

**Microfinance organization “Asian Credit Fund”  
Limited Liability Company**

**Financial statements**

*for 2018  
together with independent auditor's report*

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## Independent auditor's report

To Participants and Supervisory Board of  
"Microfinance organization "Asian Credit Fund" Limited Liability Company

### **Opinion**

We have audited the financial statements of "Microfinance organization "Asian Credit Fund" LLC (hereinafter – the "Company"), which comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018 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 (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.

### **Responsibilities of management and Supervisory Board for the financial statements**

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

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

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

### ***Auditor's responsibilities for the audit of the financial statements***

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

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

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

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

*Ernst & Young LLP*

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Paul Cohn  
Audit Partner

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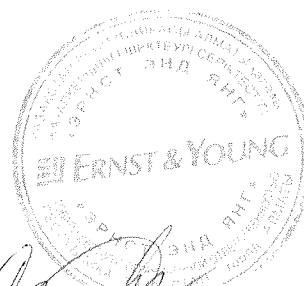
Olga Khegay  
Auditor



Audit Qualification Certificate  
№ МФ-0000286 dated 25 September 2015

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

17 June 2019



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Dinara Malayeva  
Acting 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

**STATEMENT OF FINANCIAL POSITION****as at 31 December 2018***(in thousands of tenge)*

	<i>Notes</i>	<i>31 December 2018</i>	<i>31 December 2017</i>
<b>Assets</b>			
Cash and cash equivalents	5	403,557	255,623
Amounts due from credit institutions	6	—	99,350
Loans to customers	7	5,118,392	3,974,886
Current corporate income tax assets	10	21,789	14,138
Deferred corporate income tax assets	10	1,466	2,825
Property and equipment		105,928	80,664
Intangible assets		85,735	54,181
Other assets	8	40,534	35,033
<b>Total assets</b>		<b>5,777,401</b>	<b>4,516,700</b>
<b>Liabilities</b>			
Amounts due to credit institutions	9	4,421,261	3,482,946
Other liabilities	8	80,892	82,464
<b>Total liabilities</b>		<b>4,502,153</b>	<b>3,565,410</b>
<b>Equity</b>			
Charter capital	11	341,297	341,297
Retained earnings		933,951	609,993
<b>Total equity</b>		<b>1,275,248</b>	<b>951,290</b>
<b>Total equity and liabilities</b>		<b>5,777,401</b>	<b>4,516,700</b>

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

Zhakupova Zh.B.

Executive Director

Sabalakova A.D.

Chief Accountant

17 June 2019

*The accompanying notes on pages 5 to 36 are an integral part of these financial statements.*

**STATEMENT OF COMPREHENSIVE INCOME****for the year ended 31 December 2018***(in thousands of tenge)*

	<i>Notes</i>	<i>2018</i>	<i>2017</i>
<b>Interest revenue calculated using effective interest rate</b>			
Interest revenue on loans to customers		2,269,338	1,859,851
Interest revenue on amounts due from credit institutions		2,907	7,818
		<u>2,272,245</u>	<u>1,867,669</u>
Interest expense on amounts due to credit institutions		<u>(773,566)</u>	<u>(612,526)</u>
<b>Net interest income</b>		<u>1,498,679</u>	<u>1,255,143</u>
Credit loss expense	12	<u>(132,556)</u>	<u>(126,845)</u>
<b>Net interest income after credit loss expense</b>		<u>1,366,123</u>	<u>1,128,298</u>
Net losses from derivative financial instruments		–	(9,492)
Net gains/(losses) from foreign currencies:			
- translation differences		42,019	37,936
- dealing		(16,469)	(8,606)
Other income		7,613	2,350
Operating expenses	13	<u>(1,013,168)</u>	<u>(777,795)</u>
Other impairment and provisions		–	(3,893)
Other expenses		<u>(2,883)</u>	<u>(5,766)</u>
<b>Profit before corporate income tax expense</b>		<u>383,235</u>	<u>363,032</u>
Corporate income tax expense	10	<u>(83,268)</u>	<u>(83,025)</u>
<b>Profit for the year</b>		<u>299,967</u>	<u>280,007</u>
Other comprehensive income for the year		–	–
<b>Total comprehensive income for the year</b>		<u>299,967</u>	<u>280,007</u>

*The accompanying notes on pages 5 to 36 are an integral part of these financial statements.*

**STATEMENT OF CHANGES IN EQUITY****for the year ended 31 December 2018***(in thousands of tenge)*

	<i>Notes</i>	<i>Charter capital</i>	<i>Retained earnings</i>	<i>Total equity</i>
<b>As at 31 December 2016</b>		341,297	329,986	671,283
Total comprehensive income for the year		—	280,007	280,007
<b>As at 31 December 2017</b>		341,297	609,993	951,290
Impact of adopting IFRS 9	3	—	23,991	23,991
<b>Restated opening balance under IFRS 9</b>		341,297	633,984	975,281
Total comprehensive income for the year		—	299,967	299,967
<b>As at 31 December 2018</b>		341,297	933,951	1,275,248

*The accompanying notes on pages 5 to 36 are an integral part of these financial statements.*



**STATEMENT OF CASH FLOWS****for the year ended 31 December 2018***(in thousands of tenge)*

	<i>Notes</i>	<i>2018</i>	<i>2017</i>
<b>Cash flows from operating activities</b>			
Profit before corporate income tax expense		383,235	363,032
<i>Adjustments:</i>			
Depreciation and amortization	13	21,718	16,062
Accrued interest income		(2,272,245)	(1,867,669)
Accrued interest expense		773,566	612,526
Credit loss expense	12	132,556	126,845
Other impairment and provisions		–	3,893
Accrued vacation reserve and other payroll accruals		9,590	7,606
Unrealised losses from foreign currencies		(42,019)	3,663
Loss on disposal of property and equipment		1,076	312
Other expenses		1,836	–
<i>Net decrease/ (increase) in operating assets</i>			
Derivative financial assets		–	68,280
Amounts due from credit institutions		95,568	(99,350)
Loans to customers		(1,165,965)	(1,156,060)
Other assets		(8,560)	(20,525)
<i>Net decrease in operating liabilities</i>			
Other liabilities		(10,665)	(72,676)
		(2,080,309)	(2,014,061)
Interest received		2,197,285	1,795,344
Interest paid		(684,309)	(522,128)
Corporate income tax paid		(95,558)	(75,963)
<b>Net cash used in operating activities</b>		(662,891)	(816,808)
<b>Cash flows from investing activities</b>			
Purchase of property and equipment		(45,696)	(40,485)
Proceeds from sale of property and equipment		1,186	919
Purchase of intangible assets		(37,643)	(44,942)
<b>Net cash used in investing activities</b>		(82,153)	(84,508)
<b>Cash flows from financing activities</b>			
Proceeds from amounts due to credit institutions	19	2,230,148	1,432,794
Repayment of amounts due to credit institutions	19	(1,378,418)	(781,888)
<b>Net cash from financing activities</b>		851,730	650,906
Effect of exchange rate changes on cash and cash equivalents		41,248	(12,175)
<b>Net change in cash and cash equivalents</b>		147,934	(262,585)
Cash and cash equivalents, beginning		255,623	518,208
<b>Cash and cash equivalents, ending</b>	5	403,557	255,623

*The accompanying notes on pages 5 to 36 are an integral part of these financial statements.*

(in thousands of tenge, unless otherwise indicated)

## 1. Principal activities

Microfinance organization “Asian Credit Fund” Limited Liability Company (hereinafter – the “Company”) was registered on 27 October 2005, and is carrying out its activities in the territory of the Republic of Kazakhstan. On 29 December 2014, the Company was re-registered in connection with the decision of its participants on changing the name of the Company from Microcredit organization “Asian Credit Fund” Limited Liability Company to Microfinance organization “Asian Credit Fund” Limited Liability Company as per requirement of the Law of Republic of Kazakhstan *Law On Microfinance Organizations*, issued on 26 November 2012, with last amendments on 28 November 2016.

The Company’s principal activity is granting micro loans to customers. As at 31 December 2018, the Company had 6 branches and 41 outlets in the Republic of Kazakhstan (31 December 2017: 5 branches and 37 outlets).

The Company’s head office is located at 60 Auezov Str., Almaty, the Republic of Kazakhstan.

Participatory shares in the Company are distributed as follows:

<i>Name</i>	<i>Ownership, %</i>	
	<i>31 December 2018</i>	<i>31 December 2017</i>
BOPA Pte LTD	47.57	47.57
Mercy Corps	30.35	30.35
“Asian Credit Fund” Public Fund	20.18	20.18
Karavella Invest LLP	1.90	1.90
	<b>100.00</b>	<b>100.00</b>

The participants’ shares in the charter capital are not proportional to contributions made. The controlling participant of the Company is Mercy Corps which has an additional participatory share in the Company through “Asian Credit Fund” Public Fund.

## 2. Basis of preparation

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

The financial statements are prepared under the historical cost convention except as disclosed in Summary of Accounting Policies.

The financial statements are presented in thousands of Kazakhstan tenge, unless otherwise indicated.

## 3. Summary of accounting policies

### Changes in accounting policies

The Company applied IFRS 15 and IFRS 9 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

The Company applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2018. 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 9 Financial Instruments*

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods on or after 1 January 2018. The Company has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of 1 January 2018 and are disclosed below.

(in thousands of tenge, unless otherwise indicated)

### 3. Summary of accounting policies (continued)

#### Changes in accounting policies (continued)

##### IFRS 9 Financial Instruments (continued)

###### (a) Classification and measurement

Under IFRS 9, all debt financial assets that do not meet a “solely payment of principal and interest” (SPPI) criterion, are classified at initial recognition as fair value through profit or loss (FVPL). Under this criterion, debt instruments that do not correspond to a “basic lending arrangement”, such as instruments containing embedded conversion options or “non-recourse” loans, are measured at FVPL. For debt financial assets that meet the SPPI criterion, classification at initial recognition is determined based on the business model, under which these instruments are managed:

- Instruments that are managed on a “hold to collect” basis are measured at amortised cost;
- Instruments that are managed on a “hold to collect and for sale” basis are measured at fair value through other comprehensive income (FVOCI);
- Instruments that are managed on other basis, including trading financial assets, will be measured at FVPL.

Equity financial assets are required to be classified at initial recognition as FVPL unless an irrevocable designation is made to classify the instrument as FVOCI. For equity investments classified as FVOCI, all realised and unrealised gains and losses, except for dividend income, are recognised in other comprehensive income with no subsequent reclassification to profit and loss.

The classification and measurement of financial liabilities remains largely unchanged from the current IAS 39 requirements. Derivatives will continue to be measured at FVPL. Embedded derivatives are no longer separated from a host financial asset.

###### (b) Impairment

The adoption of IFRS 9 has fundamentally changed the Company’s accounting for loan impairment by replacing IAS 39 incurred loss approach with a forward-looking expected credit loss (ECL) approach. From 1 January 2018, the Company has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. Equity instruments are not subject to impairment under IFRS 9.

The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset.

Details of the Company’s impairment method are disclosed in *Note 15*. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in section (c) below.

###### (c) Effect of transition to IFRS 9

The following tables set out the impact of adopting IFRS 9 on the statement of financial position and retained earnings as at 1 January 2018 including the effect of replacing IAS 39 incurred credit loss calculations with IFRS 9 ECL.

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as at 1 January 2018 is as follows:

<i>Financial assets</i>	<i>IAS 39 measurement</i>		<i>Remeasure-</i>	<i>IFRS 9 measurement</i>	
	<i>Category</i>	<i>Amount</i>	<i>ment</i> <i>ECL</i>	<i>Amount</i>	<i>Category</i>
Cash and cash equivalents	Loans and receivables	255,623	–	255,623	Amortised cost
Amounts due from credit institutions	Loans and receivables	99,350	–	99,350	Amortised cost
Loans to customers	Loans and receivables	3,974,886	29,989	4,004,875	Amortised cost
		<b>4,329,859</b>	<b>29,989</b>	<b>4,359,848</b>	
<b>Non-financial assets</b>					
Deferred tax assets/(liabilities)		2,825	(5,998)	(3,173)	
<b>Total assets</b>		<b>4,332,684</b>	<b>23,991</b>	<b>4,356,675</b>	

(in thousands of tenge, unless otherwise indicated)

### 3. Summary of accounting policies (continued)

#### Changes in accounting policies (continued)

##### IFRS 9 Financial Instruments (continued)

##### (c) Effect of transition to IFRS 9 (continued)

The impact of transition to IFRS 9 on retained earnings is as follows:

	<i>Retained earnings</i>
<b>Closing balance under IAS 39 (31 December 2017)</b>	<b>609,993</b>
Recognition of IFRS 9 ECLs	29,989
Deferred tax in relation to the above	(5,998)
<b>Restated opening balance under IFRS 9 (1 January 2018)</b>	<b>633,984</b>
<b>Total change in equity due to adopting IFRS 9</b>	<b>23,991</b>

The following table reconciles the aggregate opening loan loss allowances under IAS 39 to the ECL allowances under IFRS 9.

	<i>Allowance under IAS 39 at 31 December 2017</i>	<i>Re-measurement</i>	<i>ECL under IFRS 9 at 1 January 2018</i>
<b>Impairment allowance for</b>			
Loans to customers	124,725	(29,989)	94,736
	<b>124,725</b>	<b>(29,989)</b>	<b>94,736</b>

As at 31 December 2017 the Company had undrawn loan commitments. However, these commitments did not represent expected cash outflows due to the fact that they could have been terminated without partial or complete fulfillment. Therefore, the Company did not recognize ECL allowance on these commitments.

##### IFRS 15 Revenue from Contracts with Customers

IFRS 15, issued in May 2014, and amended in April 2016, establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. However, the standard does not apply to revenue associated with financial instruments and leases, and therefore, does not impact the majority of the Company's revenue including interest revenue which are covered by IFRS 9 *Financial Instruments* and IAS 17 *Leases*. As a result, the majority of the Company's income are not impacted by the adoption of this standard.

##### IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Company's financial statements.

##### Amendments to IAS 40 Transfers of Investment Property

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments do not have any impact on the Company's financial statements.

(in thousands of tenge, unless otherwise indicated)

### 3. Summary of accounting policies (continued)

#### Changes in accounting policies (continued)

*Amendments to IAS 28 Investments in Associates and Joint Ventures – clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice*

The amendments clarify that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, then it may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. These amendments do not have any impact on the Company's financial statements.

#### Fair value measurement

The Company measures financial instruments carried at FVPL and FVOCI and non-financial assets such as investment property, at fair value at each balance sheet date.

Information about fair value of financial instruments at amortized costs is disclosed in *Note 16*.

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

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

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

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

#### Financial assets and liabilities

##### *Initial recognition*

##### *Date of recognition*

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

(in thousands of tenge, unless otherwise indicated)

### 3. Summary of accounting policies (continued)

#### Financial assets and liabilities (continued)

##### *Initial recognition (continued)*

##### *Date of recognition (continued)*

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.

Before 1 January 2018, the Company classified its financial assets as loans and receivables (amortised cost), FVPL, available-for-sale or held-to-maturity (amortised cost).

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 at amortised cost*

Before 1 January 2018, amounts due from credit institutions and loans to customers included non-derivative financial assets with fixed or determinable payments that were not quoted in an active market, other than those:

- That the Company intended to sell immediately or in the near term;
- That the Company, upon initial recognition, designated as at FVPL or as available-for-sale;
- For which the Company may not recover substantially all of its initial investment, other than because of credit deterioration, which were designated as available-for-sale.

From 1 January 2018, 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.

(in thousands of tenge, unless otherwise indicated)

### 3. Summary of accounting policies (continued)

#### Financial assets and liabilities (continued)

##### *Initial recognition (continued)*

##### *Business model assessment (continued)*

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

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

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

##### *The SPPI test*

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

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

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

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

##### *Undrawn loan commitments*

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.

In accordance with the terms of the credit facility agreement, the Company has a right to unilaterally withdraw from the agreement and refuse to provide the loan should any conditions unfavorable to the Company arise.

##### *Loans and receivables*

Before 1 January 2018, loans and receivables were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market. They were not entered into with the intention of immediate or short-term resale and were not classified as trading securities or designated as investment securities available-for-sale. Such assets were carried at amortised cost using the effective interest method. Gains and losses were recognised in profit or loss when the loans and receivables were derecognised or impaired, as well as through the amortisation process.

##### *Reclassification of financial assets and liabilities*

From 1 January 2018, 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 2017.

(in thousands of tenge, unless otherwise indicated)

### 3. Summary of accounting policies (continued)

#### Cash and cash equivalents

Cash and cash equivalents include cash, current accounts of the Company in the commercial banks, and highly liquid financial assets with original maturities of less than 3 (three) months, which are not exposed to significant risk of changes in fair value and are used by the Company to settle short-term liabilities. Cash and cash equivalents are recorded at amortised cost in the statement of financial position.

#### Derivative financial instruments

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

#### 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 credit institutions. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the borrowings are derecognised as well as through the amortisation process.

#### Leases

##### *Operating – Company as lessee*

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included in the statement of comprehensive income within Operating expenses.

#### Offsetting of financial instruments

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

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

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

#### Renegotiated loans

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.

From 1 January 2018, 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.



(in thousands of tenge, unless otherwise indicated)

### 3. Summary of accounting policies (continued)

#### Renegotiated loans (continued)

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

For modifications not resulting in derecognition, the Company also reassesses whether there has been a significant increase in credit risk or whether the assets should be classified as credit-impaired. Once an asset has been classified as credit-impaired as the result of modification, it will remain in Stage 3 for a minimum 6-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.

#### Impairment of financial assets under IAS 39

Before 1 January 2018, the Company assessed at each reporting date whether there was any objective evidence that a financial asset or a group of financial assets was impaired. A financial asset or a group of financial assets was deemed to be impaired if, and only if, there was objective evidence of impairment as a result of one or more events that had occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or the group of financial assets that could be reliably estimated. Evidence of impairment may have included indications that the borrower or a group of borrowers was experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they would enter bankruptcy or other financial reorganisation and where observable data indicated that there was a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlated with defaults.

If there was an objective evidence that an impairment loss had been incurred, the amount of the loss was measured as the difference between the assets’ carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred), discounted using original effective interest rate, or, for financial assets available-for-sale, as the difference between cost of investment and its fair value. The carrying amount of the asset was reduced and the amount of the loss was recognised in profit or loss. Interest revenue continued to be accrued on the reduced carrying amount based on the original effective interest rate of the asset, or, for financial assets available-for-sale, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Assets together with the associated allowance were written off when there is no realistic prospect of future recovery and all collateral had been realised or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss decreased because of an event occurring after the impairment had been recognised, the previously recognised impairment loss was reversed in profit or loss, except for equity investments available-for-sale, for which increase in their fair value after impairment were recognised in other comprehensive income.

For the purpose of a collective evaluation of impairment, financial assets were grouped on group and individual loans to customers.

Future cash flows on a group of financial assets that were collectively evaluated for impairment were estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience was adjusted on the basis of current observable data to reflect the effects of current conditions that had not affected the years on which the historical loss experience was based and to remove the effects of conditions in the historical period that did not exist currently. Estimates of changes in future cash flows reflected, and were directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that were indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows were reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Information on impairment assessment under IFRS 9 is presented in *Note 15*.

(in thousands of tenge, unless otherwise indicated)

### 3. Summary of accounting policies (continued)

#### 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.

##### *Write-off*

From 1 January 2018, financial assets are written off either partially or in their entirety only when the Company has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense. A write-off constitutes a derecognition event.

##### *Financial liabilities*

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

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

#### **Taxation**

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

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

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

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

#### **Property and equipment**

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

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

(in thousands of tenge, unless otherwise indicated)

### 3. Summary of accounting policies (continued)

#### Property and equipment (continued)

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:

	<i>Years</i>
Computer hardware	2.5-10
Vehicles	5
Office furniture and equipment	2-10

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 the statement of comprehensive income within Operating expenses, unless they qualify for capitalisation.

#### Intangible assets

Intangible assets include computer software and are initially measured at cost.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets with finite lives are amortised over the useful economic lives of 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

#### Provisions

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

#### Retirement and other employee benefit obligations

The Company does not have any pension arrangements separate from the State pension system of the Republic of Kazakhstan, which requires current contributions by the employer calculated as a percentage of current gross salary payments for employees. These expenses are charged in the period the related salaries are earned. In addition, the Company has no post-retirement benefits or significant other compensated benefits requiring accrual.

#### Equity

##### *Charter capital*

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

##### *Dividends*

Dividends are recognised as 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 for issue.

#### Contingent assets and liabilities

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

(in thousands of tenge, unless otherwise indicated)

### 3. Summary of accounting policies (continued)

#### Income and expense recognition

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*

From 1 January 2018, the Company calculates interest revenue on debt financial assets measured at amortized cost or at FVOCI by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets (before 1 January 2018: by applying EIR to the amortized cost of financial 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.

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

Interest revenue on all financial assets at FVPL is recognised using the contractual interest rate in “Other interest revenue” in the statement of comprehensive income.

#### Foreign currency translation

The financial statements are presented in Kazakhstan tenge, which is the Company’s functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency at the official exchange rate established by the National Bank of the Republic of Kazakhstan (hereinafter – the “NBRK”) 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 comprehensive income as Net losses/(gains) from transactions in foreign currencies. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the official exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the official exchange rate on the date of the transaction are included in Net losses/(gains) from transactions in foreign currencies. The official exchange rates established by the NBRK as at 31 December 2018 and 2017 were KZT 384.2 and KZT 332.33 to US Dollar 1, respectively.

#### 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 these standards, if applicable, when they become effective.

##### *IFRS 16 Leases*

IFRS 16 was issued in January 2016 and it replaces 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*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of ‘low-value’ assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

(in thousands of tenge, unless otherwise indicated)

### 3. Summary of accounting policies (continued)

#### Standards issued but not yet effective (continued)

##### *IFRS 16 Leases (continued)*

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

The Company plans to adopt IFRS 16 modified retrospectively with the cumulative effect of initially applying IFRS 16 recognised at the date of initial application. The Company will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Company will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Company will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Company has leases of certain office equipment (i.e., personal computers, printing and photocopying machines) that are considered of low value.

The Company has been assessing the impact of IFRS 16, but a reasonable estimate of the effect is not currently available.

##### *IFRS 17 Insurance Contracts*

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

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

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

##### *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 and 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.

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Company will apply the interpretation from its effective date. These amendments have no impact on the financial statements of the Company.

(in thousands of tenge, unless otherwise indicated)

### 3. Summary of accounting policies (continued)

#### Standards issued but not yet effective (continued)

##### *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 the 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.

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the financial statements of the Company.

##### *Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Company will apply these amendments when they become effective.

##### *Amendments to IAS 19: Plan Amendment, Curtailment or Settlement*

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event;
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments have no impact on the financial statements of the Company.

##### *Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures*

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 *Investments in Associates and Joint Ventures*.

The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. Since the Company does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its financial statements.

(in thousands of tenge, unless otherwise indicated)

### 3. Summary of accounting policies (continued)

#### Standards issued but not yet effective (continued)

##### *Annual improvements 2015-2017 cycle (issued in December 2017)*

These improvements include:

##### *IFRS 3 Business Combinations*

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

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

##### *IFRS 11 Joint Arrangements*

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

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments are currently not applicable to the Company but may apply to future transactions.

##### *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 the entity originally recognised those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. When an 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, the Company does not expect any effect on its financial statements.

##### *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.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Company's current practice is in line with these amendments, the Company does not expect any effect on its financial statements.

### 4. Significant accounting judgments and estimates

#### Judgments

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

##### *Fair values 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 16*.

(in thousands of tenge, unless otherwise indicated)

#### 4. Significant accounting judgments and estimates (continued)

##### Judgments (continued)

###### *Impairment losses on financial assets*

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

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

More details are provided in *Notes 7 and 15*.

##### Taxation

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

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

#### 5. Cash and cash equivalents

Cash and cash equivalents comprise:

	<i>31 December 2018</i>	<i>31 December 2017</i>
Cash on hand	88	18
Current accounts with banks	403,469	255,605
<b>Cash and cash equivalents</b>	<b>403,557</b>	<b>255,623</b>

#### 6. Amounts due from credit institutions

As at 31 December 2017, the Company placed a USD deposit in “Tengri Bank” JSC for the amount of KZT 99,350 thousand (USD 299 thousand) at 4.5% interest rate and maturity on 23 February 2018.



(in thousands of tenge, unless otherwise indicated)

**7. Loans to customers**

Loans to customers comprise:

	<i>31 December 2018</i>	<i>31 December 2017</i>
Group loans	2,885,588	3,040,396
Individual loans	2,378,757	1,059,215
<b>Gross loans to customers</b>	<b>5,264,345</b>	<b>4,099,611</b>
Less allowance for impairment	(145,953)	(124,725)
<b>Loans to customers</b>	<b>5,118,392</b>	<b>3,974,886</b>

Group loans are unsecured loans granted to groups of borrowers, who sign loan agreements with joint obligation to repay their loans.

As at 31 December 2018 and 2017 loans to customers mainly comprise loans issued to individuals.

**Allowance for impairment of loans to customers**

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

<i>Group loans</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
<b>Gross carrying value as at 1 January 2018</b>	3,019,886	13,807	6,703	3,040,396
New assets originated or purchased	3,529,553	–	–	3,529,553
Assets repaid	(3,578,162)	(258)	(43,809)	(3,622,229)
Net change in accrued interest	1,271	1,566	2,635	5,472
Transfers to Stage 1	29,726	(29,413)	(313)	–
Transfers to Stage 2	(164,199)	164,199	–	–
Transfers to Stage 3	(21,355)	(111,481)	132,836	–
Recoveries	–	–	40,011	40,011
Amounts written off	–	–	(107,615)	(107,615)
<b>At 31 December 2018</b>	<b>2,816,720</b>	<b>38,420</b>	<b>30,448</b>	<b>2,885,588</b>

<i>Group loans</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
<b>ECL allowance as at 1 January 2018 (Note 3)</b>	58,654	7,147	6,703	72,504
New assets originated or purchased	71,204	–	–	71,204
Assets repaid	(75,884)	(133)	(43,789)	(119,806)
Transfers to Stage 1	17,323	(17,010)	(313)	–
Transfers to Stage 2	(2,757)	2,757	–	–
Transfers to Stage 3	(379)	(60,780)	61,159	–
Change in ECL during the year	(16,968)	87,835	70,844	141,711
Unwinding of discount	–	–	3,448	3,448
Recoveries	–	–	40,011	40,011
Amounts written off	–	–	(107,615)	(107,615)
<b>At 31 December 2018</b>	<b>51,193</b>	<b>19,816</b>	<b>30,448</b>	<b>101,457</b>

(in thousands of tenge, unless otherwise indicated)

**7. Loans to customers (continued)****Allowance for impairment of loans to customers (continued)**

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

<i>Individual loans</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
<b>Gross carrying value as at 1 January 2018</b>	1,047,670	8,029	3,516	1,059,215
New assets originated or purchased	2,744,591	–	–	2,744,591
Assets repaid	(1,418,919)	(2,182)	(24,573)	(1,445,674)
Net change in accrued interest	33,123	465	389	33,977
Transfers to Stage 1	13,987	(13,361)	(626)	–
Transfers to Stage 2	(57,748)	57,923	(175)	–
Transfers to Stage 3	(7,808)	(34,436)	42,244	–
Recoveries	–	–	23,551	23,551
Amounts written off	–	–	(36,903)	(36,903)
<b>At 31 December 2018</b>	<b>2,354,896</b>	<b>16,438</b>	<b>7,423</b>	<b>2,378,757</b>

<i>Individual loans</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
<b>ECL allowance as at 1 January 2018 (Note 3)</b>	14,157	4,559	3,516	22,232
New assets originated or purchased	39,235	–	–	39,235
Assets repaid	(24,627)	(1,220)	(24,512)	(50,359)
Transfers to Stage 1	7,621	(6,995)	(626)	–
Transfers to Stage 2	(729)	904	(175)	–
Transfers to Stage 3	(100)	(18,461)	18,561	–
Change in ECL during the year	(7,502)	30,231	22,259	44,988
Unwinding of discount	–	–	1,752	1,752
Recoveries	–	–	23,551	23,551
Amounts written off	–	–	(36,903)	(36,903)
<b>At 31 December 2018</b>	<b>28,055</b>	<b>9,018</b>	<b>7,423</b>	<b>44,496</b>

The movements in allowance for impairment of loans to customers during the year ended 31 December 2017 were as follows:

	<i>2017</i>
<b>1 January</b>	(85,637)
Net charge	(126,845)
Write-offs	96,192
Recoveries	(8,435)
<b>31 December</b>	<b>(124,725)</b>

**Collateral and other credit enhancements**

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

The main types of collateral obtained are as follows:

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

Recoverability of loans mainly depends on creditworthiness of the borrower rather than on collateral. The Company's policy provides for foreclosure by selling the collateral in exceptional cases. This is supported by previous experience of obtaining and selling the collateral in the event of the borrower's inability to meet its obligations to the Company at maturity.

In absence of collateral or other credit enhancements, ECL in respect of Stage 3 loans to customers as at 31 December 2018 would not change.

(in thousands of tenge, unless otherwise indicated)

**7. Loans to customers (continued)****Concentration of loans to customers**

As at 31 December 2018 and 2017, the Company has no borrowers or groups of interrelated borrowers whose loan balances exceed 10% of equity.

**8. Other assets and liabilities**

Other assets comprise:

	<i>31 December 2018</i>	<i>31 December 2017</i>
Other accounts receivable	12,709	4,989
Less allowance for impairment	(5,583)	—
<b>Other financial assets</b>	<b>7,126</b>	<b>4,989</b>
Advances paid	18,734	25,848
Inventories	4,927	2,099
Prepaid expenses	3,297	1,457
Prepaid taxes other than corporate income tax	740	582
Other	5,710	3,951
Less allowance for impairment	—	(3,893)
<b>Other non-financial assets</b>	<b>33,408</b>	<b>30,044</b>
<b>Other assets</b>	<b>40,534</b>	<b>35,033</b>

An analysis of change in ECL in relation to other financial assets during the year ended 31 December 2018 is as follows:

	<i>Stage 3</i>	<i>Total</i>
<b>ECL as at 1 January 2018</b>	—	—
Net change during the year	(5,583)	(5,583)
<b>As at 31 December 2018</b>	<b>(5,583)</b>	<b>(5,583)</b>

An analysis of change in allowance for impairment in relation to other non-financial assets during the year ended 31 December 2018 is as follows:

	<i>Non-financial assets</i>	<i>Total</i>
<b>As at 1 January 2017</b>	(3,869)	(3,869)
Net charge	(3,893)	(3,893)
Write-offs	3,869	3,869
<b>As at 31 December 2017</b>	<b>(3,893)</b>	<b>(3,893)</b>
Write-offs	3,893	3,893
<b>As at 31 December 2018</b>	<b>—</b>	<b>—</b>

Other liabilities comprise:

	<i>31 December 2018</i>	<i>31 December 2017</i>
Payables to suppliers	11,428	8,246
Payables to employees	78	14,350
<b>Other financial liabilities</b>	<b>11,506</b>	<b>22,596</b>
Taxes payable other than corporate income tax	34,386	32,156
Accrued expenses on unused vacations	33,060	23,470
Others	1,940	4,242
<b>Other non-financial liabilities</b>	<b>69,386</b>	<b>59,868</b>
<b>Other liabilities</b>	<b>80,892</b>	<b>82,464</b>

*(in thousands of tenge, unless otherwise indicated)***9. Amounts due to credit institutions**

Amounts due to credit institutions comprise:

	<i>31 December 2018</i>	<i>31 December 2017</i>
Loans from investment funds	4,393,957	3,401,829
Loans from other credit institutions	27,304	81,117
<b>Amounts due to credit institutions</b>	<b>4,421,261</b>	<b>3,482,946</b>

As at 31 December 2018 the Company had borrowings from 12 investment funds (31 December 2017: 13 investment funds) and 1 other credit institution (31 December 2017: 1 other credit institution).

**Covenants**

As at 31 December 2018 and 2017, the Company was in compliance with all the financial covenants under agreements with credit institutions.

**10. Taxation**

The corporate income tax expense comprises:

	<i>2018</i>	<i>2017</i>
Current corporate income tax charge	(87,907)	(83,945)
Deferred corporate income tax benefit – origination and reversal of temporary differences	4,639	920
<b>Corporate income tax expense</b>	<b>(83,268)</b>	<b>(83,025)</b>

The Republic of Kazakhstan was the only tax jurisdiction in which the Company's income is taxable. In accordance with tax legislation, the applied corporate income tax rate is 20% in 2018 and 2017.

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

	<i>2018</i>	<i>2017</i>
<b>Profit before corporate income tax expense</b>	<b>383,235</b>	<b>363,032</b>
Statutory corporate income tax rate	20%	20%
<b>Theoretical corporate income tax expense at the statutory rate</b>	<b>(76,647)</b>	<b>(72,606)</b>
<b>Non-deductible expenses</b>		
Net losses from transactions in foreign currencies	(1,228)	(1,952)
Other impairment and provisions	(1,117)	(779)
Other expenses	(4,276)	(7,688)
<b>Corporate income tax expense</b>	<b>(83,268)</b>	<b>(83,025)</b>

As at 31 December 2018, current corporate income tax assets were equal to KZT 21,789 thousand (31 December 2017: KZT 14,138 thousand).

**Deferred tax assets and deferred tax liabilities**

Temporary differences between the carrying amounts of assets and liabilities recorded in the financial statements and the amounts used for the purposes of calculation of taxable base, give rise to net deferred corporate income tax assets as at 31 December 2018 and 2017. The future tax benefits will only be received in the event that there are no changes in the legislation of Kazakhstan that would adversely affect the Company's ability to utilise the above benefits in future periods.

(in thousands of tenge, unless otherwise indicated)

**10. Taxation (continued)****Deferred tax assets and deferred tax liabilities (continued)**

Change in the amount of temporary differences during 2018 and 2017, may be presented as follows:

	<i>Origination and reversal of temporary differences in profit or loss</i>		<i>Effect of adoption IFRS 9 (Note 3)</i>		<i>Origination and reversal of temporary differences in profit or loss</i>	
	2016	2017			2018	
<b>Tax effect of deductible temporary differences</b>						
Accrued expenses for unused vacations	3,554	1,140	4,694	–	1,918	6,612
Loans to customers	1,988	807	2,795	(5,998)	3,203	–
<b>Deferred corporate income tax assets</b>	5,542	1,947	7,489	(5,998)	5,121	6,612
<b>Tax effect of taxable temporary differences</b>						
Property and equipment and intangible assets	(2,400)	(1,647)	(4,047)	–	(800)	(4,847)
Amounts due to credit institutions	(1,237)	680	(557)	–	258	(299)
Other payables	–	(60)	(60)	–	60	–
<b>Deferred corporate income tax liabilities</b>	(3,637)	(1,027)	(4,664)	–	(482)	(5,146)
<b>Net deferred corporate income tax assets</b>	1,905	920	2,825	(5,998)	4,639	1,466

**11. Equity**

As at 31 December 2018 and 2017, the Company's paid and outstanding charter capital was equal to KZT 341,297 thousand.

**12. Credit loss expense**

	<i>Notes</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Loans to customers	7	(14,542)	116,713	24,802	126,973
Other financial assets	8	–	–	5,583	5,583
<b>Credit loss expense</b>		<b>(14,542)</b>	<b>116,713</b>	<b>30,385</b>	<b>132,556</b>

**13. Operating expenses**

Operating expenses comprise:

	2018	2017
Payroll, bonuses and related taxes	572,154	428,622
Professional services	78,439	68,842
Rent	67,326	53,844
Business trip expenses	65,911	46,234
Transportation	61,967	49,204
Bank fees	23,047	18,790
Depreciation and amortisation	21,718	16,062
Training of personnel	13,338	3,379
Communication and information services	12,999	11,338
Advertising and marketing expenses	12,603	11,137
Office supplies	11,528	7,802
Repair and maintenance	5,302	3,302
Database maintenance services	2,294	2,620
Taxes other than corporate income tax	235	2,843
Other	64,307	53,776
<b>Operating expenses</b>	<b>1,013,168</b>	<b>777,795</b>

(in thousands of tenge, unless otherwise indicated)

## 14. Commitments and contingencies

### Political and economic environment

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

Volatility of tenge exchange rate against major foreign currencies had a negative impact on the Kazakhstan economy. Interest rates in tenge remain high. These factors resulted in limited access to capital, a high cost of capital, high inflation and uncertainty regarding further economic growth, which could negatively affect the Company's future financial position, results of operations and business prospects. The management of the Company believes that it is taking appropriate measures to support the sustainability of the Company's business in the current circumstances.

### Legal

In the ordinary course of business, the Company is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Company, no provision were recognized in financial statements.

### Tax contingencies

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

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

Because of the uncertainties associated with the Kazakh tax system, the ultimate amount of taxes, penalties and fines, if any, may be in excess of the amount expensed to date and accrued at 31 December 2018. Although such amounts are possible and may be material, it is the opinion of the Company's management that these amounts are either not probable, not reasonably determinable, or both.

### Operating lease commitments

Operating lease commitments are presented as follows:

	<i>31 December 2018</i>	<i>31 December 2017</i>
<b>Operating lease commitments</b>		
Not later than 1 year	3,783	7,010
From 1 to 5 years	23,823	–
<b>Commitments and contingencies</b>	<b>27,606</b>	<b>7,010</b>

The Company leases a number of premises under operating leases. The leases typically run for an initial period of one to five years, with an option to renew the lease after maturity. Lease payments are usually increased annually to reflect market conditions. None of the leases includes contingent rent.

### Financial and contingent liabilities

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

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

These credit related contingencies may terminate without being partially or fully funded. As a result of this contingency, the above does not necessarily represent the future cash outflow. Measurement of credit loss allowance for such facilities is made only for issued loan tranches.

*(in thousands of tenge, unless otherwise indicated)*

## 15. Risk management

Management of risk is fundamental to the Company's business and is an essential element of the Company's operations. The main risks inherent to the Company's operations are:

- Credit risk;
- Operational risk;
- Liquidity risk;
- Market risk.

The Company recognises that it is essential to have efficient and effective risk management processes in place. To enable this, the Company has established a risk management framework, whose main purpose is to protect the Company from risk and allow it to achieve its performance objectives.

### Risk management policies and procedures

The Company's risk management policies aim to identify, analyse and manage the risks faced by the Company, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

Supervisory Board of the Company has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

Management of the Company is responsible for monitoring and implementation of risk mitigation measures and making sure that the Company operates within the established risk parameters. Each department is responsible for direct management of the relevant risks, and together with the lawyer continuously monitors compliance with currently effective legislation.

Credit, market and liquidity risks both at portfolio and transactional levels are managed and controlled through a system of different committees of the Company. Both external and internal risk factors are identified and managed throughout the Company's organizational structure.

### Credit risk

Credit risk is the risk that the Company will incur a financial loss because its customers or counterparties failed to discharge their contractual obligations. The Company manages credit risk through the adoption of approved policies and procedures, requiring to set and meet the limits of credit risk concentration as well as by means of establishing the credit committees whose functions include monitoring of a credit risk. The credit policy is reviewed and approved by the Supervisory Board.

A credit policy establishes:

- Procedures for review and approval of loan applications;
- Methodology of borrowers' creditworthiness assessment;
- Methodology of proposed collateral assessment;
- Requirements to loan documentation;
- Procedures of on-going monitoring of loans and other credit risk bearing products.

The Company continuously monitors the performance of individual loans and other credit risks. Apart from individual borrower analysis, the Company assesses the loan portfolio as a whole with regard to concentration of loans and market risks.

(in thousands of tenge, unless otherwise indicated)

## 15. Risk management (continued)

### Credit risk (continued)

#### *Impairment assessment*

From 1 January 2018, the Company calculates ECL on a group basis according to the migration matrix adjusted for the impact of the macroeconomic factors to measure the expected cash shortfalls, discounted at an approximation to the EIR or its approximate value. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. The mechanics of the ECL calculations are outlined below and the key elements are as follows:

Probability of Default (PD)	<i>The Probability of Default</i> is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
Exposure at Default (EAD)	<i>The Exposure at Default</i> is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
Loss Given Default (LGD)	<i>The Loss Given Default</i> 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 methodology to perform an assessment at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Company groups its loans into the following groups:

Stage 1:	When loans are first recognised, the Company recognises an allowance based on 12mECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
Stage 2:	When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
Stage 3:	Loans considered credit-impaired. The Company records an allowance for the LTECL.
POSI:	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.

#### *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.



(in thousands of tenge, unless otherwise indicated)

## 15. Risk management (continued)

### Credit risk (continued)

#### *Definition of default and cure (continued)*

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 unlikelihood 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:

- The Company has information about force majeure, as well as other circumstances that caused the borrower significant material damage or do not allow the borrower to continue commercial or employment activities, including information about the deprivation/suspension of a license for activities, as well as information about the absence of employment or commercial activities of the borrower;
- A high probability of bankruptcy or another kind of financial reorganization, as well as involvement in the court proceedings of the borrower, which may worsen its financial condition;
- The borrower is deceased.

By decision of the Credit Committee, the Company is entitled to use additional risk factors as signs of impairment:

- Lack of communication with the borrower;
- Court proceedings on claims of third parties, where the borrower acts as a defendant;
- Loss of collateral for a loan or the absence of duly executed collateral.

It is the Company's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least three consecutive payments according to the last schedule approved in accordance with the restructuring. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

#### *Treasury*

The Company's treasury comprise transactions with financial services institutions, banks, broker-dealers, exchanges and clearing-houses. For these relationships, the Company's credit risk department analyses publicly available information such as financial information and other external data, e.g., the external ratings.

#### *Group and individual loans*

Consumer lending includes secured and unsecured loans to individuals. The main indicator for evaluating these products is the number of overdue days.

#### *Exposure at default*

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

#### *Loss given default*

LGD levels are assessed for all asset classes of Stage 1, 2 and 3 and POSI. These LGD levels take into account the expected EAD figure compared with the amounts that are expected to be recovered or realized as a result of the sale of collateral.

LGD is estimated on a monthly basis by the Company's risk management department. Credit risk assessment is based on the LGD model based on the value of the collateral. The value of collateral is estimated by adjusting for the liquidity ratio, after which it is discounted for a period of 2 years using the initial effective rate.

(in thousands of tenge, unless otherwise indicated)

## 15. 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 deems that the credit risk have increased significantly since initial recognition in the following cases:

- Significant changes in external market credit risk indicators for a specific loan or similar loans with the same expected maturity;
- Overdue on principal and/or interest for a period exceeding 30 calendar days;
- Significant financial difficulties of the borrower;
- Loan restructuring due to financial difficulties one or more times during the last 12 months;
- The Company has information about force majeure, as well as other circumstances that caused the borrower significant material damage or do not allow it to continue its activities, including information about the deprivation/suspension of a license for activities, as well as information about the lack of employment or commercial activities borrower;
- High probability of bankruptcy or another kind of financial reorganization, as well as involvement in the court proceedings of the borrower, which may worsen its financial condition.

#### *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 calculates an ECL on an individual basis for financial instruments that are material and for which a significant increase in credit risk or signs of impairment has been identified. Financial instruments are material if the amount owed by the borrower or a group of related borrowers at the reporting date exceeds or is equal to the threshold of 50 million tenge established by the Company.

For all other classes of asset, the Company calculates ECL on a collective basis. The Company groups these financial assets into homogeneous individual and group loans.

#### *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;
- Oil production and gas condensates volume;
- Crude oil price, Brent;
- Refinancing rate of NBRK;
- Average exchange rate of US Dollar to tenge;
- Inflation rate.

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.

(in thousands of tenge, unless otherwise indicated)

**15. Risk management (continued)****Credit risk (continued)***Forward-looking information and multiple economic scenarios (continued)*

The Company obtains the forward-looking information from third party sources (external rating agencies, governmental bodies e.g. NBRK, and international financial institutions). Experts of the Company's Credit Risk Department determine 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 (optimistic, base and pessimistic scenarios with the probabilities 10%, 80% and 10% accordingly):

<i>Key drivers</i>	<i>2019</i>
GDP by production method, % to prior year	103.8
Oil production and gas condensates volume, mln tons	89
Crude oil price, Brent, USD per barrel	55
Refinancing rate of NBRK	9.25
Average exchange rate of US Dollar to tenge	370
Inflation rate at the end of the period, %	4.0

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

	<i>2018</i>			<i>2017</i>		
	<i>Kazakhstan</i>	<i>OECD</i>	<i>Total</i>	<i>Kazakhstan</i>	<i>OECD</i>	<i>Total</i>
<b>Assets</b>						
Cash and cash equivalents	403,557	—	403,557	255,623	—	255,623
Amounts due from credit institutions	—	—	—	99,350	—	99,350
Loans to customers	5,118,392	—	5,118,392	3,974,886	—	3,974,886
Other financial assets	7,126	—	7,126	4,989	—	4,989
	<b>5,529,075</b>	<b>—</b>	<b>5,529,075</b>	<b>4,334,848</b>	<b>—</b>	<b>4,334,848</b>
<b>Liabilities</b>						
Amounts due to credit institutions	27,304	4,393,957	4,421,261	81,118	3,401,828	3,482,946
Other financial liabilities	10,434	1,072	11,506	21,626	970	22,596
	<b>37,738</b>	<b>4,395,029</b>	<b>4,432,767</b>	<b>102,744</b>	<b>3,402,798</b>	<b>3,505,542</b>
<b>Net assets/(liabilities)</b>	<b>5,491,337</b>	<b>(4,395,029)</b>	<b>1,096,308</b>	<b>4,232,104</b>	<b>(3,402,798)</b>	<b>829,306</b>

**Liquidity risk**

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, management has arranged diversified funding sources. Management manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

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

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

(in thousands of tenge, unless otherwise indicated)

**15. Risk management (continued)****Liquidity risk (continued)**

The liquidity management policy requires:

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

*Analysis of financial liabilities by remaining contractual maturities*

The tables below summarise the maturity profile of the Company's financial liabilities at 31 December based on contractual undiscounted repayment obligations:

<i>31 December 2018</i>	<i>On demand and less than 1 month</i>	<i>From 1 to 3 months</i>	<i>From 3 to 6 months</i>	<i>From 6 to 12 months</i>	<i>Over 1 year</i>	<i>Total</i>
<b>Financial liabilities</b>						
Amounts due to credit institutions	79,468	421,717	827,186	1,027,624	3,135,993	5,491,988
Other financial liabilities	78	11,428	–	–	–	11,506
<b>Total liabilities</b>	<b>79,546</b>	<b>433,145</b>	<b>827,186</b>	<b>1,027,624</b>	<b>3,135,993</b>	<b>5,503,494</b>

<i>31 December 2017</i>	<i>On demand and less than 1 month</i>	<i>From 1 to 3 months</i>	<i>From 3 to 6 months</i>	<i>From 6 to 12 months</i>	<i>Over 1 year</i>	<i>Total</i>
<b>Financial liabilities</b>						
Amounts due to credit institutions	143,627	139,475	522,577	1,340,430	2,252,166	4,398,275
Other financial liabilities	14,350	8,246	–	–	–	22,596
<b>Total liabilities</b>	<b>157,977</b>	<b>147,721</b>	<b>522,577</b>	<b>1,340,430</b>	<b>2,252,166</b>	<b>4,420,871</b>

**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 trading portfolio is 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 is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market interest rates. As at 31 December 2018 and 2017, the Company had no non-trading financial assets and financial liabilities with floating interest rate.

*Currency risk*

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

(in thousands of tenge, unless otherwise indicated)

**15. Risk management (continued)****Market risk (continued)***Currency risk (continued)*

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

<i>Currency</i>	<i>2018</i>		<i>2017</i>	
	<i>Change in exchange rates in %</i>	<i>Effect on profit before tax</i>	<i>Change in exchange rates in %</i>	<i>Effect on profit before tax</i>
US Dollar	14.00%	33,458	10.00%	(3,541)
	-10.00%	(23,898)	-10.00%	3,541
Euro	10.00%	8,240	13.50%	9,473
	-10.00%	(8,240)	-9.50%	(6,666)

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

**16. Fair value measurements**

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

		Fair value measurement using			
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant non- observable inputs (Level 3)	Total
<b>31 December 2018</b>					
<b>Assets for which fair values are disclosed</b>					
Cash and cash equivalents	31 December 2018	403,557	—	—	403,557
Loans to customers	31 December 2018	—	—	5,106,070	5,106,070
Other financial assets	31 December 2018	—	—	7,126	7,126
<b>Liabilities for which fair values are disclosed</b>					
Amounts due to credit institutions	31 December 2018	—	4,368,940	—	4,368,940
Other financial liabilities	31 December 2018	—	—	11,506	11,506
<b>31 December 2017</b>					
<b>Assets for which fair values are disclosed</b>					
Cash and cash equivalents	31 December 2017	255,623	—	—	255,623
Amounts due from credit institutions	31 December 2017	99,350	—	—	99,350
Loans to customers	31 December 2017	—	—	4,276,583	4,276,583
Other financial assets	31 December 2017	—	—	4,989	4,989
<b>Liabilities for which fair values are disclosed</b>					
Amounts due to credit institutions	31 December 2017	—	3,606,736	—	3,606,736
Other financial liabilities	31 December 2017	—	—	22,596	22,596

(in thousands of tenge, unless otherwise indicated)

**16. Fair value measurements (continued)****Fair value of financial assets and liabilities not carried at fair value**

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

	<i>31 December 2018</i>			<i>31 December 2017</i>		
	<i>Carrying value</i>	<i>Fair value</i>	<i>Unrecog- nised gain/(loss)</i>	<i>Carrying value</i>	<i>Fair value</i>	<i>Unrecog- nised gain/(loss)</i>
<b>Financial assets</b>						
Cash and cash equivalents	403,557	403,557	—	255,623	255,623	—
Amounts due from credit institutions	—	—	—	99,350	99,350	—
Loans to customers	5,118,392	5,106,070	(12,322)	3,974,886	4,276,583	301,697
Other financial assets	7,126	7,126	—	4,989	4,989	—
<b>Financial liabilities</b>						
Amounts due to credit institutions	4,421,261	4,368,940	52,321	3,482,946	3,606,736	(123,790)
Other financial liabilities	11,506	11,506	—	22,596	22,596	—
<b>Total unrecognised change in fair value</b>			<b>39,999</b>			<b>177,907</b>

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

*Assets 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.

*Financial assets and financial liabilities carried at amortised cost*

Fair value of unquoted instruments, including loans to customers, amounts due from credit institutions and amounts due to credit institutions, and other financial assets and liabilities, is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

(in thousands of tenge, unless otherwise indicated)

**17. 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. For the Company's contractual undiscounted repayment obligations refer to *Note 15*.

	<i>31 December 2018</i>			<i>31 December 2017</i>		
	<i>Within one year</i>	<i>More than one year</i>	<i>Total</i>	<i>Within one year</i>	<i>More than one year</i>	<i>Total</i>
Cash and cash equivalents	403,557	–	403,557	255,623	–	255,623
Amounts due from credit institutions	–	–	–	99,350	–	99,350
Loans to customers	3,308,804	1,809,588	5,118,392	2,514,915	1,459,971	3,974,886
Current corporate income tax assets	21,789	–	21,789	14,138	–	14,138
Deferred corporate income tax assets	–	1,466	1,466	–	2,825	2,825
Property and equipment	–	105,928	105,928	–	80,664	80,664
Intangible assets	–	85,735	85,735	–	54,181	54,181
Other assets	25,539	14,995	40,534	29,087	5,946	35,033
<b>Total assets</b>	<b>3,759,689</b>	<b>2,017,712</b>	<b>5,777,401</b>	<b>2,913,113</b>	<b>1,603,587</b>	<b>4,516,700</b>
Amounts due to credit institutions	1,781,114	2,640,147	4,421,261	1,607,608	1,875,338	3,482,946
Other liabilities	80,892	–	80,892	82,464	–	82,464
<b>Total liabilities</b>	<b>1,862,006</b>	<b>2,640,147</b>	<b>4,502,153</b>	<b>1,690,072</b>	<b>1,875,338</b>	<b>3,565,410</b>
<b>Net position</b>	<b>1,897,683</b>	<b>(622,435)</b>	<b>1,275,248</b>	<b>1,223,041</b>	<b>(271,751)</b>	<b>951,290</b>

**18. Related party transactions**

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

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

**Related party transactions**

The balances as well as the corresponding gain or loss on transactions with other related parties are as follows:

	<i>Participants</i>	
	<i>2018</i>	<i>2017</i>
<b>Statement of financial position</b>		
<b>Assets</b>		
Other assets	5,764	2,995
<b>Liabilities</b>		
Other liabilities	–	158
<b>Statement of comprehensive income</b>		
Operating expenses	6,746	6,339
<b>Transactions with members of key management personnel</b>		
Compensation of key management personnel comprised the following:		
	<i>2018</i>	<i>2017</i>
Salaries and other short-term benefits	70,529	55,796
Social security costs	7,134	5,929
<b>Total compensation to the key management personnel</b>	<b>77,663</b>	<b>61,725</b>

(in thousands of tenge, unless otherwise indicated)

**19. Changes in liabilities arising from financing activities**

	<i>Amounts due to credit institutions</i>
<b>Carrying amount as at 31 December 2016</b>	2,852,128
Proceeds	1,432,794
Repayment	(781,888)
Foreign currency translation	(44,789)
Other	24,701
<b>Carrying amount as at 31 December 2017</b>	3,482,946
Proceeds	2,230,148
Repayment	(1,378,418)
Foreign currency translation	(5,862)
Other	92,447
<b>Carrying amount as at 31 December 2018</b>	4,421,261

"Other" mainly represents the effect of accrued, but not yet paid interest on amounts due to credit institutions. The Company classifies interest paid as cash flows from operating activities.

**20. Capital adequacy**

In accordance with the Law of the Republic of Kazakhstan *On Microfinance Organizations* dated 26 November 2012, the Company is obliged to have the charter capital paid in the amount of not less than 30,000 times the monthly calculation index (hereinafter – "MCI"), equal to 2,405 tenge as at 31 December 2018 (31 December 2017: 2,269 tenge).

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

As at 31 December 2018 and 2017, the Company had complied in full with all its externally imposed capital requirements.

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

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

The NBRK requires microfinance organisations to maintain a Tier 1 capital adequacy ratio in the amount of not less than 10% of the assets, the total maximum risk factor per a single borrower in the amount of not more than 25% of equity, calculated in accordance with the requirements of the NBRK, and the overall rate of maximum limit of total liabilities in the amount of not exceeding 10 times of equity. As at 31 December 2018 and 2017, the Company's capital adequacy ratio based on the NBRK methodology exceeded the statutory minimum.

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

	<i>31 December 2018</i>	<i>31 December 2017</i>
Tier 1 capital	1,267,836	943,063
Total assets	5,777,401	4,516,700
Tier 1 capital ratio	0.22	0.21
	<i>31 December 2018</i>	<i>31 December 2017</i>
Tier 1 capital	1,267,836	943,063
Total amount due from a single borrower	14,654	9,340
Maximum exposure per single borrower to Tier 1 Capital	0.01	0.01



*(in thousands of tenge, unless otherwise indicated)***20. Capital adequacy (continued)**

	<i>31 December 2018</i>	<i>31 December 2017</i>
Tier 1 capital	1,267,836	943,063
Total liabilities of a microfinance organisation except for liabilities to non-residents of the Republic of Kazakhstan, which are international financial organisations	4,502,153	3,565,410
Maximum exposure of total liabilities to Tier 1 Capital	3.55	3.78

**21. Events after the reporting period**

In September 2018, Mercy Corps, the controlling party of the Company, notified other participants of the Company of its intention to fully sell its share. Mercy Corps plans to sell its share by the end of 2019.