KazAgroFinance Joint Stock Company

Financial statements

for 2019
together with independent auditor's report

Contents

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Independent auditor's report

To the Shareholder and the Board of Directors of KazAgroFinance Joint Stock Company

Opinion

We have audited the financial statements of KazAgroFinance Joint Stock Company (hereinafter - the "Company"), which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the following matter, provide the basis for our audit opinion on the accompanying financial statements.

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Key audit matter	*How the matter was addressed in the audit*
Allowance for expected credit losses of loans to customers and finance lease receivables	
Estimating the level of allowance for expected credit losses on finance lease receivables and loans to customers in accordance with IFRS 9 is a key area of judgment for the management of the Company. Identifying factors for a significant increase in credit risk since the initial recognition of an asset, determining the values of the probability of default and the level of losses in default are processes that involve a significant use of subjective judgment, assumptions and analysis of various historical, current and forecast information. The use of different models and assumptions can significantly affect the level of allowance for expected credit losses on finance lease receivables and loans to customers. Due to the materiality of the amounts of finance lease receivables and loans to customers of the Company as at 31 December 2019, and the significant use of professional judgment, the estimate of the allowance for expected credit losses was a key audit matter. Information on expected credit losses on finance lease receivables and loans to customers is presented in Note 8 "Loans to customers", Note 9 "Finance lease receivables", Note 22 "Credit loss expense" and Note 28 "Risk management" to the financial statements.	Our audit procedures included an analysis of the allowance assessment methodology for expected credit losses on finance lease receivables and loans to customers, as well as analysis and testing of controls on identifying factors that significantly increase credit risk since the initial recognition of an asset, including the term of overdue debt and availability of debt restructuring due to deterioration of credit quality of an asset. As part of the audit procedures, we conducted, on a sample basis, an analysis of the assumptions and testing of the source data used by the Company in estimating the allowance for expected credit losses on finance lease receivables and loans to customers on an aggregate basis, including statistical data on debt service expected compensation for losses in case of default as a result of the repossession of leased property or the sale of held collateral, as well as forecast macroeconomic factors. We recalculated the allowance for expected credit losses. We have analyzed the information on the allowance for expected credit losses on finance lease receivables and loans to customers disclosed in Notes to the financial statements.

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Other information included in the Company's 2019 Annual report

Other information comprises information included in the Company's 2019 Annual report, other than the financial statements and our audit report thereon. Management is responsible for other information. The Company's 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 other information and we will 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.

Responsibilities of the Management and the Board of Directors 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 the financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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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 controls 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 the management;
- Conclude on the appropriateness of the 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 the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Paul Cohn.

Ernst & Young LLP

Paul Cohn
Audit Partner

Olga Khegay
Auditor

Auditor's qualification certificate
No. МФ-0000286 dated 25 September 2015

Gulmira Turmagambetova
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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31 March 2020

STATEMENT OF FINANCIAL POSITION

as at 31 December 2019

(thousands of tenge)

	Notes	31 December 2019	31 December 2018
Assets			
Cash and cash equivalents	5	**20,580,665**	44,798,305
Amounts due from credit institutions	6	**8,451,527**	–
Investment securities	7	**11,179,190**	–
Loans to customers	8	**36,929,798**	43,004,358
Finance lease receivables	9	**226,615,145**	186,617,217
Assets held for sale	10	**511,083**	–
Property held for finance lease	11	**7,704,941**	10,740,178
Current corporate income tax assets	20	**134,137**	175,427
Property and equipment	12	**463,556**	995,816
Intangible assets	13	**581,104**	554,969
VAT and other taxes recoverable	14	**6,137,493**	3,891,038
Advances paid	15	**5,597,916**	7,190,060
Other assets	23	**849,024**	966,510
Total assets		**325,735,579**	298,933,878
Liabilities			
Amounts due to the Shareholder	16	**54,136,402**	67,232,037
Amounts due to credit institutions	17	**75,934,329**	41,807,710
Debt securities issued	18	**65,384,934**	64,596,068
Payables to suppliers	19	**5,861,586**	4,802,218
Deferred corporate income tax liabilities	20	**754,648**	1,338,197
Advances received	21	**4,795,803**	4,263,925
Deferred VAT liabilities		**7,642,894**	5,070,632
Other liabilities	23	**1,965,997**	3,473,379
Total liabilities		**216,476,593**	192,584,166
Equity			
Share capital	24	**82,837,204**	82,837,204
Additional paid-in capital	24	**26,156,975**	25,730,293
Reserve capital	24	**1,436,184**	1,436,184
Provision for notional distribution	24	**(9,605,611)**	(9,605,611)
Retained earnings		**8,434,234**	5,951,642
Total equity		**109,258,986**	106,349,712
Total liabilities and equity		**325,735,579**	298,933,878
Book value per common share (in tenge)	24	**1,311.95**	1,277.14

* *Certain amounts in this column do not conform to 2018 financial statements, as they reflect the reclassifications made and disclosed in Note 2.*

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

Izbastin Kanysh Temirtayevich — Chairman of the Management Board

Shodanova Gulnara Takishevna — Chief accountant

31 March 2020

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

STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2019

(thousands of tenge)

	Notes	*2019*	*2018*
Interest revenue calculated using effective interest rate			
Cash and cash equivalents		**1,438,785**	1,486,056
Loans to customers		**4,050,708**	4,491,387
Investment securities		**483,446**	173,417
		5,972,939	6,150,860
Other interest income			
Finance lease receivables		**26,492,528**	19,995,116
		26,492,528	19,995,116
Total interest income		**32,465,467**	26,145,976
Interest expense			
Amounts due to the Shareholder		**(4,488,460)**	(5,150,325)
Amounts due to credit institutions		**(5,332,674)**	(3,597,104)
Debt securities issued		**(6,865,312)**	(4,859,740)
Total interest expense		**(16,686,446)**	(13,607,169)
Net interest income		**15,779,021**	12,538,807
Credit loss expense	22	**(1,208,591)**	(2,818,840)
Net interest income after credit loss expense		**14,570,430**	9,719,967
Net (losses)/gains from foreign currencies		**(390,004)**	469,670
Other income	26	**831,792**	970,887
Personnel expenses	27	**(2,785,088)**	(2,729,776)
Other operating expenses	27	**(1,068,777)**	(913,138)
Depreciation and amortisation	12, 13	**(289,283)**	(231,506)
Net loss from modification of loans to customers and finance lease receivables that does not result in derecognition	8, 9	**(1,472,203)**	(664,681)
Other impairment and provision expenses	22	**(660,306)**	(189,906)
Non-interest expense		**(5,833,869)**	(3,288,450)
Profit before corporate income tax benefit		**8,736,561**	6,431,517
Corporate income tax benefit	20	**474,403**	296,855
Profit for the year		**9,210,964**	6,728,372
Basic and diluted earnings per common share (in tenge)	24	**111.19**	81.22

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

Izbastin Kanysh Temirtayevich — Chairman of the Management Board

Shodanova Gulnara Takishevna — Chief accountant

31 March 2020

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2019

(thousands of tenge)

	Notes	*2019*	*2018*
Profit for the year		**9,210,964**	6,728,372
Other comprehensive income for the year		–	–
Total comprehensive income for the year		**9,210,964**	6,728,372

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

Izbastin Kanysh Temirtayevich — Chairman of the Management Board

Shodanova Gulnara Takishevna — Chief accountant

31 March 2020

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2019

(thousands of tenge)

	Share capital	*Additional paid-in capital*	*Reserve capital*	*Provision for notional distribution*	*Retained earnings*	*Total*
At 31 December 2017	82,837,204	24,912,791	1,436,184	(9,542,733)	3,141,505	102,784,951
Impact of adopting IFRS 9	–	–	–	–	(346,015)	(346,015)
Restated balance in accordance with IFRS 9	82,837,204	24,912,791	1,436,184	(9,542,733)	2,795,490	102,438,936
Total comprehensive income for the year	–	–	–	–	6,728,372	6,728,372
Gain on initial recognition of loans due to the Shareholder at below market rates *(Note 24)*	–	817,502	–	–	–	817,502
Dividends declared *(Note 24)*	–	–	–	–	(3,572,220)	(3,572,220)
Provision for notional distribution for the year *(Note 24)*	–	–	–	(62,878)	–	(62,878)
As at 31 December 2018	82,837,204	25,730,293	1,436,184	(9,605,611)	5,951,642	106,349,712
Total comprehensive income for the year	–	–	–	–	**9,210,964**	**9,210,964**
Gain on initial recognition of loans due to the Shareholder at below market rates *(Note 24)*	–	**426,682**	–	–	–	**426,682**
Dividends declared *(Note 24)*	–	–	–	–	**(6,728,372)**	**(6,728,372)**
Provision for notional distribution for the year *(Note 24)*	–	–	–	–	–	–
As at 31 December 2019	**82,837,204**	**26,156,975**	**1,436,184**	**(9,605,611)**	**8,434,234**	**109,258,986**

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

Izbastin Kanysh Temirtayevich — Chairman of the Management Board

Shodanova Gulnara Takishevna — Chief accountant

31 March 2020

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

STATEMENT OF CASH FLOWS

for the year ended 31 December 2019

(thousands of tenge)

	Notes	2019	2018
Cash flows from operating activities			
Interest received		**28,579,278**	22,968,078
Interest paid		**(13,687,902)**	(9,941,005)
Realised losses less gains from dealing in foreign currencies		**(71,523)**	(123,105)
Personnel expenses paid		**(2,798,188)**	(2,689,031)
Other operating expenses paid		**(998,588)**	(882,191)
Other income received		**695,311**	453,882
Cash flows from operating activities before changes in operating assets and liabilities		**11,718,388**	9,786,628
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		**(8,397,531)**	–
Loans to customers		**4,211,586**	2,187,468
Finance lease receivables		**(28,733,868)**	(7,826,399)
VAT and other taxes recoverable		**(2,246,455)**	(784,700)
Advances paid		**(135,629)**	(4,644,534)
Other assets		**(279,798)**	(126,120)
Net increase/(decrease) in operating liabilities			
Advances received		**778,715**	792,588
Other liabilities		**(2,111,137)**	(905,603)
Net cash used in operating activities before corporate income tax		**(25,195,729)**	(1,520,672)
Corporate income tax paid		**(215,818)**	(232,401)
Net cash flows used in operating activities		**(25,411,547)**	(1,753,073)
Cash flows from investing activities			
Purchase of investment securities		**(11,152,666)**	–
Purchase of property and equipment and intangible assets	12, 13	**(403,297)**	(211,840)
Proceeds from sale of property and equipment		–	795
Net cash used in investing activities		**(11,555,963)**	(211,045)
Cash flows from financing activities			
Proceeds from loans due to the Shareholder	32	–	11,232,415
Repayment of loans due to the Shareholder	32	**(15,531,974)**	(22,971,379)
Receipt of loans due to credit institutions	32	**40,225,000**	19,000,000
Repayment of loans due to credit institutions	32	**(6,109,535)**	(17,617,865)
Proceeds from debt securities issued	32	**10,233,955**	17,250,959
Repayment on debt securities issued	32	**(9,389,000)**	–
Dividends paid to the Shareholder	24	**(6,728,372)**	(3,572,220)
Net cash from financing activities		**12,700,074**	3,321,910
Effect of exchange rates changes on cash and cash equivalents		**49,320**	2,202,417
Effect of changes in expected credit losses on cash and cash equivalents	5	**476**	(1,071)
Net (decrease)/increase in cash and cash equivalents		**(24,217,640)**	3,559,138
Cash and cash equivalents at the beginning of the year	5	**44,798,305**	41,239,167
Cash and cash equivalents at the end of the year	5	**20,580,665**	44,798,305
Non-cash transactions			
Offsetting of current corporate income tax assets against other tax liabilities		**41,290**	–

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

Izbastin Kanysh Temirtayevich — Chairman of the Management Board

Shodanova Gulnara Takishevna — Chief accountant

31 March 2020

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

(thousands of tenge)

1. Principal activities

KazAgroFinance Joint Stock Company (the "Company") was established by the Decree of the Government of the Republic of Kazakhstan No. 1777 dated 24 November 1999 *On Certain Agricultural Issues* in accordance with Kazakhstan legislation. The Company performs its activities on the basis of a license issued by the National Bank of the Republic of Kazakhstan (the "NBRK") for conducting operations specified by the banking legislation of the RK No. 16 dated 31 March 2006. Besides, the Company has a status of financial agency according to the Resolution of the NBRK No. 195 dated 23 September 2006.

The Company's principal activities comprise of the following:

- Leasing activities in agricultural sector;
- Lending to agro-industrial complex;
- Participation in implementation of republican budget and other programs aimed at the development of agricultural sector.

The Company's registered office is located at the following address: 51 Kenesary Str., Nur-Sultan, Republic of Kazakhstan.

As at 31 December 2019, the Company has 16 registered branches throughout the Republic of Kazakhstan (as at 31 December 2018: 15 registered branches in the Republic of Kazakhstan).

As at 31 December 2019 and 2018, KazAgro National Managing Holding Joint Stock Company (hereinafter, "KazAgro" or the "Shareholder") is a sole shareholder of the Company. Ultimate owner of the Company is the Government of the Republic of Kazakhstan.

2. Basis of preparation

General

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

These financial statements are prepared under the historical cost convention except as mentioned in Summary of significant accounting policies.

The financial statements are presented in thousands of Kazakhstani tenge ("KZT thousand"), except per common share carrying amounts or unless otherwise indicated.

Reclassifications

The following reclassifications have been made in the statement of financial position at 31 December 2018, to conform to the 2019 presentation:

Statement of financial position as at 31 December 2018	*As previously reported*	*The amount of reclassification*	*As adjusted*
Other liabilities	8,275,597	(4,802,218)	3,473,379
Payables to suppliers	–	4,802,218	4,802,218

3. Summary of accounting policies

Changes in accounting policies

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

IFRS 16 Leases

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

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

(thousands of tenge)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

IFRS 16 Leases (continued)

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

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

The Company has lease agreements for office premises and vehicles. Before the adoption of IFRS 16, the Company classified each of its leases (as lessee) at the inception date as an operating lease. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under Other assets and Other liabilities, respectively.

Upon adoption of IFRS 16, the Company applied a recognition and measurement approach for operating leases as short-term leases.

Leases previously classified as finance leases

The Company did not enter into finance leases in which it acts as a lessee, accordingly, changes in the recognition and measurement of such leases under IFRS 16 had no impact on the Company's financial statements.

Leases previously accounted for as operating leases

For leases classified under IFRS 16 as operating leases, the Company did not change its approach to their measurement and recognition, as the Company enters into short-term leases.

(b) Summary of new accounting policies

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

In case of finance leases in which the Company will act as a lessee:

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.

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

IFRS 16 Leases (continued)

(b) Summary of new accounting policies (continued)

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 to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

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

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

Amounts recognised in the statement of financial position and statement of profit or loss

As at 31 December 2019, the Company has not entered into finance leases in which the Company is a lessee. For the reporting period, the Company recognised expenses related to short-term lease in the amount of KZT 106,003 thousand and did not enter into lease agreements for low-value assets *(Note 27)*.

The Company applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application. As at 1 January 2019, operating leases entered into by the Company are short-term and do not have renewal options.

Based on the above, the adoption of IFRS 16 as at 1 January 2019 had no impact on the Company's financial statements.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

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

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

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

Upon adoption of the Interpretation, the Company considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Company's tax filings in different jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Company determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments will be accepted by the taxation authorities. This clarification had no impact on the financial statements of the Company.

Amendments to IFRS 9 Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the Company's financial statements.

(thousands of tenge)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

Annual improvements 2015-2017 cycle

IAS 12 Income Taxes

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

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

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

IAS 23 Borrowing Costs

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

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

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

Fair value measurement

The fair value is a 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 to by the entity. 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 categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

(thousands of tenge)

3. Summary of accounting policies (continued)

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

From 1 January 2018, the Company classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost;
- FVOCI;
- FVPL.

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

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

Amounts due from credit institutions, loans to customers, investments securities 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.

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Initial measurement (continued)

Business model assessment (continued)

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

The SPPI test

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

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

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

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

Debt instruments at FVOCI

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 OCI. 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 OCI are reclassified from OCI to profit or loss.

The ECLs 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 OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the asset.

Upon initial recognition, the Company occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit or loss. Dividends are recognised in profit or loss as other income when the right of the payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment. Upon disposal of these instruments, the accumulated revaluation reserve is transferred to retained earnings.

Financial guarantees and undrawn loan commitments

The Company issues financial guarantees and loan commitments.

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

(thousands of tenge)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Initial measurement (continued)

Financial guarantees and undrawn loan commitments (continued)

Undrawn loan commitments 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, under IAS 39, a provision was made if they were an onerous contract but, from 1 January 2018, these contracts are in the scope of the ECL requirements.

The Company occasionally issues loan commitments at below market interest rates drawdown. Such commitments are initially recognised at fair value and subsequently measured at the higher of the amount of the ECL allowance and the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

Performance guarantees

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Performance guarantees do not transfer credit risk. The risk under performance guarantee contracts is the possibility that the failure to perform the contractual obligation by another party occurs. Therefore, performance guarantees are not considered financial instruments and thus do not fall in scope of IFRS 9.

Reclassification of financial assets and liabilities

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

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and amounts due from credit institutions that mature within not more than 90 (ninety) days of the date of origination and are free from contractual encumbrances.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to the shareholder and 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.

If the Company purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in profit or loss.

Offsetting

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. An offsetting right must not be preconditioned by a future event and must have a legal force at all 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.

(thousands of tenge)

3. Summary of accounting policies (continued)

Renegotiated loans

Where possible, the Company seeks to restructure loans rather than to take possession of collateral. This 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 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 EIR, the Company records a modification gain or loss that is presented within other income or losses in the income statement, 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 6-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.

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 the profit or loss.

3. Summary of accounting policies (continued)

Taxation

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

Deferred corporate income tax assets and liabilities are calculated in respect of all temporary differences using the liability method. Deferred 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.

Deferred income tax assets are 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 Company performs offsetting of deferred tax assets and deferred tax liabilities and records them in the statement of financial position on a net basis, when:

- The Company has a legally enforced right to offset current tax assets against current tax liabilities, and
- Deferred tax assets and deferred tax liabilities refer to corporate income tax charged by the same tax body from the same taxpayer.

The Company performs its activities in the Republic of Kazakhstan, and it is required to accrue and pay different taxes that are applied to the Company's activities. These taxes are recorded in the income statement 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 capitalisation 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

	Depreciation rate
Land	0%
Buildings and constructions	2%
Motor vehicles	10-14%
Computers and office equipment	14-20%
Other	6-20%

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

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalisation.

Property held for finance lease

Property held for finance lease is stated at the lower of cost and net realisable value. Cost of property intended for finance lease comprises direct charges incurred in bringing the property to its present location and condition.

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets with finite lives are amortised over the useful economic lives of 1 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

3. Summary of accounting policies (continued)

Assets classified as held for sale

The Company classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable.

The sale qualifies as highly probable if the Company's management is committed to a plan to sell the non-current asset. An active program to locate a buyer and complete the plan must have been initiated. Further, the non-current asset must have been actively marketed for a sale at price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the non-current asset as held for sale.

The Company measures an asset classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Company recognises an impairment loss for any initial or subsequent write-down of the asset to fair value less costs to sell if events or changes in circumstance indicate that their carrying amount 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.

Share capital

Share capital

Contributions to share capital are recognised at historic cost less direct share issuance costs.

Additional paid-in capital

When the Company receives loans and other financial support from its shareholder at below market rates, the difference between received cash consideration and fair value of loans is recorded as additional paid in capital.

Reserve capital

Reserve funds may be increased through transfer of funds from retained earnings based on the decision of the Company's shareholder.

Dividends

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

Provision for deemed distribution

When the Company enters into a loan agreement or finance lease agreements at below market rates on behalf of its Shareholder, the difference between the amounts issued and fair value of loans provided or other finance lease is charged to equity as deemed distribution to the Shareholder.

Segment reporting

Business and geographical segments of the Company were not presented separately in these financial statements, since the Company's management believes that the chief operating segment for granting loans and finance lease are agricultural entities in the Republic of Kazakhstan, for which risks and recoverability level are considered to be the same throughout the country.

Contingencies

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

(thousands of tenge)

3. Summary of accounting policies (continued)

Recognition of income and expenses

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

Interest and similar revenue and expense

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

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

Fee and commission income

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

Loan commitment fees are deferred together with any direct costs and recognised as an adjustment to the effective interest rate on the loan. If there is a possibility that due to loan commitment a credit arrangement will be signed, loan commitment fee is included in deferred income (together with corresponding direct costs), and subsequently is reflected as an adjustment of actual proceeds from a loan. When the probability to enter into credit arrangement under loan commitments is remote, loan commitment fees are recognised in the income statement during the remaining validity period of loan commitment. Upon expiration of loan commitment validity period, which is not resulted in loan issuance, loan commitment fees are recognised in the income statement on its expiration date. Fees for loan servicing are recognised upon rendering of services. Loan syndication fees are recognised in the income statement when such services have been provided. Other commissions are recognised upon rendering of services.

Foreign currency translation

The financial statements are presented in Kazakhstani tenge, which is the Company's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling 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 profit or loss as net 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 exchange rates at the date when the fair value was determined.

The difference between the contractual exchange rate of a transaction in a foreign currency and the official Kazakhstan Stock Exchange (KASE) exchange rate as at the date of the transaction are included in gains less losses from translation difference. Below are the exchange rates used by the Company in preparation of these financial statements:

	31 December 2019	*31 December 2018*
Tenge / US dollar	**382.59**	384.20
Tenge / euro	**429.00**	439.37
Tenge / Russian rouble	**6.16**	5.52

3. Summary of accounting policies (continued)

Standards issued but not yet effective

The 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 those standards 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.

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

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

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable for the Company.

Amendments to IAS 1 and IAS 8: Definition of Material

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

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

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

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

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

4. Significant accounting judgments and estimates

Estimation uncertainty

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

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities 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 judgment is required in establishing fair values. Additional details are provided in *Note 29*.

(thousands of tenge)

4. Significant accounting judgments and estimates (continued)

Estimation uncertainty (continued)

Collateral assessment

The Company's management performs monitoring of collateral on a regular basis. The Company's management uses experienced judgements or an independent assessment in order to adjust the cost of collateral considering the current market situation.

Expected credit losses / losses from impairment on financial assets

The measurement of impairment losses both under IFRS 9 as at 1 January 2019 and IAS 39 as at 1 January 2018 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Company's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

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

Taxation

Tax, currency and customs legislation of the Republic of Kazakhstan is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant local or state authorities. As such, significant additional taxes, penalties and interest may be assessed. Tax periods remain open to review by relevant authorities for 5 (five) calendar years preceding the year of tax review. Under certain circumstances reviews may cover longer periods.

As at 31 December 2019 and 2018, management believes that its interpretation of the legislation is appropriate and that the Company's tax, currency and customs positions will be sustained.

5. Cash and cash equivalents

As at 31 December 2019 and 2018, cash comprises:

	31 December 2019	***31 December 2018***
Cash in current bank accounts, tenge	**10,567,620**	27,453,702
Cash on current bank accounts, foreign currency	**568,978**	5,817,325
Time deposits with credit institutions in foreign currencies placed for a term of up to 90 days	**9,444,662**	11,528,349
	20,581,260	44,799,376
ECL allowance	**(595)**	(1,071)
Cash and cash equivalents	**20,580,665**	44,798,305

As at 31 December 2019, cash and cash equivalents concentrated with one bank amounted to KZT 10,467,509 thousand or 50.9% of total cash and cash equivalents (31 December 2018: KZT 13,844,153 thousand or 30.9%).

(thousands of tenge)

5. Cash and cash equivalents (continued)

ECL allowance on cash and cash equivalents

An analysis of changes in the ECL allowance for the year ended 31 December 2019 is as follows:

	2019		
	Stage 1	*Stage 2*	*Total*
ECL allowance as at 1 January 2019	**(998)**	**(73)**	**(1.071)**
New assets originated or purchased	**(136)**	**–**	**(136)**
Changes in ECL for the year	**540**	**75**	**615**
Foreign exchange adjustments	**(1)**	**(2)**	**(3)**
As at 31 December 2019	**(595)**	**–**	**(595)**

An analysis of changes in the ECL allowance for the year ended 31 December 2018 is as follows:

	2018		
	Stage 1	*Stage 2*	*Total*
ECL allowance as at 1 January 2018	(5,815)	–	(5,815)
New assets originated or purchased	(275)	–	(275)
Changes in ECL for the year	5,150	75	5,225
Foreign exchange adjustments	(58)	(148)	(206)
As at 31 December 2018	(998)	(73)	(1,071)

6. Amounts due from credit institutions

As at 31 December 2019 and 2018, amounts due from credit institutions comprised the following:

	31 December 2019	*31 December 2018*
Deposits placed with banks for more than 90 days, in a foreign currency	**8,443,782**	–
Deposits placed with banks for more than 90 days, in tenge	**7,750**	–
	8,451,532	–
ECL allowance	**(5)**	–
Amounts due from credit institutions	**8,451,527**	–

All balances with credit institutions are allocated to Stage 1 for ECL measurement purposes. An analysis of changes in the ECL allowance for the years ended 31 December is as follows:

	2019	*2018*
As at 1 January	**–**	–
Changes in ECL for the year	**(5)**	–
At 31 December	**(5)**	–

7. Investment securities

Investment securities comprise:

	31 December 2019	*31 December 2018*
Debt securities at amortised cost		
Notes of the National Bank of the Republic of Kazakhstan	**11,180,024**	–
	11,180,024	–
ECL allowance	**(834)**	–
Debt securities at amortised cost	**11,179,190**	–

(thousands of tenge)

7. Investment securities (continued)

Investment securities are classified to Stage 1 for ECL measurement purposes. An analysis of changes in the ECL allowance for the years ended 31 December is as follows:

	2019	*2018*
As at 1 January	–	–
Changes in ECL for the year	(834)	–
At 31 December	(834)	–

8. Loans to customers

As at 31 December 2019 and 2018, loans to customers comprise:

	31 December 2019	*31 December 2018*
Loans to legal entities	48,509,786	52,811,101
Total loans to customers before ECL allowance	48,509,786	52,811,101
ECL allowance	(11,579,988)	(9,806,743)
Loans to customers	36,929,798	43,004,358

ECL allowance of loans to customers at amortised cost

An analysis of changes in the gross carrying value and corresponding ECL on loans to customers during the year ended 31 December 2019 is as follows:

	2019			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2019	16,550,120	648,630	35,612,351	52,811,101
New assets originated or purchased	**2,277,489**	**330,246**	**1,450,617**	**4,058,352**
Assets repaid	**(5,874,982)**	**(697,509)**	**(2,588,344)**	**(9,160,835)**
Transfers to Stage 1	**6,716,205**	**(4,101,907)**	**(2,614,298)**	–
Transfers to Stage 2	**(5,697,923)**	**8,634,044**	**(2,936,121)**	–
Transfers to Stage 3	**(5,239,514)**	**(2,848,653)**	**8,088,167**	–
Unwinding of discount (recognised in interest income)	–	–	**563,887**	**563,887**
Changes to contractual cash flows due to modifications not resulting in derecognition	**(8,989)**	**(1,977)**	**(781,455)**	**(792,421)**
Change in interest accrued	**(160,884)**	**2,344**	**1,398,749**	**1,240,209**
Amounts written off	–	–	(210,507)	(210,507)
As at 31 December 2019	**8,561,522**	**1,965,218**	**37,983,046**	**48,509,786**

An analysis of changes in the gross carrying value and corresponding ECL on loans to customers during the year ended 31 December 2018 is as follows:

	2018			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2018	10,883,215	14,196,870	31,732,595	56,812,680
New assets originated or purchased	5,576,524	–	–	5,576,524
Assets repaid	(4,516,968)	(123,447)	(5,537,368)	(10,177,783)
Transfers to Stage 1	8,466,048	(5,033,555)	(3,432,493)	–
Transfers to Stage 2	(1,991,795)	6,057,807	(4,066,012)	–
Transfers to Stage 3	(1,776,298)	(14,449,040)	16,225,338	–
Unwinding of discount (recognised in interest income)	–	–	559,799	559,799
Changes to contractual cash flows due to modifications not resulting in derecognition	–	–	(664,681)	(664,681)
Change in interest accrued	(90,606)	(5)	839,433	748,822
Amounts written off	–	–	(44,260)	(44,260)
As at 31 December 2018	16,550,120	648,630	35,612,351	52,811,101

(thousands of tenge)

8. Loans to customers (continued)

Allowance for ECL of loans to customers at amortised cost (continued)

The analysis of changes in the ECL allowance for 2019 is as follows:

	2019			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
ECL allowance as at 1 January 2019	107,344	117,065	9,582,334	9,806,743
New assets originated or purchased	**31,738**	–	–	**31,738**
Transfers to Stage 1	**26,390**	**(26,390)**	–	–
Transfers to Stage 2	**(3,419)**	**233,768**	**(230,349)**	–
Transfers to Stage 3	**(43,151)**	**(233,588)**	**276,739**	–
Impact on ECL of exposures transferred between stages and changes to inputs used for ECL calculations during the period	**99,265**	**(28,767)**	**2,110,050**	**2,180,548**
Unwinding of discount (recognised in interest income)	–	–	**563,887**	**563,887**
Changes to contractual cash flows due to modifications not resulting in derecognition	**(8,989)**	**(1,977)**	**(781,455)**	**(792,421)**
Amounts written off	–	–	**(210,507)**	**(210,507)**
As at 31 December 2019	**209,178**	**60,111**	**11,310,699**	**11,579,988**

The analysis of changes in the ECL allowance for 2018 is as follows:

	2018			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
ECL allowance as at 1 January 2018	352,428	357,840	8,821,774	9,532,042
New assets originated or purchased	17,606	–	–	17,606
Transfers to Stage 1	612,495	(379,731)	(232,764)	–
Transfers to Stage 2	(155,654)	331,990	(176,336)	–
Transfers to Stage 3	(85,841)	(315,975)	401,816	–
Impact on ECL of exposures transferred between stages and changes to inputs used for ECL calculations during the period	(633,690)	122,941	916,986	406,237
Unwinding of discount (recognised in interest income)	–	–	559,799	559,799
Changes to contractual cash flows due to modifications not resulting in derecognition	–	–	(664,681)	(664,681)
Amounts written off	–	–	(44,260)	(44,260)
As at 31 December 2018	107,344	117,065	9,582,334	9,806,743

Modified and restructured loans

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

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

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

	2019	*2018*
Loans modified during the period		
Amortised cost before modification	**11,013,438**	15,203,246
Net loss from modification that does not result in derecognition	**(792,421)**	(664,681)

(thousands of tenge)

8. Loans to customers (continued)

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 commercial lending collateral include real estate, land, agricultural equipment, inventories and receivables, guarantees.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment.

In the absence of collateral or other credit enhancements, the ECL on loans to customers of Stage 3 as at 31 December 2019 would be higher by KZT 26,611,291 thousand (31 December 2018: KZT 26,030,017 thousand).

Concentration of loans to customers

As at 31 December 2019, the Company had a concentration of loans represented by KZT 16,485,742 thousand issued by the Company to ten largest unrelated parties or 34.0% of gross loan portfolio (31 December 2018: KZT 17,438,014 thousand or 33.0% of gross loan portfolio). As at 31 December 2019, ECL allowance of KZT 2,653,408 thousand was formed against these loans (31 December 2018: KZT 2,330,796 thousand).

Loans are issued to clients within the Republic of Kazakhstan carrying out activities in the agricultural sector of economy:

9. Finance lease receivables

The analysis of finance lease receivables at 31 December 2019 is as follows:

	Not later than 1 year	*Later than 1 year and not later than 5 years*	*Later than 5 years*	*Total*
Gross investment in finance leases	**83,175,666**	**173,731,452**	**99,575,512**	**356,482,630**
Unearned future finance income on finance leases	**(2,684,193)**	**(49,074,897)**	**(55,512,178)**	**(107,271,268)**
Investments into finance lease	**80,491,473**	**124,656,555**	**44,063,334**	**249,211,362**
ECL allowance	**(13,219,810)**	**(7,698,228)**	**(1,678,179)**	**(22,596,217)**
Finance lease receivables	**67,271,663**	**116,958,327**	**42,385,155**	**226,615,145**

The analysis of finance lease receivables as of 31 December 2018 is presented below:

	Not later than 1 year	*Later than 1 year and not later than 5 years*	*Later than 5 years*	*Total*
Gross investment in finance leases	71,328,500	146,974,581	66,949,107	285,252,188
Unearned future finance income on finance leases	(2,143,902)	(37,446,321)	(35,738,946)	(75,329,169)
Investments into finance lease	69,184,598	109,528,260	31,210,161	209,923,019
ECL allowance	(12,302,787)	(9,322,450)	(1,680,565)	(23,305,802)
Finance lease receivables	56,881,811	100,205,810	29,529,596	186,617,217

(thousands of tenge)

9. Finance lease receivables (continued)

An analysis of changes in the gross carrying value and corresponding ECL on accounts receivable on finance lease for the year ended 31 December 2019 is as follows:

	2019			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2019	142,038,188	9,585,802	58,299,029	209,923,019
New assets originated or purchased	**83,172,467**	–	–	**83,172,467**
Assets repaid	**(37,737,041)**	**(2,251,910)**	**(5,894,584)**	**(45,883,535)**
Transfers to Stage 1	**35,903,272**	**(27,881,077)**	**(8,022,195)**	–
Transfers to Stage 2	**(31,015,986)**	**45,794,581**	**(14,778,595)**	–
Transfers to Stage 3	**(7,783,729)**	**(14,470,506)**	**22,254,235**	–
Changes to contractual cash flows due to modifications not resulting in derecognition	**364**	**(18,229)**	**(661,917)**	**(679,782)**
Change in interest accrued	**1,582,165**	**86,505**	**1,039,081**	**2,707,751**
Amounts written off	–	–	**(28,558)**	**(28,558)**
As at 31 December 2019	**186,159,700**	**10,845,166**	**52,206,496**	**249,211,362**

An analysis of changes in the gross carrying value and corresponding ECL on accounts receivable on finance lease for the year ended 31 December 2018 is as follows:

	2018			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2018	128,960,679	19,445,487	52,958,682	201,364,848
New assets originated or purchased	47,184,887	–	–	47,184,887
Assets repaid	(27,077,711)	(3,767,396)	(7,816,548)	(38,661,655)
Transfers to Stage 1	22,177,037	(13,453,080)	(8,723,957)	–
Transfers to Stage 2	(15,922,963)	26,112,173	(10,189,210)	–
Transfers to Stage 3	(12,595,215)	(18,675,798)	31,271,013	–
Change in interest accrued	(688,526)	(75,584)	832,252	68,142
Amounts written off	–	–	(33,203)	(33,203)
As at 31 December 2018	142,038,188	9,585,802	58,299,029	209,923,019

An analysis of changes in the ECL allowance for the year ended 31 December 2019 is as follows:

	2019			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
ECL allowance as at 1 January 2019	2,139,746	1,439,430	19,726,626	23,305,802
New assets originated or purchased	**2,476,191**	–	–	**2,476,191**
Transfers to Stage 1	**4,422,426**	**(3,205,789)**	**(1,216,637)**	–
Transfers to Stage 2	**(623,121)**	**3,538,051**	**(2,914,930)**	–
Transfers to Stage 3	**(69,475)**	**(1,952,462)**	**2,021,937**	–
Impact on ECL of exposures transferred between stages and changes to inputs used for ECL calculations during the period	**(4,662,732)**	**1,298,940**	**886,356**	**(2,477,436)**
Changes to contractual cash flows due to modifications not resulting in derecognition	**364**	**(18,229)**	**(661,917)**	**(679,782)**
Amounts written off	–	–	**(28,558)**	**(28,558)**
As at 31 December 2019	**3,683,399**	**1,099,941**	**17,812,877**	**22,596,217**

An analysis of changes in the ECL allowance for the year ended 31 December 2018 is as follows:

	2018			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
ECL allowance as at 1 January 2018	3,257,087	1,599,099	15,960,270	20,816,456
New assets originated or purchased	1,162,540	–	–	1,162,540
Transfers to Stage 1	3,499,667	(1,708,172)	(1,791,495)	–
Transfers to Stage 2	(567,313)	1,470,463	(903,150)	–
Transfers to Stage 3	(922,711)	(1,611,162)	2,533,873	–
Impact on ECL of exposures transferred between stages and changes to inputs used for ECL calculations during the period	(4,289,524)	1,689,202	3,960,331	1,360,009
Amounts written off	–	–	(33,203)	(33,203)
As at 31 December 2018	2,139,746	1,439,430	19,726,626	23,305,802

(thousands of tenge)

9. Finance lease receivables (continued)

Modified and restructured financial lease agreements

In accordance with the requirements of IFRS 16 *Leases*, effective from 1 January 2019, the Company accounts for a finance lease modification as a separate lease if both:

(a) The modification increases the scope of the lease by adding the right to use one or more underlying assets, and

(b) The consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a modification to a finance lease that is not accounted for as a separate lease, the Company shall account for the modification as follows:

(a) If the lease would have been classified as an operating lease had the modification been in effect at the inception date: the Company:

  (i) Account for the lease modification as a new lease from the effective date of the modification, and

  (ii) Measure the carrying amount of the underlying asset as the net investment in the lease immediately before the effective date of the lease modification;

(b) Otherwise, the Company applies the requirements of IFRS 9.

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

	2019	*2018*
Financial lease receivables modified during the period		
Amortised cost before modification	**10,261,518**	–
Net loss from modification that does not result in derecognition	**(679,782)**	–

Concentration of financial lease receivables

As at 31 December 2019, the Company had a concentration of finance lease receivables represented by KZT 22,191,768 thousand issued by the Company to ten largest unrelated parties or 8.9% of gross finance lease receivables (31 December 2018: KZT 24,859,206 thousand or 11.8%). As at 31 December 2019, ECL allowance of these receivables recognised by the Company amounted to KZT 2,843,150 thousand (31 December 2018: KZT 5,076,670 thousand).

10. Assets held for sale

According to the decision of the Company's Management Board dated 28 August 2019 on the sale of office space with adjacent land, this property was classified as assets held for sale. As at 31 December 2019, the carrying value of these assets was KZT 511,083 thousand *(Notes 12 and 22).*

11. Property held for finance lease

As at 31 December 2019 and 2018, inventories held for finance lease and comprise the following:

	31 December 2019	*31 December 2018*
Equipment held for finance lease	**4,595,913**	7,830,897
Collateral transferred to ownership	**4,055,725**	3,515,820
Other materials	**30,085**	20,517
	8,681,723	11,367,234
Allowance for impairment *(Note 22)*	**(976,782)**	(627,056)
Property held for finance lease	**7,704,941**	10,740,178

During 2019, various assets received as repayment of borrowers' debts were transferred to the Company's ownership. The Company plans to transfer this property under finance lease agreements.

(thousands of tenge)

12. Property and equipment

The movements in property and equipment were as follows:

	Land	*Buildings and const-ructions*	*Motor vehicles*	*Computers and office equipment*	*Other*	*Total*
Cost						
At 31 December 2017	31,922	850,489	144,248	572,031	107,262	1,705,952
Additions	–	–	7,517	76,478	2,482	86,477
Disposals	–	–	(3,820)	(4,227)	(3,580)	(11,627)
As at 31 December 2018	31,922	850,489	147,945	644,282	106,164	1,780,802
Additions	–	–	–	**237,362**	**3,503**	**240,865**
Disposals	–	–	–	**(1,376)**	**(1,346)**	**(2,722)**
Transfer to assets available-for-sale *(Note 10)*	**(31,922)**	**(850,489)**	–	–	–	**(882,411)**
As at 31 December 2019	–	–	**147,945**	**880,268**	**108,321**	**1,136,534**
Accumulated depreciation						
At 31 December 2017	–	(229,025)	(58,466)	(297,381)	(80,590)	(665,462)
Depreciation charge	–	(21,515)	(16,212)	(86,896)	(6,446)	(131,069)
Disposals	–	–	3,820	4,226	3,499	11,545
As at 31 December 2018	–	(250,540)	(70,858)	(380,051)	(83,537)	(784,986)
Depreciation charge	–	**(11,891)**	**(16,452)**	**(119,180)**	**(5,463)**	**(152,986)**
Disposals	–	–	–	**1,376**	**1,187**	**2,563**
Transfer to assets available-for-sale *(Note 10)*	–	**262,431**	–	–	–	**262,431**
As at 31 December 2019	–	–	**(87,310)**	**(497,855)**	**(87,813)**	**(672,978)**
Net book value						
At 31 December 2017	31,922	621,464	85,782	274,650	26,672	1,040,490
As at 31 December 2018	31,922	599,949	77,087	264,231	22,627	995,816
As at 31 December 2019	–	–	**60,635**	**382,413**	**20,508**	**463,556**

13. Intangible assets

The movements in intangible assets were as follows:

	Software and licenses
Cost	
At 31 December 2017	863,160
Proceed	125,363
As at 31 December 2018	988,523
Additions	**162,432**
As at 31 December 2019	**1,150,955**
Accumulated depreciation	
At 31 December 2017	(333,117)
Depreciation charge	(100,437)
As at 31 December 2018	(433,554)
Depreciation charge	**(136,297)**
As at 31 December 2019	**(569,851)**
Net book value	
At 31 December 2017	530,043
As at 31 December 2018	554,969
As at 31 December 2019	**581,104**

(thousands of tenge)

14. VAT and other taxes recoverable

As at 31 December 2019 and 2018, value added tax and other taxes recoverable comprise the following:

	31 December 2019	*31 December 2018*
Value added tax recoverable	**6,121,699**	3,876,832
Other taxes	**15,794**	14,206
VAT and other taxes recoverable	**6,137,493**	3,891,038

15. Advances paid

As at 31 December 2019 and 2018, advances paid comprise:

	31 December 2019	*31 December 2018*
Advances paid for agricultural machinery	**5,589,858**	7,199,582
Advances paid for equipment	**10,770**	10,770
Other advances paid	**21,361**	4,337
	5,621,989	7,214,689
Allowance for impairment *(Note 22)*	**(24,073)**	(24,629)
Advances paid	**5,597,916**	7,190,060

As at 31 December 2019 and 2018, advance payments represent prepayment for delivery of agricultural machinery, equipment and cattle stock for further transfer to finance lease.

16. Amounts due to the Shareholder

As at 31 December 2019 and 2018, amounts due to the Shareholder comprise:

	Currency	*Maturity*	*31 December 2019*	*31 December 2018*
Framework loan agreement No. 35	Tenge	2023	**26,705,679**	35,920,297
Loan agreement No. 86	Tenge	2020	**10,609,107**	10,611,825
Framework loan agreement No. 63	Tenge	2020	**6,036,669**	6,113,127
Framework loan agreement No. 39	Tenge	2027	**5,966,035**	6,762,843
Loan agreement No. 118	Tenge	2021	**1,926,466**	2,799,416
Framework loan agreement No. 113	Tenge	2023	**1,825,050**	3,268,543
Loan agreement No. 64	Tenge	2023	**1,067,396**	1,755,986
Amounts due to the Shareholder			**54,136,402**	67,232,037

As at 31 December 2019 and 2018, the due to the Shareholder includes the amount due under the Framework Loan Agreement No. 35 (the "Agreement"). In accordance with this Agreement, the Company was provided with a long-term investment loan to develop, expand and modify material production in agricultural sector. Proceeds from the loan are used by the Company to finance long term investment projects. The funding is carried out by the Shareholder from the National Fund under bond program through National Bank of the Republic of Kazakhstan. The agreement is effective until 30 December 2013. As at 31 December 2019 and 2018, the financing limit under the Agreement amounted to KZT 113,459,000 thousand with a nominal interest rate of 1.02% per annum. The effective interest rate on loans obtained amounted to 6.0% per annum. As at 31 December 2019, the amount due under this Agreement is KZT 26,705,679 thousand (31 December 2018: KZT 35,920,297 thousand).

On 24 June 2013, the Company and the Shareholder entered into the framework loan agreement No. 63 in the amount of KZT 30,363,131 thousand for a period of 7 (seven) years and a nominal interest rate of 5.8% per annum. As at 31 December 2019, the amount due under this agreement is KZT 6,036,669 thousand (31 December 2018: KZT 6,113,127 thousand).

On 23 September 2014, the Company and the Shareholder entered into a framework agreement No. 113 in the amount of KZT 14,272,998 thousand for the period of 9 (nine) years and an interest rate of 10% per annum subject to subsidising by the government, of which 7% is subsidised by the government and 3% per annum is paid by the Company. As at 31 December 2019, the amount due under this agreement is KZT 1,825,050 thousand (31 December 2018: KZT 3,268,543 thousand).

On 1 October 2014, the Company and the Shareholder entered into the loan agreement No. 118 in the amount of KZT 6,189,000 thousand for a period of 7 (seven) years and a nominal interest rate of 1.02% per annum, the effective interest rate on a loan amounts to 7.17% per annum. As at 31 December 2019, the amount due under this agreement is KZT 1,926,466 thousand (31 December 2018: KZT 2,799,416 thousand).

(thousands of tenge)

16. Amounts due to the Shareholder (continued)

On 12 May 2016, the Company and the Shareholder entered into the loan agreement No. 64 in the amount of KZT 3,800,000 thousand for a period of 7 (seven) years and a nominal interest rate of 1,02% per annum, the effective interest rate on a loan amounts to 11.97% per annum. As at 31 December 2019, the amount due under this agreement is KZT 1,067,396 thousand (31 December 2018: KZT 1,755,986 thousand).

On 16 June 2017, the Company and the Shareholder entered into the framework agreement No. 39 in the amount of KZT 8,220,600 thousand for a period of 10 years and an interest rate of 1.02% per annum, the effective interest rate on a loan amounts to 8.49% per annum. As at 31 December 2019, the amount due under this agreement is KZT 5,966,035 thousand (31 December 2018: KZT 6,762,843 thousand).

On 24 July 2018, the Company and the Shareholder entered into the loan agreement No. 86 in the amount of KZT 10,000,000 thousand for a period of 12 months with an option to renew it up to 36 months by the decision of the Management Board of the Shareholder. On 23 July 2019, the Company entered into additional agreement No. 1 with the Shareholder to the Agreement No. 86, providing for the prolongation of the loan term for 12 months. As at 31 December 2019, the amount due under this agreement is KZT 10,609,107 thousand (31 December 2018: KZT 10,611,825 thousand).

As at 31 December 2019, the Company has no obligations on compliance with financial covenants under agreements with the Shareholder. The amount due to the Shareholder is not secured by collateralised property.

17. Amounts due to credit institutions

As at 31 December 2019 and 2018, amounts due to credit institutions comprised the following:

	Currency	*Maturity*	*31 December 2019*	*31 December 2018*
Halyk Bank JSC	Tenge	2024	**20,103,385**	–
Agrarian Credit Corporation JSC	Tenge	2025	**18,129,333**	11,657,380
SB Sberbank of Russia JSC	Tenge	2021	**12,382,361**	14,734,694
Citibank Kazakhstan JSC	Tenge	2020	**12,282,777**	–
Eurasian Development Bank	Tenge	2020	**9,586,111**	9,771,305
Roseximbank JSC	Russian rouble	2022-2023	**3,450,362**	3,833,931
Deere Credit, Inc.	US dollar	2019	**–**	857,531
Landesbank Berlin AG	Euro	2019	**–**	611,940
GazPromBank JSC	US dollar	2019	**–**	184,299
Rosselhozbank JSC	US dollar	2019	**–**	156,630
Amounts due to credit institutions			**75,934,329**	41,807,710

On 13 August 2019, the Company and Halyk Bank JSC signed an Agreement to provide a credit line in the amount of KZT 20,000,000 thousand for a period of 5 years, under which the amount of KZT 20,000,000 thousand was received.

On 31 August 2019, the Company and Citibank Kazakhstan JSC signed a General agreement on short-term loans in the amount of KZT 16,000,000 thousand, under which the amount of KZT 12,000,000 thousand was received.

On 28 November 2019, the Company and Agrarian Credit Corporation JSC signed a Framework agreement to open a credit line in the amount of KZT 15,000,000 thousand for a period of 84 months and a nominal rate of 5.0% per annum, under which the Company received KZT 8,225,000 thousand. As at 31 December 2019, the amount due under this agreement is KZT 7,105,361 thousand, the effective interest rate is 5.0% per annum. The fair value of the amounts due to Agrarian Credit Corporation JSC as at the date of initial recognition was calculated based on expected cash flows discounted at the rate of 9.58% per annum. Upon initial recognition of the amounts due to Agrarian Credit Corporation JSC, the Company recognised discount in the amount of KZT 1,162,611 thousand in equity as transactions with the Shareholder.

Financial covenants

In accordance with the terms of the agreements of loans from credit institutions, the Company is required to comply with certain financial ratios, including prudential standards established by the NBRK for KazAgro's subsidiaries in the area of agro-industrial complex of the Republic of Kazakhstan.

As at 31 December 2019 and 2018, the Company meets the requirements related to compliance with the restrictive covenants under the agreements with the creditors.

(thousands of tenge)

18. Debt securities issued

As at 31 December 2019 and 2018, issued debt securities comprise the following:

	Maturity	*Rate, %*	*Currency*	*31 December 2019*	*31 December 2018*
Second issue of coupon bonds	12 June 2022	8,5%	Tenge	**18,027,514**	18,012,268
Third issue of bonds as part of the first bond program	16 January 2023	8,0%	Tenge	**17,130,311**	17,007,945
Second issue of coupon bonds as part of the second bond program	8 November 2023	12,0%	Tenge	**12,164,687**	8,043,907
Second issue of bonds as part of the second bond program	14 November 2021	15,0%	Tenge	**8,138,093**	8,128,158
Third issue of coupon bonds as part of the second bond program	24 December 2024	12,0%	Tenge	**5,972,046**	–
First issue of coupon bonds	12 June 2024	8,5%	Tenge	**3,952,283**	3,949,539
Commercial bonds	29 October 2019	10,5%	Tenge	**–**	9,454,251
Debt securities issued				**65,384,934**	64,596,068

In February and March 2019, the Company placed bonds of the first issue of coupon bonds within the second bond program with a total nominal value of KZT 4,040,050 thousand and bonds of the second issue of coupon bonds within the second bond program with a total nominal value of KZT 50,000 thousand.

In November 2019, the Company repaid commercial bonds due to expiration of their circulation period.

In December 2019, the Company placed the third issue of coupon bonds under the second bond program with a total nominal value of KZT 6,243,700 thousand.

As at 31 December 2019 and 2018, the Company was in compliance with covenants related to the issued debt securities.

19. Payables to suppliers

As at 31 December 2019 and 2018, accounts payable to suppliers include the Company's payables to suppliers for property for subsequent transfer to finance lease, as follows:

	31 December 2019	*31 December 2018*
Agricultural machinery	**4,905,777**	3,555,320
Equipment	**645,478**	964,920
Great cattle	**45,002**	115,413
Other	**265,329**	166,565
Payables to suppliers	**5,861,586**	4,802,218

20. Taxation

Corporate income tax benefit comprises:

	2019	*2018*
Current corporate income tax expense	**215,818**	222,908
Deferred corporate income tax benefit - origination and decrease of temporary differences	**(583,550)**	(331,107)
Net of deferred tax recognised in equity	**(106,671)**	(188,656)
Corporate income tax benefit	**(474,403)**	(296,855)

Deferred corporate income tax recognised in equity is allocated as follows:

	2019	*2018*
By assets	**–**	15,719
By liabilities	**(106,671)**	(204,375)
Corporate income tax recognised in equity	**(106,671)**	(188,656)

As at 31 December 2019, current corporate income tax assets comprised KZT 134,137 thousand (as at 31 December 2018: KZT 175,427 thousand).

(thousands of tenge)

20. Taxation (continued)

Corporate income tax rate for the Company was 20.0% in 2019 and 2018.

The effective CIT rate differs from the statutory CIT rates. Below is the reconciliation of corporate income tax expenses based on statutory rate with corporate income tax benefit recorded in the financial statements:

	2019	*2018*
Profit before tax	**8,736,561**	6,431,517
Statutory corporate income tax rate	**20%**	20%
Theoretical corporate income tax expenses at the statutory rate	**1,747,312**	1,286,303
Non-taxable interest income on finance lease receivables	**(2,729,167)**	(2,637,657)
Expenses for corporate income tax withheld at the source of payment of income	**215,818**	222,908
Non-deductible expenses on credit losses	**241,616**	716,805
Non-deductible other impairment and provision expenses	**23,396**	18,553
Non-deductible expenses not related to principal activities	**25,921**	52,975
Non-deductible fines and penalties	**701**	43,258
Corporate income tax benefit	**(474,403)**	(296,855)

Deferred corporate income tax assets and liabilities, and their movement for respective years comprised the following at 31 December:

		Origination and reversal of temporary differences			*Origination and reversal of temporary differences*		
	2017	*In the statement of profit or loss*	*In equity*	*2018*	*In the statement of profit or loss*	*In equity*	*2019*
Tax effect of deductible temporary differences							
Loans to customers	599,035	(185,475)	15,719	429,279	**(73,557)**	–	**355,722**
Finance lease receivables	–	–	–	–	**110,677**	–	**110,677**
Amounts due from credit institutions	16,080	(2,281)	–	13,799	**112,501**	–	**126,300**
Accrued expenses for unused vacations	53,450	–	–	53,450	–	–	**53,450**
Guarantees	36,840	–	–	36,840	–	–	**36,840**
Deferred corporate income tax assets	705,405	(187,756)	15,719	533,368	**149,621**	–	**682,989**
Tax effect of taxable temporary differences							
Finance lease receivables	(292,631)	114,759	–	(177,872)	**79,138**	–	**(98,734)**
Amounts due to the Shareholder	(2,032,523)	603,700	64,510	(1,364,313)	**383,212**	**125,851**	**(855,250)**
Amounts due from credit institutions	–	–	(268,885)	(268,885)	**66,409**	**(232,522)**	**(434,998)**
Property and equipment and intangible assets	(49,555)	(10,940)	–	(60,495)	**11,840**	–	**(48,655)**
Deferred corporate income tax liabilities	(2,374,709)	707,519	(204,375)	(1,871,565)	**540,599**	**(106,671)**	**(1,437,637)**
Net deferred corporate income tax liability	(1,669,304)	519,763	(188,656)	(1,338,197)	**690,220**	**(106,671)**	**(754,648)**

Deferred corporate income tax assets are recognised only to the extent that it is probable that the future taxable profit will be available against which an asset can be utilised. Deferred corporate income tax assets are decreased to the extent that it is no longer probable that a respective tax benefit will be realised.

21. Advances received

As at 31 December 2019, advances received in the amount of KZT 4,795,803 thousand (31 December 2018: KZT 4,263,925 thousand) represent prepayment from clients for property held for finance lease that was acquired under finance lease agreements but not transferred to the lessee, as well as prepayments made under finance lease agreements.

(thousands of tenge)

22. Credit loss expense

The table below discloses the ECL expenses on financial instruments recorded in profit or loss for the year ended 31 December 2019:

	Notes	2019 Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents	5	**403**	**73**	**–**	**476**
Amounts due from credit institutions	6	**(5)**	**–**	**–**	**(5)**
Securities carried at amortised cost	7	**(834)**	**–**	**–**	**(834)**
Loans to customers	8	**(122,014)**	**30,744**	**(1,328,595)**	**(1,419,865)**
Finance lease receivables	9	**2,186,177**	**(1,280,711)**	**(224,439)**	**681,027**
Undrawn credit facilities	25	**(72,667)**	**–**	**–**	**(72,667)**
Issued guarantees	25	**3,110**	**–**	**–**	**3,110**
Other financial assets	23	**–**	**(454,820)**	**54,987**	**(399,833)**
Credit loss expense		**1,994,170**	**(1,704,714)**	**(1,498,047)**	**(1,208,591)**

The table below discloses the ECL expenses on financial instruments recorded in profit or loss for the year ended 31 December 2018:

	Notes	2018 Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents	5	4,817	(73)	–	4,744
Amounts due from credit institutions	6	543	–	–	543
Loans to customers	8	616,084	(122,941)	(252,305)	240,838
Finance lease receivables	9	3,126,984	(1,689,202)	(3,960,331)	(2,522,549)
Undrawn credit facilities	25	88,864	–	–	88,864
Issued guarantees	25	1,134	–	–	1,134
Other financial assets	23	–	(409,997)	(222,417)	(632,414)
Credit loss expense		3,838,426	(2,222,213)	(4,435,053)	(2,818,840)

The movements in impairment allowances and other provisions were as follows:

	Property held for finance lease	*Advances paid*	*Assets held for sale*	*Total*
At 31 December 2017	(577,764)	(11,703)	–	(589,467)
Charges	(176,980)	(12,926)	–	(189,906)
Write-off of assets	127,688	–	–	127,688
As at 31 December 2018	(627,056)	(24,629)	–	(651,685)
(Charge)/reversal	**(551,922)**	**513**	**(108,897)**	**(660,306)**
Write-off of assets	**202,196**	**43**	**108,897**	**311,136**
As at 31 December 2019	**(976,782)**	**(24,073)**	**–**	**(1,000,855)**

Provisions for impairment of assets are deducted from the cost of related assets.

23. Other assets and liabilities

As at 31 December 2019 and 2018, other assets comprise:

	31 December 2019	*31 December 2018*
Other financial assets		
Accounts receivable recognised based on the court decision	**1,706,568**	1,300,580
Amounts due on reimbursement of lost leasing items	**84,451**	75,786
Other receivables	**823,101**	692,441
	2,614,120	2,068,807
ECL allowance	**(1,985,163)**	(1,588,189)
Total other financial assets	**628,957**	480,618
Other non-financial assets		
Deferred expenses	**219,471**	485,249
Due to employees	**596**	643
Total other non-financial assets	**220,067**	485,892
Other assets	**849,024**	966,510

(thousands of tenge)

23. Other assets and liabilities (continued)

An analysis of changes in the ECLs for other financial assets for the year ended 31 December 2019 is as follows:

	2019		
	Stage 2	***Stage 3***	***Total***
ECL allowance as at 1 January 2019	(17,996)	(1,570,193)	(1,588,189)
New assets originated or purchased	**(422,589)**	**(116,540)**	**(539,129)**
Transfers to Stage 3	**3,699**	**(3,699)**	–
Changes in ECL for the period	**(32,231)**	**171,527**	**139,296**
Amounts written off	–	**2,859**	**2,859**
As at 31 December 2019	**(469,117)**	**(1,516,046)**	**(1,985,163)**

An analysis of changes in the ECLs for other financial assets for the year ended 31 December 2018 is as follows:

	2018		
	Stage 2	***Stage 3***	***Total***
ECL allowance as at 1 January 2018	(14,037)	(952,885)	(966,922)
New assets originated or purchased	(409,800)	–	(409,800)
Transfers to Stage 2	(4,762)	4,762	–
Transfers to Stage 3	407,010	(407,010)	–
Changes in ECL for the year	(197)	(222,417)	(222,614)
Amounts written off	3,790	7,357	11,147
As at 31 December 2018	(17,996)	(1,570,193)	(1,588,189)

As at 31 December 2019 and 2018, other liabilities comprise:

	31 December 2019	***31 December 2018***
Other financial liabilities		
ECL allowance on contingent liabilities of credit nature *(Note 25)*	**160,119**	90,562
Other financial liabilities	**160,119**	90,562
Other non-financial liabilities		
Deferred interest income	**1,413,589**	2,915,252
Compulsory payments payable to budget and payables to employees	**43,762**	56,014
Taxes other than corporate income tax payable	**29,629**	114,088
Other current liabilities	**318,898**	297,463
Other non-financial liabilities	**1,805,878**	3,382,817
Other liabilities	**1,965,997**	3,473,379

24. Equity

As at 31 December 2019 and 2018, total amount of authorised, issued and fully paid common shares comprised 82,837,204 shares at the offering price of 1,000 tenge per share. The owner of a common share has the right for one vote and an equal right for dividends. Distributable income is determined on the basis of income recorded in the Company's financial statements.

In accordance with the decision of the Shareholder as of 31 May 2019, the Company declared dividends for 2018 in the amount of KZT 6,728,372 thousand or 81.22 tenge per common share. During the reporting period, the dividends were fully paid. In accordance with the decision of the Shareholder dated 29 May 2018, the Company declared dividends for 2017 in the amount of KZT 3,572,220 thousand or 43.12 tenge per one common share. As at 31 December 2018, the dividends were paid in full.

In accordance with the Regulation of the Company, provisions are made for general risks including future losses and other unforeseen risks and obligations. Reserve capital is subject to distribution on the basis of decision of general shareholders meeting. There were no changes in reserve funds during 2019 and 2018. As at 31 December 2019 and 2018, the reserve fund amounted to KZT 1,436,184 thousand.

(thousands of tenge)

24. Equity (continued)

Presented below is movement in items of additional paid-in capital and provision for notional distribution:

	Additional paid-in capital	*Provision for deemed distribution*
At 31 December 2017	24,912,791	(9,542,733)
Income from initial recognition of loans from the Shareholder at below market rates	1,021,877	–
Tax effect from initial recognition of loans obtained from the Shareholder at below market rates *(Note 20)*	(204,375)	–
Provision for notional distribution for the year	–	(78,597)
Tax effect of recognition of provision for notional distribution *(Note 20)*	–	15,719
As at 31 December 2018	25,730,293	(9,605,611)
Income from initial recognition of loans from the Shareholder at below market rates	**533,353**	**–**
Tax effect from initial recognition of loans obtained from the Shareholder at below market rates *(Note 20)*	**(106,671)**	**–**
Provision for notional distribution for the year	**–**	**–**
Tax effect of recognition of provision for notional distribution *(Note 20)*	**–**	**–**
As at 31 December 2019	**26,156,975**	**(9,605,611)**

As at 31 December 2019 the book value per common share calculated in accordance with Kazakhstan Stock Exchange methodology is 311,95 tenge (31 December 2018: 1,277.14 tenge).

	2019	*2018*
Assets	**325,735,579**	298,933,878
Less intangible assets	**(581,104)**	(554,969)
Less liabilities	**(216,476,593)**	(192,584,166)
Net assets	**108,677,882**	105,794,743
Number of common shares as at 31 December, shares	**82,837,204**	82,837,204
Book value per ordinary share (in tenge)	**1,311.95**	1,277.14

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2019	*2018*
Net profit for the year	**9,210,964**	6,728,372
The average weighted number of common shares for the year ended 31 December	**82,837,204**	82,837,204
Basic and diluted earnings per ordinary share (in tenge)	**111.19**	81.22

As at 31 December 2019 and 2018, the Company did not have any financial instruments diluting earnings per share.

25. Commitments and contingencies

Operating environment

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.

In 2019, the volatility of the tenge's exchange rate against major foreign currencies continued to have a negative impact on the Kazakhstan economy. Interest rates in tenge remain high. The combination of the above along with other factors resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth. Management of the Company believes it is taking appropriate measures to support the sustainability of the Company's business in the current circumstances.

(thousands of tenge)

25. Commitments and contingencies (continued)

Legal proceedings

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

Management is unaware of any significant or pending and threatened claims against the Company.

Taxation

Kazakhstan commercial, and in particular, tax legislation contains regulations, interpretation of which could vary, and in certain cases the legislation could be amended with indirect retrospective impact. In addition, Company's management's interpretation of the legislation may differ from that of tax authorities, and in the result transactions carried out by the Company could be estimated by tax authorities in other way, and this could result in additional charge of taxes, fines and penalties. The Company's management considers that all necessary tax accruals were fulfilled and, correspondingly, there were no any allowances charged in the statements. Tax periods remain open for 5 (five) years.

Undrawn credit facilities

As at 31 December 2019 and 2018, the Company's commitments and contingencies comprised the following:

	31 December 2019	*31 December 2018*
Credit related commitments		
Undrawn credit facilities	**7,580,933**	4,432,515
Issued guarantees	**748,834**	1,260,323
Credit related commitments before ECL allowance	**8,329,767**	5,692,838
ECL allowance *(Note 23)*	**(160,119)**	(90,562)
Total	**8,169,648**	5,602,276

On 16 June 2011 the Company issued a financial guarantee in the amount of 6,661,130 Islamic Dinar on behalf of associated company JSC Fund of financial support of agriculture to the Islamic Development Bank under loan facility. This guarantee was secured by counter-guarantee of KazAgro. As at 31 December 2019, the total amount of the loan obtained by Fund for Financial Support of Agriculture JSC totalled 1,415 Islamic dinar or KZT 748,834 thousand (31 December 2018: 2,359 thousand Islamic dinar or KZT 1,260,323 thousand).

The analysis of changes in allowances for ECL on the undrawn credit lines and guarantees issued for the years ended 31 December 2019 and 2018 is as follows:

	Undrawn credit facilities	*Issued guarantees*	*Total*
ECL allowance as at 1 January 2018	173,065	7,495	180,560
Changes in ECL for the year	(88,864)	(1,134)	(89,998)
As at 31 December 2018	84,201	6,361	90,562
Changes in ECL for the year	**72,667**	**(3,110)**	**69,557**
As at 31 December 2019	**156,868**	**3,251**	**160,119**

26. Other income

Other income comprises the following:

	2019	*2018*
Income from reimbursement of expenses and write-off of liabilities	**582,592**	458,552
Income from reversal of provisions for inventory	**149,810**	98,490
Fines and penalties received	**78,020**	38,062
Income from finance lease items subject to return	**–**	39,772
Other	**21,370**	336,011
Other income	**831,792**	970,887

Fines and penalties were obtained by the Company from suppliers for untimely delivery of equipment held for finance lease.

(thousands of tenge)

27. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2019	*2018*
Personnel expenses	**(2,541,993)**	(2,481,160)
Social security costs	**(243,095)**	(248,616)
Personnel expenses	**(2,785,088)**	(2,729,776)
Repair and maintenance	**(214,617)**	(135,208)
Professional services	**(135,286)**	(137,217)
Taxes other than corporate income tax	**(117,813)**	(65,344)
Rent	**(106,003)**	(118,794)
Maintenance of leasing items	**(77,287)**	(111,317)
Materials	**(55,983)**	(51,337)
Advertising and marketing	**(51,732)**	(41,510)
Business trip expenses	**(48,164)**	(56,119)
Communication	**(34,070)**	(32,220)
Insurance	**(24,545)**	(27,600)
Trainings	**(20,761)**	(13,529)
Bank charges	**(16,982)**	(18,257)
Legal expenses	**(11,237)**	(8,929)
Office supplies	**(8,972)**	(8,641)
Utilities	**(5,699)**	(6,364)
Sponsorship	**(5,000)**	(5,000)
Social program expenses	**(3,279)**	(2,617)
Other	**(131,347)**	(73,135)
Other operating expenses	**(1,068,777)**	(913,138)

28. Risk management

Introduction

Risk is inherent in the Company's activities. The Company manages these risks through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities. The Company is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It also subject to operating risks.

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

Risk management structure

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

Board of Directors

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

Management Board

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

Risk Management

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

(thousands of tenge)

28. Risk management (continued)

Introduction (continued)

Risk Controlling

The Risk Controlling Unit is responsible for monitoring compliance with risk principles, policies and limits, across the Company. The Company's structure comprises a separate unit that is directly subordinate to the Board of Directors and which is responsible for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This unit also ensures the complete capture of the risks in risk measurement and reporting systems. There are risk managers for the purpose of risk controlling in the branches of the Company.

Treasury

Company Treasury is responsible for managing the Company's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Company.

Internal audit

The objective of internal audit is to provide the Board of Directors with independent, objective and unbiased information based on annual audits, both adequacy of procedures and compliance with these procedures by the Company. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations directly to the Boards of Directors.

Risk measurement and reporting systems

The Company's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Company also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the 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.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented to the Board of Directors, Management Board, Credit Committee and the heads of departments. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, VaR, liquidity ratios, interest risk ratios and risk profile changes.

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.

The Company's Management Board and other relevant employees meetings are regularly held to discuss maintenance of established limits and analyse VaR, investments, liquidity, and risk developments.

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, equity risks, credit risks, and exposures arising from forecast transactions.

The Company actively uses collateral to reduce its credit risk.

Credit risk

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

The Company has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Credit risk is regularly reviewed. The credit quality review process allows the Company to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

(thousands of tenge)

28. Risk management (continued)

Credit risk (continued)

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

Credit-related commitments risks

The Company makes available to its customers guarantees which may require that the Company make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Company to similar risks to loans and these are mitigated by the same control processes and policies.

The maximum exposure to credit risk for the components of the statement of financial position, 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.

Impairment assessment

The Company calculates ECL based on several probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. The mechanics of the ECL calculations are outlined below and the key elements are as follows:

PD	The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
EAD	The Exposure at Default is an estimate of the 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.
LGD	The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

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

The Company has established a policy 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 financial assets as described below:

Stage 1:	When assets are first recognised, the Company recognises an allowance based on 12m ECL. Stage 1 loans also include receivables on finance lease and facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
Stage 2:	When an asset 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:	Assets considered credit-impaired. The Company records an allowance for the LTECL.
POCI:	Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest revenue is subsequently recognised based on a credit-adjusted EIR. ECL are only recognised or released to the extent that there is a subsequent change in the lifetime expected credit losses.

(thousands of tenge)

28. Risk management (continued)

Credit risk (continued)

Impairment assessment (continued)

In estimating the ECL, the Company considers three scenarios: basic, optimistic, and pessimistic. Each of them has its own PD, EAD and LGD indicators. In its ECL models, the Company relies on a broad range of forward looking information as economic inputs. Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

Definition of default and cure

The Company considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Company considers treasury and interbank transactions defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements. The expected credit loss on securities, deposits, current account funds is calculated on the basis of external credit ratings assigned by international rating agencies – Fitch Ratings, Moody's InvestorsService, S&P GlobalRatings.

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

- Availability of the Company's information on force majeure, as well as other circumstances that caused substantial material damage to the borrower (co-borrower) and do not allow the borrower to continue its business activities, including the information on revocation/suspension of a licence for activities, as well as the information on the borrower's (co-borrower's) unemployment or absence of commercial activities.
- Objectively supportable information about the high probability of bankruptcy or reorganisation, as well as involvement of the borrower (co-borrower) in legal proceedings, which may worsen its financial condition. The Company considers the following events as this information:
    - Availability of information about death of the borrower (co-borrower) individual;
    - Cross default of more than 60 calendar days inclusive (subject to the availability of information from the Company);
    - Downgrading the external credit rating of the borrower to "CC" and lower assigned by Standard & Poor's, Moody's InvestorsService and Fitch rating agencies;
    - Absence of an active market for that financial asset because of financial difficulties.

Treasury and interbank relationships

Treasury and interbank relationships and counterparties comprise financial services institutions, banks, broker-dealers. For these relationships, the Company's finance department and risk management department analyse publicly available information such as financial statements and other external data, e.g., the external ratings.

Loss given default

The credit risk assessment is based on a standardised LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held. The Company segments its lending products into smaller homogeneous portfolios, based on key characteristics of credit risk that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., wider range of collateral types) as well as borrower characteristics.

Where appropriate, further recent data and forward-looking economic scenarios are used in order to determine the IFRS 9 LGD rate for each group of financial instruments. When assessing forward-looking information, the expectation is based on multiple scenarios. Examples of key inputs involve changes in collateral values and payment status.

LGD rates are estimated for the Stage 1, Stage 2, Stage 3 and POCI segment of each asset class. The inputs for these LGD rates are estimated and, where possible, calibrated through back testing against recent recoveries. These are repeated for each economic scenario as appropriate.

(thousands of tenge)

28. Risk management (continued)

Credit risk (continued)

Significant increase in credit risk

The Company continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Company assesses whether there has been a significant increase in credit risk since initial recognition. The Company believes that the credit risk on a financial instrument has increased significantly since its initial recognition, if the following indicators of significant increase in a credit risk were identified:

- Delay of 30 (thirty) calendar days or more.
- The Company has information about the outstanding principal and/or interest of the borrower (co-borrower) from 31 to 60 calendar days including other credit institutions (if the Company has information).
- Assets from the moment of restructuring and/or prolongation of which more than 12 months have passed, but less than 24 months inclusively, for which there is no delay or a delay of no more than 60 days as at the reporting date.
- Assets from the moment of restructuring and/or prolongation of which more than 24 months have passed, and for which there is a delay of more than 30 days, but less than 60 days as at the reporting date.
- Actual or expected (based on reasonable and supportable information) downgrading the external credit rating of the borrower.
- A significant change in the value of the collateral for the liability (lowering the fair value of collateral by more than 50% from the date of initial recognition) or the quality of guarantees or credit enhancement mechanisms provided by third parties, which are expected to reduce the economic incentive for the borrower to make the scheduled payments provided for by the contract, or otherwise affect the likelihood of a default (if information is available from the Company).
- A significant change in the quality of the guarantee provided by second-tier banks, namely a change in the second-tier banks' rating (downgrade by two notches or more), resulting in a significant increase in credit risk, in accordance with the approach used for treasury assets (if a guarantee is available).
- Deterioration of financial condition.

The Company also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/asset to the watch list, or the account becoming restructured due to credit event. In certain cases, the Company may also consider that events explained in "Definition of default" section above are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

When estimating ECLs on a collective basis for a group of similar assets, the Company applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

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. The Company assesses ECL on an individual basis for the following assets: loans to customers with gross carrying value at the reporting date exceeding 0.2% of equity and having signs of impairment, financial leases having signs of impairment and being individual with a total debt of more than KZT 1,000,000,000 (one billion), all Stage 3 assets, treasury assets (amounts due from banks, debt instruments at amortised cost / at FVTPL), financial assets, which at the time of derecognition of the original loan and recognition of the new loan were classified as POCI as a result of debt restructuring. The Company calculates ECL on a collective basis for all other classes of assets which it groups into homogeneous portfolios based on a combination of internal and external characteristics.

(thousands of tenge)

28. Risk management (continued)

Credit risk (continued)

Grouping financial assets measured on a collective basis (continued)

Assets are grouped based on similar credit risk characteristics, which may include:

- Date of initial recognition;
- Remaining maturity;
- Industry;
- Geographical location;
- Lending purpose;
- State programs;
- Type of credit product;
- Line of business;
- Issue type (e.g., under second-tier banks' guarantees);
- Type of collateral;
- Loan collateral ratio;
- Interest rates;
- Non-performing loans ratio.

Forward-looking information and multiple economic scenarios

In its ECL models, the Company relies on a broad range of forward looking information as economic inputs, such as:

- GDP growth;
- Unemployment rates;
- Inflation rate;
- Export volume.

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

The Company obtains the forward-looking information from third party sources (external rating agencies, governmental bodies e.g. international financial institutions). The Company determines the weights attributable to the multiple scenarios. The tables show the values of the key forward looking economic variables/assumptions used in each of the economic scenarios for the ECL calculations.

Key drivers	*ECL scenario*	*Assigned probabilities for 2020, %*	*Assigned probabilities for 2021, %*	*2020*	*2021*
GDP growth, %	Upside	27%	18%	5.1	5.0
	Base case	64%	64%	4.0	4.2
	Downside	9%	18%	3.6	3.4
Unemployment rate, %	Upside	27%	18%	6.1	5.7
	Base case	73%	82%	4.8	4.8
	Downside	0%	0%	4.8	4.8
Inflation rate	Upside	9%	9%	4.4	4.4
	Base case	73%	64%	4.0	4.0
	Downside	18%	27%	3.3	2.9
Export volume, billions of US dollars	Upside	18%	18%	66.4	68.8
	Base case	73%	64%	56.2	58.2
	Downside	9%	18%	51.1	47.6

(thousands of tenge)

28. Risk management (continued)

Credit risk (continued)

Forward-looking information and multiple economic scenarios (continued)

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

	31 December 2019				*31 December 2018*			
	Kazakhstan	*OECD*	*CIS*	*Total*	*Kazakhstan*	*OECD*	*CIS*	*Total*
Assets								
Cash and cash equivalents	**20,565,261**	–	**15,404**	**20,580,665**	44,784,065	–	14,240	44,798,305
Amounts due from credit institutions	**8,451,527**	–	–	**8,451,527**	–	–	–	–
Investment securities measured at amortised cost	**11,179,190**	–	–	**11,179,190**	–	–	–	–
Loans to customers	**36,929,798**	–	–	**36,929,798**	43,004,358	–	–	43,004,358
Finance lease receivables	**226,615,145**	–	–	**226,615,145**	186,617,217	–	–	186,617,217
Other financial assets	**587,673**	**41,284**	–	**628,957**	454,070	26,548	–	480,618
	304,328,594	**41,284**	**15,404**	**304,385,282**	274,859,710	26,548	14,240	274,900,498
Liabilities								
Amounts due to the Shareholder	**54,136,402**	–	–	**54,136,402**	67,232,037	–	–	67,232,037
Amounts due to credit institutions	**62,897,857**	–	**13,036,472**	**75,934,329**	26,392,074	1,469,471	13,946,165	41,807,710
Debt securities issued	**61,963,573**	–	**3,421,361**	**65,384,934**	64,596,068	–	–	64,596,068
Payables to suppliers	**1,572,901**	**4,187,737**	**100,948**	**5,861,586**	1,364,446	3,342,786	94,986	4,802,218
Other financial liabilities	**160,119**	–	–	**160,119**	90,562	–	–	90,562
	180,730,852	**4,187,737**	**16,558,781**	**201,477,370**	159,675,187	4,812,257	14,041,151	178,528,595
Net position on assets and liabilities	**123,597,742**	**(4,146,453)**	**(16,543,377)**	**102,907,912**	115,184,523	(4,785,709)	(14,026,911)	96,371,903

Liquidity risk and funding management

Liquidity risk is the risk that the Company will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, the management has arranged diversified funding sources. Also, it manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Company's payments that comprise of the principle and interest / coupon on financial liabilities as at 31 December based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Company expects that many creditors will not request repayment on the earliest date the Company could be required to pay.

31 December 2019	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Later than 5 years*	*Total*
Amounts due to the Shareholder	**5,351,320**	**25,204,165**	**28,561,095**	**1,253,785**	**60,370,365**
Amounts due to credit institutions	**8,620,084**	**30,563,948**	**47,638,592**	**4,599,976**	**91,422,600**
Debt securities issued	**678,090**	**5,932,234**	**80,512,226**	**–**	**87,122,550**
Total undiscounted financial liabilities	**14,649,494**	**61,700,347**	**156,711,913**	**5,853,761**	**238,915,515**

31 December 2018	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Later than 5 years*	*Total*
Amounts due to the Shareholder	5,912,459	24,647,752	47,673,167	1,961,154	80,194,532
Amounts due to credit institutions	639,569	17,817,033	26,355,567	4,111,342	48,923,511
Debt securities issued	678,090	15,017,779	67,035,481	4,117,875	86,849,225
Total undiscounted financial liabilities	7,230,118	57,482,564	141,064,215	10,190,371	215,967,268

(thousands of tenge)

28. Risk management (continued)

Liquidity risk and funding management (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)

The table below shows the contractual expiry by maturity of the Company's contractual commitments and contingencies. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called *(Note 25)*.

	Less than 3 months	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
2019	**1,473,308**	**6,356,459**	**500,000**	**–**	**8,329,767**
2018	1,497,906	4,129,932	65,000	–	5,692,838

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

The Company's capability to meet its liabilities depends upon its ability to realise an equivalent amount of assets within the certain period of time.

The Company has received significant funds from the Shareholder. Management believes that this level of funding will remain with the Company for the foreseeable future and that in the event of withdrawal of funds, the Company would be given sufficient notice so as to realise its liquid assets to enable repayment.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The market risk for the non-trading portfolio is managed and monitored using sensitivity analysis. Except for the concentrations within foreign currency, the Company has no significant concentration of market risk.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Company's statement of profit or loss.

The sensitivity of the statement of profit or loss is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December.

Currency	*Increase in basis points, 2019*	*Sensitivity of net interest income, 2019*	*Sensitivity of equity, 2019*
Euro	**100**	**–**	**–**
US dollar	**100**	**–**	**–**

Currency	*Increase in basis points, 2018*	*Sensitivity of net interest income, 2018*	*Sensitivity of equity, 2018*
Euro	100	(14,230)	(14,230)
US dollar	100	–	–

(thousands of tenge)

28. Risk management (continued)

Currency risk

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

The tables below indicate the currencies to which the Company had significant exposure at 31 December on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against tenge, with all other variables held constant on the statement of 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 profit or loss. All other parameters are held constant. A negative amount in the table reflects a potential net reduction in the statement of profit or loss or equity, while a positive amount reflects a net potential increase.

Currency	*Change in currency rate %, 2019*	*Effect on profit before tax, 2019*	*Change in currency rate %, 2018*	*Effect on profit before tax, 2018*
US dollar	**-9.0%**	**(154,750)**	-10.0%	(597,850)
US dollar	**12.0%**	**206,334**	14.0%	836,990
Euro	**-9.0%**	**156,732**	-10.0%	(756,208)
Euro	**12.0%**	**(208,975)**	14.0%	1,058,692
Russian rouble	**-12.0%**	**432,605**	-9.0%	354,576
Russian rouble	**12.0%**	**(432,605)**	14.0%	(551,563)

Prepayment risk

Prepayment risk is the risk that the Company will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

If 10% of loans to clients and finance lease receivables were to prepay in early 2019, with all other variables held constant, the profit before taxes would be decreased by KZT 861,950 thousand (in early 2018: would be decreased by KZT 489,581 thousand).

If 10% of debt instruments were to prepay in early 2019, with all other variables held constant, the profit before taxes would be decreased by KZT 261,262 thousand (in early 2018: would be decreased by KZT 288,219 thousand).

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 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 should include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

29. Fair value measurement

Fair value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

(thousands of tenge)

29. Fair value measurement (continued)

Fair value hierarchy (continued)

The following table provides an analysis of financial instruments recorded by level of the fair value hierarchy as at 31 December 2019.

	Fair value measurement using			
31 December 2019	***Quoted prices in active markets (Level 1)***	***Significant observable inputs (Level 2)***	***Significant non-observable inputs (Level 3)***	***Total***
Assets for which fair values are disclosed				
Cash and cash equivalents	**20,580,665**	**–**	**–**	**20,580,665**
Amounts due from credit institutions	**–**	**8,451,527**	**–**	**8,451,527**
Investment securities measured at amortised cost	**11,179,190**	**–**	**–**	**11,179,190**
Loans to customers	**–**	**–**	**30,499,319**	**30,499,319**
Finance lease receivables	**–**	**–**	**223,756,051**	**223,756,051**
Other financial assets	**–**	**–**	**628,957**	**628,957**
Total financial assets for which fair values are disclosed	**31,759,855**	**8,451,527**	**254,884,327**	**295,095,709**
Financial liabilities whose fair value is disclosed				
Amounts due to the Shareholder	**–**	**52,557,807**	**–**	**52,557,807**
Amounts due to credit institutions	**–**	**73,020,778**	**–**	**73,020,778**
Debt securities issued	**20,157,184**	**44,776,670**	**–**	**64,933,854**
Payables to suppliers	**–**	**–**	**5,861,586**	**5,861,586**
Other financial liabilities	**–**	**–**	**160,119**	**160,119**
Total financial liabilities whose fair value is disclosed	**20,157,184**	**170,355,255**	**6,021,705**	**196,534,144**

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as at 31 December 2018:

	Fair value measurement using			
31 December 2018	***Quoted prices in active markets (Level 1)***	***Significant observable inputs (Level 2)***	***Significant non-observable inputs (Level 3)***	***Total***
Assets for which fair values are disclosed				
Cash and cash equivalents	44,798,305	–	–	44,798,305
Loans to customers	–	–	36,409,771	36,409,771
Finance lease receivables	–	–	176,248,663	176,248,663
Other financial assets	–	–	480,618	480,618
Total financial assets for which fair values are disclosed	44,798,305	–	213,139,052	257,937,357
Financial liabilities whose fair value is disclosed				
Amounts due to the Shareholder	–	65,672,985	–	65,672,985
Amounts due to credit institutions	–	39,581,856	–	39,581,856
Debt securities issued	16,195,175	43,774,887	–	59,970,062
Payables to suppliers	–	–	4,802,218	4,802,218
Other financial liabilities	–	–	90,562	90,562
Total financial liabilities whose fair value is disclosed	16,195,175	149,029,728	4,892,780	170,117,683

(thousands of tenge)

29. Fair value measurement (continued)

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

Set out below is a comparison by class of the carrying amounts and fair values of the Company's financial instruments that are not carried at fair value in the statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	31 December 2019			*31 December 2018*		
	Carrying amount	*Fair value*	*Unrecognised (loss)/income*	*Carrying amount*	*Fair value*	*Unrecognised (loss)/income*
Financial assets						
Cash and cash equivalents	**20,580,665**	**20,580,665**	**–**	44,798,305	44,798,305	–
Amounts due from credit institutions	**8,451,527**	**8,451,527**	**–**	–	–	–
Investment securities measured at amortised cost	**11,179,190**	**11,179,190**	**–**	–	–	–
Loans to customers	**36,929,798**	**30,499,319**	**(6,430,479)**	43,004,358	36,409,771	(6,594,587)
Finance lease receivables	**226,615,145**	**223,756,051**	**(2,859,094)**	186,617,217	176,248,663	(10,368,554)
Other financial assets	**628,957**	**628,957**	**–**	480,618	480,618	–
	304,385,282	**295,095,709**	**(9,289,573)**	274,900,498	257,937,357	(16,963,141)
Financial liabilities						
Amounts due to the Shareholder	**54,136,402**	**52,557,807**	**1,578,595**	67,232,037	65,672,985	1,559,052
Amounts due to credit institutions	**75,934,329**	**73,020,778**	**2,913,551**	41,807,710	39,581,856	2,225,854
Debt securities issued	**65,384,934**	**64,933,854**	**451,080**	64,596,068	59,970,062	4,626,006
Payables to suppliers	**5,861,586**	**5,861,586**	**–**	4,802,218	4,802,218	–
Other financial liabilities	**160,119**	**160,119**	**–**	90,562	90,562	–
	201,477,370	**196,534,144**	**4,943,226**	178,528,595	170,117,683	8,410,912
Total unrecognised change in unrealised fair value			**(4,346,347)**			(8,552,229)

Valuation techniques and assumptions

The following describes the methodologies and assumptions used to determine fair values for assets and liabilities recorded at fair value in the financial statements and those items that are not measured at fair value in the statement of financial position, but whose fair value is disclosed.

Assets for which fair value approximates 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.

Fixed and variable rate financial instruments

The fair values of unquoted financial instruments are estimated by discounting future cash flows using rates currently available for financial instruments on similar terms, credit risk and remaining maturities.

In case of assets with fair values disclosed in the financial statements, future cash flows are discounted at the average market rate of financial instruments with similar maturities based on the statistical data published by the National Bank of the Republic of Kazakhstan. The indicated approach is used in determining the fair value of loans to clients and finance lease receivables.

In case of liabilities with fair values disclosed in the financial statements, future cash flows are discounted at the average market rate of financial instruments with similar maturities.

- The amounts due to the Shareholder are discounted at the average rate of bonds of the Ministry of Finance of the Republic of Kazakhstan with similar maturity
- The amounts due to credit institutions are discounted at the average market rate of financial organisations based on data published by the NBRK, actual offers of credit institutions, as well as data placed on Bloomberg

The future cash flows comprise repayment of principal and interest calculated at the interest rate stipulated by the agreement to the amount of principal.

(thousands of tenge)

30. 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 28 "Risk management"* for the Company's contractual undiscounted repayment obligations.

	31 December 2019			*31 December 2018*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Assets						
Cash and cash equivalents	**20,580,665**	**–**	**20,580,665**	44,798,305	–	44,798,305
Amounts due from credit institutions	**8,451,527**	**–**	**8,451,527**	–	–	–
Investment securities	**11,179,190**	**–**	**11,179,190**	–	–	–
Loans to customers	**23,917,848**	**13,011,950**	**36,929,798**	27,011,598	15,992,760	43,004,358
Finance lease receivables	**67,271,663**	**159,343,482**	**226,615,145**	51,704,768	134,912,449	186,617,217
Assets held for sale	**511,083**	**–**	**511,083**	–	–	–
Property held for finance lease	**7,704,941**	**–**	**7,704,941**	10,740,178	–	10,740,178
Current corporate income tax assets	**134,137**	**–**	**134,137**	175,427	–	175,427
Property and equipment	**–**	**463,556**	**463,556**	–	995,816	995,816
Intangible assets	**–**	**581,104**	**581,104**	–	554,969	554,969
VAT and other taxes recoverable	**1,530,715**	**4,606,778**	**6,137,493**	1,048,010	2,843,028	3,891,038
Advances paid	**188,103**	**5,409,813**	**5,597,916**	46,993	7,143,067	7,190,060
Other assets	**849,024**	**–**	**849,024**	966,510	–	966,510
Total assets	**142,318,896**	**183,416,683**	**325,735,579**	136,491,789	162,442,089	298,933,878
Liabilities						
Amounts due to the Shareholder	**29,189,959**	**24,946,443**	**54,136,402**	29,398,719	37,833,318	67,232,037
Amounts due to credit institutions	**33,748,873**	**42,185,456**	**75,934,329**	15,857,129	25,950,581	41,807,710
Debt securities issued	**1,103,243**	**64,281,691**	**65,384,934**	10,471,551	54,124,517	64,596,068
Payables to suppliers	**5,861,586**	**–**	**5,861,586**	4,802,218	–	4,802,218
Deferred corporate income tax liabilities	**–**	**754,648**	**754,648**	–	1,338,197	1,338,197
Advances received	**4,795,803**	**–**	**4,795,803**	4,263,925	–	4,263,925
Value added deferred tax liabilities	**1,514,725**	**6,128,169**	**7,642,894**	1,033,804	4,036,828	5,070,632
Other liabilities	**1,781,802**	**184,195**	**1,965,997**	3,289,184	184,195	3,473,379
Total liabilities	**77,995,991**	**138,480,602**	**216,476,593**	69,116,530	123,467,636	192,584,166
Net	**64,322,905**	**44,936,081**	**109,258,986**	67,375,259	38,974,453	106,349,712

31. Related party disclosures

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

Republic of Kazakhstan, acting through the State Property Committee within the Ministry of Finance, controls the Company and has a significant impact on its activities.

The Republic of Kazakhstan directly and indirectly controls and has significant influence over a significant number of entities through its government agencies and other organisations (together referred to as "government-related entities"). The Company executes bank transactions with these entities such as raising of loans and placement of cash.

(thousands of tenge)

31. Related party disclosures (continued)

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

	2019		2018	
	Parent	*Entities under common control*	*Parent*	*Entities under common control*
Finance lease receivables at 1 January	–	–	–	242,303
Issued during the year	–	–	–	–
Repaid during the year	–	–	–	(9,993)
Finance lease receivables at 31 December	–	–	–	232,310
Interest income accrued on finance lease as at 31 December	–	–	–	27,461
ECL allowance at 31 December	–	–	–	(8,008)
Finance lease receivables at 31 December less ECL allowance	–	–	–	251,763
Loans obtained at 1 January	**67,232,037**	**11,657,380**	75,539,402	–
Loans obtained	–	**8,225,000**	11,232,415	11,655,574
Loans repaid	**(15,531,974)**	**(1,000,000)**	(22,971,379)	–
Change in interest accrued	**465,015**	**79,319**	573,992	1,806
Other changes	**1,971,324**	**(832,366)**	2,857,607	–
Loans obtained at 31 December	**54,136,402**	**18,129,333**	67,232,037	11,657,380
Dividends payable as at 1 January	–	–	–	–
Dividends declared during the year	**6,728,372**	–	3,572,220	–
Dividends paid during the year	**(6,728,372)**	–	(3,572,220)	–
Dividends payable as at 31 December	–	–	–	–
Debt securities issued	**36,013,167**	**586,582**	35,894,934	–
Interest expense	**(4,488,460)**	**(1,009,008)**	(5,150,325)	(1,806)
Other expense	–	–	–	–

Other changes include the recognition and amortisation of discount.

Information about the terms and conditions of loans from the Shareholder and the company under common control is provided in *Notes 16* and *17*, respectively.

Compensation of key management personnel consisting of 5 (five) persons in 2019 and 2018 was comprised of the following:

	2019	*2018*
Salaries and other short-term benefits	**105,190**	81,641
Social security taxes and costs	**9,668**	7,625
Total key management personnel compensation	**114,858**	89,266

(thousands of tenge)

32. Changes in liabilities arising from financing activities

	Debt securities issued	*Amounts due to credit institutions*	*Amounts due to the Shareholder*	*Total liabilities arising from financing activities*
Carrying amount as at 31 December 2017	46,969,316	40,429,623	75,539,402	162,938,341
Additions	17,250,959	19,000,000	11,232,415	47,483,374
Redemption	–	(17,617,865)	(22,971,379)	(40,589,244)
Foreign exchange adjustments	–	1,159,057	–	1,159,057
Non-cash transactions	66,663	(1,027,048)	2,970,889	2,010,504
Dividends declared	–	–	3,572,220	3,572,220
Dividends paid	–	–	(3,572,220)	(3,572,220)
Other	309,130	(136,057)	460,710	633,783
Carrying amount as at 31 December 2018	64,596,068	41,807,710	67,232,037	173,635,815
Additions	**10,233,955**	**40,225,000**	**–**	**50,458,955**
Redemption	**(9,389,000)**	**(6,109,535)**	**(15,531,974)**	**(31,030,509)**
Foreign exchange adjustments	**–**	**422,979**	**–**	**422,979**
Non-cash transactions	**26,848**	**(804,840)**	**2,548,035**	**1,770,043**
Dividends declared	**–**	**–**	**6,728,372**	**6,728,372**
Dividends paid	**–**	**–**	**(6,728,372)**	**(6,728,372)**
Other	**(82,937)**	**393,015**	**(111,696)**	**198,382**
Carrying amount as at 31 December 2019	**65,384,934**	**75,934,329**	**54,136,402**	**195,455,665**

Non-cash transactions include changes in the discount on debt securities issued, other borrowed funds and loans received from the Shareholder during the reporting period.

The "Other" item includes the effect of accrued but not yet paid interest on debt securities issued, other loans and borrowings from the Shareholder. The Company classifies interest paid as cash flows from operating activities.

33. Capital adequacy

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 and 1988 Basel Agreement in supervising the Company.

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

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

Capital adequacy ratio established by the NBRK

The NBRK requires companies engaged in certain types of banking activities to maintain a minimum Tier 1 capital adequacy ratio of 6% of assets and Tier 2 capital adequacy ratio of 6.0% of assets and minimum general total capital adequacy ratio of 12.0% of risk-weighted assets. At 31 December, the Company's capital adequacy ratio on this basis was as follow:

	2019	*2018*
Tier 1 capital	**99,869,101**	99,538,642
Tier 2 capital	**9,210,964**	6,728,372
Total capital	**109,080,065**	106,267,014
Total assets	**325,735,579**	298,933,878
Risk weighted assets and contingent and potential liabilities	**321,804,838**	305,001,265
Operational risk	**9,122,815**	8,623,605
Capital adequacy ratio (k1) – not less than 6.0%	**30.66%**	33.30%
Capital adequacy ratio (k1-2) – not less than 6.0%	**31.03%**	32.64%
Capital adequacy ratio (k1-3) – not less than 12.0%	**32.97%**	33.88%

(thousands of tenge)

33. Capital adequacy (continued)

Capital adequacy ratio under Basel Capital Accord 1988

As at 31 December, the Company's capital adequacy ratio calculated with requirements of 1988 Basel Accord, inclusive of consequential amendments to incorporate market risks, was:

	2019	*2018*
Tier 1 capital	**99,869,101**	99,538,642
Tier 2 capital	**9,210,964**	6,728,372
Total capital	**109,080,065**	106,267,014
Risk weighted assets	**314,054,032**	300,135,365
Tier 1 capital ratio	**31.80%**	33.16%
Total capital ratio	**34.73%**	35.41%

34. Events after the reporting period

In February 2020, the Company repaid the short-term loan from Citibank Kazakhstan JSC in the amount of KZT 4,000,000 thousand.

Due to the recent rapid outbreak of the coronavirus pandemic (COVID-19), many countries, including the Republic of Kazakhstan, have introduced quarantine measures, which has had a significant impact on the level and scale of business activity of market participants. It is expected that both the pandemic itself and measures taken to minimise its consequences can affect the activities of companies from various industries. The Company considers this pandemic as a non-adjusting event after the reporting period, the quantitative effect of which cannot be reliably measured.

Since March 2020, there has been significant volatility in the stock, currency and commodity markets, including decline in oil prices and depreciation of tenge against the US dollar and euro. The Company's management is currently analysing possible impact of changing micro- and macro-economic conditions on the Company's financial position and performance results.