GFM Microfinance Organization LLP

Financial statements

for the year ended 31 December 2019
prepared in accordance with IFRSs

Shymkent 2020

CONTENTS

Independent auditors' report

Financial statements

Notes to the financial statements and significant accounting policies

Moore Stephens Kazakhstan
11th floor, 3b, Business Center Nurly-Tau
19/1 Al-Farabi Av., Almaty,
Kazakhstan, 050059

T +7 727 266 99 04
E info@moore.kz

www.kazakhstan.moore-global.com

INDEPENDENT AUDITORS' REPORT

To: Owners of GFM Microfinance Organization LLP

Opinion

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

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (hereinafter – "ISAs"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (hereinafter – "IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code, together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Kazakhstan and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance 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.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' 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 auditors' 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.

Auditors' Responsibilities for the Audit of the Financial Statements, continued

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism 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 auditors' 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 auditors' 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 those charged with governance 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.

Approve

Serik Kozhikenov
Certified auditor, audit certificate
№0000557 dated 24 December 2003
Chief Executive
Moore Stephens Kazakhstan LLP
16 July 2020

Askhat Lepessov
Audit partner

General licence No. 20008067 for audit activity issued 9 June 2020 by Ministry of Finance of the Republic of Kazakhstan

GFM Microfinance Organization LLP
Statement of total comprehensive income
for the year ended 31 December 2019

KZT'000	Note	2019	2018
Finance income	3	634,841	170,612
Finance costs	9(b),10	(50,347)	(5,155)
Net profit from interest		**584,494**	**165,457**
Provisions against microloans issued	7	(64,700)	(3,090)
Net profit from interest after provision		**519,794**	**162,367**
Administrative expenses	4	(506,444)	(136,894)
Other income		1,218	4,364
Profit before taxation		**14,568**	**29,837**
Income tax expense	5(a)	(2,914)	(5,952)
Profit for the year		**11,654**	**23,885**
Other comprehensive income		–	–
Total comprehensive income for the year		**11,654**	**23,885**

These financial statements have been approved for issue on 16 July 2020 and signed on behalf of the Company's management by:

Makhsat Dauletaliyev
Chairman of the Board

Galiya Shamenova
Chief accountant

GFM Microfinance Organization LLP
Statement of financial position
as at 31 December 2019

KZT'000	Note	2019	2018
ASSETS			
Cash	6	98,399	198,296
Microloans issued	7	2,480,217	600,592
Advances paid and other current assets		794	5,324
Deferred tax asset	5(b)	3,407	277
Intangible assets		931	28
Property, plant and equipment	8	72,138	3,704
Right-of-use assets	9(a)	366,518	–
TOTAL ASSETS		**3,022,404**	**808,221**
Current liabilities			
Lease liabilities	9(b)	387,827	–
Borrowings	10	354,092	–
Trade and other payables		42,089	10,968
Income tax payable		3,150	2,543
Other taxes payable		3,032	812
TOTAL LIABILITIES		**790,190**	**14,323**
Equity			
Charter capital	11(a)	2,208,162	781,500
Retained earnings		24,052	12,398
TOTAL EQUITY		**2,232,214**	**793,898**
TOTAL EQUITY AND LIABILITIES		**3,022,404**	**808,221**

The notes on pages 5 to 18 are an integral part of these financial statements

KZT'000	Note	2019	2018
OPERATING ACTIVITIES			
Profit before taxation		14,568	29,837
Adjustments for:			
Depreciation and amortisation	4	88,647	1,103
Provisions against microloans issued	7	64,700	3,090
Other operating income		–	(2,487)
Finance income	3	(634,841)	(170,612)
Finance costs	9(b),10	50,347	5,155
Operating cash flows before changes in working capital		(416,579)	(133,914)
Decrease in accounts receivable from related parties		–	99,000
Increase in microloans issued		(1,309,484)	(138,602)
Decrease (increase) in advances paid and other current assets		4,530	(5,311)
Increase in trade and other payables		31,121	8,370
Increase in other taxes payable		2,220	165
Cash flows from operations before interest and income tax paid		(1,688,192)	(170,292)
Interest paid	10	(11,686)	(6,335)
Income tax paid		(5,437)	–
Net cash used in operating activities		**(1,705,315)**	**(176,627)**
INVESTING ACTIVITIES			
Purchases of property, plant and equipment	8	(75,625)	(449)
Purchases of intangible assets		(922)	(8)
Net cash used in investing activities		**(76,547)**	**(457)**
FINANCING ACTIVITIES			
Contributions into charter capital	11(a)	1,426,662	481,500
Proceeds from borrowings	10	553,500	–
Repayment of borrowings	10	(201,636)	(113,333)
Lease payments	9(b)	(96,561)	–
Net cash from financing activities		**1,681,965**	**368,167**
Net (decrease) increase in cash		(99,897)	191,083
Cash at the beginning of the year		198,296	7,213
Cash at the end of the year	6	**98,399**	**198,296**

The notes on pages 5 to 18 are an integral part of these financial statements

KZT'000	Note	Charter capital	(Accumulated losses) retained earnings	Total
At 1 January 2018		**300,000**	**(11,487)**	**288,513**
Profit for the year		–	23,885	23,885
Contributions into charter capital	11(a)	481,500	–	481,500
At 31 December 2018		**781,500**	**12,398**	**793,898**
Profit for the year		–	11,654	11,654
Contributions into charter capital	11(a)	1,426,662	–	1,426,662
At 31 December 2019		**2,208,162**	**24,052**	**2,232,214**

1. General information

(a) Organisation and operation

GFM Microfinance Organization LLP (hereinafter – "the Company") is a limited liability partnership registered in the Republic of Kazakhstan in 2007. The date of the last re-registration is 8 June 2020 due to the change in the composition of the Company's participants. Previously, the Company had the following names:

- Tulkubas-Agro Microcredit Organization LLP - from 27 November 2007 to 15 December 2015;
- SAYA FINANCE Microfinance Organization LLP – from 15 December 2015 to 8 August 2017;
- GoldFinMarket Microfinance Organization LLP – from 8 August 2017 to 4 June 2018;
- GFM Microfinance Organization LLP – from 4 June 2018.

The main office of the Company is registered at the address: Shayakhmetov street 3/2, Shymkent, Kazakhstan.

Physical location of the main office: Kunaev street 3B, Shymkent, Kazakhstan.

The company accommodates lending services for individuals, self-employed entrepreneur, representatives of small and medium-sized businesses operating in the Republic of Kazakhstan in accordance with the law of the Republic of Kazakhstan about microfinance organizations.

As at 31 December 2019 84 people were employed by the Company (2018: 46 people).

(b) Kazakhstan business environment

The Company's operations are primarily located in Kazakhstan. Consequently, the Company is exposed to country risk being the economic, political and social risks inherent in doing business in Kazakhstan. These risks include matters arising from the policies of the government, economic conditions, imposition or changes to taxes and regulations, foreign exchange fluctuations and the enforceability of contract rights.

The financial statements include management's estimates of Kazakhstan economic conditions and their impact on the results and financial position of the Company. Future economic conditions can differ from those estimates.

2. Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (hereinafter – "IFRSs") as issued by the International Accounting Standards Board (hereinafter – "IASB") and interpretations issued by the International Financial Reporting Interpretations Committee (hereinafter – "IFRIC") of the IASB.

(b) Going concern

These financial statements have been prepared on a going concern basis.

Management believes that the Company's stable profitability and positive cash flows from operating activities are sufficient to meet the Company's anticipated cash flow requirements. After making appropriate enquiries, and having considered the outlook of rates for funding by the Company, the level of disbursements, debt repayments and capital expenditure commitments and assessing reasonably possible adverse operational impacts such as lower interest rates, increased operational and capital expenditure costs and the impact of the coronavirus COVID-19 in Kazakhstan, management has reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Company continues to adopt the going concern basis of accounting in preparing the financial statements.

(c) Basis of accounting

The financial statements have been prepared on a historical cost basis.

(d) Functional and presentation currency

The national currency of the Republic of Kazakhstan is the Kazakhstan tenge (hereinafter – "tenge" or "KZT"), which is the functional currency of the Company and the currency in which these financial statements are presented. All financial information presented in tenge has been rounded to the nearest thousand (hereinafter – "KZT'000" or "KZT thousand").

2. Basis of preparation, continued

(e) Adoption of standards and interpretations

In preparing the financial statements, the Company has applied the following standards and amendments effective from 1 January 2019:

- IFRS 16 “Leases”;
- IFRIC 23 “Uncertainty over Income Tax Treatments”;
- Amendments to IFRS 9 “Prepayment Features with Negative Compensation”;
- Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”;
- Annual Improvements to IFRSs, 2015-2017 Cycle.

The Company has changed its accounting policies as a result of transition to IFRS 16. The Company elected to adopt the new rules retrospectively but recognised the effect of initially applying the new standard on 1 January 2019 (see note 9 Lease). The other amendments listed above did not have a material impact on these financial statements.

(f) New standards and interpretations not yet adopted

The Company has not early adopted new standards, interpretations or amendments that were issued but are not yet entered into force, and their requirements have not been considered when preparing the financial statements. These standards and interpretations are not expected to have a material impact on these financial statements.

(g) Use of estimates and judgments

The Company’s management has made a number of judgments, estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with IFRSs. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments made by management for preparation of these financial statements is described in the following notes:

- Note 5 – Income tax. Management made estimates in relation to the level of taxes payable which may then be audited by the tax authorities and timing of realisation of temporary differences;
- Note 7 – Microloans issued. Management made estimates in relation to the allowance for expected credit losses;
- Note 9 – Lease. Estimates were made in determining the lease term of contracts with renewal option and incremental borrowing rates;
- Note 10 – Borrowings. Management made estimates in relation to fair value of borrowings based on market interest rates for loans;
- Note 12 – Financial risk management objectives and policies. Fair value analysis is based on estimated future cash flows and discount rates;
- Note 13 – Commitments and contingencies. These require management to make estimates as to amounts payable and to determine the likelihood of cash outflows in the future.

3. Finance income

KZT'000	**2019**	**2018**
Interest income	564,787	155,386
Income from interest and fines	46,661	10,980
Income from commissions for loan arrangement	23,393	4,246
	634,841	**170,612**

4. Administrative expenses

KZT'000	2019	2018
Service and maintenance of fixed assets	198,601	38,751
Employee salaries	105,686	31,048
Depreciation and amortisation	88,646	1,103
Royalties	31,596	6,379
Professional services	31,200	–
Marketing expenses	18,760	797
Rent	8,260	52,113
Bank charges	3,058	591
Taxes and payments to the budget	64	16
Other	20,573	6,096
	506,444	**136,894**

5. Income tax

(a) Income tax expense

The major components of income tax expense are as follows:

KZT'000	2019	2018
Corporate income tax	6,044	2,563
Deferred income tax – current period	(3,130)	3,404
Deferred income tax – prior periods	–	(15)
Income tax expense	**2,914**	**5,952**

A reconciliation of income tax expense applicable to accounting profit before tax at the statutory rate to income tax expense at the effective tax rate is as follows:

KZT'000	2019	2018
Profit before taxation	**14,568**	**29,837**
Income tax rate	20.0%	20.0%
At statutory income tax rate	2,914	5,967
Corporate income tax – prior periods	–	(15)
Income tax expense	**2,914**	**5,952**
Effective income tax rate	20.0%	19.9%

(b) Deferred tax asset

The amounts of deferred tax assets (liabilities) are as follows:

KZT'000	2019	2018
Property, plant and equipment	(2,260)	70
Right-of-use assets	(73,304)	–
Lease liabilities	77,565	–
Borrowings	446	–
Trade and other payables	798	167
Other taxes payable	162	40
	3,407	**277**

Movement in deferred tax asset is as follows:

KZT'000	2019	2018
At 1 January	277	523
Change in accounting policies	–	3,143
Credited (charged) to the income statement	3,130	(3,389)
At 31 December	**3,407**	**277**

6. Cash

KZT'000	2019	2018
Petty cash	98,012	198,290
Cash at bank	387	6
	98,399	**198,296**

7. Microloans issued

KZT'000	2019	2018
Microloans secured by movable property	2,512,373	590,017
Microloans secured by real estate	26,145	9,582
Unsecured microloans	9,763	8,273
	2,548,281	607,872
Allowance for expected credit losses	(68,064)	(7,280)
	2,480,217	**600,592**

Microloans provided are secured with collateral with the following assessed value at the time of issuance of microcredits:

KZT'000	2019	2018
Movable property	3,073,935	642,297
Real estate	47,787	134,596
	3,121,722	**776,893**

The estimated value of the collateral is determined as of the date of filing an application for a microcredit. The value of real estate is determined by an independent appraisal, the value of movable property is determined by an independent appraisal or by the assessment of the Company's experts.

Movement in the allowance for expected credit losses is as follows:

KZT'000	2019	2018
At 1 January	7,280	19,181
Accrued	64,700	3,090
Written off	(3,916)	(14,991)
At 31 December	**68,064**	**7,280**

8. Property, plant and equipment

KZT'000	Office furniture	Other equipment	Office equipment	Other	Total
Cost					
At 1 January 2018	2,848	391	2,115	386	5,740
Additions	–	86	363	-	449
At 31 December 2018	2,848	477	2,478	386	6,189
Additions	33,107	23,938	17,461	1,119	75,625
At 31 December 2019	35,955	24,415	19,939	1,505	81,814
Depreciation					
At 1 January 2018	367	153	819	49	1,388
Depreciation charge	425	103	511	58	1,097
At 31 December 2018	792	256	1,330	107	2,485
Depreciation charge	2,513	1,338	3,182	158	7,191
At 31 December 2019	3,305	1,594	4,512	265	9,676
Net book value					
At 31 December 2018	**2,056**	**221**	**1,148**	**279**	**3,704**
At 31 December 2019	**32,650**	**22,821**	**15,427**	**1,240**	**72,138**

8. Property, plant and equipment, continued

Fully depreciated assets

As at 31 December 2019, the value of fully depreciated assets in use amounted to KZT 983 thousand (2018: KZT 644 thousand).

9. Lease

The Company leases offices, vehicles and equipment (gold analyser and payment systems). Rental contracts are typically made for fixed periods of equal of less than 12 months but have extension options. The lease contracts do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be subleased or used as security for borrowing purposes.

As explained in note 2(e), on 1 January 2019, the Company adopted IFRS 16 “Leases” using the modified retrospective approach, which did not result in a classification or measurement adjustment to retained earnings on transition or a restatement of comparative information. The lease liabilities for these properties were calculated as the present value of the outstanding rentals, using an incremental borrowing rate of 12.4% at 1 January 2019. The right-of-use asset was set equal to the lease liability.

In assessing the application of IFRS 16, the Company considered the following practical expedients:

- right-of-use assets or lease liabilities for leases which have low value or short-term leases within 12 months of the date of initial application have not been recognised;
- initial direct costs from right-of-use assets have been excluded;
- hindsight was used when assessing the lease term.

The payments associated with the leases which have low value, or short-term leases with a duration of 12 months or less are charged directly to the profit or loss on a straight-line basis over the lease term.

(a) Right-of-use assets

KZT'000	Offices	Equipment	Vehicles	Total
Cost				
At 1 January	280,279	116,393	51,283	447,955
Additions	280,279	116,393	51,283	447,955
At 31 December				
Depreciation				–
At 1 January	58,813	13,282	9,342	81,437
Depreciation charge	58,813	13,282	9,342	81,437
At 31 December				
Net book value	**221,466**	**103,111**	**41,941**	**366,518**

(b) Lease liabilities

KZT'000	**2019**
At 1 January	447,955
Unwinding of discount	36,433
Payments	(96,561)
At 31 December	**387,827**
Non-current	249,366
Current	138,461
	387,827

9. Lease, continued

Reconciliation of lease commitments as at 1 January 2019 to contractual operating lease commitments as at 31 December 2018:

KZT'000	Note	2019
Operating lease commitments as at 31 December 2018		537,073
Incremental borrowing rate as at 1 January 2019		12.4%
Discounted operating lease commitments as at 1 January 2019		456,215
Less commitments relating to short-term leases	4	(8,260)
Lease liabilities as at 1 January 2019		**447,955**

10. Borrowings

First Heartland Jysan Bank JSC borrowings

In August 2019, the Company contracted the borrowings, amounting to KZT 500,000 thousand on a revolving basis at 13.5% per annum with First Heartland Jysan Bank JSC. The financing activity line is provided within a limit of a period from 27 August 2019 to 27 August 2022. The availability period for a part of the limit on a revolving basis is 12 months.

As a collateral for these borrowings, precious metals in the form of refined gold of 999.9 standard with a total weight of 23,095 grams. and guarantees from related parties were provided.

Financial Support Fund of Agriculture JSC borrowings

In July and October 2015, the Company received borrowings in the amount of KZT 100,000 thousand and KZT 180,000 thousand from the Financial Support Fund of Agriculture JSC at 9.5% per annum for a period of 3 years. As a collateral for this loan, immovable estate with ad valorem of KZT 695,765 thousand and guarantees from related parties were provided. The loans were obtained for the purpose and obligation of providing microloans for individuals, peasants and farms, legal entities organizing or expanding business in the countryside in the form of animal production, crop production, or other types of business in countryside and small towns.

On initial recognition of the loans, a discount in amount of KZT 15,232 thousand was recognized based on the imputed cost at the rate of 12.8% and 13.5%. These loans were completely eliminated in 2018.

The following is a table of borrowings movements:

KZT'000	2019	2018
At 1 January	–	115,742
Proceeds from borrowing	553,500	–
Repayment of borrowings	(201,636)	(113,333)
Interest accrued	13,914	3,926
Interest paid	(11,686)	(6,335)
Nominal value of borrowings and interests at 31 December	354,092	–
Unamortised discount and impairment as at January 1	–	(1,229)
Unwinding of discount	–	1,229
At 31 December	**354,092**	**–**

11. Equity

(a) Charter capital

	2019		2018	
	Share, %	KZT'000	Share, %	KZT'000
Baidosova Akgul	59	1,296,565	16	124,900
Mukan Gulzhan	41	911,597	–	–
Kasymbek Dauletbay	–	–	51	400,000
Basharova Gulmira	–	–	11	85,800
Benseitov Remzer	–	–	11	85,800
Ryskulova Zhanar	–	–	11	85,000
	100.0	**2,208,162**	**100.0**	**781,500**

11. Equity, continued

The ultimate controlling party as at 31 December 2019 was an individual Baidosova Akgul, a citizen of the Republic of Kazakhstan (2018: an individual Ryskulov Erdos, a citizen of the Republic of Kazakhstan).

In 2019, the charter capital increased to KZT 1,426,662 thousand (2018: KZT 481,500 thousand), by decisions of the Company's participants, (2018: KZT 481,500 thousand). The increase in the charter capital is fully paid in cash.

(b) Dividends

In 2019 and 2018, the Company neither declared nor paid dividend.

12. Financial risk management objectives and policies

(a) Overview

The Company has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk.

Management of the Company has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Management oversees compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

(b) Categories and fair values of financial assets and financial liabilities

Categories of financial assets and financial liabilities

KZT'000	Note	2019	2018
Financial assets at amortised costs			
Cash	6	98,399	198,296
Microloans issued	7	2,480,217	600,592
		2,480,216	**600,592**
Financial liabilities at amortised cost			
Lease liabilities	9(b)	387,827	–
Borrowings	10	354,092	–
Trade and other payables		42,089	10,968
		396,181	**10,968**

Fair values

The fair values of each category of financial asset and liability are not materially different from their carrying values as presented.

(c) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. This risk arises mainly from the cash and microloans issued.

The carrying value of financial assets represents the maximum credit risk exposure. The maximum exposure to credit risk at 31 December was:

KZT'000	2019	2018
Cash (less petty cash)	387	6
Microloans issued	2,480,217	600,592
	2,480,604	**600,598**

12. Financial risk management objectives and policies, continued

Cash

Credit risk related to cash is monitored by management in accordance with the policies of the Company. Free funds are held with the most reliable banks in Kazakhstan with ratings of Standard & Poor's from "B" to "BB". The purpose of this policy is to reduce concentration of credit risk and minimise possible financial loss due to banks' failure to meet their contractual obligations.

Microloans issued

The Company has developed a credit quality review process to ensure early identification of possible changes in the borrowers' credit solvency. Limits on borrowers are determined using the credit risk classification system, which assigns each counterparty a credit rating. Ratings are regularly reviewed. The credit quality review allows the Company to assess the size of potential losses on the risks to which it is exposed and take necessary actions.

When deciding whether to issue such microloans, the Company conducts an analysis to ensure that the total credit risk on these microloans does not exceed the Company's distributed reserves.

The Company's exposure to credit risk fully applies to borrowers in Kazakhstan.

Impairment losses

The Company creates an allowance for impairment of trade receivables, which represents its estimate of expected credit losses. The ageing of trade receivables at 31 December was:

KZT'000	Gross	Expected loss rate	Impairment
2019			
Not past due	2,311,946	0%	–
Past due 0-90 days	200,113	-16%	(31,842)
More than 90 days	36,222	-100%	(36,222)
	2,548,281	**-3%**	**(68,064)**
2018			
Not past due	543,796	0%	(21)
Past due 0-90 days	50,378	0%	(68)
Past due 91-180 days	7,875	-24%	(1,912)
More than 270 days	5,823	-91%	(5,279)
	607,872	**-1%**	**(7,280)**

(d) Liquidity risk

The Company manages liquidity risk by monitoring forecast cash flows and ensuring continuity of funding and flexibility through the use of loans and purchases on credit.

Maturity of financial liabilities

The table below provides an analysis of the Company's financial liabilities to be settled on a gross basis by relevant maturity groups from the balance sheet date to the contractual settlement date:

KZT'000	Less than 3 months	3 to 12 months	1 to 5 years	Total
2019				
Lease liabilities	36,021	108,063	288,168	432,252
Borrowings	146,522	331,117	–	477,639
Trade and other payables	28,583	836	–	29,419
	211,126	**440,016**	**288,168**	**939,310**
2018				
Trade and other payables	2,014	836	–	2,850
	2,014	**836**	**–**	**2,850**

Trade and other payables do not include advances received in the amount of KZT 12,670 thousand (2018: KZT 8,118 thousand), which are not financial instruments. Borrowings include expected future interest payments calculated on the basis of interest rates effective on the balance sheet date. Lease liabilities are presented on an undiscounted gross basis.

12. Financial risk management objectives and policies, continued

(e) Price risk

In accordance with IFRS 7, the impact of prices for services has been determined based on the balances of financial assets and liabilities as at 31 December 2019. This sensitivity does not represent profit or loss impact that would be expected from a movement in prices for services over the course of a period of time. In addition, the analysis assumes that all other variables remain constant. A 10% increase (decrease) in prices for services after the year end would not have an impact on profit after tax (2018: nil).

(f) Interest rate risk

As at the reporting dates the Company is not exposed to interest rate risk as at the reporting dates there are no financial instruments with floating interest rates.

(g) Currency risk

The Company is not exposed to currency risk as at the reporting dates there are no significant financial instruments denominated in foreign currencies.

(h) Capital management

The overriding objectives of the Company's capital management policy are to safeguard and support the business as a going concern and to maintain an optimal capital structure with a view to maximising returns to owners and benefits to other stakeholders by reducing the Company's cost of capital. The Company's overall policy remains unchanged from 2018.

13. Commitments and contingencies

(a) Kazakhstan's taxation contingencies

Inherent uncertainties in interpreting tax legislation

The Company is subject to uncertainties relating to the determination of its tax liabilities. Kazakhstan tax legislation and practice are in a state of continuous development and, therefore, are subject to varying interpretations and changes which may be applied retrospectively.

Management interpretations of such legislation in applying it to business transactions of the Company may be challenged by the relevant tax authorities and, as a result, the Company may be claimed for additional tax payments, including fines, penalties and interest charges that could have a material adverse effect on the Company's financial position and results of operations.

Period for additional tax assessments

The tax authorities are able to raise additional tax assessments for five years after the end of the relevant tax period concerning all taxes. In certain cases, as determined by the tax legislation, the terms could be extended for three years.

Possible additional tax liabilities

Management believes that the Company is in compliance with the tax laws and any contractual terms entered into that relate to tax which affect its operations and that, consequently, no additional tax liabilities will arise. However, due to the reasons set out above, the risk remains that the relevant tax authorities may take a differing position with regard to the interpretation of contractual provisions or tax law.

The resulting effect of this matter is that additional tax liabilities may arise. However, due to the range of uncertainties described above in assessing any potential additional tax liabilities, it is not practicable for management to estimate the financial effect in terms of the amount of additional tax liabilities, if any, together with any associated penalties and charges for which the Company may be liable.

(b) Insurance

The insurance industry in Kazakhstan is in a developing stage and many forms of insurance protection common in other parts of the world are not yet generally available. Available insurance programs may not provide full coverage in the event of a major loss.

13. Commitments and contingencies, continued

(c) Legal commitments

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 materially adverse effect on the financial condition or results of operations of the Company. As at 31 December 2018, the Company was not involved in any significant legal proceedings.

(d) Security of collateral

As stated in note 9, the collateral for microcredits provided is movable property, partially in the custody of the Company. The company bears risks for the safety of such property.

14. Related party disclosures

Related parties include the following:

- Key executives.
- Owners.
- Companies under common control.

(a) Management remuneration

Rewards received by key executives are included in personnel costs of general and administrative expenses (see note 4) amounted to KZT 4,195 thousand (2018: KZT 2,954 thousand).

(b) Transactions with related parties

KZT'000	Owner	Companies under common control
2019		
Microloans provided	–	2,113
Lease obligations	96,611	75,502
Provided microloans	–	2,214
Accrued income on remuneration	–	53
Implementation to related parties	–	27,499
Rental expenses	11,352	19,800
Acquisitions from related parties	81,272	119,068
2018		
Microloans provided	1,500	–
Amounts owed to related parties	1,300	18,586
Provided (returned) microloans, net	1,509	(54,069)
Accrued income on remuneration	536	3,644
Implementation to related parties	–	9,922
Acquisitions from related parties	31,524	31,483

(c) Terms and conditions of transaction with related parties

Prices for related party transactions are determined by the parties on an ongoing basis depending on the nature of the transaction.

15. Significant accounting policies

The following significant accounting policies have been consistently applied in the preparation of the financial statements.

(a) Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

15. Significant accounting policies, continued

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain (loss) on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income (other expenses) in profit or loss.

Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful life of the individual asset to its estimated residual value. The expected remaining useful lives as follows:

- office furniture 3-5 years;
- other equipment 3-5 years;
- office equipment 2-5 years;
- other 2-7 years.

Useful lives and residual values of property, plant and equipment are analysed at each reporting date.

(b) Intangible assets

Intangible assets relate largely to software purchases, which are acquired by the Company and which have finite useful lives, are stated at cost (which comprises purchase price plus any directly attributable costs of preparing the asset for intended use) less accumulated amortisation and impairment losses.

Amortisation

Amortisation of intangible assets, which have expected useful lives of 3 to 10 years, is computed under the straight-line method over the estimated useful lives of the assets.

(c) Cash

Cash comprise cash at bank which is available on demand and subject to insignificant risk of changes in value and petty cash.

(d) Borrowings

Borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method.

(e) Leases

The Company as lessee

The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases and leases of low value assets. For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease.

The lease liability is initially measured at the present value of the lease payments, discounted by using the incremental borrowing rate. The lease liability is subsequently measured by increasing the carrying amount to reflect unwinding of discount on the lease liability and by reducing the carrying amount to reflect the lease payments made. Also, the Company remeasures the lease liability to reflect a lease contract modification.

15. Significant accounting policies, continued

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs.

For contracts that contain a lease component and one or more additional lease or non-lease components, the Company does not to separate non-lease components, and accounts for any lease and associated non-lease components as a single arrangement.

(f) Retirement employee benefits

The Company does not have any pension arrangements separate from the state pension system of the Republic of Kazakhstan, which requires current contributions by the employer and employee calculated as a percentage of current gross salary payments.

(g) Revenues

At contract inception, the Company assesses the goods or services (assets) promised in a contract with a customer and identifies as a performance obligation each promise to transfer to the customer either an asset that is distinct or series of distinct assets that are substantially the same and that have the same pattern of transfer to the customer.

Sale of services

Revenue from providing services is recognised in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided. This is determined based on the extent of progress toward completion.

Where the contracts include multiple performance obligations, the transaction price will be allocated to each performance obligation based on the stand-alone selling prices. Where these are not directly observable, they are estimated based on expected cost-plus margin. If contracts include the installation of equipment, revenue for the equipment is recognised at a point in time when the equipment is delivered, the legal title has passed and the customer has accepted the equipment.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

In case of fixed-price contracts, the customer pays the fixed amount based on a payment schedule. If the services rendered exceed the payment, a contract asset is recognised. If the payments exceed the services rendered, a contract liability is recognised.

Financing components

There are no contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the transaction prices are not adjusted for the time value of money.

(h) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur.

(i) Income tax

Income tax for the year comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items charged or credited directly to equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year and any adjustment to tax payable in respect of previous years.

Deferred tax is determined using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes, and the amounts used for taxation purposes.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

15. Significant accounting policies, continued

Deferred tax asset is recognised only to the extent that it is probable to receive taxable income in future, which can be utilised against this asset. Amount of deferred tax assets are reduced to the extent that it is not probable that appropriate tax savings would be used.

Deferred tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(j) Financial instruments

Recognition

The Company recognises financial assets and liabilities on its balance sheet when it becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are offset and the net amount is reported in the balance sheet 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 realise the asset and settle the liability simultaneously.

Measurement

When financial assets and liabilities are initially recognised, they are measured at fair value being the consideration given or received plus directly attributable transaction costs. Any gain or loss at initial recognition is recognised in profit or loss, except for the loans receivable from (payable to) owners, gains or losses at initial recognition of which are recognised directly in equity. Subsequent to initial recognition, the loans receivable from owners are measured at amortised cost using the effective interest method.

In determining the estimated fair value, investments are valued at the quoted market prices of the purchase on the transaction date. In the absence of quoted prices in active market investments, fair value is determined using quoted market prices for similar instruments traded.

Derecognition

A financial asset is derecognised when the Company loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is settled.

Impairment of financial assets

The Company recognises a loss allowance for expected credit losses on a financial asset that is measured at amortised cost at an amount equal to 12-month expected credit losses. For trade receivables the Company measures the loss allowance at an amount equal to lifetime expected credit losses. At each reporting date, the Company measures the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition.

16. Events after the balance sheet date

Ownership restructure

As of the date of issue of the financial statements, the Company was re-registered due to a change in the composition of the Company's members and the charter capital was increased to KZT 2.5 billion. The increase in the charter capital was carried out in connection with an increase in the loan portfolio up to KZT 3 billion.

Borrowings contract execution

In January 2020, the Company entered into a partner-up agreement with SIA Mintos Finance to obtain short-term borrowings on a revolving basis. The credit limit is EUR 2,000 thousand. The contract is for a 5-year period.

Coronavirus COVID-19 pandemic

After the World Health Organisation declared the coronavirus COVID-19 a pandemic, the state of emergency had been introduced throughout the territory of the Republic of Kazakhstan from 16 March 2020. In addition, from 19 March 2020, a quarantine has been imposed in a number of cities including Almaty and Nur-Sultan. Coronavirus COVID-19 pandemic has already caused fall in raw commodities and securities markets. According to expert estimates, coronavirus COVID-19 pandemic and its consequences will inevitably drive to the global economic recession.

Management assessed the situation shall not discontinue the Company’s operations. However, the situation is changing rapidly and its future impact on the business of the Company cannot currently be reliably assessed.

16. Events after the balance sheet date, continued

Tenge devaluation

Fall in raw commodities and securities markets has already led to tenge devaluation. Exchange rate of tenge to US dollar increased from 381.18 as at 31 December 2019 to 403.68 as at the date of the financial statements approval.