Islamic Bank Zaman-Bank Joint Stock Company

Financial statements

For 2023,
with the independent auditor's report

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Independent auditor's report

To the Shareholders and Board of directors OF JSC Islamic Bank Zaman Bank

Opinion

We have audited the accompanying annual financial statements of Subsidiary Joint Stock Company Islamic Bank Zaman Bank, (the "Bank"), which comprise the statement of financial position of the Bank as at December 31, 2023, the statement of comprehensive income of the Bank for 2023, the statement of changes in equity of the Bank for 2023, the statement of cash flows of the Bank for 2023, and the notes to the annual financial statements of the Bank for 2023, including a summary of significant accounting policies.

In our opinion, the accompanying annual financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2023, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

The basis for the expression of opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further disclosed in the *Auditor's Responsibility 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' Code of Ethics for Professional Accountants* (the "Code") and 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 those requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

We draw attention to Note 17 to the financial statements, which describes a significant concentration of current accounts of the Bank's customers.

As discussed in Note 5, at the date of issuance of these financial statements, the Islamic Finance Principles Board has not yet provided its report on the Bank's compliance for 2023 with the requirements of the Law of the Republic of Kazakhstan dated August 31, 1995 "On Banks and Banking Activities in the Republic of Kazakhstan" in terms of Shariah compliance (the "Law").

We also draw attention to Note 5 to the financial statements, which states the need for the Bank to rely on its own assessment of the probabilities and scenarios of future events without significant supporting evidence of past events when calculating the allowance for expected credit losses.

We do not express a modified opinion based on the above matters.

Other Information

The financial statements of the Bank for the year ended December 31, 2022 were audited by another auditor who expressed an unqualified opinion on those financial statements on July 3, 2023.

The responsibility of management and those charged with governance for the annual financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS 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 practical alternative but to liquidate or cease operations. Those charged with governance are responsible for overseeing the preparation of the Bank's financial statements.

Auditor's Responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. In addition, we do the following:

- identify and assess the risks of material misstatement of the financial statements due to fraud or error; design and perform audit procedures in response to these risks; obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement from fraud is greater than the risk of not detecting a material misstatement from an error because fraud may include collusion, forgery, omission, misrepresentation, or circumvention of internal controls;
- obtain an understanding of the internal control system 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 system;
- evaluate the appropriateness of the accounting policies used and the reasonableness of management estimates and related disclosures;
- conclude on the appropriateness of management's use of the going concern assumption and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inappropriate, modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to be able to continue as a going concern;
- evaluate the presentation of the financial statements as a whole, structure and content, including disclosures, and whether the financial statements present the underlying transactions and events in a manner that ensures their fair presentation.

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

Bakhyt Zhumadylov Review Engagement Head	Sholpanay Kudaybergenova General Director
Auditor Qualification Certificate No. MF-0001686 dated 30.06.2021	State license to engage in audit activity №18013076, issued by the Internal State Audit Committee of the Ministry of Finance of the Republic of Kazakhstan 03 July 2018.

May 29th, 2024.

STATEMENT OF FINANCIAL POSITION

on December 31, 2023

(In thousands of Kazakhstani tenge)

	Note	***December 31, 2023***	December 31, 2022 (Adjusted)	December 31, 2021
Assets				
Cash and cash equivalents	6	**6.634.445**	16.915.962	6.309.846
Receivables on Islamic financing	7	**15.070.937**	14.642.517	14.724.953
Loans to customers	8	–	–	11.779
Investments in Wakala and Mudaraba pools	9	**484.984**	238.894	818.108
Property, plant and equipment	10	**67.487**	74.229	88.703
Right-of-use assets	11	**238.420**	285.773	237.447
Intangible assets	12	**209.084**	258.966	339.770
Inventory	13	**191.252**	191.229	190.565
Current corporate income tax assets		**57.725**	65.375	42.363
Deferred corporate income tax assets	14	**12.229**	98.808	–
Other assets	15	**466.819**	307.710	887.324
Total assets		**23.433.382**	33.079.463	23.650.858
Liabilities				
Amounts due to credit institutions	16	**691.764**	724.993	780.866
Amounts due to customers	17	**8.727.296**	18.464.756	8.592.757
Liabilities to depositors of Wakala and Mudaraba pools	19	**181.292**	328.054	73.366
Provisions for contingent liabilities	19	**970.925**	647.101	629.588
Lease liabilities	11	**253.642**	296.239	261.684
Deferred corporate income tax liabilities	14	–	–	10.063
Other liabilities	15	**182.298**	197.477	284.694
Total liabilities		**11.007.217**	20.658.620	10.633.018
Equity				
Authorized capital	18	**10.050.000**	10.050.000	10.050.000
Additional paid-in capital		**122.037**	122.037	122.037
Retained earnings		**2.254.128**	2.248.806	2.845.803
Total equity		**12.426.165**	12.420.843	13.017.840
Total liabilities and equity		**23.433.382**	33.079.463	23.650.858

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

Asayeva Gulfayruz Yerlanovna — Chairman of the Management Board

Shatanova Gaukhar Konyrbayevna — Chief Accountant

May 29th, 2024

The accompanying notes 1-29 are the integral part of these financial statements.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2023

(In thousands of Kazakhstani tenge)

	Note	2023	2022 (Adjusted)
Income from Islamic financing activities			
Revenue from Commodity Murabaha contracts	20	**1.603.089**	1.386.932
Revenues from Tawarruq contracts		**158.951**	75.651
		1.762.040	1.462.583
Other financial expenses			
Lease liabilities	11	**(41.289)**	(29.113)
		(41.289)	(29.113)
Net financial income		**1.720.751**	1.433.470
Expenses on credit losses	21	**(213.637)**	(1.123.613)
Net financial (expenses)/income after expenses on credit losses		**1.507.114**	309.857
Net commission income	22	**497.851**	635.065
Net income from foreign currency transactions:			
- trading operations		**285.226**	28.531
- revaluation of foreign currency items		**(41.347)**	199.338
Other income		**41.109**	43.259
Non-financial income		**782.839**	906.193
Personnel expenses	23	**(450.384)**	(448.161)
Other operating expenses	23	**(549.143)**	(581.464)
Loss on initial recognition of receivables on Islamic financing	7	**(1.141.275)**	(593.640)
Other impairment charges	21	**–**	(298.653)
Non-financial expenses		**(2.140.802)**	(1.921.918)
(Loss)/profit before corporate income tax expense		**149.151**	(705.868)
Corporate income tax savings/(expense)	14	**(143.829)**	108.871
(Loss)/profit for the year		**5.322**	(596.997)
Other comprehensive income		**–**	–
Total comprehensive (loss)/income for the year		**5.322**	(596.997)

The accompanying notes 1-29 are the integral part of these financial statements.

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STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2023

(In thousands of Kazakhstani tenge)

	Authorized capital	*Additional paid-in capital*	*Retained earnings*	*Total equity*
On December 31, 2021	10.050.000	122.037	2.845.803	13.017.840
Total comprehensive loss for the year (adjusted)	–	–	(596.997)	(596.997)
On December 31, 2022	10.050.000	122.037	2.248.806	12.420.843
Total comprehensive income for the year	–	–	**5.322**	**5.322**
On December 31, 2023	**10.050.000**	**122.037**	**2.254.128**	**12.426.165**

The accompanying notes 1-29 are the integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended December 31, 2023

(In thousands of Kazakhstani tenge)

	Note	*2023*	*2022*
Cash flows from operating activities			
Income derived from Islamic financing activities		**2.433.433**	1.191.728
Commissions received		**553.790**	637.504
Commissions paid		**(65.983)**	(86.473)
Net realized income on derivative financial instruments		**–**	–
Realized income, net of expenses on foreign exchange operations		**285.226**	28.531
Other income received		**5.250**	9.100
Personnel expenses paid		**(450.384)**	(444.826)
Other operating expenses paid		**(427.919)**	(328.288)
Cash flows from operating activities before changes in operating assets and liabilities		**2.333.413**	1.007.276
Net (increase)/decrease in operating assets			
Receivables on Islamic financing		**(2.441.262)**	(780.481)
Loans to customers		**–**	6.500
Investments in Wakala and Mudaraba pools		**(246.090)**	133.379
Inventories		**(23)**	–
Right of use assets		**47.353**	–
Other assets		**(149.065)**	234.954
Net (decrease)/increase in operating liabilities			
Amounts due to credit institutions		**(33.229)**	(47.081)
Amounts due to customers		**(9.737.460)**	9.929.854
Liabilities to depositors of Wakala and Mudaraba pools		**(146.762)**	253.934
Lease liabilities		**73.223**	–
Other liabilities		**(14.958)**	(34.574)
Provisions for liabilities and contingencies		**323.824**	–
Net cash flows from operating activities before corporate income tax		**(9.991.036)**	10.703.761
Corporate income tax paid		**(49.600)**	(27.049)
Net cash inflow from operating activities		**(10.040.636)**	10.676.712
Cash flows from investing activities			
Purchase of property, plant and equipment	10	**(36.312)**	(18.643)
Acquisition of intangible assets	12	**(32.584)**	(1.633)
Net cash used in investing activities		**(68.896)**	(20.276)
Cash flows from financing activities			
Repayment of lease liabilities	11	**(157.109)**	(165.693)
Net cash used in financing activities		**(157.109)**	(165.693)
Effect of expected credit losses on cash and cash equivalents	6	**(13.463)**	(10.786)
Effect of exchange rate changes on cash and cash equivalents		**(1.413)**	126.159
Net increase/(decrease) in cash and cash equivalents		**(10.281.517)**	10.606.116
Cash and cash equivalents on January 1, 2023		**16.915.962**	6.309.846
Cash and cash equivalents on December 31, 2023	6	**6.634.445**	16.915.962

The accompanying notes 1-29 are the integral part of these financial statements.

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(In thousands of Kazakhstani tenge, unless otherwise stated)

1. Description of activities

Islamic Bank Zaman-Bank Joint Stock Company (hereinafter – the Bank) has operated in the Republic of Kazakhstan since 1991 under the laws of the Republic of Kazakhstan. In 2017, the Bank was transformed into an Islamic bank, renamed and officially registered as Islamic Bank Zaman Bank Joint Stock Company.

The Bank operates under general banking license No. 1.3.51 issued by the National Bank of the Republic of Kazakhstan (the NBRK) on August 17, 2017, which replaces the previous licenses. The activities of the Bank are regulated by the Financial Market Supervision Agency of the Republic of Kazakhstan (the FMSA).

The Bank is engaged in Islamic banking activities and conducts its operations through its head office in Astana and branches in Almaty and Ekibastuz. The Bank accepts deposits from the public, provides financial transactions based on the principles of Shariah rules and regulations, transfers funds within and outside Kazakhstan, exchanges currencies and provides other banking services to legal entities and individuals.

The registered address of the Bank's head office is Rakhimzhan Koshkarbayev str., building 1a, b.3, office 301, Almaty district, Astana, Republic of Kazakhstan.

The following legal entities and individuals were shareholders of the Bank as on December 31, 2023 and 2022:

Shareholder	***2023 (%)***	*2022 (%)*
A.T. Abguzhinov	**70,0**	70,0
Sh.D. Svarov	**9,6**	9,6
S.Y. Beisembayeva	**7,3**	7,3
Islamic Corporation for Private Sector Development	**5,0**	5,0
T.S. Abguzhinov	**4,0**	4,0
Other shareholders individually owning less than 3%	**4,1**	4,1
Total	**100,0**	100,0

The members of the Board of Directors and members of the Management Board controlled 491,000 ordinary shares of the Bank or 4.91% on December 31, 2022 and 2021.

2. Basis of preparation of financial statements

General information

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

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

Impact of the COVID-19 pandemic

The World Health Organization declared the COVID-19 outbreak a pandemic on March 11, 2020. In recent months, the COVID-19 pandemic has shown significant signs of abating as travel bans have generally been lifted, lockdowns lifted, and quarantine measures relaxed. Many governments have also lifted or announced reductions in measures to provide financial and non-financial assistance to affected organizations. Nevertheless, COVID-19 may still affect companies and economies, and businesses may still face reduced revenues, disrupted supply chains, and job losses.

Geopolitical situation

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

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(In thousands of Kazakhstani tenge, unless otherwise stated)

2. Basis of preparation of financial statements (continuation)

Geopolitical situation (continuation)

Volatility in stock and currency markets, restrictions on imports and exports, availability of local resources, materials and services will directly affect companies that are active or have significant ties with the Russian Federation, the Republic of Belarus or Ukraine. However, the consequences of the current situation may directly or indirectly affect not only companies directly related to the countries involved in the conflict.

In order to manage country risk, the Bank controls transactions with counterparties within limits set by the Bank's collegial body, which are reviewed regularly.

The concentration of claims on Russian counterparties represented by cash and cash equivalents amounted to 48,895 thousand tenge on December 31, 2023 (December 31, 2022: 758,135 thousand tenge). In 2022, certain Russian counterparties were included in the US sanctions lists for which the claims on Russian counterparties represented by cash and cash equivalents amounted to 21,479 thousand tenge on December 31, 2022 (December 31, 2022: 16,206 thousand tenge).

3. Definition of significant terms

Shariah

Shariah is a compilation of Islamic law and is essentially derived from the Holy Quran and the Sunnah of the Prophet (peace be upon him). The Bank, being an Islamic financial institution, incorporates Shariah principles and norms into its operations as interpreted by the Islamic Finance Principles Board.

Commodity Murabaha and Tawarruq

Murabaha is a financing method whereby a counterparty Bank/Bank purchases a commodity from a broker or supplier and takes actual or constructive possession of that commodity and then sells it to the customer/Bank on a deferred payment basis at a premium. Under the Commodity Murabaha/Tawarruq contracts, the customer/Bank then sells the same asset to a third party on immediate delivery and payment terms, and the customer/Bank ultimately receives cash from the proceeds of the second sale. Basically the underlying asset is a highly liquid commodity such as platinum or palladium. Under Shariah principles, gold and silver are considered cash and cannot be used for this purpose.

Ijara

A lease of a specified asset, with transfer of ownership at the end of the lease term (also known as Ijara Muntahia Bitamleek) is an arrangement whereby the Bank acquires an asset in accordance with the customer's intention as set out in the statement of intention and then leases it, acting as lessor, to the customer acting as lessee for a specified rent for a specified period.

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(In thousands of Kazakhstani tenge, unless otherwise stated)

3. Definition of significant terms (continuation)

Ijara (continuation)

The length of the lease term and the basis for the lease are set out and agreed in the lease agreement. The Bank holds title to the asset throughout the lease term. The agreement can be terminated by transferring ownership of the asset to the lessee upon fulfillment of the lessee's obligation during or at the end of the lease term.

Mudaraba

Mudaraba is a contractual agreement whereby two or more parties commit themselves to an economic activity. Mudaraba is a profit sharing arrangement between the party providing the capital and the party providing the entrepreneurial ability. It can be entered into between investment account holders, as the source of funds, and the Bank as the Mudarib. The Bank announces its willingness to accept investment funds, with the condition that profits are shared based on the agreement of the two parties and losses are borne by the funding party, unless the losses are due to malpractice, negligence or breach of agreed terms by the Bank, in which case such losses are borne by the Bank.

Pool of depositors

Pools (funds) are a form of pooling of deposits for co-investment purposes by currency, whereby profits of participants are pooled and distributed according to prior agreements. The Bank's internal policy provides for a depositor pool by currency for Mudaraba and Vakala depositors (USD and tenge pools), a Sukuk pool and a shareholder pool depending on funding sources, as well as co-funding of several pools.

In view of the possible mismatch between the assets and investment deposits of depositors due to early termination or redemption of the respective deposits, such deficit arising in a pool may be financed from other pools. Funding between pools takes the Shariah form of pool funding and is governed by pool allocation and funding rules.

Wakala

A contract whereby an investor provides a certain amount of money to an agent who invests it according to specific conditions in exchange for a certain remuneration (lump sum or profit on the amount invested). The agent may be given an increase over and above the pre-agreed expected rate of return, as a remuneration for services. The agent is obliged to return the invested amount in case of negligence or breach of the Wakala terms and conditions.

Qard Hassan

Qard Hassan short-term receivables are non-profitable financial receivables in which a customer borrows funds for a specified period of time with the understanding that the same amount must be repaid at the end of the agreed upon term.

Zakat

It is a right that matures when a certain level of wealth is reached and is payable to certain categories of beneficiaries. It is an absolute obligation when these conditions are met.

4. Significant accounting policies

Changes in accounting policies

The Bank has early adopted certain amendments to standards that are effective for annual periods beginning on or after January 1, 2023 (unless otherwise stated). The Bank has not early adopted standards, interpretations or amendments that have been issued but are not yet effective.

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4. Significant accounting policies (continuation)

Changes in accounting policies (continuation)

- The amendments to IAS 1 Presentation of Financial Statements and Practice Statement 2 require an entity to disclose its significant accounting policies rather than its significant accounting policies. The amendments further explain how an entity can identify a significant accounting policy. In support of the amendment, the Board also developed guidance and examples to explain and demonstrate the application of the 'four-step process for determining materiality' described in Practice Guidance 2.
- Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors replaces the definition of a change in accounting estimates with a definition of accounting estimates. According to the new definition, accounting estimates are 'monetary amounts in the financial statements that are subject to measurement uncertainty'. Entities develop accounting estimates when accounting policies require items in the financial statements to be measured in a manner that involves estimation uncertainty. The amendments clarify that a change in an accounting estimate resulting from new information or new developments is not a correction of an error.
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) clarifies that the initial recognition exemption does not apply to transactions that give rise to equal amounts of deductible and taxable temporary differences on initial recognition.
- IFRS 17 Insurance Contracts requires insurance liabilities to be measured at the present value of settlement and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are intended to achieve the objective of consistent, principle-based accounting for insurance contracts.

The adoption of the above amendments did not have a significant impact on the Bank's financial statements.

Fair value measurement

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

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

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

The Bank must have access to the principal or most advantageous market. The fair value of an asset or liability is estimated using assumptions that market participants would use when pricing the asset or liability assuming that market participants act in their best economic interest. The fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits either by making the best and most efficient use of the asset or by selling it to another market participant that would make the best and most efficient use of the asset.

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

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

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

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(In thousands of Kazakhstani tenge, unless otherwise stated)

4. Significant accounting policies (continuation)

Fair value measurement (continuation)

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (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

Regular way purchases or sales of financial assets and liabilities are recognized on the trade date, which is the date that the Bank commits to purchase the asset or liability. Regular way purchases or sales are purchases or sales of financial assets and liabilities under contracts that require delivery of assets and liabilities within the time frame established by regulation or convention in the marketplace.

Initial measurement

The classification of financial instruments at initial recognition depends on the contractual terms of the instruments and the business model used to manage the instruments. Financial instruments are initially measured at fair value, including transaction costs, except when financial assets and financial liabilities are measured at FVTPL.

Categories of measurement of financial assets and liabilities

The Bank classifies all of its financial assets, based on the business model used for asset management and the contractual terms of the assets, as valued at:

- Amortized cost;
- FVOCI;
- FVTPL.

The Bank classifies and measures derivative instruments and instruments held for trading under the FVTPL. The Bank may, at its discretion, classify financial instruments as measured at FVTPL if such classification would eliminate or significantly reduce inconsistent application of measurement or recognition principles.

Financial liabilities, other than commitments to provide financing and financial guarantees, are measured at amortized cost or FVTPL if they are held for trading and Islamic derivatives, or at the discretion of the entity, are classified as measured at fair value.

Amounts due from credit institutions, receivables from Islamic financing and loans to customers measured at amortized cost

The Bank measures amounts due from credit institutions, Islamic finance receivables and loans to customers at amortized cost only if both of the following conditions are met:

- The financial asset is held within a business model whose objective is to hold financial assets to collect contractual cash flows;
- The contractual terms of the financial asset require that cash flows representing solely payments of principal and profit on principal outstanding (SPPI) be received on specified dates.

These terms and conditions are discussed in more detail below.

4. Significant accounting policies (continuation)

Initial measurement (continuation)

Business model assessment

The Bank defines its business model at the level that best reflects how grouped financial assets are managed to achieve a particular business objective.

The Bank's business model is assessed at a higher level of portfolio aggregation rather than at the level of individual instruments and is based on observable factors such as:

- The way in which the performance of the business model and the return on financial assets held within that business model are measured and communicated to the organization's key management personnel;
- The risks that affect the performance of the business model (and the return on financial assets held within that business model) and, in particular, how those risks are managed;
- The way in which the managers managing the business are remunerated (e.g., whether remuneration is based on the fair value of the assets managed or on contractual cash flows generated);
- The expected frequency, volume and timing of sales are also important aspects in assessing the Bank's business model.

The assessment of the business model is based on scenarios that are reasonably expected to occur, without taking into account so-called 'worst case' or 'stress' scenarios. If cash flows after initial recognition are realized in a manner different from the Bank's expectations, the Bank does not change the classification of the remaining financial assets held within this business model, but subsequently takes such information into account when evaluating newly created or recently acquired financial assets.

Solely Payments of Principal and Interest test (SPPI test)

As part of the second step of the classification process, the Bank assesses the contractual terms of a financial asset to determine whether the asset's contractual cash flows represent solely payments of principal and profits on the outstanding principal balance (SPPI test).

For the purposes of this test, 'principal' is the fair value of the financial asset at initial recognition and may change over the life of the financial asset (e.g., if there are principal repayments or amortization of premium/discount).

The most significant elements of profit under a loan agreement are generally the consideration for the time value of money and the consideration for credit risk. In order to perform the SPPI test, the Bank applies judgment and analyzes relevant factors, such as the currency in which the financial asset is denominated and the period for which the profit rate is set.

At the same time, contractual terms that have more than a negligible effect on the risk exposure or volatility of the contractual cash flows that are unrelated to the underlying loan agreement do not give rise to contractual cash flows that are solely payments of principal and profits on the outstanding principal. In such cases, the financial asset should be measured at FVTPL.

Financial guarantees and liabilities for the provision of Islamic financing

The Bank issues financial guarantees and liabilities for Islamic financing.

Financial guarantees are initially recognized in the financial statements at fair value, at the premium received. Subsequent to initial recognition, the Bank measures its liability under each guarantee at the higher of the amount initially recognized less cumulative amortization recognized in profit or loss and the valuation provision for expected credit losses (ECL).

Liabilities for Islamic financing are contractual liabilities under which the Bank is obliged to provide financing to a customer on predetermined terms and conditions during the term of the liability. As with financial guarantee contracts, such liabilities are subject to the ECL valuation requirements.

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(In thousands of Kazakhstani tenge, unless otherwise stated)

4. Significant accounting policies (continuation)

Initial measurement (continuation)

Performance guarantees

Performance guarantees are contracts that provide compensation if the other party fails to fulfill a contractual obligation. Performance guarantees do not transfer credit risk. The risk under a performance guarantee contract is the possibility that the other party fails to fulfill its contractual obligation. Accordingly, performance guarantees are not financial instruments and therefore are not within the scope of IFRS 9.

Receivables for Islamic financing and loans to customers

Loans to customers and receivables from Islamic financing activities, which includes Murabaha contract receivables, are non-derivative financial assets that are not traded in an active market with fixed payments. It is not held for immediate sale or sale in the near term, but to collect contractual cash flows. Assets are carried at amortized cost using the effective profit rate method. The income and expenses on such assets are recognized in profit or loss when such assets are disposed of or impaired and through the amortization process. Receivables from Islamic financing activities consist of receivables from Murabaha contracts. Murabaha receivables are carried at amortized cost less provision for impairment.

Islamic financing activities are financed from two sources: 1) the Bank's own funds, which are recognized on the balance sheet; and 2) funds received under Wakala and Mudaraba agreements. Under the terms of the Wakala and Mudaraba contracts, the Bank does not bear the risk and such funds are accounted for as off-balance sheet items. In the event of early termination or expiration of the Wakala and Mudaraba agreements, which could result in a possible mismatch of asset maturities, the resulting deficit may be financed by the Bank out of its own funds and recognized as an asset in the statement of financial position

Reclassification of financial assets and liabilities

The Bank does not reclassify financial assets after initial recognition, unless the Bank changes its business model for managing financial assets. Financial liabilities are never reclassified. The Bank did not reclassify financial assets and liabilities in 2022.

Cash and cash equivalents

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

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions and amounts due to customers. Subsequent to initial recognition, borrowings are measured at amortized cost using the effective interest method. Income and expense are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process.

Lease

i. The Bank as a lessee

The Bank applies a uniform approach to the recognition and measurement of all leases other than short-term leases and leases of low-value assets. The Bank recognizes lease liabilities for lease payments and right-of-use assets, which represent the right to use the underlying assets.

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(In thousands of Kazakhstani tenge, unless otherwise stated)

4. Significant accounting policies (continuation)

Leases (continuation)

i. The Bank as a lessee (continuation)

Right-of-use assets

The Bank recognizes right of use assets at the commencement date of the lease (i.e. the date on which the underlying asset becomes available for use). Right-of-use assets are measured at cost less accumulated depreciation and accumulated impairment losses, as adjusted for the revaluation of lease liabilities.

The initial cost of right-of-use assets includes the amount of the recognized lease liability, initial direct costs incurred and lease payments made on or before the commencement date less lease incentives received. If the Bank is not reasonably certain that it will obtain ownership by the end of the lease term, the recognized right-of-use asset is depreciated on a straight-line basis over the shorter of the estimated useful life of the asset or the lease term. Right-of-use assets are reviewed for impairment.

Lease liabilities

At the commencement date, the Bank recognizes lease liabilities measured at the present value of the lease payments to be made over the lease term. Lease payments include fixed payments (including substantially fixed payments), net of any lease incentives receivable, variable lease payments that depend on an index or rate, and amounts expected to be paid under residual value guarantees. Lease payments also include the exercise price of a purchase option if it is reasonably certain that the Bank will exercise the option and lease termination penalties if the lease term reflects the Bank's potential exercise of a termination option. Variable lease payments that do not depend on an index or rate are recognized as an expense in the period in which the event or condition that triggers such payments occurs.

The Bank uses the incremental borrowing rate at the commencement date to calculate the present value of the lease payments if the profit rate implicit in the lease cannot be readily determined. After the commencement date, the lease liability is increased to reflect the accrual of the profit rate and decreased to reflect the lease payments made. In addition, if there is a modification, a change in the lease term, a change in the substance of the fixed lease payments or a change in the valuation of an option to purchase the underlying asset, the carrying amount of the lease liability is remeasured.

Short-term leases and leases of low-value assets

The Bank applies the recognition exemption for short-term leases to short-term leases (i.e. leases with a lease term of 12 months or less at the commencement date and which do not contain a purchase option). The Bank also applies the recognition exemption for leases of low-value assets to leases of office equipment considered to be of low value (i.e. up to 2,400 thousand tenge). Lease payments for short-term leases and leases of low-value assets are recognized as rental expense on a straight-line basis over the lease term.

ii. Operating leases – the Bank as a lessor

Leases where the Bank does not transfer substantially all the risks and rewards incidental to ownership of the asset are classified as operating leases.Lease income arising from leases is recognized on a straight-line basis over the lease term and included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent lease payments are recognized as revenue in the period in which they are received.

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(In thousands of Kazakhstani tenge, unless otherwise stated)

4. Significant accounting policies (continuation)

Lease (continuation)

iii. Finance leases – the Bank as a lessor

The Bank recognizes lease receivables at an amount equal to the net investment in the lease from the commencement of the lease term. Financial income is calculated on a pattern reflecting a constant periodic rate of return on the carrying amount of the net investment. Initial direct costs are recognized as initial lease payments receivable.

Offsetting financial assets

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

- in the ordinary course of business;
- in the event of default; and
- in the event of insolvency or bankruptcy of the organization or any of its counterparties.

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

Restructuring of financial instruments

The Bank seeks, where possible, to renegotiate the terms of financial instruments, such as extending the contractual maturities of payments and negotiating new financing terms, instead of taking possession of collateral.

The Bank derecognizes a financial asset, such as a financial instrument issued to a customer, when the terms of the contract are renegotiated such that it becomes substantially new financing and the difference is recognized as a gain or loss on derecognition before the impairment loss is recognized. Upon initial recognition, the financial instrument is treated as Stage 1 for ECL measurement purposes unless the financial instrument created is considered to be an acquired or created credit-impaired (PCSCO) asset. In assessing whether a customer's financing should be derecognized, the Bank considers, among other factors, the following:

- change in the currency of financing;
- change in counterparty;
- whether the modification results in the instrument no longer meeting the criteria of the SPPI test.

If the modification does not result in a significant change in cash flows, the modification does not result in derecognition. Based on the change in cash flows discounted at the original effective interest rate, the Bank recognizes a profit or loss on the modification, which is presented within gains less losses arising from modification in the statement of profit or loss and other comprehensive income, before any impairment loss is recognized.

For modifications that do not result in derecognition, the Bank also reassesses whether there is a significant increase in credit risk or whether it is necessary to classify the assets as credit-impaired. Once an asset is classified as credit-impaired as a result of a modification, it will remain in Stage 3 for at least a 12-month trial period. Regular payments of more than insignificant amounts of principal or profit throughout the trial period in accordance with the modified payment schedule are required to transfer the restructured financing from Stage 3.

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4. Significant accounting policies (continuation)

Derecognition of financial assets and liabilities

Financial assets

Financial assets (or, where applicable a part of a financial asset or part of a group of similar financial assets) are derecognized from the statement of financial position when:

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

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

Write-off

Financial assets are written off either in part or in full when the Bank no longer expects them to be recovered. If the amount to be written off is higher than the accumulated impairment provision, the difference is recognized first as an increase in the provision, which is then applied to the gross carrying amount. Any subsequent recoveries are charged to credit loss expense. The write down relates to derecognition.

Financial liabilities

Financial liabilities are derecognized when the obligation under the liability is discharged, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Taxation

The current deferred corporate income tax expense is calculated in accordance with the regulations of the Republic of Kazakhstan.

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

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

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

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(In thousands of Kazakhstani tenge, unless otherwise stated)

4. Significant accounting policies (continuation)

Property, plant and equipment

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

The carrying amount of property, plant and equipment is assessed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

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

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

The residual values, useful lives and methods of depreciation of assets are reviewed at each financial year-end and adjusted as appropriate.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses in the statement of profit or loss and other comprehensive income, unless they qualify for capitalization.

Intangible assets

Intangible assets include software and licenses.

Intangible assets acquired separately are initially measured at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Subsequent to initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses. Intangible assets have finite or indefinite useful lives. Intangible assets with finite lives are amortized over useful lives ranging from 1 to 7 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and amortization methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

Estimated liabilities

Estimated liabilities are recognized when the Bank has a present legal or constructive obligation as a result of past events, 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 the obligation can be made.

Liabilities for pensions and other employee benefits

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. This expense is recognized in the accounting period to which the related salaries relate. In addition, the Bank does not provide significant post-employment benefits to its employees.

(In thousands of Kazakhstani tenge, unless otherwise stated)

4. Significant accounting policies (continuation)

Authorized capital

Authorized capital

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

Dividends

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

Contingent assets and liabilities

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

Income and expense recognition

Revenue is recognized 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 criteria must be met for revenue to be recognized in the financial statements:

Finance and similar income and expenses

The Bank calculates revenue for debt financial assets measured at amortized cost or FVOCI by applying the effective interest rate to the gross carrying amount of financial assets, other than credit-impaired financial assets. The effective interest 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 interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective profit rate and the change in carrying amount is recognized as revenue or expense.

For a financial asset that becomes credit-impaired, the Bank calculates revenue by applying the effective interest rate to the net amortized cost of the financial asset. If the default on a financial asset is eliminated and it is no longer credit-impaired, the Bank reverts to a gross value-based revenue calculation.

For ACCI financial assets, the Bank calculates revenue by applying the credit risk adjusted effective profit rate to the amortized cost of the financial asset. The effective credit risk adjusted rate of return is the rate that, at initial recognition, discounts estimated future cash flows (including credit losses) through to the amortized cost of the ACCI assets.

Income from all financial assets measured at FVTPL is recognized using the contractual rate of return within 'Other revenue at profit' in the statement of profit or loss and other comprehensive income.

4. Significant accounting policies (continuation)

Income and expense recognition (continuation)

Commission income

The Bank earns commission income from various types of services it provides to its customers. Commission income can be divided into the following two categories:

Commission income received for rendering services during a certain period of time

Fees earned for providing services over a period of time are accrued over that period. Such items include commission income and fees for issuing guarantees. Commitment fees for providing Islamic financing when it is probable that a financial instrument will be drawn down and other fees associated with the issuance of a financial instrument are deferred (together with any incremental costs directly attributable to the issuance of the financial instrument) and recognized as an adjustment to the effective yield on the loan.

Commission income from provision of transaction services

Fees received for negotiating or participating in the negotiation of a transaction on behalf of a third party, such as when the Bank's performance obligation is to enter into an agreement to purchase shares or other securities or to buy or sell businesses, are recognized upon completion of the transaction. Fees (or a portion of fees) associated with certain performance obligations are recognized when the related performance criteria have been met. Where a contract provides for variable consideration, commission income is recognized only to the extent that it is highly probable that the uncertainty inherent in the variable consideration will not significantly reduce the cumulative amount of revenue recognized.

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 translated to the functional currency at the exchange rate set by the Kazakhstan Stock Exchange (KASE) and published by the NBRK effective at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at the reporting date. Income and expenses arising from the translation of foreign currency transactions are recognized in the statement of comprehensive income under 'Net income/(expenses) from foreign currencies - revaluation of foreign currency items'. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the KASE official exchange rate on the date of the transaction are included in net gain on foreign exchange operations. The official exchange rate quoted by KASE was 454.56 tenge per 1 US dollar on December 31, 2023 and 462.65 tenge per 1 US dollar on December 31, 2022, respectively.

(In thousands of Kazakhstani tenge, unless otherwise stated)

4. Significant accounting policies (continuation)

Standards that have been issued but are not yet effective

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

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) address situations in which there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that profits or losses arising from the loss of control of a subsidiary that has no business resulting from a transaction with an associate or joint venture accounted for using the equity method are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, profits and losses arising from the remeasurement of the investment retained in any former subsidiary (that has become an associate or joint venture accounted for using the equity method) at fair value are recognized in the former parent's profit or loss only to the extent of unrelated investors' interests in the new associate or joint venture. The effective date of the amendments has not yet been set by the IASB; however, early application of the amendments is permitted.
- Amendments to IAS 1 Presentation of Financial Statements to classify liabilities as current or non-current. The amendments aim to provide consistency in the application of the requirements by helping entities to determine whether debt and other liabilities with an uncertain maturity date should be classified as current (due or potentially due within one year) or non-current in the statement of financial position. The amendments are applied retrospectively for annual periods beginning on or after January 1, 2024.
- Non-current Liabilities with Covenants (Amendments to IAS 1). The amendments clarify that only covenants that an entity is required to comply with at or before the end of the reporting period affect the entity's right to defer settlement of the liability for at least twelve months after the reporting date (and therefore should be considered when assessing whether the liability is classified as current or non current). Such covenants affect the existence of a right at the end of the reporting period even if compliance with the covenant is assessed only after the reporting date (e.g., a covenant based on the entity's financial position at the reporting date, compliance with which is assessed only after the reporting date). The amendments are applied retrospectively for annual periods beginning on or after January 1, 2024.
- Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7). The amendments add a disclosure objective to IAS 7, which states that an entity must disclose information about its supplier financing arrangements that enables users of financial statements to evaluate the effect of those arrangements on the entity's liabilities and cash flows. In addition, IFRS 7 was amended to include supplier financing arrangements as an example in the disclosure requirements about an entity's exposure to concentrations of liquidity risk. The amendments are effective for annual periods beginning on or after January 1, 2024.
- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16). The amendments to IFRS 16 add requirements for subsequent measurement of sale and leaseback transactions that meet the requirements of IFRS 15 to be accounted for as a sale. The amendments require a seller-lessee to define 'lease payments' or 'revised lease payments' such that the seller-lessee does not recognize a gain or loss relating to the right of use retained by the seller-lessee after the commencement date. The amendments are effective for annual periods beginning on or after January 1, 2024.
- Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates. These amendments apply to entities that have transactions in foreign currencies that are not exchangeable into another currency at the date of the transaction. A currency is considered to be exchangeable when it is possible to obtain another currency (with a normal technical delay) and the transaction is effected through a market or exchange mechanism that creates legally enforceable rights and obligations. The amendments are effective for annual periods beginning on or after January 1, 2025.

The Bank intends to adopt these new standards and amendments when they become effective. These amendments are not expected to have a significant impact on the Bank's financial statements.

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(In thousands of Kazakhstani tenge, unless otherwise stated)

Prior period adjustments

The Bank identified an error in the approach to calculating scenario probabilities for the calculation of expected credit losses on Receivables for Islamic Financing on December 31, 2022. As a result, the following adjustments were made:

	2022		
	Before adjustments	Adjustment	After adjustments
Receivables on Islamic financing	14.297.125	345.392	14.642.517
Other assets	32.734.071	345.392	33.079.463

	2022		
	Before adjustments	Adjustment	After adjustments
Expenses on credit losses	(1.469.005)	345.392	(1.123.613)
Total comprehensive loss for the year	(942.389)	345.392	(596.997)

5. Significant accounting judgments and estimates

Judgments

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

Determining the lease term in renewal option contracts

The Bank defines a lease term as a non-cancellable lease term together with periods subject to an option to extend the lease if it is reasonably certain that the option will be exercised or periods subject to an option to terminate the lease if it is reasonably certain that the option will not be exercised.

Under certain leases, the Bank has an option to renew the lease of assets for an additional period of three to five years. The Bank applies judgment to determine whether it is reasonably certain that it will exercise this renewal option. In doing so, the Bank considers all relevant factors that give rise to an economic incentive to exercise the renewal option. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within the Bank's control that affects its ability to exercise (or not exercise) the renewal option (e.g., a change in business strategy).

Shariah compliance

In accordance with the requirements of the Law of the Republic of Kazakhstan On Banks and Banking Activities in the Republic of Kazakhstan dated August 31, 1995 (hereinafter – the Law), the Bank has established a Council on Principles of Islamic Finance (CPIF), which is responsible for determining whether the Bank's activities and operations comply with the requirements of the above Law and Shariah. The SPIF's report on the Bank's Shariah compliance for 2023 is not yet available at the date of issuance of these financial statements. In preparing these financial statements, the Bank's management assumes that all of the Bank's activities and operations for 2023 comply with the requirements of the Law and Shariah.

(In thousands of Kazakhstani tenge, unless otherwise stated)

5. Significant accounting judgments and estimates (continuation)

Uncertainty of estimates

the process of applying the Bank's accounting policies, management has used its judgments and made estimates in determining the amounts recognized in the financial statements. The most significant areas of judgment and estimates are summarized below:

Expected credit losses

The estimation of impairment losses for all categories of financial assets requires the exercise of judgment, in particular, the estimation of the amount and timing of future cash flows and the value of collateral when determining the ECL and assessing whether there is a significant increase in credit risk. Such estimates are dependent on a number of factors, changes in which could result in differing amounts of estimated provisions for impairment. The Bank's ECL calculations are the result of complex models involving a number of underlying assumptions regarding the choice of input variables and their interdependencies. The Bank relies heavily on its own assessment of probabilities and scenarios of future events without significant corroborating evidence of past events, given the need to comply with Shariah law, which requires a number of reliefs to be granted to the borrower in the event of unforeseen financial difficulties. The elements of the ECL calculation models that are considered to be judgments and estimates include the following:

- The internal credit rating system used by the Bank to determine the probability of default (PD);
- The criteria used by the Bank to assess whether there has been a significant increase in credit risk such that the estimated provision for impairment losses on financial assets should be measured at an amount equal to the lifetime ECL and a qualitative assessment;
- Grouping financial assets together where their ECLs are assessed on a group basis,
- Developing models for calculating ECLs, including various formulas and choice of input data;
- Identifying relationships between macroeconomic indicators and economic data, e.g. GDP growth rate and client financial health, and the impact on probability of default (PD), exposure at default (EAD) and loss given default (LGD)

Taxation

The Republic of Kazakhstan currently has a unified Tax Code which regulates major taxation issues. Applicable taxes include value added tax, corporate income tax, social taxes and other taxes. Often, executive orders implementing regulations are unclear or non-existent and few precedents have been established. Often, differing opinions regarding legal interpretation of regulations exist both among and within government agencies, creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges. This situation creates a greater degree of probability of tax risks in the Republic of Kazakhstan than, for example, in other countries with more developed tax legislation.

The management believes that the Bank is in compliance with the tax legislation of the Republic of Kazakhstan, which governs its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretive issues.

Leases – estimation of the rate of additional borrowings

The Bank cannot readily determine the rate of return implicit in the lease agreement and therefore uses the incremental borrowing rate to measure the lease liability The incremental borrowing rate is the rate of return at which the Bank could borrow, for a similar term and with similar collateral, the funds necessary to obtain an asset of a similar value to the right-of-use asset under similar economic conditions. Thus, the incremental borrowing rate reflects the interest that the Bank 'would have to pay' and its determination requires the use of estimates if observable rates are not available or if observable rates need to be adjusted to reflect the terms of the lease.

The Bank determines the incremental borrowing rate using observable inputs (such as market rates of return), if available, and uses certain estimates specific to the entity.

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(In thousands of Kazakhstani tenge, unless otherwise stated)

6. Cash and cash equivalents

Cash and cash equivalents on December 31 include the following items:

	2023	*2022*
Cash	**1.204.539**	1.605.360
Cash in current accounts with the NBRK	**358.482**	11.426.810
Murabaha Tawarruq with NBRK with contractual maturity up to 90 days	**2.402.951**	2.001.750
Current accounts with other banks	**2.716.890**	1.916.996
	6.682.862	16.950.916
Less valuation provisions for ECLs	**(48.417)**	(34.954)
Cash and cash equivalents	**6.634.445**	16.915.962

In accordance with Kazakhstan legislation, the Bank is required to maintain certain obligatory reserves, which are computed as a percentage of certain liabilities of the Bank. Such reserves must be maintained on current accounts with the NBRK or in cash in the amount of the average monthly balances of the aggregate of the total cash balances on current accounts with the NBRK or cash on hand in national or foreign currencies for the period when the reserves are required to be maintained. However, the Bank is not restricted in the use of these funds in its day-to-day operations.

The obligatory reserves amounted to 48,417 thousand tenge on December 31, 2023 (December 31, 2022: 34,954 thousand tenge).

The movements in the valuation provisions against cash equivalent ECLs for the year ended December 31, 2023 are presented below:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Provision for ECL on January 1, 2023	**(1.688)**	**(20.301)**	**(12.965)**	**(34.954)**
Assets that have been repaid	–	–	–	
Transfers to Stage 3	**1.688**	**20.301**	**(21.989)**	–
Net change in ECL			**(13.463)**	**(13.463)**
Provision for ECL on December 31, 2023	–	–	**(48.417)**	**(48.417)**

The movements in the valuation provisions against cash equivalent ECLs for the year ended December 31, 2022 are presented below:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Provision for ECL on January 1, 2022	(24.168)	–	–	(24.168)
New assets created or assets acquired	–	(6.671)	–	(6.671)
Assets that have been repaid	22.868	–	–	22.868
Transfers to Stage 3	64	–	(64)	–
Net change in ECL	(452)	(13.630)	(12.901)	(26.983)
Provision for ECL on December 31, 2022	(1.688)	(20.301)	(12.965)	(34.954)

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(In thousands of Kazakhstani tenge, unless otherwise stated)

7. Receivables for Islamic financing

Receivables for Islamic financing on December 31 include the following items:

	2023	*2022 (Adjusted)*
Commodity Murabaha – the corporate part	**18.745.735**	18.210.769
Qard Hassan	**11.701**	20.389
Commodity Murabaha – the retail part	**35.944**	17.259
Total receivables for Islamic financing	**18.793.380**	18.248.417
Less valuation provision for ECLs	**(3.722.443)**	(3.605.900)
Receivables for Islamic financing	**15.070.937**	14.642.517

In 2023, the Bank recognized a loss on initial recognition of Islamic financing receivables issued at below market rates in the amount of 322,871 thousand tenge (2022: 479,826 thousand tenge) and a loss on initial recognition of ACCI assets in the amount of 818,404 thousand tenge (2022: 113,814 thousand tenge) in the statement of profit or loss and other comprehensive income.

The rate of return on the receivables for Islamic financing was 8%-21% p.a. on December 31, 2023 (December 31, 2022: 8%-19% p.a.) and the receivables mature between 2024 and 2030 (December 31, 2022: between 2023 and 2028).

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(In thousands of Kazakhstani tenge, unless otherwise stated)

7. Receivables for Islamic financing (continuation)

Valuation provision for ECL

The movements in the gross carrying amount and the related provision under the ECL for Commodity Murabaha Corporate Part for the year ended December 31, 2023 are as follows:

Commodity Murabaha - corporate part	*Stage 1*	*Stage 2*	*Stage 3*	*ACCI*	*Total*
Gross carrying amount on January 1, 2023	32.647	11.278.139	6.053.038	846.945	18.210.769
New assets created or assets acquired	3.140.000	–	–	-	3.140.000
Assets that have been repaid	(393.892)	(1.087.354)	(979.783)	(60.333)	(2.521.362)
Transfers in Stage 1	-	-	-	–	–
Transfers in Stage 2	(1.742.500)	1.742.500	-	–	–
Transfers in Stage 3	(722.265)	(10.113.216)	10.835.481	–	–
Changes in contractual cash flows due to a modification that does not result in derecognition	(82.857)	(11.322)	189.075	(83.528)	11.368
Amortization of discount	21.195	(66.247)	(89.636)	39.648	(95.040)
On December 31, 2023	252.328	1.742.500	16.008.175	742.732	18.745.735

Commodity Murabaha - corporate part	*Stage 1*	*Stage 2*	*Stage 3*	*ACCI*	*Total*
Provision for ECL on January 1, 2023	(1.140)	(833.714)	(2.368.660)	(399.275)	(3.602.789)
New assets created or assets acquired	(159.437)	–			(159.437)
Assets that have been repaid	18.612	103.509	627.863	99.620	849.604
Transfers in Stage 1			-	–	–
Transfers in Stage 2	206.350	(206.350)	-	–	–
Transfers in Stage 3	195.943	1.842.046	(2.037.989)	-	-
Impact on ECLs as a result of transfers from one Stage to another and changes in models and inputs used to estimate ECLs	(258.672)	(1.194.258)	192.597	412.356	(847.977)
Changes in contractual cash flows due to a modification that does not result in derecognition	18.968	16.170	(110.794)	28.198	(47.458)
Amortization of discount	(21.195)	66.247	84.417	(39.648)	89.821
On December 31, 2023	(571)	(206.350)	(3.612.566)	101.251	(3.718.236)

(In thousands of Kazakhstani tenge, unless otherwise stated)

7. Receivables for Islamic financing (continuation)

Valuation provision for ECL (continuation)

The movements in the gross carrying amount and the related provision under the ECL for Commodity Murabaha - Corporate Part for the year ended December 31, 2022 are as follows:

Commodity Murabaha - corporate part	*Stage 1*	*Stage 2*	*Stage 3*	*ACCI*	*Total*
Gross carrying amount on January 1, 2022	1.027.778	10.860.002	5.262.357	422.556	17.572.693
New assets created or assets acquired	9.940.000	–	–	1.120.000	11.060.000
Assets that have been repaid	(1.733.554)	(6.456.849)	(1.372.071)	(695.611)	(10.258.085)
Transfers in Stage 1	614.388	(521.119)	(93.269)	–	–
Transfers in Stage 2	(7.990.596)	11.488.883	(3.498.287)	–	–
Transfers in Stage 3	(1.825.369)	(4.092.778)	5.918.147	–	–
Changes in contractual cash flows due to a modification that does not result in derecognition	–	–	(310.714)	–	(310.714)
Amortization of discount	–	–	146.875	–	146.875
On December 31, 2022	32.647	11.278.139	6.053.038	846.945	18.210.769

Commodity Murabaha - corporate part	*Stage 1*	*Stage 2*	*Stage 3*	*ACCI*	*Total*
Provision for ECL on January 1, 2022	(37.243)	(1.325.852)	(1 481 854)	(65.426)	(2.910.375)
New assets created or assets acquired	(504.715)	–	–	–	(504.715)
Assets that have been repaid	57.860	693.279	655.806	270.858	1.677.803
Transfers in Stage 1	(74.366)	58.323	16.043	–	–
Transfers in Stage 2	573.153	(1.345.393)	772.240	–	–
Transfers in Stage 3	62.561	467.906	(530.467)	–	–
Impact on ECLs as a result of transfers from one Stage to another and changes in models and inputs used to estimate ECLs (Adjusted)	(78.390)	618.023	(1.794.927)	(604.707)	(1.860.001)
Changes in contractual cash flows due to a modification that does not result in derecognition	–	–	141.374	–	141.374
Amortization of discount	–	–	(146.875)	–	(146.875)
On December 31, 2022	(1.140)	(833.714)	(2.368.660)	(399.275)	(3.602.789)

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7. Receivables for Islamic financing (continuation)

Valuation provision for ECL (continuation)

The following is an analysis of the changes in the gross carrying amount and related provision under the ECL for Qard Hassan for the year ended December 31, 2023:

Qard Hassan	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying amount on January 1, 2023	**20.389**	–	–	**20.389**
New assets created	–	–	–	–
Assets that have been repaid	**(8.688)**	–	–	**(8.688)**
On December 31, 2023	**11.701**	–	–	**11.701**

Qard Hassan	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Provision for ECL on January 1, 2023	**(46)**	–	–	**(46)**
New assets created	-	–	–	-
Assets that have been repaid	**18**	–	–	**18**
Impact on ECL as a result of transfers from one stage to another and changes in the inputs used to estimate the ECL	**(21)**	–	–	**(21)**
On December 31, 2022	**(49)**	–	–	**(49)**

The following is an analysis of the changes in the gross carrying amount and related provision under the ECL for Qard Hassan for the year ended December 31, 2022:

Qard Hassan	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying amount on January 1, 2022	38.369	–	–	38.369
New assets created	2.000	–	–	2.000
Assets that have been repaid	(19.980)	–	–	(19.980)
On December 31, 2022	20.389	–	–	20.389

Qard Hassan	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Provision for ECL on January 1, 2022	(152)	–	–	(152)
New assets created	(31)	–	–	(31)
Assets that have been repaid	137	–	–	137
On December 31, 2022	**(46)**	–	–	**(46)**

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7. Receivables for Islamic financing (continuation)

Valuation provision for ECL (continuation)

The following is an analysis of the changes in the gross carrying amount and related provision under the ECL for Commodity Murabaha – retail part for the year ended December 31, 2023:

Commodity Murabaha – retail part	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying amount on January 1, 2023	9.344	5.257	2.658	17.259
New assets created	41.000	–	150	41.150
Assets that have been repaid	(21.426)	(1.039)	–	(22.465)
On December 31, 2023	28.918	4.218	2.808	35.944

Commodity Murabaha – retail portion	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Provision for ECL on January 1, 2023	(62)	(1.167)	(1.836)	(3.065)
New assets created	(313)	–	–	(313)
Assets that have been repaid	75	266	–	341
Impact on ECL as a result of transfers from one stage to another and changes in the inputs used to estimate the ECL	–	(835)	(286)	(1.121)
On December 31, 2023	(300)	(1.736)	(2.122)	(4.158)

The following is an analysis of the changes in the gross carrying amount and related provision under the ECL for Commodity Murabaha – retail part for the year ended December 31, 2022.

Commodity Murabaha – retail portion	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying amount on January 1, 2022	20.562	5.981	–	26.543
New assets created	2.500	–	–	2.500
Assets that have been repaid	(11.218)	(566)	–	(11.784)
Transfers in Stage 2	(2.500)	2.500	–	–
Transfers in Stage 3	–	(2.658)	2.658	–
On December 31, 2022	9.344	5.257	2.658	17.259

Commodity Murabaha – retail portion	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Provision for ECL on January 1, 2022	(405)	(1.720)	–	(2.125)
New assets created	(49)	–	–	(49)
Assets that have been repaid	343	77	–	420
Transfers in Stage 2	49	(49)	–	–
Transfers in Stage 3	–	719	(719)	–
Impact on ECL as a result of transfers from one stage to another and changes in the inputs used to estimate the ECL	–	(194)	(1.117)	(1.311)
On December 31, 2022	(62)	(1.167)	(1.836)	(3.065)

Modified and restructured receivables for Islamic financing

The Bank derecognizes a financial asset, such as an Islamic finance receivable, when the terms of the contract are renegotiated such that it becomes, in substance, a new financial instrument and the difference is recognized as a gain or loss on derecognition before the impairment loss is recognized. On initial recognition, Islamic finance receivables are treated as Stage 1 for the purposes of ECL measurement unless the Islamic finance receivable created is considered an ACCI asset.

If the modification does not result in a significant change in cash flows, the modification does not result in derecognition. Based on the change in cash flows discounted at the original effective profit rate, the Bank recognizes a gain or loss on the modification before the impairment loss is recognized.

(In thousands of Kazakhstani tenge, unless otherwise stated)

7. Receivables for Islamic financing (continuation)

Modified and restructured receivables for Islamic financing (continuation)

During 2023 and 2022, the Bank modified the terms of certain corporate and retail contracts of Commodity Murabaha. The Bank assessed these modifications as immaterial. As a result, in 2023 the Bank recognized a gain on modification of terms of corporate and retail contracts of Tovarna Murabaha, which does not result in derecognition, in the amount of 11,369 thousand tenge (2021: loss of 310,714 thousand tenge).

The table below shows assets renegotiated during the period and accounted for as restructured as a result, with a corresponding loss on modification incurred by the Bank

	2023	*2022*
Receivables for Islamic financing modified during the period		
Amortized cost before modification	**13.720.707**	2.949.149
Net loss on modification of receivables for Islamic financing that does not result in derecognition	**10.597**	(310.714)

Collateral and other mechanisms to improve credit quality

The amount and type of collateral required by the Bank depends on the credit risk assessment of the counterparty. Guidelines have been established regarding the acceptability of types of collateral and valuation parameters.

Receivables for Islamic financing agreements on December 31, 2023 and 2022 are secured by real estate, movable property, inventories and corporate guarantees. The management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the valuation provision for impairment losses on Islamic finance receivables.

In the absence of collateral or other credit enhancement mechanisms, the ECLs on Stage 3 receivables for Islamic financing on December 31 would have been higher by:

	2023	*2022*
Commodity Murabaha - corporate part	**460.435**	1.584.056
	460.435	1.584.056

Concentration of receivables for Islamic financing

The Bank has one counterparty under receivables agreements for Islamic financing on December 31, 2023 (December 31, 2022: one counterparty), claims against which represent more than 10% of the Bank's equity. The aggregate amount of receivables from this counterparty amounted to 1,475,906 thousand tenge on December 31, 2023 (December 31, 2022: 1,433,100 thousand tenge). The valuation provision of 208,665 thousand tenge (31 December 2022: 19,137 thousand tenge) has been recognized against these receivables under ECL.

Receivables for Islamic financing are concentrated in the Republic of Kazakhstan in the following industries:

	2023	*2022* (Adjusted)
Trade enterprises	**5.831.941**	5.307.717
Construction and maintenance	**3.305.326**	3.433.454
Services	**2.843.716**	1.780.976
Machine building	**1.792.857**	1.782.480
Industrial production	**817.035**	459.115
Agriculture and food industry	**337.711**	980.309
Individuals and entrepreneurs	**142.351**	23.570
Manufacture of metal products	**-**	874.896
Receivables for Islamic financing	**15.070.937**	14.642.517

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8. Loans to customers

Loans to customers on December 31 of the year comprise the following items:

	2023	*2022*
Commercial lending	22.803	31.803
Total loans to customers	22.803	31.803
Less valuation provision for ECLs	(22.803)	(31.803)
Loans to customers	–	-

Valuation provision for ECLs

The following table summarizes the changes in gross carrying value and the related provision for ECLs for commercial lending for the year ended December 31, 2023:

Commercial lending	*Stage 3*	*Total*
Gross carrying amount on January 1, 2023	31.803	31.803
Assets that have been repaid	(9.000)	(9.000)
On December 31, 2023	22.803	22.803

Commercial lending	*Stage 3*	*Total*
Provision for ECL on January 1, 2023	(31.803)	(31.803)
Assets that have been repaid	9.000	9.000
On December 31, 2023	(22.803)	(22.803)

The following table summarizes the changes in gross carrying value and the related provision for ECLs for commercial lending for the year ended December 31, 2022:

Commercial lending	*Stage 3*	*Total*
Gross carrying amount on January 1, 2022	38.303	38.303
Assets that have been repaid	(6.500)	(6.500)
On December 31, 2022	31.803	31.803

Commercial lending	*Stage 3*	*Total*
Provision for ECL on January 1, 2022	(26.524)	(26.524)
Assets that have been repaid	6.500	6.500
Impact on ECL as a result of changes in the inputs used to estimate the ECL	(11.779)	(11.779)
On December 31, 2022	(31.803)	(31.803)

Collateral and other mechanisms to improve credit quality

The amount and type of collateral required by the Bank depends on the credit risk assessment of the counterparty. Guidelines have been established regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are listed below:

- In commercial lending – pledge of real estate, production equipment, inventories and other collateral.

The management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral received during its review of the adequacy of the provision for ECLs.

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(In thousands of Kazakhstani tenge, unless otherwise stated)

9. Investments in Wakala and Mudaraba pools

Investments in Wakala and Mudaraba pools represent the Bank's investments in assets financed from the Wakala and Mudaraba pools and are subject to the pool allocation and funding rules. In view of the possible mismatch between the value of assets and investment deposits of depositors due to early termination or redemption of the respective deposits, such deficit arising in the pool may be financed from the Bank's own funds.

Loans to customers as at December 31 include the following items:

	2023	*2022*
Commercial lending	1.737.099	1.737.099
Total loans to customers	**1.737.099**	1.737.099
Less valuation provision for ECLs	(1.252.115)	(1.498.205)
Loans to customers	484.984	238.894

Valuation provision for ECLs

The following is an analysis of the changes in the gross carrying value and related provision under the ECL for the investments in the Wakala and Mudaraba pools for the year ended December 31, 2023:

Investments in Wakala and Mudaraba pools	*Stage 3*	*Total*
Gross carrying amount on January 1, 2023	**1.737.099**	**1.737.099**
Assets that have been repaid	–	–
On December 31, 2023	1.737.099	1.737.099

Investments in Wakala and Mudaraba pools	*Stage 3*	*Total*
Provision for ECL on January 1, 2023	**(1.498.205)**	**(1.498.205)**
Assets that have been repaid	–	–
Impact on ECL as a result of changes in the inputs used to estimate the ECL	**246.090**	**246.090**
On December 31, 2023	**(1.252.115)**	**(1.252.115)**

The following is an analysis of the changes in the gross carrying value and related provision under the ECL for the investments in the Wakala and Mudaraba pools for the year ended December 31, 2022:

Investments in Wakala and Mudaraba pools	*Stage 3*	*Total*
Gross carrying amount on January 1, 2022	**1.870.478**	**1.870.478**
Assets that have been repaid	**(133.379)**	**(133.379)**
On December 31, 2022	**1.737.099**	**1.737.099**

Investments in Wakala and Mudaraba pools	*Stage 3*	*Total*
Provision for ECL on January 1, 2022	**(1.052.370)**	**(1.052.370)**
Assets that have been repaid	**73.455**	**73.455**
Impact on ECL as a result of changes in the inputs used to estimate the ECL	**(519.290)**	**(519.290)**
On December 31, 2022	**(1.498.205)**	**(1.498.205)**

The analysis of changes in gross carrying amount and related provision for ECLs in the tables above is presented on a pro-rata basis based on the Bank's share of investment in Wakala and Mudaraba pools.

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(In thousands of Kazakhstani tenge, unless otherwise stated)

10. Property, plant and equipment

The movements in property, plant and equipment were as follows

	Computers and office equipment	*Vehicles*	*Other*	*Total*
Initial cost				
On January 1, 2022	41.415	–	97.984	139.399
Receipts	1.254	15.940	1.449	18.643
Disposals	(11.415)	–	(4.868)	(16.283)
On December 31, 2022	31.254	15.940	94.565	141.759
Receipts	**14.690**	**–**	**21.622**	**36.312**
Disposals	**(2.753)**	**–**	**(27.422)**	**(30.175)**
On December 31, 2023	**43.191**	**15.940**	**88.765**	**147.896**
Accumulated depreciation				
On January 1, 2022	(20.502)	–	(30.194)	(50.696)
Accrual for the year	(7.721)	(2.125)	(22.574)	(32.420)
Disposals	11.329	–	4.257	15.586
On December 31, 2022	(16.894)	(2.125)	(48.511)	(67.530)
Accrual for the year	**(7.052)**	**(3.189)**	**(28.737)**	**(38.978)**
Disposals	**2.680**	**-**	**23.419**	**26.099**
On December 31, 2023	**(21.266)**	**(5.314)**	**(53.829)**	**(80.409)**
Residual value				
On January 1, 2022	20.913	–	67.790	88.703
On December 31, 2022	14.360	13.815	46.054	74.229
On December 31, 2023	**21.925**	**10.626**	**34.936**	**67.487**

(In thousands of Kazakhstani tenge, unless otherwise stated)

11. Right-of-use assets and lease liabilities

The movements in right-of-use assets and lease liabilities were as follows:

	Right-of-use assets	*Lease liabilities*
On January 1, 2022	237.447	261.684
New receipts	216.142	216.142
Disposals	(29.498)	(45.007)
Amortization accrual	(138.318)	–
Financial expense	–	29.113
Payments	–	(165.693)
On December 31, 2022	**285.773**	**296.239**
New receipts	**160.531**	**160.531**
Disposals	**(83.390)**	**(87.277)**
Amortization accrual	**(124.494)**	–
Financial expense	–	**41.258**
Payments	–	**(157.109)**
On December 31, 2023	238.420	253.642

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

12. Intangible assets

The movements in intangible assets were as follows:

	Software and licenses
Initial cost	
On January 1, 2022	408.176
Receipts	1.633
On December 31, 2022	409.809
Receipts	**32.584**
On December 31, 2023	**442.393**
Accumulated amortization	
On January 1, 2022	(68.406)
Accrual for the year	(82.437)
On December 31, 2022	(150.843)
Accrual for the year	**(82.466)**
On December 31, 2023	**(233.309)**
Residual value	
On January 1, 2022	339.770
On December 31, 2022	258.966
On December 31, 2023	**209.084**

13. Inventories

Inventories on December 31, 2023 and 2022 include real estate recovered by the Bank from customers who have defaulted on their loan repayment obligations to the Bank.

(In thousands of Kazakhstani tenge, unless otherwise stated)

14. Taxation

Corporate income tax (savings)/expense includes the following items:

	2023	*2022*
Current corporate income tax expense	**57.250**	–
Deferred corporate income tax (savings)/expense – origination and reversal of temporary differences	**86.579**	(108.871)
Corporate income tax (savings)/expense	**143.829**	(108.871)

The Bank's income is taxable only in the Republic of Kazakhstan. In accordance with the tax legislation, the applicable corporate income tax rate in 2023 and 2022 is 20%.

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

	2023	*2022*
(Loss)/profit before corporate income tax expense	**149.151**	(705.868)
Statutory tax rate	**20%**	20%
Theoretical corporate income tax (savings)/expense calculated at the statutory rate	**29.830**	(141.173)
Income not subject to taxation	**(3.877)**	(3.692)
Expenses on credit losses not deductible	**17.986**	3.142
Non-deductible administrative expenses	**7.560**	2.291
Other expenses, not deductible	**92.330**	30.561
Corporate income tax (savings)/expense	**143.829**	(108.871)

Deferred corporate income tax assets and liabilities on December 31, as well as their movements for the respective years, include the following items:

	2021	*Origination and reversal of temporary differences in profit or loss*	*2022*	*Origination and reversal of temporary differences in profit or loss*	*2023*
Tax effect of deductible temporary differences					
Tax losses to be carried forward	–	84.507	84.507	(84.507)	-
Receivables for Islamic financing	–	89.377	89.377	(89.377)	-
Lease liabilities	52.337	6.911	59.248	(59.248)	-
Receivables	16.760	(3.140)	13.620	(2.832)	10.788
Accrual for unused vacation days	4.542	667	5.209	450	5.659
Accrual for professional services	4.302	492	4.794	(1.394)	3.400
Property, plant and equipment and intangible assets	–	–	–	-	-
Other taxes	2.721	367	3.088	177	3.265
	80.662	179.181	259.843	(236.731)	23.112
Unrecognized deferred income tax assets	–	(84.507)	(84.507)	84.507	-
Deferred corporate income tax assets	80.662	94.674	175.336	(152.224)	23.112
Tax effect of taxable temporary differences					
Receivables for Islamic financing	(24.346)	24.346	–	-	-
Property, plant and equipment and intangible assets	(18.890)	(483)	(19.373)	8.490	(10.883)
Right-of-use assets	(47.489)	(9.666)	(57.155)	57.155	
Deferred corporate income tax liabilities	(90.725)	14.197	(76.528)	65.645	(10.883)
Net deferred corporate income tax asset/(liability)	(10.063)	108.871	98.808	(86.579)	12.229

(In thousands of Kazakhstani tenge, unless otherwise stated)

15. Other assets and liabilities

Other assets on December 31 include the following items:

	2023	*2022*
Other financial assets		
Guarantee receivables	**389.954**	399.771
Receivables on inventories sold	**119.021**	118.603
Guarantee deposit	**25.000**	25.000
Commissions receivable	**17.222**	7.176
Other financial assets	**6.830**	11.188
	558.027	561.738
Less valuation provision for ECLs	**(213.534)**	(317.661)
Total other financial assets	**344.493**	244.077
Other non-financial assets		
Prepayment for software and information and consulting services	**-**	350.264
Prepayments for other goods and services	**110.304**	7.445
Other	**12.022**	4.577
	122.326	362.286
Less provision for impairment losses (Note21)		(298.653)
Total other non-financial assets	**122.326**	63.633
Other assets	**466.819**	307.710

The following is an analysis of the changes in the valuation provisions for ECL on other financial assets for the year ended December 31, 2023:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Provision for ECL on January 1, 2023	**(1.113)**	**(8.034)**	**(308.514)**	(317.661)
Net change in provision for the year *(Note 21)*	**514**	**8.034**	**66.376**	**74.924**
Write-off of asset	**-**	**-**	**29.203**	**29.203**
On December 31, 2023	**(599)**	**-**	**(212.935)**	**(213.534)**

The following is an analysis of the changes in the valuation provisions for ECL on other financial assets for the year ended December 31, 2021:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Provision for ECL on January 1, 2022	(1.797)	(9.444)	(208.593)	(219.834)
Net change in provision for the year *(Note 21)*	684	1.410	(99.921)	(97.827)
On December 31, 2022	(1.113)	(8.034)	(308.514)	(317.661)

Other liabilities on December 31 include the following items:

	2023	*2022*
Other financial liabilities		
Payables for professional services	**17.000**	33.600
Settlements on taxes and other obligatory payments to the budget	**16.325**	-
Total other financial liabilities	**33.325**	33.600
Other non-financial liabilities		
Deferred income	**96.539**	110.817
Accrued expenses on unused vacations	**28.296**	26.045
Charity account	**57**	719
Other	**24.081**	26.296
Total other non-financial liabilities	**148.973**	163.877
Other liabilities	**182.298**	**197.477**

16. Amounts due to credit organizations

Amounts due to credit institutions on December 31, 2023 include balances in current accounts with foreign banks totaling 691,764 thousand tenge (December 31, 2022: 724,993 thousand tenge).

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(In thousands of Kazakhstani tenge, unless otherwise stated)

17. Amounts due to customers

Amounts due to customers on December 31 include the following items:

	2023	*2022*
Current accounts	6.071.159	16.684.670
Term deposits	2.656.137	1.780.086
Customer accounts	**8.727.296**	18.464.756
Held as collateral against guarantees *(Note19)*	**2.656.137**	1.780.086

Customer accounts of 5,147,067 thousand tenge (58.98%) on December 31, 2023 represented the ten largest customers (December 31, 2022: 8,727,296 thousand tenge (93.05%). The total amount of funds on the accounts of the three largest customers amounted to 3,827,776 thousand tenge (43.86%) on December 31, 2023.

Amounts due to customers on December 31 include the following items.

	2023	*2022*
Current accounts		
Private enterprises	**5.934.168**	16.501.560
Individuals	**129.070**	183.110
	6.063.238	16.684.670
Term deposits		
Private enterprises	**2.664.058**	1.780.086
	2.664.058	1.780.086
Customer accounts	8.727.296	18.464.756

The breakdown of customer accounts by industry sector is as follows

	2023	*2022*
Construction	**5.123.904**	**4.779.436**
Industrial production	**1.314.958**	**1.639.140**
Trade	**1.244.031**	**222.893**
Individuals	**182.382**	**183.110**
Energy	**149.961**	**263.033**
Transportation and communications	**39.845**	**11.016.618**
Financial leasing	**17.708**	**801**
Fuel industry	**1.615**	**4.022**
Agriculture	**123**	**79**
Other	**652.769**	**355.624**
Amounts due to customers	**8.727.296**	**18.464.756**

18. Equity

The total number of authorized, issued and fully paid ordinary shares of the Bank amounted to 10,000,000 shares on December 31, 2023, 2022 and 2021. The issue price of the shares amounted to 1,005 tenge per ordinary share.

The share capital of the Bank was contributed by the shareholders in tenge and they are entitled to dividends and any capital distributions in tenge. Each ordinary share is entitled to one vote. No dividends were accrued or paid in 2023, 2022 and 2021.

19. Contractual and contingent liabilities

Political and economic conditions

Kazakhstan continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Kazakhstani economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government. The management believes it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances.

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(In thousands of Kazakhstani tenge, unless otherwise stated)

19. Contractual and contingent liabilities (continuation)

Legal actions and claims

The Bank is potentially subject to various legal proceedings related to business operations. The Bank does not believe that it is probable that outstanding or threatened claims of these types, individually or in the aggregate, will have a material adverse effect on the Bank's financial condition or results of operations.

The Bank assesses the likelihood of material liabilities arising from individual circumstances and establishes provisions in its financial statements only when it is probable that events giving rise to a liability will occur and the amount of the liability can be reasonably estimated. The Bank has not made any provision in these financial statements for any of the contingent liabilities described above.

Unforeseen tax payments

The tax environment in the Republic of Kazakhstan is subject to change, inconsistent application and interpretation. Differences between the interpretation of Kazakhstani laws and regulations by the Bank and Kazakhstani authorities may result in the imposition of additional taxes, penalties and interest.

Kazakhstan tax legislation and practice are in a state of continuous development and therefore are subject to varying interpretations and frequent changes, which may be retroactive. In some instances, tax legislation refers to IFRS for taxation purposes and the interpretation of the relevant IFRS provisions by the Kazakhstani tax authorities may differ from the accounting policies, judgments and estimates applied by management in the preparation of these financial statements, which may create additional tax liabilities for the Bank. Fiscal periods remain open to retrospective audits by the tax authorities for three years following the end of the tax year.

The Bank's management believes that its interpretations of the relevant legislation are appropriate and the Bank's tax positions are reasonable.

Contractual and contingent liabilities

The Bank's financial liabilities and contingencies on December 31 comprise the following items:

	2023	*2022*
Loan liabilities		
Guarantees issued	**11.008.961**	9.327.559
Liabilities to provide Islamic financing	**1.205.424**	1.033.733
	12.214.385	10.361.292
Amounts due to customers held as collateral against guarantees issued *(Note17)*	**(2.656.137)**	(1.780.086)
Valuation provision for ECL on loan liabilities	**(970.925)**	(647.101)

The Commitment Agreement provides for the Bank's right to unilaterally withdraw from the agreement in case of any unfavorable conditions for the Bank, including breach of agreements by customers, deterioration of financial performance and other conditions.

(In thousands of Kazakhstani tenge, unless otherwise stated)

19. Contractual and contingent liabilities (continuation)

Contractual and contingent liabilities (continuation)

The analysis of changes in the valuation provision for ECLs for the year ended December 31, 2023 is as follows:

Guarantees issued	*Stage 1*	*Stage 2*	*Stage 3*	*ACCI*	*Total*
Provision for ECL on January 1, 2023	(219.640)	(14.423)	(385.484)	-	(619.547)
New assets created or assets acquired	(246.423)	–	-	(98.000)	(344.423)
Assets that have been repaid	179.995	6.504	30.522	-	217.021
Transfers in Stage 2	26.012	(26.012)	–	-	–
Transfers in Stage 3	13.195	7.920	(21.115)	-	–
Net change in ECL for the year	(11.997)	(53.115)	(88.614)	-	(153.726)
On December 31, 2023	(258.858)	(79.126)	(464.691)	(98.000)	(900.675)

Liabilities to provide Islamic financing	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Provision for ECL on January 1, 2023	(27.057)	–	(497)	(27.554)
New assets created or assets acquired	(10.741)	–	–	(10.741)
Transfers in Stage 2	4.890	(4.890)	–	–
Transfers in Stage 3	1.193	–	(1.193)	–
Assets that have been repaid	54	–	–	54
Net change in ECL for the year	(3.417)	(23.670)	(4.922)	(32.009)
On December 31, 2023	(35.078)	(28.560)	(6.612)	(70.250)

The analysis of changes in the valuation provision for ECLs for the year ended December 31, 2022 is as follows:

Guarantees issued	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Provision for ECL on January 1, 2022	(362.820)	(33.511)	(177.085)	(573.416)
New assets created or assets acquired	(112.203)	–	–	(112.203)
Assets that have been repaid	195.853	33.511	35.467	264.831
Transfers in Stage 2	13.528	(13.528)	–	–
Transfers in Stage 3	6.765	–	(6.765)	–
Net change in ECL for the year	39.237	(895)	(237.101)	(198.759)
On December 31, 2022	(219.640)	(14.423)	(385.484)	(619.547)

Liabilities to provide Islamic financing	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Provision for ECL on January 1, 2022	(21.477)	–	(34.695)	(56.172)
New assets created or assets acquired	(6.659)	–	–	(6.659)
Assets that have been repaid	952	–	34.426	35.378
Net change in ECL for the year	127	–	(228)	(101)
On December 31, 2022	(27.057)	–	(497)	(27.554)

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19. Contractual and contingent liabilities (continuation)

Trust management operations

The Bank acts as agent in investing funds received under Wakala agreements and acts as Mudarib under Mudaraba agreements:

	2023	*2022*
Mudaraba		
Unutilized portion of Mudaraba deposits on January 1	328.054	73.366
Deposits received	110.842	579.663
Deposits withdrawn	(257.604)	(325.730)
Exchange differences	–	755
Unutilized portion of Mudaraba deposits on December 31	181.292	328.054
Income accrued on Islamic financing contracts	–	-
Profit attributable to customers on Wakala and Mudaraba deposits	–	-

The Bank shall not bear the risk for the utilized portion of the Wakala and Mudaraba deposits unless the deposits have been lost due to misconduct, negligence or breach of terms and conditions agreed by the Bank, in which case such losses shall be borne by the Bank.

20. Revenues from Commodity Murabaha contracts

In 2023, revenues from Commodity Murabaha contracts amounted to 1,603,089 thousand tenge (2022: 1,386,932 thousand tenge), including net loss from modification resulting from changes in contractual cash flows under Commodity Murabaha contracts that did not result in derecognition of 322,871 thousand tenge (2022: 310,714 thousand tenge).

21. Expenses on credit losses and other impairment charges

The following table presents the ECL expenses on financial instruments recognized in profit or loss for the year ended December 31, 2023.

	Note	*Stage 1*	*Stage 2*	*Stage 3*	*ACCI*	*Total*
Cash and cash equivalents	6	–	–	(13.463)	–	(13.463)
Receivables for Islamic financing	7	(380.770)	(1.075.148)	709.380	540.174	(206.364)
Loans to customers	8	–	–	9.000	–	9.000
Investments in Wakala and Mudaraba pools	9	–	–	246.090	–	246.090
Other financial assets	15	514	8.034	66.376	–	74.924
Loan liabilities	19	(92.529)	(70.281)	(63.014)	(98.000)	(323.824)
		(472.785)	(1.137.395)	954.369	442.174	(213.637)

The following table presents the ECL expenses on financial instruments recognized in profit or loss for the year ended December 31, 2022:

	Note	*Stage 1*	*Stage 2*	*Stage 3*	*ACCI*	*Total*
Cash and cash equivalents	6	22.416	(20.301)	(12.901)	–	(10.786)
Receivables for Islamic financing (Adjusted)	7	(524.845)	1.311.185	(998.864)	(333.849)	(546.373)
Loans to customers	8	–	–	(5.279)	–	(5.279)
Investments in Wakala and Mudaraba pools	9	–	–	(445.835)	–	(445.835)
Other financial assets	15	684	1.410	(99.921)	–	(97.827)
Loan liabilities	19	117.307	32.616	(167.436)	–	(17.513)
		(384.438)	1.324.910	(1.730.236)	(333.849)	(1.123.613)

The movements in the valuation provisions for impairment of other non-financial assets were as follows:

	2023	*2022*
On January 1, 2023	(298.653)	–
(Accrual)/recovery	298.653	(298.653)
On December 31, 2023	–	(298.653)

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22. Net commission income

Net commission income includes the following items:

	2023	*2022*
Guarantees issued	**516.650**	613.924
Cash transactions	**10.967**	73.899
Transfer operations	**25.886**	23.831
Maintenance of customer accounts	**6.103**	5.456
Agency commission and remuneration under Wakala agreements and Mudarib's share in profits under Mudaraba agreements *(Note 19)*	**250**	–
Other	**3.978**	4.428
Commission income	**563.834**	721.538
Transfer transactions	**(10.574)**	(10.539)
Other	**(55.409)**	(75.934)
Commission expenses	**(65.983)**	(86.473)
Net commission income	**497.851**	635.065

23. Personnel expenses and other operating expenses

Personnel expenses and other operating expenses comprise the following:

	2023	2022
Salaries and bonuses	**402.078**	401.383
Social security contributions	**48.306**	46.778
Personnel expenses	**450.384**	448.161
Depreciation and amortization *(Notes 10, 11 and 12)*	**245.938**	253.175
Software technical support	**69.165**	63.417
Taxes other than corporate income tax	**42.430**	41.269
Professional services	**32.384**	33.744
Communication services	**29.733**	33.328
Security services	**22.862**	29.321
Travel expenses	**4.822**	14.027
Collection	**9.094**	11.087
Utilities	**6.525**	8.002
Membership fees	**9.936**	6.187
Office supplies	**1.426**	5.236
Lease	**2.460**	4.715
Repairs and maintenance	**25.655**	3.893
Advertising and marketing	**1.187**	2.385
Transportation costs	**2.130**	2.172
Representation expenses	**175**	248
Other	**43.221**	69.258
Other operating expenses	**549.143**	581.464

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24. Risk management

Introduction

There are inherent risks in the Bank's activities. The Bank manages risk through an ongoing process of identification, measurement and monitoring, and by setting appropriate risk limits and other internal controls. The risk management process is critical to the Bank's continued profitability and each individual within the Bank is accountable for the risks arising from his or her responsibilities. The Bank is exposed to credit risk, liquidity risk, Shariah non-compliance risk and market risk. The Bank is also exposed to operational risks.

The independent risk control process does not apply to business risks, such as changes in the environment, technology or changes in the industry. Such risks are controlled by the Bank through the strategic planning process.

The risk management process includes identification, measurement, control and limitation of risks, which are performed by the Bank on an ongoing basis.

Risk management structure

The Board of Directors has overall responsibility for identifying and controlling risks; however, there are also separate independent bodies that are responsible for managing and controlling risks.

Board of Directors

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

Management Board

The Management Board's responsibility is to oversee the Bank's risk management process.

Risk management

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

The primary objective of the division is to establish and maintain an effective risk management system that provides for the application of risk identification and control methods that ensure effective identification, assessment and limitation of the Bank's risks taking into account the type and volume of its operations. This division also ensures collection of complete information in the risk assessment and risk reporting system.

Bank Treasury

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

Internal audit

The Bank's risk management processes are audited annually by the internal audit function, which examines both the adequacy of the procedures and the Bank's compliance with the procedures. The internal audit department discusses the results of these reviews with management and presents its findings and recommendations to the Board of Directors of the Bank.

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24. Risk management (continuation)

Introduction (continuation)

Risk assessment and risk communication systems

The Bank's risks are measured using a method that reflects both expected losses that are likely to arise in the normal course of business and unexpected losses, which are an estimate of the largest actual losses based on statistical models. The models use probability values derived from past experience and adjusted for economic conditions. The Bank also models 'worst case scenarios' that would occur if events considered unlikely to occur

Risk monitoring and control is primarily based on limits set by the Bank. Such limits reflect the business strategy and market environment in which the Bank operates and the level of risk that the Bank is willing to accept, with a particular focus on specific industries. In addition, the Bank monitors and evaluates its overall risk bearing capacity in relation to the aggregate risk position across all types of risks and exposures.

Information received on all activities is reviewed and processed to analyze, control and early detection of risks. This information is presented with explanations to the Management Board and the heads of each business unit. The report contains information on the aggregate exposure to credit risk, credit forecasts, exceptions to the established risk limits, liquidity ratios and changes in risk levels. Monthly risk information is provided by industry, customer and geographic region. On a monthly basis, the Credit Committee determines the need for an provision for credit losses. On a quarterly basis, the Board of Directors receives a detailed risk report, which contains all the necessary information to assess the Bank's risks and make appropriate decisions.

Various risk reports are prepared by the Bank for all levels and distributed to ensure that all divisions of the Bank have access to extensive, relevant and up-to-date information.

A weekly meeting of the Bank's Management Board is held with the invitation of managers or employees of other divisions of the Bank to discuss efforts to maintain acceptable risk levels. If an increase in risk level and/or violation of risk limit is identified, the meeting is held more frequently.

Risk reduction

As part of risk management, the Bank monitors risks arising from changes in profit rates, exchange rates, credit risk and exposures arising from forecast transactions.

The Bank actively uses collateral to reduce its credit risk (see below for additional information).

Excessive concentrations of risk

Concentrations of risk arise when a number of counterparties are engaged in similar activities, or operate in the same geographical area, or have similar economic characteristics and, as a result, changes in economic, political or other conditions have a similar effect on the ability of those counterparties to meet their contractual obligations. Concentrations of risk reflect the relative sensitivity of the Bank's performance to changes in conditions that affect a particular industry or geographic region.

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines aimed at maintaining a diversified portfolio. Identified concentrations of credit risk are monitored and managed.

Credit risk

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

Counterparty limits are determined using a credit risk classification system that assigns a credit rating to each counterparty. Ratings are reviewed on a regular basis. The credit quality review process allows the Bank to assess the extent of potential losses in relation to the risks to which it is exposed and take appropriate action.

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24. Risk management (continuation)

Credit risk (continuation)

Risks arising from loan liabilities

The Bank provides its customers with the possibility to obtain guarantees, which may require the Bank to make payments on behalf of customers.Customers reimburse the Bank for such payments in accordance with the terms of the guarantees and letters of credit. Under these agreements the Bank is exposed to risks similar to financing risks, which are mitigated by the same risk control procedures and policies.

The carrying amounts of statement of financial position line items, excluding the effect of mitigation through the use of master netting and collateral agreements, best represent the maximum exposure to credit risk for these items.

For more detailed information about the maximum exposure to credit risk for each class of financial instrument, refer to the individual notes. The effect of collateral and other risk mitigation techniques is presented in *Note 7* Receivables for Islamic financing, *Note 8* Loans to customers, *Note 9* Investments in Wakala and Mudaraba pools and *Note 19* Contractual and contingent liabilities.

Impairment assessment

The Bank calculates ECL based on several probability-weighted scenarios to estimate the expected cash flow shortfalls, which are discounted using the effective profit rate. The cash shortfall is the difference between the cash flows due to the entity under the contract and the cash flows that the entity expects to receive. The mechanism for calculating ECL is described below and the main elements are as follows:

Probability of default (PD)	*The probability of default* is an estimate of the likelihood of default occurring over a specified time horizon. Default can only occur at a specific point in time during the period under review if the asset has not been derecognized and is still part of the portfolio.
Exposure at default (EAD)	*The exposure at default* is an estimate of the amount subject to default at any future date, taking into account expected changes in that amount after the balance sheet date, including contractual or other contractual payments of principal and profit, expected repayments of outstanding financing and fines and penalties resulting from late payments.
Loss given default (LGD)	*The loss given default* rate is an estimate of the losses arising in the event of default at a particular point in time. It is calculated based on the difference between the contractual cash flows and the cash flows that the lender expects to receive, including from the realization of collateral. It is usually expressed as a percentage of EAD.

The valuation provision for ECLs is calculated based on credit losses expected to occur over the life of the asset (expected lifetime credit losses or lifetime ECLs) if there has been a significant increase in credit risk since initial recognition, otherwise the valuation provision is calculated at an amount equal to 12-month expected credit losses (12-month ECLs). 12-month ECLs are the part of full term ECLs that represent ECLs that arise from defaults on a financial instrument that occur within 12 months after the reporting date. Full term and 12-month ECLs are calculated either on an individual or group basis depending on the nature of the underlying portfolio of financial instruments.

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24. Risk management (continuation)

Credit risk (continuation)

Impairment assessment (continuation)

The Bank has established a policy to assess at the end of each reporting period whether there has been a significant increase in the credit risk of a financial instrument since initial recognition, by considering changes in the risk of default over the remaining life of the financial instrument. Based on the process described above, the Bank aggregates Islamic finance receivables provided by the Bank into the following groups.

Stage 1:	Upon initial recognition of financial instrument, the Bank recognizes valuation provision equal to 12-month ECL. Stage 1 also includes financial instruments whose credit risk has decreased to the extent that they have been transferred from Stage 2.
Stage 2:	If the credit risk of a financial instrument has increased significantly since initial recognition, the Bank recognizes valuation provision in an amount equal to the lifetime ECL. Stage 2 also includes financial instruments whose credit risk has decreased to the extent that they have been transferred from Stage 3.
Stage 3:	Financial instruments that are credit-impaired. The Bank recognizes valuation provision in an amount equal to the full term ECL.
ACCI:	Acquired or created credit-impaired (ACCI) assets are financial assets that are credit-impaired at the time of initial recognition. Upon initial recognition of ACCI, the assets are measured at fair value and subsequently financial proceeds are recognized using the effective interest rate of return adjusted for credit risk. The valuation provision for ACCI is recognized or derecognized only to the extent that there has been a subsequent change in the amount of ACCI over the entire term.

Defining default and recovery

The Bank considers a financial instrument to be in default and therefore treats it as Stage 3 (credit-impaired assets) for the purposes of the ECL calculation in any case where the customer is more than 60 days past due on contractual payments. The Bank considers that a default has occurred with respect to funds in banks and takes immediate remedial action if the required intraday payments specified in the individual agreements have not been made at the close of the business day.

As part of the qualitative assessment of whether a customer is in default, the Bank also considers a number of events that may indicate that payment is unlikely. If such events occur, the Bank carefully analyzes whether such an event results in default and whether the assets should be classified as Stage 3 for the purposes of the ECL calculation or whether Stage 2 would be appropriate. Such events include the following:

- The customer's internal rating indicating default or proximity to default;
- A write-off of part and/or all of the customer's debt that was caused by a significant increase in credit risk since the funding was provided;
- Significant decrease in the value of collateral when the recovery of the financial instrument is expected to result from the sale of the collateral;
- Restructuring due to deterioration of the customer's financial position;
- The existence of reasonable and reliable information about the debtor's significant financial difficulties; and
- The filing of a bankruptcy petition by the customer.

In accordance with the Bank's policy, financial instruments are considered 'cured' and therefore transferred out of Stage 3 when none of the criteria for default has been observed for at least twelve consecutive months or the rating of the financial instrument has improved in the absence of other indications of impairment. The decision as to whether an asset should be classified as Stage 2 or Stage 1 when it 'recovers' depends on the revised credit rating at the time of recovery and an assessment of whether there has been a significant increase in credit risk since initial recognition.

(In thousands of Kazakhstani tenge, unless otherwise stated)

24. Risk management (continuation)

Credit risk (continuation)

Internal rating assignment and default probability assessment process

Rating assessment of financial instrument quality by clients is based on the creditworthiness class (assigned based on the results of analysis of the client's financial and economic condition) on the financing collateral (collateral), on the provided business plan (except for retail financing). Besides, such factors as financing terms, availability of the client's own funds in the financed project, sphere of activity, period of existence of the enterprise, availability of accounts payable to other enterprises, credit history of the client and payment discipline on current liabilities are taken into account.

Depending on the assigned internal credit ratings, the financial instrument is allocated to Stages for further calculation of the ECL, taking into account such factors as current delinquency, number of restructurings, availability of grace period, information on intended/misuse, information on significant financial difficulties, seizures on the client's accounts, etc.

Treasury and interbank relationships

The Bank's treasury relations, which include relations with counterparties such as broker-dealers, exchanges and clearing organizations, were absent in the reporting year. If such relations arise, they are analyzed by the Bank's Treasury Department.

The Bank evaluates clients depending on the type of financial instrument (corporate/retail). For a corporate financial instrument, the Bank uses a valuation model, including those based on the client's accounting data, future cash flow forecasts, and the submitted business plan. For a retail financial instrument, a customer credit scoring model is used for valuation.

Commercial financing

In commercial financing, clients are assessed sequentially by the Lending Department, Legal Department and Risk Management Service. Risk assessment is based on various data, such as financial position of the customer, collateral for financing, term of financing, assessment of the submitted business plan, availability of the customer's own funds in the financed project, area of activity, duration of the company's existence, existence of accounts payable to other companies, credit history of the customer and payment discipline on current liabilities. The client's financial position is assessed on the basis of cash flow projections, historical financial information, bankruptcy probability assessment, current financial ratios such as liquidity, financial leverage (solvency), profitability and debt service ratios.

The Bank uses the following internal credit rating levels:

Internal rating level	*Rating by external international rating agency*	*Description of the internal rating level*	*PD for the whole term*
91-150	mismatched	Reliable client	12%-30%
71-90	mismatched	Client with minimal risk	13%-64%
56-70	mismatched	Client with medium risk	9%-62%
41-55	mismatched	Client with high risk	100%
40 and lower	mismatched	Client with unacceptable risk	100%

Retail financing

Retail finance comprises secured receivables from Islamic finance to individuals. This product is also assessed by assigning the level of internal credit rating, which is based on the results of scoring based on various qualitative and quantitative characteristics of the client, as well as taking into account the analysis performed on the financial and economic condition of the client, on loan collateral (pledge), availability of the client's own funds in the financed project, payment discipline on current liabilities. The number of days overdue for each loan is a key factor in calculating impairment..

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24. Risk management (continuation)

Credit risk (continuation)

Exposure at default

The amount exposed to the risk of default (EAD) represents the gross carrying amount of financial instruments subject to impairment assessment and reflects both the ability of the customer to increase its debt as it approaches default and the possibility of early repayment. To calculate EAD for Stage 1 financial instruments, the Bank estimates the probability of default within 12 months to estimate 12 month ECL. For Stage 2, Stage 3, and ACCI financial assets, EAD is considered for events that could occur over the life of the instrument.

The Bank determines the EAD by modeling the range of possible outcomes upon default at different points in time, which corresponds to multiple scenarios. Then, depending on the results of the Bank's models, each economic scenario is assigned a PD in accordance with IFRS 9.

Loss given default

In the case of commercial financing, LGD is assessed on a monthly basis by the Credit and Deposit Operations Analysis and Administration Department and reviewed by the Bank's Risk Management Department.

The credit risk assessment is based on a standardized LGD assessment model, which results in certain LGD levels. These LGD levels take into account the expected EAD compared to the amounts expected to be recovered or realized as a result of the sale of held collateral.

The Bank groups its financial products into homogeneous groups based on the main characteristics that are relevant for the estimation of future cash flows. For this purpose, historical loss experience is utilized and a wide range of transaction characteristics (e g type of product, types of collateral) as well as customer characteristics are considered. Where historical loss information is not available, it is acceptable to use data for similar groups of financial instruments of second-tier banks in Kazakhstan.

Where appropriate, new data and forward-looking economic scenarios are used to determine the level of LGD under IFRS 9 for each group of financial instruments. When evaluating forward-looking information, expected outcomes are based on multiple scenarios.Examples of key inputs include changes in the value of collateral, payment status or other factors that indicate a loss for a group of instruments.

LGD levels are estimated for all Stage 1, 2 and 3 asset classes and ACCI.Inputs for such LGD levels are estimated and, where possible, adjusted through testing based on historical data, taking into account recent recoveries.Where appropriate, such data is determined for each economic scenario.

Significant increase in credit risk

The Bank continually reviews all assets for which the valuation provision is calculated. To determine how much to charge for an instrument or portfolio of instruments (i.e. 12-month or lifetime ECLs), the Bank considers whether the credit risk of the instrument or portfolio of instruments has increased significantly since initial recognition. The Bank considers that the credit risk of a financial instrument has increased significantly since initial recognition if one or more indications of significant financial difficulty of the customer are identified:

For legal entities:

- The growth of losses in dynamics for the previous period is at least twelve months;
- Unfavorable value of ratios calculated in accordance with the internal regulatory document, indicating a low level of solvency, high dependence on borrowed funds;
- Presence of negative equity capital;
- Stable (for 3 or more reporting periods (quarters)) decrease in cash flows from the core business, which indicates a decrease in market share, lack of confidence in the Bank that the measures taken by the client (debtor, co-borrower) are effective to stabilize its financial position;

(In thousands of Kazakhstani tenge, unless otherwise stated)

24. Risk management (continuation)

Credit risk (continuation)

Significant increase in credit risk (continuation)

- Provision of financing to a client (debtor, co-borrower) to repay previously provided financing due to deterioration of the client's (debtor's, co-borrower's) financial position.

For legal entities with the intended use of funds for "investment purposes" (investment financing):

- Permanent and (or) significant deterioration of the client's (co-borrower's) financial condition;
- Measures taken by the client (co-borrower) are ineffective to stabilize its financial position;
- Availability of bailout for a period not exceeding 1 (one) year;
- Force majeure and other circumstances that caused material damage to the client (co-borrower) (in the amount of 6 or more average monthly receipts from the client's core business) but did not lead to termination of its activities.
- The Bank also applies an additional qualitative method to indicate that there has been a significant increase in the credit risk of an asset, for example, transfer of a customer/financial instrument to the problem list or restructuring due to a credit event. In some cases, the Bank may also consider the events set out in the Defining Default section above as an indication of a significant increase in credit risk rather than a default. Irrespective of changes in credit rating levels, if contractual payments are overdue by more than 30 days, it is considered that there has been a significant increase in credit risk since initial recognition.

When assessing ECL on a group 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.

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(In thousands of Kazakhstani tenge, unless otherwise stated)

24. Risk management (continuation)

Credit risk (continuation)

Grouping of financial assets that are measured on a group basis

Depending on the factors mentioned below, the Bank calculates ECL either on an individual basis or on a group basis.

An individual financial asset is an asset whose gross carrying amount at the reporting date exceeds 0.2% of equity according to the financial statements, but is not less than fifty million tenge, or a financial asset that represents a claim on an interrelated party.

Asset classes for which the Bank calculates ECL on an individual basis include the following:

- All Stage 3 assets regardless of financial asset class;
- Financial assets that were classified as ACCI at the time of derecognition of the original financing and recognition of new financing as a result of debt restructuring.

Assets classes for which the Bank calculates ECL on a group basis include the following:

- Retail and corporate portfolios in Stage 1 and 2.

The Bank organizes these financial assets into homogeneous groups depending on internal and external characteristics of the financial instruments, e.g. internal credit rating, delinquency rates, type of product, collateral ratio or industry in which the customer operates.

Forecast information and multiple economic scenarios

In its ECL calculation models, the Bank uses forecast information on GDP growth rates for the future year as economic inputs.

The inputs and models used in the calculation of ECL do not necessarily reflect all market characteristics at the date of the financial statements. To reflect this, qualitative adjustments or overlaps are sometimes made as temporary adjustments if such differences are material.

The Bank adjusts the value of the macro indicator to smooth the effect of historical disturbances by normalizing the current value of GDP growth based on the average of the current year's GDP and the standard deviation of the historical GDP value. In calculating the ECL on December 31, 2023, the Bank used a forecast for 2023 of 0.196 after adjustment.

To obtain forecast information, the Bank uses data from external sources (external rating agencies, government agencies such as central banks, statistical agencies, authoritative analytical agencies). This indicator is analyzed by specialists of the Bank's Risk Management Service.

Key factors	*ECL scenario*	*Significance*	*Period*
GDP growth, %	Basis	6,0	2013
		4,2	2014
		1,2	2015
		1,1	2016
		4,1	2017
		4,1	2018
		4,5	2019
		(2,6)	2020
		4	2021
		3,1	2022
		4,9	2023

(In thousands of Kazakhstani tenge, unless otherwise stated)

24. Risk management (continuation)

Credit risk (continuation)

Credit quality by class of financial assets

The Bank manages the credit quality of financial assets using an internal rating system as described above. The table below shows the credit quality by class of financial assets and credit related commitments based on the Bank's credit rating system on December 31, 2023:

	Note		*Client with minimal risk*	*Client with medium risk*	*Client with high risk*	*Client with unacceptable risk*	*Total*
Cash and cash equivalents (excluding cash on hand)	6						
		Stage 1	**2.761.432**	–	–	–	**2.761.432**
		Stage 2	–	**2.668.475**	–	–	**2.668.475**
		Stage 3	–	–	–	–	–
Receivables for Islamic financing:	7						
Commodity Murabaha – corporate part		Stage 1	**251.768**	–	–	–	**251.768**
		Stage 2	–	**1.536.150**	–	–	**1.536.150**
		Stage 3	–	–	**9.784.754**	**2.610.843**	**12.395.597**
		ACCI	–	–	**843.984**	–	**843.984**
Qard Hassan		Stage 1	**11.652**	–	–	–	**11.652**
Commodity Murabaha retail part		Stage 1	**28.618**	–	–	–	**28.618**
		Stage 2	–	**2.482**	–	–	**2.482**
		Stage 3	–	–	**686**	–	**686**
Investments in Wakala and Mudaraba pools	9	Stage 3	–	–	–	**484.984**	**484.984**
Other financial assets		Stage 1	**63.388**	–	–	–	**63.388**
		Stage 2	–	–	–	–	–
	15	Stage 3	–	–	**281.105**	–	**281.105**
Financial guarantees		Stage 1	**8.794.988**	–	–	–	**8.794.988**
		Stage 2	–	**752.660**	–	–	**752.660**
	19	Stage 3	–	–	**560.638**	–	**560.638**
Liabilities to provide Islamic financing		Stage 1	**839.703**	–	–	–	**839.703**
	19	Stage 2	–	**271.440**	–	–	**271.440**
		Stage 3	–	–	**24.031**	–	**24.031**
Total			**12.751.549**	**5.231.207**	**11.495.198**	**3.095.827**	**32.573.781**

(In thousands of Kazakhstani tenge, unless otherwise stated)

24. Risk management (continuation)

Credit risk (continuation)

Credit quality by class of financial assets

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

	Note		*Client with minimal risk*	*Client with medium risk*	*Client with high risk*	*Client with unacceptable risk*	*Total*
Cash and cash equivalents (excluding cash on hand)	6						
		Stage 1	14.585.733	–	–	–	14.585.733
		Stage 2	–	721.628	–	–	721.628
		Stage 3	–	–	–	3.241	3.241
Receivables for Islamic financing:	7						
Commodity Murabaha – corporate part		Stage 1	31.507	–	–	–	31.507
		Stage 2	–	10.444.425	–	–	10.444.425
		Stage 3	–	–	1.892.045	1.792.333	3.684.378
		ACCI	–	–	447.670	–	447.670
Qard Hassan		Stage 1	20.343	–		–	20.343
Commodity Murabaha – retail part		Stage 1	9.282	–	–	–	9.282
		Stage 2	–	4.090	–	–	4.090
		Stage 3	–	–	822	–	822
Investments in Wakala and Mudaraba pools	9	Stage 3	–	–	–	238.894	238.894
Other financial assets		Stage 1	59.276	–	–	–	59.276
		Stage 2	–	91.462	–	–	91.462
	15	Stage 3	–	–	92.434	905	93.339
Financial guarantees		Stage 1	8.181.085	–	–	–	8.181.085
		Stage 2	–	299.734	–	–	299.734
	19	Stage 3	–	–	227.193	–	227.193
Liabilities to provide Islamic financing		Stage 1	1.005.687	–	–	–	1.005.687
	19	Stage 3	–	–	–	492	492
Total			23.892.913	11.561.339	2.660.164	2.035.865	40.150.281

It is the Bank's policy to assign ratings accurately and consistently across its portfolio. This enables focused management of existing risks and allows comparison of credit risk exposures across different activities, geographical regions and products. The rating system relies on a number of financial and analytical techniques as well as processed market data, which provide the main inputs for the assessment of counterparty risk. All internal risk categories are defined in accordance with the Bank's rating policy. The assigned ratings are regularly assessed and revised.

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24. Risk management (continuation)

Credit risk (continuation)

Credit quality by class of financial assets (continuation)

The geographical concentration of the Bank's financial assets and on December 31 is as follows:

	2023			*2022*		
	Kazakhstan	*Other countries*	*Total*	*Kazakhstan*	*Other countries*	*Total*
Assets						
Cash and cash equivalents	**5.645.426**	**989.019**	**6.634.445**	16.179.945	736.017	16.915.962
Receivables for Islamic financing	**15.070.937**	**–**	**15.070.937**	14.642.517	–	14.642.517
Loans to customers	**–**	**–**	**–**	–	–	–
Investments in Wakala and Mudaraba pools	**484.984**	**–**	**484.984**	238.894	–	238.894
Other financial assets	**344.493**	**–**	**344.493**	244.077	–	244.077
Total financial assets	**21.545.840**	**989.019**	**22.534.859**	31.305.433	736.017	32.041.450
Liabilities						
Amounts due to credit institutions	**–**	**691.764**	**691.764**	–	724.993	724.993
Amounts due to customers	**8 660 915**	**66 381**	**8.727.296**	16.594.882	1.869.874	18.464.756
Liabilities to depositors of Wakala and Mudaraba pools	**181.292**	**–**	**181.292**	328 054	–	328 054
Provisions for contingent liabilities	**970.925**	**–**	**970.925**	647.101	–	647.101
Lease liabilities	**253.642**	**–**	**253.642**	296.239	–	296.239
Other financial liabilities	**33.325**	**–**	**33.325**	33.600	–	33.600
Total financial liabilities	**10.100.099**	**758.145**	**10.858.244**	17.899.876	2.594.867	20.494.743
Net balance position	**11.445.741**	**230.874**	**11.676.615**	13.405.557	(1.858.850)	11.546.707

Assets and credit related commitments have been presented according to the country in which the counterparty is located.Cash has been presented according to the country in which it is physically held. Other countries include the Russian Federation, EU countries and Turkey.

Liquidity risk and management of funding sources

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations as they fall due under normal and unforeseen circumstances. In order to limit this risk management has ensured availability of various sources of funding in addition to the existing minimum amount of bank deposits. Management also manages assets with liquidity in mind and monitors future cash flows and liquidity on a daily basis. This process includes estimating expected cash flows and the availability of high quality collateral that can be used to secure additional funding if required.

The Treasury Department is the main body responsible for managing the Bank's current liquidity position and continuously monitoring the liquidity position of the Bank's balance sheet and its dynamics. The Treasury Department performs monthly liquidity analysis, the results of which are communicated to all members of the Management Board.

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(In thousands of Kazakhstani tenge, unless otherwise stated)

24. Risk management (continuation)

Liquidity risk and management of funding sources (continuation)

Internal accepted methodologies are used to analyze the liquidity of the Bank's balance.

The Management Board reviews the liquidity analysis in terms of expected financial flows - liquidity gap analysis - on a monthly basis. In case of deterioration of liquidity ratios, the reasons are analyzed and recommendations on their elimination are submitted to the Management Board. The Risk Management Service regularly reviews compliance with ratios and parameters set by the internal liquidity management policy, such as instant liquidity ratio, current liquidity ratio, short-term liquidity ratio, total liquidity ratio and forecasted liquidity ratio.

The Board of Directors and the Management Board of the Bank should receive information from the Finance Department on the liquidity position of the Bank at least once a month, and in case of significant deterioration of the current or forecasted liquidity position of the Bank, immediately.

Analysis of financial liabilities by remaining maturities

The tables below summarize the Bank's financial liabilities on December 31 by remaining maturity based on contractual undiscounted repayment obligations. Liabilities that are repayable on demand are treated as if they were due on the earliest possible date. However, the Bank expects that many customers will not request repayment on the earliest date on which the Bank will be required to make a corresponding payment, and accordingly, the table does not reflect the expected cash flows estimated by the Bank based on historical deposit withdrawals.

			2023		
Financial liabilities	***Less than 3 months***	***From 3 to 12 months***	***From 1 to 5 years***	***More than 5 years***	***Total***
Amounts due to credit institutions	**691.764**	**–**	**–**		**691.764**
Amounts due to customers	**6.592.069**	**460.810**	**1.674.417**	**–**	**8.727.296**
Liabilities to depositors of Wakala and Mudaraba pools	**53.506**	**126.877**	**909**	**–**	**181.292**
Lease liabilities	**30.927**	**80.169**	**142.546**	**–**	**253.642**
Other financial liabilities	**–**	**33.325**	**–**	**–**	**33.325**
Total undiscounted financial liabilities	**7.368.266**	**701.181**	**1.817.872**	**–**	**9.887.319**

			2022		
Financial liabilities	***Less than 3 months***	***From 3 to 12 months***	***From 1 to 5 years***	***More than 5 years***	***Total***
Amounts due to credit institutions	724.993	–	–	–	724.993
Amounts due to customers	16.690.670	54.800	1.689.286	30.000	18.464.756
Liabilities to depositors of Wakala and Mudaraba pools	328.054	–	–	–	328.054
Lease liabilities	34.793	104.379	218.854	–	358.026
Other financial liabilities	–	33.600	–	–	33.600
Total undiscounted financial liabilities	17.778.510	192.779	1.908.140	30.000	19.909.429

Amounts due to customers are allocated based on contractual maturities, although they can be withdrawn on demand.

The maturity gap analysis does not reflect the historical stability of current account balances, which have historically been repaid over a longer period than indicated in the tables above. These balances are included in the tables as amounts due within 'less than 3 months'.

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(In thousands of Kazakhstani tenge, unless otherwise stated)

24. Risk management (continuation)

Liquidity risk and management of funding sources (continuation)

Analysis of financial liabilities by remaining maturities (continuation)

The table below summarizes the contractual maturity of the Bank's contingent liabilities and commitments. All outstanding commitments to provide Islamic financing are included in the time period that contains the earliest date on which the customer can require performance. In the case of financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee can be called

	2023				
	Less than 3 months	*From 3 to 12 months*	*From 1 to 5 years*	*More than 5 years*	*Total*
Guarantees issued	**11.008.961**	–	–	–	**11.008.961**
Liabilities to provide Islamic financing	**79.523**	–	**1.125.901**	–	**1.205.424**
	11.088.484	–	**1.125.901**	–	**12.214.385**

	2022				
	Less than 3 months	*From 3 to 12 months*	*From 1 to 5 years*	*More than 5 years*	*Total*
Guarantees issued	9.327.559	–	–	–	9.327.559
Liabilities to provide Islamic financing	1.032.750	–	983	–	1.033.733
	10,360.309		983	–	10.361.292

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

Market risk

Market risk is the risk that the fair value of future cash flows of financial instruments will fluctuate due to changes in market variables such as profit rates, foreign exchange rates and equity prices. The Bank has market risk on its non-trading portfolio. The risk on non-trading positions is managed and monitored using sensitivity analysis. With the exception of currency positions, the Bank has no significant concentrations of market risk.

Risk of changes in profit rates

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

Currency risk

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

(In thousands of Kazakhstani tenge, unless otherwise stated)

24. Risk management (continuation)

Market risk (continuation)

Currency risk (continuation)

The following table presents the currencies to which the Bank had significant exposure on December 31 for its non-trading monetary assets and liabilities and its projected cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the tenge on profit or loss (due to the existence of currency sensitive non trading monetary assets and liabilities). All other variables are assumed to be constant. The effect on equity does not differ from the effect on profit or loss. Negative amounts in the table reflect a potential net decrease in the statement of comprehensive income or equity, while positive amounts reflect a potential net increase.

	2023		2022	
Currency	*Increase in foreign exchange rate, in %*	*Effect on profit before taxation*	*Increase in foreign exchange rate, in %*	*Effect on profit before taxation*
US dollar	**15,00%**	**29.809**	21,00%	84.688
Euro	**15,00%**	**(707)**	17,99%	(41.480)
Russian ruble	**15,00%**	**26.115**	22,05%	25.347
Chinese yuan	**15,00%**	**2.101**	22,19%	25.521

	2023		2022	
Currency	*Decrease in foreign exchange rate, in %*	*Effect on profit before taxation*	*Decrease in foreign exchange rate, in %*	*Effect on profit before taxation*
US dollar	**-15,00%**	**(29.809)**	-21,00%	(84.688)
Euro	**-15,00%**	**707**	-17,99%	41.480
Russian ruble	**-15,00%**	**(26.115)**	-22,05%	(25.347)
Chinese yuan	**-15,00%**	**(2.101)**	-22,19%	(25.521)

Operational risk

Operational risk is the risk arising from system failure, human error, fraud or external events. When a control system fails, operational risks may cause reputational damage, legal consequences or financial loss. The Bank cannot assume that all operational risks have been eliminated, but through a control framework and by monitoring and responding appropriately to potential risks, the Bank can manage such risks. The control framework includes effective segregation of duties, access rights, approval and reconciliation procedures, staff training, and assessment procedures, including internal audit.

25. Fair value measurement

Fair value hierarchy

At each reporting date the management of the Bank analyzes changes in the value of assets and liabilities for which revaluation or reassessment is required by the Bank's accounting policy. For the purposes of this analysis, the Bank's management verifies the key inputs used in previous valuations by comparing the information in the valuation calculations with contracts and other relevant documents. In conjunction with the Bank's external valuers, the Bank's management also compares each change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

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(In thousands of Kazakhstani tenge, unless otherwise stated)

25. Fair value measurement (continuation)

Fair value hierarchy (continuation)

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

2023	Date of measurement	Fair value measurements using the following: Quotes in active markets (Level 1)	Significant observable baseline data (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets for which fair value is disclosed					
Cash and cash equivalents	December 31, 2023	**3.948.476**	**2.685.969**	–	**6.634.445**
Receivables for Islamic financing	December 31, 2023	–	–	**13.922.220**	**13.922.220**
Loans to customers	December 31, 2023	–	–	–	–
Investments in Wakala and Mudaraba pools	December 31, 2023	–	–	**484.984**	**484.984**
Other financial assets	December 31, 2023	–	–	**257.393**	**257.393**
Liabilities for which fair value is disclosed					
Amounts due to credit institutions	December 31, 2023		**691.764**	–	**691.764**
Amounts due to customers	December 31, 2023	–	**8.727.296**	–	**8.727.296**
Liabilities to depositors of Wakala and Mudaraba pools	December 31, 2023	–	**181.292**	–	**181.292**
Lease liabilities	December 31, 2023	–	–	**239.379**	**239.379**
Other financial liabilities	December 31, 2023	–	–	**33.325**	**33.325**

2022	Date of measurement	Fair value measurements using the following: Quotes in active markets (Level 1)	Significant observable baseline data (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets for which fair value is disclosed					
Cash and cash equivalents	December 31, 2022	**1.605.360**	**15.310.602**	–	**16.915.962**
Receivables for Islamic financing	December 31, 2022	–	–	**13.739.301**	**13.739.301**
Loans to customers	December 31, 2022	–	–	–	–
Investments in Wakala and Mudaraba pools	December 31, 2022	–	–	**238.894**	**238.894**
Other financial assets	December 31, 2022	–	–	**216.730**	**216.730**
Liabilities for which fair value is disclosed					
Amounts due to credit institutions	December 31, 2022	–	**724.993**	–	**724.993**
Amounts due to customers	December 31, 2022	–	**18.464.756**	–	**18.464.756**
Liabilities to depositors of Wakala and Mudaraba pools	December 31, 2022	–	**328.054**	–	**328.054**
Lease liabilities	December 31, 2022	–	–	**279.581**	**279.581**
Other financial liabilities	December 31, 2022	–	–	**33.600**	**33.600**

There were no movements between levels of the fair value hierarchy during 2023 and 2022.

(In thousands of Kazakhstani tenge, unless otherwise stated)

25. Fair value measurement (continuation)

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

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.

	2023			*2022*		
	Carrying amount	*Fair value*	*Non-recognized income/ (loss)*	*Carrying amount*	*Fair value*	*Non-recognized income/ (loss)*
Financial assets						
Cash and cash equivalents	**6.634.445**	**6.634.445**	**-**	16.915.962	16.915.962	–
Receivables for Islamic financing	**15.070.937**	**13.922.220**	**(1.148.717)**	14.642.517	13.739.301	(903.216)
Loans to customers	**-**	**-**	**-**	–	–	–
Investments in Wakala and Mudaraba pools	**484.984**	**484.984**	**-**	238.894	238.894	–
Other financial assets	**344.493**	**257.393**	**(87.100)**	244.077	216.730	(27.347)
			-			
Financial liabilities			**-**			
Amounts due to credit institutions	**691.764**	**691.764**	**-**	724.993	724.993	–
Amounts due to customers	**8.727.296**	**8.727.296**		18.464.756	18.464.756	
Liabilities to depositors of Wakala and Mudaraba pools	**181.292**	**181.292**	**-**	328.054	328.054	–
Lease liabilities	**253.642**	**239.379**	**(14.263)**	296.239	279.581	(16.658)
Other financial liabilities	**33.325**	**33.325**	**-**	33.600	33.600	–
Total unrecognized changes in fair value			**(1.250.080)**			(947.221)

Valuation techniques and assumptions

The following describes the methodologies and assumptions used to determine the fair value of those financial instruments that are not carried at fair value in these financial statements.

Assets whose fair value approximates their carrying amount

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that their fair value approximates their carrying amount. This assumption is also applied to demand deposits and savings accounts with no stated maturity.

Financial assets and financial liabilities measured at amortized cost

The fair value of unquoted instruments, Islamic finance receivables, loans to customers, customer accounts, other financial assets and liabilities is estimated by discounting future cash flows using rates currently available for debt with similar terms, credit risk and maturity

(In thousands of Kazakhstani tenge, unless otherwise stated)

26. Maturity analysis of assets and liabilities

The table below summarizes assets and liabilities by their expected maturities. The Bank's contractual undiscounted repayment obligations are disclosed in *Note 24* Risk management.

	2023			*2022*		
	During one year	*More than one year*	*Total*	*During one year*	*More than one year*	*Total*
Cash and cash equivalents	**6.634.445**	**-**	**6.634.445**	16.915.962	–	16.915.962
Receivables for Islamic financing	**782.456**	**14.288.481**	**15.070.937**	4.749.149	9.893.368	14.642.517
Loans to customers	**-**	**-**	**-**	–	–	–
Investments in Wakala and Mudaraba pools	**484.984**	**-**	**484.984**	238.894	–	238.894
Property, plant and equipment	**-**	**67.487**	**67.487**	–	74.229	74.229
Right-of-use assets	**-**	**238.420**	**238.420**	–	285.773	285.773
Intangible assets	**-**	**209.084**	**209.084**	–	258.966	258.966
Inventories	**191.252**	**-**	**191.252**	191.229	–	191.229
Current corporate income tax assets	**57.725**	**-**	**57.725**	65.375	–	65.375
Deferred corporate income tax assets	**-**	**12.229**	**12.229**	–	98.808	98.808
Other assets	**146.375**	**320.444**	**466.819**	53.167	254.543	307.710
Total	**8.297.237**	**15.136.145**	**23.433.382**	21.878.986	10.855.085	32.734.071
Amounts due to credit institutions	**621.764**	**70.000**	**691.764**	724.993	–	724.993
Amounts due to customers	**6.338.409**	**2.388.887**	**8.727.296**	16.745.470	1.719.286	18.464.756
Liabilities to depositors of Wakala and Mudaraba pools	**181.292**	**-**	**181.292**	328.054	–	328.054
Provisions for contingent liabilities	**-**	**970.925**	**970.925**	–	647.101	647.101
Lease liabilities	**111.096**	**142.546**	**253.642**	104.287	191.952	296.239
Other liabilities	**109.788**	**72.510**	**182.298**	175.774	21.703	197.477
Total	**7.362.349**	**3.644.868**	**11.007.217**	18.078.578	2.580.042	20.658.620
Net amount	**934.888**	**11.491.277**	**12.426.165**	3.800.408	8.275.04.	12.075.451

27. Transactions with related parties

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 prices and terms of such transactions may differ from those of transactions between unrelated parties.

(In thousands of Kazakhstani tenge, unless otherwise stated)

27. Transactions with related parties (continuation)

The volume of transactions with related parties, balances on December 31, 2023 and 2022, and the related amounts of expenses and income for the years then ended are presented below:

	2023				*2022*			
	Shareholders	*Organizations under common control*	*Key management personnel*	*Other related parties*	*Shareholders*	*Organizations under common control*	*Key management personnel*	*Other related parties*
Receivables for Islamic financing on January 1		–	–	89.499			–	153.102
Repayment during the year	–	–	–	(7.991)	–	–	–	–
Change in ECL	–	–	–	5.697	–	–	–	(63.603)
Receivables for Islamic financing, outstanding on December 31	–	–	–	**87.205**	–	–	–	89.499
Current accounts on December 31	**116.114**	**58**	**4**	**35.168**	1.079	2.779	34	2.248

Income and expense items with related parties for the years ended December 31, 2023 and 2022 were as follows:

	2023				*2022*			
	Shareholders	*Organizations under common control*	*Key management personnel*	*Other related parties*	*Shareholders*	*Organizations under common control*	*Key management personnel*	*Other related parties*
Revenue from Commodity Murabaha contracts	–	–	–	**183**	–	–	–	8.277
Commission income	**161**	**1.041**	**10**	**802**	599	652	14	436
Other operating expenses	–	–	**(14.308)**	**(2.160)**	-	–	(25.867)	(778)

The remuneration of 11 members of key management personnel (in 2022: 8 members) is set out below:

	2023	*2022*
Salaries and other short-term benefits	**(96.218)**	(88.345)
Social security contributions	**(19.159)**	(8.622)
Total remuneration to key management personnel	**(115.377)**	(96.967)

28. Capital adequacy

The Bank actively manages its capital adequacy to protect against risks inherent in its operations. The adequacy of the Bank's capital is monitored using, among other measures, ratios established by the NBRK.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and maintains an adequate capital adequacy ratio to support its business activities and to maximize shareholder value.

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

The NBRK requires banks to maintain a Tier 1 capital adequacy ratio of at least 6.5% of total assets and Tier 2 capital adequacy ratio of at least 7.5% of risk-weighted assets calculated in accordance with regulatory requirements.

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28. Capital adequacy (continuation)

The Bank's capital adequacy ratio exceeded the regulatory minimum on December 31, 2023 and 2022.

The following table shows an analysis of the Bank's capital calculated in accordance with the NBRK requirements on December 31, 2023 and 2022.

	2023	*2022*
Tier 1 capital	**12.835.588**	12.161.875
Total equity	**12.835.588**	12.161.875
Risk-weighted assets and liabilities, contingent claims and liabilities	**28.882.556**	39.267.967
Market risk	**916.928**	1.245.538
Operational risk	**382.500**	649.325
Total regulatory risk-weighted assets, contingent liabilities, operational and market risks	**29.799.484**	41.162.830
Capital adequacy ratio k1-1 (minimum 5.5%)	**43%**	30%
Capital adequacy ratio k1-2 (minimum 6.5%)	**43%**	30%
Capital adequacy ratio k2 (minimum 7.5%)	**43%**	30%

29. Zakat

The Bank's Charter does not require the Bank's management to pay Zakat on behalf of the Shareholder. Consequently, the obligation to pay Zakat is payable by the Shareholder.

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