“Microfinance organization “KMF” Limited Liability Company

Financial statements

For 2020
together with independent auditor’s report

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Independent auditor's report

To the Participants and 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 2020, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2020 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

Other information included in 2020 Annual Report of the Company

Other information consists of the information included in the Company's 2020 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 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.

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.

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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

Audit Qualification Certificate
№ МФ-0000286 dated 25 September 2015

Rustamzhan Sattarov
General Director
Ernst & Young LLP

State audit license for audit activities on the territory of the Republic of Kazakhstan: series МФЮ-2 No. 0000003 issued by the Ministry of Finance of the Republic of Kazakhstan on 15 July 2005

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25 March 2021

STATEMENT OF FINANCIAL POSITION

At 31 December 2020

(In thousands of tenge)

	Note	*31 December 2020*	*31 December 2019*
Assets			
Cash and cash equivalents	5	**4,815,542**	9,055,910
Amounts due from credit institutions		**23,608**	30,873
Derivative financial assets	6	**187,845**	–
Loans to customers	7	**136,313,739**	132,795,457
Investment securities	8	**4,116,045**	–
Investment property	9	**52,992**	63,810
Property and equipment	10	**7,304,210**	3,895,688
Right-of-use assets	11	**526,822**	631,654
Intangible assets	12	**432,678**	381,514
Current corporate income tax assets	15	**43,539**	–
Deferred corporate income tax assets	15	**–**	151,667
Other assets	13	**489,986**	595,514
Total assets		**154,307,006**	147,602,087
Liabilities			
Amounts due to credit institutions	14	**101,827,992**	106,473,047
Derivative financial liabilities	6	**–**	355,335
Current corporate income tax liabilities	15	**–**	45,268
Deferred corporate income tax liabilities	15	**30,834**	–
Lease liabilities	11	**582,407**	685,432
Other liabilities	13	**4,321,567**	3,581,052
Total liabilities		**106,762,800**	111,140,134
Equity			
Charter capital	16	**14,430,993**	14,430,993
Reserve funds	16	**976,218**	721,550
Fair value reserve		**4,389**	–
Revaluation reserve		**62,329**	70,296
Retained earnings		**32,070,277**	21,239,114
Total equity		**47,544,206**	36,461,953
Total equity and liabilities		**154,307,006**	147,602,087

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

Zhusupov Sh.A. Chairman of the Management Board

Chernykh Y.Yu. Chief accountant

25 March 2021

The accompanying notes on pages 5 to 49 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

(In thousands of tenge)

	Note	*2020*	*2019*
Interest revenue calculated using effective interest rate			
Cash and cash equivalents		**631,659**	705,723
Loans to customers	18	**48,766,478**	51,188,799
Investment securities		**421,650**	–
		49,819,787	51,894,522
Interest expense calculated using effective interest rate			
Amounts due to credit institutions		**(17,218,993)**	(18,368,650)
Repurchase agreements		**(14,545)**	–
		(17,233,538)	(18,368,650)
Lease liabilities	11	**(82,020)**	(150,320)
		(17,315,558)	(18,518,970)
Net interest income		**32,504,229**	33,375,552
Credit loss expense	19	**(4,170,298)**	(2,324,843)
Net interest income after credit loss expense		**28,333,931**	31,050,709
Net gains/(losses) on transactions with financial instruments at fair value through profit or loss	6	**115,846**	(511,314)
Net (losses)/gains from foreign currencies:			
- translation differences		**(836,416)**	52,203
- dealing		**(91,237)**	(27,770)
Net gain on initial recognition of financial instruments measured at amortised cost		**492,546**	91,663
Other income		**168,102**	70,847
Personnel expenses	20	**(9,202,243)**	(10,122,368)
Other operating expenses	20	**(3,959,523)**	(4,382,393)
Other expense		**(119,599)**	(132,418)
Profit before corporate income tax expense		**14,901,407**	16,089,159
Corporate income tax expense	15	**(3,823,543)**	(3,355,724)
Profit for the year		**11,077,864**	12,733,435
Other comprehensive income for the year			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Net change in fair value of debt instruments at fair value through other comprehensive income	8	**376**	–
Changes in allowance for expected credit losses of debt instruments at fair value through other comprehensive income	19	**4,013**	–
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**4,389**	–
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Revaluation of property and equipment reclassified to investment property	10	**–**	9,959
Income tax relating to components of other comprehensive income	15	**–**	(1,992)
Total other comprehensive income not to be reclassified to profit or loss in subsequent periods		**–**	7,967
Other comprehensive income for the year, net of tax		**4,389**	7,967
Total comprehensive income for the year		**11,082,253**	12,741,402

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

(In thousands of tenge)

	Note	*Charter capital*	*Reserve funds*	*Fair value reserve*	*Revaluation reserve*	*Retained earnings*	*Total equity*
As at 1 January 2019		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
Dividends declared	16	–	–	–	–	(5,527,400)	(5,527,400)
Transfer of revaluation reserve to retained earnings		–	–	–	(36,642)	36,642	–
As at 31 December 2019		14,430,993	721,550	–	70,296	21,239,114	36,461,953
Profit for the year		**–**	**–**	**–**	**–**	**11,077,864**	**11,077,864**
Other comprehensive income for the year		**–**	**–**	**4,389**	**–**	**–**	**4,389**
Total comprehensive income for the year		**–**	**–**	**4,389**	**–**	**11,077,864**	**11,082,253**
Transfer of revaluation reserve to retained earnings	9	**–**	**–**	**–**	**(7,967)**	**7,967**	**–**
Transfers to the reserve funds	16	**–**	**254,668**	**–**	**–**	**(254,668)**	**–**
As at 31 December 2020		**14,430,993**	**976,218**	**4,389**	**62,329**	**32,070,277**	**47,544,206**

STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

(In thousands of tenge)

	Note	*2020*	*2019*
Cash flows from operating activities			
Interest received on cash and cash equivalents		**655,486**	600,645
Interest received on loans to customers		**43,172,040**	47,835,569
Interest received on investments securities		**251,754**	–
Other income received		**134,739**	30,668
Interest paid on amounts due to credit institutions		**(17,114,465)**	(17,686,575)
Interest paid on repurchase agreements		**(14,546)**	–
Net realised losses from dealing in foreign currencies		**(91,237)**	(27,770)
Net payments on derivative financial instruments		**(431,588)**	(236,987)
Personnel expenses paid		**(8,836,382)**	(9,146,486)
Other operating expenses paid		**(2,885,660)**	(2,919,168)
Taxes other than corporate income tax and social security contributions paid		**(1,074,021)**	(1,345,603)
Cash flows from operating activities before changes in operating assets and liabilities		**13,766,120**	17,104,293
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		**(18,021)**	(19,470)
Loans to customers		**(2,250,553)**	(14,494,037)
Other assets		**138,843**	(119,516)
Net decrease in operating liabilities			
Other liabilities		**63,878**	(725,503)
Net cash flows from operating activities before corporate income tax		**11,700,267**	1,745,767
Corporate income tax paid		**(3,729,849)**	(3,292,279)
Net cash flows from / (used in) operating activities		**7,970,418**	(1,546,512)
Cash flows from investing activities			
Purchase of property and equipment		**(2,830,644)**	(680,037)
Purchase of intangible assets		**(165,686)**	(261,134)
Purchase of investments securities		**(3,945,774)**	–
Proceeds from sale of property and equipment		**90,174**	69,582
Proceeds from sale of investment property		**20,638**	45,000
Net cash flows used in investing activities		**(6,831,292)**	(826,589)
Cash flows from financing activities			
Receipt of amounts due to credit institutions	25	**45,277,381**	68,412,306
Repayment of amounts due to credit institutions	25	**(50,293,917)**	(58,096,945)
Payment of dividends	16	**–**	(5,527,400)
Repayment of lease liabilities	11	**(442,116)**	(528,202)
Net cash flows (used in) / from financing activities		**(5,458,652)**	4,259,759
Effect of expected credit losses on cash and cash equivalents	19	**46,740**	(11,748)
Effect of exchange rate changes on cash and cash equivalents		**32,418**	22,501
Net (decrease)/increase in cash and cash equivalents		**(4,240,368)**	1,897,411
Cash and cash equivalents, as at 1 January		**9,055,910**	7,158,499
Cash and cash equivalents, 31 December	5	**4,815,542**	9,055,910
Non-cash transactions			
Withholding tax on short-term amounts due from credit institutions		**44,415**	105,078

1. Principal activities

"Microfinance organization "KMF" Limited Liability Company (hereinafter – 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 Agency of the Republic of Kazakhstan for Regulation and Development of Financial Market (hereinafter – the "Agency").

The Company's principal activity is granting micro loans to customers. As at 31 December 2020 and 2019 the Company has 14 branches and 103 outlets throughout Kazakhstan. Branches are located in the following cities: Almaty, Nur-Sultan, Aktobe, Karaganda, Kokshetau, Kostanay, Kyzylorda, Pavlodar, Semey, Taldykorgan, Taraz, Turkestan, Ust-Kamenogorsk and Shymkent. The Company's activities are located and carried out in the Republic of Kazakhstan.

Registered and actual address of the Company's head office is: 50 Nazarbayev ave., 050004, Almaty, the Republic of Kazakhstan.

As at 31 December 2020 and 2019, the Company's charter capital belonged to the following participants (hereinafter – "shareholders"):

	Ownership in %	
Name	***31 December 2020***	***31 December 2019***
Corporate Fund "KMF-Demeu"	**45.435**	45.435
responsAbility Management Company S.A.	**18.127**	18.127
Triodos Funds B.V. (former – 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 accounting policies", for instance, financial instruments at fair value through profit or loss and investment securities measured at fair value through other comprehensive income have been measured at fair value.

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

Effect of COVID-19 pandemic

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

(In thousands of tenge, unless otherwise indicated)

2. Basis of preparation (continued)

Effect of COVID-19 pandemic (continued)

Support measures were introduced by the Government and the National Bank of the Republic of Kazakhstan (the "NBRK") to counter the economic downturn caused by the COVID-19 pandemic. These measures include, among others, subsidised lending to affected industries and individuals, payment holidays and easing of certain regulatory restrictions to help the financial sector maintain its capabilities to provide resources and to help customers avoid liquidity shortages as a result of the COVID-19 containment measures.

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

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

3. Summary of accounting policies

Changes in accounting policies

The Company has early adopted Amendment to IFRS 16: *Covid-19-Related Rent Concessions*, which provides lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification. No other standard, interpretation or amendment that has been issued but is not yet effective was early adopted by the Company.

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

Amendments to IFRS 3: Definition of a Business

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

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

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

Amendments to IAS 1 and IAS 8: Definition of Material

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

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

Conceptual Framework for Financial Reporting issued on 29 March 2018

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

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

(In thousands of tenge, unless otherwise indicated)

3. Summary of accounting policies (continued)

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. 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.

(In thousands of tenge, unless otherwise indicated)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Initial measurement (continued)

Measurement categories of financial assets and liabilities (continued)

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.

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.

(In thousands of tenge, unless otherwise indicated)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Initial measurement (continued)

Debt instruments at FVOCI

The Company measures debt instruments 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 income are reclassified from other comprehensive income to profit or loss.

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.

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 2020.

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.

Repurchase and reverse repurchase agreements

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded within cash and cash equivalents or amounts due from credit institutions or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest revenue and accrued over the life of repo agreements using the effective interest method.

Securities lent to counterparties are retained in the statement of financial position. Securities borrowed are not recorded in the statement of financial position, unless these are sold to third parties. In this case the purchase and sale are recorded within gains less losses from trading securities in the statement of profit or loss. The obligation to return them is recorded at fair value as a trading liability.

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 as net gains/(losses) on transactions with financial instruments at fair value through profit or loss.

(In thousands of tenge, unless otherwise indicated)

3. Summary of accounting policies (continued)

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.

Leases

i. Company as a lessee

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The 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 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.

ii. Operating – Company as a lessor

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

(In thousands of tenge, unless otherwise indicated)

3. Summary of accounting policies (continued)

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.

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, the Company records a modification gain or loss, presented within interest revenue calculated using effective interest rate in the statement of profit or loss, to the extent that an impairment loss has not already been recorded.

For modifications not resulting in derecognition, the 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.

(In thousands of tenge, unless otherwise indicated)

3. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

Financial assets (continued)

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.

Taxation

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

The Republic of Kazakhstan also has various operating taxes that are assessed on the 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 cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. 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.

(In thousands of tenge, unless otherwise indicated)

3. Summary of accounting policies (continued)

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.

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 has no has no significant post-retirement benefits.

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 Republic of Kazakhstan legislation.

Contingent asset and liabilities

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

3. Summary of accounting policies (continued)

Recognition of income and expenses

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

Interest and similar income and expense

The Company calculates interest revenue on debt financial assets measured at amortised cost or at FVOCI by applying the effective interest rate to the gross carrying amount of financial assets other than credit-impaired assets. Effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the 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.

For POCI financial assets, the Company calculates interest revenue by calculating the credit-adjusted effective interest rate and applying that rate to the amortised cost of the asset. The credit-adjusted effective interest rate 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.

Foreign currency translation

The financial statements are presented in tenge, which is the Company's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency at the official exchange rate established by the Kazakhstan Stock Exchange (hereinafter – the "KASE") and communicated by the NBRK, at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of comprehensive income as 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 2020 and 2019 were KZT 420.91 and KZT 382.59 to USD 1, respectively.

Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the 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. IFRS 17 introduces new accounting requirements for banking products with insurance features that may affect the determination of which instruments or which components thereof will be in the scope of IFRS 9 or IFRS 17.

(In thousands of tenge, unless otherwise indicated)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

IFRS 17 Insurance Contracts (continued)

Credit cards and similar products that provide insurance coverage: most issuers of these products will be able to continue with their existing accounting treatment as a financial instrument under IFRS 9. IFRS 17 excludes from its scope credit card contracts (and other similar contracts that provide credit or payment arrangements) that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer.

When the insurance coverage is provided as part of the contractual terms of the credit card, the issuer is required to:

- Separate the insurance coverage component and apply IFRS 17 to it;
- Apply other applicable standards (such as IFRS 9, IFRS 15 *Revenue from Contracts with Customers* or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*) to the other components.

Loan contracts that meet the definition of insurance but limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract: issuers of such loans – e.g. a loan with waiver on death – have an option to apply IFRS 9 or IFRS 17. The election would be made at a portfolio level and would be irrevocable.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17.

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

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018-2020 Annual Improvements to IFRS standards process, the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

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

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

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

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

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

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

(In thousands of tenge, unless otherwise indicated)

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:

COVID-19

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

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

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

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

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).

Leases – estimating the incremental borrowing rate

The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

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. Additional details are provided in *Note 22*.

(In thousands of tenge, unless otherwise indicated)

4. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Expected credit losses on financial assets

The measurement of impairment losses across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. In addition, large-scale business disruptions may give rise to liquidity issues for some entities and consumers. Deterioration in credit quality of loan portfolios (amongst other items) as a result of the COVID-19 pandemic may have a significant impact on the Company's ECL measurement. 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.

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. Implementation of these regulations is often unclear or non-existent and only an insignificant number of precedents have been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organisations; thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and forfeits. These facts create tax risks in the Republic of 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

Cash and cash equivalents comprise the following:

	31 December 2020	*31 December 2019*
Cash on hand	**42,259**	50,497
Cash in transit	**54,066**	115,861
Current accounts with banks	**380,949**	260,334
Current accounts with other credit institutions	**3,805**	–
Time deposits with banks up to 90 days	**1,595,427**	8,677,597
Reverse repurchase agreements with credit institutions up to 90 days	**2,740,675**	–
	4,817,181	9,104,289
Less: ECL allowance	**(1,639)**	(48,379)
Cash and cash equivalents	**4,815,542**	9,055,910

As at 31 December 2020, the Company entered into reverse repurchase agreements on the KASE. The subject of these agreements are treasury bills of the Ministry of Finance of the Republic of Kazakhstan, Notes of the NBRK and corporate bonds with fair value of KZT 2,740,062 thousand.

(In thousands of tenge, unless otherwise indicated)

5. Cash and cash equivalents (continued)

All balances of cash equivalents are allocated to Stage 1 for ECL measurement purposes. An analysis of changes in the ECL allowances during 2020 is as follows:

	2020	***2019***
ECL allowance as at 1 January	**(48,379)**	(36,631)
Net changes in ECL *(Note 19)*	**46,740**	(11,748)
As at 31 December	**(1,639)**	(48,379)

Concentration of cash and cash equivalents

As at 31 December 2020, the Company has no accounts with credit institutions which balances individually exceed 10% of the Company's equity (as at 31 December 2019: one bank, total aggregate balance of amounts due from this counterparty was KZT 4,163,287 thousand).

6. Derivative financial instruments

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 2020			***31 December 2019***		
	Notional amount	***Fair value***		***Notional amount***	***Fair value***	
		Asset	***Liability***		***Asset***	***Liability***
Currency agreements						
Currency swaps	**7,411,650**	**187,845**	**–**	7,934,850	–	(355,335)
	7,411,650	**187,845**	**–**	7,934,850	–	(355,335)

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 2020, the Company had a tenge denominated loan in the amount of KZT 1,098,000 thousand received from a local bank and security deposits denominated in US Dollars in the amount of USD 2,609 thousand, which serve as security against this loan (as at 31 December 2019: 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 5,739 thousand). Since the contractual effect of these loans and deposits is equivalent to a currency swap, the said transactions have been treated as a derivative. Also as at 31 December 2020, 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 (as at 31 December 2019: 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).

Net gain from financial instruments at fair value through profit or loss in the statement of comprehensive income in 2020 include gain from changes in fair value of currency swaps in the amount of KZT 115,846 thousand (in 2019: loss from changes in fair value of currency swaps in the amount of KZT 511,314 thousand).

7. Loans to customers

Loans to customers comprise the following:

	31 December 2020	***31 December 2019***
Retail trade, services and production loans	**73,977,746**	70,123,667
Agricultural loans	**57,079,996**	48,655,248
Consumer loans	**13,055,629**	19,384,345
Total loans to customers	**144,113,371**	138,163,260
Less: ECL allowance	**(7,799,632)**	(5,367,803)
Loans to customers	**136,313,739**	132,795,457

As at 31 December 2020 and 2019, loans to customers mainly comprise loans issued to individuals.

(In thousands of tenge, unless otherwise indicated)

7. Loans to customers (continued)

ECL allowance of loans to customers

An analysis of changes in gross carrying value and corresponding ECL allowance in relation to retail trade, services and production loans during the year ended 31 December 2020 is as follows:

Retail trade, services and production loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2020	65,978,999	233,615	3,911,053	70,123,667
New assets originated	**75,597,057**	**–**	**–**	**75,597,057**
Assets repaid	**(72,218,662)**	**(405,303)**	**(1,125,842)**	**(73,749,807)**
Net change in accrued interest	**3,920,294**	**196,209**	**599,974**	**4,716,477**
Transfers to Stage 1	**6,863,435**	**(5,153,219)**	**(1,710,216)**	**–**
Transfers to Stage 2	**(8,060,446)**	**8,317,008**	**(256,562)**	**–**
Transfers to Stage 3	**(2,309,306)**	**(2,228,422)**	**4,537,728**	**–**
Unwinding of discount	**–**	**–**	**849,952**	**849,952**
Changes to contractual cash flows due to modifications not resulting in derecognition	**(1,926,784)**	**(38,044)**	**(12,758)**	**(1,977,586)**
Recoveries	**–**	**–**	**66,216**	**66,216**
Amounts written off	**–**	**–**	**(1,648,230)**	**(1,648,230)**
As at 31 December 2020	**67,844,587**	**921,844**	**5,211,315**	**73,977,746**

Retail trade, services and production loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL allowance as at 1 January 2020	(512,344)	(111,248)	(2,823,998)	(3,447,590)
New assets originated	**(273,905)**	**–**	**–**	**(273,905)**
Assets repaid	**763,457**	**186,488**	**679,178**	**1,629,123**
Transfers to Stage 1	**(3,358,356)**	**2,395,772**	**962,584**	**–**
Transfers to Stage 2	**1,063,954**	**(1,207,037)**	**143,083**	**–**
Transfers to Stage 3	**141,361**	**1,055,149**	**(1,196,510)**	**–**
Impact on period end ECL of exposures transferred between stages during the period	**3,216,452**	**(2,570,225)**	**(1,338,552)**	**(692,325)**
Unwinding of discount	**–**	**–**	**(849,952)**	**(849,952)**
Changes to contractual cash flows due to modifications not resulting in derecognition	**28,059**	**18,056**	**7,177**	**53,292**
Changes to models and inputs used for ECL calculations	**(1,724,426)**	**(188,220)**	**(1,044,238)**	**(2,956,884)**
Recoveries	**–**	**–**	**(66,216)**	**(66,216)**
Amounts written off	**–**	**–**	**1,648,230**	**1,648,230**
As at 31 December 2020	**(655,748)**	**(421,265)**	**(3,879,214)**	**(4,956,227)**

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

Agricultural loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2020	46,609,102	192,253	1,853,893	48,655,248
New assets originated	**62,574,988**	**–**	**–**	**62,574,988**
Assets repaid	**(54,205,433)**	**(142,932)**	**(654,339)**	**(55,002,704)**
Net change in accrued interest	**2,253,048**	**53,055**	**483,002**	**2,789,105**
Transfers to Stage 1	**1,978,728**	**(1,197,435)**	**(781,293)**	**–**
Transfers to Stage 2	**(2,792,997)**	**2,864,716**	**(71,719)**	**–**
Transfers to Stage 3	**(1,313,447)**	**(1,171,986)**	**2,485,433**	**–**
Unwinding of discount	**–**	**–**	**384,550**	**384,550**
Changes to contractual cash flows due to modifications not resulting in derecognition	**(1,120,216)**	**(14,544)**	**(4,401)**	**(1,139,161)**
Recoveries	**–**	**–**	**27,285**	**27,285**
Amounts written off	**–**	**–**	**(1,209,315)**	**(1,209,315)**
As at 31 December 2020	**53,983,773**	**583,127**	**2,513,096**	**57,079,996**

(In thousands of tenge, unless otherwise indicated)

7. 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 2020	(148,770)	(72,277)	(1,197,017)	(1,418,064)
New assets originated	**(140,657)**	**–**	**–**	**(140,657)**
Assets repaid	**227,162**	**53,755**	**342,952**	**623,869**
Transfers to Stage 1	**(851,351)**	**465,542**	**385,809**	**–**
Transfers to Stage 2	**364,022**	**(397,287)**	**33,265**	**–**
Transfers to Stage 3	**46,776**	**448,656**	**(495,432)**	**–**
Impact on period end ECL of exposures transferred between stages during the period	**821,397**	**(690,123)**	**(717,416)**	**(586,142)**
Unwinding of discount	**–**	**–**	**(384,550)**	**(384,550)**
Changes to contractual cash flows due to modifications not resulting in derecognition	**8,709**	**5,325**	**2,152**	**16,186**
Changes to model and inputs used for ECL calculations	**(582,941)**	**(46,727)**	**(860,842)**	**(1,490,510)**
Recoveries	**–**	**–**	**(27,285)**	**(27,285)**
Amounts written off	**–**	**–**	**1,209,315**	**1,209,315**
As at 31 December 2020	**(255,653)**	**(233,136)**	**(1,709,049)**	**(2,197,838)**

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

Consumer loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2020	18,629,939	62,883	691,523	19,384,345
New assets originated	**10,892,863**	**–**	**–**	**10,892,863**
Assets repaid	**(16,953,941)**	**(40,508)**	**(349,117)**	**(17,343,566)**
Net change in accrued interest	**455,497**	**48,515**	**165,472**	**669,484**
Transfers to Stage 1	**462,133**	**(247,701)**	**(214,432)**	**–**
Transfers to Stage 2	**(717,902)**	**732,513**	**(14,611)**	**–**
Transfers to Stage 3	**(351,335)**	**(457,733)**	**809,068**	**–**
Unwinding of discount	**–**	**–**	**147,234**	**147,234**
Changes to contractual cash flows due to modifications not resulting in derecognition	**(320,617)**	**(7,436)**	**(2,924)**	**(330,977)**
Recoveries	**–**	**–**	**45,548**	**45,548**
Amounts written off	**–**	**–**	**(409,302)**	**(409,302)**
As at 31 December 2020	**12,096,637**	**90,533**	**868,459**	**13,055,629**

Consumer loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL allowance as at 1 January 2020	(64,523)	(20,761)	(416,865)	(502,149)
New assets originated	**(38,412)**	**–**	**–**	**(38,412)**
Assets repaid	**60,966**	**12,772**	**152,022**	**225,760**
Transfers to Stage 1	**(154,028)**	**73,193**	**80,835**	**–**
Transfers to Stage 2	**115,987**	**(121,570)**	**5,583**	**–**
Transfers to Stage 3	**8,263**	**149,113**	**(157,376)**	**–**
Impact on period end ECL of exposures transferred between stages during the period	**146,040**	**(111,380)**	**(172,352)**	**(137,692)**
Unwinding of discount	**–**	**–**	**(147,234)**	**(147,234)**
Changes to contractual cash flows due to modifications not resulting in derecognition	**1,367**	**2,344**	**1,155**	**4,866**
Changes to models and inputs used for ECL calculations	**(138,590)**	**(12,976)**	**(262,894)**	**(414,460)**
Recoveries	**–**	**–**	**(45,548)**	**(45,548)**
Amounts written off	**–**	**–**	**409,302**	**409,302**
As at 31 December 2020	**(62,930)**	**(29,265)**	**(553,372)**	**(645,567)**

(In thousands of tenge, unless otherwise indicated)

7. Loans to customers (continued)

ECL allowance of loans to customers (continued)

An analysis of changes in gross carrying value and corresponding ECL allowance in relation to retail trade, services and production loans 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	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	201,768	1,563,837
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	–
Unwinding of discount	–	–	721,357	721,357
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	–	–	(706,864)	(706,864)
As 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	(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	–	–	(721,357)	(721,357)
Changes to contractual cash flows due to modifications not resulting in derecognition	343	589	(2,124)	(1,192)
Changes to models and inputs used for ECL calculations	(1,023,593)	(92,331)	(633,452)	(1,749,376)
Recoveries	–	–	(141,263)	(141,263)
Amounts written off	–	–	706,864	706,864
As 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 in relation to agricultural loans 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	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	190,420	981,348
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	–
Unwinding of discount	–	–	256,983	256,983
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	–	–	(311,350)	(311,350)
As at 31 December 2019	46,609,102	192,253	1,853,893	48,655,248

(In thousands of tenge, unless otherwise indicated)

7. 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	(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	–	–	(256,983)	(256,983)
Changes to contractual cash flows due to modifications not resulting in derecognition	(7)	30	(762)	(739)
Changes to models and inputs used for ECL calculations	(374,965)	(51,451)	(335,392)	(761,808)
Recoveries	–	–	(33,735)	(33,735)
Amounts written off	–	–	311,350	311,350
As 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 in relation to consumer loans 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	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	94,806	430,030
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	–
Unwinding of discount	–	–	137,196	137,196
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	–	–	(236,039)	(236,039)
As 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	(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	–	–	(137,196)	(137,196)
Changes to contractual cash flows due to modifications not resulting in derecognition	(6)	36	22	52
Changes to models and inputs used for ECL calculations	(140,242)	(29,132)	(145,267)	(314,641)
Recoveries	–	–	(21,734)	(21,734)
Amounts written off	–	–	236,039	236,039
As at 31 December 2019	(64,523)	(20,761)	(416,865)	(502,149)

(In thousands of tenge, unless otherwise indicated)

7. Loans to customers (continued)

ECL allowance of loans to customers (continued)

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

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

	Modelled ECL	*Post-model adjustments*	*Total ECL*	*Adjustments as a % of total ECL*
Retail trade, services and production loans	4,828,370	128,482	4,956,852	2.6%
Agricultural loans	2,114,350	82,869	2,197,219	3.8%
Consumer loans	634,029	11,532	645,561	1.8%
As at 31 December 2020	**7,576,749**	**222,883**	**7,799,632**	**2.9%**

Post-model adjustments

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

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 effective interest rate, the Company records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

During 2020, the Company has modified the terms and conditions of certain loans, including introduction of payments holidays, as part of the measures introduced by the Government related to consequences of the COVID-19 pandemic. The Company considered these modifications to be non-substantial. As a result, the Company recognised loss on modification of loans to customers, not resulting in derecognition in the amount of KZT 3,447,724 thousand.

	2020	*2019*
Loans to customers modified during the period		
Amortised cost before modification	**92,665,058**	16,048,550
Net (losses)/gains on modification of loans to customers not resulting in derecognition	**(3,447,724)**	76,812

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.

(In thousands of tenge, unless otherwise indicated)

7. Loans to customers (continued)

Collateral and other credit enhancements (continued)

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 2020 and 2019, the Company has no borrowers or groups of interrelated borrowers whose loan balances exceed 10% of its equity. In accordance with the legislation of the Republic of Kazakhstan, the maximum loan amount issued by microfinance organizations as at 31 December 2020 was KZT 55,560 thousand (as at 31 December 2019: KZT 20,200 thousand).

8. Investment securities

Investment securities comprise the following:

Debt securities measured at FVOCI	***31 December 2020***	***31 December 2019***
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	**2,090,882**	–
Corporate bonds	**2,029,176**	–
	4,120,058	–
Less: ECL allowance	**(4,013)**	–
Investment securities	**4,116,045**	–

All balances of debt securities measured at FVOCI are allocated to Stage 1 for the purpose of measuring ECL. An analysis of changes in the gross carrying values and associated ECLs in relation to debt securities at FVOCI is as follows:

Debt securities measured at FVOCI	***2020***	***2019***
Gross carrying value as at 1 January	**–**	–
New assets originated or purchased	**7,573,991**	–
Assets repaid	**(3,739,800)**	–
Net change in accrued interest	**281,478**	–
Change in fair value	**376**	–
As at 31 December	**4,116,045**	–

Debt securities measured at FVOCI	***2020***	***2019***
ECL as at 1 January	**–**	–
Net change in ECL *(Note 19)*	**(4,013)**	–
As at 31 December	**(4,013)**	–

(In thousands of tenge, unless otherwise indicated)

9. Investment property

The movements in investment property were as follows:

	2020	*2019*
As at 1 January	**63,810**	147,867
Transfer from property and equipment *(Note 10)*	**–**	18,892
Sale	**(20,638)**	(45,000)
Revaluation surplus	**9,820**	11,506
Revaluation shortage	**–**	(69,455)
As at 31 December	**52,992**	63,810

In January 2019, the Company decided to lease an office building and land in 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.

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 recognised in other comprehensive income. Impairment loss for the building in Uzynagash in the amount of KZT 24,991 thousand was recognised in profit or loss as other expense.

On 5 June 2020, the Company sold the above mentioned investment property with a carrying amount of KZT 20,638 thousand.

Upon derecognition of the asset, the gain from its revaluation previously recognised in equity in the amount of KZT 7,967 thousand was transferred to retained earnings of the reporting year.

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 December 2020, the Company revalued investment property the above mentioned investment property, with the involvement of an independent appraisal company, Market Consulting LLP. Based on the results of the revaluation, the Company recognised a gain in the amount of KZT 9,820 thousand in profit or loss as other income.

	2020	*2019*
Rental income derived from investment property	**9,773**	16,644
Total	**9,773**	16,644

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)

10. 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							
As at 1 January 2019	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 9)*	9,959	–	–	–	–	–	9,959
Transfer to investment property *(Note 9)*	(10,000)	(8,892)	–	–	–	–	(18,892)
Transfer between categories	1,823	171,179	7,528	627	5,067	(186,224)	–
As at 31 December 2019	82,681	2,322,821	1,292,553	416,850	1,151,814	30,454	5,297,173
Additions	**5,327**	**3,295,416**	**370,064**	**174,045**	**229,281**	**12,453**	**4,086,586**
Disposals	**–**	**(1,294)**	**(26,791)**	**(117,540)**	**(19,448)**	**(42,907)**	**(207,980)**
As at 31 December 2020	**88,008**	**5,616,943**	**1,635,826**	**473,355**	**1,361,647**	**–**	**9,175,779**
Accumulated depreciation							
As at 1 January 2019	–	(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
As at 31 December 2019	–	(197,607)	(613,384)	(164,555)	(425,939)	–	(1,401,485)
Depreciation charge	**–**	**(105,091)**	**(235,093)**	**(70,707)**	**(171,135)**	**–**	**(582,026)**
Disposals	**–**	**848**	**24,917**	**71,268**	**14,909**	**–**	**111,942**
As at 31 December 2020	**–**	**(301,850)**	**(823,560)**	**(163,994)**	**(582,165)**	**–**	**(1,871,569)**
Net carrying amount							
As at 1 January 2019	80,947	2,041,788	652,519	254,786	655,618	83,591	3,769,249
As at 31 December 2019	82,681	2,125,214	679,169	252,295	725,875	30,454	3,895,688
As at 31 December 2020	**88,008**	**5,315,093**	**812,266**	**309,361**	**779,482**	**–**	**7,304,210**

As at 31 December 2020, the cost of fully depreciated property and equipment in use of the Company amounted to KZT 33,970 thousand (as at 31 December 2019: KZT 24,170 thousand).

(In thousands of tenge, unless otherwise indicated)

11. Right-of-use assets and lease liabilities

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

	Right-of-use assets	*Lease liabilities*
As at 1 January 2019	938,124	938,124
Additions	134,667	134,667
Disposals	(9,477)	(9,477)
Depreciation expense	(431,660)	–
Interest expense	–	150,320
Payments	–	(528,202)
As at 31 December 2019	631,654	685,432
Additions	**340,879**	**340,879**
Disposals	**(83,808)**	**(83,808)**
Depreciation expense	**(361,903)**	**–**
Interest expense	**–**	**82,020**
Payments	**–**	**(442,116)**
As at 31 December 2020	**526,822**	**582,407**

The Company recognised rent expense from short-term leases of KZT 149,256 thousand for the year ended 31 December 2020 (in 2019: KZT 180,746 thousand) *(Note 20)*.

12. Intangible assets

The movements in intangible assets were as follows:

	Software
Cost	
As at 1 January 2019	494,351
Additions	261,134
Disposals	(11,209)
As at 31 December 2019	744,276
Additions	**165,686**
As at 31 December 2020	**909,962**
Accumulated amortisation	
As at 1 January 2019	(290,327)
Amortisation charge	(83,644)
Disposals	11,209
As at 31 December 2019	(362,762)
Amortisation charge	**(114,522)**
As at 31 December 2020	**(477,284)**
Net carrying amount	
As at 1 January 2019	204,024
As at 31 December 2019	381,514
As at 31 December 2020	**432,678**

(In thousands of tenge, unless otherwise indicated)

13. Other assets and liabilities

Other assets comprise the following:

	31 December 2020	*31 December 2019*
Other financial assets		
Receivables from collector organization	**28,790**	85,346
Receivables from employees	**26,251**	25,348
Other	**56,796**	18,886
	111,837	129,580
Less: ECL allowance	**(43,663)**	(8,162)
Total other financial assets	**68,174**	121,418
Other non-financial assets		
Advances to suppliers	**277,347**	324,898
Inventories	**121,696**	134,547
Prepaid taxes and other payments to budget	**22,769**	14,651
Total other non-financial assets	**421,812**	474,096
Other assets	**489,986**	595,514

Other liabilities comprise the following:

	31 December 2020	*31 December 2019*
Other financial liabilities		
Overpayments of loans to customers	**1,358,597**	1,192,215
Payables for purchased building	**1,109,113**	–
Payables to employees	**971,107**	1,491,846
Payables to suppliers	**144,410**	149,208
Other	**25,216**	17,041
Total other financial liabilities	**3,608,443**	2,850,310
Other non-financial liabilities		
Accrued expenses on unused vacations	**406,555**	393,421
Taxes other than corporate income tax payable	**306,569**	337,321
Total other non-financial liabilities	**713,124**	730,742
Other liabilities	**4,321,567**	3,581,052

In March 2020 the Company purchased building, located at 50 Nazarbayev avenue, Almaty, in instalments. The Company's liability under this transaction was recognised at far value using the discount rate of 13% per annum.

Gain on initial recognition of the liability amounted to KZT 285,486 thousand and was recognised in profit or loss as gain on initial recognition of financial instruments measured at amortised cost.

14. Amounts due to credit institutions

Amounts due to credit institutions comprise the following:

	31 December 2020	*31 December 2019*
Loans from financial institutions, other than banks, of OECD countries	**52,339,372**	69,113,475
Loans from banks of OECD countries	**35,235,136**	28,476,709
Loans from local banks and financial institutions	**14,253,484**	8,882,863
Amounts due to credit institutions	**101,827,992**	106,473,047

As at 31 December 2020, the Company had borrowings from three banks and two other financial institutions (as at 31 December 2019: two banks and five other financial institutions) whose balances individually exceeded 10% of its equity. As at 31 December 2020, the total aggregate balance of liabilities to the above counterparties amounts to KZT 55,742,446 thousand (as at 31 December 2019: KZT 82,883,946 thousand).

As at 31 December 2020 and 2019, the Company complied with all financial covenants implied by loan agreements with credit institutions.

(In thousands of tenge, unless otherwise indicated)

15. Taxation

The corporate income tax expense comprises thefollowing:

	2020	*2019*
Current corporate income tax charge	**3,641,042**	3,389,845
Deferred corporate income tax charge/(benefit) – origination and reversal of temporary differences	**182,501**	(34,121)
Corporate income tax expense	**3,823,543**	3,355,724

Deferred tax related to items charged or credited to other comprehensive income during the years ended 31 December, is as follows:

	2020	*2019*
Revaluation of property and equipment reclassified to investment property	**–**	1,992
Corporate income tax charged to other comprehensive income	**–**	1,992

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 2020 and 2019.

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

	2020	*2019*
Profit before corporate income tax expense	**14,901,407**	16,089,159
Statutory rate	**20%**	20%
Theoretical corporate income tax expense at the statutory rate	**2,980,281**	3,217,832
Non-taxable income on state securities and securities listed at KASE	**(81,421)**	–
Non-deductible credit loss expense	**230,249**	74,212
Non-deductible loss on modification of terms of loans to customers	**689,545**	–
Non-deductible other expenses	**4,889**	63,680
Corporate income tax expense	**3,823,543**	3,355,724

As at 31 December 2020 current corporate income tax assets comprised KZT 43,539 thousand. As at 31 December 2019 current corporate income tax liabilities comprised KZT 45,268 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 and liabilities as at 31 December 2020 and 2019. The future tax benefits will only be received in the event that there are no changes in the legislation of Kazakhstan that would adversely affect the Company's ability to utilise such benefits in future periods.

(In thousands of tenge, unless otherwise indicated)

15. Taxation (continued)

Deferred tax assets and deferred tax liabilities (continued)

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

	2018	*Effect ot adopting IFRS 16*	*Origination and reversal of temporary differences in profit or loss*	*Origination and reversal of temporary differences in other compre-hensive income*	*2019*	*Origination and reversal of temporary differences in profit or loss*	*2020*
Tax effect of deductible temporary differences							
Accrued expenses on unused vacations and bonuses	342,030	–	14,936	–	356,966	**(101,861)**	**255,105**
Accrued interest expense	5,053	–	(3,431)	–	1,622	**13,715**	**15,337**
Lease liabilities	–	187,625	(50,539)	–	137,086	**(20,605)**	**116,481**
Other liabilities	2,388	–	3,559	–	5,947	**169**	**6,116**
Deferred corporate income tax assets	349,471	187,625	(35,475)	–	501,621	**(108,582)**	**393,039**
Tax effect of taxable temporary differences							
Property and equipment and intangible assets	(205,190)	–	(8,322)	–	(213,512)	**(103,033)**	**(316,545)**
Right-of-use assets	–	(187,625)	61,295	–	(126,330)	**20,966**	**(105,364)**
Investment property	(24,743)	–	16,623	(1,992)	(10,112)	**8,148**	**(1,964)**
Deferred corporate income tax liabilities	(229,933)	(187,625)	69,596	(1,992)	(349,954)	**(73,919)**	**(423,873)**
Net deferred corporate income tax assets/ (liabilities)	119,538	–	34,121	(1,992)	151,667	**(182,501)**	**(30,834)**

16. Equity

Charter capital

As at 31 December 2020 and 2019, the Company's paid and outstanding charter capital was equal 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 entails the insolvency and bankruptcy of the Company.

In accordance with the requirements of the Republic of Kazakhstan legislation, as at 31 December 2020 the funds available for distribution amounted to KZT 32,070,277 thousand (as at 31 December 2019: KZT 21,239,114 thousand).

No dividends were declared or paid during 2020. In 2019 the Company paid dividends in cash for KZT 5,372,467 thousand after the deduction of income tax for KZT 154,933 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 2020, the Supervisory Board of the Company approved the transfer to the amount of KZT 254,668 thousand from retained earnings to reserve fund. As at 31 December 2020 the reserve fund amounted to KZT 976,218 thousand (in 2019: KZT 721,550 thousand).

(In thousands of tenge, unless otherwise indicated)

17. 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.

Due to the current situation with the COVID-19 pandemic, there remains uncertainty about further development of the pandemic and its duration, as well as the extent of possible economic recovery in the near term. The Government continues to take various measures, and their influence continues to develop. Therefore, the management of the Company continuously assesses the increased risks, as well as the consequences of the pandemic and the measures taken 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, no provision was recognised in the financial statements.

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 2020. 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 below. The amounts reflected in the table for credit related contingencies assume that the indicated contingencies will be fully settled.

	31 December 2020	***31 December 2019***
Credit related commitments		
Undrawn loan commitments	**13,135,111**	13,955,990
Commitments and contingencies	**13,135,111**	13,955,990

(In thousands of tenge, unless otherwise indicated)

17. Commitments and contingencies (continued)

Commitments and contingencies (continued)

The agreements on the provision of credit 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 amounts do not necessarily represent the future cash outflow. Measurement of the ECL allowance for such facilities is made only for issued loan tranches.

18. Interest revenue on loans to customers

In 2020, interest revenue on loans to customers comprised KZT 48,766,478 thousand (in 2019: KZT 51,188,799 thousand), including net modification loss arising from changes in contractual cash flows of loans to customers not resulting in derecognition of KZT 3,447,724 thousand (in 2019: net modification gain of KZT 76,812 thousand).

In 2020, losses on modification of contractual terms of loans to customers were mainly a result of suspension of payments of principal and interest amounts on loans to customers affected by imposition of the state of emergency in the Republic of Kazakhstan due to the COVID-19 pandemic.

19. Credit loss expense

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

		2020			
	Note	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Cash and cash equivalents	5	**46,740**	**–**	**–**	**46,740**
Amounts due from credit institutions		**367**	**–**	**–**	**367**
Loans to customers	7	**2,374,678**	**(3,340,911)**	**(3,211,658)**	**(4,177,891)**
Investment securities	8	**(4,013)**	**–**	**–**	**(4,013)**
Other financial assets		**(35,501)**	**–**	**–**	**(35,501)**
Credit loss expense		**2,382,271**	**(3,340,911)**	**(3,211,658)**	**(4,170,298)**

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

		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	7	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)

(In thousands of tenge, unless otherwise indicated)

20. Personnel and other operating expenses

Personnel and other operating expenses comprise the following

	2020	***2019***
Salaries, bonuses and other benefits	**8,328,778**	9,247,273
Social security contribution	**873,465**	875,095
Personnel expenses	**9,202,243**	10,122,368
Professional services	**1,030,765**	1,143,485
Depreciation and amortisation *(Notes 10, 11 and 12)*	**1,058,451**	1,007,345
Security	**268,045**	269,677
Office supplies	**253,420**	202,624
Communication and information services	**232,714**	240,005
Taxes other than corporate income tax	**189,047**	221,291
VAT expense	**177,920**	260,642
Lease	**149,256**	180,746
Advertising and marketing	**98,352**	107,887
Bank fees	**93,300**	126,145
Insurance	**64,453**	45,118
Encashment	**58,298**	78,016
Transportation	**56,697**	91,202
Repair and maintenance	**55,106**	79,287
Business trips	**49,424**	168,305
Charity	**24,833**	16,106
Membership fees	**14,888**	16,265
Trainings for personnel	**8,437**	33,965
Brokerage service	**6,819**	–
Expenses for corporate events	**1,053**	46,289
Other	**68,245**	47,993
Other operating expenses	**3,959,523**	4,382,393

21. 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.

(In thousands of tenge, unless otherwise indicated)

21. Risk management (continued)

Introduction (continued)

Risk management structure (continued)

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 – the "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.

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.

(In thousands of tenge, unless otherwise indicated)

21. Risk management (continued)

Market risk (continued)

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 2020 and 2019, is as follows:

	2020	***2019***
	Effect on profit before tax	***Effect on profit before tax***
100 basis point parallel increase	**(31,320)**	(78,160)
100 basis point parallel decrease	**31,320**	78,160

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 2020	***31 December 2019***
Assets		
Cash and cash equivalents	**249,972**	366,338
Other assets	**2,105**	–
Total assets	**252,077**	366,338
Liabilities		
Amounts due to credit institutions	**7,723,188**	8,374,075
Other liabilities	**201**	3,170
Total liabilities	**7,723,389**	8,377,245
Net position	**(7,471,312)**	(8,010,907)
Impact of derivative financial instruments held for the purpose of risk management	**7,411,650**	7,934,850
Net position adjusted for impact of derivative financial instruments held for the purpose of risk management	**(59,662)**	(76,057)

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 profit or loss (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 profit or loss or equity, while a positive amount reflects a net potential increase.

	2020			
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%**	**(8,353)**	**-11.00%**	**6,563**

(In thousands of tenge, unless otherwise indicated)

21. Risk management (continued)

Market risk (continued)

Currency risk (continued)

	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

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 shareholders.

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 unrecognised 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 the effective interest rate 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.

(In thousands of tenge, unless otherwise indicated)

21. Risk management (continued)

Credit risk (continued)

Impairment assessmet (continued)

Loss Given Default (LGD) (continued)

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The 12mECL is the portion of LTECL that 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.

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 income is subsequently recognised based on a credit-adjusted effective interest rate. ECL are only recognised or released to the extent that there is a subsequent change in the lifetime ECL. During 2020 and 2019 and as at 31 December 2020 and 2019, 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 nominal interest 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.

(In thousands of tenge, unless otherwise indicated)

21. Risk management (continued)

Credit risk (continued)

Impairment assessmet (continued)

Exposure at default

The 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.

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 of 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.

In 2020, the Company revised indicators of significant increase in credit risk and does not automatically consider the credit risk to have significantly increased in the case of a loan modification being part of the Government support measures.

(In thousands of tenge, unless otherwise indicated)

21. Risk management (continued)

Credit risk (continued)

Impairment assessmet (continued)

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:

- 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.

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

For the purposes of calculating the ECL allowance as at 31 December 2020, the Company took into account the expected:

- Measures of state support to the population and business;
- Impact of changes in the economic environment on various sectors of the economy;
- Updated forecast of changes in GDP.

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.

During development of the model and its subsequent validation (at least on an annual basis), both the completeness of used components of ECL 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.

As at 31 December 2020, the Company applied the baseline and pessimistic scenario for determining PD. To calculate PD under the baseline scenario, the Company used the GDP forecast for 2021 as a macroeconomic factor, which is equal to 2.45%. To calculate PD under the pessimistic scenario, the Company used its own historical statistics of defaults during the crisis periods. The effect of the implementation of the pessimistic scenario as at 31 December 2020 is equal to KZT 221,686 thousand.

(In thousands of tenge, unless otherwise indicated)

21. Risk management (continued)

Credit risk (continued)

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 2020.

	Note		*High grade*	*Standard grade*	*Sub-standard grade*	*Impaired*	*Total*
Cash and cash equivalents, except for cash on hand	5	Stage 1	**–**	**4,773,283**	**–**	**–**	**4,773,283**
Amounts due from credit institutions		Stage 1	**–**	**23,608**	**–**	**–**	**23,608**
Loans to customers:	7						
- Retail trade, services and production loans		Stage 1	**–**	**67,053,358**	**135,481**	**–**	**67,188,839**
		Stage 2	**–**	**–**	**500,579**	**–**	**500,579**
		Stage 3	**–**	**–**	**–**	**1,332,101**	**1,332,101**
- Agricultural loans		Stage 1	**–**	**53,652,690**	**75,430**	**–**	**53,728,120**
		Stage 2	**–**	**–**	**349,991**	**–**	**349,991**
		Stage 3	**–**	**–**	**–**	**804,047**	**804,047**
- Consumer loans		Stage 1	**–**	**11,998,815**	**34,892**	**–**	**12,033,707**
		Stage 2	**–**	**–**	**61,268**	**–**	**61,268**
		Stage 3	**–**	**–**	**–**	**315,087**	**315,087**
Investment securities	8	Stage 1	**2,090,882**	**2,025,163**	**–**	**–**	**4,116,045**
Other financial assets	13	Stage 1	**–**	**51,459**	**–**	**16,715**	**68,174**
Total			**2,090,882**	**139,578,376**	**1,157,641**	**2,467,950**	**145,294,849**

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:	7						
- 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	13	Stage 3	–	121,418	–	–	121,418
Total			–	139,255,652	678,920	2,018,589	141,953,161

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 7* for more detailed information with respect to the ECL allowance of loans to customers.

(In thousands of tenge, unless otherwise indicated)

21. Risk management (continued)

Credit risk (continued)

Credit quality by class of financial assets (continued)

Grace period and concessional financing

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

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

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

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

- On unsecured loans to individual borrowers, the interest accrued on the outstanding balance during the grace period was spread until the end of the term of the contract. To maintain the debt burden and prevent an increase in the monthly payment, the loan term was extended for the corresponding period;
- For secured loans of individuals, the interest accrued on the outstanding balance within the grace period was spread until the end of the term of the contract. To maintain the debt burden and prevent an increase in the monthly payment, the loan term was extended for the corresponding period;
- On overdue loans as at 16 March 2020, the amount of overdue principal, overdue interest and interest accrued on overdue principal were spread until the end of the loan term. The decision to grant deferral on loans with overdue for more than 90 days to borrowers who are not socially vulnerable, recipients of targeted social aid, registered unemployed, was made by the authorised body of the Company individually for each loan.

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

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

Granting of the grace period was carried out:

a) Without receiving and attaching conclusions of expert units to the credit files;

b) Without signing additional agreements with borrowers and without applying commission and other fees to borrowers. Additional agreements with a new repayment schedule were signed with borrowers after cancellation of the emergency when the borrower applied to the Company's branch.

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

	Retail trade, services and production loans	***Agricultural loans***	***Consumer loans***	***Total***
Grace period				
Number of pending applications	–	–	–	–
Number of approved applications	33,914	21,480	9,458	64,852

(In thousands of tenge, unless otherwise indicated)

21. Risk management (continued)

Credit risk (continued)

Credit quality by class of financial assets (continued)

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

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Grace period				
Retail trade, services and production loans				
Gross carrying value	21,347,719	859,969	1,712,302	**23,919,990**
ECL allowance	(271,605)	(394,429)	(1,074,167)	**(1,740,201)**
Agricultural loans				
Gross carrying value	12,305,471	541,850	677,071	**13,524,392**
ECL allowance	(81,919)	(217,733)	(380,658)	**(680,310)**
Consumer loans				
Gross carrying value	2,827,017	68,911	254,359	**3,150,287**
ECL allowance	(21,803)	(21,701)	(123,801)	**(167,305)**
Total				
Gross carrying value	36,480,207	1,470,730	2,643,732	**40,594,669**
ECL allowance	(375,327)	(633,863)	(1,578,626)	**(2,587,816)**

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

	31 December 2020				*31 December 2019*			
	Kazakhstan	*OECD*	*CIS and other foreign countries*	*Total*	*Kazakhstan*	*OECD*	*CIS and other foreign countries*	*Total*
Assets								
Cash and cash equivalents	**4,815,542**	**–**	**–**	**4,815,542**	9,055,910	–	–	9,055,910
Amounts due from credit institutions	**23,608**	**–**	**–**	**23,608**	30,873	–	–	30,873
Derivative financial assets	**–**	**204,994**	**–**	**204,994**	–	–	–	–
Loans to customers	**136,313,739**	**–**	**–**	**136,313,739**	132,795,457	–	–	132,795,457
Investment securities	**4,116,045**	**–**	**–**	**4,116,045**	–	–	–	–
Other financial assets	**68,174**	**–**	**–**	**68,174**	121,418	–	–	121,418
	145,337,108	**204,994**	**–**	**145,542,102**	142,003,658	–	–	142,003,658
Liabilities								
Amounts due to credit institutions	**14,253,484**	**87,574,508**	**–**	**101,827,992**	8,882,863	97,590,184	–	106,473,047
Derivative financial liabilities	**17,149**	**–**	**–**	**17,149**	50,597	304,738	–	355,335
Lease liabilities	**582,407**	**–**	**–**	**582,407**	685,432	–	–	685,432
Other financial liabilities	**3,608,443**	**–**	**–**	**3,608,443**	2,845,292	243	4,775	2,850,310
	18,461,483	**87,574,508**	**–**	**106,035,991**	12,464,184	97,895,165	4,775	110,364,124
Net assets/ (liabilities)	**126,875,625**	**(87,369,514)**	**–**	**39,506,111**	129,539,474	(97,895,165)	(4,775)	31,639,534

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

Where financial instruments are recorded at fair value, the carrying 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.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes.

(In thousands of tenge, unless otherwise indicated)

21. Risk management (continued)

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)

21. 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.

As at 31 December 2020	*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	**3,180,824**	**12,412,490**	**14,461,602**	**29,673,930**	**59,796,071**	**119,524,917**
Lease liabilities	**31,649**	**94,097**	**88,855**	**153,003**	**342,078**	**709,682**
Other financial liabilities	**1,540,336**	**178,007**	**986,357**	**250,173**	**653,570**	**3,608,443**
Total undiscounted financial liabilities	**4,752,809**	**12,684,594**	**15,536,814**	**30,077,106**	**60,791,719**	**123,843,042**

As at 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
Derivative financial liabilities	–	–	–	–	325,152	325,152
Lease liabilities	47,274	141,821	138,285	162,484	347,337	837,201
Other financial liabilities	1,389,870	49,019	1,405,499	5,922	–	2,850,310
Total undiscounted financial liabilities	2,843,671	7,163,104	18,519,676	41,993,904	60,372,478	130,892,833

(In thousands of tenge, unless otherwise indicated)

22. 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*
As at 31 December 2020					
Assets measured at fair value					
Investment securities	31 December 2020	**2,090,882**	**2,025,163**	**–**	**4,116,045**
Derivative financial assets	31 December 2020	**–**	**187,845**	**–**	**187,845**
Investment property	1 December 2020	**–**	**–**	**52,992**	**52,992**
Assets for fair which values are disclosed					
Cash and cash equivalents	31 December 2020	**–**	**4,815,542**	**–**	**4,815,542**
Amounts due from credit institutions	31 December 2020	**–**	**23,608**	**–**	**23,608**
Loans to customers	31 December 2020	**–**	**–**	**136,263,870**	**136,263,870**
Other financial assets	31 December 2020	**–**	**–**	**68,174**	**68,174**
Liabilities for which fair values are disclosed					
Amounts due to credit institutions	31 December 2020	**–**	**98,082,671**	**–**	**98,082,671**
Lease liabilities	31 December 2020	**–**	**–**	**582,407**	**582,407**
Other financial liabilities	31 December 2020	**–**	**–**	**3,608,443**	**3,608,443**
As at 31 December 2019					
Assets measured at fair value					
Investment property	1 December 2019	–	–	63,810	63,810
Assets for which fair values are 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					
Derivative financial liabilities	31 December 2019	–	355,335	–	355,335
Liabilities for which fair values are 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

During 2020 and 2019, the Company did not make transfers between levels of the fair value hierarchy for financial instruments.

(In thousands of tenge, unless otherwise indicated)

22. 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 2020			*31 December 2019*		
	Carrying amount	*Fair value*	*Unrecognised gain/ (loss)*	*Carrying amount*	*Fair value*	*Unrecognised gain/ (loss)*
Financial assets						
Cash and cash equivalents	**4,815,542**	**4,815,542**	**–**	9,055,910	9,055,910	–
Amounts due from credit institutions	**23,608**	**23,608**	**–**	30,873	30,873	–
Loans to customers	**136,313,739**	**136,263,870**	**(49,869)**	132,795,457	132,638,800	(156,657)
Other financial assets	**68,174**	**68,174**	**–**	121,418	121,418	–
Financial liabilities						
Amounts due to credit institutions	**101,827,992**	**98,082,671**	**3,745,321**	106,473,047	102,600,166	3,872,881
Lease liabilities	**582,407**	**582,407**	**–**	685,432	685,432	–
Other liabilities	**3,608,443**	**3,608,443**	**–**	2,850,310	2,850,310	–
Total unrecognised change in fair value			**3,695,452**			3,716,224

Methods of measurement and assumptions

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

Investment securities

Fair value of the quoted bonds is based on price quotations at the reporting date.

Financial assets and financial liabilities carried at amortised cost

The fair value of unquoted instruments, including loans to customers, amounts due from credit institutions, amounts due to credit institutions, other financial assets 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)

23. 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 21* for the Company's contractual undiscounted repayment obligations.

	31 December 2020			*31 December 2019*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Cash and cash equivalents	**4,815,542**	**–**	**4,815,542**	9,055,910	–	9,055,910
Amounts due from credit institutions	**23,608**	**–**	**23,608**	30,873	–	30,873
Derivative financial assets	**–**	**187,845**	**187,845**	–	–	–
Loans to customers	**56,084,990**	**80,228,749**	**136,313,739**	60,825,042	71,970,415	132,795,457
Investment securities	**4,116,045**	**–**	**4,116,045**	–	–	–
Investment property	**–**	**52,992**	**52,992**	–	63,810	63,810
Property and equipment	**–**	**7,304,210**	**7,304,210**	–	3,895,688	3,895,688
Right-of-use assets	**–**	**526,822**	**526,822**	–	631,654	631,654
Intangible assets	**–**	**432,678**	**432,678**	–	381,514	381,514
Current corporate income tax assets	**43,539**	**–**	**43,539**	–	–	–
Deferred corporate income tax assets	**–**	**–**	**–**	–	151,667	151,667
Other assets	**489,986**	**–**	**489,986**	567,066	28,448	595,514
Total	**65,573,710**	**88,733,296**	**154,307,006**	70,478,891	77,123,196	147,602,087
Amounts due to credit institutions	**49,865,412**	**51,962,580**	**101,827,992**	55,637,626	50,835,421	106,473,047
Derivative financial liabilities	**–**	**–**	**–**	–	355,335	355,335
Current corporate income tax liabilities	**–**	**–**	**–**	45,268	–	45,268
Deferred corporate income tax liabilities	**–**	**30,834**	**30,834**	–	–	–
Lease liabilities	**280,199**	**302,208**	**582,407**	375,511	309,921	685,432
Other liabilities	**3,667,997**	**653,570**	**4,321,567**	3,581,052	–	3,581,052
Total	**53,813,608**	**52,949,192**	**106,762,800**	59,639,457	51,500,677	111,140,134
Net position	**11,760,102**	**35,784,104**	**47,544,206**	10,839,434	25,622,519	36,461,953

24. Related party transactions

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

Related parties may enter into transactions which unrelated parties might not. Transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between 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 *(Note 1)*.

(In thousands of tenge, unless otherwise indicated)

24. Related party transactions (continued)

Transactions with shareholders (continued)

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 2020	*Average annual interest rate, %*	*31 December 2019*	*Average annual interest rate, %*
Statement of financial position				
Liabilities				
Amounts due to credit institutions in tenge	**8,131,840**	**17.17%**	5,597,811	19.36%
Statement of comprehensive income				
Interest expense	**(1,272,137)**	**–**	(1,079,987)	–

Transactions with the members of key management personnel, including the Company's participants

Below is the information about compensation of 9 members of key management personnel:

	2020	*2019*
Salaries and other short-term benefits	**289,291**	393,961
Social security costs	**27,639**	28,997
Total compensation to the key management personnel	**316,930**	422,958

For the years ended 31 December 2020 and 2019, key management personnel did not receive any non-cash remuneration.

	31 December 2020	*Average annual interest rate, %*	*31 December 2019*	*Average annual interest rate, %*
Statement of financial position				
Assets				
Loans to customers	**69,099**	**19.4%**	87,869	22.1%

Amounts included in profit or loss in relation to transactions with members of the key management personnel, including the Company's participants, are as follows:

	2020	*2019*
Statement of comprehensive income		
Interest revenue	**8,912**	11,365

25. Changes in liabilities arising from financing activities

Reconciliation of movements of liabilities to cash flows arising from financing activities during the year ended 31 December 2020 is as follows:

	1 January 2020	*Net cash flows*	*Foreign currency translation*	*Other*	*31 December 2020*
Amounts due to credit institutions	106,473,047	**(5,016,536)**	**855,636**	**(484,155)**	**101,827,992**
Total liabilities from financing activities	106,473,047	**(5,016,536)**	**855,636**	**(484,155)**	**101,827,992**

Reconciliation of movements of liabilities to cash flows arising from financing activities during the year ended 31 December 2019 is as follows:

	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

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.

(In thousands of tenge, unless otherwise indicated)

26. Capital adequacy

In accordance with the Law of the Republic of Kazakhsan *On Microcredit Organisations* dated 26 November 2012, the Company is obliged to have the charter capital paid in the amount not less than 30,000 times the monthly calculation index (MCI) equal to 2,778 tenge as at 31 December 2020 (as at 31 December 2019: 2,525 tenge).

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 2020 and 2019, the Company had complied 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.

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.

The NBRK requires microfinance organizations to maintain a Tier 1 capital adequacy ratio in the amount of not less than 10% of the assets. As at 31 December 2020 and 2019, 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 2020	***31 December 2019***
Tier 1 capital	**47,544,206**	36,461,953
Total assets	**154,307,006**	147,602,087
Tier 1 capital ratio	**0.31**	0.25