“Microfinance organization “KMF” Limited Liability Company

Financial statements

Year ended 31 December 2019
together with independent auditor’s report

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Independent auditor's report

To the Shareholders and the Supervisory Board of
"Microfinance organization "KMF" Limited Liability Company

Opinion

We have audited the financial statements of "Microfinance organization "KMF" Limited Liability Company (hereinafter, the "Company"), which comprise the statement of financial position as at 31 December 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

Other information included in 2019 Annual Report of the Company

Other information consists of the information included in the Company's 2019 Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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Responsibilities of management and the Supervisory Board for the financial statements

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

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board is responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

Ernst & Young LLP

Olga Khegay Auditor	Gulmira Turmagambetova General Director Ernst & Young LLP
Audit Qualification Certificate № МФ-0000286 dated 25 September 2015	State audit license for audit activities on the territory of the Republic of Kazakhstan: series МФЮ-2 No. 0000003 issued by the Ministry of Finance of the Republic of Kazakhstan on 15 July 2005

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

30 March 2020

STATEMENT OF FINANCIAL POSITION

At 31 December 2019

(in thousands of Tenge)

	Note	*31 December 2019*	*31 December 2018*
Assets			
Cash and cash equivalents	5	**9,055,910**	7,158,499
Amounts due from credit institutions		**30,873**	11,235
Loans to customers	6	**132,795,457**	117,377,065
Investment property	7	**63,810**	147,867
Property and equipment	8	**3,895,688**	3,769,249
Intangible assets	9	**381,514**	204,024
Deferred corporate income tax assets	13	**151,667**	119,538
Right-of-use assets	3	**631,654**	–
Other assets	10	**595,514**	415,800
Total assets		**147,602,087**	129,203,277
Liabilities			
Amounts due to credit institutions	11	**106,473,047**	96,542,172
Financial instruments at fair value through profit or loss	12	**355,335**	81,008
Current corporate income tax liabilities	13	**45,268**	49,774
Lease liabilities	3	**685,432**	–
Other liabilities	10	**3,581,052**	3,282,372
Total liabilities		**111,140,134**	99,955,326
Equity			
Charter capital	14	**14,430,993**	14,430,993
Reserve funds	14	**721,550**	721,550
Revaluation reserve		**70,296**	98,971
Retained earnings		**21,239,114**	13,996,437
Total equity		**36,461,953**	29,247,951
Total equity and liabilities		**147,602,087**	129,203,277

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

Abenova A.K. First Deputy Chairman of the Management Board

Chernykh Y.Yu. Chief accountant

30 March 2020

The accompanying notes on pages 6 to 48 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

(in thousands of Tenge)

	Note	*2019*	*2018*
Interest revenue calculated using effective interest rate			
Loans to customers		**51,188,799**	42,760,812
Cash and cash equivalents		**705,723**	495,728
		51,894,522	43,256,540
Interest expense calculated using effective interest rate			
Amounts due to credit institutions		**(18,368,650)**	(15,699,029)
		(18,368,650)	(15,699,029)
Lease liabilities	3	**(150,320)**	–
		(18,518,970)	(15,699,029)
Net interest income		**33,375,552**	27,557,511
Credit loss expense	16	**(2,324,843)**	(2,063,594)
Net interest income after credit loss expense		**31,050,709**	25,493,917
Net loss on transactions with financial instruments at fair value through profit or loss	12	**(511,314)**	(131,244)
Net gains/(losses) from foreign currencies		**24,433**	(25,859)
Gain from initial recognition of financial liabilities measured at amortised cost		**91,663**	–
Other income		**70,847**	63,338
Personnel expenses	17	**(10,122,368)**	(8,970,987)
Other operating expenses	17	**(4,382,393)**	(3,725,459)
Other expense		**(132,418)**	–
Profit before corporate income tax expense		**16,089,159**	12,703,706
Corporate income tax expense	13	**(3,355,724)**	(2,653,887)
Profit for the year		**12,733,435**	10,049,819
Other comprehensive income for the year			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Revaluation of property and equipment reclassified to investment property	8	**9,959**	123,714
Income tax relating to components of other comprehensive income	13	**(1,992)**	(24,743)
Total other comprehensive income not to be reclassified to profit or loss in subsequent periods		**7,967**	98,971
Total comprehensive income for the year		**12,741,402**	10,148,790

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

(in thousands of Tenge)

	Note	*Charter capital*	*Reserve funds*	*Revaluation reserve (Note 7)*	*Retained earnings*	*Total equity*
At 31 December 2017		14,430,993	423,059	–	5,542,527	20,396,579
Impact of adopting IFRS 9		–	–	–	(248,611)	(248,611)
Restated opening balance under IFRS 9		14,430,993	423,059	–	5,293,916	20,147,968
Profit for the year		–	–	–	10,049,819	10,049,819
Other comprehensive income for the year *(Note 7)*		–	–	98,971	–	98,971
Total comprehensive income for the year		–	–	98,971	10,049,819	10,148,790
Dividend declared	14	–	–	–	(1,048,807)	(1,048,807)
Transfers to the reserve funds	14	–	298,491	–	(298,491)	–
At 31 December 2018		14,430,993	721,550	98,971	13,996,437	29,247,951
Profit for the year		**–**	**–**	**–**	**12,733,435**	**12,733,435**
Other comprehensive income for the year		**–**	**–**	**7,967**	**–**	**7,967**
Total comprehensive income for the year		**–**	**–**	**7,967**	**12,733,435**	**12,741,402**
Dividend declared	14	**–**	**–**	**–**	**(5,527,400)**	**(5,527,400)**
Transfer of revaluation reserve to retained earnings	7	**–**	**–**	**(36,642)**	**36,642**	**–**
At 31 December 2019		**14,430,993**	**721,550**	**70,296**	**21,239,114**	**36,461,953**

STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

(in thousands of Tenge)

	Note	*2019*	*2018*
Cash flows from operating activities			
Interest received on loans to customers		**47,835,569**	39,375,978
Interest received on cash and cash equivalents		**600,645**	422,480
Other income received		**30,668**	58,904
Interest paid on amounts due to credit institutions		**(17,686,575)**	(14,214,612)
Net realised gains from dealing in foreign currencies		**(27,770)**	(16,114)
Net payments on financial instruments at fair value through profit or loss		**(236,987)**	(55,466)
Personnel expenses paid		**(9,146,486)**	(7,458,599)
Other operating expenses paid		**(2,919,168)**	(2,803,629)
Taxes other than corporate income tax paid		**(1,345,603)**	(1,943,046)
Cash flows from operating activities before changes in operating assets and liabilities:		**17,104,293**	13,365,896
Net (increase)/decrease in operating assets			
Amounts due to credit institutions		**(19,470)**	463
Loans to customers		**(14,494,037)**	(29,059,203)
Other assets		**(119,516)**	(56,070)
Net (decrease)/increase in operating liabilities			
Other liabilities		**(725,503)**	169,813
Net cash used in operating activities before corporate income tax		**1,745,767**	(15,579,101)
Corporate income tax paid		**(3,292,279)**	(2,644,614)
Net cash used in operating activities		**(1,546,512)**	(18,223,715)
Cash flows from investing activities			
Purchase of property and equipment		**(680,037)**	(860,462)
Sale of property and equipment		**69,582**	18,275
Sale of investment property		**45,000**	–
Purchase of intangible assets		**(261,134)**	(164,662)
Net cash used in investing activities		**(826,589)**	(1,006,849)

STATEMENT OF CASH FLOWS (continued)

	Note	*2019*	*2018*
Cash flows from financing activities			
Receipt of amounts due to credit institutions	22	**68,412,306**	52,351,120
Repayment of amounts due to credit institutions	22	**(58,096,945)**	(30,794,903)
Payment of dividends	14	**(5,527,400)**	(1,048,807)
Repayment of lease liabilities	3	**(528,202)**	–
Net cash from financing activities		**4,259,759**	20,507,410
Effect of credit losses on cash and cash equivalents		**(11,748)**	(36,631)
Effect of exchange rate changes on cash and cash equivalents		**22,501**	197,557
Net increase in cash and cash equivalents		**1,897,411**	1,437,772
Cash and cash equivalents, beginning		**7,158,499**	5,720,727
Cash and cash equivalents, ending	5	**9,055,910**	7,158,499
Non-cash transactions			
Withholding tax on short-term amounts due from credit institutions		**105,078**	73,248

(in thousands of Tenge, unless otherwise indicated)

1. Principal activities

"Microfinance organization "KMF" Limited Liability Company (the "Company") was established in 2006 in accordance with legislation of the Republic of Kazakhstan as "Microcredit organisation "KazMicroFinance" Limited Liability Company.

In connection with the introduction of the Law of the Republic of Kazakhstan *On Microfinance Organizations* dated 26 November 2012, on 5 January 2015 the Company was officially re-registered in the Ministry of Justice of the Republic of Kazakhstan as a regulated microfinance organisation "Microfinance organization "KMF" Limited Liability Company. The Company's activities are supervised and regulated by the National Bank of Kazakhstan (hereinafter – the "NBRK") with the use of the procedure of record registration in the authorized body and compliance with prudential regulations.

The Company's principal activity is granting micro loans to customers. As at 31 December 2019, the Company has 14 branches and 103 outlets throughout Kazakhstan (31 December 2018: 14 branches and 104 outlets). Branches are located in the following cities: Almaty, Nur-Sultan, Aktobe, Karaganda, Kokshetau, Kostanay, Kyzylorda, Pavlodar, Semey, Taldykorgan, Taraz, Turkestan, Ust-Kamenogorsk, Shymkent. The Company' activities are located and carried out in the Republic of Kazakhstan.

Legal address of the Company's head office: 50 Nazarbayev Ave., 050004, Almaty, the Republic of Kazakhstan.

As at 31 December 2019 and 2018, the Company's charter capital belonged to the following participants (hereinafter – "shareholders"):

	Ownership in %	
Name	***31 December 2019***	***31 December 2018***
Corporate Fund "KMF-Demeu"	**45.435**	45.435
responsAbility Management Company S.A.	**18.127**	18.127
Triodos Custody B.V.	**12.085**	12.085
Triodos SICAV II	**12.085**	12.085
Management and employees of the Company	**6.226**	6.226
responsAbility SICAV (Lux)	**6.042**	6.042
	100.000	100.000

Kazakhstan business environment

The Company's activities are carried out in the Republic of Kazakhstan. Consequently, the Company is exposed to the economic and financial risks at the markets of Kazakhstan which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue its development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Republic of Kazakhstan. The financial statements reflect management's assessment of the impact of Kazakhstan business environment on the operations and the financial position of the Company. The actual influence of future business environment may differ from management's assessment.

2. Basis of preparation

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

The financial statements are prepared under the historical cost convention except as mentioned in Summary of significant accounting policies, for instance, financial instruments at fair value through profit or loss.

The financial statements are presented in thousands of Kazakh Tenge ("KZT" or "Tenge"), unless otherwise indicated.

(in thousands of Tenge, unless otherwise indicated)

3. Summary of significant accounting policies

Changes in accounting policy

The Company applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2019. The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective. The nature and the impact of each amendment is described below:

IFRS 16 Leases

IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC 15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Company is the lessor.

The Company adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Company elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Company also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The effect of adoption IFRS 16 as at 1 January 2019 is as follows:

	1 January 2019
Assets	
Right-of-use assets	938,124
Total assets	**938,124**
Liabilities	
Lease liabilities	938,124
Total liabilities	**938,124**

(a) Nature of the effect of adoption of IFRS 16

The Company has lease contracts for various items of property and equipment. Before the adoption of IFRS 16, the Company classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Company; otherwise it was classified as an operating lease. Finance leases were capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest and reduction of the lease liability. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under Other assets and Other liabilities, respectively.

Upon adoption of IFRS 16, the Company applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Company.

<u>Leases previously accounted for as operating leases</u>

The Company recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

(in thousands of Tenge, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Changes in accounting policy (continued)

(a) Nature of the effect of adoption of IFRS 16 (continued)

Leases previously accounted for as operating leases (continued)

The Company also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Based on the foregoing, as at 1 January 2019:

- Right-of-use assets of KZT 938,124 thousand were recognised;
- Additional lease liabilities of KZT 938,124 thousand included in Lease liabilities;

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as at 31 December 2018 as follows:

Operating lease commitments as at 31 December 2018	**1,052,208**
Weighted average incremental borrowing rate as at 1 January 2019	18%
Discounted operating lease commitments at 1 January 2019	**1,017,982**
Less:	
Commitments relating to short-term leases	(203,155)
Commitments relating to leases of low-value assets	–
Add:	
Commitments relating to leases previously classified as finance leases	–
Payments in optional extension periods not recognised as at 31 December 2018	123,297
Lease liabilities as at 1 January 2019	**938,124**

(b) Summary of new accounting policies

Set out below are the new accounting policies of the Company upon adoption of IFRS 16, which have been applied from the date of initial application:

Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

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

(in thousands of Tenge, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Changes in accounting policy (continued)

(b) Summary of new accounting policies (continued)

Lease liabilities (continued)

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

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below KZT 1,900 thousand). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Significant judgement in determining the lease term of contracts with renewal options

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

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

Amounts recognised in the statement of financial position and statement of comprehensive income

Set out below, are the carrying amounts of the Company's right-of-use assets and lease liabilities and the movements during the period:

	Right-of-use assets		*Lease*
	Buildings	***Total***	***liabilities***
As at 1 January 2019	938,124	938,124	938,124
Additions	**134,667**	**134,667**	**134,667**
Disposals	**(9,477)**	**(9,477)**	**(9,477)**
Depreciation expense	**(431,660)**	**(431,660)**	**–**
Interest expense	**–**	**–**	**150,320**
Payments	**–**	**–**	**(528,202)**
As at 31 December 2019	**631,654**	**631,654**	**685,432**

The Company recognised rent expense from short-term leases of KZT 180,746 thousand for the year ended 31 December 2019 *(Note 17)*.

(in thousands of Tenge, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Changes in accounting policy (continued)

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 *Income Taxes*. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- How an entity considers changes in facts and circumstances.

The Company determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

The Interpretation is effective from for reporting periods beginning on or after 1 January 2019. The Interpretation did not have an impact on the financial statements of the Company.

Amendments to IFRS 9 Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

These amendments had no impact on the financial statements of the Company.

Amendments to IAS 19 Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event. An entity is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments had no impact on the financial statements of the Company.

Annual improvements 2015-2017 cycle

IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted.

These amendments had no impact on the financial statements of the Company as there is no transaction where joint control is obtained.

(in thousands of Tenge, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Changes in accounting policy (continued)

Annual improvements 2015-2017 cycle (continued)

IFRS 11 Joint Arrangements

An entity that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted.

These amendments had no impact on the financial statements of the Company as there is no transaction where a joint control is obtained.

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where it originally recognised those past transactions or events.

An entity applies the amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When the entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

Since the Company's current practice is in line with these amendments, they had no impact on the financial statements of the Company.

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

The entity applies the amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted.

Since the Company's current practice is in line with these amendments, they had no impact on the financial statements of the Company.

Fair value measurement

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

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

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

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

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

(in thousands of Tenge, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Fair value measurement (continued)

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

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

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company 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

All regular way purchases and sales of financial assets and liabilities are recognised on the trade date i.e. the date that the Company commits to purchase the asset or liability. Regular way purchases or sales are purchases or sales of financial assets and liabilities that require delivery of assets and liabilities within the period generally established by regulation or convention in the marketplace.

Initial measurement

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

Measurement categories of financial assets and liabilities

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

- Amortised cost;
- FVOCI;
- FVPL.

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

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

Amounts due from credit institutions and loans to customers at amortised cost

The Company only measures amounts due from credit institutions, loans to customers and other financial investments at amortised cost if both of the following conditions are met:

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

The details of these conditions are outlined below.

3. Summary of significant accounting policies (continued)

Financial assets and liabilities (continued)

Initial recognition (continued)

Business model assessment

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

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

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

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

The SPPI test

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

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

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

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

Debt instruments at FVOCI

From 1 January 2018, the Company applies the new category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets;
- The contractual terms of the financial asset meet the SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in other comprehensive income. Interest revenue and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. On derecognition, cumulative gains or losses previously recognised in other comprehensive incomeare reclassified from other comprehensive income to profit or loss.

The expected credit losses (ECL) for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in other comprehensive income as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in other comprehensive income is recycled to the profit and loss upon derecognition of the asset.

(in thousands of Tenge, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Financial assets and liabilities (continued)

Initial recognition (continued)

Credit related commitments

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Company is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

Reclassification of financial assets and liabilities

The Company does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Company changes the business model for managing financial assets. Financial liabilities are never reclassified. The Company did not reclassify any of its financial assets and liabilities in 2019.

Cash and cash equivalents

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

Derivative financial instruments

In the normal course of business, the Company enters into various derivative financial instruments, including forwards and swaps on currency markets to reduce foreign exchange risk exposure. Such financial instruments are held for trading and are recorded at fair value. The fair value is estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the statement of comprehensive income within net loss on transactions with financial instruments at fair value through profit or loss.

Borrowings

Borrowings are classified as liabilities, where the substance of the contractual arrangement results in the Company having an obligation to deliver cash or another financial asset to the holder. Such instruments include amounts due to credit institutions. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the borrowings are derecognised as well as through the amortisation process.

Offsetting of financial instruments

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

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

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

Renegotiated loans

The Company will seek to restructure loans in cases where a borrower is unable to maintain to an agreed repayment schedule due to objective changes in circumstances, but the Company deems that the borrower is able to repay the loan in full with a modified repayment schedule. Restructuring may involve extending the payment arrangements and the agreement of new loan conditions.

3. Summary of significant accounting policies (continued)

Renegotiated loans (continued)

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

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

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

For modifications not resulting in derecognition, the Company also reassesses whether here has been a significant increase in credit risk or whether the assets should be classified as credit-impaired. Once an asset has been classified as credit-impaired as the result of modification, it will remain in Stage 3 for a minimum 2-month probation period. In order for the restructured loan to be reclassified out of Stage 3, regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period in accordance with the modified payment schedule.

Derecognition of financial assets and liabilities

Financial assets

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

- The rights to receive cash flows from the asset have expired;
- The Company has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and
- The Company 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 Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company'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 Company could be required to repay.

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

Write-off

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

Financial liabilities

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

Where an existing financial liability is replaced by another from the same 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 recognised in profit or loss.

(in thousands of Tenge, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Taxation

The current corporate income tax charge is calculated in accordance with the tax legislation of the Republic of Kazakhstan.

Deferred corporate income tax assets and liabilities are calculated in respect of all temporary differences using the liability method. Deferred corporate income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred corporate income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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

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

Property and equipment

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

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

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

	Years
Buildings	40
Computer hardware	2-7
Vehicles	5-7
Office furniture and equipment	5-25

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

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

Investment property

Investment property is land or building or a part of building held to earn rental income or for capital appreciation and which is not used by the Company or held for the sale in the ordinary course of business. Property that is being constructed or developed or redeveloped for future use as investment property is also classified as investment property.

Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value reflecting market conditions at the end of the reporting period. Fair value of the Company's investment property is determined on the base of various sources including reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value. Earned rental income is recorded in the statement of profit or loss within other income. Gains and losses resulting from changes in the fair value of investment property are recorded in profit or loss and presented within other income or other operating expense.

Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with it will flow to the Company and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to premises and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

3. Summary of significant accounting policies (continued)

Intangible assets

Intangible assets include software and are initially measured at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised over the useful economic lives from 5 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Provisions

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

Retirement and other employee benefit obligations

The Company does not have any pension arrangements separate from the State pension system of the Republic of Kazakhstan, which requires current contributions by the employer calculated as a percentage of current gross salary payments. Such expenses are charged in the period the related salaries are earned. In addition, the Company does not pay significant compensated benefits upon termination of labor activity.

Charter capital

Charter capital

Authorised capital is classified as equity. Incremental costs directly attributable to the issue of additional charter capital are recognised as a deduction from equity, net of any tax effects.

Dividends

Dividends are recognised as liabilities and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue. The ability of the Company to declare and pay dividends is subject to the rules and regulations of the Kazakhstan legislation.

Contingent asset and liabilities

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

Recognition of income and expenses

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

Interest and similar revenue and expense

The Company calculates interest revenue on debt financial assets measured at amortised cost or at FVOCI by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets. EIR 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 Company revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest revenue or expense.

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

(in thousands of Tenge, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Recognition of income and expenses (continued)

Interest and similar revenue and expense (continued)

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

Interest revenue on all financial assets at FVPL is recognised using the contractual interest rate in "Other interest revenue" in profit or loss.

Foreign currency translation

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

The official exchange rate established by KASE as at 31 December 2019 and 2018 were KZT 382.59 and KZT 384.2 to USD 1, respectively.

Standards issued but not yet effective

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

IFRS 17 Insurance Contracts

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

A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach);
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The standard is not expected to have a significant impact on the Company's financial statements.

Amendments to IFRS 3: Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 *Business Combinations* to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Company will not be affected by these amendments on the date of transition.

3. Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments to the definition of material are not expected to have a significant impact on the Company's financial statements.

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

Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7 includes a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. As a result of interest rate benchmark reform, there may be uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR). This may lead to uncertainty whether a forecast transaction is highly probable and whether prospectively the hedging relationship is expected to be highly effective.

The amendments come into effect from 1 January 2020, but entities may choose to apply them earlier. The amendments are not expected to have a significant impact on the Company's financial statements.

4. Significant accounting judgements and estimates

Estimation uncertainty

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

Fair value of financial instruments

Where the fair values of financial instruments recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values.

Expected credit losses on financial assets

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

- The Company's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment.
- The segmentation of financial assets when their ECL is assessed on a collective basis.
- Development of ECL models, including the various formulae and the choice of inputs.
- Determination of associations between macroeconomic scenarios and, economic inputs, such as GDP and the effect on PDs.
- Selection of forward-looking macroeconomic scenarios and their probability weightings to derive the economic inputs into the ECL models.

The amount of ECL allowance recognised in the statement of financial position at 31 December 2019 was KZT 5,367,803 thousand (2018: KZT 3,004,687 thousand). More details are provided in *Notes 6 and 18*.

(in thousands of Tenge, unless otherwise indicated)

4. Significant accounting judgements and estimates (continued)

Taxation

The Republic of Kazakhstan currently has a single Tax Code that regulates main taxation matters. The existing taxes include value added tax, corporate income tax, social and other taxes. Implementing regulations are often unclear or nonexistent and insignificant amount of precedents has been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organisations; thus creating uncertainties and areas of conflict. Tax returns, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and forfeits. These facts create tax risks in Kazakhstan substantially more significant than typically found in countries with more developed tax systems.

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

5. Cash and cash equivalents

	31 December 2019	*31 December 2018*
Cash on hand	**50,497**	34,788
Cash in transit	**115,861**	32,031
Current accounts with banks	**260,334**	299,077
Term deposits with banks	**8,677,597**	6,829,234
	9,104,289	7,195,130
Less: ECL allowance	**(48,379)**	(36,631)
Cash and cash equivalents	**9,055,910**	7,158,499

All balances of cash equivalents are allocated to Stage 1 for ECL measurement purposes. An analysis of changes in the ECL allowances during 2019 is as follows:

	2019	*2018*
ECL allowance as at 1 January 2019	**36,631**	21,946
Changes in ECL	**11,748**	14,685
At 31 December 2019	**48,379**	36,631

Concentration of cash and cash equivalents

As at 31 December 2019 and 2018, the Company has accounts with one bank which balances exceed 10% of total equity. The total aggregate balance with the above counterparty as at 31 December 2019 amounts to KZT 4,163,287 thousand (31 December 2018: KZT 3,110,153 thousand).

6. Loans to customers

Loans to customers comprise:

	31 December 2019	*31 December 2018*
Retail trade, services and production loans	**70,123,667**	61,282,420
Agricultural loans	**48,655,248**	41,383,172
Consumer loans	**19,384,345**	17,716,160
Total loans to customers	**138,163,260**	120,381,752
Less: ECL allowance	**(5,367,803)**	(3,004,687)
Loans to customers	**132,795,457**	117,377,065

As at 31 December 2019 and 2018, loans to customers mainly comprise loans issued to individuals.

(in thousands of Tenge, unless otherwise indicated)

6. Loans to customers (continued)

ECL allowance of loans to customers

An analysis of changes in gross carrying value and corresponding ECL allowance on amounts in the context of commercial financing in retail trade, services and production during the year ended 31 December 2019 is as follows:

Retail trade, services and production loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2019	58,875,858	294,089	2,112,473	61,282,420
New assets originated or purchased	**98,547,262**	**–**	**–**	**98,547,262**
Assets repaid	**(90,244,035)**	**(255,328)**	**(959,896)**	**(91,459,259)**
Net change in accrued interest	**1,243,112**	**118,957**	**672,453**	**2,034,522**
Transfers to Stage 1	**1,835,961**	**(361,578)**	**(1,474,383)**	**–**
Transfers to Stage 2	**(2,288,600)**	**2,296,284**	**(7,684)**	**–**
Transfers to Stage 3	**(2,022,259)**	**(1,857,447)**	**3,879,706**	**–**
Changes to contractual cash flows due to modifications not resulting in derecognition	**31,700**	**(1,362)**	**3,313**	**33,651**
Recoveries	**–**	**–**	**141,263**	**141,263**
Amounts written off	**–**	**–**	**(456,192)**	**(456,192)**
At 31 December 2019	**65,978,999**	**233,615**	**3,911,053**	**70,123,667**

Retail trade, services and production loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL allowance as at 1 January 2019	(396,908)	(138,389)	(1,464,834)	(2,000,131)
New assets originated or purchased	**(563,307)**	**–**	**–**	**(563,307)**
Assets repaid	**727,365**	**151,194**	**781,722**	**1,660,281**
Transfers to Stage 1	**(1,050,604)**	**171,222**	**879,382**	**–**
Transfers to Stage 2	**628,222**	**(632,855)**	**4,633**	**–**
Transfers to Stage 3	**117,931**	**903,912**	**(1,021,843)**	**–**
Impact on period end ECL of exposures transferred between stages during the period	**1,048,207**	**(474,590)**	**(1,211,726)**	**(638,109)**
Unwinding of discount	**–**	**–**	**(470,685)**	**(470,685)**
Changes to contractual cash flows due to modifications not resulting in derecognition	**343**	**589**	**(2,124)**	**(1,192)**
Changes to inputs used for ECL calculations	**(1,023,593)**	**(92,331)**	**(633,452)**	**(1,749,376)**
Recoveries	**–**	**–**	**(141,263)**	**(141,263)**
Amounts written off	**–**	**–**	**456,192**	**456,192**
At 31 December 2019	**(512,344)**	**(111,248)**	**(2,823,998)**	**(3,447,590)**

An analysis of changes in gross carrying value and corresponding ECL allowance on amounts in the context of agricultural financing during the year ended 31 December 2019 is as follows:

Agricultural loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2019	40,392,537	120,403	870,232	41,383,172
New assets originated or purchased	**63,610,219**	**–**	**–**	**63,610,219**
Assets repaid	**(56,574,791)**	**(195,524)**	**(561,075)**	**(57,331,390)**
Net change in accrued interest	**737,964**	**52,964**	**367,459**	**1,158,387**
Transfers to Stage 1	**856,438**	**(322,719)**	**(533,719)**	**–**
Transfers to Stage 2	**(1,505,086)**	**1,508,013**	**(2,927)**	**–**
Transfers to Stage 3	**(939,473)**	**(970,846)**	**1,910,319**	**–**
Changes to contractual cash flows due to modifications not resulting in derecognition	**31,294**	**(38)**	**1,275**	**32,531**
Recoveries	**–**	**–**	**33,735**	**33,735**
Amounts written off	**–**	**–**	**(231,406)**	**(231,406)**
At 31 December 2019	**46,609,102**	**192,253**	**1,853,893**	**48,655,248**

(in thousands of Tenge, unless otherwise indicated)

6. Loans to customers (continued)

ECL allowance of loans to customers (continued)

Agricultural loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL allowance as at 1 January 2019	(94,465)	(46,251)	(528,418)	(669,134)
New assets originated or purchased	**(143,248)**	**–**	**–**	**(143,248)**
Assets repaid	**187,057**	**94,451**	**376,198**	**657,706**
Transfers to Stage 1	**(406,609)**	**116,702**	**289,907**	**–**
Transfers to Stage 2	**246,987**	**(248,637)**	**1,650**	**–**
Transfers to Stage 3	**20,624**	**398,082**	**(418,706)**	**–**
Impact on period end ECL of exposures transferred between stages during the period	**415,856**	**(335,203)**	**(602,126)**	**(521,473)**
Unwinding of discount	**–**	**–**	**(177,039)**	**(177,039)**
Changes to contractual cash flows due to modifications not resulting in derecognition	**(7)**	**30**	**(762)**	**(739)**
Changes to inputs used for ECL calculations	**(374,965)**	**(51,451)**	**(335,392)**	**(761,808)**
Recoveries	**–**	**–**	**(33,735)**	**(33,735)**
Amounts written off	**–**	**–**	**231,406**	**231,406**
At 31 December 2019	**(148,770)**	**(72,277)**	**(1,197,017)**	**(1,418,064)**

An analysis of changes in gross carrying value and corresponding ECL allowance on amounts in the context of consumer financing during the year ended 31 December 2019 is as follows:

Consumer loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2019	17,203,335	55,601	457,224	17,716,160
New assets originated or purchased	**26,430,240**	**–**	**–**	**26,430,240**
Assets repaid	**(24,638,056)**	**(147,266)**	**(340,284)**	**(25,125,606)**
Net change in accrued interest	**284,774**	**50,450**	**160,958**	**496,182**
Transfers to Stage 1	**437,728**	**(241,191)**	**(196,537)**	**–**
Transfers to Stage 2	**(854,161)**	**854,161**	**–**	**–**
Transfers to Stage 3	**(244,711)**	**(508,784)**	**753,495**	**–**
Changes to contractual cash flows due to modifications not resulting in derecognition	**10,790**	**(88)**	**(72)**	**10,630**
Recoveries	**–**	**–**	**21,734**	**21,734**
Amounts written off	**–**	**–**	**(164,995)**	**(164,995)**
At 31 December 2019	**18,629,939**	**62,883**	**691,523**	**19,384,345**

Consumer loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL allowance as at 1 January 2019	(55,306)	(18,181)	(261,935)	(335,422)
New assets originated or purchased	**(80,599)**	**–**	**–**	**(80,599)**
Assets repaid	**106,495**	**50,612**	**199,259**	**356,366**
Transfers to Stage 1	**(139,540)**	**63,211**	**76,329**	**–**
Transfers to Stage 2	**91,622**	**(91,622)**	**–**	**–**
Transfers to Stage 3	**6,527**	**161,652**	**(168,179)**	**–**
Impact on period end ECL of exposures transferred between stages during the period	**146,526**	**(157,337)**	**(194,203)**	**(205,014)**
Unwinding of discount	**–**	**–**	**(66,152)**	**(66,152)**
Changes to contractual cash flows due to modifications not resulting in derecognition	**(6)**	**36**	**22**	**52**
Changes to inputs used for ECL calculations	**(140,242)**	**(29,132)**	**(145,267)**	**(314,641)**
Recoveries	**–**	**–**	**(21,734)**	**(21,734)**
Amounts written off	**–**	**–**	**164,995**	**164,995**
At 31 December 2019	**(64,523)**	**(20,761)**	**(416,865)**	**(502,149)**

(in thousands of Tenge, unless otherwise indicated)

6. Loans to customers (continued)

ECL allowance of loans to customers (continued)

An analysis of changes in gross carrying value and corresponding ECL allowance on amounts in the context of commercial financing in retail trade, services and production during the year ended 31 December 2018 is as follows:

Retail trade, services and production loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2018	44,232,082	401,081	1,081,713	45,714,876
New assets originated or purchased	91,832,232	–	–	91,832,232
Assets repaid	(76,958,006)	(161,871)	(580,700)	(77,700,577)
Net change in accrued interest	1,445,775	118,700	439,282	2,003,757
Transfers to Stage 1	912,001	(485,194)	(426,807)	–
Transfers to Stage 2	(1,864,225)	1,897,732	(33,507)	–
Transfers to Stage 3	(745,979)	(1,476,748)	2,222,727	–
Changes to contractual cash flows due to modifications not resulting in derecognition	21,978	389	203	22,570
Recoveries	–	–	42,283	42,283
Amounts written off	–	–	(632,721)	(632,721)
At 31 December 2018	58,875,858	294,089	2,112,473	61,282,420

Retail trade, services and production loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL allowance as at 1 January 2018	(190,185)	(207,854)	(654,292)	(1,052,331)
New assets originated or purchased	(290,165)	–	–	(290,165)
Assets repaid	352,006	114,518	427,157	893,681
Transfers to Stage 1	(517,303)	250,931	266,372	–
Transfers to Stage 2	501,168	(522,630)	21,462	–
Transfers to Stage 3	44,251	761,817	(806,068)	–
Impact on period end ECL of exposures transferred between stages during the period	493,546	(453,506)	(574,312)	(534,272)
Unwinding of discount	–	–	(242,632)	(242,632)
Changes to contractual cash flows due to modifications not resulting in derecognition	(394)	(190)	(200)	(784)
Changes to inputs used for ECL calculations	(789,832)	(81,475)	(492,506)	(1,363,813)
Recoveries	–	–	(42,283)	(42,283)
Amounts written off	–	–	632,468	632,468
At 31 December 2018	(396,908)	(138,389)	(1,464,834)	(2,000,131)

An analysis of changes in gross carrying value and corresponding ECL allowance on amounts in the context of agricultural financing during the year ended 31 December 2018 is as follows:

Agricultural loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2018	27,872,754	123,863	320,879	28,317,496
New assets originated or purchased	57,513,828	–	–	57,513,828
Assets repaid	(45,078,092)	(88,691)	(250,017)	(45,416,800)
Net change in accrued interest	937,388	31,337	164,585	1,133,310
Transfers to Stage 1	284,645	(124,474)	(160,171)	–
Transfers to Stage 2	(743,697)	745,607	(1,910)	–
Transfers to Stage 3	(410,145)	(567,254)	977,399	–
Changes to contractual cash flows due to modifications not resulting in derecognition	15,856	15	1,868	17,739
Recoveries	–	–	7,248	7,248
Amounts written off	–	–	(189,649)	(189,649)
At 31 December 2018	40,392,537	120,403	870,232	41,383,172

(in thousands of Tenge, unless otherwise indicated)

6. Loans to customers (continued)

ECL allowance of loans to customers (continued)

Agricultural loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL allowance as at 1 January 2018	(55,942)	(49,650)	(159,398)	(264,990)
New assets originated or purchased	(88,210)	–	–	(88,210)
Assets repaid	112,808	44,536	148,900	306,244
Transfers to Stage 1	(135,739)	50,780	84,959	–
Transfers to Stage 2	138,874	(139,992)	1,118	–
Transfers to Stage 3	10,359	235,512	(245,871)	–
Impact on period end ECL of exposures transferred between stages during the period	129,447	(166,794)	(271,998)	(309,345)
Unwinding of discount	–	–	(65,972)	(65,972)
Changes to contractual cash flows due to modifications not resulting in derecognition	(82)	(5)	(1,039)	(1,126)
Changes to inputs used for ECL calculations	(205,980)	(20,638)	(201,518)	(428,136)
Recoveries	–	–	(7,248)	(7,248)
Amounts written off	–	–	189,649	189,649
At 31 December 2018	(94,465)	(46,251)	(528,418)	(669,134)

An analysis of changes in gross carrying value and corresponding ECL allowance on amounts in the context of consumer financing during the year ended 31 December 2018 is as follows:

Consumer loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2018	14,101,614	72,291	287,349	14,461,254
New assets originated or purchased	24,279,465	–	–	24,279,465
Assets repaid	(21,195,970)	(39,238)	(213,755)	(21,448,963)
Net change in accrued interest	408,930	32,098	117,427	558,455
Transfers to Stage 1	174,744	(81,867)	(92,877)	–
Transfers to Stage 2	(460,608)	461,603	(995)	–
Transfers to Stage 3	(111,396)	(389,334)	500,730	–
Changes to contractual cash flows due to modifications not resulting in derecognition	6,556	48	(212)	6,392
Recoveries	–	–	4,124	4,124
Amounts written off	–	–	(144,567)	(144,567)
At 31 December 2018	17,203,335	55,601	457,224	17,716,160

Consumer loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL allowance as at 1 January 2018	(33,800)	(26,229)	(134,734)	(194,763)
New assets originated or purchased	(43,984)	–	–	(43,984)
Assets repaid	69,333	18,017	114,745	202,095
Transfers to Stage 1	(72,510)	28,480	44,030	–
Transfers to Stage 2	78,754	(79,269)	515	–
Transfers to Stage 3	3,116	141,136	(144,252)	–
Impact on period end ECL of exposures transferred between stages during the period	69,855	(88,193)	(88,878)	(107,216)
Unwinding of discount	–	–	(48,768)	(48,768)
Changes to contractual cash flows due to modifications not resulting in derecognition	(25)	(19)	75	31
Changes to inputs used for ECL calculations	(126,045)	(12,104)	(145,111)	(283,260)
Recoveries	–	–	(4,124)	(4,124)
Amounts written off	–	–	144,567	144,567
At 31 December 2018	(55,306)	(18,181)	(261,935)	(335,422)

(in thousands of Tenge, unless otherwise indicated)

6. Loans to customers (continued)

Modified and restructured loans

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

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

	2019	***2018***
Loans to customers modified during the period		
Amortised cost before modification	**16,048,550**	4,926,088
Net gain on modification of loans to customers not resulting in derecognition	**76,812**	46,701

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- Guarantees;
- Inventory;
- Real estate;
- Vehicles;
- Other.

Recoverability of loans mainly depends on creditworthiness of the borrower rather than on collateral. The Company's policy provides for foreclosure by selling the collateral in exceptional cases. This is supported by previous experience of obtaining and selling the collateral in the event of the borrower's inability to meet its obligations to the Company at maturity. Thus, in many cases, the Company believes that the value of collateral should not be taken into account when assessing the impairment, and comes from the fact that the collateral has zero financial impact for credit risk mitigation.

Concentration of loans to customers

As at 31 December 2019 and 2018, the Company has no borrowers or groups of interrelated borrowers whose loan balances exceed 10% of equity. In accordance with the legislation of the Republic of Kazakhstan, the maximum loan amount issued by microfinance organizations as at 31 December 2019 was KZT 20,200 thousand (31 December 2018: KZT 19,240 thousand).

7. Investment property

The movements in investment property were as follows:

	2019	***2018***
As at 1 January	**147,867**	–
Transfer from property and equipment *(Note 8)*	**18,892**	147,867
Sale	**(45,000)**	–
Revaluation surplus	**11,506**	–
Revaluation shortage	**(69,455)**	–
As at 31 December	**63,810**	147,867

In January 2019, the Company decided to lease an office building and land at Uzynagash village, 44 Tole bi street. In connection with the change in the intended use of this facility, the Company reclassified the building and land as investment property.

In January 2019, the Company engaged Market Consulting LLP, an independent appraiser to determine the market value of the building and land in Uzynagash village. According to the results of the assessment, the total value of these real estate amounted to KZT 18,892 thousand. Fair value was determined based on the value of similar properties offered on the market.

(in thousands of Tenge, unless otherwise indicated)

7. Investment property (continued)

As at the date of transfer, the amount of positive difference between the carrying amount of the land plot in Uzynagash village in accordance with IAS 16 and its fair value in the amount of KZT 9.959 thousand before income tax was recognized in other comprehensive income. Impairment expense for a building Uzynagash in the amount of KZT 24,991 thousand is recognized in profit or loss as other expenses.

On 29 November 2019, the Company sold investment property with a carrying amount of KZT 65,637 thousand located at Taraz, 187 Bayzak Batyr street.

Upon derecognition of the asset, the gain from its revaluation included in the capital in the amount of KZT 36,642 thousand was transferred to retained earnings of the reporting year.

In December 2019, the Company re-evaluated investment property, with the involvement of an independent appraisal company, Market Consulting LLP. Based on the results of the revaluation, the Company recognized a net loss in the amount of KZT 37,312 thousand in profit or loss as other expenses.

During 2018, the Company decided to lease buildings and land located in Taldykorgan, 245A Abay street and Taraz, 187 Bayzak Batyr street under operating lease agreements. Due to change of the intended use of these assets accounted as property and equipment, the Company reclassified land and buildings to investment property.

In August 2018, the Company engaged Market Consulting LLP, an independent appraiser, which assessed the market value of the building and land in Taldykorgan in the amount of KZT 82,230 thousand. In October 2018, the Company engaged Evaluation Standart LLP, an independent appraiser, which assessed the market value of the building and land in Taraz in the amount of KZT 65,637 thousand. The fair value of the investment property was determined based on comparative approach.

As at the date of transfer the total amount of positive difference between the carrying amount of the property in accordance with IAS 16 and its fair value equal to KZT 123,714 thousand before corporate income tax was recognised in other comprehensive income.

	2019	***2018***
Rental income derived from investment property	**16,644**	3,002
Total	**16,644**	3,002

The Company has no restrictions on sale of its investment properties and no contractual obligations to either purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

(in thousands of Tenge, unless otherwise indicated)

8. Property and equipment

The movements in property and equipment were as follows:

	Land	*Buildings*	*Computer hardware*	*Vehicles*	*Office furniture and equipment*	*Construction-in-progress*	*Total*
Cost							
At 1 January 2018	81,252	2,119,232	815,731	291,645	786,928	3,898	4,098,686
Additions	–	–	357,990	114,980	228,169	200,309	901,448
Disposals	–	(366)	(72,094)	(22,340)	(26,038)	(6,498)	(127,336)
Revaluation of assets transferred to investment property *(Note 7)*	18,628	105,086	–	–	–	–	123,714
Transfer to investment property *(Note 7)*	(18,933)	(135,502)	–	–	–	–	(154,435)
Transfer between categories	–	103,781	6,734	–	3,603	(114,118)	–
At 31 December 2018	80,947	2,192,231	1,108,361	384,285	992,662	83,591	4,842,077
Additions	**178**	**8,299**	**243,917**	**71,284**	**226,063**	**137,626**	**687,367**
Disposals	**(226)**	**(39,996)**	**(67,253)**	**(39,346)**	**(71,978)**	**(4,539)**	**(223,338)**
Revaluation of assets transferred to investment property *(Note 7)*	**9,959**	**–**	**–**	**–**	**–**	**–**	**9,959**
Transfer to investment property *(Note 7)*	**(10,000)**	**(8,892)**	**–**	**–**	**–**	**–**	**(18,892)**
Transfer between categories	**1,823**	**171,179**	**7,528**	**627**	**5,067**	**(186,224)**	**–**
At 31 December 2019	**82,681**	**2,322,821**	**1,292,553**	**416,850**	**1,151,814**	**30,454**	**5,297,173**
Accumulated depreciation							
At 1 January 2018	–	(110,344)	(332,592)	(94,343)	(243,091)	–	(780,370)
Depreciation charge	–	(46,667)	(190,643)	(52,025)	(115,670)	–	(405,005)
Disposals	–	–	67,393	16,869	21,717	–	105,979
Transfer to investment property *(Note 7)*	–	6,568	–	–	–	–	6,568
At 31 December 2018	–	(150,443)	(455,842)	(129,499)	(337,044)	–	(1,072,828)
Depreciation charge	**–**	**(51,234)**	**(221,501)**	**(67,634)**	**(151,672)**	**–**	**(492,041)**
Disposals	**–**	**4,070**	**63,959**	**32,578**	**62,777**	**–**	**163,384**
Transfer to investment property *(Note 7)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**
At 31 December 2019	**–**	**(197,607)**	**(613,384)**	**(164,555)**	**(425,939)**	**–**	**(1,401,485)**
Net carrying amount							
At 31 December 2017	81,252	2,008,888	483,139	197,302	543,837	3,898	3,318,316
At 31 December 2018	80,947	2,041,788	652,519	254,786	655,618	83,591	3,769,249
At 31 December 2019	**82,681**	**2,125,214**	**679,169**	**252,295**	**725,875**	**30,454**	**3,895,688**

As at 31 December 2019, the cost of fully depreciated property and equipment in use of the Company amounted to KZT 24,170 thousand (31 December 2018: KZT 19,337 thousand).

(in thousands of Tenge, unless otherwise indicated)

9. Intangible assets

The movements in intangible assets were as follows:

	Software
Cost	
At 1 January 2018	387,245
Additions	114,762
Disposals	(7,656)
At 31 December 2018	494,351
Additions	**261,134**
Disposals	**(11,209)**
At 31 December 2019	**744,276**
Accumulated amortisation	
At 1 January 2018	(230,116)
Amortisation charge	(67,867)
Disposals	7,656
At 31 December 2018	(290,327)
Amortisation charge	**(83,644)**
Disposals	**11,209**
At 31 December 2019	**(362,762)**
Net carrying amount	
At 31 December 2017	157,129
At 31 December 2018	204,024
At 31 December 2019	**381,514**

10. Other assets and liabilities

Other assets comprise:

	31 December 2019	*31 December 2018*
Other financial assets		
Receivables from collector organization	**85,346**	–
Receivables from employees	**25,348**	1,557
Other	**18,886**	19,154
	129,580	20,711
ECL allowance	**(8,162)**	–
Total other financial assets	**121,418**	20,711
Other non-financial assets		
Prepayments to suppliers	**324,898**	288,667
Inventories	**134,547**	98,635
Taxes prepaid and other prepayments to budget	**14,651**	7,787
Total other non-financial assets	**474,096**	395,089
Other assets	**595,514**	415,800

(in thousands of Tenge, unless otherwise indicated)

10. Other assets and liabilities (continued)

Other liabilities comprise:

	31 December 2019	*31 December 2018*
Other financial liabilities		
Payables to employees	**1,491,846**	1,473,539
Overpayments of loans to customers	**1,192,215**	977,654
Payables to suppliers	**149,208**	184,920
Other	**17,041**	8,113
Total other financial liabilities	**2,850,310**	2,644,226
Other non-financial liabilities		
Taxes payable other than corporate income tax	**337,321**	327,207
Accrued expenses on unused vacations	**393,421**	310,939
Total other non-financial liabilities	**730,742**	638,146
Other liabilities	**3,581,052**	3,282,372

11. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	31 December 2019	*31 December 2018*
Loans from financial institutions, other than banks of OECD countries	**69,113,475**	79,325,592
Loans from local banks and financial institutions	**8,882,863**	9,535,660
Loans from banks of OECD countries	**28,476,709**	7,680,920
Amounts due to credit institutions	**106,473,047**	96,542,172

As at 31 December 2019, the Company had borrowings from two banks and five other financial institutions (31 December 2018: two banks and seven other financial institutions) which balances individually exceeded 10% of the Company's total equity. As at 31 December 2019, the total aggregate balance of liabilities to the above counteragents amounts to KZT 82,883,946 thousand (31 December 2018: KZT 85,472,489 thousand).

As at 31 December 2019 and 2018, the Company complied with all the requirements of loan agreements with credit institutions in respect of financial covenants.

12. Financial instruments at fair value through profit or loss

The Company enters into transactions with the use of derivative financial instruments for decreasing the currency risk. The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	31 December 2019			*31 December 2018*		
	Notional amount of transaction	*Fair value*		*Notional amount of transaction*	*Fair value*	
		Asset	*Liability*		*Asset*	*Liability*
Currency agreements						
Currency swaps	**7,934,850**	**–**	**(355,335)**	2,196,000	–	(81,008)
	7,934,850	**–**	**(355,335)**	2,196,000	–	(81,008)

Currency swaps

Currency swaps are contractual agreements between two parties to exchange notional principal and interest amounts in two currencies at specified future payment dates and fixed exchange rates.

As at 31 December 2019, the Company had a Tenge denominated loan in the amount of KZT 2,196,000 thousand received from a local bank and security deposits denominated in US Dollars in the amount of USD 5,739 thousand, which serve as security against this loan (31 December 2018: Tenge denominated loans received from a local bank in the amount of KZT 2,196,000 thousand and security deposits denominated in US Dollars in the amount USD 5,716 thousand). Since the contractual effect of these loans and deposits is equivalent to a currency swap, the said transactions have been netted and are treated as a derivative. Also as at 31 December 2019, the Company had a currency swap agreement with an international organization in the amount of USD 15,000 thousand with the condition on exchange for KZT 5,804,700 thousand.

(in thousands of Tenge, unless otherwise indicated)

12. Financial instruments at fair value through profit or loss (continued)

Currency swaps (continued)

Net loss from financial instruments at fair value through profit or loss in the statement of comprehensive income in 2019 include loss from changes in fair value of currency swaps in the amount of KZT 511,314 thousand (2018: loss from changes in fair value of currency swaps in the amount of KZT 77,200 thousand and forwards in the amount of KZT 54,044 thousand).

13. Taxation

The corporate income tax expense comprises:

	2019	*2018*
Current corporate income tax charge	**3,389,845**	2,717,570
Deferred tax benefit – origination and decrease of temporary differences	**(34,121)**	(63,683)
Corporate income tax expense	**3,355,724**	2,653,887

Deferred tax related to items charged or credited to other comprehensive income during the year is as follows:

	2019	*2018*
Revaluation of property and equipment reclassified to investment property	**1,992**	24,743
Corporate income tax charged to other comprehensive income	**1,992**	24,743

The Republic of Kazakhstan is the only tax jurisdiction in which the Company's income is taxable. In accordance with tax legislation the applied corporate income tax rate is 20% in 2019 and 2018.

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

	2019	*2018*
Profit before tax	**16,089,159**	12,703,706
Statutory rate	**20%**	20%
Theoretical corporate income tax expense at the statutory rate	**3,217,832**	2,540,741
Non-deductible loss from forward transactions	**–**	1,507
Non-deductible credit loss expense	**74,212**	77,072
Non-deductible other expenses	**63,680**	34,567
Corporate income tax expense	**3,355,724**	2,653,887

As at 31 December 2019, current corporate income tax liabilities amounted to KZT 45,268 thousand (31 December 2018: KZT 49,774 thousand).

Deferred tax assets and deferred tax liabilities

Temporary differences between the carrying amounts of assets and liabilities recorded in the financial statements and the amounts used for the purposes of calculation of taxable base, give rise to net deferred tax assets as at 31 December 2019 and 2018. The future tax benefits will only be received in the event that there are no changes in the legislation of Kazakhstan that adversely affect the Company's ability to utilize the above benefits in future periods.

(in thousands of Tenge, unless otherwise indicated)

13. Taxation (continued)

Deferred tax assets and deferred tax liabilities

Change in the amount of temporary differences during 2019 and 2018 may be presented as follows:

	2017	*Effect of adoption of IFRS 9*	*Origination and reversal of temporary differences in profit or loss*	*In other compre-hensive income*	*2018*	*Origination and reversal of temporary differences in profit or loss*	*In other compre-hensive income*	*2019*
Tax effect of deductible temporary differences								
ECL allowance for loans to customers	–	56,603	(56,603)	–	–	**–**	**–**	**–**
Accrued unused vacations and bonuses expenses	190,067	–	151,963	–	342,030	**14,936**	**–**	**356,966**
Accrued interest expense	4,794	–	259	–	5,053	**(3,431)**	**–**	**1,622**
Right-of-use assets	–	–	–	–	–	**10,756**	**–**	**10,756**
Other liabilities	2,437	–	(49)	–	2,388	**3,559**	**–**	**5,947**
Deferred corporate income tax assets	197,298	56,603	95,570	–	349,471	**25,820**	**–**	**375,291**
Tax effect of deductible temporary differences								
Property and equipment and intangible assets	(173,303)	–	(31,887)	–	(205,190)	**(8,322)**	**–**	**(213,512)**
Investment property	–	–	–	(24,743)	(24,743)	**16,623**	**(1,992)**	**(10,112)**
Deferred corporate income tax liabilities	(173,303)	–	(31,887)	(24,743)	(229,933)	**8,301**	**(1,992)**	**(223,624)**
Net deferred corporate income tax (liabilities)/assets	23,995	56,603	63,683	(24,743)	119,538	**34,121**	**(1,992)**	**151,667**

14. Equity

Charter capital

As at 31 December 2019 and 2018, the paid and outstanding charter capital of the Company amounted to KZT 14,430,993 thousand.

Dividends to shareholders

In accordance with Kazakhstan legislation, the Company's distributable funds are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with IFRS or the amount of profit for the year in case of the accumulated loss. Distribution will not be performed if the amount of Company's equity becomes negative as a result of the distribution, or entail the insolvency and bankruptcy of the Company.

In accordance with the requirements of Kazakhstan legislation, as at 31 December 2019 an increase in the funds available for distribution amounted to KZT 21,239,114 thousand (31 December 2018: KZT 13,996,437 thousand).

In accordance with the decision of the General Meeting of Shareholders, held on 30 March 2019, the Company declared dividends for 2018 in the amount of KZT 5,527,400 thousand (2018: dividends for 2017 in the amount of KZT 1,048,807 thousand).

In April 2019, the Company made dividends payment in cash for KZT 5,372,467 thousand after the deduction of income tax for KZT 154,933 thousand (in 2018: KZT 1,021,234 thousand after deduction of income tax for KZT 27,573 thousand).

Reserve funds

In accordance with the decision of the General Meeting of Shareholders held on 4 May 2012, the reserve fund is formed during the year and should be at least 5% of the charter capital at the beginning of the reporting year.

In 2018, the Supervisory Board of the Company approved the transfer to the amount of KZT 298,491 thousand from retained earnings to reserve fund. As at 31 December 2019 and 2018, the reserve fund amounted to KZT 721,550 thousand.

(in thousands of Tenge, unless otherwise indicated)

15. Commitments and contingencies

Political and economic environment

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

Insurance

The insurance industry in the Republic of Kazakhstan is in a developing stage and many forms of insurance protection common in other parts of the world are not yet generally available. The Company does not have full coverage for business interruption, or third party liability in respect of property or environmental damage arising from accidents on the Company property or relating to the Company operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position of the Company.

Legal issues

In the ordinary course of business, the Company is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Company.

Tax contingencies

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

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

Because of the uncertainties associated with the Kazakhstan tax system, the ultimate amount of taxes, penalties and fines, if any, may be in excess of the amount expensed to date and accrued at 31 December 2019. Although such amounts are possible and may be material, it is the opinion of the Company's management that these amounts are either not probable, not reasonably determinable, or both.

Commitments and contingencies

The Company has contingent liabilities to provide credit resources. These credit related contingencies provide for issuance of credit resources in the form of approved credit facilities.

In providing credit related contingencies, the Company applies the same risk management policies and procedures used when issuing loans to customers.

The contractual amounts of credit related contingencies are set out in the table by category. The amounts reflected in the table for credit related contingencies assume that the indicated contingencies will be fully settled.

	31 December 2019	*31 December 2018*
Credit related commitments		
Undrawn loan commitments	**13,955,990**	11,345,382
	13,955,990	11,345,382
Operating lease commitments		
Not later than 1 year	–	203,155
1 to 5 years	–	849,053
	–	1,052,208
Commitments and contingencies	**13,955,990**	12,397,590

(in thousands of Tenge, unless otherwise indicated)

15. Commitments and contingencies (continued)

Commitments and contingencies (continued)

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

As a result of this contingency, the above does not necessarily represent the future cash outflow. Measurement of credit loss allowance for such facilities is made only for issued loan tranches.

16. Credit loss expense

Credit loss expense on financial assets for 2019 is presented as follows:

		2019			
	Note	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Cash and cash equivalents	5	**(11,748)**	**–**	**–**	**(11,748)**
Amounts due from credit institutions		**168**	**–**	**–**	**168**
Loans to customers	6	**305,882**	**(843,132)**	**(1,767,851)**	**(2,305,101)**
Other financial assets		**(8,162)**	**–**	**–**	**(8,162)**
Credit loss expense		**286,140**	**(843,132)**	**(1,767,851)**	**(2,324,843)**

Credit loss expense on financial assets for 2018 is presented as follows:

		2018			
	Note	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Cash and cash equivalents	5	(14,685)	–	–	(14,685)
Amounts due from credit institutions		(649)	–	–	(649)
Loans to customers	6	(317,722)	(645,853)	(1,084,685)	(2,048,260)
Credit loss expense		(333,056)	(645,853)	(1,084,685)	(2,063,594)

17. Personnel and other operating expenses

	2019	***2018***
Payroll, bonuses and other taxes	**9,247,273**	8,249,714
Social taxes and deductions	**875,095**	721,273
Personnel expenses	**10,122,368**	8,970,987
Professional services	**1,143,485**	731,228
Depreciation and amortisation *(Notes 3, 8 and 9)*	**1,007,345**	472,872
Security	**269,677**	220,951
VAT expense	**260,642**	244,904
Communication and information services	**240,005**	202,764
Taxes other than corporate income tax	**221,291**	123,029
Office supplies	**202,624**	205,070
Lease	**180,746**	636,834
Business trip expenses	**168,305**	150,510
Bank fees	**126,145**	121,256
Advertising and marketing	**107,887**	168,268
Transportation expenses	**91,202**	91,327
Repair and maintenance	**79,287**	65,389
Encashment	**78,016**	67,619
Expenses for corporate events	**46,289**	42,577
Insurance	**45,118**	40,322
Trainings for personnel	**33,965**	27,527
Membership fees	**16,265**	12,260
Charity	**16,106**	24,413
Other	**47,993**	76,339
Other operating expenses	**4,382,393**	3,725,459

(in thousands of Tenge, unless otherwise indicated)

18. Risk management

Introduction

Risk management is inherent in the Company's activities and is an essential element of the Company's operations. Market risk, which includes interest rate risk and foreign exchange risk, credit risk and liquidity risk, form the major risk faced by the Company in the course of its activities. The Company's risk management policies aim to identify, analyse and manage the risks faced by the Company, to set appropriate risk limits and controls, and to monitor continuously risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

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

Risk management structure

Supervisory Board

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

Board Risk Committee

The Risk Committee has the overall responsibility for the development of the risk strategy and principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

Board Audit Committee

The main purpose of the Audit Committee is to assist the effective implementation of control functions over the financial and economic activities of the Company by the Supervisory Board, evaluate the adequacy of the internal control system, and monitor the effectiveness of internal and external audit activities.

Management Board

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

Executive Assets and Liability Management Committee (ALCO)

The management level Assets and Liability Management Committee (hereinafter – "ALCO") of the Company is responsible for the overall assets and liability management, for control of prudential norms and covenants, for managing funding strategy, for managing and reporting on financial and non-financial risks.

Treasury

The Company's Treasury is responsible for carrying out the transactional aspects of assets and liability management and for managing the balance sheet structure. It is also primarily responsible for implementing the funding and liquidity strategy of the Company.

Internal control (audit)

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

Risk measurement and reporting systems

Credit, market and liquidity risks are managed and controlled through a system of Credit Committees and the ALCO, both at the portfolio and individual transaction levels. For improving the efficiency of decision-making process, the Company has established a hierarchy of credit committees depending on the type and amount of risk exposure. Both external and internal risk factors are identified and managed throughout the organisational structure of the Company.

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

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

(in thousands of Tenge, unless otherwise indicated)

18. Risk management (continued)

Introduction (continued)

Risk management structure (continued)

Risk mitigation

As part of its overall risk management, the Company uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies and exposures arising from forecast transactions.

Excessive risk concentration

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

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

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market prices. Market risks comprise currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return on risk.

The ALCO headed by the Chairman of the Management Board is responsible for market risk management.

Interest rate risk

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

Interest rate sensitivity analysis

The management of interest rate risk, based on an interest rate gap analysis, is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of the sensitivity of profit or loss before taxes and equity to changes in interest rates (interest rate risk), based on a simplified scenario of a 100 basis point symmetrical fall or rise in all positions of interest – bearing assets and liabilities with floating interest rate existing as at 31 December 2019 and 2018, is as follows:

	2019		***2018***	
	Effect on profit before tax	***Effect on equity***	***Effect on profit before tax***	***Effect on equity***
100 basis point parallel increase	**(78,160)**	**–**	(62,644)	–
100 basis point parallel decrease	**78,160**	**–**	62,644	–

(in thousands of Tenge, unless otherwise indicated)

18. Risk management (continued)

Market risk (continued)

Currency risk

Currency risk is the risk that the fair value of a financial instrument will fluctuate because of changes in foreign exchange rates.

The amounts in USD are presented below:

	31 December 2019	*31 December 2018*
Assets		
Cash and cash equivalents	**366,338**	562,356
Amounts due from credit institutions	**–**	7,684
Total assets	**366,338**	570,040
Liabilities		
Amounts due to credit institutions	**8,374,075**	2,800,570
Other liabilities	**3,170**	–
Total liabilities	**8,377,245**	2,800,570
Net position	**(8,010,907)**	(2,230,530)
Impact of derivative financial instruments held for the purpose of risk management	**7,934,850**	2,196,000
Net position adjusted for impact of derivative financial instruments held for the purpose of risk management	**(76,057)**	(34,530)

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

	2019			
Currency	***Change in exchange rates in %***	***Effect on profit before tax***	***Change in exchange rates in %***	***Effect on profit before tax***
US Dollar	**12.00%**	**(9,127)**	**-10.00%**	**7,606**

	2018			
Currency	***Change in exchange rates in %***	***Effect on profit before tax***	***Change in exchange rates in %***	***Effect on profit before tax***
US Dollar	14.00%	(4,834)	-10.00%	3,453

Credit risk

Credit risk is the risk that the Company will incur a loss because its customers or counterparties failed to discharge their contractual obligations. The Company manages and controls credit risk by using the approved policies and procedures that include the requirements for setting limits on concentration of the risk exposure and establishment of the credit committees, the functions of which include active monitoring of credit risks. The credit policy is approved by the General Meeting of Shareholders.

(in thousands of Tenge, unless otherwise indicated)

18. Risk management (continued)

Credit risk (continued)

Credit policy includes the following information:

- Procedures for consideration and approval of loan applications;
- Methodology for assessing creditworthiness of borrowers;
- Methodology for evaluating proposed collateral;
- Requirements for the loan documentation;
- Procedures for ongoing monitoring of loans and other products exposed to the credit risk.

The Company monitors individual loans and other credit risks on an ongoing basis.

In addition to the analysis of individual borrowers, the Company evaluates the total loan portfolio in terms of the credit and market risk exposure.

The maximum level of the Company's credit risk is best reflected in the carrying value of financial assets in the statement of financial position and amounts of unrecognized contractual obligations. The possibility of offsetting assets and liabilities is not material for reducing potential credit risk.

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

Impairment assessment

The Company calculates ECL on a group basis according to the mirgation matrix adjusted for the impact of the macroeconomic factors to measure the expected cash shortfalls, discounted at an approximation to the EIR or its approximate value. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. The mechanics of the ECL calculations are outlined below and the key elements are as follows:

Probability of Default (PD)

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

Exposure at Default (EAD)

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

Loss Given Default (LGD)

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

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

18. Risk management (continued)

Credit risk (continued)

Impairment assessment (continued)

Loss Given Default (LGD) (continued)

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

Stage 1: When loans are first recognised, the Company recognises an allowance based on 12mECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2 and/or Stage 3.

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

Stage 3: Loans considered credit-impaired. The Company records an allowance for the LTECL.

POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest revenue is subsequently recognised based on a credit-adjusted EIR. ECL are only recognised or released to the extent that there is a subsequent change in the lifetime expected credit losses. During 2019 and 2018 and as at 31 December 2019 and 2018, the Company did not have any POCI loans.

Definition of default and cure

The Company considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in the following cases:

- The borrower becomes 90 days past due on its contractual payments;
- The borrower is deceased;
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral;
- Suspension of accrual of interests on the loan because of deterioration of the borrower's financial condition or filing a lawsuit;
- The loan is restructured because of deterioration of financial condition of the borrower;
- The borrower (or any legal entity within the borrower's group) filing for bankruptcy.

The Company considers amounts due from credit institutions defaulted and takes immediate action when by closing of the business day there is a default on the bank's obligations to pay interests and principal amount of the deposit, as well as non-execution of money transfers according to the payment orders of the Company for more than 60 days, as well downgrading of the credit ratings assigned by international rating agencies.

It is the Company's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least two consecutive months.

Exposure at default

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

The Company determines EADs by analyzing statistical information on previous repayments on each loan in order to determine the average EAD ratio by product. The PDs are then assigned to each loan depending on the region of segmentation and product according to the PD calculation model based on the migration matrix.

(in thousands of Tenge, unless otherwise indicated)

18. Risk management (continued)

Credit risk (continued)

Impairment assessment (continued)

Exposure at default (continued)

The credit facility agreements stipulate the right of the Company to unilaterally withdraw from the agreement should any conditions unfavourable to the Company arise. Thus, the agreements do not represent a firm commitment of the Company to provide a loan. Measurement of credit loss allowance for such facilities is made only for issued loan tranches.

The interest rate used to discount the ECLs for loans is based on the average effective interest rate that is expected to be charged over the expected period of exposure to the facilities.

Loss given default

LGD rates are estimated for all assets. LGD is measured at least once a year by the risk management specialists and is revised and approved by the Company's Management Board based on the results of validation of the allowance assessment models.

The credit risk assessment is based on a standardised LGD assessment framework. The LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any debt collection.

For LGD assessment purposes the Company uses historical data on the repayments of defaulted loans segmented by product type. The Company rarely faces the sale of collateral, therefore, in the LGD model, the Company does not use the expected cash flows from its sale, but uses statistical recovery payments made by the borrowers after default. Analysis of macroeconomic factors showed the absence of a linear correlation of LGD and macroeconomics. Segmentation by geographical location of borrowers as well as type pf collateral, does not provide a proper statistical result, however, the LGD model undergoes a standard annual validation process in order to determine whether new dependencies and segmentation can improve the accuracy of the model.

Significant increase in credit risk

In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Company assesses whether there has been a significant increase in credit risk since initial recognition. The Company deems that the credit risk have increased significantly since initial recognition in the following cases:

- Contractual payments are more than 30 days past due.
- Existing or projected adverse changes in business, financial or economic conditions that are expected to significantly change the borrower's ability to meet its debt obligations.
- Actual or expected adverse change in the regulatory, economic or technological environment of the borrower's operation, etc.
- Downgrading of the credit rating of a credit institution, in which there are balances on deposits and current accounts, to "CCC" level.
- Non-fulfillment by the credit institution of obligations to pay interests and principal amount on the deposit, as well as non-execution of money transfers according to the payment orders of the Company for more than 30 days.

Grouping financial assets measured on a collective basis

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

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

- Significant individual loans, subject to their transition to Stage 3, large and unique tools in the loan portfolio of small businesses.
- Treasury and interbank relationships (such as amounts due from credit institutions and cash equivalents).
- Exposures that have been classified as POCI when the original loan was derecognised and a new loan was recognised as a result of a credit driven debt restructuring.

Stage 3, significant individual loans, as well as assets placed in other credit institutions, are assessed for impairment taking into account the scenario analysis.

(in thousands of Tenge, unless otherwise indicated)

18. Risk management (continued)

Credit risk (continued)

Impairment assessment (continued)

Grouping financial assets measured on a collective basis (continued)

For all other classes of asset, the Company calculates ECL on a collective basis.

The Company groups these exposures into smaller homogeneous portfolios, based on a combination of internal and external characteristics of the loans, for example, product type and borrower's industry.

Forward-looking information and multiple economic scenarios

In its ECL models the Company uses forecasts of changes in the GDP of Kazakhstan as a macroeconomic component of the probability of default. LGD and EAD are modeled without the macroeconomic component.

The Company obtains the forward-looking information from third party sources (external rating agencies, governmental bodies e.g. national banks, and international financial institutions).

Macroeconomic forecast data affect both the main components of ECL (for example, PD assessment) and assessment of factors used for collective measurement at the stage. Other criteria for measurement at the stage (overdue debts, qualitative information) are not influenced by the information obtained from macroeconomic forecasts.

During development of the model and its subsequent validation (at least on an annual basis), both the completeness of used components of expected credit losses exposed to the significant influence of macroeconomic factors, and the significance of used macro variables are verified. This process is described in the qualitative part of the validation methodology. The results of this verification may lead to identification of additional macroeconomic factors that require forecasting.

The validation process also helps to determine the extent to which the use of a single scenario will not be sufficient due to the non-linear influence of macroeconomic factors on the estimated credit losses.

The analysis of dependence of historical PD on the level of changes in GDP showed that there is no material non-linear dependence, which allows using only 1 macroeconomic scenario when modeling PD during 2019.

Credit quality by class of financial assets

The table below presents an analysis of credit quality by class of financial assets as at 31 December 2019.

	Note		*High grade*	*Standard grade*	*Sub-standard grade*	*Impaired*	*Total*
Cash and cash equivalents, except for cash on hand	5	Stage 1	–	**9,005,413**	–	–	**9,005,413**
Amounts due from credit institutions		Stage 1	–	**30,873**	–	–	**30,873**
Loans to customers	6						
- Retail trade, services and production loans		Stage 1	–	**65,270,139**	**196,516**	–	**65,466,655**
		Stage 2	–	–	**122,367**	–	**122,367**
		Stage 3	–	–	–	**1,087,055**	**1,087,055**
- Agricultural loans		Stage 1	–	**46,325,966**	**134,366**	–	**46,460,332**
		Stage 2	–	–	**119,976**	–	**119,976**
		Stage 3	–	–	–	**656,876**	**656,876**
- Consumer loans		Stage 1	–	**18,501,843**	**63,573**	–	**18,565,416**
		Stage 2	–	–	**42,122**	–	**42,122**
		Stage 3	–	–	–	**274,658**	**274,658**
Other financial assets		Stage 1	–	**121,418**	–	–	**121,418**
Total			–	**139,255,652**	**678,920**	**2,018,589**	**141,953,161**

(in thousands of Tenge, unless otherwise indicated)

18. Risk management (continued)

Credit risk (continued)

Credit quality by class of financial assets (continued)

The table below presents an analysis of credit quality by class of financial assets as at 31 December 2018.

	Note		*High grade*	*Standard grade*	*Sub-standard grade*	*Impaired*	*Total*
Cash and cash equivalents, except for cash on hand	5	Stage 1	–	7,123,711	–	–	7,123,711
Amounts due from credit institutions		Stage 1	–	11,235	–	–	11,235
Loans to customers	6						
- Retail trade, services and production loans		Stage 1	–	58,299,257	179,693	–	58,478,950
		Stage 2	–	14,690	141,010	–	155,700
		Stage 3	–	–	–	647,639	647,639
- Agricultural loans		Stage 1	–	40,204,046	94,026	–	40,298,072
		Stage 2	–	–	74,152	–	74,152
		Stage 3	–	–	–	341,814	341,814
- Consumer loans		Stage 1	–	17,089,768	58,261	–	17,148,029
		Stage 2	–	–	37,420	–	37,420
		Stage 3	–	–	–	195,289	195,289
Other financial assets			–	20,711	–	–	20,711
Total			–	122,763,418	584,562	1,184,742	124,532,722

In the table above cash and cash equivalents (excluding cash on hand), amounts due from credit institutions and loans customers of high grade are those having a minimal level of credit risk, normally with a credit rating on or close to sovereign level or very well collateralised. Credit institutions and borrowers with good financial position and good debt service are included in the standard grade. Sub-standard grade comprises loans below standard grade but not individually impaired.

See *Note 6* for more detailed information with respect to the ECL allowance of loans to customers.

Financial guarantees, letters of credit and loan commitments are assessed and a provision for expected credit losses is calculated in similar manner as for loans.

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

	31 December 2019				*31 December 2018*			
	Kazakhstan	*OECD*	*CIS and other foreign countries*	*Total*	*Kazakhstan*	*OECD*	*CIS and other foreign countries*	*Total*
Assets								
Cash and cash equivalents	**9,055,910**	**–**	**–**	**9,055,910**	7,158,499	–	–	7,158,499
Amounts due from credit institutions	**30,873**	**–**	**–**	**30,873**	11,235	–	–	11,235
Loans to customers	**132,795,457**	**–**	**–**	**132,795,457**	117,377,065	–	–	117,377,065
Other financial assets	**121,418**	**–**	**–**	**121,418**	20,711	–	–	20,711
	142,003,658	**–**	**–**	**142,003,658**	124,567,510	–	–	124,567,510
Liabilities								
Amounts due to credit institutions	**8,882,863**	**97,590,184**	**–**	**106,473,047**	9,535,660	87,006,512	–	96,542,172
Financial instruments at fair value through profit or loss	**50,597**	**304,738**	**–**	**355,335**	81,008	–	–	81,008
Lease liabilities	**685,432**	**–**	**–**	**685,432**	–	–	–	–
Other financial liabilities	**2,845,292**	**243**	**4,775**	**2,850,310**	2,635,686	77	8,463	2,644,226
	12,464,184	**97,895,165**	**4,775**	**110,364,124**	12,252,354	87,006,589	8,463	99,267,406
Net assets/ (liabilities)	**129,539,474**	**(97,895,165)**	**(4,775)**	**31,639,534**	112,315,156	(87,006,589)	(8,463)	25,300,104

(in thousands of Tenge, unless otherwise indicated)

18. Risk management (continued)

Credit risk (continued)

Credit quality by class of financial assets (continued)

The maximum level of credit risk in respect of financial assets as of the reporting date can be represented as follows:

	31 December 2019	*31 December 2018*
Assets		
Cash and cash equivalents, except for cash on hand	**9,005,413**	7,123,711
Amounts due from credit institutions	**30,873**	11,235
Loans to customers	**132,795,457**	117,377,065
Other financial assets	**121,418**	20,711
	141,953,161	124,532,722

See *Note 15* for the maximum level of credit risk in respect of unrecognized contractual and contingent liabilities at the reporting date. See *Note 6* for details of the credit risk on loans to customers.

Operational risk

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

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the emperical maturities of assets exceed the maturities of liabilities . The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity risk management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Company maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. Liquidity management policy is reviewed and approved by the Management Board.

The Company seeks to actively support a diversified and stable funding base comprising long-term and short-term loans from other banks, as well as diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy requires:

- Projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto.
- Maintaining a diverse range of funding sources.
- Managing the concentration and profile of debts.
- Maintaining debt financing plans.
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow.
- Maintaining liquidity and funding contingency plans.
- Monitoring liquidity ratios against regulatory requirements.

(in thousands of Tenge, unless otherwise indicated)

18. Risk management (continued)

Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Company's financial liabilities as at 31 December based on contractual undiscounted repayment obligations.

31 December 2019	*On demand and less than 1 month*	*1 to 3 months*	*3 to 6 months*	*6 to 12 months*	*From 1 to 5 years*	*Total*
Financial liabilities						
Amounts due to credit institutions	**1,406,527**	**6,972,264**	**16,975,892**	**41,825,498**	**59,699,989**	**126,880,170**
Financial instruments at fair value through profit or loss	**–**	**–**	**–**	**–**	**325,152**	**325,152**
Lease liabilities	**47,274**	**141,821**	**138,285**	**162,484**	**347,337**	**837,201**
Other liabilities	**1,389,870**	**49,019**	**1,405,499**	**5,920**	**–**	**2,850,308**
Total liabilities	**2,843,671**	**7,163,104**	**18,519,676**	**41,993,902**	**60,372,478**	**130,892,831**
Credit related contingencies *(Note 15)*	**13,955,990**	**–**	**–**	**–**	**–**	**13,955,990**

31 December 2018	*On demand and less than 1 month*	*1 to 3 months*	*3 to 6 months*	*6 to 12 months*	*From 1 to 5 years*	*Total*
Financial liabilities						
Amounts due to credit institutions	2,864,305	7,795,792	17,999,161	22,113,806	66,715,338	117,488,402
Financial instruments at fair value through profit or loss	–	–	–	–	81,008	81,008
Lease liabilities	–	–	–	–	–	–
Other liabilities	1,219,819	25,200	1,399,208	–	–	2,644,227
Total liabilities	4,084,124	7,820,992	19,398,369	22,113,806	66,796,346	120,213,637
Credit related contingencies *(Note 15)*	11,345,382	–	–	–	–	11,345,382

(in thousands of Tenge, unless otherwise indicated)

19. Fair value measurements

The estimate of fair value is intended to approximate the amount for which a financial instrument can be exchanged between knowledgeable, willing parties in an arm's length transaction. However, considering the uncertainties and the use of judgements, the fair value should not be interpreted as realisable within the framework of an immediate sale of assets or the transfer of liabilities.

The estimated fair values of financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date.

Fair value hierarchy

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

	Date of valuation	*Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant non-observable inputs (Level 3)*	*Total*
31 December 2019					
Assets measured at fair value					
Investment property	1 December 2019	**–**	**–**	**63,810**	**63,810**
Assets fair value of which is disclosed					
Cash and cash equivalents	31 December 2019	**–**	**9,055,910**	**–**	**9,055,910**
Amounts due from credit institutions	31 December 2019	**–**	**30,873**	**–**	**30,873**
Loans to customers	31 December 2019	**–**	**–**	**132,638,800**	**132,638,800**
Other financial assets	31 December 2019	**–**	**–**	**121,418**	**121,418**
Liabilities measured at fair value					
Financial instruments at fair value through profit or loss	31 December 2019	**–**	**355,335**	**–**	**355,335**
Liabilities fair value of which is disclosed					
Amounts due to credit institutions	31 December 2019	**–**	**102,600,166**	**–**	**102,600,166**
Lease liabilities	31 December 2019	**–**	**–**	**685,432**	**685,432**
Other financial liabilities	31 December 2019	**–**	**–**	**2,850,310**	**2,850,310**
31 December 2018					
Assets measured at fair value					
Investment property	28 August 2018 28 December 2018	–	–	147,867	147,867
Assets fair value of which is disclosed					
Cash and cash equivalents	31 December 2018	–	7,158,499	–	7,158,499
Amounts due from credit institutions	31 December 2018	–	11,235	–	11,235
Loans to customers	31 December 2018	–	–	117,289,618	117,289,618
Other financial assets	31 December 2019	–	–	20,711	20,711
Liabilities measured at fair value					
Financial instruments at fair value through profit or loss	31 December 2018	–	81,008	–	81,008
Liabilities fair value of which is disclosed					
Amounts due to credit institutions	31 December 2018	–	93,283,849	–	93,283,849
Lease liabilities	31 December 2019	–	–	–	–
Other financial liabilities	31 December 2018	–	–	2,644,226	2,644,226

During 2019 and 2018, the Company did not make transfers between levels of the fair value hierarchy for financial instruments recorded at fair value.

(in thousands of Tenge, unless otherwise indicated)

19. Fair value measurements (continued)

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 Company'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.

	31 December 2019			*31 December 2018*		
	Carrying amount	*Fair value*	*Unrecognised gain/ (loss)*	*Carrying amount*	*Fair value*	*Unrecognised gain/ (loss)*
Financial assets						
Cash and cash equivalents	**9,055,910**	**9,055,910**	**–**	7,158,499	7,158,499	–
Amounts due from credit institutions	**30,873**	**30,873**	**–**	11,235	11,235	–
Loans to customers	**132,795,457**	**132,638,800**	**(156,657)**	117,377,065	117,289,618	(87,447)
Other financial assets	**121,418**	**121,418**	**–**	20,711	20,711	–
Financial liabilities						
Amounts due to credit institutions	**106,473,047**	**102,600,166**	**3,872,881**	96,542,172	93,283,849	3,258,323
Lease liabilities	**685,432**	**685,432**	**–**	–	–	–
Other liabilities	**2,850,310**	**2,850,310**	**–**	2,644,226	2,644,226	–
Total unrecognised change in fair value			**3,716,224**			3,170,876

Methods of measurement and assumptions

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

Assets and liabilities for which fair value approximates to carrying value

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

Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly currency swaps. The most frequently applied valuation techniques include swap models using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Financial assets and financial liabilities carried at amortised cost

The fair value of unquoted instruments, including loans to customers, amounts due to credit institutions and lease liabilities, is estimated by discounting future cash flows using rates as at measurement date for debt on similar terms, credit risk and remaining maturities.

(in thousands of Tenge, unless otherwise indicated)

20. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See *Note 18* for the Company's contractual undiscounted repayment obligations.

	31 December 2019			*31 December 2018*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Cash and cash equivalents	**9,055,910**	**–**	**9,055,910**	7,158,499	–	7,158,499
Amounts due from credit institutions	**30,873**	**–**	**30,873**	11,235	–	11,235
Loans to customers	**60,825,042**	**71,970,415**	**132,795,457**	59,008,501	58,368,564	117,377,065
Investment property	**–**	**63,810**	**63,810**	–	147,867	147,867
Property and equipment	**–**	**3,895,688**	**3,895,688**	–	3,769,249	3,769,249
Intangible assets	**–**	**381,514**	**381,514**	–	204,024	204,024
Deferred corporate income tax assets	**–**	**151,667**	**151,667**	–	119,538	119,538
Right-of-use assets	**–**	**631,654**	**631,654**	–	–	–
Other assets	**567,066**	**28,448**	**595,514**	415,800	–	415,800
Total	**70,478,891**	**77,123,196**	**147,602,087**	66,594,035	62,609,242	129,203,277
Amounts due to credit institutions	**55,637,626**	**50,835,421**	**106,473,047**	40,305,844	56,236,328	96,542,172
Financial instruments at fair value through profit or loss	**–**	**355,335**	**355,335**	81,008	–	81,008
Current corporate income tax liabilities	**45,268**	**–**	**45,268**	49,774	–	49,774
Lease liabilities	**375,511**	**309,921**	**685,432**	–	–	–
Other liabilities	**3,581,052**	**–**	**3,581,052**	3,282,372	–	3,282,372
Total	**59,639,457**	**51,500,677**	**111,140,134**	43,718,998	56,236,328	99,955,326
Net position	**10,839,434**	**25,622,519**	**36,461,953**	22,875,037	6,372,914	29,247,951

21. Related party transactions

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

Related parties may enter into transactions that are not on arms length basis. Terms, conditions and amounts of such transactions are different from the terms, conditions and amounts of the transactions with unrelated parties.

Major shareholder

Major shareholder of the Company is Corporate Fund "KMF-Demeu" (the "Fund").

The founder of the Fund is ACDI/VOCA, a non-profit organization registered in the United States of America, which prepares its financial statements available to external users.

Transactions with shareholders

Transactions with other related parties comprise transactions with the Company's shareholders and international financial institutions *(Note 1)*.

The balances and average effective interest rates as well as the corresponding gain or loss on transactions with other related parties are as follows:

	Shareholders			
	31 December 2019	*Average interest rate, %*	*31 December 2018*	*Average interest rate, %*
Statement of financial position				
Liabilities				
Amounts due to credit institutions in Tenge	**5,597,811**	**19.36%**	6,513,027	19.11%
Statement of comprehensive income				
Interest expense	**(1,079,987)**	**–**	(1,177,938)	–

(in thousands of Tenge, unless otherwise indicated)

21. Related party transactions (continued)

Transactions with members of key management personnel

Compensation to key management personnel (2019 and 2018: 9 persons) comprised the following:

	2019	*2018*
Salaries and other short-term benefits	**393,961**	336,915
Social taxes and other deductions	**28,997**	31,057
Total compensation to the key management personnel	**422,958**	367,972

For the years ended 31 December 2019 and 2018, key management personnel did not receive any non-cash remuneration.

	31 December 2019	*Average annual interest rate, %*	*31 December 2018*	*Average annual interest rate, %*
Statement of financial position				
Assets				
Loans to customers	**55,912**	**22.1%**	25,659	24.0%

Amounts included in profit or loss in relation to transactions with members of the key management personnel are as follows:

	2019	*2018*
Statement of comprehensive income		
Interest income	**11,365**	3,267

22. Changes in liabilities arising from financing activities

	1 January 2019	*Net cash flows*	*Foreign currency translation*	*Other*	*31 December 2019*
Amounts due to credit institutions	96,542,172	**10,315,361**	**(32,796)**	**(351,690)**	**106,473,047**
Total liabililities from financing activities	96,542,172	**10,315,361**	**(32,796)**	**(351,690)**	**106,473,047**

	1 January 2018	*Net cash flows*	*Foreign currency translation*	*Other*	*31 December 2018*
Amounts due to credit institutions	74,138,294	21,556,217	213,962	633,699	96,542,172
Total liabililities from financing activities	74,138,294	21,556,217	213,962	633,699	96,542,172

The “Other” line includes the effect of accrued, but not yet paid interest on amounts due to credit institutions. The Company classifies interest paid as cash flows from operating activities.

23. Capital adequacy

In accordance with the Law of the Republic of Kazakhsan *On Microcredit Organisations* dated 26 November 2012, the paid in capital of the Company has to be at least 30,000 times the monthly calculation index (MCI) equal to KZT 2,525 as at 31 December 2019 (31 December 2018: KZT 2,405).

In addition, in accordance with the credit agreements with certain foreign financial institutions, the Company must maintain a ratio of capital to total assets at the level of not less than 15%.

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

As at 31 December 2019 and 2018, the Company had complied in full with all its externally imposed capital requirements.

The primary objectives of the Company’s capital management are to ensure that the Company complies with externally imposed capital requirements and that the Company maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise profit for shareholders.

(in thousands of Tenge, unless otherwise indicated)

23. Capital adequacy (continued)

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

NBRK requires microfinance organizations to maintain a tier 1 capital adequacy ratio in the amount of not less than 0.1 times of the assets. As at 31 December 2019 and 2018, the Company's capital adequacy ratio based on the NBRK methodology exceeded the statutory minimum.

The Company's capital adequacy ratio, computed in accordance with the NBRK requirements as at 31 December, comprise:

	31 December 2019	***31 December 2018***
Tier 1 capital	**36,461,953**	29,247,951
Total assets	**147,602,087**	129,203,277
Tier 1 capital ratio	**0.25**	0.23

24. Events after the reporting period

Since March 2020, there has been significant volatility in the stock, currency and commodity markets, including a drop in oil prices and a depreciation of Tenge against US Dollar and Euro. Currently, the Company's management is analyzing the possible impact of changing micro- and macroeconomic economic conditions on the financial position and performance of the Company.

Due to the recent transient development of the coronavirus pandemic (COVID-19), many countries, including the Republic of Kazakhstan, introduced quarantine measures, which had a significant impact on the level and scale of business activity of market participants. It is expected that both the pandemic itself and measures to minimize its consequences can affect the activities of companies from various industries. The Company regards this pandemic as a non-adjusting event after the reporting period, the quantitative effect of which cannot be estimated at the moment with a sufficient degree of confidence.