,073,040**	52,243,321
Guarantees issued	**4,662,771**	811,196
Credit related commitments	**36,735,811**	53,054,517

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 each obligor's credit risk before the date of providing 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 an agent capacity for investing amounts received under Wakala agreements and as a Mudarib under Mudaraba agreements as follows:

	2022	*2021*
Receivables from Islamic finance activities	**93,639,463**	52,518,356
Total investments from Investment deposits	**93,639,463**	52,518,356
Investment deposits		
Wakala Deposits	**63,673,448**	43,617,754
Wakala Deposits from banks	**22,004,184**	6,919,586
Mudaraba	**4,143,528**	3,752,908
Total received Investment deposits	**89,821,160**	54,290,248
Bank participation in Wakala and Mudaraba pool /(Unutilised portion of Wakala and Mudaraba investment deposits) as at 31 December *(Note 8)*	**3,818,302**	(1,771,892)
Revenue from Islamic finance activities and Ijara	**4,904,012**	3,517,556
Revenue from Murabaha and Wakala placements	**1,865**	–
Profit attributable to customers on Wakala and Mudaraba deposits	**(2,675,538)**	(1,865,175)
Agency commissions attributable to the Bank *(Note 21)*	**2,230,339**	1,652,381

The Bank carries no risk for utilised portions of Wakala and Mudaraba deposits except when the deposits are lost or depleted due to its 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 year ended 31 December 2021 was supported by the Shareholder. During 2021, distributable profits generated by investment pools were supported by the Shareholder's donation of KZT 28,682 thousand. The depositors' share of profits for the year ended 31 December 2022 was not supported by the Shareholder since the actual deposit profit rates were higher than expected, but the Shareholder and Shariah Board approved the support to the pool of depositors by bearing the provision amount of KZT 1,979,917 thousand in respect of a defaulted customer facility under trust activity of the Bank *(Note 23)*.

The Bank's exposure to currency risk in respect to funds under trust activity is disclosed in *Note 25*.

25. 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)

25. 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 Treasury Department 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.

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.

(In thousands of tenge, unless otherwise indicated)

25. Risk management (continued)

Introduction (continued)

Risk measurement and reporting systems (continued)

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, the Credit Committee, as appropriate. Reports include 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 risks similar to those faced in receivables under Murabaha, and these risks 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.

Impairment assessment

The Bank calculates ECLs 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.

(In thousands of tenge, unless otherwise indicated)

25. Risk management (continued)

Credit risk (continued)

Impairment assessment (continued)

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The 12mECL is the portion of LTECL that represents the ECL that results 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 for assessing allowances for impairment of receivables from Islamic finance activities and provisions for financing contingent liabilities in accordance with IFRS and performs monthly assessments by considering the change in the credit risk occurring over the remaining life of the relevant financial instruments. 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 12 months' ECL. 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.

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 forced 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; and
- Probability of bankruptcy or other financial reorganisation of the obligor.

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 the 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 allocation 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 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.

(In thousands of tenge, unless otherwise indicated)

25. Risk management (continued)

Credit risk (continued)

Internal rating model for corporate customers (continued)

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

Internal rating grade	*Internal rating description*
1 to 2+	Investment grade
2	
2-	
3+	
3	
3-	
4+	
4	
4-	
5+	Sub-investment grade
5	
5-	
6+	
6	
6-	
7- to 7+	Watch list grade
8 to 10	Impaired

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 customers' 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 the assessment of PDs, 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 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 an internal rating.

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 client and are, therefore, measured with greater attention;
- Any publicly available information on the client 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; and
- 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.

(In thousands of tenge, unless otherwise indicated)

25. Risk management (continued)

Credit risk (continued)

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. During estimation of other provisions, the amount expected to be recovered from restricted Wakala deposits is also taken into account.

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 exposures;
- Stage 2 and Stage 3 related party exposures;
- Stage 2 and Stage 3 individually significant exposures to retail customers; and
- Stage 2 and Stage 3 treasury and interbank exposures (such as amounts due from banks, cash equivalents).

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

- Retail homogeneous exposures;
- Stage 1 related party exposures;
- Stage 1 corporate financing exposures; and
- 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.

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). In 2022 and 2021, the Bank used a pessimistic forecast on GDP growth in its ECL model due to the then ongoing pandemic situation and the slowdown in the overall global economic situation.

(In thousands of tenge, unless otherwise indicated)

25. Risk management (continued)

Credit risk (continued)

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 2022	*Notes*		*Investment grade*	*Sub-investment grade*	*Impaired*	*Total*
Cash and cash equivalents, except for cash on hand	6	Stage 1	**7,338,024 ***	**442,555**	–	**7,780,579**
Receivables under Murabaha agreements	7					
- Receivables under Commodity Murabaha agreements – corporate		Stage 1	**5,852,863**	**21,430,155**	–	**27,283,018**
Guarantees issued	24	Stage 1	–	**4,662,771**	–	**4,662,771**
Total			**13,190,887**	**26,535,481**	–	**39,726,368**

As at 31 December 2021	*Notes*		*Investment grade*	*Sub-investment grade*	*Impaired*	*Total*
Cash and cash equivalents, except for cash on hand	6	Stage 1	19,269,418*	159,498	–	19,428,916
Receivables under Murabaha agreements	7					
- Receivables under Commodity Murabaha agreements – corporate		Stage 1	398,039	22,041,646	–	22,439,685
		Stage 3	–	–	243,991	243,991
Ijara		Stage 3	–	–	66,981	66,981
Guarantees issued	24	Stage 1	–	811,196	–	811,196
Total			19,667,457	23,012,340	310,972	42,990,769

*Cash and cash equivalents, except for cash on hand disclosed in investment grade, include cash on accounts opened in Kazakhstan Stock Exchange JSC in the amount of KZT 654,280 thousand and KZT 2,871,470 thousand as at 31 December 2022 and 31 December 2021, respectively.

In the table above, instruments of investment grade are those having a minimal level of credit risk, normally with a credit rating at the sovereign level. Other obligors with good financial position and good debt service 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.

As at 31 December 2022 and 31 December 2021, the Bank did not have any past due receivables under Home Murabaha agreements and Commodity Murabaha agreements concluded with retail customers.

(In thousands of tenge, unless otherwise indicated)

25. Risk management (continued)

Credit risk (continued)

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

	2022		
	Kazakhstan	*UAE*	*Total*
Assets			
Cash and cash equivalents	**7,060,548**	**2,221,827**	**9,282,375**
Receivables under Murabaha agreements	**33,352,793**	**–**	**33,352,793**
Bank participation in Wakala and Mudaraba pool	**3,818,303**	**–**	**3,818,303**
Other financial assets	**213,268**	**–**	**213,268**
	44,444,912	**2,221,827**	**46,666,739**
Liabilities			
Amounts due to other banks	**10,115**	**–**	**10,115**
Amounts due to customers	**15,814,224**	**–**	**15,814,224**
Reverse Murabaha	**10,231,250**	**–**	**10,231,250**
Other financial liabilities	**166,354**	**–**	**166,354**
	26,221,943	**–**	**26,221,943**
Net position	**18,222,969**	**2,221,827**	**20,444,796**

	2021		
	Kazakhstan	*UAE*	*Total*
Assets			
Cash and cash equivalents	15,534,351	5,761,976	21,296,327
Receivables under Murabaha agreements	28,300,856	–	28,300,856
Ijara	66,981	–	66,981
Other financial assets	95,401	–	95,401
	43,997,589	5,761,976	49,759,565
Liabilities			
Amounts due to other banks	22,954	–	22,954
Amounts due to customers	19,259,379	–	19,259,379
Amounts due to Wakala and Mudaraba pool	1,771,892	–	1,771,892
Reverse Murabaha	10,231,250	–	10,231,250
Other financial liabilities	107,105	–	107,105
	31,392,580	–	31,392,580
Net position	12,605,009	5,761,976	18,366,985

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, internal risk appetite thresholds (including in line with ADCB group standards), limits and early warning indicators.

(In thousands of tenge, unless otherwise indicated)

25. Risk management (continued)

Liquidity risk and funding management (continued)

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 2022	*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	**10,115**	**–**	**–**	**–**	**10,115**
Amounts due to customers	**15,814,224**	**–**	**–**	**–**	**15,814,224**
Reverse Murabaha	**230,514**	**925,000**	**13,111,257**	**–**	**14,266,771**
Lease liabilities	**98,141**	**294,424**	**1,986,951**	**29,344**	**2,408,860**
Other financial liabilities	**49,804**	**116,550**	**–**	**–**	**166,354**
Total undiscounted financial liabilities	**16,202,798**	**1,335,974**	**15,098,208**	**29,344**	**32,666,324**
Undrawn commitments on receivables from Islamic finance activities	**32,073,040**	–	–	–	**32,073,040**
Guarantees issued	**4,662,771**	–	–	–	**4,662,771**

As at 31 December 2021	*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	22,954	–	–	–	22,954
Amounts due to customers	19,259,379	–	–	–	19,259,379
Amounts due to Wakala and Mudaraba pool	1,771,892	–	–	–	1,771,892
Reverse Murabaha	–	925,000	3,700,000	10,566,771	15,191,771
Lease liabilities	87,901	275,735	1,335,896	192,330	1,891,862
Other financial liabilities	24,241	82,864	–	–	107,105
Total undiscounted financial liabilities	**21,166,367**	**1,283,599**	**5,035,896**	**10,759,101**	**38,244,963**
Undrawn commitments on receivables from Islamic finance activities	52,243,321	–	–	–	52,243,321
Guarantees issued	811,196	–	–	–	811,196

The tables above show 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. The undrawn commitment on a receivable has its own maturity period during which the obligor can access available funds, pay them, and obtain financing again.

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 repay term deposits of individuals upon demand of a depositor, subject to the terms 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 or depleted due to the Bank's 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 27*.

(In thousands of tenge, unless otherwise indicated)

25. Risk management (continued)

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 arises from the possibility that changes in profit rates will affect future cash flows or the fair values of financial instruments.

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 recognised on-balance sheet as at 31 December 2022:

As at 31 December 2022	***KZT***	***USD***	***EUR***	***AED***	***Total***
Assets					
Cash and cash equivalents	**3,932,209**	**4,853,910**	**347,409**	**148,847**	**9,282,375**
Receivables under Murabaha agreements	**23,941,670**	**9,411,123**	**–**	**–**	**33,352,793**
Bank participation in Wakala and Mudaraba pool	**4,751,942**	**(933,639)**	**–**	**–**	**3,818,303**
Other financial assets	**124,068**	**89,200**	**–**	**–**	**213,268**
Total assets	**32,749,889**	**13,420,594**	**347,409**	**148,847**	**46,666,739**
Liabilities					
Amounts due to other banks	**3,020**	**–**	**–**	**7,095**	**10,115**
Amounts due to customers	**3,939,408**	**11,373,317**	**366,029**	**135,470**	**15,814,224**
Reverse Murabaha	**10,231,250**	**–**	**–**	**–**	**10,231,250**
Lease liabilities	**1,173,422**	**197,075**	**–**	**–**	**1,370,497**
Liability measured at FVPL *	**598,697**	**–**	**–**	**–**	**598,697**
Other financial liabilities	**132,487**	**33,867**	**–**	**–**	**166,354**
Total liabilities	**16,078,284**	**11,604,259**	**366,029**	**142,565**	**28,191,137**
Net position	**16,671,605**	**1,816,335**	**(18,620)**	**6,282**	**18,475,602**

* Foreign currency indexation option in the Almaty office lease contracts with yearly change of USD exchange rate floor, set at the level of KZT/USD rate of 480, to the forward official exchange rate of NBRK with additional discount provided to the Bank on excess of indexation loss by more than 20% from the floor level.

The following table shows the foreign currency exposure structure of financial assets and liabilities recognised off-balance sheet as at 31 December 2022:

As at 31 December 2022	***KZT***	***USD***	***EUR***	***AED***	***Total***
Receivables from Islamic finance activities	**6,967,867**	**86,671,596**	**–**	**–**	**93,639,463**
Total investments from Investment deposits	**6,967,867**	**86,671,596**	**–**	**–**	**93,639,463**
Investment deposits					
Wakala Deposits	**2,176,915**	**61,496,534**	**–**	**–**	**63,673,449**
Wakala Deposits from banks	**–**	**22,004,184**	**–**	**–**	**22,004,184**
Mudaraba	**39,012**	**4,104,517**	**–**	**–**	**4,143,529**
Total received Investment deposits	**2,215,927**	**87,605,235**	**–**	**–**	**89,821,162**
Net position	**4,751,942**	**(933,639)**	**–**	**–**	**3,818,303**
Total net position (including on and off balance sheet financial assets and liabilities)	**21,423,547**	**882,696**	**(18,620)**	**6,282**	**22,293,905**

(In thousands of tenge, unless otherwise indicated)

25. Risk management (continued)

Market risk (continued)

Currency risk (continued)

The following table shows the foreign currency exposure structure of financial assets and liabilities recognised on-balance sheet as at 31 December 2021:

As at 31 December 2021	*KZT*	*USD*	*EUR*	*AED*	*Total*
Assets					
Cash and cash equivalents	4,934,166	15,917,893	350,223	94,045	21,296,327
Receivables under Murabaha agreements	28,300,856	–	–	–	28,300,856
Ijara	66,981	–	–	–	66,981
Other financial assets	95,401	–	–	–	95,401
Total assets	33,397,404	15,917,893	350,223	94,045	49,759,565
Liabilities					
Amounts due to other banks	–	–	–	22,954	22,954
Amounts due to customers	4,756,182	14,069,262	347,931	86,004	19,259,379
Amounts due to Wakala and Mudaraba pool	1,882,123	(110,231)	–	–	1,771,892
Reverse Murabaha	10,231,250	–	–	–	10,231,250
Lease liabilities	–	1,511,219	–	–	1,511,219
Other financial liabilities	107,105	–	–	–	107,105
Total liabilities	16,976,660	15,470,250	347,931	108,958	32,903,799
Net position	16,420,744	447,643	2,292	(14,913)	16,855,766

The following table shows the foreign currency exposure structure of financial assets and liabilities recognised off-balance sheet as at 31 December 2021:

As at 31 December 2021	*KZT*	*USD*	*EUR*	*AED*	*Total*
Receivables from Islamic finance activities	1,850,002	50,668,354	–	–	52,518,356
Total investments from Investment deposits	1,850,002	50,668,354	–	–	52,518,356
Investment deposits					
Wakala Deposits	3,637,886	39,979,868	–	–	43,617,754
Wakala Deposits from banks		6,919,586	–	–	6,919,586
Mudaraba	94,239	3,658,669	–	–	3,752,908
Total received Investment deposits	3,732,125	50,558,123	–	–	54,290,248
Net position	(1,882,123)	110,231	–	–	(1,771,892)
Total net position (including on and off balance sheet financial assets and liabilities)	14,538,621	557,874	2,292	(14,913)	15,083,874

The table below indicates the currencies to which the Bank had significant exposure at 31 December on certain monetary assets and liabilities recognised on-balance sheet. The analysis calculates the post-tax 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 profit or loss and other comprehensive income, while a positive amount reflects a net potential increase.

	2022		*2021*	
Currency	*Change in currency rate, in %*	*Effect on profit after tax*	*Change in currency rate, in %*	*Effect on profit after tax*
USD	**20%**	**141,231**	13%	89,260
EUR	**20%**	**(2,979)**	13%	367
AED	**20%**	**1,005**	13%	(2,386)

(In thousands of tenge, unless otherwise indicated)

25. Risk management (continued)

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.

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, the Islamic Finance Principles Board and senior management of the Bank.

26. 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.

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 2022	*Date of valuation*	*Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant non-observable inputs (Level 3)*	*Total*
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2022	**1,501,796**	**7,780,579**	–	**9,282,375**
Receivables under Murabaha agreements	31 December 2022	–	–	**31,822,594**	**31,822,594**
Bank participation in Wakala and Mudaraba pool	31 December 2022	–	–	**3,818,303**	**3,818,303**
Other financial assets	31 December 2022	–	–	**213,268**	**213,268**
Liabilities for which fair values are disclosed					
Amounts due to other banks	31 December 2022	–	**10,115**	–	**10,115**
Amounts due to customers	31 December 2022	–	**15,814,224**	–	**15,814,224**
Reverse Murabaha	31 December 2022	–	**8,611,782**	–	**8,611,782**
Lease liabilities	31 December 2022	–	–	**1,370,497**	**1,370,497**
Liability measured at FVPL	31 December 2022	–	–	**598,697**	**598,697**
Other financial liabilities	31 December 2022	–	**166,354**	–	**166,354**

(In thousands of tenge, unless otherwise indicated)

26. Fair values of financial instruments (continued)

		Fair value measurement using			
As at 31 December 2021	*Date of valuation*	*Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant non-observable inputs (Level 3)*	*Total*
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2021	1,867,411	19,428,916	–	21,296,327
Receivables under Murabaha agreements	31 December 2021	–	–	28,665,018	28,665,018
Ijara	31 December 2021	–	–	67,369	67,369
Other financial assets	31 December 2021	–	–	95,401	95,401
Liabilities for which fair values are disclosed					
Amounts due to other banks	31 December 2021	–	22,954	–	22,954
Amounts due to customers	31 December 2021	–	19,259,379	–	19,259,379
Amounts due to Wakala and Mudaraba pool	31 December 2021	–	1,771,892	–	1,771,892
Reverse Murabaha	31 December 2021	–	10,231,250	–	10,231,250
Lease liabilities	31 December 2021	–	–	1,511,219	1,511,219
Other financial liabilities	31 December 2021	–	107,105	–	107,105

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 2022	*Carrying amount*	*Fair value*	*Unrecognised gain/(loss)*
Financial assets			
Cash and cash equivalents	**9,282,375**	**9,282,375**	**–**
Receivables under Murabaha agreements	**33,352,793**	**31,822,594**	**(1,530,199)**
Bank participation in Wakala and Mudaraba pool	**3,818,303**	**3,818,303**	**–**
Other financial assets	**213,268**	**213,268**	**–**
Financial liabilities			
Amounts due to other banks	**10,115**	**10,115**	**–**
Amounts due to customers	**15,814,224**	**15,814,224**	**–**
Reverse Murabaha	**10,231,250**	**8,611,782**	**1,619,468**
Lease liabilities	**1,370,497**	**1,370,497**	**–**
Other financial liabilities	**166,354**	**166,354**	**–**
Total unrecognised change in unrealised fair value			**89,269**

(In thousands of tenge, unless otherwise indicated)

26. Fair values of financial instruments (continued)

As at 31 December 2021	*Carrying amount*	*Fair value*	*Unrecognised gain/(loss)*
Financial assets			
Cash and cash equivalents	21,296,327	21,296,327	–
Receivables under Murabaha agreements	28,300,856	28,665,018	364,162
Ijara	66,981	67,369	388
Other financial assets	95,401	95,401	–
Financial liabilities			
Amounts due to other banks	22,954	22,954	–
Amounts due to customers	19,259,379	19,259,379	–
Amounts due to Wakala and Mudaraba pool	1,771,892	1,771,892	–
Reverse Murabaha	10,231,250	10,231,250	–
Lease liabilities	1,511,219	1,511,219	–
Other financial liabilities	107,105	107,105	–
Total unrecognised change in unrealised fair value			364,550

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

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 assets and financial liabilities carried at amortised cost

The fair value of unquoted instruments, including financing facilities provided to customers, amounts due from financial institutions, amounts due to customers and financial institutions, other financial assets and lease liabilities is estimated by discounting future cash flows using rates as at the measurement date for instruments with similar terms, credit risk and remaining maturities.

Liability measured at FVPL

The fair value of liabilities measured at FVPL, which represents derivative instruments embedded into lease contracts *(Note 17),* equals to KZT 598,697 thousand as at 31 December 2022 and was estimated using a Local Stochastic Volatility model and Monte Carlo simulation. The major unobservable input used in estimations is USD/KZT Volatilities. A 1% increase/(decrease) in volatility would result in KZT 21,061 thousand increase/(decrease) of fair value of the embedded derivatives.

(In thousands of tenge, unless otherwise indicated)

27. 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 25* "Risk management" for the Bank's contractual undiscounted payment obligations.

	2022		
	Within one year	*More than one year*	*Total*
Cash and cash equivalents	**9,282,375**	**–**	**9,282,375**
Receivables under Murabaha agreements	**12,661,055**	**20,691,738**	**33,352,793**
Bank participation in Wakala and Mudaraba pool	**3,818,303**	**–**	**3,818,303**
Investment properties	**–**	**704,801**	**704,801**
Property and equipment and right-of-use assets	**–**	**2,253,349**	**2,253,349**
Intangible assets	**–**	**77,466**	**77,466**
Deferred corporate income tax assets	**–**	**135,677**	**135,677**
Other assets	**387,148**	**84,615**	**471,763**
Total	**26,148,881**	**23,947,646**	**50,096,527**
Amounts due to other banks	**10,115**	**–**	**10,115**
Amounts due to customers	**15,814,224**	**–**	**15,814,224**
Reverse Murabaha	**231,250**	**10,000,000**	**10,231,250**
Lease liabilities	**249,087**	**1,121,410**	**1,370,497**
Liability measured at FVPL	**–**	**598,697**	**598,697**
Unamortised commission income	**–**	**92,407**	**92,407**
Current corporate income tax liabilities	**84,897**	**–**	**84,897**
Other provisions	**303,757**	**24,609**	**328,366**
Other liabilities	**574,152**	**11,086**	**585,238**
Total	**17,267,482**	**11,848,209**	**29,115,691**
Net assets	**8,881,399**	**12,099,437**	**20,980,836**

	2021		
	Within one year	*More than one year*	*Total*
Cash and cash equivalents	21,296,327	–	21,296,327
Receivables under Murabaha agreements	8,163,504	20,137,352	28,300,856
Ijara	66,981	–	66,981
Investment properties	–	625,038	625,038
Property and equipment and right-of-use assets	–	1,997,017	1,997,017
Intangible assets	–	150,129	150,129
Deferred corporate income tax assets	–	74,379	74,379
Other assets	206,726	21,906	228,632
Total	29,733,538	23,005,821	52,739,359
Amounts due to other banks	22,954	–	22,954
Amounts due to customers	19,259,379	–	19,259,379
Amounts due to Wakala and Mudaraba pool	1,771,892	–	1,771,892
Reverse Murabaha	231,250	10,000,000	10,231,250
Lease liabilities	256,093	1,255,126	1,511,219
Unamortised commission income	23,226	–	23,226
Current corporate income tax liabilities	28,361	–	28,361
Other provisions	1,575,197	–	1,575,197
Other liabilities	361,633	69,283	430,916
Total	23,529,985	11,324,409	34,854,394
Net assets	6,203,553	11,681,412	17,884,965

(In thousands of tenge, unless otherwise indicated)

28. 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:

	2022			2021 (recalculated)*		
Statement of financial position	***Shareholder***	***Entities under common control***	***Key management personnel***	***Shareholder***	***Entities under common control***	***Key management personnel***
Cash and cash equivalents	**2,221,827**	**–**	**–**	5,761,976	–	–
Receivables under Murabaha agreements	**–**	**–**	**166,655**	–	–	172,812
Amounts due to customers	**–**	**368,468**	**110**	–	928,486	180

As of 31 December 2022 and 31 December 2021, receivables under Murabaha agreements concluded with key management personnel in KZT bear an average profit rate of 10.73% per annum and mature in 2034-2036.

	2022			2021 (recalculated)*		
Off balance sheet (trust activities)	***Shareholder***	***Entities under common control***	***Key management personnel***	***Shareholder***	***Entities under common control***	***Key management personnel***
Amounts due to Wakala depositors	**22,004,184**	**259,002**	**61,875**	6,919,586	550,479	43,673

As of 31 December 2022, Wakala deposits with the shareholder bear an average contractual expense rate of 6.31% per annum in USD (2021: 1.3% per annum in USD) and mature in 2023 (2021: in 2022), entities under common control – 14% per annum in KZT (2021: 5% per annum in KZT) and mature in 2023 (2021: in 2022), key management personnel – 1.83% per annum in USD (2021: 2% per annum in USD and 8.5% per annum in KZT) and mature in 2023-2024 (2021 in 2022).

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

	2022			2021 (recalculated)*		
	Shareholder	***Entities under common control***	***Key management personnel***	***Shareholder***	***Entities under common control***	***Key management personnel***
Statement of profit or loss and other comprehensive income						
Revenue from receivables under Murabaha agreements	–	–	**9,496**	–	–	6,594
Revenue from commission income	–	–	**312**	–	–	17
Off balance sheet (trust activities)						
Expense from Islamic finance activities	**(748,545)**	**(21,555)**	**(1,063)**	(119,334)	(18,117)	(2,441)

The Bank also manages the investment deposits attracted from related parties, which are accounted off-balance sheet, and receives commission income for managing those deposits. Due to the fact that management of deposits is conducted on a pool basis, the exact amount of commission income earned from the portion of deposits with related parties cannot be reliably calculated.

*During 2022 the Bank revised disclosure for 2021 by including balances with key management personnel only and excluding balances with other employees.

Compensation of four members of key management personnel comprise:

	2022	***2021***
Salaries and other short-term benefits	**346,644**	300,947
Social security costs	**26,496**	25,403
Total compensation to key management personnel	**373,140**	326,350

(In thousands of tenge, unless otherwise indicated)

29. 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 2022 and 2021, 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 internal risk appetite limits 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 2022 and 2021, the Bank's Tier 1 and Tier 2 capital adequacy ratios on this basis exceeded the required minimums.

As at 31 December 2022 and 2021, the capital adequacy ratios of the Bank calculated in accordance with the requirements of the NBRK (which do not include the Bank's trust activities) are as follows:

	2022	***2021***
Tier 1 capital		
Share capital	**10,732,338**	10,732,338
Retained earnings	**10,171,032**	7,002,510
Total tier 1 capital	**20,903,370**	17,734,848
Total capital base	**20,903,370**	17,734,848
Risk weighted assets		
Credit risk	**56,178,448**	44,435,559
Market risk	**1,025,300**	70,625
Operational risk	**1,654,561**	1,119,617
Total risk weighted assets	**58,858,309**	45,625,801
Capital ratios		
Total capital expressed as a percentage of total risk weighted assets	**36%**	39%
Tier 1 capital expressed as a percentage of total risk weighted assets	**36%**	39%

30. 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.