

# Kazakhstan Ijara Company JSC

## Financial statements

*For 2020  
together with independent auditor's report*

## CONTENTS

### INDEPENDENT AUDITOR'S REPORT

### FINANCIAL STATEMENTS

Statement of profit or loss and other comprehensive income .....	1
Statement of financial position.....	2
Statement of changes in equity .....	3
Statement of cash flows.....	4

### NOTES TO THE FINANCIAL STATEMENTS

1. Principal activities .....	5
2. Basis of preparation.....	5
3. Summary of accounting policies .....	6
4. Significant accounting judgments and estimates.....	15
5. Credit loss expense .....	16
6. Other income.....	16
7. General administrative expenses.....	17
8. Taxation.....	17
9. Cash and cash equivalents.....	18
10. Finance lease receivables .....	19
11. Murabaha receivables.....	22
12. Investment in a joint venture.....	23
13. Property and equipment.....	24
14. Right-of-use assets and lease liabilities.....	24
15. Intangible assets .....	25
16. Financial arrangements .....	25
17. Share capital .....	26
18. Reserve for pre-operational expenses .....	26
19. Risk management.....	26
20. Capital management .....	31
21. Commitments and contingencies.....	31
22. Related party transactions .....	32
23. Fair values of financial instruments.....	33
24. Average effective profit rates.....	35
25. Maturity analysis of assets and liabilities.....	35
26. Changes in liabilities arising from financing activities.....	36

## Independent auditor's report

To the Shareholders and Board of Directors of  
Kazakhstan Ijara Company JSC

### **Opinion**

We have audited the financial statements of Kazakhstan Ijara Company JSC (hereinafter, the "Company"), which comprise the statement of financial position as at 31 December 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

### **Basis for opinion**

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

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of 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 Board of Directors are 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 Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*Ernst & Young LLP*

  
Olga Khegay  
Auditor

Audit Qualification Certificate  
No. МФ - 0000286 dated 25 September 2015

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

12 May 2021

  
Rustamzhan Sattarov  
General Director  
Ernst & Young LLP

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

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME****For the year ended 31 December 2020***(In thousands of tenge)*

	<i>Notes</i>	<i>2020</i>	<i>2019*</i>
Revenue from finance lease receivables		1,083,036	1,114,649
Revenue from Murabaha receivables		25,821	38,811
Revenue from Wakala investment deposits		32,582	—
Finance expenses	14, 16	(119,941)	(67,267)
<b>Net finance income</b>		<b>1,021,498</b>	<b>1,086,193</b>
Credit loss expense	5	(70,236)	(138,513)
<b>Net finance income after credit loss expense</b>		<b>951,262</b>	<b>947,680</b>
Net losses from foreign currencies		(27,623)	(13,088)
Share of profit of a joint venture	12	73,514	2,262
Other income	6	106,970	68,963
<b>Operating income</b>		<b>1,104,123</b>	<b>1,005,817</b>
General administrative expenses	7	(444,033)	(399,150)
Other expenses		(11,702)	(6,377)
<b>Profit before corporate income tax expense</b>		<b>648,388</b>	<b>600,290</b>
Corporate income tax expense	8	—	—
<b>Profit for the year</b>		<b>648,388</b>	<b>600,290</b>
<b>Other comprehensive income</b>			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods</i>			
Foreign currency translation differences	12	(36,719)	(3,558)
<b>Other comprehensive income for the year, net of corporate income tax</b>		<b>(36,719)</b>	<b>(3,558)</b>
<b>Total comprehensive income for the year</b>		<b>611,669</b>	<b>596,732</b>

\* Certain amounts included in this column do not agree to the financial statements for 2019 as they reflect the reclassifications made and disclosed in Note 2.

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

Yusuf Karsi  
General Director



Sholpan Maltobarova  
Chief Financial Officer

Janat Aubakirova  
Chief Accountant

12 May 2021

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

## STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

*(In thousands of tenge)*

	<i>Notes</i>	<i>2020</i>	<i>2019*</i>
Assets			
Cash and cash equivalents	9	3,132,378	1,097,908
Finance lease receivables	10	7,199,518	6,763,917
Inventory	10	149,458	–
Murabaha receivables	11	221,427	136,133
Advances paid to suppliers		504,910	102,312
Investment in a joint venture	12	525,870	489,075
Property and equipment	13	7,933	4,737
Right-of-use assets	14	13,814	26,566
Intangible assets	15	8,486	3,016
Current corporate income tax assets		40,157	38,941
Other assets		67,915	60,099
Total assets		<u>11,871,866</u>	<u>8,722,704</u>
Liabilities			
Advances received for finance leases		554,904	319,076
Accounts payable to suppliers		337,089	11,788
Financial arrangements	16	2,841,514	950,597
Lease liabilities	14	16,059	28,929
VAT payable		137,339	112,643
Other liabilities		102,902	29,281
Total liabilities		<u>3,989,807</u>	<u>1,452,314</u>
Equity			
Share capital	17	4,224,362	4,224,362
Foreign currency translation reserve		166,102	202,821
Reserve for pre-operational expenses	18	(110,670)	(110,670)
Retained earnings		3,602,265	2,953,877
Total equity		<u>7,882,059</u>	<u>7,270,390</u>
Total liabilities and equity		<u>11,871,866</u>	<u>8,722,704</u>

\* Certain amounts included in this column do not agree to the financial statements for 2019 as they reflect the reclassifications made and disclosed in Note 2.

## STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

*(In thousands of tenge)*

	<i>Share capital</i>	<i>Foreign currency translation reserve</i>	<i>Reserve for pre- operational expenses</i>	<i>Retained earnings</i>	<i>Total equity</i>
As at 1 January 2019	4,224,362	206,379	(110,670)	2,353,587	6,673,658
Profit for the year	–	–	–	600,290	600,290
Other comprehensive income					
Foreign currency translation differences	–	(3,558)	–	–	(3,558)
Total comprehensive income for the year	–	(3,558)	–	600,290	596,732
As at 31 December 2019	4,224,362	202,821	(110,670)	2,953,877	7,270,390
Profit for the year	–	–	–	648,388	648,388
Other comprehensive income					
Foreign currency translation differences	–	(36,719)	–	–	(36,719)
Total comprehensive income for the year	–	(36,719)	–	648,388	611,669
As at 31 December 2020	4,224,362	166,102	(110,670)	3,602,265	7,882,059

*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 2020

*(In thousands of tenge)*

	<i>Notes</i>	<i>2020</i>	<i>2019</i>
Cash flows from operating activities			
Profit for the year		648,388	600,290
<i>Adjustments for:</i>			
Revenue from finance lease receivables		(1,083,036)	(1,114,649)
Revenue from Murabaha receivables		(25,821)	–
Revenue from Wakala investment deposits		(32,582)	–
Credit loss expense		70,236	138,513
Depreciation and amortisation expense	7	16,554	31,393
Share of profit of a joint venture		(73,514)	(2,262)
Finance expenses		119,941	67,267
Net losses from foreign currencies		27,623	13,088
Cash flows used in operating activities before changes in operating assets and liabilities		(332,211)	(266,360)
<i>Net increase in operating assets</i>			
Finance lease receivables		(602,429)	(105,762)
Murabaha receivables		(31,208)	(71,125)
Advances paid to suppliers		(402,598)	(36,134)
Other assets		(17,489)	(24,130)
<i>Net decrease in operating liabilities</i>			
Advances received for finance leases		235,828	227,295
Accounts payable to suppliers		292,496	2,788
Other liabilities		9,409	26,943
Net cash flows used in operating activities before corporate income tax		(848,202)	(246,485)
Revenue from finance activities received		1,184,381	1,143,442
Mark-up paid		(101,269)	(58,745)
Corporate income tax paid		–	–
Net cash flows from operating activities		234,910	838,212
Cash flows from investing activities			
Proceeds from sale of property and equipment and intangible assets		–	95
Purchase of property and equipment	13	(5,758)	(935)
Purchase of intangible assets	15	(6,763)	(2,906)
Net cash flows used in investing activities		(12,521)	(3,746)
Cash flows from financing activities			
Proceeds from financial arrangements	26	2,250,000	473,763
Repayment of financial arrangements	26	(453,729)	(385,560)
Lease payments	14	(15,781)	(14,644)
Net cash flows from financing activities		1,780,490	73,559
Net increase in cash and cash equivalents		2,002,879	908,025
Cash and cash equivalents, as at 1 January		1,097,908	230,853
Effect of exchange rates changes on cash and cash equivalents		31,591	(40,970)
Cash and cash equivalents, as at 31 December	9	3,132,378	1,097,908

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

Kazakhstan Ijara Company JSC (hereinafter – the “Company”) was registered in the Republic of Kazakhstan as a joint stock company on 5 April 2013 (registration number 4291-1910-01-AO). On 24 September 2013, the Company was re-registered in connection with the approval of the adoption of a new shareholder, Al Hilal Leasing LLP, acceptance of the rights and powers under the New Memorandum and the statement of refusal to participate in the Company shareholders Murad-Mi Holding and Zerde, termination of their rights and authority on the Initial Memorandum.

The principal activities of the Company are:

- Financial leasing operations; and
- Professional activities on the Shariah compliant securities market, as well as other activities on financial market allowed by Kazakhstan law and Shariah principles and rules.

The Company performs lease financing of mid-term (from 3 to 5 years) leasing projects and Murabaha financing. The Company primarily leases machinery, equipment and transport vehicles.

The registered and actual address of the Company's head office is: 51/78 Kabanbay batyr street, Almaty, 050010, Republic of Kazakhstan. The majority of the Company's assets and liabilities are located in the Republic of Kazakhstan.

### Shareholders

As at 31 December 2020 and 2019, the following legal entities were shareholders of the Company:

<i>Shareholders</i>	<i>2020 (%)</i>	<i>2019 (%)</i>
Islamic Corporation for the Development of the Private Sector	35.77	35.77
ProFile.kz LLP (former Zaman Leasing LLP)	17.85	17.85
Aktif Yatirim Bankasi AS	14.32	14.32
Al Hilal Leasing Company LLP	14.18	14.18
Kolon World Investment Co., Limited	10.73	10.73
Eurasia Group AG	7.15	7.15
	<u>100.00</u>	<u>100.00</u>

Related party transactions are disclosed in *Note 22*.

### Kazakhstan business environment

The Company's operations are located in Kazakhstan. Consequently, the Company is exposed to the economic and financial markets of Kazakhstan that display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Kazakhstan.

The financial statements reflect management's assessment of the impact of the Kazakhstan business environment on the operations and financial position of the Company. The future business environment may differ from management's assessment.

## 2. Basis of preparation

### General

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

### Basis of measurement

The financial statements have been prepared under the historical cost convention.

### Functional and presentation currency

The functional currency of the Company is tenge (“tenge” or “KZT”) as, being the national currency of the Republic of Kazakhstan, it reflects the economic substance of the majority of underlying events and circumstances relevant to the Company.

These financial statements are presented in thousands of tenge unless otherwise is stated.

(In thousands of tenge, unless otherwise indicated)

## 2. Basis of preparation (continued)

Functional and presentation currency (continued)

As at 31 December 2020 and 2019, market exchange rates were as follows:

	<i>2020</i>	<i>2019</i>
US dollar (USD)	420.71	381.18
Kyrgyz som (KGS)	5.10	5.47

The Company uses foreign currency exchange rates from official source – the National Bank of the Republic of Kazakhstan.

Effect of COVID-19 pandemic

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

Support measures were introduced by the Government and the Agency of the Republic of Kazakhstan for Regulation and Development of Financial Market (hereinafter – the “Agency”) to counter the economic downturn caused by the COVID-19 pandemic. These measures include, among others, subsidised lending to affected industries and individuals, payment holidays and easing of certain regulatory restrictions to help the financial sector maintain its capabilities to provide resources and to help customers avoid liquidity shortages as a result of the COVID-19 containment measures.

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

Reclassification

The following reclassification has been made to the amounts in the statement of profit or loss and other comprehensive income for 2019 to conform to the 2020 presentation.

<i>Statement of profit or loss and other comprehensive 2019</i>	<i>As previously reported</i>	<i>Amount reclassified</i>	<i>Adjusted amount</i>
Other income	62,586	6,377	68,963
Other expenses	–	(6,377)	(6,377)

The following reclassification has been made to the amounts in the statement of financial position as at 31 December 2019 to conform to the 2020 presentation.

<i>Statement of financial position 2019</i>	<i>As previously reported</i>	<i>Amount reclassified</i>	<i>Adjusted amount</i>
Other liabilities	141,924	(29,281)	112,643
VAT payable	–	29,281	29,281

## 3. Summary of accounting policies

Changes in accounting policies

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

*Amendments to IFRS 3: Definition of a Business*

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

(In thousands of tenge, unless otherwise indicated)

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

#### Changes in accounting policies (continued)

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

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

##### *Amendments to IAS 1 and IAS 8: Definition of Material*

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

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

##### *Conceptual Framework for Financial Reporting issued on 29 March 2018*

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

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

#### Fair value measurement

The Company measures financial instruments carried at fair value through profit or loss (FVPL) and fair value through other comprehensive income (FVOCI), and non-financial assets at fair value at each balance sheet date. Fair values of financial instruments measured at amortised cost are disclosed in *Note 23*.

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.

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

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

#### Fair value measurement (continued)

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

#### Foreign currencies

Transactions in foreign currencies are translated to the respective functional currencies of the Company entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective profit and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments unless the difference is due to impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss; a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or qualifying cash flow hedges to the extent that the hedge is effective, which are recognised in other comprehensive income.

#### Foreign operations

As at the reporting date, the assets and liabilities of the entities whose functional currency is different from the presentation currency of the Company are translated into tenge at the rate of exchange ruling at the reporting date and, their statements of profit or loss are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken to other comprehensive income.

#### Financial assets and liabilities

##### *Initial recognition*

##### *Date of recognition*

All normal course 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. Normal course purchases or sales are purchases or sales of financial assets and liabilities that require delivery of assets and liabilities within the period generally established by regulation or convention in the marketplace.

##### *Initial measurement*

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

##### *Measurement categories of financial assets and liabilities*

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

- Amortised cost;
- FVOCI;
- FVPL.



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

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

Financial assets and liabilities (continued)

*Initial measurement (continued)*

*Debt instruments at amortised cost*

The Company only measures 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).

*Business model assessment*

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

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

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

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

*The SPPI test*

As a second step of its classification process the Company assesses the contractual terms of financial assets 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.

In assessing whether the contractual cash flows are SPPI, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

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 financing arrangement do not give rise to contractual cash flows that are SPPI on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

*Reclassification of financial assets and liabilities*

The Company does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Company changes the business model for managing financial assets. Financial liabilities are never reclassified. The Company did not reclassify any of its financial assets and liabilities in 2020.

Cash and cash equivalents

Cash and cash equivalents consist of unrestricted current bank accounts and short-term deposits in banks that mature within ninety (90) days of the date of origination.

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

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

#### Leases

##### *Company as lessee*

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

##### *Lease liabilities*

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

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

##### *Short-term leases and leases of low-value assets*

The Company applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e. below KZT 2,100 thousand). Lease payments on short-term leases and leases of low-value assets are recognised as expenses on a straight-line basis over the lease term.

##### *Finance lease – Company as lessor*

The Company as a lessor initially measures finance leases at an amount equal to the net investment in the lease. Subsequently, the recognition of finance income is based on a pattern reflecting a constant periodic rate of return on the Company's net investment in the finance lease.

Leasing of identified assets ending with ownership transfer (also known as Ijara Muntahia Bitamleek) is an agreement whereby the Company buys an asset according to the customer's intention, presented in intent notice and then leases it, in its capacity as a lessor, to the customer as lessee for a specified rental over a specific period. The duration of the lease term, as well as the basis for rental, are set and agreed in the lease agreement. The Company possesses ownership of the asset throughout the lease term. The arrangement could end by transferring the ownership of the asset to the lessee upon completion by the lessee of its obligation during or at the end of lease term.

The Company recognises Ijara assets at a value equal to the net investment in the lease, starting from the date of commencement of the lease term. Rental income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the financing under Ijara agreements.

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

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

#### Offsetting of financial instruments

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

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

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

#### Renegotiated financing instruments

Where possible, the Company seeks to restructure financing instruments rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new financing conditions.

The Company derecognises a financial asset, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new financing, 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 financing instruments are classified as Stage 1 for ECL measurement purposes, unless the new financing is deemed to be purchased or originated credit impaired (POCI). When assessing whether or not to derecognise a financing to a customer, amongst others, the Company considers the following factors:

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

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original effective profit rate, the Company records a modification gain or loss, presented within profit revenue calculated using effective profit rate 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 under monitoring until payment discipline is proven.

#### Derecognition of financial assets and liabilities

##### *Financial assets*

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

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

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

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

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

#### Derecognition of financial assets and liabilities (continued)

##### *Financial assets (continued)*

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

##### *Write-off*

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

##### *Financial liabilities*

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

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

#### Property and equipment

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

Carrying amount of property and equipment is reviewed for impairment when events or changes in circumstances indicate that carrying amount may not be recoverable.

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

	<i>Years</i>
Computers	3
Office furniture	5 to 7
Motor vehicles	5

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

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

#### Intangible assets

Intangible assets include computer software and licenses. Intangible assets are carried at cost less any accumulated amortisation. Intangible assets are amortised on a straight-line basis over the useful economic lives of 5 years and assessed for impairment whenever there is an indication that the intangible assets may be impaired.

#### Non-financial assets

Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

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

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

#### Non-financial assets (continued)

All impairment losses in respect of non-financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### Provisions

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

#### Share capital

Common shares with discretionary dividends are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in the equity.

#### 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.

#### Taxation

Income tax comprises of current corporate income tax for the year and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

#### Current corporate income tax

Current corporate income tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current corporate income tax payable also includes any tax liability arising from dividends.

#### Deferred corporate income tax

Deferred corporate income tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred corporate income tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. Deferred corporate income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred corporate income tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred corporate income tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. The measurement of deferred corporate income tax reflects the tax consequences that would follow the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred corporate income tax assets and liabilities are offset if there is a legally enforceable right to offset current corporate income tax asset and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current corporate income tax assets and liabilities on a net basis or their tax assets and liabilities will be realised simultaneously.



(In thousands of tenge, unless otherwise indicated)

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

#### Income and expense recognition

Finance lease origination fees, lease servicing fees and other fees that are considered to be integral to the overall profitability of a finance lease, together with the related transaction costs, are deferred and amortised to profit income over the estimated life of the financial instrument.

Murabaha is the sale of goods at a price equal to the cost determined by IAS 2 *Inventories* with mark-up agreed by the contract. The mark-up is recognized as income during the contract period using the effective rate method.

Other fees, commissions and other income and expense items are recognised in profit or loss when the corresponding service is provided.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

#### Investment in a joint venture

Joint ventures are arrangements over which the Company together with one or more other parties has joint control over the financial and operating policies. The financial statements include the Company's share of the total recognised gains and losses of joint ventures on an equity-accounted basis, from the date that significant influence and joint control effectively commences until the date that significant influence and joint control effectively ceases. When the Company's share of losses exceeds the Company's interest (including long-term financial arrangement) in the joint venture, that interest is reduced to nil and recognition of further losses is discontinued, except to the extent that the Company has incurred obligations in respect of the joint venture.

#### Standards issued but not yet effective

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

#### *IFRS 17 Insurance Contracts*

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

A few scope exceptions will apply. IFRS 17 introduces new accounting requirements for banking products with insurance features that may affect the determination of which instruments or which components thereof will be in the scope of IFRS 9 or IFRS 17.

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

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

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

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

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

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

As part of its 2018-2020 Annual Improvements to IFRS standards process, the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the obligor and the financier, including fees paid or received by either the obligor or financier on the other's behalf.

An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

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

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

Standards issued but not yet effective (continued)

#### *IFRS 9 Financial Instruments – Fees in the ‘10 per cent’ test for derecognition of financial liabilities (continued)*

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

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

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

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

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

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

### 4. Significant accounting judgments and estimates

The preparation of financial statements requires from management to make estimates and assumptions that have an influence on reported amounts of assets and liabilities of the Company, the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. The Company's management conducts evaluations and judgments on an ongoing basis, based on previous experience and a number of other factors that are considered reasonable in the current environment. Actual results could differ from those estimates. The following estimates and assumptions are important to present financial position of the Company.

#### COVID-19

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

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

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

#### *Determining the lease term of contracts with renewal options*

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

(In thousands of tenge, unless otherwise indicated)

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

##### COVID-19 (continued)

##### *Determining the lease term of contracts with renewal options (continued)*

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

##### *Leases – estimating the incremental borrowing rate*

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

The Company estimates the IBR using observable inputs (such as market profit rates) when available and is required to make certain entity-specific estimates.

##### *Impairment losses on net investment in finance leases and accounts receivable*

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

#### 5. Credit loss expense

The table below shows the ECL charges on financial instruments recognised in the statement of profit or loss and other comprehensive income for the years ended 31 December 2020 and 2019:

	<i>Notes</i>	<i>2020</i>	<i>2019</i>
Finance lease receivables	10	(50,800)	(137,522)
Murabaha receivables	11	(1,063)	(956)
Other financial assets		(18,373)	(35)
		<u>(70,236)</u>	<u>(138,513)</u>

#### 6. Other income

Other income comprise the following:

	<i>2020</i>	<i>2019</i>
Documentation fee in relation to financing	29,174	26,684
Penalties	27,134	4,783
Insurance payment for an insured event	23,814	7,370
Termination charges	11,218	21,756
Agency fees	5,850	–
Other	9,780	8,370
	<u>106,970</u>	<u>68,963</u>

(In thousands of tenge, unless otherwise indicated)

## 7. General administrative expenses

General administrative expenses comprise the following:

	2020	2019
Personnel expenses	328,019	286,754
Charity	27,134	3,552
Professional services	25,263	22,327
Depreciation and amortisation (Note 13, 14, 15)	16,554	31,393
Insurance	13,327	9,738
Business trip and representative expenses	7,084	20,062
Information technology services	5,924	3,113
Office expenses	5,492	4,683
Bank charges	4,219	3,593
Transportation	2,087	2,172
Taxes other than income tax	2,014	2,572
Management services fees	1,780	3,310
Communication	1,634	1,971
Marketing and advertising	416	1,170
Other	3,086	2,740
	<u>444,033</u>	<u>399,150</u>

## 8. Taxation

The corporate income tax expense comprises:

	2020	2019
Current corporate income tax charge	–	–
Deferred corporate income tax expense – origination and reversal of temporary differences	–	–
Corporate income tax expense	<u>–</u>	<u>–</u>

The Republic of Kazakhstan is the only tax jurisdiction in which the Company's income is taxable. In accordance with tax legislation the applied corporate income tax rate is 20% in 2020 and 2019. There was no current corporate income tax charge in 2020 and 2019 as revenue from finance lease receivables is tax exempt.

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

	2020	2019
Profit before corporate income tax expense	648,388	600,290
Statutory tax rate	20%	20%
Theoretical corporate income tax expense at the statutory rate	129,678	120,058
Non-taxable revenue from finance lease receivables	(149,621)	(177,323)
Non-taxable share of profit of a joint venture	(14,703)	(452)
Non-deductible credit loss expense	14,475	27,703
Non-deductible loss from foreign currencies	15,835	23,704
Non-deductible operating expenses	191	519
Change in unrecognised deferred corporate income tax assets	4,145	5,791
Corporate income tax expense	<u>–</u>	<u>–</u>

### Deferred corporate income tax assets and liabilities

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred corporate income tax assets and liabilities as at 31 December 2020 and 2019.

As at 31 December 2020 and 2019 deferred corporate income tax assets are not recognised as it is not probable that future taxable profits will be available against which the temporary differences can be used.

(In thousands of tenge, unless otherwise indicated)

## 8. Taxation (continued)

Deferred corporate income tax assets and liabilities (continued)

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

	2018	Effect of adopting IFRS 16	Origination and reversal of temporary differences in profit or loss	2019	Origination and reversal of temporary differences in profit or loss	2020
Tax effect of deductible temporary differences						
Accrued expenses on unused vacations	3,093	–	3,577	6,670	1,244	7,914
Accrued administrative expenses	5,625	–	(273)	5,352	7,356	12,708
Lease liabilities	–	7,863	(2,077)	5,786	(2,574)	3,212
Other liabilities	4,226	–	390	4,616	(2,425)	2,191
	12,944	7,863	1,617	22,424	3,601	26,025
Tax effects of taxable temporary differences						
Right-of-use assets	–	(7,863)	2,550	(5,313)	2,550	(2,763)
Property and equipment and intangible assets	(1,196)	–	1,624	428	(2,006)	(1,578)
Deferred corporate income tax assets	11,748	–	5,791	17,539	4,145	21,684
Unrecognised deferred income tax assets	(11,748)	–	(5,791)	(17,539)	(4,145)	(21,684)
Net deferred corporate income tax assets	–	–	–	–	–	–

## 9. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	2020	2019
Current accounts with banks		
Al Hilal Islamic Bank JSC	363,625	771,059
KZI Bank JSC	700,469	326,845
Islamic bank Zaman Bank JSC	–	4
Wakala investment deposits with contractual maturity of up to 90 days		
Al Hilal Islamic Bank JSC	2,068,284	–
Cash and cash equivalents	3,132,378	1,097,908

Concentration of cash and cash equivalents

As at 31 December 2020 and 2019, the Company has accounts with one bank which balances exceed 10% of the Company's equity. As at 31 December 2020, the total value of these balances is equal to KZT 2,431,909 thousand (as at 31 December 2019: KZT 771,059 thousand).



*(In thousands of tenge, unless otherwise indicated)***10. Finance lease receivables**

As at 31 December, net investment in finance lease comprise the following:

	<i>2020</i>	<i>2019</i>
Up to one year	4,040,300	4,080,511
From one to five years	5,050,492	4,519,218
Minimum finance lease payments receivable	<u>9,090,792</u>	<u>8,599,729</u>
Less: unearned finance income		
Up to one year	(546,678)	(592,894)
From one to five years	(965,668)	(914,790)
	<u>(1,512,346)</u>	<u>(1,507,684)</u>
	<u>7,578,446</u>	<u>7,092,045</u>
Less: ECL allowance	(378,928)	(328,128)
Net investment in finance lease	<u><u>7,199,518</u></u>	<u><u>6,763,917</u></u>

  

	<i>2020</i>	<i>2019</i>
Leases to small and medium size companies	6,903,333	6,793,613
Leases to large corporates	675,113	298,432
Less: ECL allowance	(378,928)	(328,128)
Net investment in finance lease	<u><u>7,199,518</u></u>	<u><u>6,763,917</u></u>

**ECL allowance**

The Company applies simplified approach to the measurement of ECL allowance for finance lease receivables. The simplified approach does not require monitoring of changes in credit risk and ECL allowance are modeled for the expected life of the financial asset.

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

	<i>Finance lease receivables</i>
Gross carrying value as at 1 January 2020	<u>7,092,045</u>
New assets originated	3,368,612
Assets repaid	(2,835,842)
Foreign exchange adjustments	(46,369)
As at 31 December 2020	<u><u>7,578,446</u></u>

	<i>Finance lease receivables</i>
ECL allowance as at 1 January 2020	<u>(328,128)</u>
New assets originated	(66,073)
Assets repaid	219,579
Changes in inputs used for ECL calculation	(204,306)
Foreign exchange adjustments	–
As at 31 December 2020	<u><u>(378,928)</u></u>

An analysis of changes in the gross carrying value and corresponding ECL allowance in relation to finance lease receivables during the year ended 31 December 2019 is as follows:

	<i>Finance lease receivables</i>
Gross carrying value as at 1 January 2019	<u>6,956,006</u>
New assets originated	3,109,565
Assets repaid	(2,855,004)
Foreign exchange adjustments	(118,522)
As at 31 December 2019	<u><u>7,092,045</u></u>

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

## 10. Finance lease receivables (continued)

## ECL allowance (continued)

	<i>Finance lease receivables</i>
ECL allowance as at 1 January 2019	(190,606)
New assets originated	(220,555)
Assets repaid	135,023
Changes in inputs used for ECL calculation	(51,990)
Foreign exchange adjustments	–
As at 31 December 2019	<u>(328,128)</u>

## Modified and restructured finance lease receivables

During 2020, the Company has modified the terms and conditions of certain finance lease receivables, including introduction of payment holidays, as part of the measures introduced by the Government related to consequences of the COVID-19 pandemic. The Company considered these modifications did not represent the creation of new leases that are separate from the original leases. As a result, the Company accounted for the modifications applying IFRS 9 and recognised loss on modification of finance lease receivables, not resulting in derecognition in the amount of KZT 45,897 thousand within revenue from finance lease receivables of the statement of profit or loss and other comprehensive income.

The table below shows gross carrying value and ECL allowance on finance lease receivables modified during 2020.

<i>Leases to small and medium size companies</i>	<i>2020</i>
Gross carrying value	2,571,025
ECL allowance	(197,492)

## Credit quality of finance lease portfolio

The following table provides information on the credit quality of the finance lease portfolio as at 31 December 2020:

	<i>Gross carrying value</i>	<i>ECL allowance</i>	<i>Net investment in finance lease</i>	<i>ECL allowance as a percentage of gross carrying value, %</i>
Leases to large corporates				
- not overdue	403,337	(6,719)	396,618	1.67
- overdue for less than 30 days	184,970	(3,096)	181,874	1.67
- overdue for 30-89 days	86,806	(1,310)	85,496	1.51
Total leases to large corporates	<u>675,113</u>	<u>(11,125)</u>	<u>663,988</u>	<u>1.65</u>
Leases to small and medium size companies				
- not overdue	4,058,295	(61,433)	3,996,862	1.51
- overdue for less than 30 days	1,807,198	(59,240)	1,747,958	3.28
- overdue for 30-89 days	299,180	(3,474)	295,706	1.16
- overdue for 90-179 days	445,136	(63,975)	381,161	14.37
- overdue for over 180 days	293,524	(179,681)	113,843	61.22
Total leases to small and medium size companies	<u>6,903,333</u>	<u>(367,803)</u>	<u>6,535,530</u>	<u>5.33</u>
Total finance lease receivables	<u><u>7,578,446</u></u>	<u><u>(378,928)</u></u>	<u><u>7,199,518</u></u>	<u><u>5.00</u></u>

(In thousands of tenge, unless otherwise indicated)

## 10. Finance lease receivables (continued)

Credit quality of finance lease portfolio (continued)

The following table provides information on the credit quality of the finance lease portfolio as at 31 December 2019:

	<i>Gross carrying value</i>	<i>ECL allowance</i>	<i>Net investment in finance lease</i>	<i>ECL allowance as a percentage of gross carrying value, %</i>
Leases to large corporates				
- not overdue	298,432	(3,331)	295,101	1.12
Total leases to large corporates	298,432	(3,331)	295,101	1.12
Leases to small and medium size companies				
- not overdue	5,046,511	(78,104)	4,968,407	1.55
- overdue for less than 30 days	826,776	(13,667)	813,109	1.65
- overdue for 30-89 days	202,845	(4,555)	198,290	2.25
- overdue for 90-179 days	462,137	(31,381)	430,756	6.79
- overdue for over 180 days	255,344	(197,090)	58,254	77.19
Total leases to small and medium size companies	6,793,613	(324,797)	6,468,816	4.78
Total finance lease receivables	7,092,045	(328,128)	6,763,917	4.63

Analysis of collateral and other credit enhancements

The information on leased objects and other credit enhancements securing finance lease receivables net of ECL allowance, by types of leased objects as at 31 December 2020 comprise the following:

	<i>Finance lease receivables</i>	<i>Fair value of leased objects assessed at the reporting date</i>	<i>Fair value of leased objects assessed at the inception date</i>
Total lease receivables not overdue	4,393,480	–	4,393,480
Overdue lease receivables			
Motor vehicles	1,651,590	1,651,590	–
Plant and machinery	915,367	915,367	–
Equipment	110,876	110,876	–
Real Estate	128,205	128,205	–
Total overdue lease receivables	2,806,038	2,806,038	–
Total finance lease receivables	7,199,518	2,806,038	4,393,480

The information on leased objects and other credit enhancements securing finance lease receivables, net of ECL allowance, by types of leased objects as at 31 December 2019 comprise the following:

	<i>Finance lease receivables</i>	<i>Fair value of collateral assessed at the reporting date</i>	<i>Fair value of collateral assessed at the inception date</i>
Total lease receivables not overdue	5,263,508	–	5,263,508
Overdue lease receivables			
Plant and machinery	730,306	730,306	–
Motor vehicles	647,096	647,096	–
Equipment	81,124	81,124	–
Medical equipment	41,883	41,883	–
Total overdue lease receivables	1,500,409	1,500,409	–
Total finance lease receivables	6,763,917	1,500,409	5,263,508

(In thousands of tenge, unless otherwise indicated)

## 10. Finance lease receivables (continued)

### Analysis of collateral and other credit enhancements (continued)

The tables above exclude the effect of over collateralisation, which means that the leased objects values may exceed the carrying amounts of finance lease receivables. The collateral values include tangible assets only.

Based on risk exposure evaluation, the Company practices obtaining additional collateral. The table above excludes the effect of this additional collateral.

In accordance with Company's classification of leased objects, motor vehicles group includes the following types of property: automobiles, buses, motorcycles, off highway vehicles, light trucks or light duty trucks, and trucks or lorries, combines, dumpers, tractors, diggers, auto-loaders, rollers, pavers and cranes. Plant and machinery group includes backhoe loaders, mini-loaders, bulldozers, graders, wheel loaders, road construction, municipal, mining and other special equipment.

The recoverability of leases which are not past due is primarily dependent on the creditworthiness of the lessee rather than the value of leased objects, and the Company does not necessarily update the valuation of leased objects at each reporting date.

The Company has leased objects, which fair values were assessed at the lease inception dates and were not updated for further changes. Information on values of collateral is based on when this estimate was made.

For leases secured by multiple types of leased objects, leased objects that is most relevant for impairment assessment is disclosed.

### Repossession of leased objects

During 2020, the Company repossessed specialised equipment and motor vehicles in the amount of KZT 215,774 thousand, which were classified as inventory for further sale. According to the Company's policies, the repossessed property can sold under one-time payment, or under Murabaha agreements or transferred to the secondary finance lease in accordance with the established procedures. The proceeds are used to reduce or repay the current debt. As at 31 December 2020 carrying amount of such inventory was equal to KZT 149,458 thousand (as at 31 December 2019: nil).

## 11. Murabaha receivables

Murabaha transactions represent purchase and sale of assets with mark up (i.e. the difference between purchase price and sales price of the asset) repaid by instalments. Maximum term for Murabaha agreements is 18 months. Assets in Murabaha instalment sale transactions are similar to leased assets (vehicles, machinery and equipment). During 2020, the Company issued Murabaha to new 7 small and medium size companies denominated in tenge and maturing in 2021-2022.

	2020	2019
Gross Murabaha receivables	223,850	137,493
Less: ECL allowance	(2,423)	(1,360)
Net Murabaha receivables	221,427	136,133

### ECL allowance

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

	<i>Murabaha receivables</i>
Gross carrying value as at 1 January 2020	137,493
New assets originated	419,647
Assets repaid	(333,290)
As at 31 December 2020	223,850
	<i>Murabaha receivables</i>
ECL allowance as at 1 January 2020	(1,360)
New assets originated	(2,956)
Assets repaid	1,893
As at 31 December 2020	(2,423)

*(In thousands of tenge, unless otherwise indicated)***11. Murabaha receivables (continued)****ECL allowance (continued)**

An analysis of changes in the gross carrying value and corresponding ECL allowance in relation to Murabaha receivables during the year ended 31 December 2019 is as follows:

	<i>Murabaha receivables</i>
Gross carrying value as at 1 January 2019	65,412
New assets originated	232,733
Assets repaid	(160,652)
As at 31 December 2019	<u>137,493</u>
	<i>Murabaha receivables</i>
ECL allowance as at 1 January 2019	(404)
New assets originated	(1,395)
Assets repaid	439
As at 31 December 2019	<u>(1,360)</u>

**12. Investment in a joint venture**

In 2014, the Company invested KZT 273,123 thousand in a newly established company, Ijara Company Kyrgyzstan CJSC, which was incorporated in the Kyrgyz Republic on 29 September 2014. As at 31 December 2020 and 2019, the Company controlled 36.6% of the total shares of the joint venture. During 2020 the Company recognised share of profit of a joint venture in the amount of KZT 73,514 thousand (in 2019: KZT 2,262 thousand). The main activity of the joint venture is finance lease operations. When assessing the existence of the joint control the Company used the following key judgment:

- The decisions about the relevant activities which significantly affect the returns of the arrangement require the unanimous consent of two third (66.7%) of the parties sharing the control of the arrangement.

The other three investors hold 36.6%, 14.6% and 12.2% of the total shares of the joint venture, respectively.

The movements of investment in a joint venture comprise:

	<i>2020</i>	<i>2019</i>
Investment in a joint venture, as at 1 January	489,075	490,371
Share of profit of a joint venture	73,514	2,262
Currency translation of foreign operations	(36,719)	(3,558)
Investment in a joint venture, as at 31 December	<u>525,870</u>	<u>489,075</u>

The following table summarises the financial information of Ijara Company Kyrgyzstan CJSC as included in its own financial statements. The table also reconciles the summarised financial information to the carrying amount of the Company's interest in Ijara Company Kyrgyzstan CJSC.

	<i>2020</i>	<i>2019</i>
Percentage of ownership interest	36.6%	36.6%
Non-current assets (including net investment in finance lease 2020: KZT 1,122,198 thousand, 2019: KZT 1,734,690 thousand)	1,124,985	1,785,418
Current assets (including cash and cash equivalents 2020: KZT 389,663 thousand, 2019: KZT 233,258 thousand)	751,076	248,887
Non-current liabilities (including financial arrangements 2020: KZT 371,508 thousand, 2019: KZT 524,540 thousand)	(371,509)	(547,722)
Current liabilities (including advances received 2020: KZT 44,018 thousand, 2019: KZT 134,463 thousand)	(67,733)	(150,312)
Net assets	<u>1,436,819</u>	<u>1,336,271</u>
Carrying amount of investment in a joint venture	<u>525,870</u>	<u>489,075</u>



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

## 12. Investment in a joint venture

	2020	2019
Net finance income	162,622	168,759
Net gain/(loss) from foreign currencies	243,489	(4,728)
Other operating expenses	(194,678)	(157,430)
Corporate income tax expense	(10,575)	(420)
Profit for the year	200,858	6,181
Company's share of profit for the year	73,514	2,262

## 13. Property and equipment

Movements in property and equipment were as follows:

	Computers	Office furniture	Motor vehicles	Total
Cost				
As at 1 January 2019	9,148	22,668	11,663	43,479
Additions	843	92	–	935
Disposals	–	(119)	–	(119)
As at 31 December 2019	9,991	22,641	11,663	44,295
Additions	5,041	717	–	5,758
Disposals	(243)	(52)	–	(295)
As at 31 December 2020	14,789	23,306	11,663	49,758
Accumulated depreciation				
As at 1 January 2019	(7,996)	(16,821)	(11,605)	(36,422)
Charge for the year	(621)	(2,516)	(57)	(3,194)
Disposals	–	58	–	58
As at 31 December 2019	(8,617)	(19,279)	(11,662)	(39,558)
Charge for the year	(983)	(1,525)	(1)	(2,509)
Disposals	190	52	–	242
As at 31 December 2020	(9,410)	(20,752)	(11,663)	(41,825)
Net book value				
As at 1 January 2019	1,152	5,847	58	7,057
As at 31 December 2019	1,374	3,362	1	4,737
As at 31 December 2020	5,379	2,554	–	7,933

## 14. Right-of-use assets and lease liabilities

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

	Right-of-use assets – buildings	Lease liabilities
As at 1 January 2019	39,317	39,317
Depreciation expense	(12,751)	–
Finance expense	–	4,256
Payments	–	(14,644)
As at 31 December 2019	26,566	28,929
Depreciation expense	(12,752)	–
Finance expense	–	2,911
Payments	–	(15,781)
As at 31 December 2020	13,814	16,059

*(In thousands of tenge, unless otherwise indicated)***15. Intangible assets**

Movements in intangible assets were as follows:

	<i>Computer software</i>
Cost	
As at 1 January 2019	114,702
Additions	2,906
As at 31 December 2019	117,608
Additions	6,763
As at 31 December 2020	124,371
Accumulated amortisation	
As at 1 January 2019	(99,144)
Charge for the year	(15,448)
As at 31 December 2019	(114,592)
Charge for the year	(1,293)
As at 31 December 2020	(115,885)
Net book value	
As at 1 January 2019	15,558
As at 31 December 2019	3,016
As at 31 December 2020	8,486

**16. Financial arrangements**

Financial arrangements comprise the following:

	<i>2020</i>	<i>2019</i>
“DAMU” Entrepreneurship Development Fund” JSC	2,261,875	–
Islamic Corporation for Development of the Private Sector	579,639	950,597
	2,841,514	950,597

As at 31 December 2020, financial arrangements include a long-term Commodity Murabaha financing facility from Islamic Corporation for Development of the Private Sector (ICD) in the total amount of USD 4,000 thousand. The first tranche of USD 2,000 thousand was received on 18 September 2017 at 5.67% per annum maturing in 2021. The second tranche of USD 750 thousand was received on 29 May 2018 at 6.67% per annum maturing in 2022. The third tranche of USD 1,250 thousand was received on 23 May 2019 at 6.07% per annum maturing in 2022.

The Company is obliged to comply with financial covenants in relation to funds received from ICD. These covenants include debt to equity ratios and other financial performance ratios. As at 31 December 2020 and 2019, the Company complied with these covenants.

During 2020 accrued mark-up expense on facilities received from ICD recognised in finance expenses in the statement of profit or loss and other comprehensive income was KZT 54,655 thousand (in 2019: KZT 63,011 thousand).

On 24 June 2020, the Company concluded a Framework Agreement on Commodity Instalment sales No. 52 with “DAMU” Entrepreneurship Development Fund” JSC (DAMU) with the total financing limit in tenge of KZT 3,000,000 thousand. The first tranche of KZT 1,000,000 thousand was received on 8 July 2020 at 10.5% per annum maturing in 2027. The second tranche of KZT 1,250,000 thousand was received on 25 November 2020 at 9.5% per annum maturing in 2027 (*Note 26*).

During 2020 accrued finance expense on facilities received from DAMU recognised in the statement of profit or loss and other comprehensive income was KZT 62,375 thousand.

The Company is obliged to comply with financial covenants in relation to funds received from DAMU. As at 31 December 2020 the Company complied with these covenants.

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

## 17. Share capital

As at 31 December 2020 and 2019 authorised share capital of the Company comprised 6,040,000 common shares. Issued and fully paid share capital comprised 4,224,362 common shares at placement value of KZT 1 thousand per common share.

The holders of common shares are entitled to receive dividends on the basis of equal distribution and on the basis of the financial results reported in accordance with IFRS. No dividends were declared or paid during 2020 and 2019.

## 18. Reserve for pre-operational expenses

In 2013, the Company has recognised the amount of KZT 120,345 thousand subject to reimbursement to the shareholders by the Company, based on the estimate of the pre-operational expenses incurred by the shareholders and amounts paid to an individual appointed as a responsible person for the implementation of the financial and economic activities and responsible for the representation of shareholders before third parties prior to establishment of the Company. This decision was agreed at the shareholders meeting. The amount was recognised as a reserve for pre-operational expenses in equity in the amount of KZT 110,670 thousand and as equipment for the total amount of KZT 9,675 thousand that was transferred to the Company.

As at 31 December 2020 and 2019, the amount of reserve for pre-operational expenses was KZT 110,670 thousand.

## 19. Risk management

### Introduction

Management of risks is fundamental to the business of leasing and is an essential element of the Company's operations. The major risks faced by the Company are those related to market risk, credit risk and liquidity risk.

### Risk management policies and procedures

The Company's risk management internal documents aim to identify, analyse and manage the risks faced by the Company. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, leasing products and services offered and emerging best practice.

The risk management strategy is reflected in the Company's internal documents.

The objectives of the risk management policy are:

- Timely risk identification within internal business processes;
- Appropriate performance of leasing transactions;
- Control over compliance with legislation, regulations as well as ethical and professional standards;
- Minimisation of current and possible losses from leasing operations.

The Board of Directors of the Company has overall responsibility for the oversight of the risk management framework with usage of risk management limits and key indicators, overseeing the management of key risks and approving its risk management documents and procedures as well as approving significant large exposures.

The Executive Committee, as a sub-committee of the Board of Directors, has a duty to assess and control credit risks and oversees the optimal structure for assets and liabilities and risk management measures relating to assets placement.

The Board of Directors determines sectors for finance lease operations and monitors the quality of the finance lease portfolio.

The General Director is responsible for monitoring, management and implementation of risk mitigation measures.

The optimal structure of the Company's assets and liabilities is approved within the limits set in the budgets and business plan of the Company which are approved by the Board of Directors. The risk management system is set under the supervision of the Board of Directors and includes internal policies, procedures, risk limits and key risk indicators, which are regularly reported to the Board of Directors by the management and/or Board of Directors' Committees. The market risk, liquidity risk as well as balance sheet management is performed by the Assets and Liabilities Committee on a monthly basis.

(In thousands of tenge, unless otherwise indicated)

## 19. Risk management (continued)

### Market risk

Market risk is the risk that movements in market variables, including foreign exchange rates, profit rates, credit spreads and equity prices will affect the Company's income or the value of its portfolios. Market risks comprise currency risk, profit rate risk and other price risk.

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

The market risk is managed by the Assets and Liabilities Committee.

The Company manages its market risk through the limits and key risk indicators, which are set and approved by the Board of Directors, and include currency position limits, limits for the repricing risk based on the defined time buckets. These are monitored on a regular basis by the management and the Assets and Liabilities Committee and reported to the Board of Directors.

### Profit rate risk

Profit rate risk is the risk that movements in profit rates will affect the Company's income or the value of its portfolios of financial instruments.

The Company has no floating rate financial assets and financial liabilities as at 31 December 2020 and 2019.

### Currency risk

The Company has assets and liabilities denominated in US dollar or in tenge adjusted for changes in foreign exchange rates. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency.

The management and the Assets and Liabilities Committee manage currency risk by monitoring the open currency position based on assumed tenge devaluation and other macroeconomic indicators and approving mechanism of protection against the currency risks that enables the Company to minimise losses from significant foreign currency exchange rates fluctuations.

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December:

	2020 USD	2019 USD
Assets		
Cash and cash equivalents	382,883	742,494
Finance lease receivables	670,856	712,123
Total assets	1,053,739	1,454,617
Liabilities		
Financial arrangements	579,639	950,597
Other liabilities	4,986	4,175
Total liabilities	584,625	954,772
Net position	469,114	499,845

During 2020 and 2019, the Company has entered into finance lease receivables agreements that are in tenge with indexation to changes in US dollar exchange rate.

The table below indicates the currencies to which the Company had significant exposure at 31 December on certain monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the foreign currency rate against tenge, with all other variables held constant on the profit or loss (due to the fair value of certain currency sensitive certain monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in profit or loss, while a positive amount reflects a net potential increase.

	2020		2019	
Currency	Change in currency rate, in %	Effect on profit before tax	Change in currency rate, in %	Effect on profit before tax
US dollar	+14%	65,676	+12%	59,981

*(In thousands of tenge, unless otherwise indicated)***19. Risk management (continued)**

Market risk (continued)

*Currency risk (continued)*

	2020		2019	
<i>Currency</i>	<i>Change in currency rate, in %</i>	<i>Effect on profit before tax</i>	<i>Change in currency rate, in %</i>	<i>Effect on profit before tax</i>
US dollar	-11%	(51,603)	-10%	(49,985)

Credit risk

Credit risk is the risk that the Company will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations.

The basis for the credit risk management system is the organisation of the Company's leasing operations in accordance with the Company's internal documents.

To minimise credit risk while carrying out leasing operations the Company performs the following:

- Monitors lessees' financial position and safety of leased equipment and collateral to identify on a timely basis conditions or events that could negatively affect financial solvency of lessees;
- Monitors the proper use of leased equipment;
- Ensures the finance lease portfolio is diversified by distribution of investments among lessees from different geographical regions, business sectors and types of entities.

The credit risk management and control are performed by the General Director and the Executive Committee set by the Board of Directors.

The Company continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial and other information submitted by the customer, or otherwise obtained by the Company. Apart from individual customer analysis, the whole credit portfolio is assessed by the Board of Directors with regard to credit quality, credit concentration and market risks.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The maximum exposure to credit risk from financial assets at the reporting date is as follows:

	2020	2019
Assets		
Cash and cash equivalents	3,132,378	1,097,908
Finance lease receivables	7,578,446	7,092,045
Murabaha receivables	223,850	137,493
Total maximum exposure to credit risk	10,934,674	8,327,446

*Impairment assessment*

The Company uses the ECL model when determining the impairment allowance on financial assets.

The ECL amount is determined as the difference between the cash flows that are due to the Company in accordance with the contractual terms of an asset and the cash flows that the Company expects to receive, using the probability of default rate of an asset.

In determining the cash flows that the Company expects to receive, it adopts a sum of marginal losses approach whereby ECLs are calculated as the sum of the marginal losses that result from all possible default events over the lifetime of an asset. The marginal losses are derived from individual parameters that estimate exposures and losses in case of default and the marginal probability of default during a given period of time conditional upon an exposure having survived during this period.

ECLs are a probability-weighted estimate of the present value of cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of a default occurring in a given time period used as the weights). ECL measurements are unbiased (i.e. neutral, not conservative and not biased towards optimism or pessimism) and are determined by evaluating a range of possible outcomes.

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

## 19. Risk management (continued)

### Credit risk (continued)

#### *Impairment assessment (continued)*

Generally, ECL calculations are based on four components:

- Probability of Default (PD) is an estimate of the likelihood of default over a given time horizon, which the Company management sets based on the historical default rates over the expected life of the asset, adjusted for forward-looking estimates, like key macro- and micro-economic factors and management's assumptions about the relationship between these forecasts and the amounts and timing of recoveries from the clients.
- Exposure at Default (EAD) 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 profits, and expected drawdowns on committed facilities.
- Loss Given Default (LGD) is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the Company would expect to receive, including expected proceeds from collateral, if any. It is usually expressed as a percentage of the EAD.
- Discount Rate is the incremental lease rate at initial recognition used to discount an expected loss to a present value at the reporting date.

The Company, considering the nature of the business in which it operates, recognizes and measures the impairment in assets, applying simplified approach. This approach does not require monitoring for significant increases in credit risk and the Company measures lifetime ECL at initial recognition for the maximum contractual period, including the extension options, and allocate the impairment allowance on a monthly basis until full repayment/collection of the asset. After initial recognition, the impairment allowance is adjusted, up or down, through profit and loss at each balance sheet date as the probabilities of collection and recoveries may change. Default is defined as 90 days overdue or in case one of the following reasons/cases are in place:

- Irregular payments;
- Business failure;
- Weak financials / cash flows based on financial monitoring results;
- Closure of business;
- Bankruptcy;
- Dispute among partners;
- Litigation by third parties;
- Loss of collaterals;
- Key decision maker of the customer is dead, left the country or imprisoned, and such circumstances lead to business stuck;
- Fraudulent activities;
- Frequent (over two times in a calendar year) restructuring;
- No identified source of payment;
- Non co-operation of a customer with the Company.

The Company allocates ECL allowances for the performing assets and the ones, which are past due for up to 89 days using the impairment matrix below:

<i>Tenure*</i>	<i>ECL rate</i>
>30 months	2.0%
25-30 months	1.5%
13-24 months	1.0%
up to 12 months	0.5%

\* The tenure left till the contractual maturity date of a financial asset.

(In thousands of tenge, unless otherwise indicated)

## 19. Risk management (continued)

### Credit risk (continued)

#### *Impairment assessment (continued)*

Each non-performing asset is assessed individually based on the assessment forecasts of the expected recoveries from the asset in the form of collections, proceeds from the sale of the leased assets or additional collateral. The assessment results are calculated using the future cash flow and include the following:

- The net present value of the future cash flows from expected recoveries, sale proceeds from the leased assets and additional collateral, if any;
- The net outstanding balance of the asset;
- The positive difference between the net outstanding balance of the asset and the net present value of the cash flows is the amount of ECL allowances required to be recognised for the assessed non-performing asset;
- The negative difference between the net outstanding balance of the asset and the net present value of the cash flows is the amount of ECL allowances to be reversed on the assessed non-performing asset.

The Company allocates ECL allowances for the non-performing assets using the impairment matrix below:

<i>Number of overdue days</i>	<i>ECL rate</i>
90-179 days	5.0%
180-269 days	25.0%
270-364 days	50.0%
365 or > days	100.0%

### Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in raising funds to meet its commitments. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and profit rates of assets and liabilities is fundamental to the management of financial institutions, including the Company. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The Company maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due.

The Assets and Liabilities Committee monitors and controls liquidity risk on a regular basis by analysis of liquidity risk level and takes measures to reduce the risk. Current liquidity management is performed by the Finance Department, which is responsible for operations in the financial markets with the purpose of maintaining current liquidity and optimising cash flows.

The liquidity management policy of the Company 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; and
- Maintaining liquidity and funding contingency plans.

The weekly liquidity position is monitored by the Assets and Liabilities Committee and decisions are taken on the Company's liquidity management in line with the Company's business strategy needs, market conditions and internal policies the Company.

As at 31 December 2020 and 2019, the Company was not exposed to significant liquidity risk. Please refer to *Note 25*.

*(In thousands of tenge, unless otherwise indicated)***19. Risk management (continued)****Liquidity risk (continued)***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>As at 31 December 2020</i>	<i>Less than 3 months</i>	<i>From 3 to 6 months</i>	<i>From 6 to 12 months</i>	<i>From 1 to 5 years</i>	<i>Non-profit rate bearing</i>	<i>Carrying amount</i>
Financial liabilities						
Financial arrangements	180,508	342,222	469,376	2,736,823	–	3,728,929
Lease liabilities	3,981	2,654	7,962	2,653	–	17,250
	<u>184,489</u>	<u>344,876</u>	<u>477,338</u>	<u>2,739,476</u>	<u>–</u>	<u>3,746,179</u>

<i>As at 31 December 2019</i>	<i>Less than 3 months</i>	<i>From 3 to 6 months</i>	<i>From 6 to 12 months</i>	<i>From 1 to 5 years</i>	<i>Non-profit rate bearing</i>	<i>Carrying amount</i>
Financial liabilities						
Financial arrangements	117,830	117,830	235,660	546,195	–	1,017,515
Lease liabilities	2,512	3,981	7,962	18,577	–	33,032
	<u>120,342</u>	<u>121,811</u>	<u>243,622</u>	<u>564,772</u>	<u>–</u>	<u>1,050,547</u>

**20. Capital management**

The Company's objective when managing capital is to maintain the financial stability of the Company for further development of its activities by optimisation of share capital. The Company is not exposed to any external capital requirements.

**21. Commitments and contingencies****Political and economic environment**

Due to the current situation with the COVID-19 pandemic, there remains uncertainty about further development of the pandemic and its duration, as well as the extent of possible economic recovery in the near term. The government continues to take various measures, and their influence continues to develop. Therefore, the management of the Company continuously assesses the increased risks, as well as the consequences of the pandemic and the measures taken by the government.

**Insurance**

The insurance industry in the Republic of Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Company has a full coverage of a mandatory insurance as declared by the Kazakhstan Law as well as voluntary insurance for property and leased assets covering risks of damage, loss and third party liability. The Company does not have full coverage for business interruption.

Until the Company obtains adequate insurance coverage when become available in the Republic of Kazakhstan, there is a risk that the loss or destruction of certain assets resulting from business interruption could have a material adverse effect on the Company's operations and financial position.

**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 position or future performance of the Company. As at 31 December 2020 and 2019, no provision has been recognised in these financial statements for any of such action or complaints.



(In thousands of tenge, unless otherwise indicated)

## 21. Commitments and contingencies (continued)

### Taxation

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 republican tax authorities are not unusual. The current regime of penalties and fines related to reported and discovered violations of Kazakhstan laws, decrees and related regulations are severe. Penalties include confiscation of the amounts at issue (for currency law violations), as well as fines of 50% of the taxes unpaid or more.

These circumstances may create tax risks in the Republic of Kazakhstan that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Kazakhstan tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

## 22. Related party transactions

### Management remuneration

Remuneration of the member of key management personnel comprise:

	2020	2019
Key management personnel compensation	94,885	95,391
	94,885	95,391

### Transactions with other related parties

Other related parties include shareholders and entities under control of the shareholders. As at 31 December 2020, carrying amounts, average effective profit rates and related profit or loss amounts on transactions with other related parties are as follows:

	Shareholders		Entities under control of the shareholders	
	Carrying amount	Average effective profit rate, %	Carrying amount	Average effective profit rate, %
Statement of financial position				
Liabilities				
Financial arrangements	579,639	6.14	–	–
Other liabilities	–	–	4,986	–
Profit or loss				
Revenue from finance lease receivables	–	–	2	–
Finance expenses	(54,655)	–	–	–
Gain from investment in joint venture	–	–	–	–
General administrative expenses	–	–	(6,230)	–

(In thousands of tenge, unless otherwise indicated)

## 22. Related party transactions (continued)

Transactions with other related parties (continued)

As at 31 December 2019, carrying amounts, average effective profit rates and related profit or loss amounts on transactions with other related parties are as follows:

	Shareholders		Entities under control of the shareholders	
	Carrying amount	Average effective profit rate, %	Carrying amount	Average effective profit rate, %
Statement of financial position				
Assets				
Finance lease receivables	–	–	10,875	9.15
Advances paid to suppliers	–	–	11	–
Liabilities				
Financial arrangements	950,597	6.14	–	–
Other liabilities	–	–	3,310	–
Profit or loss				
Revenue from finance lease receivables	–	–	18,481	–
Finance expenses	(63,011)	–	–	–
Net losses from foreign currencies	–	–	(11,169)	–
Other income	–	–	24,063	–
Credit loss expense	–	–	(18)	–
General administrative expenses	–	–	(17,914)	–

## 23. Fair values of financial instruments

The estimates of fair value are intended to approximate 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. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

The Company uses widely recognised valuation models for determining the fair values of financial instruments. Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

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

	Date of valuation	Fair value measurement using			Total
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant non-observable inputs (Level 3)	
As at 31 December 2020					
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2020	–	3,132,378	–	3,132,378
Finance lease receivables	31 December 2020	–	–	7,068,557	7,068,557
Murabaha receivables	31 December 2020	–	–	215,024	215,024
Liabilities for which fair values are disclosed					
Accounts payable to suppliers	31 December 2020	–	337,089	–	337,089
Financial arrangements	31 December 2020	–	2,794,499	–	2,794,499
Lease liabilities	31 December 2020	–	16,059	–	16,059

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

## 23. Fair values of financial instruments (continued)

		Fair value measurement using			
	Date	Quoted prices	Significant	Significant	
As at 31 December 2019	of valuation	in active	observable	non-	Total
		markets	inputs	observable	
		(Level 1)	(Level 2)	inputs	
				(Level 3)	
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2019	–	1,097,908	–	1,097,908
Finance lease receivables	31 December 2019	–	–	6,856,162	6,856,162
Murabaha receivables	31 December 2019	–	–	127,658	127,658
Liabilities for which fair values are disclosed					
Accounts payable to suppliers	31 December 2019	–	11,788	–	11,788
Financial arrangements	31 December 2019	–	923,289	–	923,289
Lease liabilities	31 December 2019	–	28,929	–	28,929

During 2020 and 2019, there were no transfers between levels of fair value hierarchy.

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>As at 31 December 2020</i>	<i>Carrying amount</i>	<i>Fair value</i>	<i>Unrecognised gain/(loss)</i>
Financial assets			
Cash and cash equivalents	3,132,378	3,132,378	–
Finance lease receivables	7,199,518	7,068,557	(130,961)
Murabaha receivables	221,427	215,024	(6,403)
Financial liabilities			
Accounts payable to suppliers	337,089	337,089	–
Financial arrangements	2,841,514	2,794,499	47,015
Lease liabilities	16,059	16,059	–
Total unrecognised change in unrealised fair value			(90,349)

<i>As at 31 December 2019</i>	<i>Carrying amount</i>	<i>Fair value</i>	<i>Unrecognised gain/(loss)</i>
Financial assets			
Cash and cash equivalents	1,097,908	1,097,908	–
Finance lease receivables	6,763,917	6,856,162	92,245
Murabaha receivables	136,133	127,658	(8,475)
Financial liabilities			
Accounts payable to suppliers	11,788	11,788	–
Financial arrangements	950,597	923,289	27,308
Lease liabilities	28,929	28,929	–
Total unrecognised change in unrealised fair value			111,078

(In thousands of tenge, unless otherwise indicated)

## 24. Average effective profit rates

The table below sets out the average effective rates on the Company's profit bearing assets and liabilities as at 31 December 2020 and 2019. These profit rates are an approximation of the yields to maturity of these assets and liabilities.

	2020		2019	
	KZT	USD	KZT	USD
Profit bearing assets				
Finance lease receivables	15.92%	11.36%	18.03%	10.46%
Profit bearing liabilities				
Financial arrangements	10.00%	6.14%	–	6.14%

## 25. 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.

	2020		
	Within one year	More than one year	Total
Cash and cash equivalents	3,132,378	–	3,132,378
Finance lease receivables	3,326,099	3,873,419	7,199,518
Inventory	149,458	–	149,458
Murabaha receivables	192,183	29,244	221,427
Advances paid to suppliers	504,910	–	504,910
Investment in a joint venture	–	525,870	525,870
Property and equipment	–	7,933	7,933
Right-of-use assets	–	13,814	13,814
Intangible assets	–	8,486	8,486
Current corporate income tax assets	40,157	–	40,157
Other assets	67,915	–	67,915
Total	7,413,100	4,458,766	11,871,866
Advances received for finance leases	554,904	–	554,904
Accounts payable to suppliers	337,089	–	337,089
Financial arrangements	774,410	2,067,104	2,841,514
Lease liabilities	13,446	2,613	16,059
VAT payable	137,339	–	137,339
Other liabilities	102,902	–	102,902
Total	1,920,090	2,069,717	3,989,807
Net assets	5,493,010	2,389,049	7,882,059

(In thousands of tenge, unless otherwise indicated)

## 25. Maturity analysis of assets and liabilities (continued)

	2019		Total
	Within one year	More than one year	
Cash and cash equivalents	1,097,908	–	1,097,908
Finance lease receivables	3,311,620	3,452,297	6,763,917
Murabaha receivables	106,526	29,607	136,133
Advances paid to suppliers	102,312	–	102,312
Investment in a joint venture	–	489,075	489,075
Property and equipment	–	4,737	4,737
Right-of-use assets	–	26,566	26,566
Intangible assets	–	3,016	3,016
Current corporate income tax assets	38,941	–	38,941
Other assets	51,703	8,396	60,099
Total	4,709,010	4,013,694	8,722,704
Advances received for finance leases	319,076	–	319,076
Accounts payable to suppliers	11,788	–	11,788
Financial arrangements	429,119	521,478	950,597
Lease liabilities	18,692	10,237	28,929
VAT payable	112,643	–	112,643
Other liabilities	29,281	–	29,281
Total	920,599	531,715	1,452,314
Net assets	3,788,411	3,481,979	7,270,390

The amounts in the tables above represent carrying amounts of the assets and liabilities as at the reporting date and do not include future profit payments.

## 26. Changes in liabilities arising from financing activities

Reconciliation of movements of liabilities to cash flows arising from financing activities during the year ended 31 December 2020 and 2019:

	<i>Liabilities Financial arrangements</i>
As at 1 January 2020	950,597
Proceeds from financial arrangements	2,250,000
Repayment	(453,729)
Foreign currency translation	84,183
Other	10,463
As at 31 December 2020	2,841,514
	<i>Liabilities Financial arrangements</i>
As at 1 January 2019	805,924
Proceeds from financial arrangements	473,763
Repayment	(385,560)
Foreign currency translation	(2,274)
Other	58,744
As at 31 December 2019	950,597

The "Other" line includes the effect of accrued but not yet paid finance expenses on financial arrangements. The Company classifies such expenses as cash flows from operating activities.