ANNIVERSARY EDITION

INSPIRING FOR SUCCESS

KMF 25 ЖЫЛ • ЛЕТ

2022
ANNUAL REPORT

COMPANY PROFILE

KMF Microfinance Organization LLC (hereinafter referred to as KMF, the Company) is the largest MFI in Kazakhstan and the undisputed flagship of the Kazakhstani microloan market for many years. The company is focused on financing micro and small businesses, mainly in rural areas.

KMF has an extensive branch network, including 14 branches and 114 outlets in the territory of the Republic of Kazakhstan. Branches are located in the cities of Almaty, Astana, Aktobe, Karaganda, Kokshetau, Kostanay, Kyzylorda, Pavlodar, Semey, Taldykorgan, Taraz, Turkestan, Ust-Kamenogorsk and Shymkent.

KMF was established in 1997 with the support of USAID and was originally called the “Kazakhstan Community Loan Fund” – in 2022, the Company celebrated its twenty-fifth anniversary. Since its establishment, KMF has invested more than 1.5 trillion tenge in the economy of Kazakhstan, having disbursed more than 3.2 million loans mainly in rural areas.

The company has received international recognition as a socially oriented company, acting in accordance with the principles of client protection, which allowed it to establish fruitful cooperation with international development institutions. The Company’s partners include IFC, EBRD, OeEB, SIFEM, Proparco, ADB, EIB.

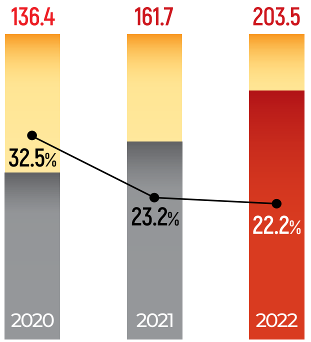
The Company’s partners also include the largest international organizations involved in microfinance: responsAbility, Triodos, Incofin, DWM, BlueOrchard, Symbiotics, Frankfurt School.

A priceless contribution to the development of the Company was also made by Kazakhstani financial organizations, such as Altyn Bank, Halyk Bank, ForteBank, Nurbank, as well as DAMU Entrepreneurship Development Fund..

KEY INDICATORS

Loan portfolio and market share

billion tenge at period's end



KMF loan portfolio (net)

KMF share in the total MFI portfolio

Source: NB RoK

Number of loans disbursed

in thousand at period's end

Loans disbursed

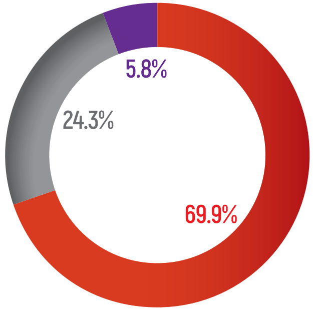
Number of active clients

in thousand at period's end

Active clients

Structure of KMF liabilities, by borrowing sources

at the end of 2022

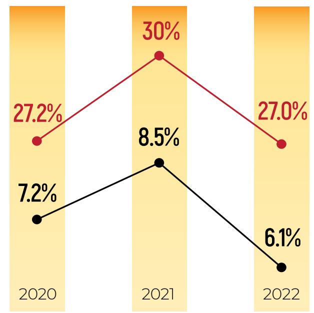


Foreign funding

Local funding

Issued bonds

Dynamics of profitability indicators

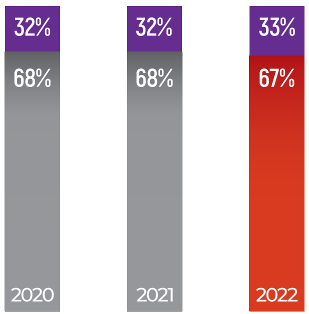


ROE

ROA

Structure of the client base

by place of residence / carrying out of activities at period's end

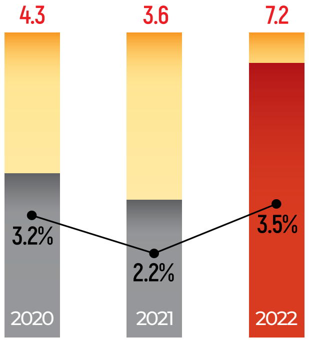


Rural

Urban

PaR>90

billion tenge at period's end



NPL 90+

Share of NPL 90+ in the loan portfolio

LANDMARK EVENTS OF THE REPORTING YEAR

JANUARY

- Opening of an outlet in Urzhar, East Kazakhstan region

FEBRUARY

- Launch of the updated KMF MFO mobile application

MARCH

- KMF and KMF-Demeu corporate fund made USD 2 million of capital investment in MOST Venture Fund
- Opening of outlets in Aralsk (Kyzylorda region) and Zhetisay (Turkestan region)

JUNE

- Fitch Ratings affirmed KMF's Long-Term Issuer Default Rating (IDR) at 'B+' with a 'stable' outlook
- Signing of a loan agreement with the Asian Development Bank for USD 15 million to promote financial inclusion for micro, small and medium-sized enterprises in Kazakhstan

JULY

- Conclusion of a loan agreement with the European Bank for Reconstruction and Development for USD 25 million for financing women-led SMEs
- Holding an agricultural forum dedicated to the 25th anniversary of KMF in Zhanakorgan village, Kyzylorda region

NOVEMBER

- Opening of a Smart Office in Almaty
- Release of the book "25 Customer Stories" in honor of the 25th anniversary of the company

DECEMBER

- Launch of a new product "KMF-ProMotor", enabling SMEs to purchase heavy machinery on credit

MESSAGE FROM THE CEO

Dear clients, partners, investors and colleagues!

KMF Microfinance Organization hereby presents to you its Annual Report for 2022, in which we tried to disclose the results of our work in the reporting year as veridically as possible.

In 2022, our company celebrated its anniversary. Throughout 25 years of our operation, we have held a leading position in the microfinance market of Kazakhstan. For a quarter of a century, we have been inspiring success to our clients, partners and a team of more than two thousand people.

The past year has become quite challenging for the entire economy of Kazakhstan. Local businesses have repeatedly experienced the impact of external and internal economic shocks. Nevertheless, KMF managed not only to maintain its leadership positions, but also successfully implement its plans and identify new growth points.

The past year was marked for KMF by major deals with international investors. We have entered into an agreement with the Asian Development Bank for the first time, once again confirming our sustainability, reliability and the right course of development. Among our investors are large international institutions – the EBRD, IFC, Proparco and many other organizations who have trusted KMF for many years.

The procurement of international funding has become one of the positive factors that affected the affirmation of KMF's rating. In the spring of 2022, Fitch Ratings affirmed the rating at 'B+' with a 'Stable' outlook. As positive rating factors, Fitch Ratings also considered KMF's leading share in the microfinance market in Kazakhstan, stability, profitability, diversified and short-term loan portfolio with low exposure to direct market risk.

A distinctive feature of KMF for 25 years has been its proximity to customers even in the most remote regions of Kazakhstan. Last year, we continued to expand our physical presence and opened KMF outlets in several cities and settlements.

Along with the opening of outlets, we provide our customers with the possibility of online access to KMF products and services. We have launched an updated KMF mobile application so that our customers could remotely receive all the new products that will help them develop their businesses.

Our team focused on developing advanced digital technologies and followed the path of Agile transformation. Agile methodology allowed us to accelerate the go-to-market.

The operations of KMF are, first of all, responsible financing aimed at supporting and developing entrepreneurship. We have not drifted off this course for 25 years. At the same time, in 2022, much attention was paid to the ESG agenda. We are confidently moving towards green technologies; we are participating in the EBRD's "Green Economy Financing Facility (GEFF)". Program. As a result of the first stage of this program, KMF was awarded "The EBRD's Best Financial Partner for Microbusiness and SME Financing". We have supported the energy efficient projects of our clients for more than 1.7 billion tenge.

Our team is working on creating services that help reduce resource utilization. KMF joined the "Green Office" initiative.

We managed to build business processes in a way, that our risk portfolio is still the most balanced among all MFIs in the country. At the end of 2022, KMF assets reached 233.6 billion tenge, and the loan portfolio is 206.8 billion tenge. The number of clients exceeded 257 thousand.

These measures are the result of the well-coordinated work of KMF's team of professionals, which puts the interests of clients, their development, growth and achievement of business goals first. This is the approach that for 25 years has allowed us to remain the largest MFI in the country with clear and understandable goals for the future, which we intend to implement together with you, dear clients, partners, investors and colleagues.

Best regards,
Shalkar ZHUSUPOV
CEO
KMF Microfinance Organization LLC

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COMPANY PROFILE

GENERAL INFORMATION

KMF Microfinance Organization LLC is the largest MFI in Kazakhstan and the undisputed flagship of the Kazakhstani microfinance market for many years. The company is focused on financing micro and small businesses mainly in rural areas, as well as women entrepreneurship.

KMF was established in 1997 and was originally called “Kazakhstan Community Loan Fund”. Throughout 25 years of our activity, KMF has provided its services to 748,000 unique clients and disbursed more than 3.2 million microloans for almost 1.5 trillion tenge.

KMF has an extensive branch network, including 14 branches and 114 outlets in the territory of the Republic of Kazakhstan. Branches are located in the cities of Almaty, Astana, Aktobe, Karaganda, Kokshetau, Kostanay, Kyzylorda, Pavlodar, Semey, Taldykorgan, Taraz, Turkestan, Ust-Kamenogorsk and Shymkent.

The company has received international recognition as a socially oriented company, acting in accordance with the principles of client protection, which allowed it to establish fruitful cooperation with international development institutions. The Company’s partners include IFC, EBRD, OeEB, SIFEM, Proparco, ADB, EIB.

The Company’s partners also include the largest international organizations involved in microfinance: responsAbility, Triodos, Incofin, DWM, BlueOrchard, Symbiotics, Frankfurt School.

A priceless contribution to the development of the Company was also made by Kazakhstani financial organizations, such as Altyn Bank, Halyk Bank, ForteBank, Nurbank, as well as Entrepreneurship Development Fund Damu.

HISTORY OF THE COMPANY

In 1996, the United States Agency for International Development (USAID) announced a competition for the allocation of funds for the implementation of microfinance development projects in Kazakhstan. The international non-governmental organization ACDI / VOCA, headquartered in Washington (USA), won the comptetition and received funding from USAID in the amount of USD 14 million for the implementation of its project.

ACDI / VOCA became the founder of "Kazakhstan Community Loan Fund" non-profit corporate fund, which started operating on November 20, 1997. Initially, Kazakhstan Community Loan Fund disbursed unsecured short-term microloans in the amount of 7,500 tenge (approximately USD 100 at the exchange rate at the end of 1997), which were backed by group and several joint liabilities.

In March 2003, Kazakhstan adopted the Law "On Microloan Organizations"[1], which became the basic legal act to regulate microfinance in Kazakhstan. In order to align its legal status with the new regulatory requirements, in 2004 Kazakhstan Community Loan Fund was re-registered as Kazakhstan Loan Fund microloan organization (KLF), which continued to be non-commercial in nature.

Further development of Kazakhstan Loan Fund, including in terms of expanding opportunities for attracting additional debt financing, required a transition to a commercial format. In November 2006, KLF founded a subsidiary commercial organization KazMicroFinance MCO LLC, and in 2007 KLF transferred all core microlending activities, loan portfolio, fixed assets and liabilities to KazMicroFinance MCO LLC. In 2008, by the decision of ACDI / VOCA, Kazakhstan Loan Fund changed its name to KMF-Demeu.

In connection with the enactment in November 2012 of the law "On Microfinance Organizations"[2] on January 5, 2015, KazMicroFinance MCO LLC was re-registered in the justice authorities and changed its name to KMF Microfinance Organization LLC.

[1] Law of the Republic of Kazakhstan dated March 6, 2003 No.392. Ceased to be in force by virtue of the Law of the Republic of Kazakhstan dated November 26, 2012 No. 56-V "On microfinance activities".

[2] Law of the Republic of Kazakhstan dated November 26, 2012 No. 56-V "On microfinance activities".

LANDMARK EVENTS IN THE HISTORY OF KMF

1997
- Registration of Kazakhstan Community Loan Fund on November 20, 1997 and opening of an outlet in Taldykorgan. Disbursement of the first loans to 21 residents of the city

1998
- Number of Kazakhstan Community Loan Fund's clients increased to 1,000 people
- The first issue of "Isker" customer edition was published

1999
- Adoption of the first three-year strategy of the Company, which defined the mission and key strategic goals, as well as captured the decision to scale KLF's activities in Kazakhstan

2000
- Opening of a branch in Shymkent

2001
- Opening of a branch in Almaty
- Adoption of the methodology of individual micro-lending

2002
- The company celebrated its fifth anniversary. The number of clients reached 4,487 people, and the loan portfolio increased to 217.5 million tenge
- Adoption of the methodology of micro-lending for consumer purposes

2003
- Opening of branches in Turkestan and Taraz, opening of the first office in a regional center
- The Company received its first financial rating from M-Crill international rating agency (India) with the highest rating

2004
- Kazakhstan Community Loan Fund was transformed into a non-profit microloan organization Kazakhstan Loan Fund
- M-Crill rating agency affirmed the Company's rating

2005
- Opening of a branch in Astana
- Adoption of the methodology of micro-lending for agricultural producers

2006
- Kazakhstan Loan Fund established a subsidiary commercial organization KazMicroFinance MCO LLC. All clients and employees of KLF were transferred to a new organization
- Opening of branches in Kostanay and Kyzylorda
- World Bank's Mix Market informational platform awarded KazMicroFinance MCO LLC the highest rating – "Five Diamonds". The Company ranked third in Mix Market's rating in terms of loan portfolio quality among the top 100 Microfinance Organisations in the world

2007
- The American financial and economic magazine Forbes included KazMicroFinance MCO LLC in Top 50 MFIs in the world, where the Company ranked 37th

2008
- By decision of the founder – ACDI/VOCA non-profit corporation – KLF was transformed into KMF-Demeu Corporate Fund

2009
- USAID recognized KazMicroFinance MCO LLC the best organization in Kazakhstan in the field of economics and presented the Company an award "For effective management and leadership in financial inclusion for micro-entrepreneurs"
- KazMicroFinance MCO LLC changed its corporate style: the short "KMF" logo began to be used both in external and internal design

2010
- Branches were opened in Ust-Kamenogorsk, Kokshetau, Pavlodar, Semey
- The international non-profit organization Center for Financial Inclusion recognized the Company as the best MFI under the Smart Campaign initiative and awarded it with the award "For success in protecting the rights of the client"

2011
- A branch was opened in Aktobe
- By the decision of the general meeting of the founders of the Company, the Supervisory Board was formed at KazMicroFinance MCO LLC, which included qualified and experienced professionals

2012
- The company celebrated its 15th anniversary: by November 2012, KMF's loan portfolio reached 12 billion tenge

2013
- A branch was opened in Uralsk
- The company, together with KMF-Demeu corporate fund, launched a project to improve financial literacy of the population of Kazakhstan. The initiative involves the distribution of free brochures with lessons and a presentation at the company's offices for borrowers. Lessons are available in Kazakh and Russian on the website of KMF-Demeu fund

2014
- A branch was opened in Petropavlovsk
- The Company attracted international capital investments in the amount of USD 13.6 million, and the largest international funds, such as responsAbility Management Company S.A., responsAbility SICAV (Lux), Triodos Custody B.V., TRIODOS SICAV II, as the Company's participants

2015
- The Company became the first in Kazakhstan and the 31st in the world to receive the Smart Campaign certificate, which confirms the compliance of the Company's business processes and policies with the principles of social protection of clients
- International rating agency "Microfinanza Rating" assigned KMF a social rating of 'A'. KMF became the first company in Central Asia to receive such an assessment

2016

- In accordance with changes in the legislation, the Company was re-registered as an MFI and began to bear the name "KMF Microfinance Organization LLC"
- The Company began cooperation with the EBRD under the Women in Business project, which provides micro-credits to women entrepreneurs
- The Company began cooperation with DAMU Entrepreneurship Development Fund in three areas of lending to microentrepreneurs: direct financing, financing against a guarantee and as an operator of state programs

2017

- The international rating agency Microfinanza Rating raises the social rating of KMF to 'A+'
- KMF celebrated its 20th anniversary: the Company's loan portfolio exceeded 80 billion tenge, with more than 200 thousand borrowers. Over the 20 years of its operation, the Company has disbursed a total of 1.7 million microloans in the amount of over 560 billion tenge
- KMF organized the first international conference in Kazakhstan on financial literacy of the population

2018

- KMF received the largest syndicated loan in the history of the Kazakh MFI sector in the amount of USD 44 million from the International Finance Corporation (IFC), a member of the World Bank Group.

2019

- KMF received the first syndicated loan from the EBRD in Kazakhstan in the amount of USD 50 million to finance micro, small and medium-sized enterprises
- KMF became a finalist of the prestigious European Microfinance Award 2019, entering the top three MFIs in the world with the "Mobile Expert" project
- KMF was assigned 'AA-' rating by Microfinanza Rating. The company became the first MFI outside Latin America to receive such a rating

2020

- KMF received a loan from the EBRD in the amount of USD 40 million in tenge equivalent to support Kazakh entrepreneurs in the context of the COVID-19 pandemic
- A mobile application was launched for customers, the number of users of which by the end of the year exceeded 150 thousand
- A borrower support program that covered tens of thousands of clients was developed and successfully implemented
- KMF received an award from the EBRD for successful adoption and implementation of sustainable development projects in the field of gender and economic integration
- KMF, having received a credit facility in the amount of USD 5 million in tenge equivalent, became the first Kazakhstani partner of the EBRD under the program "Green Finance for the Economy"

2021

- The Company raised 10 billion tenge on the securities market by placing two bond issues on KASE with a coupon rate of 13% and a two-year maturity
- The Company launched a car loan program through a partner network of car centers
- An automated scoring of all applications from loan officers was launched
- The international agency Fitch Ratings assigned the Company a long-term issuer default rating of 'B+' with a 'Stable' outlook

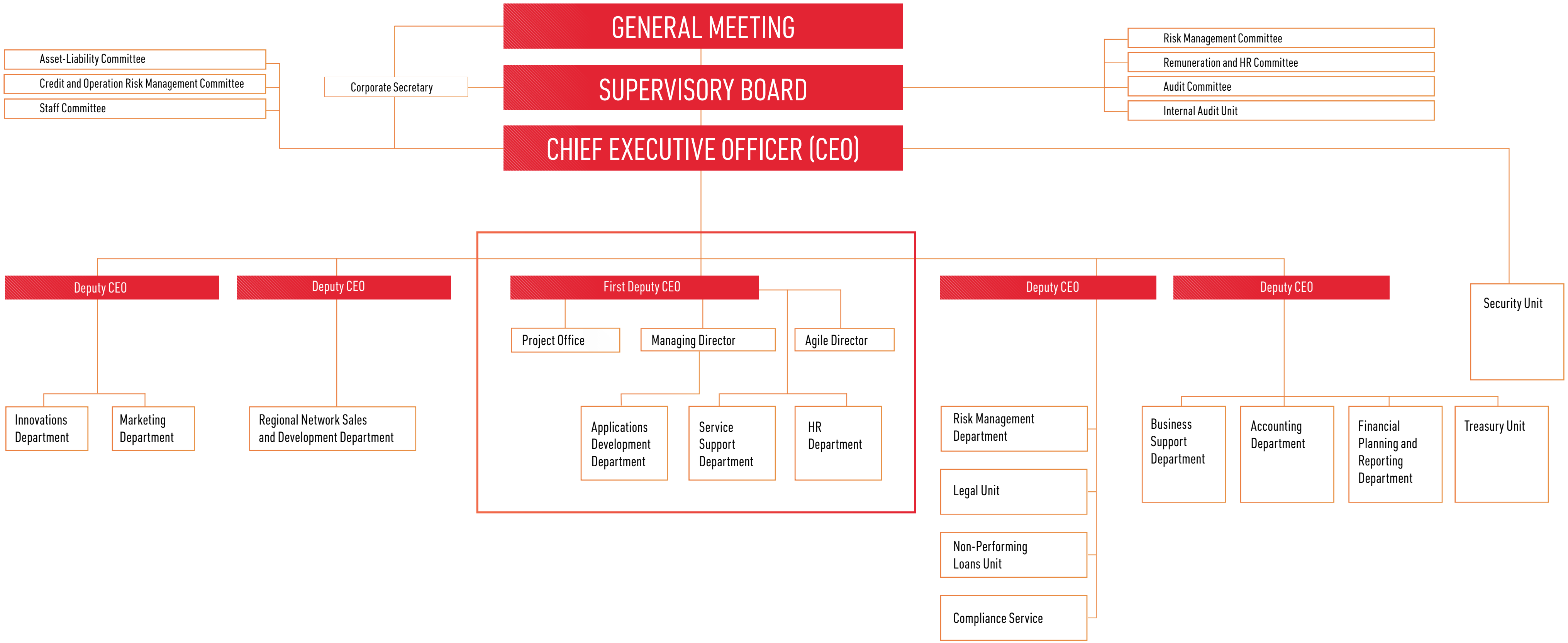
2022

- Launch of the updated "KMF MFI" mobile application
- KMF and KMF-Demeu corporate fund invested USD 2 million in the capital of MOST Venture fund
- Opening of branches in Aralsk (Kyzylorda region) and Urzhar (East Kazakhstan Region), as well as in Zhetysay district of the Turkestan region
- Fitch Ratings affirmed KMF's long-term issuer default rating at 'B+' / 'Stable' outlook
- Signing of an agreement with the Asian Development Bank on a loan in the amount of USD 15 million to expand access to credit financing for micro, small and medium-sized enterprises in Kazakhstan
- Conclusion of an agreement with the EBRD on the provision of a loan in the amount of USD 25 million for lending to women-led SMEs
- Holding of an agricultural forum dedicated to the 25th anniversary of the creation of KMF in the village of Zhanakorgan, Kyzylorda region
- Opening of a smart office in Almaty
- Release of the book "25 Customer Stories" in honor of the 25th anniversary of the company

LINE OF CREDIT PRODUCTS OF THE COMPANY

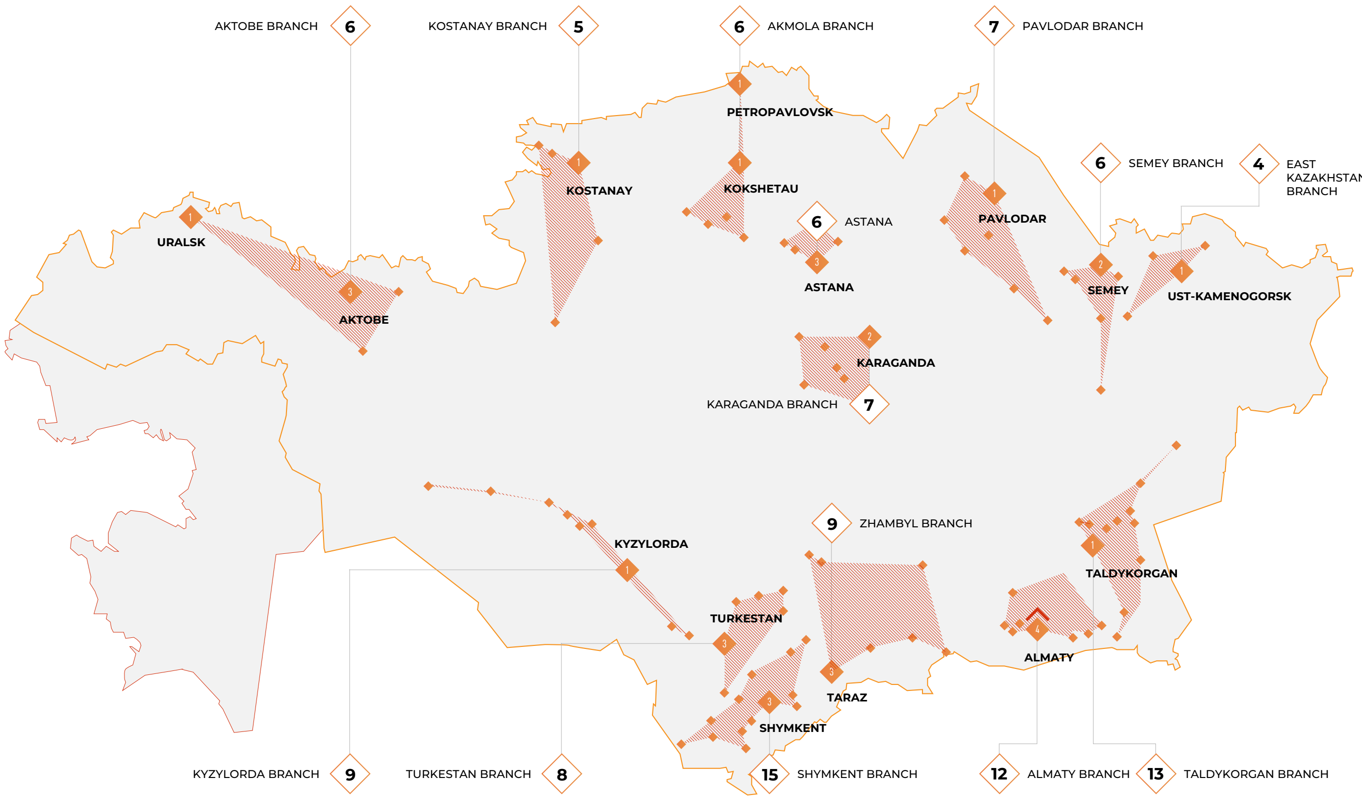
Product	KMF-Consumer	KMF-Business	KMF-Agro	KMF-Dostar	KMF-ProMotor	KMF-Auto	KMF Factoring
Short description	Consumer microloan for any purpose and for solving any problems: house renovation, travel, purchase of a car, tuition payment, large purchases	Microloan for business entities for the purchase of fixed assets, working capital financing and refinancing of existing debt	Microloans for clients engaged in agricultural business for the purchase of fixed assets, working capital financing and refinancing of existing debt	A product for a group of 2-10 people. They are jointly and severally liable to each other for the received microloans	Microloans for the purchase of heavy machinery	Microloans for the purchase of cars through the partners' network	Factoring for the Company's clients
Lending terms	**Loan amount:** up to 10 million tenge **Maturity:** from 3 to 60 months	**Loan amount:** from 50 thousand to 60 million tenge **Maturity:** from 3 to 84 months	**Loan amount:** from 50 thousand to 60 million tenge **Maturity:** from 21 days to 84 months	**Loan amount:** up to 6 million tenge **Maturity:** from 3 days to 60 months	**Loan amount:** from 5 million to 60 million tenge **Maturity:** 12 to 84 months **Down payment:** at least 20% of the cost of the purchased equipment	**Loan amount:** from 300 thousand to 10 million tenge **Maturity:** from 3 to 84 months	**Factoring amount:** from 10 million to 300 million tenge **Factoring term:** from 7 to 120 days

ORGANIZATION STRUCTURE



GEOGRAPHIC REACH

KMF services are available in all regions of Kazakhstan. The company has an extensive branch network, including 14 branches and 114 sales offices across the country.



- total number of offices
- number of offices in the city
- office in a locality
- smart-office

02

CORPORATE STRATEGY

MISSION AND VISION OF THE COMPANY'S POSITION IN THE INDUSTRY

OUR MISSION:

The best microfinancing for your prosperity.

OUR VISION:

Leader of the Kazakhstan microfinance market; high-tech financial institution providing services at the level of the best world standards.

To realize our mission, we strive:

- to cover all target groups of clients, including representatives of small, micro and agribusiness;
- to apply the best microfinance practices in our activities;
- to develop a culture of providing microfinance services;
- to expand access to microfinance services in rural areas;
- to contribute to the prosperity of customers.

CORPORATE VALUES OF KMF

Knowledge

- Uniqueness
- Responsibility
- Quality

Over twenty years of **responsible and high-quality work**, we have accumulated **unique** experience and knowledge. This helped us become a leader in the microfinance market. However, we do not rely only on the success of the past. The unquenchable thirst for new knowledge is an important driving force of KMF.

UNIQUENESS

Knowledge of our business, combined with the fact that we **understand**, appreciate and develop the personality of each member in the team, allows us to create a unique and demanded offer on the market.

RESPONSIBILITY

We **know** how much depends on us, and we **realize** that responsibility is the basis of long-term success. We **understand** that we are responsible to

- our clients and partners
- our team
- our city, region, country

QUALITY

We **apply the best international** microfinance practices. We **understand** the criteria for high quality and strive to meet them as much as possible in everything we do.

Motivation

- Innovation
- Development
- Flexibility

We motivate clients, because our service is aimed at their **development**. Our **innovative** products make workflows more **flexible**, convenient and efficient. And the success of our clients motivates our entire team.

INNOVATION

We are **inspired** by the new. We are constantly looking for fresh, bold, more productive solutions, tools, technologies.

DEVELOPMENT

We are **focused** on continuous development of business, our products, our customers. We don’t stand still. We sincerely believe that continuous development is the key to our success. We are **energetic** and efficient because our development affects the well-being of our customers and our employees.

FLEXIBILITY

We are open to changes. We **do not give up** in the face of unpredictability. We are always ready to be flexible, **try again and again**, look at the problem from a different angle, see new opportunities, change ourselves and achieve success.

Freedom

- Transparency
- Care
- Trust

We help our clients and employees find the freedom to achieve their goals. Financial freedom is built on the principles of **transparency** and mutual **trust**. And truly solid trust is based not only on mere business agreements, but also on a **caring** attitude.

TRANSPARENCY

Everything we do is honest, open and transparent. We have nothing to hide. It gives us confidence, **freedom** from negative emotions.

CARE

Sincerely caring about our customers and staff, we help them feel comfortable and **free**. Customer care definitely includes an individual approach to each, and faith in their success.

TRUST

We trust people. We believe in those whom other financial institutions don’t – because we are **free** from stereotypes. We are sure that everyone has one more chance, everyone can become better.

THE COMPANY'S PRIORITIES IN THE SUSTAINABILITY FIELD

KMF is fully aware that its activities have a significant impact on the economy and social development of the regions where it operates. The Company's development strategy is formed taking into account the fact that it shares responsibility for the well-being of the settlements and areas where its customers live. In this regard, the Company strives to take into account all three components of sustainable development in its activities: environmental, social and corporate governance.

THE COMPANY'S PRIORITIES IN THE SUSTAINABILITY FIELD

Corporate Social Responsibility	The Company's activities are aimed at the economic and social development of the country and its regions. Our microloans stimulate the development of SMEs and the creation of jobs in the communities where our clients live. KMF participates in many socially oriented programs that ensure financial inclusion for rural residents and women. The company implements its own charitable initiatives in the field of supporting vulnerable segments of the population, developing children's sports, supporting culture, etc.
Environmental protection	The Company's activities do not have a direct impact on the state of the environment; however, we take an active position in matters of environmental well-being. We take an active part in public and private environmental initiatives, our employees are ready to demonstrate their willingness to take care of nature and environmental well-being by personal example.
Interests of investors	We care about the implementation of the financial and other interests of our investors and strictly fulfill all our obligations. The Company strives to be transparent to investors and provide them with access to all necessary information about its financial and operational performance.
Customer interests	We strive for the prosperity of our clients and, to this end, we take care of comfortable access to our services and the most favorable transparent conditions for the provision of our microloans. Clients who find themselves in a difficult situation due to circumstances beyond their control can always count on support from the Company.
Personnel care	We adhere to a transparent policy of hiring and career advancement of employees, we strive to provide our employees with decent wages and social guarantees. The level of remuneration and career growth of each KMF employee depends on his performance and contribution to the achievement of the goals set by the management. The company also pays attention to creating best possible working conditions and maintaining a favorable psychological climate in the team.

CONTRIBUTION OF KMF TO THE IMPLEMENTATION OF THE UN SUSTAINABLE DEVELOPMENT GOALS

KMF fully shares the goals and objectives of the UN Global Agenda for Sustainable Development, enshrined in the UN General Assembly Resolution 70/1 of September 15, 2015 «Transforming Our World: The 2030 Agenda for Sustainable Development». At the same time, as part of its direct activities, the Company makes a direct contribution to the implementation of 6 out of 17 goals through the provision of microloans to certain categories of the population and MSMEs, the conduct of charitable and social events and through the implementation of personnel policy.

GOALS AND OBJECTIVES OF THE UN GLOBAL AGENDA MOST RELEVANT FOR KMF

Goal 1. End poverty in all its forms everywhere

1.4. By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including micro-finance.

Goal 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

8.3. Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services.

8.10. Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all.

Goal 2. End hunger, achieve food security and improved nutrition, and promote sustainable agriculture

2.3. By 2030, double the agricultural productivity and incomes of small-scale food producers, in particular women, indigenous peoples, family farmers, pastoralists and fishers, including through secure and equal access to land, other productive resources and inputs, knowledge, financial services, markets and opportunities for value addition and non-farm employment.

Goal 9: Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation

9.3. Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets.

Goal 5: Achieve gender equality and empower all women and girls

5.5. Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision making in political, economic and public life.

5.b. Enhance the use of enabling technology, in particular information and communications technology, to promote the empowerment of women.

5.c. Adopt and strengthen sound policies and enforceable legislation for the promotion of gender equality and the empowerment of all women and girls at all levels.

Goal 12: Ensure sustainable consumption and production patterns

12.2. By 2030, achieve the sustainable management and efficient use of natural resources.

12.5. By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.

STRATEGIC DIRECTIONS OF ACTIVITY

KMF is constantly working to improve the quality of service, expand its product line and develop communication channels with customers.

FIRST CLASS SERVICE SYSTEM	• Further optimization of loan disbursement and repayment procedures; • Development of a comprehensive system for assessing customer satisfaction; • Implementation of KPI system for Personal Managers; • Implementation of a service training matrix for all employees.
DEVELOPMENT OF NON-CASH SERVICES	• Increasing the share of non-cash loans disburesement in 2023 to 19% of total lending; • Increasing the share of non-cash repayments in non-cash form in 2023 to 35%.
AUTOMATED PAYMENT ACCEPTANCE	• Development of a new office concept with a self-service area, opening of smart offices; • Increase in the number of terminals accepting payments from KMF clients.
SINGLE WINDOW FOR NON-VOICE CHANNEL	• Combining chat bots based on Livetex and Chat2desk platforms with the creation of a single window for customer service; • Purchasing a WhatsApp business account to increase service efficiency; • Development and implementation of a metrics system to collect information about the state of the non-voice service channel; • Bringing the share of processing customer requests through a non-voice channel to a minimum level of 25% of the total number of requests.
NEW DIGITAL PRODUCTS	• Commodity microloans provided online (via a web interface or mobile application) using automated scoring; • Package sales under car loan programs, including additional products (car insurance, road assistance cards, etc.); • Specialized digital products for limited liability partnerships and individual entrepreneurs; • Digital secured microloans.
NEW OFFLINE PRODUCTS	• “Financial protection” unsecured microloan for consumer purposes; • “Season” short-term microloan with insurance; • Microloan secured by real estate without proof of income; • “Reboot” products for refinancing microloans for existing clients.
DISTANCE SALES	• Development of telemarketing (direct sales of products by phone), including cold calls; • Increasing the efficiency of sales “on the front line”; • Sales of additional services when making service calls to existing customers; • SMS with the offer of services; • Automatic calls using “robots”; • Online underwriting of loan applications; • Consideration of an application in the video call mode with the identification of the client, his business, income.

DIGITAL TRANSFORMATION OF BUSINESS

KMF is aware that maintaining a leading position in the market and further full-fledged business development is impossible without the introduction of advanced digital technologies. The company is constantly working to automate all business processes, including reviewing customer applications and making decisions on microloans disbursement and developing digital communication channels with customers.

THE FIELD OF DIGITALIZATION	EXPECTED EFFECT IN THE MEDIUM TERM
Creation of an automated decision-making center (ADMC)	• Significant reduction in the average time for consideration of customer applications; • Reducing the number of changes to the automated system associated with changes in lending conditions; • Managing the flow of loan applications within a single product; • Automation of the process of pre-credit verification of information about the borrower.
Implementation of a business process management system based on the Business Studio software product	• Creation of an electronic repository of business processes with a description of all business processes and procedure; • Application of a visual utility for the development of business processes; • Optimization of business processes; • Integration of information systems of the Company within business processes; • Flexible management of loan disbursement procedures; • Monitoring of business processes and their optimization.
Development of an automated human capital management system	• Integration of software products WebSoft HCM and E-staff; • Automation of assessment of the level of competence of employees; • Automation of employee performance evaluation; • Automation of a number of personnel selection and recruitment procedures; • Administration of the process of training and verification of professional knowledge; • Creation of electronic training courses and tests within the framework of the internal corporate educational program; • Conducting online training and testing of the Company's employees; • Analysis of the effectiveness of training and the justification for spending on it.

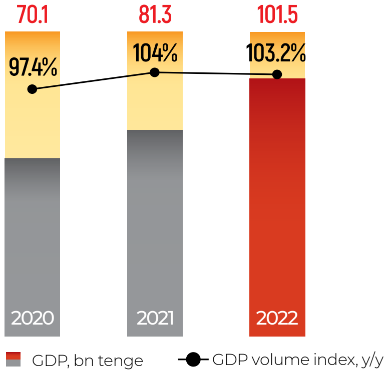
03

MANAGEMENT REPORT ON PERFORMANCE

MACROECONOMIC CONDITIONS

GDP dynamics

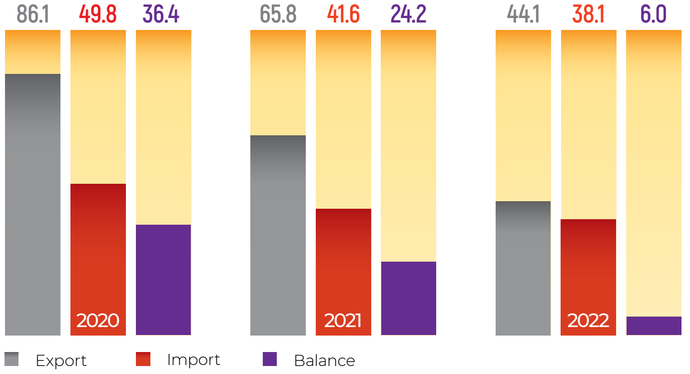
trillion tenge for the period



Source: BNS ASPR RoK

Export and import of goods

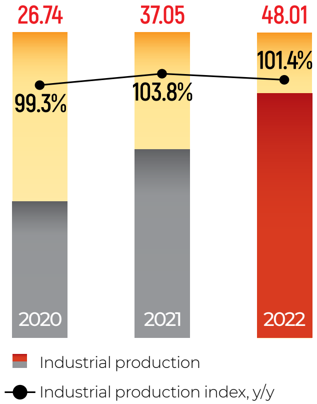
billion dollars for the period



Source: NB RoK

Volume of industrial production

trillion tenge for the period



Source: BNS ASPR RoK

The GDP of Kazakhstan in nominal terms in 2022 amounted to 101.5 trillion tenge, which is 24.9% higher than the level of the previous year. At the same time, nominal GDP growth was mainly driven by inflationary processes and rising commodity prices: GDP growth in real terms decreased from 4.0% in 2021 to 3.2% in 2022.

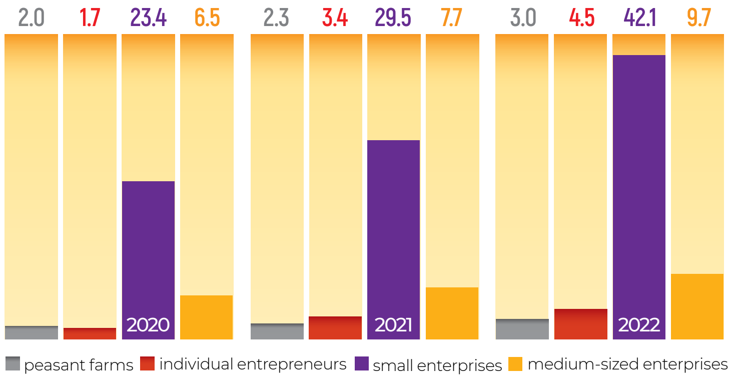
In the sectoral context, agriculture (+9.1%), construction (+9.4%) and communications (+8.0%) are leading in terms of growth rates. At the same time, mining output declined by 1.0% in real terms.

The volume of Kazakhstani exports increased from 65.8 to 86.1 billion dollars, mainly due to the growth in world energy inputs prices against the backdrop of anti-Russian sanctions. Imports increased by USD 8.9 billion to USD 49.8 billion. Kazakhstan's trade surplus increased from USD 24.2 billion to USD 36.4 billion, mainly due to a significant increase in exports with a less marked growth in imports.

The volume of industrial production in price terms increased by 29.6% and amounted to 48.01 trillion tenge, which is 29.6% higher than in 2021. At the same time, production growth in real terms decreased by 2.4 percentage points compared to the previous year and amounted to only 1.4%. The decrease in growth rates in physical terms was due to a decrease in the production of natural resources, including crude oil (-1.9%), natural gas (-1%), coal (-0.7%) and iron ores (-20.6%).

Output of products by SMEs

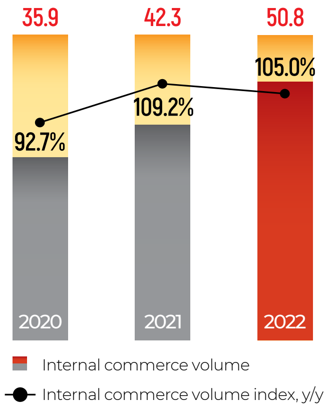
trillion tenge for the period



Source: BNS ASPR RoK

Domestic trade

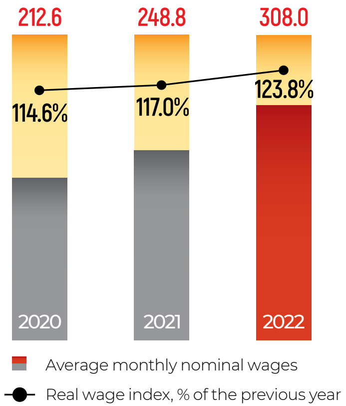
trillion tenge for the period



Source: BNS ASPR RoK

Average monthly nominal wage

k tenge



Source: BNS ASPR RoK

The output of products by SMEs grew by 38.2% and amounted to 59.2 trillion tenge, of which 42.1 trillion accounted for small enterprises in the form of legal entities. The volume of output of medium-sized enterprises increased by 26.3%, small enterprises – by 42.8%, individual entrepreneurs – 31.2%, peasant farms – by 29.4%. The share of SMEs in GDP was about 35%.

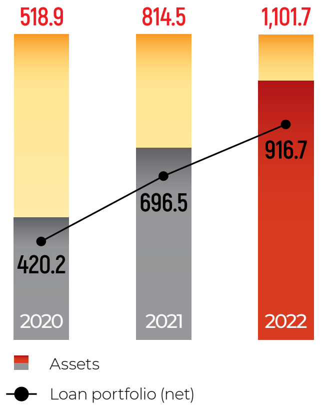
The total volume of wholesale and retail domestic trade increased from 42.3 trillion tenge in 2021 to 50.8 trillion tenge in 2022. At the same time, the volume index of domestic trade decreased from 109.2% in 2021 to 105.0% in 2022. At the same time, the high volume index values in 2021 were due to the “deferred demand effect”, which disappeared by 2022.

The average monthly salary increased from 248.8 thousand tenge in 2021 to 308.0 thousand tenge in 2022. Real growth in average wages amounted to 23.8%, while the indicator increased by 6.8 percentage points compared to 2021.

THE STATE OF THE MICROFINANCE MARKET

Assets and loan portfolio of MFIs

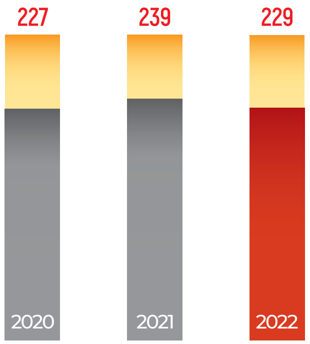
billion tenge at the end of the period



Source: NB RoK

Number of active MFIs

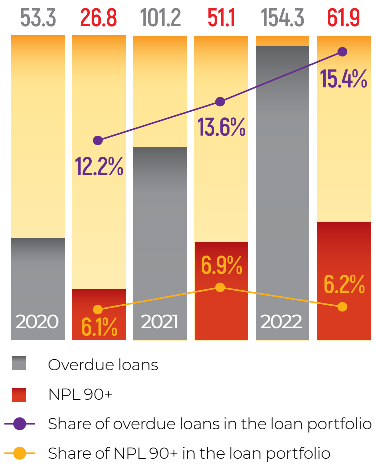
units at the end of the period



Source: NB RoK

Quality of the loan portfolio of MFIs

billion tenge at the end of the period



Source: NB RoK

In the context of growing demand for credit resources from the population, the Kazakh microfinancing market demonstrates stable growth. At the end of 2022, the total loan portfolio of MFIs (net) increased by 31.8% y/y to 916.7 billion tenge. The total assets of MFIs increased by 35.3% and exceeded 1.1 trillion tenge.

According to the National Bank of the Republic of Kazakhstan, the number of operating MFIs in 2022 decreased from 239 to 229. Also, 32 MFIs closed and 22 new MFIs opened during the year. The decrease in the number of MFIs results from the exit of weak players from the market amid economic shocks and a relatively high level of competition, with some banks seeking to expand their customer base with MFI borrowers.

The total volume of microloans with overdue payments increased in 2022 from 101.2 billion to 154.3 billion tenge, and their share in the total loan portfolio of MFIs increased from 13.6% to 15.4%. Volume of NPL 90+, i.e. loans with overdue payments over 90 days increased in absolute terms from 51.1 billion to 61.9 billion tenge, but their share in the loan portfolio decreased from 6.9% to 6.2%.

At the end of 2022, the concentration of the MFI market slightly decreased. The share of the assets of the top 3 MFIs by total assets of the sector decreased from 50.9% to 49.6%; the share of five largest companies decreased from 62.4% to 61.0%. At the same time, the list of organizations leading in terms of assets somewhat changed: MyCar Finance MFI LLC displaced Toyota Financial Services Kazakhstan MFI LLC from the second line to the third, while TAS FINANCE GROUP MFI LLC moved down from the fifth line to the sixth, losing its place to Shinhan Finance MFI LLC. The first and fourth positions in the ranking in terms of assets are consistently occupied by KMF and OnlineKazFinance MFI LLC (Solva trademark).

TOP 5 MFIS IN KAZAKHSTAN AS OF THE END OF 2022

	ASSETS, BILLION TENGE	SHARE IN TOTAL ASSETS
KMF MFI LLC	233.6	21.2%
MyCar Finance MFI LLC	160.1	14.5%
Toyota Financial Services Kazakhstan MFI LLC	153.2	13.9%
OnlineKazFinance MFI LLC	85.8	7.8%
Shinhan Finance MFI LLC	39.7	3.6%
Top 5 MFIs	**672.4**	**61.0%**
All MFIs	**1,101.5**	**100.0%**

Source: NB RoK

The main trends of the microloan market in 2022

MFIs are expanding their product lines due to the expansion of the list of legally permitted activities. In particular, MFIs began to act as agents of the issuer of electronic money, insurance and payment agents, carry out factoring and forfeiting operations, and issue bonds.

The dynamics of the total volume of issued microloans was seriously affected by the state of the POS segment (i.e., consumer microloans disbursed at the point of purchase), which showed a high volatility in the disbursement volumes.

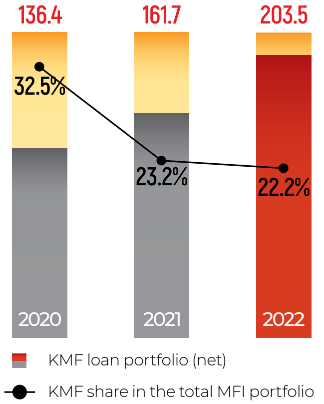
Thus, disbursement volumes fell significantly in the first half of the year, after which they showed an increase in the third quarter, an increase of 88%, followed by a decrease again in the fourth quarter.

Companies are paying more and more attention to the digital format of service delivery. Apparently, market participants will increase their investment in the development of the online market and business digitalization.

OPERATING PERFORMANCE

Loan portfolio and market share

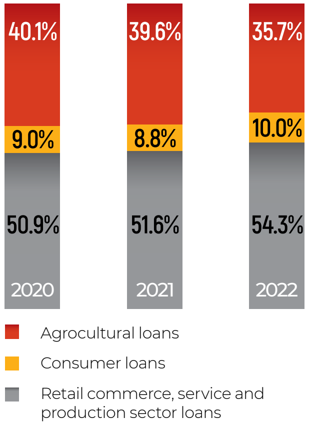
billion tenge at the end of the period



Source: KMF, NB RoK

Loan portfolio structure by lending areas

at the end of the period



Number of loans disbursed

in thousand at period's end

Number of active clients

in thousand at period's end

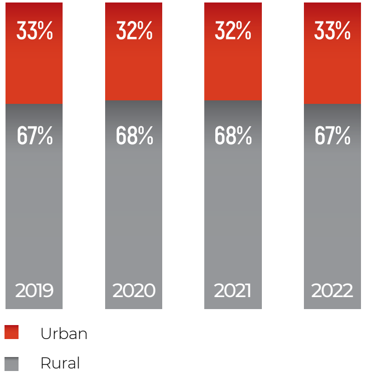
At the end of 2022, KMF microloan portfolio grew by 25.8% and reached 203.5 billion tenge. The company maintains its leading position in the segment in terms of the size of the loan portfolio, the share of which in the total loan portfolio of Kazakhstani MFIs amounted to 22.2% at the end of 2022. Some decrease in the market share of KMF is due to its rather conservative policy compared to other MFIs: the Company maintains a balanced risk profile and is not aggressively expanding in terms of loans.

In the structure of the loan portfolio, the share of consumer lending remains in the range of 9-10%. Lending for business purposes still remains a priority. All changes in the portfolio structure are in line with the Company's strategic goals.

The number of active KMF clients increased by 27 thousand in 2022. In the reporting year, the company disbursed a total of 333.2 thousand microloans, which is 47.2 thousand more than in 2021. The positive dynamics of disbursements is due to the demand for KMF products and the construction of processes aimed at increasing the efficiency and performance of employees.

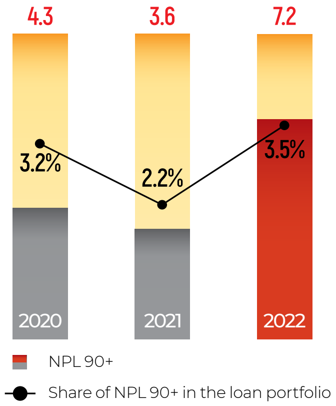
The structure of the client base, broken down by place of residence / implementation of activities

at the end of the period



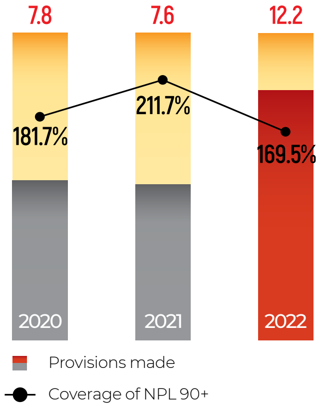
PaR90

billion tenge
at the end of the period



Provisioning level

billion tenge at the end of the period



The structure of the client base, broken down by area of residence / activity, has remained stable over the past years. Coverage of the rural area is also one of the Company's priorities. More than half of the client base is represented by villagers.

Due to the decline in the creditworthiness of some borrowers amid economic uncertainty, the total volume of NPL 90+ increased from 3.6 billion tenge at the end of 2021 to 7.2 billion tenge at the end of 2022. The impact of external factors on the decline in the creditworthiness of certain categories of KMF customers was leveled by timely customer support measures. As a result, the Company managed to keep the NPL 90+ at 3.5% (for reference – this indicator at MFI market level was 6.2%).

The Company takes a responsible approach to assessing the risks of its assets. The methodology for accruing an allowance for asset impairment is fully compliant with IFRS 9 and confirmed by EY international audit firm. The level of provisioning NPL 90+ remains at a high level of 170%.

FINANCIAL PERFORMANCE

Despite the deterioration of the geopolitical and macroeconomic environment, the dynamics of the Company's assets shows stable growth. The main driver of asset growth is the growth of the loan portfolio. As of the reporting date, assets amounted to 234 billion tenge, up by 51 billion tenge or 28% y/y. In the context of inflationary pressure and the deteriorating economic situation, the Company managed to ensure a significant growth of the portfolio by 44 billion tenge (+27%).

Timely customer support measures in 2022 made it possible to mitigate the impact of these factors on KMF customer base. Volatility in the stock and currency markets, which increased the cost of borrowing, had a significant impact on net profit, while the Company maintained ROA at 6.1%.

The Company's liabilities amounted to 181 billion tenge, up by 41 billion tenge or 29% YTD. In the structure of liabilities, the share of the portfolio of borrowings as of the reporting date amounted to 90%, having increased by 2 pp YTD.

The ratio of liabilities to assets at the reporting date amounted to 77.6%, having increased by 0.8 pp YTD.

The Company's equity increased from 42.5 billion to 52.3 billion tenge, mainly due to the growth of retained earnings on the balance sheet, which increased from 26.7 to 36.7 billion tenge.

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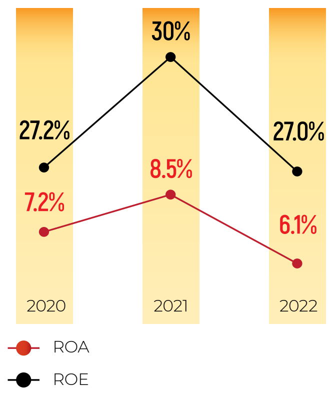
BALANCE SHEET STRUCTURE, BILLION TENGE AT THE END OF THE PERIOD

INDICATOR	2020	2021	2022	CHANGES 2022/2021
Assets	**154.3**	**182.9**	**233.6**	**+27.7%**
including loans to customers	136.3	161.8	203.5	+25.8%
Liabilities	**106.8**	**140.5**	**181.3**	**+29.0%**
including funds from credit institutions	101.8	123.9	163.7	+32.2%
Equity	**47.5**	**42.5**	**52.3**	**+23.2%**
including retained earnings	32.1	26.7	36.7	+37.3%

Dynamics of profitability indicators

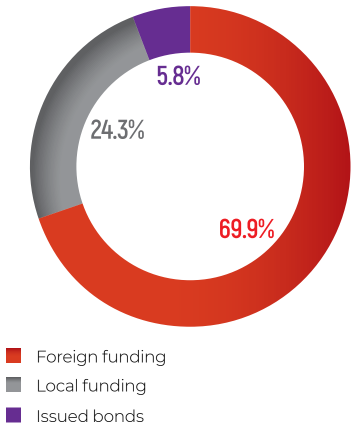


At the end of 2022, the return on equity was 27%.

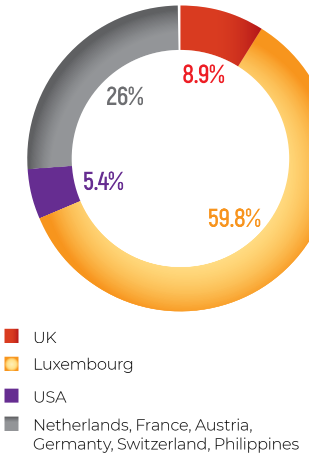
Capital increased by 10 billion tenge (+23%).

The capital adequacy ratio comprised 21.2%, which is more than 2 times higher than the prudential requirements of the regulator.

Structure of liabilities* of KMF by sources of attraction
at the end of 2022



Structure of external liabilities of KMF by countries
at the end of 2022



Despite the deteriorating situation on the funding market, the Company ensured business growth through reliable sources of funding in the form of international financial institutions and local banks.

Another source of funding is issued debt instruments with a share of 6% in the total loan portfolio.

The total volume of the Company's liabilities to external creditors amounted to 119.5 billion tenge at the end of 2022. 59.8% of this amount falls on funds raised in Luxembourg, 8.9% in the UK, 5.4% in the USA, 26.0% in other countries.

Due to the volatility of foreign exchange rates, the Company was forced to minimize risks by hedging foreign currency loans, which led to an increase in the cost of funding. In addition, at the end of the year, there was a significant loss from the revaluation of currency items in the amount of 1.4 billion tenge.

INCOME AND EXPENSES, BILLION TENGE FOR THE PERIOD

INDICATOR	2020	2021	2022	CHANGED 2022/2021
Interest income	**49.8**	**54.6**	**71.4**	**+30.9%**
including remuneration on microloans	48.8	53.7	70.1	+30.5%
Interest expenses:	**(17.3)**	**(16.5)**	**(20.1)**	**+21.7%**
including borrowing costs	(17.2)	(16.1)	(18.6)	+15.6%
Net interest income	**32.5**	**38.0**	**51.3**	**+34.9%**
Operating expenses, including:	**(13.2)**	**(18.4)**	**(23.2)**	**+26.2%**
personnel costs	(9.2)	(12.9)	(15.9)	+22.8%
amortization	(1.1)	(1.1)	(1.3)	+16.5%
taxes (except CIT)	(0.2)	(0.2)	(0.3)	+92.0%
Provisioning expenses	(4.2)	(1.2)	(5.4)	4.6 times increase
Operating profit (loss)	**15.2**	**18.5**	**22.7**	**+23.2%**
Non-interest expenses	**(0.3)**	**(1.0)**	**(6.1)**	**6.4 times increase**
Net profit/loss on operations with financial assets	0.12	(0.6)	(4.8)	6.8 times increase
Net currency exchange gains (losses)	(0.9)	(0.2)	(1.4)	7 times increase
Other income	0.14	0.06	0.11	+67.4%
other expenses	(0.1)	(0.1)	(0.0)	-86.0%
Profit (loss) before tax	**14.9**	**17.5**	**16.6**	**-5.0%**
Corporate income tax	(3.8)	(3.5)	(3.6)	+2.6%
Net profit	**11.1**	**14.0**	**13.1**	**-6.9%**

In the context of a deteriorating macroeconomic environment, the Company's net profit amounts to 13 billion tenge, or 15% of the entire MFI sector in Kazakhstan.

This became possible thanks to timely response measures, such as.:
- building a well suited interaction with creditors in terms of borrowings;
- customer support in terms of providing tools to maintain financial stability;
- improvement of processes aimed at increasing the efficiency and performance of employees;
- carrying out activities aimed at increasing sales.

COMPLIANCE WITH PRUDENTIAL STANDARDS

During the reporting year, the Company complied with all statutory capital requirements. The capital adequacy ratio at the end of 2022 amounted to 21.2%, which significantly exceeds the minimum level set by the National Bank of the Republic of Kazakhstan. The Company actively manages its capital adequacy level in order to protect against the risks inherent in its activities.

The risk ratios per borrower (k2) and the maximum limit of total liabilities (k3) were also met with a significant margin, which indicates the stability and sustainability of the Company's financial position.

COMPLIANCE WITH PRUDENTIAL STANDARDS BY THE COMPANY IN 2022

Normative	Value	1 January 2022	1 April 2022	1 July 2022	1 October 2022	1 January 2023
Paid-up charter capital	≥ 50mn tenge	14.4bn tenge	14.4bn tenge	14.4bn tenge	14.4bn tenge	14.4bn tenge
Estimated equity	≥ 50mn tenge	42.4bn tenge	46.5bn tenge	50.6bn tenge	51.6bn tenge	52.6bn tenge
Capital adequacy ratio (k1)	≥ 0.1	0.219	0.228	0.217	0.212	0.212
Ratio of maximum risk per borrower (k2)	≤ 0.25	0.003	0.003	0.006	0.006	0.010
Total liability maximum limit ratio (k3)	≤ 10	3.310	3.160	3.370	3.464	3.434

04

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE SYSTEM

KMF considers corporate governance as a means of improving performance, strengthening reputation and reducing the cost of raising capital. In addition, the Company believes that a good corporate governance system contributes to its contribution to the rule of law in the Republic of Kazakhstan.

The corporate governance of the Company is built on the foundations of fairness, honesty, responsibility, transparency, professionalism and competence. The Company's corporate governance system provides for a clear delineation of powers and responsibilities between bodies, officials and employees of the Company.

The fundamental principles of the Company's corporate governance are:
- Principle of effective management of the Company;
- Principle of transparency, timeliness and objectivity of disclosure of information about the Company's activities;
- Principles of legality and ethics;
- Principles of effective personnel policy;
- Principle of environmental protection;
- Principle of regulation of corporate conflicts.

The governing bodies of the Company are:
- Supreme body – the General Meeting of Shareholders (Participants);
- Collegial executive body – the Management Board;
- Control body – the Supervisory Board.

CAPITAL STRUCTURE

The charter capital of the Company amounts to 14,430,993,204 tenge. In the reporting period, the list of the Company's participants and the ownership structure did not change.

List of the Company's participants as of the beginning and end of 2022:

PARTICIPANT	OWNERSHIP SHARE
KMF-Demeu Corporate Fund	45.435%
MultiConcept Fund Management S.A. acting on its own behalf for re-sponsAbility Global Micro and SME Finance Fund	18.127%
Legal Owner Triodos Funds B.V., as a Custodian of TRIODOS FAIR SHARE FUND	12.085%
Triodos SICAV II, acting for its sub-fund TRIODOS MICRO-FINANCE FUND	12.085%
responsAbility SICAV (Lux), acting for its sub-fund responsAbility SICAV (Lux) Micro and SME Finance Leaders	6.042%
Individuals (50 participants, each holding no more than 5%)	6.226%
Total	**100%**

DISCLOSURE

KMF discloses information in accordance with the requirements of the legislation of the Republic of Kazakhstan and KASE.

The Company adheres to the principles of ensuring equal rights of access for all current and potential investors to public information about its activities and non-discrimination on any grounds. Current and potential investors have the opportunity of free and easy access to information about the Company, necessary for making appropriate decisions. The Company promptly discloses information about the main results, plans and prospects of its activities, which may significantly affect the property and other rights of investors.

RIGHTS OF THE COMPANY'S PARTICIPANTS

The Civil Code of the Republic of Kazakhstan, the Law of the Republic of Kazakhstan dated April 22, 1998 No. 220-1 "On Limited and Additional Liability Partnerships" and the KMF Charter assign the following rights to KMF participants:

- to participate in the management of KMF affairs in the manner prescribed by law and this Charter;
- to nominate candidates for KMF management bodies;
- to receive information about the activities of KMF and get acquainted with its accounting and other documentation in the manner prescribed by the Charter and internal documents of KMF;
- to receive income from the activities of KMF in accordance with the law, the Charter of KMF and decisions of its General Meeting;
- to receive, in case of KMF liquidation, the value of a part of the property remaining after settlements with creditors, or, by agreement of all KMF participants, a part of this property in kind;
- to withdraw from KMF MFI by disposing of its interest therein in such manner as provided by the laws;
- to challenge in court the decisions of KMF bodies that violate the participant's rights provided for by law and/or the Charter of KMF.

DISTRIBUTION OF NET PROFIT

In accordance with the decision of the General Meeting of Participants dated October 13, 2022, KMF distributed net profit for 2021 in the amount of 2,805,635,274 (two billion eight hundred and five million six hundred thirty five thousand two hundred seventy four) tenge among all participants in proportion to their participation shares.

GENERAL MEETING OF PARTICIPANTS

The General Meeting of Participants is the supreme management body of the Company, the powers and procedures of which are determined by the Charter of the Company and the legislation of the Republic of Kazakhstan.

During 2022, one regular and five extraordinary general meetings of participants were held, during which the following issues were considered:

- approval of the annual financial statements of KMF for 2021 certified by the external auditor Ernst & Young LLP;
- approval of the profit distribution procedure for 2021 and the amount of dividend payment to KMF participants;
- election of members of the Supervisory Board for a two-year term;
- election of members of the Management Board for a five-year term;
- approval of the Internal Control Rules for the purpose of combating the legalization (laundering) of proceeds from crime and the financing of terrorism in a new edition;
- introduction of amendments to the Confidential Information Regulation and KMF Income Distribution Procedure.

SUPERVISORY BOARD

The Supervisory Board exercises control over the activities of the Management Board, acts in the interests of KMF and its participants, and reports to the General Meeting of the Company's participants. In its activities, the Supervisory Board is guided by the Law of the Republic of Kazakhstan dated April 22, 1998 No. 220-1 "On Limited and Additional Liability Partnerships", the KMF Charter, the regulations on the Supervisory Board and other internal documents of KMF approved by the General Meeting of Participants and the Supervisory Board.

Members of the Supervisory Board are elected by the General Meeting of KMF in the amount of not more than seven people for a period of two years with the right to (further) re-election. The requirements for candidates for members of the Supervisory Board are established by the Laws of the Republic of Kazakhstan dated April 22, 1998 No. 220-1 "On limited and additional liability partnerships" and dated November 26, 2012 No. 56-V "On microfinance activities", as well as the Charter of the Company.

The competence of the Supervisory Board of KMF includes the following issues:

- determination and approval of annual and long-term strategic plans and priority business development areas of the Company and related principal business issues of the Company, including approval of the annual Business Plan and/or budget and any changes thereto;
- approval of any financial obligations or costs in excess of 10% of the net asset value of KMF MFI in one or a series of related transactions, regardless of whether they were included in the Annual Business Plan; provided that no additional approval is required for financial obligations or costs approved as a separate line item in the Annual Business Plan;
- proposal of appointment or dismissal of the CEO and any changes in the structure and number of members of the Management Board prior to the approval thereof by the General Meeting;
- preliminary approval of the Company's net profit distribution issues, including determination of amounts and time for their payment to the shareholders, and the matters of a full or partial buyout by the Company of the participatory interests from the shareholders prior to their approval by the General Meeting;
- preliminary approval of the resolution on increasing the Company's charter capital and adjusting the amounts of the shareholders' participatory interests prior to its approval by the General Meeting;
- preliminary approval of the resolutions on amending the Company's Charter or reorganizing the Company (e.g. through merger, consolidation or other reorganization) prior to their approval by the General Meeting;
- adoption of any resolution on delegating any of the powers of the Supervisory Board;
- adoption of any resolution on acquisition, lease, sale, transfer or any other disposal of the Company's property or assets exceeding 25% (twenty five percent) of the Company's net asset value;
- adoption of any resolution on approval of a loan, making of disbursement or any other transaction with interested parties, including any participants, employees or directors of KMF MFI, if such transactions are not carried out in the normal course of business, or if such transactions are provided for in applicable policies or under the conditions

of the plan for the participation of employees of KMF MFI in the authorized capital, approved by the Supervisory Board;
- adoption of a preliminary resolution on the acquisition of shares of or participatory interests in another company, enterprise, venture and/or any other legal equity or any other legal structure to be submitted to the General Meeting;
- Other issues as may be provided for by the applicable laws of the Republic of Kazakhstan, Charter, internal regulations or resolution of the General Meeting of the Company.

Members of the Supervisory Board

As of December 31, 2021, the Supervisory Board consists of five people, including the Chairperson and members of the Supervisory Board, one of whom is an independent member.

By decision of the General Meeting of Participants dated October 13, 2022, the current Supervisory Board was re-elected for a new two-year term from December 31, 2022 to December 31, 2024.

MEMBERS OF THE SUPERVISORY BOARD OF KMF, in the period from January 1, 2022 to January 1, 2023

Gulnara Shamshiyeva	Chairperson of the Supervisory Board
Geoffrey Morris Chalmers	member of the Supervisory Board
Joachim Bald	member of the Supervisory Board
Philipp Georg Pott	member of the Supervisory Board
Andrew Pospielovsky	member of the Supervisory Board

Gulnara Shamshiyeva

Career summary:

- December 18, 2014, till present – KMF MFI LLC, Kazakhstan, Chairperson of the Supervisory Board and member of the Audit Committee and the HR and Remuneration Committee;
- March 1, 2023, till present – MF consulting, Consultant.
- May 21, 2018 – July 1, 2022 – Kyrgyz Investment and Credit Bank CJSB, Kyrgyzstan, member of the Management Board, Financial Manager;
- April 11, 2001 – October 18, 2017 – Bai Tushum Bank OJSC, Kyrgyzstan, CEO;
- February 1, 2001 – April 11, 2001 – Bai Tushum Microfinance Fund, Kyrgyzstan, Internal Auditor;
- August 1, 1996 – October 30, 2002 – USAID program of monetization and establishment of credit associations in Kyrgyzstan, Osh region, Accountant;
- May 1, 1995 – July 31, 1996 – Tax Police of Osh region, Kyrgyzstan, Head of the General Department;
- November 1, 1992 – April 30, 1995 – Prosecutor's Office of Osh region, Kyrgyzstan, Technical Secretary;
- June 1, 1983 – October 31, 1992 – Consumer Cooperation of Osh region, Kyrgyzstan, Process Engineer.

Education:

- 1978-1983 – Frunze Polytechnic Institute, Kyrgyzstan;
- 1993-1995 – Kyrgyz National State University, Kyrgyzstan.

Geoffrey Morris Chalmers

Career summary:

- December 18, 2014, till present – KMF MFI LLC, Kazakhstan, member of the Supervisory Board, Chairperson of the Remuneration and HR Committee.
- September 1, 2009, till present – ACDI/VOCA, USA, Vice-President;
- September 1, 2005 – August 31, 2009 – U.S. Agency for International Development, Mexico, Financial Development Advisor.
- February 11, 2001 – August 31, 2005 – U.S. Agency for International Development, Microenterprise Development Advisor.
- October 1, 1999 – February 10, 2001 – Inter-American Development Bank, Microenterprise Development Specialist.
- September 1, 1997 – August 31, 1998 – BASICS, Program Assistant.
- January 1, 1996 – August 31, 1997 – Solar Tours, Tour Manager.

Education:

- 1990 – 1994 – Tufts University, USA.

Joachim Bald

Career summary:

- July 16, 2018, till present – EFA Group, Singapore, Director of FIDEF (Financial Institutions Development Fund).
- December 18, 2014, till present – KMF MFI LLC, Kazakhstan, member of the Supervisory Board, Chairperson of the Risk Committee, member of the Audit Committee and the Remuneration and HR Committee.
- December 20, 2003, till present – Bai Tushum Bank OJSC, Kyrgyzstan, member of the Supervisory Board.
- August 1, 2004, till present – Frankfurt School of Finance and Management, Germany, Consultant, Trainer, Lecturer.
- August 1, 2004, till present – home office in Oregon, USA, self-employed development finance consultant and trainer.
- April 1, 2001 – July 31, 2004 – Deutsche Boerse Systems Inc., Chicago, Illinois, USA, Vice President and General Manager.
- October 21, 1999 – March 31, 2001 – Deutsche Börse Systems AG, Frankfurt, Germany, IT Project Manager.
- December 1, 1995 – October 20, 1999 – Oregon State University, Corvallis, Oregon, USA, Head of International Internship Programs, Lecturer in Finance.
- June 10, 1990 – July 31, 1995 – Commerzbank AG, Frankfurt, Germany, Assistant Regional Manager for CIS countries.

Education:

- 1983-1989 – Dortmund Universit, Germany, certified economist.
- 1991-1994 – Ruhr-Universität Bochum, Germany, PhD in Economics.

Philipp Georg Pott

Career summary:

- August 7, 2015, till present – KMF MFI LLC, Kazakhstan, member of the Supervisory Board, member of the Risk Committee.
- November 30, 2014, till present – I.D. Inspiring Development GmbH, Frankfurt, Germany, Managing Partner.
- July 1, 2013 – December 1, 2014 – SME Bank JSC, Freelance Consultant.
- December 1, 2011 – July 31, 2012 – ProCredit Bank, Kyiv, Ukraine, Executive Director.
- February 1, 2011 – June 30, 2013 – ProCredit Academy, Fuerth, Germany, Managing Director.
- March 1, 2010 – June 30, 2013 – ProCredit Holding, Frankfurt, Germany, Head of Business Development Group.
- May 1, 2006 – June 30, 2010 – ProCredit Bank, Tbilisi, Georgia, Executive Director.
- February 1, 2005 – April 30, 2006 – ProCredit Bank, Kyiv, Ukraine, Executive Retail Manager.
- February 1, 2003 – January 31, 2005 – ProCredit Bank, Chisinau, Moldova, Executive Director.
- October 1, 2001 – January 31, 2003 – Micro Enterprise Credit (MEC), Chisinau, Moldova, Branch Advisor and Regional Development Coordinator.
- January 10, 2001 – September 30, 2001 – Internationale Projekt Consult (IPC), Frankfurt, Germany, Consultant.

Education:

- 1995-2000 – University of Basel, Switzerland, Master (Licentiate in Philosophy) in Eastern European History.
- 2000-2005 – University of Basel, Switzerland, PhD in Philosophy.

Andrew Pospielovsky

Career summary:

- June 1, 2021, till present – Yelo Bank, Azerbaijan, member of the Supervisory Board, Chairperson of the Risk Committee.
- March 1, 2021, till present – Opportunity Banka, Serbia, Chairperson of the Supervisory Board, member of the Audit Committee.
- November 1, 2018, till present – Bank Lviv, Ukraine, Chairperson of the Supervisory Board, member of the Audit Committee.
- January 1, 2019, till present – Credo Bank, Georgia, member of the Supervisory Board, Chairperson of the Risk Committee and member of the Audit Committee.
- February 20, 2015, till present – KMF MFI LLC, Kazakhstan, member of the Supervisory Board, Chairperson of the Audit Committee and member of the Risk Committee.
- December 1, 2012 – June 30, 2019 – IFC – World Bank Group, Senior Microfinance Specialist (short-term consultant).
- April 1, 2010 – December 12, 2019 – AccessBank Tajikistan CJSC, member of the Supervisory Board and the Audit Committee.
- June 1, 2006 – August 30, 2012 – AccessBank Azerbaijan CJSC, CEO.
- April 1, 2000 – May 31, 2006 – DAI Europe, London, Banking Consultant, Team Leader.
- November 15, 1999 – March 31, 2000 – Delegation of the European Union, Moscow, Head of the EU project on capacity development in the field of election monitoring.
- September 1, 1998 – November 14, 1999 – Highlife Ltd, London, Emerging Markets Analyst.

Education:

- 1982-1986 – University of Western Ontario, Canada.
- 1987-1990 – University of London, UK.
- 1991-1999 – University of London, UK, Ph.D.

Committees under the Supervisory Board

Committees under the Supervisory Board of KMF are established to examine the most important aspects of the Company's activities and consist of the members of the Supervisory Board. The conclusions of the committees are advisory in nature for the Supervisory Board, other management and control bodies of KMF. Issues considered at committee meetings are included in the agenda of meetings of the Supervisory Board.

As of December 31, 2022, the following three Committees were established and operate under the Supervisory Board:
- Audit Committee;
- Risk Management Committee;
- HR and Remuneration Committee.

In 2022, the Committees were held quarterly with the participation of all members of the Supervisory Board.

Activities of the Supervisory Board

During 2022, 17 in-person and absentee meetings of the Supervisory Board in full composition were held in accordance with the approved schedule.

During the meetings, the following issues were considered:
- quarterly reports of the CEO on financial and management activities of KMF
- quarterly risk management and internal audit reports;
- semi-annual reports of the HR Department;
- issues of payment of remuneration and bonuses to KMF managers;
- draft strategy for the development of the Company for the medium term;
- draft budget of the Company for 2023.

In 2022, the Supervisory Board approved the following major transactions related to raising large loans from the following organizations:
- DAMU Entrepreneurship Development Fund JSC in the amount of up to 5 billion tenge for lending to micro and small businesses;
- International Finance Corporation (IFC) in the amount of USD 20 million;
- Proparco Financial Development Institution, a subsidiary of the French Development Agency, in the amount of USD 30 million;
- ADB in the amount of 6.4 billion tenge;
- EBRD in the amount of 5.9 billion tenge;
- BlueOrchard Microfinance Fund in the amount of USD 50 million;
- responsAbility in the amount of USD 25 million;
- Symbiotics in the amount of USD 21 million.

MANAGEMENT BOARD

The Management Board is a collegial executive body of KMF, which is headed by the CEO and carries out current management of the Company's activities. Members of the Management Board are elected by the General Meeting in the amount of not more than seven people, for a term of up to five years. The same person may be elected to the Management Board an unlimited number of times. The requirements for candidates to the Management Board members are established by the Laws of the Republic of Kazakhstan dated April 22, 1998 No. 220-1 "On limited and additional liability partnerships" and dated November 26, 2012 No. 56-V "On microfinance activities", as well as Charter of the Company.

Members of the Management Board

As of December 31, 2021, the Management Board consists of six members, including five women and one man. By the decision of the General Meeting of Participants dated October 13, 2022, the current composition of the Management Board was elected for a new five-year term from November 1, 2022 to November 1, 2027.

COMPOSITION OF THE KMF BOARD, IN THE PERIOD FROM JANUARY 1, 2022 TO JANUARY 1, 2023

Shalkar Zhussupov	CEO
Almira Abenova	First Deputy CEO
Gulshat Akimzhanova	Deputy CEO
Karlygash Raikhanova	Deputy CEO
Kulsara Saparbekova	Deputy CEO
Olga Yugay	Deputy CEO

Shalkar Zhussupov

Career summary:
- January 5, 2015, till present – KMF MFI LLC, CEO.
- January 3, 2007 – January 4, 2015 – KazMicroFinance MCC LLC, CEO.
- June 26, 2008 – April 19, 2011 – KMF-Demeu Corporate Fund, CEO.
- June 21, 2006 – June 25, 2008 – KLF Corporate Fund, CEO.
- November 9, 2001 – June 20, 2006 – Kazakhstan Loan Fund CF, CEO.
- October 13, 1997 – November 8, 2001 – Kazakhstan Communities Loan Fund, Chief Accountant, Program Director.

Education:
- Kazakh State Academy of Architecture and Civil Engineering, Kazakhstan, civil engineer.
- Market Institute at the Kazakh State Academy of Management, economist.

Almira Abenova

Career summary:
- October 1, 2015, till present – KMF MFI LLC, First Deputy CEO.
- January 3, 2008 – September 30, 2015, KazMicroFinance MCC LLC, Deputy CEO.
- January 3, 2007 – January 2, 2008, KazMicroFinance MCC LLC, Director of Financial Unit.
- March 9, 2004 – January 2, 2007, Kazakhstan Loan Fund CF, CFO.
- February 19, 2004 – March 8, 2004, Kazakhstan Loan Fund CF, Chief Accountant.
- December 6, 2001 – February 18, 2004, Shymkent Branch of Kazakhstan Communities Loan Fund, Chief Accountant.

Education:
- Tashkent Order of Friendship of Peoples Institute of National Economy, Tashkent, Economist.

Gulshat Akimzhanova

Career summary:
- October 1, 2015, till present – KMF MFI LLC, Deputy CEO.
- January 3, 2008 – September 30, 2015 – KazMicroFinance MCC LLC, Deputy CEO.
- January 3, 2007 – January 2, 2008, KazMicroFinance MCC LLC, Director of Financial Unit.
- February 2, 2006 – January 2, 2007 – Kazakhstan Communities Loan Fund in Almaty, Director of Credit Department.
- April 1, 2003 – February 1, 2006 – Kazakhstan Communities Loan Fund in Almaty, Operational Director.
- November 1, 1999 – March 31, 2003 – Shymkent and Almaty Branches of Kazakhstan Communities Loan Fund, Branch Manager.
- August 1, 1998 – October 31, 1999 – Taldykorgan Branch of Kazakhstan Communities Loan Fund, Chief Accountant.

Education:
- Alma-Ata Institute of National Economy, Economist.

Karlygash Raikhanova

Career summary:
- November 1, 2012, till present – KMF MFI LLC, Deputy CEO.
- January 3, 2007 – October 31, 2012, Kazakhstan Communities Loan Fund CF, KazMicroFinance MCC LLC, Manager of Treasury Section, Managing Director, Director of Treasury and Risk Management Department.
- May 11, 1998 – January 2, 2007 – Kazakhstan Communities Loan Fund CF, Credit Inspector, Deputy Program Director, Manager of Taldykorgan and Taraz Branches, Investment Manager.

Education:
- Zhetysu Institute of Economics, Financial Economist.
- Kazakhstan Institute of Management, Economics and Strategic Research, Master of Business Administration (Finance).
- Frankfurt School Certified Expert in Risk Management.

Kulsara Saparbekova

Career summary:
- April 1, 2019, till present – KMF MFI LLC, Deputy CEO.
- December 4, 2017 – March 31, 2019 – KMF MFI LLC, Managing Director.
- July 1, 2016 – December 3, 2017 – KMF MFI LLC, Director of Regional Network Development Department, Director of Credit Department.
- August 22, 2006 – June 30, 2016 – Kazakhstan Loan Fund MCC Corporate Fund, KazMicroFinance MCC LLC, KMF MFI LLC, Director of Shymkent Branch.
- January 3, 1999 – August 21, 2006 – Shymkent Branch of Kazakhstan Communities Loan Fund, Kazakhstan Loan Fund CF, Chief Accountant, Manager of Shymkent Branch.

Education:
- Alma-Ata Institute of National Economy, Economist.

Olga Yugay

Career summary:
- April 1, 2021, till present – KMF MFI LLC, member of the Management Board, CFO.
- March 1, 2012 – March 31, 2021 – KMF MFI LLC, Chief Accountant, CFO.
- February 1, 2011 – February 28, 2012 – Tsentraudit-Kazakhstan NAC JSC, Almaty, Chief Specialist.
- May 1, 2004 – January 1, 2011 – Accounting and Audit LLP, Almaty, CFO / Chief Accountant.
- January 1, 2003 – April 1, 2004 – Sunkar Agro-Industrial Concern LLP, Almaty, Accountant.

Education:
- Almaty Institute of Energy and Communications, engineer-economist.
- Kazakh State University, lawyer.
- Institute of Energy and Communications, postgraduate study.

REMUNERATION OF EXECUTIVE EMPLOYEES

The remuneration to members of the Supervisory Board amounted to 65,895 thousand tenge in 2021 and 81,214 thousand tenge in 2022, members of the Management Board – 416,057 thousand tenge and 504,580 thousand tenge, respectively. These amounts include salaries and other payments, taxes and other deductions.

ANTI-CORRUPTION MEASURES

KMF strictly adheres to the principles of strict compliance with all requirements of the legislation of the Republic of Kazakhstan and imposes similar requirements on its business partners and customers. Prevention of corruption offenses is one of the priorities of the corporate policy pursued by the Company.

Each employee of the Company or any other person has the right to inform the Company in case of doubts about the legality of the actions of any of the employees of the Company in writing, by corporate e-mail or by phone. Obtaining information about a possible offense on the part of the Company's employees is the basis for an internal investigation.

INTERNAL AUDIT

The Internal Audit Unit of KMF provides the third line of defense for the internal control system and is an independent structural unit that reports to the Supervisory Board.

The mission of the Internal Audit Unit is to maintain and increase the value of the Company by conducting objective internal audits using a risk-based approach, providing recommendations and sharing knowledge.

In its activities, it is guided by the legislation of the Republic of Kazakhstan and the International Professional Practices Framework (hereafter – IPPF), recommended by the International Institute of Internal Auditors.

The internal audit management team includes highly qualified specialists in the field of lending, head office and branch processes, information technology and information security auditors and analysts. Some auditors have international CIA and CRMA certificates.

On an annual basis, the unit conducts a risk assessment of all processes for annual planning, which results in an audit plan for the next year. In the reporting period, as in the previous few years, the unit fully implemented the audit plan for the year. In addition to scheduled audits, unscheduled audits may be conducted at the request of the Audit Committee and the Management Board.

The results of audits are discussed on a regular basis with the audited entity and management. Audits include the provision of assurance to all interested parties and the provision of advice in accordance with the IPPF. In 2022, 26 assurance audits and one advisory audit were conducted.

Based on the results of the audits, action plans are developed to implement the recommendations of the internal audit. In the reporting year, the Internal Audit Unit formulated more than 400 recommendations for improving risk management and internal control systems. At the same time, the management monitors the implementation of action plans based on the results of audits and regularly submits relevant conclusions to the Management Board and the Audit Committee.

Management reports to the Audit Committee and the Supervisory Board are submitted on a quarterly basis and include key information on the implementation of the annual plan, the results of audits, the development of methodology and personnel. Quarterly reports and the report for the reporting year were approved by the Audit Committee and approved by the Supervisory Board, the activities of the Internal Audit Unit for the year were recognized as effective.

COMPLIANCE SERVICE

KMF strictly adheres to the requirements of the Law of the Republic of Kazakhstan "On anti-money laundering/ counter financing of terrorism" (hereinafter referred to as the AML/CFT Law) and FATF international standards.

In March 2022, in the organizational structure of KMF, the compliance service was separated to a standalone structural subdivision and a responsible employee was appointed, whose functions include ensuring compliance with the requirements of the AML / CFT law and FATF international standards.

In 2022, in accordance with the AML/CFT law and taking into account the FATF international standards, KMF developed and approved the Internal Control Rules in order to counter the legalization (laundering) of proceeds from crime and the financing of terrorism.

In order to ensure compliance with the requirements of the AML / CFT law and FATF international standards as part of the customer identification program and the program for monitoring and examining customer operations, in 2022, Compliance Service of KMF on an ongoing basis carried out identification (due diligence) of customers (their representatives), beneficial owners of customers and counterparties, as well as conducted appropriate financial monitoring of transactions performed by customers.

REGULATORY COMPLIANCE

In 2022, the Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market twice applied limited impact measures against the Company:

- July 26, 2022 – written warning No. 04-4-17/2099 due to the late placement of the bond issue prospectus;
- On August 24, 2022, a written order No. 05-0-14/3644 in connection with the failure to indicate the size of the annual effective rate when distributing and (or) placing an advertisement containing information on the amounts of remuneration for a microloan.

INFORMATION ABOUT LARGE DEALS

In 2022, KMF entered into a number of large deals to raise additional funding, including:

- obtaining a loan from DAMU Entrepreneurship Development Fund JSC in the amount of up to 5 billion tenge for lending to micro and small businesses;
- obtaining a loan from the International Financial Corporation in the amount of USD 20 million;
- obtaining a loan from Proparco Development Financial Institution, a subsidiary of the French Development Agency, in the amount of USD 30 million;
- obtaining a loan from ADB in the amount of 6.4 billion tenge;
- obtaining a loan from the EBRD in the amount of 5.9 billion tenge;
- obtaining financing from BlueOrchard Microfinance Fund in the amount of USD 50 million;
- obtaining funding from responsAbility in the amount of USD 25 million;
- obtaining funding from Symbiotics in the amount USD 21 million.

EXTERNAL AUDIT

The audit of the Company's financial statements for 2022 was carried out by the audit firm Ernst & Young LLP.

The selection of the external auditor of the company's financial statements was carried out in accordance with the Policy for the selection and rotation of the external auditor of KMF MFI LLC, approved by the decision of the Supervisory Board of KMF MFI LLC dated June 18, 2020, minutes No.10. The main principles of external auditor rotation determined by the internal policy are legality, continuity, transparency, consistency and independence.

05

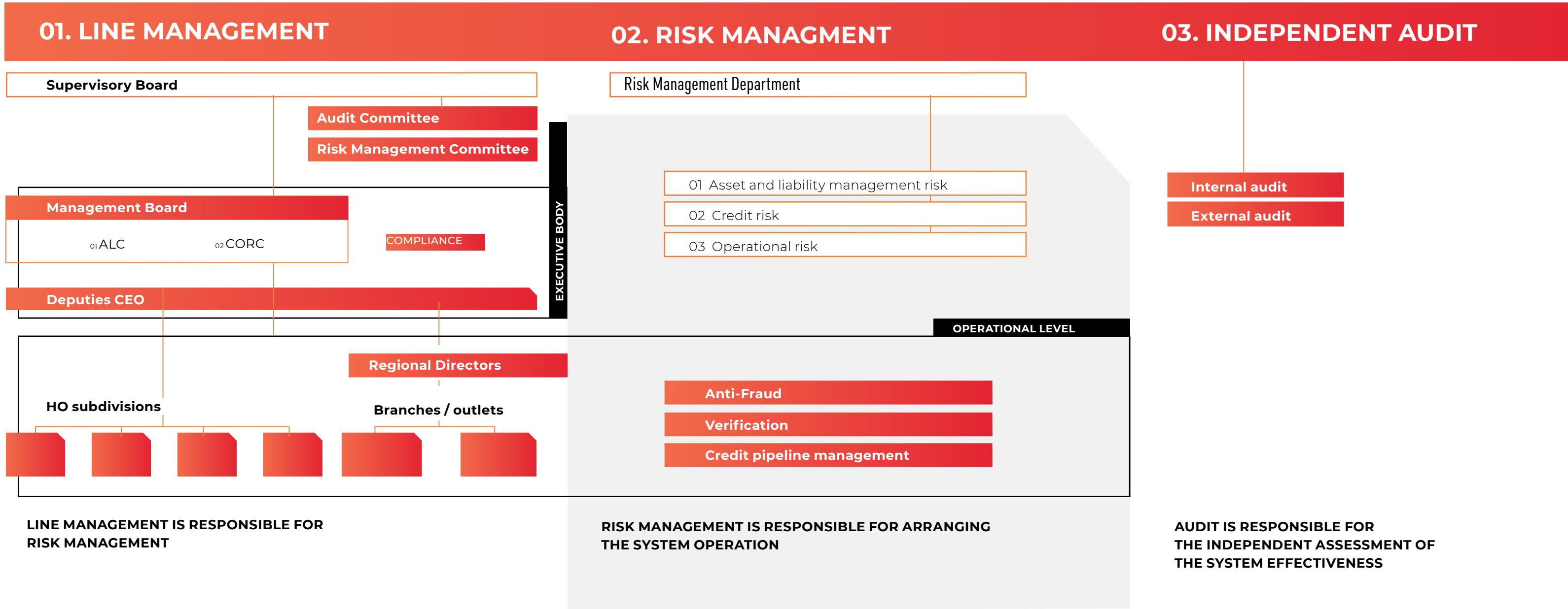
RISK MANAGEMENT

RISK MANAGEMENT SYSTEM

The Risk Management System (RMS) of KMF includes three lines of defense:

- **1st line** is functional subdivisions and management, which directly implements activities and monitors risks. Risk management is part of the daily activities of business subdivisions and management. They ensure an ongoing process for identifying and assessing risks, implementing and evaluating the effectiveness of control procedures.
- **2nd line** is an independent analytical subdivision that ensures and coordinates the risk management process, including the development of methods, rules and procedures, the introduction of effective tools for detecting, identifying, assessing, monitoring, controlling and reporting in the field of risk management, and also controls and coordinates actions taken at the level of the first line of defense. In KMF, the second line of defense is represented by the Risk Management Department (RMD).
- **3rd line** is the Internal Audit Unit and external audit. The objectives of this line of defense are to independently evaluate and check the effectiveness of the risk management system, both on the first and second lines of defense.

FIGURE 1. KMF RISK MANAGEMENT PROCESS



01 ALC (Asset-Liability Committee)

02 CORC (Credit and Operation Risk Management Committee)

An important role in the risk management process is played by the Supervisory Board, which receives regular reports on KMF's exposure to credit risk as part of quarterly reports. Members of the Risk Management Committee of the Supervisory Board evaluate violations of credit risk limits, if any, the causes and duration of violations. Based on the results of the assessment of risk reports by members of the Risk Management Committee of the Supervisory Board, recommendations can be formed and preventive measures can be recommended to reduce the level of risks and strengthen control over high-risk areas.

PRINCIPLES OF RMS AT KMF	
Division of responsibility for risk management and independent control	The RMS includes three lines of defense with a clear distribution of functions and responsibilities between subdivisions. All KMF employees are involved in the risk management process in such a way that everyone participates in the processes of identifying, analyzing and assessing risks and taking measures to reduce the risks of the company, in accordance with the responsibility inherent in their position.
Exclusion of conflicts of interest	KMF does not accept conflicts of interest in the risk management process, ensures the separation of control functions (middle and back office) and front office functions (sales and customer service).
Risk-based corporate culture	KMF develops and maintains a culture of understanding risk among employees, recognizing the importance of risk management, as well as recognizing personal responsibility for identifying and managing risks, in accordance with the responsibility inherent in their position.
Communication efficiency	Internal communications in the context of risk management are part of the corporate culture of KMF and include communications on risk tolerance levels and limits, a reporting system and feedback in the risk management process from all levels of the organization.
Risk based remuneration	The remuneration system of KMF employees takes into account the successful completion of the tasks set, with a mandatory adjustment for the risk of the main process – credit risk. In the front office employee compensation system, portfolio risk directly affects monthly remuneration payments – the higher the risk of the portfolio, the lower the remuneration.
Regulation and control	KMF ensures compliance with the requirements of regulatory authorities for the existence of risk management systems in terms of its organization, scope and independence.
Protection of confidential information	KMF has an information confidentiality policy that describes the mechanism for disclosing information to all interested parties.
Economic expediency	Risk management in KMF is carried out on the basis of economic purposefulness, when the cost of risk control measures should not exceed the amount of possible losses from this risk.

The continuity and controllability of the risk management process is ensured by strict adherence to a single risk management algorithm, which includes seven stages.

RISK MANAGEMENT ALGORITHM IN KMF

№	STAGE	STAGE DESCRIPTION
1.	**Formation of a risk manage-ment system**	Formation of a risk management policy, setting of risk management goals and commitments, promotion of a risk-based corporate culture focused on risk management
2.	**Risk identification**	Risk detection and description
3.	**Risk analysis**	Determining the nature of the risk and measuring the level of risk
4.	**Risk assessment**	Determination of criteria for the significance and priority of risks
5.	**Risk management (risk treatment)**	Development of action plans for reduction, control, hedging, insurance and other ways of influencing risks with the definition of deadlines and responsible persons
6.	**Monitoring and analysis of the effectiveness of the RMS**	Continuous performance review followed by adjustments to relevant processes and procedures
7.	**Communications and consultations**	Exchange of information on risk management between structural divisions and employees of KMF, as well as other interested parties

CREDIT RISK MANAGEMENT

As the leader of the Kazakhstan microloan market, KMF is aware of its impact on the social and economic development of the country. Social responsibility to customers is enshrined in the Company's credit policy. Our responsible attitude towards the client has a positive effect on credit risk and prevents the client from becoming over-indebted.

Credit risk management is defined as a set of measures that can help avoid or mitigate foreseeable risks and create adequate reserves. KMF manages the probability of default of individual clients through a set of underwriting policies and regulations (i.e. procedures for analyzing and evaluating a loan application). Each borrower, when issuing a new loan or restructuring it, as well as issuing a new tranche within the framework of a credit line, is subject to verification of all creditworthiness criteria.

The portfolio risk indicator is PaR 30, calculated as the ratio of the principal debt on all loans that are overdue by 30 days or more as of the reporting date to the principal debt for the entire loan portfolio. Calculation of expected credit losses is carried out in accordance with IFRS 9 based on the company's internal methods.

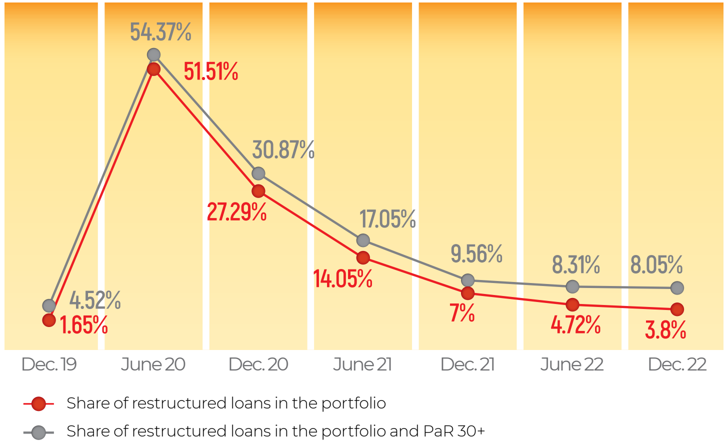
KMF is working to collect non-performing loans, however, the Company does not adhere to the strict practice of "chasing up debts" from customers. All processes are regulated and carried out in accordance with Kazakhstani legislation and in the spirit of the social orientation of KMF as a development institution.

In order to manage delinquencies, KMF seeks to restructure loans when the client is able and willing to pay loan payments in accordance with the revised payment schedule.

In 2021–2022, the volume of restructured non-performing loans in the Company's portfolio decreased significantly. PAR30 at the end of 2022 amounted to 4.25% of the loan portfolio. The increase in portfolio risk growth was greatly influenced by the experimental stream of car loans.

The main risk factors that can have a negative impact on the creditworthiness of the Company's borrowers are:

- External and internal shocks that can affect the income of SMEs;
- Wage cuts or delays in the formally employed sector;
- Volatility in prices for agro-industrial products;
- Increase in operating expenses of clients in the segments of SME lending and agriculture;
- Volatility of exchange rates;
- Lockdowns and closure of trade markets, closing of borders;
- Political instability in the country or its individual regions.



OPERATIONAL RISK MANAGEMENT

KMF defines operational risk as the possibility of losses caused by failures in internal processes, errors and intentional actions of employees, or adverse external events. Within this definition, operational risks include legal risks, but exclude business and strategic risks. Legal risks include the possibility of imposing fines, penalties and other losses arising as a result of supervisory actions in relation to KMF, as well as a result of losses in the settlement of private claims.

The definition of operational risk adopted by KMF also includes the potential damage to the Company's reputation among customers, investors, national authorities and other stakeholders that may result from the realization of operational risks.

Depending on the nature of their impact on KMF, operational events are classified similarly to the widely used classification of the Basel Committee.

KMF has zero tolerance to operational risk due to potential regulatory and reputational impacts, even if the incident itself is initially considered insignificant. Any form of fraud or non-compliance with internal regulations by KMF employees is unacceptable.

The internal control environment includes the following components:

- systematically organized, clear and specific internal documents that define the conditions and description of all products and services;
- powers and responsibilities of divisions and employees;
- policies and procedures that define how these roles and responsibilities are to be performed in the processes.

The internal control environment includes the formation of a risk management culture that influences the actions of each individual employee and is supported by the Company's management, including the Supervisory Board, the Risk Committee under the Supervisory Board, the Management Board and all heads of structural subdivisions of branches and the Head Office.

An important role in the operational risk management system is played by risk coordinators – employees of KMF subdivisions responsible for organizing the operational risk management process within their subdivision (bottom-up approach).

As part of operational risk management, key risk indicators are used for key business processes, the metrics for the formation of which are set up on a regular basis by all subdivisions of the Company. The process of self-assessment of operational risks for exposure to operational risks allows establishing vertical and horizontal communications as part of the operational risk management process. Registration of operational events is carried out using specialized software.

A special role in the process of managing operational risks is given to communications and training of the 1st line of defense: the company is actively developing an internal corporate portal, through which prevention of violations is informed in order to prevent the realization of risks in the future.

LIQUIDITY RISK MANAGEMENT

Liquidity risk is defined as the possibility of a negative impact on a company's profits and business reputation due to the potential inability of KMF to meet current payment obligations in a timely manner.

The Company defines liquidity management as a continuous process of planning the need for financing and borrowing both at the operational (planning period up to 1 month) tactical (planning period up to 1 year) and at the strategic level (planning period over 1 year). The main goal of liquidity management is to ensure sustainable growth of KMF's operating assets and ensure timely fulfillment of all KMF obligations to third parties.

KMF finances its activities mainly with medium-term loans in tenge and in foreign currency received from financial institutions both within Kazakhstan and abroad. In addition to standard loans, KMF uses borrowings in the form of capital, as well as subordinated loans.

KMF has a contingency financing plan to manage the response to early withdrawal of obligations, which will be activated in the event of an emergency liquidity shortage.

In addition, the company maintains a constant share of liquid assets, established by the internal requirements of the Supervisory Board, and adheres to it every day.

Liquid assets are placed in second-tier banks in line with internal limits, as well as in the securities market, in accordance with the approved list of permitted financial instruments. Only highly liquid financial instruments are used for placement, mainly government securities and repo.

Concentration risk in second-tier banks is managed by monitoring and regularly reviewing counterparty limits.

INTEREST RATE RISK MANAGEMENT

Interest rate risk in KMF is defined as the possibility of an adverse impact on net interest income and on the market value of assets and liabilities in response to changes in market interest rates.

KMF's business model assumes the emergence of interest rate risk mainly due to discrepancies in the timing of the revision of interest rates on the loan portfolio and on loans through which KMF finances its lending activities.

In accordance with the legislation of the Republic of Kazakhstan, there is a maximum limit on increase in rates on microloans; therefore, raising interest rates on a loan portfolio cannot be a permanent tool for managing interest rate risk. Microloans to KMF clients always have a fixed interest rate over the term of the microloan, while KMF liabilities can be either at fixed or floating rate.

CURRENCY RISK MANAGEMENT

KMF's business model assumes the occurrence of currency risk due to the fact that KMF disburses loans only in tenge, while its activities are partially financed by foreign currency loans. Speculation in exchange rates is not a business goal of KMF; the goal of KMF is to minimize the currency risk in relation to profitability and cost of capital with available financial instruments.

Currency risk is managed through a system of open currency position limits; over the past few years, the company has maintained an almost zero open currency position. At the end of 2022, the position was -0.11% of equity.

ENSURING BUSINESS CONTINUITY

In 2019, the company has implemented a business continuity management policy, which has been constantly improved and adjusted for the events of recent years: the peak of the pandemic from 2020 to 2021, the January events in Kazakhstan at the beginning of 2022.

In times of crisis, the provided tools of the continuity policy worked at the proper system level, the Emergency Management Headquarters was established in the shortest possible time, anti-crisis measures, action algorithms and the necessary response instructions for the Company's employees were developed in all areas of the company's activities.

During 2022, due attention was paid to preventive personnel training, on-site training with Table Top testing for key employees of the branch, and training courses on the most pressing threats through a distance learning system. Table Top testing for Recovery Groups and test evacuation of employees from the building were carried out at the Head Office. On a quarterly basis, incidents are simulated through working mailing lists of branches in messengers in order to maintain the speed of response of key employees responsible for ensuring business continuity. In the training program for newly appointed heads of outlets, the subject of ensuring business continuity is included on a mandatory basis.

In connection with the practical experience of dealing with large-scale incidents such as the Covid-19 pandemic and the January events of 2022, the risk management function in business continuity management has been enhanced, guidelines and instructions for crisis management and incident response have been modified and improved. The development of the business continuity management system continues, including using tools such as Business Impact Analysis (BIA), implementation of awareness plans, incident simulation and staff training.

06

SUSTAINABLE DEVELOPMENT

HR MANAGEMENT

Strategic priorities of KMF in HR

1. Development of a corporate culture based on the Mission, Vision and Values of the Company, the principles of meritocracy and social responsibility

- **Employer brand management.** One of the main priorities of the Company is the creation and development of an attractive competitive value proposition for the target audience of potential candidates in the labor market and for the current employees. We make sure that the brand of the Employer in the foreign market reflects the real corporate culture of the company, broadcasts the real Business Values. We share these Values and consider the Company's contribution to the development and support of micro-entrepreneurship important, which allowed us to build long-term relationships of mutually beneficial cooperation with customers, ensuring the sustainable growth of all market participants.
- **Creation of a comfortable development working environment** in which each Employee can develop professionally and reveal his potential, contribute to business development and receive fair recognition and remuneration. We strive to provide flexibility and environmental friendliness in the design of workplaces and the production environment, creating accessibility both in the Company's offices and developing opportunities for remote or combined work modes.

2. HR support for the implementation of the Company's Strategy and organizational development

- **Business transformation.** In 2023-2025, one of the most important focuses of the top management is the transformation of business (due to its reorganization and changes in regulatory requirements), accordingly, activities aimed at supporting these changes become key tasks in the field of HR.
- **Engagement and Integration.** During this period, the integration of both the management team and the staff as a whole become particularly critical. An important priority for senior management will be to achieve ambitious goals and enhance the company's potential, at the same time ensuring cultural continuity and maintaining the company's competitive advantages based on Values. The Company considers it important to improve the methodology and tools in the field of engagement and integration management, ensuring the involvement of each employee in achieving the Company's goals, as well as the health of the social environment and industrial relations.

3. Talent management

- **Attracting talent.** The Company builds its talent management policy on the principles of meritocracy, diversity, equality and inclusiveness.
- **Development of talents.** The Company considers the development of personnel qualification as an investment in human capital, seeking to ensure a direct link between the activities carried out and the financial performance. Important areas are the development of professional skills of front office employees, the development of Leadership and managerial competencies of the company's management, professional development within the specialization of each employee of the Company.
- **Managing individual and team performance.** The Company is improving individual and team performance management systems, as well as capacity assessment and development systems in order to ensure that each employee has access to career development in accordance with the optimal pace of development for him.
- **Ensuring and planning of succession.** Each employee of the Company has the opportunity to participate in competitions for open vacancies, receive support during onboarding and adaptation.

4. Reward Management

- **Compensation policy.** The Company considers ensuring transparency and fairness of remuneration, both tangible and intangible, as one of its main priorities.
- **Management of grade system.** The Company conducts operations with basic remuneration based on research (reviews, monitoring results) of the labor market, in order to ensure a competitive fair system of basic remuneration.
- **Result-based rewards.** In paying the variable part of the remuneration, the Company relies on performance indicators, encouraging the achievement of results, responsibility and the best performance.

5. Social responsibility, well-being and health

- **Social support.** The Company supports its employees by providing a wide package of benefits in case they have a difficult life situation.
- **Well-being and health.** The Company's remuneration policy provides support for the health of employees both at the level of targeted payments (medical benefits) and fringe benefits (health insurance), and at the level of investment in the working environment. We strive to create comfortable working conditions in every workplace.

6. Ensuring the technological compliance of the system with the needs of staff coverage

- **Automation of the human resource management system.** The Company considers the tasks of automating HR processes as a measure to reduce risks, and, at the same time, to maximize the return on human resource.
- **Decision-making based on facts and data analysis.** The Company makes personnel decisions based on facts and data analysis, ensuring the validity and transparency of the measures taken.

Labor relations practice

The goal of KMF's personnel policy is to form a team whose composition and level of competence are sufficient to achieve the strategic goals of the Company. The procedure for hiring new employees includes several stages of selection. In the process of selecting candidates for vacancies, not only the level of their professional competence is assessed, but also their readiness to share our corporate values.

All newly hired employees undergo functional and socio-psychological onboarding after recruitment. Each new employee on his first working day undergoes "Welcome to KMF!" training, which begins his professional and social adaptation in the team.

The Company is working on the digitalization of business processes of human resource management. The HR department uses WebSoft HCM and E-staff software products; work is underway to automate the assessment of the level of competence and effectiveness of employees, the procedures for selecting and hiring employees.

The Company builds its relations with employees in strict accordance with the norms of Kazakhstani labor legislation and guarantees the implementation of all legally enshrined rights of employees. To resolve labor disputes, a conciliation commission was established, which includes an equal number of representatives of the labor collective and the employer.

In the reporting period, the Company recorded no cases of violation of labor laws or discrimination against employees.

The Company has zero tolerance towards discrimination against employees based on gender, age, social status or other criteria. The remuneration paid to employees is determined solely by the work of each individual employee and his contribution to the results of the Company's activities, regardless of gender, age and other differences. The company does not accept the use of child and forced labor.

Headcount

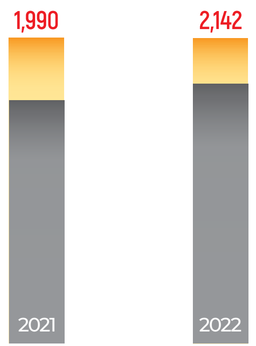
The actual headcount of the Company has grown from 1,990 employees at the beginning of 2022 to 2,142 employees at the end of 2022, while the turnover rate has decreased from 27% to 23%. Out of the total number of employees, 449 people work at the head office and 1,646 work at the Company's branches. Top managers are 6 employees of the Company, middle managers – 449 employees, the rest are specialists or technical workers.

The gender structure of the personnel as a whole is balanced and has not undergone significant changes during the reporting year. Women account for 52.0% of the total workforce (1,113 out of 2,142 employees).

The largest age group is employees aged 25 to 40, accounting for 67.6% of the total headcount (1,447 employees). At the same time, in 2022, the age structure of the staff became somewhat more diversified: the share of employees under the age of 25 increased from 9.0% to 10.1%, from 40 to 55 years old – from 18.6% to 19.2%, over 55 years – from 2.9% to 3.1%.

During 2022, 191 employees took maternity/paternity leave, 73 employees returned from maternity/paternity leave.

Actual number of employees at the end of the period

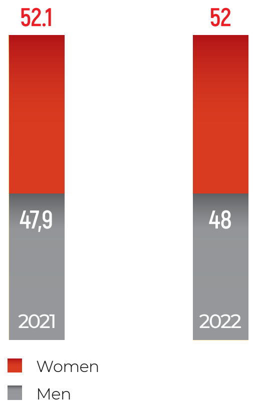


Staff turnover

in % for the period

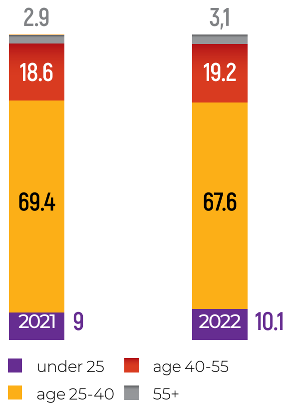
Personnel breakdown by gender

in % at the end of the period



Personnel breakdown by age

in % at the end of the period



Employee incentive and training

KMF has a transparent, fair incentive scheme, which is aimed at achieving the strategic goals of the Company and retaining qualified employees. The incentive scheme includes three types of bonuses:

- Monthly bonuses for front office employees, the amount of which is determined based on the results of the month;
- Annual bonuses at the end of the year based on the rating calculated taking into account the performance during the year;
- Project bonuses for project members who receive monetary rewards based on the project results upon completion.

The Company has a social package formed according to the “cafeteria” principle: each employee can create a set of benefits for himself, the payment of which the Company covers in the amount of the established limits. The social package of the company is aimed at social support for the staff, care for supporting the health of the employee and family members, maintaining a work-life balance, the possibility of developing employees and children.

The training and development of KMF personnel is part of the corporate culture and is carried out on a systematic basis. The company has an internal corporate training platform with electronic courses, to which all employees have constant access. Work is underway to digitize business processes in the field of internal corporate education in the following areas:

- Administration of the process of training and verification of professional knowledge;
- Conducting online training and testing of the Company’s employees;
- Analysis of the effectiveness of training and the justification for spending on it.

Labor safety and protection

KMF perceives the health and safety of its employees as an unconditional priority. The occupational health and safety system in the Company is based on the Occupational Safety and Health Instructions (hereinafter referred to as the OSH Instruction), approved by the KMF Board on December 8, 2020. The OSH Instruction systematizes harmful and hazardous production factors, defines the procedure for organizing OSH work, training employees in labor safety, describes the procedure for emergency situations, as well as the procedure for recording and investigating accidents related to work activities.

All employees of the Company undergo four types of safety briefing: introductory; primary in the workplace; repeated; unscheduled. Newly hired persons muat undergo training on OSH issues in the Distance Learning System within ten business days from the date of employment, followed by a mandatory knowledge test. Employees, who have not been trained, instructed and tested on OSH issues are not allowed to work.

All structural subdivisions of KMF are provided with serviceable primary fire extinguishers in each room based on the minimum standard of one fire extinguisher per 40–50 m2. Each structural subdivision located in a separate building has fire equipment, including a box of sand, a shovel, scrap and hook.

If more than ten people are on the floor at a time in buildings and office premises of KMF, plans for fire evacuation of people should be developed. Evacuation plans are developed by specialized organizations based on the layouts of offices, premises or buildings provided to them. Evacuation exercises using fire alarm and fire extinguishing systems, smoke protection, fire warning and evacuation management are held annually.

LIAISON WITH STAKEHOLDERS

KMF strives to create value for all its stakeholders and ensure a balanced development taking into account their interests, both in the short and long term. We liaise with our stakeholders to keep them as informed as possible about our activities and to deliver the best results for them.

Liaison with stakeholders is a key element for the Company's management to make responsible decisions.

We give everyone the opportunity to provide feedback on the Company's performance through various forums and channels to help shape our business development strategy in line with the needs and expectations of our stakeholders.

By delivering quality stakeholder engagement, we strive to build mutual trust, promote commitment, support sound risk management, and ultimately make decisions that are in the best interest of our stakeholders.

Through open dialogue with stakeholders, we have developed a clearer understanding of the wishes and key interests of stakeholders and how we can best meet those needs.

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ENVIRONMENTAL PROTECTION

Environmental protection policy

In the process of carrying out its activities, the Company ensures a careful and rational attitude towards the environment and the use of resources. In its activities, KMF complies with the requirements of the basic principles in the field of environmental protection:

- the priority of protecting human life and health, preserving and restoring the environment, which is favorable for the life, work and recreation of the population;
- prevention of potential harm to the environment.

The internal documents of KMF reflect the rules prohibiting the financing of KMF projects, the implementation of which harms the environment, human life and health. When considering loan applications, KMF pays special attention to environmental aspects in the activities of borrowers (applicants) and supports environmentally oriented projects. One of the prohibited directions for lending is the financing of projects that cause serious damage to the environment, human life and health.

KMF uses all reasonable efforts to ensure the continuous functioning of the socio-ecological management system for the purpose of identification, assessment and management of environmental and social impacts. The company takes appropriate measures aimed at preventing legal, financial consequences and consequences for the business reputation of KMF related to environmental and social problems.

Resource consumption and waste management

KMF is constantly engaged in the implementation of low-waste and resource-saving technologies and equipment. The buildings of the Company's Head Office and its branches are equipped with automated water, electricity and heat supply systems.

In accordance with the Environmental Code of the Republic of Kazakhstan, the Company collects hazardous waste for subsequent processing and disposal (lead batteries, accumulators, oil-containing waste, pneumatic tires, solid household waste, mercury-containing lamps, used oils).

Since April 2019, the Company has been cooperating with the ECO Network platform in terms of separate waste collection and conversion. During cooperation, the Company sent 14,584.23 kg of waste for processing, including 13,930.25 kg of waste paper, 324.33 kg of glass, 276.03 kg of plastic, 31.27 kg of aluminum, and 22.35 kg of polyethylene.

KMF RESOURCE CONSUMPTION IN 2022

RESOURCE TYPE	UNIT OF MEASUREMENT	AGGREGATE CONSUMPTION
Thermal energy	Gcal	76,760.9
Diesel fuel	liter	6,105.0
Electric energy	kWh	3,110,349.9
Water consumption	m^3	16,352.6
Sewage disposal	m^3	11,574.0

CORPORATE SOCIAL RESPONSIBILITY

Borrower support

KMF clients who find themselves in a difficult situation due to circumstances beyond their control can always count on support from the Company. In 2022, there were several cases when the Company provided support to borrowers on its own initiative:

- In January 2022, mass riots occurred in many large cities of Kazakhstan, as a result of which many businessmen suffered from the destruction of property and goods, as well as forced downtime. The company decided to provide support to affected clients from among SME entities and suspended the accrual of interest and fines for late payments for the period of the state of emergency in the country.
- On April 7, 2022, a major fire occurred at the central market in Talgar, as a result of which several large aisles of shoes and clothes burned down. 224 boutiques (containers) were affected, of which 35 belong to KMF clients. We promptly contacted each of our clients and offered a solution – the restructuring of existing loans with a 3-month deferment of the principal debt payment, as well as the provision of additional loans for the purchase of goods.
- In September 2022, a large forest fire occurred in Kostanay region – the burned area exceeded 43,000 ha. As a result of the fires, 12 people were injured, one person died. KMF announced the write-off of microloans and payment arrears to customers whose property was damaged as a result of fires.

Charity and sponsorship

The company constantly supports various projects in financial literacy, women's entrepreneurship, support for children and families and sports. In particular, the following charitable initiatives were implemented in 2022:

- On May 20-22, 2022, KMF sponsored the annual republican exhibition of domestic manufacturers "Ulttyq ónim" ("National Product");
- On May 12-13, 2022, the national ENACTUS KAZAKHSTAN NATIONAL EXPO 2022 Cup was held in Astana, where KMF and KMF-Demeu sponsored the Entrepreneurship School for the fifth year;
- On May 18, 2022, in honor of its 25th anniversary, KMF, together with KMF-Demeu Fund, opened an educational center for children at the Central State Museum of the Republic of Kazakhstan. All Kazakhstani children can visit the co-working center, which was officially opened as part of the Night at the Museum 2022 campaign. Young guests of the center can play national games, get acquainted with history and receive useful and interesting information. Also, on the basis of a children's coworking center for children and teenagers, regular lessons on financial literacy will be held in a playful and lecture form;
- On May 20-21, 2022, in honor of its 25th anniversary, the Company held a football festival among schoolchildren in Zhanatas;

- On June 1, 2022, KMF organized a children’s party in the Central Park of Culture and Leisure in Almaty. Children took part in various competitions and received prizes, danced and watched the performance of animators and magicians;
- On July 21, 2022, the Company held an agricultural forum in the village of Zhanakorgan, Kyzylorda region, dedicated to its 25th anniversary;
- On August 4, 2022, KMF organized “The Best Goods of Kazakhstan” regional competition-exhibition;
- On August 27, 2022, Enactus Kazakhstan School of Entrepreneurship awarded KMF the status of a platinum sponsor based on the results of 6 years of cooperation;
- September. As part of the Road to School project, KMF and KMF-Demeu, together with the Garyshker educational platform, purchased 400 backpacks with school supplies for children from low-income families in Kazakhstan. Also, KMF employees presented educational and sports games to the pupils of the Beibitshilik Public Foundation in the village of Irtyshsk, Pavlodar region, in order to equip a room for special needs children.
- On September 23-25, 2022, KMF together with KMF-Demeu Fund were the general sponsors of the sports event in Usharal, Zhetysu region. The event was organized by the center of mass sports events of Alakol district. 1,260 schoolchildren from 35 rural schools attended the event. The children competed in 13 sports. The winners were awarded commemorative medals and cash prizes;
- On October 28, 2022, with the support of KMF and KMF-Demeu Fund, the grand opening of a playground in Karatau took place. The opening ceremony was attended by children from the nearest school, animators were invited;
- On November 11, 2022, KMF Isker Hanymy 2022 awards were presented to women-representatives of micro and small businesses.

07

ANNEXES

FINANCIAL STATEMENTS FOR 2022 WITH AN EXTERNAL AUDITOR'S REPORT

"Microfinance organization "KMF" Limited Liability Company

Financial statements

For 2022

together with independent auditor's report

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Independent auditor's report

To the Participants and Supervisory Board of "Microfinance organization "KMF" Limited Liability Company

Opinion

We have audited the financial statements of "Microfinance organization "KMF" Limited Liability Company (hereinafter, the "Company), which comprise the statement of financial position as at 31 December 2022, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2022 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) together with the ethical requirements that are relevant to our audit of the financial statements in Republic of Kazakhstan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

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Key audit matters

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

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

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Key audit matter	How our audit addressed the key audit matter
Allowance for expected credit losses on loans to customers	
Estimation of allowance for expected credit losses on loans to customers in accordance with IFRS 9 "*Financial Instruments*" is a key area of the Company's management judgment. Identification of factors of a significant increase in credit risk since initial recognition of an asset, including identification of changes in risk of default during the remaining life of a financial instrument, as well as determination of probability of default and loss given at default rates, require significant use of professional judgment, assumptions and analysis of various historical, current and forward-looking information. The use of different models and assumptions may significantly affect the amount of allowance for expected credit losses on loans to customers. Due to the substantial amount of loans to customers and the significant use of professional judgment, estimation of allowance for expected credit losses was a key audit matter. Information on expected credit losses on loans to customers and the Company's management approach to estimation of allowance for expected credit losses is presented in Note 7 *Loans to customers* and Note 22 *Risk management* to the financial statements.	Our audit procedures included the analysis of methodology for estimation of expected credit losses on loans to customers and analysis and testing of controls on identification of factors of significant increase in credit risk since initial recognition of loans to customers, including debt overdue period, existence of credit driven debt restructuring and change in internal credit rating. We analysed the judgments used by the Company's management in determining the significant increase in credit risk and default criteria for loans to customers. We performed, on a sample basis, testing of input data and analysis of assumptions used by the Company in estimating the allowance for expected credit losses on loans to customers, including historical data on debt servicing and expected cash recoveries in the event of default. We also performed analysis of the forward-looking information, including macroeconomic forecasts and scenario weights, used by the Company in its expected credit loss model. We have recalculated the allowance for expected credit losses. We have analysed information on allowance for expected credit losses on loans to customers disclosed in the Notes to the financial statements.

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Other information included in 2022 Annual Report of the Company

Other information consists of the information included in the Company's 2022 Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of management and Supervisory Board for the financial statements

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

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

Supervisory Board 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.

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

We also provide Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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

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

Ernst & Young LLP

Olga Khegay Auditor	Rustamzhan Sattarov General Director Ernst & Young LLP
Auditor Qualification Certificate № МФ-0000286 dated 25 September 2015	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

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

30 March 2023

STATEMENT OF FINANCIAL POSITION

At 31 December 2022

(In thousands of tenge)

	Note	*31 December 2022*	*31 December 2021*
Assets			
Cash and cash equivalents	5	**7,041,198**	6,257,217
Amounts due from credit institutions		**23,755**	23,854
Derivative financial assets	6	**1,201,302**	485,041
Loans to customers	7	**203,453,188**	161,753,081
Investment securities	8	**10,188,072**	4,665,222
Investment property	9	**66,958**	66,958
Property and equipment	10	**9,097,130**	7,615,716
Right-of-use assets	11	**921,187**	555,282
Intangible assets	12	**413,180**	469,539
Current corporate income tax assets	15	**158,025**	256,837
Deferred corporate income tax assets	15	**71,062**	113,880
Other assets	13	**943,780**	664,501
Total assets		**233,578,837**	182,925,128
Liabilities			
Amounts due to credit institutions	14	**163,736,457**	123,898,949
Derivative financial liabilities	6	**835,423**	–
Debt securities issued	16	**10,389,636**	10,370,322
Lease liabilities	11	**992,534**	608,268
Other liabilities	13	**5,304,300**	5,595,085
Total liabilities		**181,258,350**	140,472,624
Equity			
Charter capital	17	**14,430,993**	14,430,993
Reserve funds	17	**1,478,339**	1,197,776
Fair value reserve		**(371,782)**	17,550
Revaluation reserve for investment property		**62,329**	62,329
Retained earnings		**36,720,608**	26,743,856
Total equity		**52,320,487**	42,452,504
Total equity and liabilities		**233,578,837**	182,925,128

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

Zhussupov Sh.A. — Chairman of the Management Board

Chernykh Y.Yu. — Chief accountant

30 March 2023

The accompanying notes on pages 5 to 48 are an integral part of these financial statements.

"Microfinance organization "KMF" Limited Liability Company — Financial statements for 2022

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

(In thousands of tenge)

	Note	*2022*	*2021*
Interest revenue calculated using effective interest rate			
Cash and cash equivalents		**761,279**	449,623
Loans to customers	19	**70,082,077**	53,679,123
Investment securities		**565,138**	416,954
		71,408,494	54,545,700
Interest expense calculated using effective interest rate			
Amounts due to credit institutions		**(18,566,594)**	(16,061,417)
Debt securities issued		**(1,319,313)**	(395,099)
Repurchase agreements		**(122,600)**	(963)
		(20,008,507)	(16,457,479)
Lease liabilities	11	**(125,357)**	(89,741)
		(20,133,864)	(16,547,220)
Net interest income		**51,274,630**	37,998,480
Credit loss expense	20	**(5,360,397)**	(1,175,431)
Net interest income after credit loss expense		**45,914,233**	36,823,049
Net losses on transactions with financial instruments at fair value through profit or loss	6	**(4,779,502)**	(609,302)
Net losses from foreign currencies:			
- translation differences		**(1,321,206)**	(210,465)
- dealing		**(100,780)**	(33,092)
Net losses on initial recognition of financial instruments measured at amortised cost		**–**	(82,019)
Other income		**146,533**	175,715
Personnel expenses	21	**(15,898,734)**	(12,944,271)
Other operating expenses	21	**(7,274,993)**	(5,418,537)
Other expense		**(51,903)**	(191,245)
Profit before corporate income tax expense		**16,633,648**	17,509,833
Corporate income tax expense	15	**(3,570,696)**	(3,481,657)
Profit for the year		**13,062,952**	14,028,176
Other comprehensive income for the year			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Net change in fair value of debt instruments at fair value through other comprehensive income	8	**(508,719)**	8,543
Changes in allowance for expected credit losses of debt instruments at fair value through other comprehensive income	8	**119,387**	4,618
Other comprehensive (loss)/income for the year, net of tax		**(389,332)**	13,161
Total comprehensive income for the year		**12,673,620**	14,041,337

The accompanying notes on pages 5 to 48 are an integral part of these financial statements. 2

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

(In thousands of tenge)

	Note	*Charter capital*	*Reserve funds*	*Fair value reserve*	*Revaluation reserve for investment property*	*Retained earnings*	*Total equity*
As at 1 January 2021		14,430,993	976,218	4,389	62,329	32,070,277	47,544,206
Profit for the year		–	–	–	–	14,028,176	14,028,176
Other comprehensive income for the year		–	–	13,161	–	–	13,161
Total comprehensive income for the year		–	–	13,161	–	14,028,176	14,041,337
Dividends declared	17	–	–	–	–	(19,133,039)	(19,133,039)
Transfer to reserve funds	17	–	221,558	–	–	(221,558)	–
As at 31 December 2021		14,430,993	1,197,776	17,550	62,329	26,743,856	42,452,504
Profit for the year		**–**	**–**	**–**	**–**	**13,062,952**	**13,062,952**
Other comprehensive loss for the year		**–**	**–**	**(389,332)**	**–**	**–**	**(389,332)**
Total comprehensive income for the year		**–**	**–**	**(389,332)**	**–**	**13,062,952**	**12,673,620**
Dividends declared	17	**–**	**–**	**–**	**–**	**(2,805,637)**	**(2,805,637)**
Transfers to the reserve funds	17	**–**	**280,563**	**–**	**–**	**(280,563)**	**–**
As at 31 December 2022		**14,430,993**	**1,478,339**	**(371,782)**	**62,329**	**36,720,608**	**52,320,487**

The accompanying notes on pages 5 to 48 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

(In thousands of tenge)

	Note	*2022*	*2021*
Cash flows from operating activities			
Interest received on cash and cash equivalents		**760,081**	449,622
Interest received on loans to customers		**67,290,914**	54,475,133
Interest received on investments securities		**349,199**	338,260
Other income received		**60,628**	139,201
Interest paid on amounts due to credit institutions		**(17,786,858)**	(15,394,379)
Payment of interest on debt securities issued	26	**(1,300,000)**	–
Interest paid on repurchase agreements		**(122,600)**	(963)
Net realised losses from dealing in foreign currencies		**(100,780)**	(33,092)
Net payments on derivative financial instruments		**(4,660,340)**	(906,499)
Personnel expenses paid		**(14,105,107)**	(10,728,917)
Other operating expenses paid		**(5,859,294)**	(3,691,260)
Taxes other than corporate income tax and social security contributions paid		**(1,703,903)**	(1,069,816)
Cash flows from operating activities before changes in operating assets and liabilities		**22,821,940**	23,577,290
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		**1,297**	(244)
Loans to customers		**(44,102,100)**	(27,481,895)
Other assets		**(60,303)**	28,420
Net decrease in operating liabilities			
Other liabilities		**(27,276)**	(701,210)
Net cash flows from operating activities before corporate income tax		**(21,366,442)**	(4,577,639)
Corporate income tax paid		**(3,429,067)**	(3,839,669)
Net cash flows used in operating activities		**(24,795,509)**	(8,417,308)
Cash flows from investing activities			
Purchase of property and equipment		**(2,932,377)**	(1,623,083)
Proceeds from sale of property and equipment		**71,445**	31,304
Purchase of intangible assets		**(83,830)**	(168,676)
Purchase of investments securities		**(5,697,986)**	(459,888)
Net cash flows used in investing activities		**(8,642,748)**	(2,220,343)
Cash flows from financing activities			
Receipt of amounts due to credit institutions	26	**118,634,342**	73,564,151
Repayment of amounts due to credit institutions	26	**(81,292,748)**	(51,842,724)
Debt securities issued		–	9,975,221
Payment of dividends	17	**(2,805,637)**	(19,133,039)
Lease payments	11	**(539,881)**	(423,370)
Net cash flows from financing activities		**33,996,076**	12,140,239
Effect of expected credit losses on cash and cash equivalents	5	**(7,760)**	(1,209)
Effect of exchange rate changes on cash and cash equivalents		**233,922**	(59,704)
Net increase in cash and cash equivalents		**783,981**	1,441,675
Cash and cash equivalents, as at 1 January		**6,257,217**	4,815,542
Cash and cash equivalents, 31 December	5	**7,041,198**	6,257,217
Non-cash transactions			
Withholding tax on short-term amounts due from credit institutions		**55,692**	33,577

The accompanying notes on pages 5 to 48 are an integral part of these financial statements.

(In thousands of tenge, unless otherwise indicated)

1. Principal activities

"Microfinance organization "KMF" Limited Liability Company (hereinafter – the "Company") was established in 2006 in accordance with legislation of the Republic of Kazakhstan as "Microcredit organisation "KazMicroFinance" Limited Liability Company.

In connection with the introduction of the Law of the Republic of Kazakhstan On Microfinance Organizations dated 26 November 2012, on 5 January 2015 the Company was officially re-registered in the Ministry of Justice of the Republic of Kazakhstan as a regulated microfinance organisation "Microfinance organization "KMF" Limited Liability Company. The Company's activities are supervised and regulated by the Agency of the Republic of Kazakhstan for Regulation and Development of Financial Market (hereinafter – the "Agency").

The Company's principal activity is granting micro loans to customers. As at 31 December 2022 and 2021 the Company has 14 branches and 106 outlets throughout Kazakhstan. Branches are located in the following cities: Almaty, Astana, Aktobe, Karaganda, Kokshetau, Kostanay, Kyzylorda, Pavlodar, Semey, Taldykorgan, Taraz, Turkestan, Ust-Kamenogorsk and Shymkent. The Company's activities are located and carried out in the Republic of Kazakhstan.

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

As at 31 December 2022 and 2021, the Company's charter capital belonged to the following participants (hereinafter – "shareholders"):

Name	*Ownership in %* 31 December 2022	31 December 2021
Corporate Fund "KMF-Demeu"	**45.435**	45.435
Multi Concept Fund Management S.A (former – responsAbility Management Company S.A.)	**18.127**	18.127
Triodos Funds B.V. (former – Triodos Custody B.V.)	**12.085**	12.085
Triodos SICAV II	**12.085**	12.085
Management and employees of the Company	**6.226**	6.226
responsAbility SICAV (Lux)	**6.042**	6.042
	100.000	100.000

2. Basis of preparation

General

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

The financial statements are prepared under the historical cost convention except as mentioned in "Summary of accounting policies", for instance, financial instruments at fair value through profit or loss and investment securities measured at fair value through other comprehensive income have been measured at fair value.

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

Kazakhstan business environment

The Company's activities are carried out in the Republic of Kazakhstan. Consequently, the Company is exposed to the economic and financial risks in Kazakhstan which displays characteristics of an emerging market. The legal, tax and regulatory frameworks continue to evolve, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Republic of Kazakhstan. The financial statements reflect management's assessment of the impact of the Kazakh business environment on the operations and the financial position of the Company. The actual influence the future business environment may differ from management's assessment.

Effect of COVID-19

On 11 March 2020, the World Health Organisation declared the COVID-19 outbreak to be a pandemic. In recent months, the COVID-19 pandemic has shown considerable signs of easing as, on the whole, travel bans have been lifted, lockdowns ended and quarantine measures eased. Many governments have also ended or announced curtailment of measures to provide financial and non-financial assistance to affected entities. Nevertheless, COVID-19 may continue to affect companies and economies, and entities may still be dealing with lost revenue, disrupted supply chains and loss of jobs.

(In thousands of tenge, unless otherwise indicated)

2. Basis of preparation (continued)

Geopolitical events

As a result of the conflict between the Russian Federation and Ukraine many countries have imposed, and continue to impose, new sanctions on specified Russian entities and individuals. Sanctions have also been imposed on Republic of Belarus.

Volatility in stock and currency markets, restrictions to imports and exports, availability of local materials and services and access to local resources, will directly impact entities that have significant operations or exposures with the Russian Federation, Republic of Belarus or Ukraine. However, the consequence of the current situation may directly or indirectly impact entities other than those with direct interests in the involved in conflict countries.

In order to manage country risk, the Company controls transactions with counterparties within the limits set by the Supervisory Board of the Company, which are reviewed on a regular basis.

Inflation and the current economic environment

The impact of the macroeconomic and geopolitical environment has exacerbated inflationary pressures in almost all economies around the world. High and rising energy prices are having a negative impact on the cost of other goods and services, resulting in significant consumer-price increases in many countries.

While prices of many commodities, including food, have fallen since their record highs earlier this year, they remain high. In 2022, inflation in Kazakhstan was 20.3%.

Due to the growth of geopolitical tension, there has been a significant growth of volatility in the stock and currency markets, although the value of the tenge in 2022 was virtually the same in relation to the Euro and only 6% lower in value in relation to the US dollar. On 6 December 2022, the Monetary Policy Committee of the National Bank of Kazakhstan (the "NBRK") made an extraordinary decision to raise the base rate to 16.75% per annum with an interest band of +/-1%.

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

Current inflationary pressures, macroeconomic and geopolitical uncertainty, including the impacts of the conflict in Ukraine, and the residual impacts of the COVID-19 pandemic affect the assumptions and estimation uncertainty associated with the measurement of assets and liabilities.

3. Summary of accounting policies

Changes in accounting policies

The Company applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2022. The Company has not early adopted any other standard, clarification or amendment that has been issued but is not yet effective.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

An onerous contract is a contract under which the unavoidable costs (i.e., the costs that the Company cannot avoid because it has the contract) of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services include both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract as well as costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments had no impact on the financial statements of the Company as there were no onerous contracts within the scope of these amendment that arose during the period.

Reference to the Conceptual Framework – Amendments to IFRS 3

The amendments replace a reference to a previous version of the IASB's *Conceptual Framework* with a reference to the current version issued in March 2018 without significantly changing its requirements.

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

Reference to the Conceptual Framework – Amendments to IFRS 3 (continued)

The amendments add an exception to the recognition principle of IFRS 3 *Business Combinations* to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or IFRIC 21 *Levies*, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the *Conceptual Framework*, to determine whether a present obligation exists at the acquisition date.The amendments also add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

These amendments had no impact on the financial statements of the Company as there were no contingent assets, liabilities and contingent liabilities within the scope of these amendments that arose during the period.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

These amendments had no impact on the financial statements of the Company as there were no sales of such items produced by property, plant and equipment made available for use on or after the beginning of the earliest period presented.

IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter

The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported in the parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

These amendments had no impact on the financial statements of the Company as it is not a first-time adopter.

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

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39 *Financial Instruments: Recognition and Measurement*.

These amendments had no impact on the financial statements of the Company as there were no modifications of the Company's financial liabilities during the period.

IAS 41 Agriculture – Taxation in fair value measurements

The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41.

These amendments had no impact on the financial statements of the Company as it did not have assets in scope of IAS 41 as at the reporting date.

Fair value measurement

The Company measures financial instruments carried at fair value through profit or loss (FVPL) and fair value through other comprehensive income (FVOCI) and non-financial assets such as investment property, at fair value at each balance sheet date.

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

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

3. Summary of accounting policies (continued)

Fair value measurement (continued)

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

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

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

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

Financial assets and liabilities

Initial recognition

Date of recognition

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

Initial measurement

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

Measurement categories of financial assets and liabilities

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

- Amortised cost;
- FVOCI;
- FVPL.

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

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

(In thousands of tenge, unless otherwise indicated)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Initial measurement (continued)

Amounts due from credit institutions and loans to customers at amortised cost

The Company only measures amounts due from credit institutions, loans to customers and other financial investments at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

The details of these conditions are outlined below.

Business model assessment

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

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

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

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

The SPPI test

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

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

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

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

Debt instruments at FVOCI

The Company measures debt instruments at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets;
- The contractual terms of the financial asset meet the SPPI test.

(In thousands of tenge, unless otherwise indicated)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Initial measurement (continued)

Debt instruments at FVOCI (continued)

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in other comprehensive income. Interest revenue and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. On derecognition, cumulative gains or losses previously recognised in other comprehensive income are reclassified from other comprehensive income to profit or loss.

Expected credit losses (ECL) for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in other comprehensive income as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in other comprehensive income is recycled to the profit and loss upon derecognition of the asset.

Credit related commitments

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Company is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

Reclassification of financial assets and liabilities

The Company does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Company changes the business model for managing financial assets. Financial liabilities are never reclassified. The Company did not reclassify any of its financial assets and liabilities in 2022.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, current accounts, and amounts due from credit institutions that mature within ninety (90) days of the date of origination and are free from contractual encumbrances.

Repurchase and reverse repurchase agreements

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

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

Derivative financial instruments

In the normal course of business, the Company enters into various derivative financial instruments, including forwards and swaps on currency markets to reduce foreign exchange risk exposure. Such financial instruments are recorded at fair value through profit and loss. The fair value is estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the statement of comprehensive income as net gains/(losses) on transactions with financial instruments at fair value through profit or loss.

(In thousands of tenge, unless otherwise indicated)

3. Summary of accounting policies (continued)

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Company having an obligation to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions and debt securities issued. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the borrowings are derecognised as well as through the amortisation process.

Leases

Company as a lessee

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

Right-of-use assets

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

Lease liabilities

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

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

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below KZT 1,900 thousand). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Operating – Company as a lessor

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

(In thousands of tenge, unless otherwise indicated)

3. Summary of accounting policies (continued)

Offsetting of financial instruments

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

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

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

Renegotiated loans

The Company will seek to restructure loans in cases where a borrower is unable to adhere to an agreed repayment schedule due to objective changes in circumstances, but the Company deems that the borrower is able to repay the loan in full with a modified repayment schedule. Restructuring may involve extending the payment arrangements and the agreement of new loan conditions.

The Company derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be purchased or originated credit-impaired (POCI). When assessing whether or not to derecognise a loan to a customer, amongst others, the Company considers the following factors:

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

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

For modifications not resulting in derecognition, the Company also reassesses whether there has been a significant increase in credit risk or whether the assets should be classified as credit-impaired. Once an asset has been classified as credit-impaired as the result of modification, it will remain in Stage 3 for a minimum 2-month probation period. In order for the restructured loan to be reclassified out of Stage 3, regular payments of principal and interest have been made during the probation period in accordance with the modified payment schedule.

Derecognition of financial assets and liabilities

Financial assets

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

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

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

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 deems that recovery is unlikely. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense. A write-off constitutes a derecognition event.

Financial liabilities

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

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

Taxation

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

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

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

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

Property and equipment

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

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

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

	Years
Buildings	40
Computer hardware	2-7
Vehicles	5-7
Office furniture and equipment	5-10

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

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

"Microfinance organization "KMF" Limited Liability Company Notes to the financial statements for 2022

(In thousands of tenge, unless otherwise indicated)

3. Summary of accounting policies (continued)

Investment property

Investment property is land or building or a part of building held to earn rental income or for capital appreciation and which is not used by the Company or held for the sale in the ordinary course of business. Property that is being constructed or developed or redeveloped for future use as investment property is also classified as investment property.

Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value reflecting market conditions at the end of the reporting period. Fair value of the Company's investment property is determined on the base of various sources including reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value. Earned rental income is recorded in the statement of profit or loss within other income. Gains and losses resulting from changes in the fair value of investment property are recorded in profit or loss and presented within other income or other operating expense.

Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with it will flow to the Company and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to premises and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

Intangible assets

Intangible assets include software and are initially measured at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised over the useful economic lives from 5 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Provisions

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

Retirement and other employee benefit obligations

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

Charter capital

Charter capital

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

Dividends

Dividends are recognised as liabilities and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue. The ability of the Company to declare and pay dividends is subject to the rules and regulations of the Republic of Kazakhstan legislation.

Segment reporting

Management of the Company has determined a single reportable segment being microfinance and the information provided to the chief operating decision maker is based on IFRS financial statements.

All revenues of the Company are generated from the external customers in the Republic of Kazakhstan and none of which constiture for 10% or more of the total revenue.

3. Summary of accounting policies (continued)

Contingent asset and liabilities

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

Recognition of income and expenses

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

Interest and similar income and expense

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

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

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

Foreign currency translation

The financial statements are presented in tenge, which is the Company's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency at the official exchange rate established by the Kazakhstan Stock Exchange (hereinafter – the "KASE") and communicated by the NBRK, at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of comprehensive income as net gains/(losses) from foreign currencies. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the official exchange rates at the date when the fair value was determined. Differences between the contractual exchange rate of a transaction in a foreign currency and the official exchange rate on the date of the transaction are included in net gains or losses from dealing in foreign currencies.

The official exchange rate established by KASE as at 31 December 2022 were KZT 462.65 to USD 1 and KZT 492.86 to EUR 1 (as at 31 December 2021: KZT 431.80 to USD 1 and KZT 489.10 to EUR 1), respectively.

Standards issued but not yet effective

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

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. IFRS 17 introduces new accounting requirements for banking products with insurance features that may affect the determination of which instruments or which components thereof will be in the scope of IFRS 9 or IFRS 17.

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

IFRS 17 Insurance Contracts (continued)

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

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

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

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

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

The Company has completed the assessment of the impacts of adopting IFRS 17 and, also taking into consideration the scope exclusions for certain banking products, such as credit cards, in IFRS 17.7(h), it has concluded that it does not expect any material impact on its financial statements from the adoption of the new standard in 2023.

Amendments to IAS 1 Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right;
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification;
- Disclosures.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must be applied retrospectively. The Company is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Definition of Accounting Estimates - Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

The amendments are not expected to have a material impact on the Company.

(In thousands of tenge, unless otherwise indicated)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 *Making Materiality Judgements*, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Company is currently revisiting its accounting policy information disclosures to ensure consistency with the amended requirements going forward.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12

In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

The amendments should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability should also be recognised for all deductible and taxable temporary differences associated with leases and decommissioning obligations.

The Company is currently assessing the impact of the amendments.

Lease Liability in a Sale and Leaseback – Amendments to IFRS 16

In September 2022, the Board issued *Lease Liability in a Sale and Leaseback* (Amendments to IFRS 16). The amendment to IFRS 16 specifies the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains.

After the commencement date in a sale and leaseback transaction, the seller-lessee applies paragraphs 29 to 35 of IFRS 16 to the right-of-use asset arising from the leaseback and paragraphs 36 to 46 of IFRS 16 to the lease liability arising from the leaseback. In applying paragraphs 36 to 46, the seller- lessee determines 'lease payments' or 'revised lease payments' in such a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use retained by the seller-lessee. Applying these requirements does not prevent the seller-lessee from recognising, in profit or loss, any gain or loss relating to the partial or full termination of a lease, as required by paragraph 46(a) of IFRS 16.

The amendment does not prescribe specific measurement requirements for lease liabilities arising from a leaseback. The initial measurement of the lease liability arising from a leaseback may result in a seller-lessee determining 'lease payments' that are different from the general definition of lease payments in Appendix A of IFRS 16. The seller-lessee will need to develop and apply an accounting policy that results in information that is relevant and reliable in accordance with IAS 8.

The amendment applies to annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted and that fact must be disclosed. A seller-lessee applies the amendment retrospectively in accordance with IAS 8 to sale and leaseback transactions entered into after the date of initial application (i.e., the amendment does not apply to sale and leaseback transactions entered into prior to the date of initial application). The date of initial application is the beginning of the annual reporting period in which an entity first applied IFRS 16.

The amendment is not expected to have a material impact on the Company's financial statements.

(In thousands of tenge, unless otherwise indicated)

4. Significant accounting judgements and estimates

Judgements

In the process of applying the Company's accounting policies, management has made the following judgements, apart from those involving estimates, which have the most significant effect on the amounts recognised in the 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.

The Company has the option, under some of its leases to lease the assets for additional term of three to five years. The Company applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, the Company 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).

Estimation uncertainty

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

Leases – estimating the incremental borrowing rate

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

Fair value of financial instruments

Where the fair values of financial instruments recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Additional details are provided in *Note 23*.

Expected credit losses on financial assets

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

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

(In thousands of tenge, unless otherwise indicated)

4. Significant accounting judgements and estimates (continued)

Taxation

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

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

5. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	31 December 2022	*31 December 2021*
Cash on hand	**153,605**	95,366
Cash in transit	**91,435**	45,221
Current accounts with banks	**1,848,736**	236,927
Current accounts with other credit institutions	**1,040,552**	949
Time deposits with banks up to 90 days	**3,244,689**	3,924,228
Reverse repurchase agreements with credit institutions up to 90 days	**672,789**	1,957,374
	7,051,806	6,260,065
Less: ECL allowance	**(10,608)**	(2,848)
Cash and cash equivalents	**7,041,198**	6,257,217

As at 31 December 2022, the Company entered into reverse repurchase agreements on KASE. The subject of these agreements are treasury bills of the Ministry of Finance of the Republic of Kazakhstan and notes of the NBRK with fair value of KZT 679,596 thousand (as at 31 December 2021: KZT 1,959,677 thousand).

All balances of cash equivalents are allocated to Stage 1 for ECL measurement purposes. An analysis of changes in the ECL allowances during 2022 and 2021 is as follows:

	2022	*2021*
ECL allowance as at 1 January	**(2,848)**	(1,639)
Net changes in ECL *(Note 20)*	**(7,760)**	(1,209)
As at 31 December	**(10,608)**	(2,848)

Concentration of cash and cash equivalents

As at 31 December 2022 and 2021, the Company has no accounts with credit institutions which balances individually exceed 10% of the Company's equity.

6. Derivative financial instruments

The Company enters into transactions with the use of derivative financial instruments for decreasing the currency risk. The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	31 December 2022			*31 December 2021*		
	Notional amount	*Fair value*		*Notional amount*	*Fair value*	
		Asset	*Liability*		*Asset*	*Liability*
Currency agreements						
Currency swaps	**57,307,870**	**1,201,302**	**(835,423)**	17,811,750	485,041	–
	57,307,870	**1,201,302**	**(835,423)**	17,811,750	485,041	–

(In thousands of tenge, unless otherwise indicated)

6. Derivative financial instruments (continued)

Currency swaps

Currency swaps are contractual agreements between two parties to exchange notional principal and interest amounts in two currencies at specified future payment dates and fixed exchange rates.

As at 31 December 2022, the Company had a tenge denominated loan in the amount of KZT 30,242,845 thousand received from a local bank and security deposits denominated in US Dollars in the amount of USD 65,369 thousand, which serve as security against this loan. Since the contractual effect of these loans and deposits is equivalent to a currency swap, the said transactions have been treated as a derivative. Also as at 31 December 2022, the Company had a currency swap agreement with an international organization in the amount of USD 58,500 thousand with the condition on exchange for KZT 25,271,800 thousand (as at 31 December 2021: USD 41,250 thousand with the condition on exchange for KZT 17,250,025 thousand).

Net loss from financial instruments at fair value through profit or loss in the statement of comprehensive income in 2022 include interest of KZT 4,716,655 thousand (in 2021: KZT 1,415,907 thousand) directly attributable to contractual interest payments into the back to back and swap agreements which are a component of the effective funding cost of the Company.

7. Loans to customers

Loans to customers comprise the following:

	31 December 2022	*31 December 2021*
Retail trade, services and production loans	**117,250,657**	87,688,773
Agricultural loans	**76,666,531**	66,551,757
Consumer loans	**21,722,532**	15,071,514
Total loans to customers	**215,639,720**	169,312,044
Less: ECL allowance	**(12,186,532)**	(7,558,963)
Loans to customers	**203,453,188**	161,753,081

As at 31 December 2022 and 2021, loans to customers mainly comprise loans issued to individuals.

ECL allowance of loans to customers

An analysis of changes in gross carrying value and corresponding ECL allowance in relation to retail trade, services and production loans during the year ended 31 December 2022 is as follows:

Retail trade, services and production loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2022	**82,947,832**	**230,501**	**4,510,440**	**87,688,773**
New assets originated	**146,209,063**	**–**	**–**	**146,209,063**
Assets repaid	**(114,825,642)**	**(62,698)**	**(1,830,411)**	**(116,718,751)**
Net change in accrued interest	**(63,036)**	**48,704**	**456,943**	**442,611**
Transfers to Stage 1	**3,257,854**	**(576,581)**	**(2,681,273)**	**–**
Transfers to Stage 2	**(5,413,853)**	**5,436,460**	**(22,607)**	**–**
Transfers to Stage 3	**(3,924,808)**	**(4,277,042)**	**8,201,850**	**–**
Unwinding of discount	**–**	**–**	**1,247,341**	**1,247,341**
Changes to contractual cash flows due to modifications not resulting in derecognition	**(45,147)**	**(3,705)**	**(7,180)**	**(56,032)**
Recoveries	**–**	**–**	**119,139**	**119,139**
Amounts written off	**–**	**–**	**(1,681,487)**	**(1,681,487)**
As at 31 December 2022	**108,142,263**	**795,639**	**8,312,755**	**117,250,657**

(In thousands of tenge, unless otherwise indicated)

7. Loans to customers (continued)

ECL allowance of loans to customers (continued)

Retail trade, services and production loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL allowance as at 1 January 2022	(901,660)	(113,223)	(3,569,568)	(4,584,451)
New assets originated	(1,117,739)	–	–	(1,117,739)
Assets repaid	1,032,122	32,717	1,055,461	2,120,300
Transfers to Stage 1	(1,739,906)	214,949	1,524,957	–
Transfers to Stage 2	1,413,338	(1,424,217)	10,879	–
Transfers to Stage 3	258,644	1,579,562	(1,838,206)	–
Impact on period end ECL of exposures transferred between stages during the period	1,609,592	(544,213)	(2,024,789)	(959,410)
Unwinding of discount	–	–	(1,247,341)	(1,247,341)
Changes to contractual cash flows due to modifications not resulting in derecognition	3,550	1,056	2,644	7,250
Changes to models and inputs used for ECL calculations	(1,364,426)	5,666	(1,329,614)	(2,688,374)
Recoveries	–	–	(119,139)	(119,139)
Amounts written off	–	–	1,681,487	1,681,487
As at 31 December 2022	(806,485)	(247,703)	(5,853,229)	(6,907,417)

An analysis of changes in gross carrying value and corresponding ECL allowance in relation to agricultural loans during the year ended 31 December 2022 is as follows:

Agricultural loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2022	63,656,597	140,992	2,754,168	66,551,757
New assets originated	95,137,448	–	–	95,137,448
Assets repaid	(84,149,896)	(38,719)	(861,931)	(85,050,546)
Net change in accrued interest	(53,524)	20,663	187,310	154,449
Transfers to Stage 1	1,867,637	(209,640)	(1,657,997)	–
Transfers to Stage 2	(2,152,691)	2,155,933	(3,242)	–
Transfers to Stage 3	(1,997,166)	(1,679,783)	3,676,949	–
Unwinding of discount	–	–	656,876	656,876
Changes to contractual cash flows due to modifications not resulting in derecognition	6,468	(1,001)	761	6,228
Recoveries	–	–	117,829	117,829
Amounts written off	–	–	(907,510)	(907,510)
As at 31 December 2022	72,314,873	388,445	3,963,213	76,666,531

Agricultural loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL allowance as at 1 January 2022	(321,774)	(60,007)	(1,993,035)	(2,374,816)
New assets originated	(410,411)	–	–	(410,411)
Assets repaid	458,246	16,265	589,011	1,063,522
Transfers to Stage 1	(1,051,697)	114,896	936,801	–
Transfers to Stage 2	655,623	(657,440)	1,817	–
Transfers to Stage 3	68,436	747,190	(815,626)	–
Impact on period end ECL of exposures transferred between stages during the period	937,098	(305,367)	(1,115,538)	(483,807)
Unwinding of discount	–	–	(656,876)	(656,876)
Changes to contractual cash flows due to modifications not resulting in derecognition	1,002	396	(590)	808
Changes to model and inputs used for ECL calculations	(671,261)	1,932	(828,510)	(1,497,839)
Recoveries	–	–	(117,829)	(117,829)
Amounts written off	–	–	907,510	907,510
As at 31 December 2022	(334,738)	(142,135)	(3,092,865)	(3,569,738)

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(In thousands of tenge, unless otherwise indicated)

7. Loans to customers (continued)

ECL allowance of loans to customers (continued)

An analysis of changes in gross carrying value and corresponding ECL allowance in relation to consumer loans during the year ended 31 December 2022 is as follows:

Consumer loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2022	14,317,564	56,017	697,933	15,071,514
New assets originated	24,482,577	–	–	24,482,577
Assets repaid	(17,412,561)	(5,891)	(518,260)	(17,936,712)
Net change in accrued interest	36,033	25,008	187,899	248,940
Transfers to Stage 1	505,896	(154,109)	(351,787)	–
Transfers to Stage 2	(1,898,207)	1,906,915	(8,708)	–
Transfers to Stage 3	(684,847)	(1,502,481)	2,187,328	–
Unwinding of discount	–	–	291,863	291,863
Changes to contractual cash flows due to modifications not resulting in derecognition	(11,878)	(796)	(1,090)	(13,764)
Recoveries	–	–	31,077	31,077
Amounts written off	–	–	(452,963)	(452,963)
As at 31 December 2022	19,334,577	324,663	2,063,292	21,722,532

Consumer loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL allowance as at 1 January 2022	(96,481)	(20,565)	(482,650)	(599,696)
New assets originated	(144,171)	–	–	(144,171)
Assets repaid	131,447	2,217	246,136	379,800
Transfers to Stage 1	(216,036)	59,222	156,814	–
Transfers to Stage 2	434,300	(438,432)	4,132	–
Transfers to Stage 3	27,652	519,944	(547,596)	–
Impact on period end ECL of exposures transferred between stages during the period	186,627	(238,248)	(393,250)	(444,871)
Unwinding of discount	–	–	(291,863)	(291,863)
Changes to contractual cash flows due to modifications not resulting in derecognition	653	259	381	1,293
Changes to models and inputs used for ECL calculations	(515,639)	(9,078)	(507,038)	(1,031,755)
Recoveries	–	–	(31,077)	(31,077)
Amounts written off	–	–	452,963	452,963
As at 31 December 2022	(191,648)	(124,681)	(1,393,048)	(1,709,377)

An analysis of changes in gross carrying value and corresponding ECL allowance in relation to retail trade, services and production loans during the year ended 31 December 2021 is as follows:

Retail trade, services and production loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2021	67,844,587	921,844	5,211,315	73,977,746
New assets originated	110,244,091	–	–	110,244,091
Assets repaid	(93,167,665)	(136,656)	(1,703,017)	(95,007,338)
Net change in accrued interest	(794,449)	70,453	(11,082)	(735,078)
Transfers to Stage 1	2,783,604	(770,265)	(2,013,339)	–
Transfers to Stage 2	(2,056,095)	2,085,919	(29,824)	–
Transfers to Stage 3	(1,910,887)	(1,936,594)	3,847,481	–
Unwinding of discount	–	–	1,069,541	1,069,541
Changes to contractual cash flows due to modifications not resulting in derecognition	4,646	(4,200)	(2,728)	(2,282)
Recoveries	–	–	190,697	190,697
Amounts written off	–	–	(2,048,604)	(2,048,604)
As at 31 December 2021	82,947,832	230,501	4,510,440	87,688,773

(In thousands of tenge, unless otherwise indicated)

7. Loans to customers (continued)

ECL allowance of loans to customers (continued)

Retail trade, services and production loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL allowance as at 1 January 2021	(655,748)	(421,265)	(3,879,214)	(4,956,227)
New assets originated	(810,601)	–	–	(810,601)
Assets repaid	742,255	60,689	1,069,909	1,872,853
Transfers to Stage 1	(1,575,889)	370,823	1,205,066	–
Transfers to Stage 2	580,709	(599,301)	18,592	–
Transfers to Stage 3	68,276	872,671	(940,947)	–
Impact on period end ECL of exposures transferred between stages during the period	1,504,623	(354,937)	(1,231,244)	(81,558)
Unwinding of discount	–	–	(1,069,541)	(1,069,541)
Changes to contractual cash flows due to modifications not resulting in derecognition	1,496	1,885	1,409	4,790
Changes to models and inputs used for ECL calculations	(756,781)	(43,788)	(601,505)	(1,402,074)
Recoveries	–	–	(190,697)	(190,697)
Amounts written off	–	–	2,048,604	2,048,604
As at 31 December 2021	(901,660)	(113,223)	(3,569,568)	(4,584,451)

An analysis of changes in gross carrying value and corresponding ECL allowance in relation to agricultural loans during the year ended 31 December 2021 is as follows:

Agricultural loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2021	53,983,773	583,127	2,513,096	57,079,996
New assets originated	83,414,936	–	–	83,414,936
Assets repaid	(72,207,250)	(76,470)	(983,577)	(73,267,297)
Net change in accrued interest	(381,397)	36,471	98,340	(246,586)
Transfers to Stage 1	2,218,896	(530,640)	(1,688,256)	–
Transfers to Stage 2	(1,377,834)	1,381,463	(3,629)	–
Transfers to Stage 3	(1,991,995)	(1,255,113)	3,247,108	–
Unwinding of discount	–	–	536,118	536,118
Changes to contractual cash flows due to modifications not resulting in derecognition	(2,532)	2,154	187	(191)
Recoveries	–	–	152,688	152,688
Amounts written off	–	–	(1,117,907)	(1,117,907)
As at 31 December 2021	63,656,597	140,992	2,754,168	66,551,757

Agricultural loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL allowance as at 1 January 2021	(255,653)	(233,136)	(1,709,049)	(2,197,838)
New assets originated	(310,521)	–	–	(310,521)
Assets repaid	302,918	30,866	566,833	900,617
Transfers to Stage 1	(1,155,463)	217,783	937,680	–
Transfers to Stage 2	317,869	(319,784)	1,915	–
Transfers to Stage 3	36,394	505,863	(542,257)	–
Impact on period end ECL of exposures transferred between stages during the period	1,124,342	(239,405)	(1,131,859)	(246,922)
Unwinding of discount	–	–	(536,118)	(536,118)
Changes to contractual cash flows due to modifications not resulting in derecognition	1,276	722	56	2,054
Changes to models and inputs used for ECL calculations	(382,936)	(22,916)	(545,455)	(951,307)
Recoveries	–	–	(152,688)	(152,688)
Amounts written off	–	–	1,117,907	1,117,907
As at 31 December 2021	(321,774)	(60,007)	(1,993,035)	(2,374,816)

"Microfinance organization "KMF" Limited Liability Company Notes to the financial statements for 2022

(In thousands of tenge, unless otherwise indicated)

7. Loans to customers (continued)

ECL allowance of loans to customers (continued)

An analysis of changes in gross carrying value and corresponding ECL allowance in relation to consumer loans during the year ended 31 December 2021 is as follows:

Consumer loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2021	12,096,637	90,533	868,459	13,055,629
New assets originated	17,495,262	–	–	17,495,262
Assets repaid	(14,863,190)	(26,751)	(376,788)	(15,266,729)
Net change in accrued interest	(65,868)	13,938	12,168	(39,762)
Transfers to Stage 1	249,029	(79,766)	(169,263)	–
Transfers to Stage 2	(431,488)	432,719	(1,231)	–
Transfers to Stage 3	(159,695)	(374,559)	534,254	–
Unwinding of discount	–	–	166,300	166,300
Changes to contractual cash flows due to modifications not resulting in derecognition	(3,123)	(97)	(1,176)	(4,396)
Recoveries	–	–	38,285	38,285
Amounts written off	–	–	(373,075)	(373,075)
As at 31 December 2021	14,317,564	56,017	697,933	15,071,514

Consumer loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL allowance as at 1 January 2021	(62,930)	(29,265)	(553,372)	(645,567)
New assets originated	(68,985)	–	–	(68,985)
Assets repaid	70,769	8,461	200,346	279,576
Transfers to Stage 1	(108,365)	27,357	81,008	–
Transfers to Stage 2	83,476	(84,086)	610	–
Transfers to Stage 3	5,200	122,619	(127,819)	–
Impact on period end ECL of exposures transferred between stages during the period	101,512	(58,781)	(100,421)	(57,690)
Unwinding of discount	–	–	(166,300)	(166,300)
Changes to contractual cash flows due to modifications not resulting in derecognition	249	22	543	814
Changes to models and inputs used for ECL calculations	(117,407)	(6,892)	(152,035)	(276,334)
Recoveries	–	–	(38,285)	(38,285)
Amounts written off	–	–	373,075	373,075
As at 31 December 2021	(96,481)	(20,565)	(482,650)	(599,696)

Modified and restructured loans

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

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

During 2022, the Company has modified the terms and conditions of certain loans. The Company considered these modifications to be non-substantial. As a result, the Company recognised loss on modification of loans to customers, not resulting in derecognition in the amount of KZT 63,568 thousand.

	2022	*2021*
Loans to customers modified during the period		
Amortised cost before modification	**24,556,189**	17,066,704
Net losses on modification of loans to customers not resulting in derecognition	**(63,568)**	(6,869)

(In thousands of tenge, unless otherwise indicated)

7. Loans to customers (continued)

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

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

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

Concentration of loans to customers

As at 31 December 2022 and 2021, the Company has no borrowers or groups of interrelated borrowers whose loan balances exceed 10% of its equity. In accordance with the legislation of the Republic of Kazakhstan, the maximum loan amount issued by microfinance organizations as at 31 December 2022 was KZT 61,260 thousand (as at 31 December 2021: KZT 58,340 thousand).

In absence of collateral or other credit enhancements, ECL allowance in respect of Stage 3 loans to customers as at 31 December 2022 would have been higher by:

	2022
Retail trade, services and production loans	(1,592)
Agricultural loans	688
Consumer loans	2,267
Total	**1,363**

Changes to models used for ECL measurement

In 2022, the Company updated approach to assessing the level of loss given default (LGD) on collateralised loans issued to customers. As a result of the updated approach and ECL allowance was increased by KZT 22,308 thousand. The approach to estimating the LGD is based on a scenario analysis that takes into account the likely outcomes after default, taking into account the period when the asset was in default.

"Microfinance organization "KMF" Limited Liability Company Notes to the financial statements for 2022

(In thousands of tenge, unless otherwise indicated)

8. Investment securities

Investment securities comprise the following:

Debt securities measured at FVOCI	*31 December 2022*	*31 December 2021*
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	**8,919,802**	4,671,853
Corporate bonds	**1,396,288**	–
	10,316,090	4,671,853
Less: ECL allowance	**(128,018)**	(8,631)
Investment securities	**10,188,072**	4,663,222

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

Debt securities measured at FVOCI	*2022*	*2021*
Gross carrying value as at 1 January	**4,663,222**	4,116,045
New assets originated or purchased	**5,697,986**	4,403,690
Assets repaid	**–**	(3,938,889)
Net change in accrued interest	**216,144**	73,833
Change in fair value	**(508,719)**	8,543
Effect from changes in exchange rates	**119,439**	–
As at 31 December	**10,188,072**	4,663,222

Debt securities measured at FVOCI	*2022*	*2021*
ECL as at 1 January	**(8,631)**	(4,013)
Net change in ECL *(Note 20)*	**(119,387)**	(4,618)
As at 31 December	**(128,018)**	(8,631)

9. Investment property

The movements in investment property were as follows:

	2022	*2021*
As at 1 January	**66,958**	52,992
Revaluation surplus	**–**	13,966
As at 31 December	**66,958**	66,958

In January 2019, the Company decided to lease an office building and land in Uzynagash village, 44 Tole bi street. In connection with the change in the intended use of this facility, the Company reclassified the building and land as investment property.

As at the date of transfer, the amount of positive difference between the carrying amount of the land plot in Uzynagash village in accordance with IAS 16 and its fair value in the amount of KZT 9,959 thousand before income tax was recognised in other comprehensive income. Impairment loss for the building in Uzynagash in the amount of KZT 24,991 thousand was recognised in profit or loss as other expense.

On 5 June 2021, the Company sold the above mentioned investment property with a carrying value of KZT 20,638 thousand.

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

In December 2021, the Company revalued investment property in Taldykorgan city, with the involvement of an independent appraisal company, Market Consulting LLP. Based on the results of the revaluation, the Company recognised a gain in the amount of KZT 13,966 thousand in profit or loss as other income.

	2022	*2021*
Rental income derived from investment property	**10,985**	9,600
Total	**10,985**	9,600

The Company has no restrictions on sale of its investment properties and no contractual obligations to either purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

(In thousands of tenge, unless otherwise indicated)

10. Property and equipment

Movements in property and equipment were as follows:

	Land	*Buildings*	*Computer hardware*	*Vehicles*	*Office furniture and equipment*	*Construction-in-progress*
Cost						
As at 1 January 2021	88,008	5,616,943	1,635,826	473,355	1,361,647	–
Additions	–	–	319,390	96,033	335,030	209,984
Transfers	–	135,625	6,527	338	1,132	(143,622)
Disposals	–	(107)	(41,902)	(33,276)	(26,351)	–
As at 31 December 2021	88,008	5,752,461	1,919,841	536,450	1,671,458	66,362
Additions	**11,570**	**106,823**	**913,276**	**96,540**	**377,649**	**713,216**
Transfers	**–**	**715,482**	**12,077**	**112**	**4,274**	**(731,945)**
Disposals	**(77)**	**(17,480)**	**(2,341)**	**(4,237)**	**(7,125)**	**(92)**
As at 31 December 2022	**99,501**	**6,557,286**	**2,842,853**	**628,865**	**2,046,256**	**47,541**
Accumulated depreciation						
As at 1 January 2021	–	(301,850)	(823,560)	(163,994)	(582,165)	–
Depreciation charge	–	(121,465)	(245,628)	(78,018)	(190,267)	–
Disposals	–	35	38,794	28,139	21,115	–
As at 31 December 2021	–	(423,280)	(1,030,394)	(213,873)	(751,317)	–
Depreciation charge	**–**	**(128,290)**	**(256,544)**	**(87,398)**	**(234,076)**	**–**
As at 31 December 2022	**–**	**(551,570)**	**(1,286,938)**	**(301,271)**	**(985,393)**	**–**
Net carrying amount						
As at 1 January 2021	88,008	5,315,093	812,266	309,361	779,482	–
As at 31 December 2021	88,008	5,329,181	889,447	322,577	920,141	66,362
As at 31 December 2022	**99,501**	**6,005,716**	**1,555,915**	**327,594**	**1,060,863**	**47,541**

As at 31 December 2022, the cost of fully depreciated property and equipment in use of the Company amounted to KZT 61,846 thousand (as at 31 December 2021: K

(In thousands of tenge, unless otherwise indicated)

11. Right-of-use assets and lease liabilities

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

	Right-of-use assets (building)	*Lease liabilities*
As at 1 January 2021	526,822	582,407
Additions	360,366	360,366
Disposals	(876)	(876)
Depreciation expense	(331,030)	–
Interest expense	–	89,741
Payments	–	(423,370)
As at 31 December 2021	555,282	608,268
Additions	**815,790**	**815,790**
Disposals	**(17,000)**	**(17,000)**
Depreciation expense	**(432,885)**	**–**
Interest expense	**–**	**125,357**
Payments	**–**	**(539,881)**
As at 31 December 2022	**921,187**	**992,534**

The Company recognised rent expense from short-term leases of KZT 202,077 thousand for the year ended 31 December 2022 (in 2021: KZT 183,731 thousand) *(Note 21)*.

12. Intangible assets

Movements in intangible assets were as follows:

	Software
Cost	
As at 1 January 2021	909,962
Additions	168,676
As at 31 December 2021	1,078,638
Additions	**83,830**
As at 31 December 2022	**1,162,468**
Accumulated amortisation	
As at 1 January 2021	(477,284)
Amortisation charge	(131,815)
As at 31 December 2021	(609,099)
Amortisation charge	**(140,189)**
As at 31 December 2022	**(749,288)**
Net carrying amount	
As at 1 January 2021	432,678
As at 31 December 2021	469,539
As at 31 December 2022	**413,180**

(In thousands of tenge, unless otherwise indicated)

13. Other assets and liabilities

Other assets comprise the following:

	31 December 2022	*31 December 2021*
Other financial assets		
Receivables from employees	**12,717**	18,432
Receivables from collector organization	**–**	9,479
Other	**164,656**	90,966
	177,373	118,877
Less: ECL allowance	**(59,935)**	(52,831)
Total other financial assets	**117,438**	66,046
Other non-financial assets		
Advances to suppliers	**580,669**	383,187
Inventories	**211,419**	189,090
Prepaid taxes and other payments to budget	**34,254**	26,178
Total other non-financial assets	**826,342**	598,455
Other assets	**943,780**	664,501

Other liabilities comprise the following:

	31 December 2022	*31 December 2021*
Other financial liabilities		
Payables to employees	**2,104,423**	2,059,351
Overpayments of loans to customers	**1,467,619**	1,420,780
Payables to suppliers	**236,861**	386,256
Payables for purchased building	**138,807**	653,570
ECL allowance on contingent liabilities *(Note 18)*	**35,883**	15,169
Other	**140,895**	73,690
Total other financial liabilities	**4,124,488**	4,608,816
Other non-financial liabilities		
Accrued expenses on unused vacations	**729,076**	480,177
Taxes other than corporate income tax payable	**450,736**	506,092
Total other non-financial liabilities	**1,179,812**	986,269
Other liabilities	**5,304,300**	5,595,085

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

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

14. Amounts due to credit institutions

Amounts due to credit institutions comprise the following:

	31 December 2022	*31 December 2021*
Loans from financial institutions, other than banks, of OECD countries	**94,660,550**	59,148,096
Loans from local banks and financial institutions	**42,175,790**	34,418,076
Loans from banks of OECD countries	**26,900,117**	30,332,777
Amounts due to credit institutions	**163,736,457**	123,898,949

As at 31 December 2022, the Company had borrowings from six banks and five other financial institutions (as at 31 December 2021: five banks and six other financial institutions) whose balances individually exceeded 10% of its equity. As at 31 December 2022, the total aggregate balance of liabilities to the above counterparties amounted to KZT 108,378,235 thousand (as at 31 December 2021: KZT 92,595,396 thousand).

As at 31 December 2022 and 2021, the Company complied with all financial covenants implied by loan agreements with credit institutions.

During 2021 the Company concluded a revolving credit line agreement with ForteBank JSC for KZT 7,500,000 thousand, under wich KZT 5,900,000 thousand was utilised as at 31 December 2022 (as at 31 December 2021: KZT 3,000,000 thousand). The Company pledged real estate, buildings, with original cost of KZT 3,721,557 thousand as at 31 December 2022 (as at 31 December 2021: KZT 3,311,272 thousand).

(In thousands of tenge, unless otherwise indicated)

15. Taxation

The corporate income tax expense comprises the following:

	2022	*2021*
Current corporate income tax charge	**3,440,305**	3,626,371
Corporate income tax of prior years	**87,573**	–
Deferred corporate income tax charge/(benefit) – origination and reversal of temporary differences	**42,818**	(144,714)
Corporate income tax expense	**3,570,696**	3,481,657

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 2022 and 2021.

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

	2022	*2021*
Profit before corporate income tax expense	**16,633,648**	17,509,833
Statutory rate	**20%**	20%
Theoretical corporate income tax expense at the statutory rate	**3,326,730**	3,501,967
Non-taxable income on state securities and securities listed at KASE	**(113,028)**	(83,391)
Non-taxable income from credit loss expense	**–**	(23,807)
Non-deductible credit loss expense	**160,489**	–
Non-deductible loss on modification of terms of loans to customers	**12,714**	1,374
Correction of corporate income tax of prior years	**87,573**	–
Other non-deductible expenses	**96,218**	85,514
Corporate income tax expense	**3,570,696**	3,481,657

As at 31 December 2022 current corporate income tax assets comprised KZT 158,025 thousand (as at 31 December 2021: KZT 256,837 thousand).

Deferred tax assets and deferred tax liabilities

Temporary differences between the carrying amounts of assets and liabilities recorded in the financial statements and the amounts used for the purposes of calculation of taxable base, give rise to net deferred tax assets and liabilities as at 31 December 2022 and 2021. The future tax benefits will only be received in the event that there are no changes in the legislation of Kazakhstan that would adversely affect the Company's ability to utilise such benefits in future periods.

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

	2020	*Origination and reversal of temporary differences in profit or loss*	*2021*	*Origination and reversal of temporary differences in profit or loss*	*2022*
Tax effect of deductible temporary differences					
Accrued expenses on unused vacations and bonuses	255,105	208,948	464,053	**54,497**	**518,550**
Amounts due to credit institutions	15,337	11,408	26,745	**28,830**	**55,575**
Lease liabilities	116,481	5,172	121,653	**76,854**	**198,507**
Other liabilities	6,116	4,461	10,577	**1,962**	**12,539**
Deferred corporate income tax assets	393,039	229,989	623,028	**162,143**	**785,171**
Tax effect of taxable temporary differences					
Property and equipment and intangible assets	(316,545)	(76,790)	(393,335)	**(131,780)**	**(525,115)**
Right-of-use assets	(105,364)	(5,692)	(111,056)	**(73,181)**	**(184,237)**
Investment property	(1,964)	(2,793)	(4,757)	**–**	**(4,757)**
Deferred corporate income tax liabilities	(423,873)	(85,275)	(509,148)	**(204,961)**	**(714,109)**
Net deferred corporate income tax assets/(liabilities)	(30,834)	144,714	113,880	**(42,818)**	**71,062**

(In thousands of tenge, unless otherwise indicated)

16. Debt securities issued

Debt securities issued comprise:

	2022	*2021*
Debt securities issued at KASE	**10,404,444**	10,404,322
Less: unamortised discount	**(14,808)**	(34,000)
	10,389,636	10,370,322

As at 31 December 2022, the Company's debt securities comprise unsecured coupon bonds placed under the first bond program with the aggregate nominal value of KZT 10,000,000 thousand. The bonds are denominated in tenge, bear interest rate of 13% per annum and mature in 2023.

17. Equity

Charter capital

As at 31 December 2022 and 2021, the Company's paid and outstanding charter capital was equal to KZT 14,430,993 thousand.

Dividends

In accordance with Kazakhstan legislation, the Company's distributable funds are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with IFRS or the amount of profit for the year in case of the accumulated loss. Distribution will not be performed if the amount of the Company's equity becomes negative as a result of the distribution, or entails the insolvency and bankruptcy of the Company.

In accordance with the requirements of the Republic of Kazakhstan legislation, as at 31 December 2022 the funds available for distribution amounted to KZT 36,720,608 thousand (as at 31 December 2021: KZT 26,743,856 thousand).

In accordance with the decision of the General Shareholders' Meeting held on 13 October 2022, the Company declared and paid dividends in cash in the amount of KZT 2,805,637 thousand.

In accordance with the decision of the General Shareholders' Meeting held on 22 April 2021 and 23 July 2021, the Company declared and paid dividends in cash in the amount of KZT 19,133,039 thousand.

Reserve funds

In accordance with the decision of the General Meeting of Shareholders held on 4 May 2012, the reserve fund is formed during the year and should be at least 5% of the charter capital at the beginning of the reporting year.

In 2022, the Supervisory Board of the Company approved the transfer to the amount of KZT 280,563 thousand from retained earnings to reserve fund (in 2021: KZT 221,558 thousand). As at 31 December 2022 the reserve fund amounted to KZT 1,478,339 thousand (in 2021: KZT 1,197,776 thousand).

18. Commitments and contingencies

Political and economic environment

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

Insurance

The insurance industry in the Republic of Kazakhstan is in a developing stage and many forms of insurance protection common in other parts of the world are not yet generally available. The Company does not have full coverage for business interruption, or third party liability in respect of property or environmental damage arising from accidents on the Company property or relating to the Company operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position of the Company.

(In thousands of tenge, unless otherwise indicated)

18. Commitments and contingencies (continued)

Legal issues

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

Tax contingencies

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

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

Because of the uncertainties associated with the Kazakhstan tax system, the ultimate amount of taxes, penalties and fines, if any, may be in excess of the amount expensed to date and accrued at 31 December 2022. Although such amounts are possible and may be material, it is the opinion of the Company's management that these amounts are either not probable, not reasonably determinable, or both.

Commitments and contingencies

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

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

The contractual amounts of credit related contingencies are set out in the table below, The amounts reflected in the table for credit related contingencies assume that the indicated contingencies will be fully settled.

	31 December 2022	*31 December 2021*
Credit related commitments		
Undrawn loan commitments	**18,899,090**	14,602,183
Commitments and contingencies	**18,899,090**	14,602,183
ECL allowances for credit related commitments	**(35,883)**	(15,169)

The agreements on the provision of credit lines provide for the right of the Company to unilaterally withdraw from the contract in the event of any adverse conditions. At the same time, the Company carries out an analysis of the borrower's credit risk before providing funds under terms of the credit lines. Therefore, the Company's management believes that the Company's exposure to credit risk is limited by the contractual period for filing a notice on cancellation of an unused portion of a credit line.

As a result, the above amounts do not necessarily represent the future cash outflow. Measurement of the ECL allowance for such facilities is made only for issued loan tranches.

In 2021, it was decided, with regards to loans issued to borrowers classified as small and medium-sized businesses, to issue tranches under the credit line without a preliminary analysis of the financial condition, provided that the analysis and issuance of the last tranche are given within less than 6 months prior to the date of the next issuance. ECL allowance was recognised by the Company for such credit lines.

19. Interest revenue on loans to customers

In 2022, interest revenue on loans to customers comprised KZT 70,082,077 thousand (in 2021: KZT 53,679,123 thousand), including net modification loss arising from changes in contractual cash flows of loans to customers not resulting in derecognition of KZT 63,568 thousand (in 2021: net modification loss of KZT 6,869 thousand).

(In thousands of tenge, unless otherwise indicated)

20. Credit loss expense

The table below shows the ECL charges on finance instruments recognised in the statement of comprehensive income for the year ended 31 December 2022:

	Note	2022 Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents	5	(7,760)	–	–	(7,760)
Amounts due from credit institutions		(28)	–	–	(28)
Loans to customers	7	136,690	(1,036,398)	(4,305,696)	(5,205,404)
Investment securities	8	(119,387)	–	–	(119,387)
Other financial assets		2,943	–	(10,047)	(7,104)
Contingent liabilities		(20,714)	–	–	(20,714)
Credit loss expense		**(8,256)**	**(1,036,398)**	**(4,315,743)**	**(5,360,397)**

The table below shows the ECL charges on finance instruments recognised in the statement of comprehensive income for the year ended 31 December 2021:

	Note	2021 Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents	5	(1,209)	–	–	(1,209)
Amounts due from credit institutions		17	–	–	17
Loans to customers	7	1,402,209	(624,074)	(1,923,423)	(1,145,288)
Investment securities	8	(4,618)	–	–	(4,618)
Other financial assets		6,566	–	(15,730)	(9,164)
Contingent liabilities		(15,169)	–	–	(15,169)
Credit loss expense		1,387,796	(624,074)	(1,939,153)	(1,175,431)

21. Personnel and other operating expenses

Personnel and other operating expenses comprise the following:

	2022	2021
Salaries, bonuses and other benefits	**14,404,794**	11,890,782
Social security contribution	**1,493,940**	1,053,489
Personnel expenses	**15,898,734**	12,944,271
Payment processing services	**1,653,702**	1,226,666
Depreciation and amortisation *(Notes 10, 11 and 12)*	**1,279,382**	1,098,223
Professional services	**1,208,582**	861,431
Advertising and marketing	**396,952**	143,114
Security	**377,179**	338,559
Taxes other than corporate income tax	**344,781**	179,571
Communication and information services	**277,553**	239,329
Office supplies	**274,491**	236,585
VAT expense	**259,707**	212,848
Lease	**202,077**	183,731
Business trips	**170,959**	132,573
Repair and maintenance	**149,089**	149,681
Bank fees	**126,795**	117,506
Expenses for corporate events	**117,472**	27,089
Transportation	**86,768**	63,049
Insurance	**67,361**	66,729
Encashment	**66,940**	53,262
Trainings for personnel	**46,927**	15,068
Brokerage service	**29,448**	12,635
Membership fees	**16,700**	3,251
Charity	**16,656**	1,887
Other	**105,472**	55,750
Other operating expenses	**7,274,993**	5,418,537

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(In thousands of tenge, unless otherwise indicated)

22. Risk management

Introduction

Risk management is inherent in the Company's activities and is an essential element of the Company's operations. Market risk, which includes interest rate risk and foreign exchange risk, credit risk and liquidity risk, form the major risk faced by the Company in the course of its activities. The Company's risk management policies aim to identify, analyse and manage the risks faced by the Company, to set appropriate risk limits and controls, and to monitor continuously risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

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

Risk management structure

General Assembly of Shareholders (GAS)

The General Assembly of Shareholders (hereinafter – the "GAS") define the overall risk appetite through setting the Credit Policy of the Company and determining the business activities of the Company.

Supervisory Board

The Supervisory Board is responsible for the overall risk management approach and for approving the risk strategies and principles within the overall risk appetite set by the GAS.

Board Risk Committee

The Risk Committee is delegated by the Supervisory Board with overall responsibility for the development of the risk strategy and principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

Board Audit Committee

The main purpose of the Audit Committee is to assist the effective implementation of control functions over the financial and economic activities of the Company by the Supervisory Board, evaluate the adequacy of the internal control system, and monitor the effectiveness of internal and external audit activities.

Management Board

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

Executive Assets and Liability Management Committee (ALCO)

The management level Assets and Liability Management Committee (hereinafter – the "ALCO") of the Company is responsible for the overall assets and liability management, for control of prudential norms and covenants, for managing funding strategy, for managing and reporting on financial and non-financial risks.

Treasury

The Company's Treasury is responsible for carrying out the transactional aspects of assets and liability management and for managing the balance sheet structure. It is also primarily responsible for implementing the funding and liquidity strategy of the Company.

Internal control (audit)

Risk management processes throughout the Company are audited by the internal audit function, that examines both the adequacy of the procedures and the Company's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems

Credit, market and liquidity risks are managed and controlled through a system of Credit Committees and the ALCO, both at the portfolio and individual transaction levels. For improving the efficiency of decision-making process, the Company has established a hierarchy of credit committees depending on the type and amount of risk exposure. Both external and internal risk factors are identified and managed throughout the organisational structure of the Company.

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(In thousands of tenge, unless otherwise indicated)

22. Risk management (continued)

Introduction (continued)

Risk management structure (continued)

Risk measurement and reporting systems (continued)

Monitoring and controlling risks is primarily performed based on limits established by the Company. These limits reflect the business strategy and market environment of the Company as well as the level of risk that the Company is willing to accept, with additional emphasis on selected industries. In addition the Company monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

For all levels throughout the Company, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

Risk mitigation

As part of its overall risk management, the Company uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies and exposures arising from forecast transactions.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Company's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market prices. Market risks comprise currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

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

The ALCO headed by the Chairman of the Management Board is responsible for market risk management.

Interest rate risk

Interest rate risk is the risk that the fair value of financial instruments will fluctuate due to changes in market interest rates. The Company is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may also reduce or create losses in the event that unexpected movements occur.

Interest rate sensitivity analysis

The management of interest rate risk, based on an interest rate gap analysis, is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of the sensitivity of profit or loss before taxes and equity to changes in interest rates (interest rate risk), based on a simplified scenario of a 100 basis point symmetrical fall or rise in all positions of interest – bearing assets and liabilities with floating interest rates existing as at 31 December 2022 and 2021, is as follows:

	2022	*2021*
	Effect on profit before tax	*Effect on profit before tax*
100 basis point parallel increase	**(106,076)**	(53,330)
100 basis point parallel decrease	**106,076**	53,330

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(In thousands of tenge, unless otherwise indicated)

22. Risk management (continued)

Market risk (continued)

Currency risk

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

The amounts of USD exposures are presented below:

	31 December 2022	*31 December 2021*
Assets		
Cash and cash equivalents	**1,320,149**	97,555
Investment securities	**5,629,635**	–
Other assets	**101,812**	18,747
Total assets	**7,051,596**	116,302
Liabilities		
Amounts due to credit institutions	**64,791,452**	18,069,524
Other liabilities	**1,862**	3,795
Total liabilities	**64,793,314**	18,073,319
Net position	**(57,741,718)**	(17,957,017)
Impact of derivative financial instruments held for the purpose of risk management	**57,307,870**	17,811,750
Net position adjusted for impact of derivative financial instruments held for the purpose of risk management	**(433,848)**	(145,267)

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

	2022			
Currency	*Change in exchange rates in %*	*Effect on profit before tax*	*Change in exchange rates in %*	*Effect on profit before tax*
US dollar	**21.00%**	**(91,108)**	**-21.00%**	**91,108**

	2021			
Currency	*Change in exchange rates in %*	*Effect on profit before tax*	*Change in exchange rates in %*	*Effect on profit before tax*
US dollar	13.00%	(18,885)	-10.00%	14,527

Credit risk

Credit risk is the risk that the Company will incur a loss because its customers or counterparties failed to discharge their contractual obligations. The Company manages and controls credit risk by using the approved policies and procedures that include the requirements for setting limits on concentration of the risk exposure and establishment of the credit committees, the functions of which include active monitoring of credit risks. The credit policy is approved by the shareholders.

Credit policy includes the following information:

- Procedures for consideration and approval of loan applications;
- Methodology for assessing creditworthiness of borrowers;
- Methodology for evaluating proposed collateral;
- Requirements for the loan documentation;
- Procedures for ongoing monitoring of loans and other products exposed to the credit risk.

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22. Risk management (continued)

Credit risk (continued)

The Company monitors individual loans and other credit risks on an ongoing basis.

In addition to the analysis of individual borrowers, the Company evaluates the total loan portfolio in terms of the credit and market risk exposure.

The maximum level of the Company's credit risk is best reflected in the carrying value of financial assets in the statement of financial position and amounts of unrecognised contractual obligations. The possibility of offsetting assets and liabilities is not material for reducing potential credit risk.

Where financial instruments are measured at fair value through profit and loss, the carrying value represents the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Impairment assessment

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

Probability of Default (PD)

The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

Exposure at Default (EAD)

The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

Loss Given Default (LGD)

The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

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

The Company has established a methodology to perform an assessment at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Company groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

Stage 1: When loans are first recognised, the Company recognises an allowance based on 12mECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2 and/or Stage 3;

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECL. Stage 2 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 3;

Stage 3: Loans considered credit-impaired. The Company records an allowance for the LTECL;

POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted effective interest rate. ECL are only recognised or released to the extent that there is a subsequent change in the lifetime ECL. During 2022 and 2021 and as at 31 December 2022 and 2021, the Company did not have any POCI loans.

"Microfinance organization "KMF" Limited Liability Company Notes to the financial statements for 2022

(In thousands of tenge, unless otherwise indicated)

22. Risk management (continued)

Credit risk (continued)

Impairment assessment (continued)

Definition of default and cure

The Company considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in the following cases:

- The borrower becomes 90 days past due on its contractual payments;
- The borrower is deceased;
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral;
- Suspension of accrual of nominal interest on the loan because of deterioration of the borrower's financial condition or filing a lawsuit;
- The loan is restructured because of deterioration of financial condition of the borrower;
- The borrower (or any legal entity within the borrower's group) filing for bankruptcy.

The Company considers amounts due from credit institutions defaulted and takes immediate action when by closing of the business day there is a default on the bank's obligations to pay interests and principal amount of the deposit, as well as non-execution of money transfers according to the payment orders of the Company for more than 60 days, as well downgrading of the credit ratings assigned by international rating agencies.

It is the Company's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least two consecutive months, at least one repayment made after the default and no overdue within two months before the reporting date.

Exposure at default

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

The Company determines EADs by analyzing statistical information on previous repayments on each loan in order to determine the average EAD ratio by product. The PDs are then assigned to each loan depending on the region of segmentation and product according to the PD calculation model based on the migration matrix.

The credit facility agreements stipulate the right of the Company to unilaterally withdraw from the agreement should any conditions unfavourable to the Company arise. Thus, the agreements do not represent a firm commitment of the Company to provide a loan. Measurement of credit loss allowance for such facilities is made only for issued loan tranches.

The interest rate used to discount the ECLs for loans is based on the average effective interest rate that is expected to be charged over the expected period of exposure to the facilities.

Loss given default

LGD rates are estimated for all assets classes of Stage 1, 2 and 3 and POCI. LGD is estimated on a monthly basis by the Company's Risk Management Department.

The credit risk assessment is based on a standardised LGD assessment framework. The LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any debt collection.

For LGD assessment purposes the Company uses historical information on the repayments of defaulted loans and expectations on recoveries from sale of collateral. The value of collateral is estimated by adjusting for the liquidity ratio, after which it is discounted for a period of 6 months for vehicles and 1.5 years for immovable property using the initial effective rate.

(In thousands of tenge, unless otherwise indicated)

22. Risk management (continued)

Credit risk (continued)

Impairment assessment (continued)

Significant increase in credit risk

In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Company assesses whether there has been a significant increase in credit risk since initial recognition. The Company deems that the credit risk have increased significantly since initial recognition in the following cases:

- Contractual payments are more than 30 days past due;
- Existing or projected adverse changes in business, financial or economic conditions that are expected to significantly change the borrower's ability to meet its debt obligations;
- Actual or expected adverse change in the regulatory, economic or technological environment of the borrower's operation, etc.;
- Downgrading of the credit rating of a credit institution, in which there are balances on deposits and current accounts, to "CCC" level;
- Non-fulfillment by the credit institution of obligations to pay interests and principal amount on the deposit, as well as non-execution of money transfers according to the payment orders of the Company for more than 30 days.

Grouping financial assets measured on a collective basis

Dependent on the factors below, the Company calculates ECLs either on a collective or on an individual basis.

Asset classes where the Company calculates ECL on an individual basis include:

- Treasury and interbank relationships (such as amounts due from credit institutions and cash equivalents);
- Exposures that have been classified as POCI when the original loan was derecognised and a new loan was recognised as a result of a credit driven debt restructuring;
- Stage 3 significant individual loans, are assessed for impairment taking into account the scenario analysis.

For all other classes of asset, the Company calculates ECL on a collective basis.

The Company groups these exposures into smaller homogeneous portfolios, based on a combination of internal and external characteristics of the loans, for example, product type and borrower's industry.

Forward-looking information and multiple economic scenarios

For the purposes of calculating the ECL allowance as at 31 December 2022, the Company took into account the expected:

- Impact of changes in the economic environment on various sectors of the economy;
- Updated forecast of changes in GDP.

The Company obtains the forward-looking information from third party sources (external rating agencies, governmental bodies e,g, national banks, and international financial institutions).

Macroeconomic forecast data affect both the main components of ECL (for example, PD assessment) and assessment of factors used for collective measurement at the stage.

During development of the model and its subsequent validation (at least on an annual basis), both the completeness of used components of ECL exposed to the significant influence of macroeconomic factors, and the significance of used macro variables are verified. This process is described in the qualitative part of the validation methodology. The results of this verification may lead to identification of additional macroeconomic factors that require forecasting.

The validation process also helps to determine the extent to which the use of a single scenario will not be sufficient due to the non-linear influence of macroeconomic factors on the estimated credit losses.

(In thousands of tenge, unless otherwise indicated)

22. Risk management (continued)

Credit risk (continued)

Impairment assessment (continued)

Forward-looking information and multiple economic scenarios (continued)

As at 31 December 2022, the Company applied the baseline and pessimistic scenario for determining PD. To calculate PD under the baseline scenario, the Company used the GDP forecast for 2023 as a macroeconomic factor, which is equal to 2.1% (in 2022: 2.6%). To calculate PD under the pessimistic scenario, the Company used its own historical statistics of defaults during the crisis periods. The effect of the implementation of the pessimistic scenario as at 31 December 2022 is equal to KZT 268,929 thousand (as at 31 December 2021: KZT 131,686 thousand).

Credit quality by class of financial assets

The table below presents an analysis of credit quality by class of financial assets as at 31 December 2022.

	Note		*High grade*	*Standard grade*	*Sub-standard grade*	*Impaired*	*Total*
Cash and cash equivalents, except for cash on hand	5	Stage 1	–	**6,887,593**	–	–	**6,887,593**
Amounts due from credit institutions		Stage 1	–	**23,755**	–	–	**23,755**
Loans to customers:	7						
- Retail trade, services and production loans		Stage 1	–	**106,409,902**	**925,876**	–	**107,335,778**
		Stage 2	–	–	**547,936**	–	**547,936**
		Stage 3	–	–	–	**2,459,526**	**2,459,526**
- Agricultural loans		Stage 1	–	**71,683,183**	**296,952**	–	**71,980,135**
		Stage 2	–	–	**246,310**	–	**246,310**
		Stage 3	–	–	–	**870,348**	**870,348**
- Consumer loans		Stage 1	–	**18,853,571**	**289,358**	–	**19,142,929**
		Stage 2	–	–	**199,982**	–	**199,982**
		Stage 3	–	–	–	**670,244**	**670,244**
Investment securities	8	Stage 1	**10,188,072**	–	–	–	**10,188,072**
Other financial assets	13	Stage 1	–	**114,942**	–	**2,496**	**117,438**
Total			**10,188,072**	**203,972,946**	**2,506,414**	**4,002,614**	**220,670,046**

The table below presents an analysis of credit quality by class of financial assets as at 31 December 2021.

	Note		*High grade*	*Standard grade*	*Sub-standard grade*	*Impaired*	*Total*
Cash and cash equivalents, except for cash on hand	5	Stage 1	–	6,161,851	–	–	6,161,851
Amounts due from credit institutions		Stage 1	–	23,854	–	–	23,854
Loans to customers:	7						
- Retail trade, services and production loans		Stage 1	–	81,557,309	488,863	–	82,046,172
		Stage 2	–	–	117,278	–	117,278
		Stage 3	–	–	–	940,872	940,872
- Agricultural loans		Stage 1	–	63,203,005	131,818	–	63,334,823
		Stage 2	–	–	80,985	–	80,985
		Stage 3	–	–	–	761,133	761,133
- Consumer loans		Stage 1	–	14,110,751	110,332	–	14,221,083
		Stage 2	–	–	35,452	–	35,452
		Stage 3	–	–	–	215,283	215,283
Investment securities	8	Stage 1	4,663,222	–	–	–	4,663,222
Other financial assets	13	Stage 1	–	63,318	–	2,728	66,046
Total			4,663,222	165,120,088	964,728	1,920,016	172,668,054

In the table above cash and cash equivalents (excluding cash on hand), amounts due from credit institutions and loans customers of high grade are those having a minimal level of credit risk, normally with a credit rating on or close to sovereign level or highly collateralised. Credit institutions and borrowers with good financial position and debt service are included in the standard grade. Sub-standard grade comprises loans below standard grade but not impaired.

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

(In thousands of tenge, unless otherwise indicated)

22 Risk management (continued)

Credit risk (continued)

Credit quality by class of financial assets (continued)

The carrying amount of components of the statement of financial position, including derivatives, without the influence of risk mitigation through the use of master netting agreements and collateral agreements, most accurately reflects the maximum credit exposure on these components.

Where financial instruments are recorded at fair value, their carrying amounts represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

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

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

	31 December 2022				*31 December 2021*			
	Kazakhstan	*OECD*	*CIS and other foreign countries*	*Total*	*Kazakhstan*	*OECD*	*CIS and other foreign countries*	*Total*
Assets								
Cash and cash equivalents	**7,041,198**	**–**	**–**	**7,041,198**	6,257,217	–	–	6,257,217
Amounts due from credit institutions	**23,755**	**–**	**–**	**23,755**	23,854	–	–	23,854
Derivative financial assets	**–**	**1,201,302**	**–**	**1,201,302**	–	485,041	–	485,041
Loans to customers	**203,453,188**	**–**	**–**	**203,453,188**	161,753,081	–	–	161,753,081
Investment securities	**10,188,072**	**–**	**–**	**10,188,072**	4,663,222	–	–	4,663,222
Other financial assets	**117,438**	**–**	**–**	**117,438**	66,046	–	–	66,046
	220,823,651	**1,201,302**	**–**	**222,024,953**	172,763,420	485,041	–	173,248,461
Liabilities								
Amounts due to credit institutions	**42,175,790**	**121,560,667**	**–**	**163,736,457**	34,418,076	89,480,873	–	123,898,949
Derivative financial liabilities	**835,423**	**–**	**–**	**835,423**	–	–	–	–
Debt securities issued	**10,389,636**	**–**	**–**	**10,389,636**	10,370,322	–	–	10,370,322
Lease liabilities	**992,534**	**–**	**–**	**992,534**	608,268	–	–	608,268
Other financial liabilities	**4,122,625**	**1,229**	**634**	**4,124,488**	4,605,021	2,455	1,340	4,608,816
	58,516,008	**121,561,896**	**634**	**180,078,538**	50,001,687	89,483,328	1,340	139,486,355
Net assets/ (liabilities)	**162,307,643**	**(120,360,594)**	**(634)**	**41,946,415**	122,761,733	(88,998,287)	(1,340)	33,762,106

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(In thousands of tenge, unless otherwise indicated)

22. Risk management (continued)

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or can lead to financial loss. The Company cannot expect to eliminate all operational risks, but a control framework and monitoring and responding to potential risks could be effective tools to manage the risks. Controls include effective segregation of duties, access rights, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the emperical maturities of assets exceed the maturities of liabilities. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity risk management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

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

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

The liquidity management policy requires:

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

(In thousands of tenge, unless otherwise indicated)

22. Risk management (continued)

Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Company's financial liabilities as at 31 December based on contractual undiscounted repayment obligations.

As at 31 December 2022	*On demand and less than 1 month*	*1 to 3 months*	*3 to 6 months*	*6 to 12 months*	*From 1 to 5 years*
Financial liabilities					
Amounts due to credit institutions	**4,711,478**	**10,675,649**	**20,231,199**	**37,173,552**	**114,982,457**
Debt securities issued	**–**	**650,000**	**–**	**10,650,000**	**–**
Lease liabilities	**48,033**	**96,065**	**89,947**	**260,894**	**728,719**
Other financial liabilities	**4,174,570**	**94,444**	**–**	**–**	**–**
Total undiscounted financial liabilities	**8,934,081**	**11,516,158**	**20,321,146**	**48,084,446**	**115,711,176**

As at 31 December 2021	*On demand and less than 1 month*	*1 to 3 months*	*3 to 6 months*	*6 to 12 months*	*From 1 to 5 years*
Financial liabilities					
Amounts due to credit institutions	7,178,064	12,790,318	19,384,814	35,592,386	65,572,033
Debt securities issued	–	649,791	–	649,791	11,299,525
Lease liabilities	29,577	86,861	86,101	161,792	366,393
Other financial liabilities	3,955,246	134,011	137,490	287,074	149,759
Total undiscounted financial liabilities	11,162,887	13,660,981	19,608,405	36,691,043	77,387,710

(In thousands of tenge, unless otherwise indicated)

23. Fair value measurements

The estimate of fair value is intended to approximate the amount for which a financial instrument can be exchanged between knowledgeable, willing parties in an arm's length transaction. However, considering the uncertainties and the use of judgements, the fair value should not be interpreted as realisable within the framework of an immediate sale of assets or the transfer of liabilities.

The estimated fair values of financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date.

Fair value hierarchy

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

	Date of valuation	*Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant non-observable inputs (Level 3)*	*Total*
As at 31 December 2022					
Assets measured at fair value					
Derivative financial assets	31 December 2022	**–**	**1,201,302**	**–**	**1,201,302**
Investment securities	31 December 2022	**10,188,072**	**–**	**–**	**10,188,072**
Investment property	12 December 2022	**–**	**–**	**66,958**	**66,958**
Assets for fair which values are disclosed					
Cash and cash equivalents	31 December 2022	**–**	**7,041,198**	**–**	**7,041,198**
Amounts due from credit institutions	31 December 2022	**–**	**23,755**	**–**	**23,755**
Loans to customers	31 December 2022	**–**	**–**	**203,430,824**	**203,430,824**
Other financial assets	31 December 2022	**–**	**–**	**117,438**	**117,438**
Liabilities measured at fair value					
Derivative financial liabilities	31 December 2022	**–**	**835,423**	**–**	**835,423**
Liabilities for which fair values are disclosed					
Amounts due to credit institutions	31 December 2022	**–**	**–**	**161,619,101**	**161,619,101**
Debt securities issued	31 December 2022	**–**	**10,389,636**	**–**	**10,389,636**
Lease liabilities	31 December 2022	**–**	**–**	**992,534**	**992,534**
Other financial liabilities	31 December 2022	**–**	**–**	**4,124,488**	**4,124,488**
As at 31 December 2021					
Assets measured at fair value					
Derivative financial assets	31 December 2021	–	485,041	–	485,041
Investment securities	31 December 2021	4,663,222	–	–	4,663,222
Investment property	15 December 2021	–	–	66,958	66,958
Assets for fair which values are disclosed					
Cash and cash equivalents	31 December 2021	–	6,257,217	–	6,257,217
Amounts due from credit institutions	31 December 2021	–	23,854	–	23,854
Loans to customers	31 December 2021	–	–	161,489,975	161,489,975
Other financial assets	31 December 2021	–	–	66,046	66,046
Liabilities for which fair values are disclosed					
Amounts due to credit institutions	31 December 2021	–	121,475,815	–	121,475,815
Debt securities issued	31 December 2021	–	10,370,322	–	10,370,322
Lease liabilities	31 December 2021	–	–	608,268	608,268
Other financial liabilities	31 December 2021	–	–	4,608,816	4,608,816

During 2022 and 2021, the Company did not make transfers between levels of the fair value hierarchy for financial instruments.

(In thousands of tenge, unless otherwise indicated)

23. Fair value measurements (continued)

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

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

	31 December 2022			*31 December 2021*		
	Carrying amount	*Fair value*	*Unrecognised gain/ (loss)*	*Carrying amount*	*Fair value*	*Unrecognised gain/ (loss)*
Financial assets						
Cash and cash equivalents	**7,041,198**	**7,041,198**	**–**	6,257,217	6,257,217	–
Amounts due from credit institutions	**23,755**	**23,755**	**–**	23,854	23,854	–
Loans to customers	**203,453,188**	**203,430,824**	**(22,364)**	161,753,081	161,489,975	(263,106)
Other financial assets	**117,438**	**117,438**	**–**	66,046	66,046	–
Financial liabilities						
Amounts due to credit institutions	**163,736,457**	**161,619,101**	**2,117,356**	123,898,949	121,475,815	2,423,134
Debt securities issued	**10,389,636**	**10,389,636**	**–**	10,370,322	10,370,322	–
Lease liabilities	**992,534**	**992,534**	**–**	608,268	608,268	–
Other financial liabilities	**4,124,488**	**4,124,488**	**–**	4,608,816	4,608,816	–
Total unrecognised change in fair value			**2,094,992**			2,160,028

Methods of measurement and assumptions

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

Assets and liabilities for which fair value approximates to carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Derivatives

Derivatives valued using a valuation technique with market observable inputs are currency swaps. The most frequently applied valuation techniques include swap models using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Investment securities

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

Financial assets and financial liabilities carried at amortised cost

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

(In thousands of tenge, unless otherwise indicated)

24. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See *Note 22* for the Company's contractual undiscounted repayment obligations.

	31 December 2022			*31 December 2021*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Cash and cash equivalents	**7,041,198**	**–**	**7,041,198**	6,257,217	–	6,257,217
Amounts due from credit institutions	**23,755**	**–**	**23,755**	23,854	–	23,854
Derivative financial assets	**1,201,302**	**–**	**1,201,302**	485,041	–	485,041
Loans to customers	**70,630,559**	**132,822,629**	**203,453,188**	61,449,652	100,303,429	161,753,081
Investment securities	**3,413,370**	**6,774,702**	**10,188,072**	191,818	4,471,404	4,663,222
Investment property	**–**	**66,958**	**66,958**	–	66,958	66,958
Property and equipment	**–**	**9,097,130**	**9,097,130**	–	7,615,716	7,615,716
Right-of-use assets	**–**	**921,187**	**921,187**	–	555,282	555,282
Intangible assets	**–**	**413,180**	**413,180**	–	469,539	469,539
Current corporate income tax assets	**158,025**	**–**	**158,025**	256,837	–	256,837
Deferred corporate income tax assets	**–**	**71,062**	**71,062**	–	113,880	113,880
Other assets	**941,665**	**2,115**	**943,780**	663,270	1,231	664,501
Total	**83,409,874**	**150,168,963**	**233,578,837**	69,327,689	113,597,439	182,925,128
Amounts due to credit institutions	**54,756,494**	**108,979,963**	**163,736,457**	65,480,014	58,418,935	123,898,949
Derivative financial liabilities	**835,423**	**–**	**835,423**	–	–	–
Debt securities issued	**10,389,636**	**–**	**10,389,636**	404,322	9,966,000	10,370,322
Lease liabilities	**413,909**	**578,625**	**992,534**	271,788	336,480	608,268
Other liabilities	**5,304,300**	**–**	**5,304,300**	5,456,278	138,807	5,595,085
Total	**71,699,762**	**109,558,588**	**181,258,350**	71,612,402	68,860,222	140,472,624
Net position	**11,710,112**	**40,610,375**	**52,320,487**	(2,284,713)	44,737,217	42,452,504

25. Related party transactions

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

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

Major shareholder

Major shareholder of the Company is Corporate Fund "KMF-Demeu" (the "Fund").

The founder of the Fund is ACDI/VOCA, a non-profit organization registered in the United States of America, which prepares its financial statements available to external users.

Transactions with shareholders

Transactions with related parties comprise transactions with the Company's shareholders *(Note 1)*.

The balances and average effective interest rates as well as the corresponding gain or loss on transactions with related parties are as follows:

	Shareholders			
	31 December 2022	*Average annual interest rate, %*	*31 December 2021*	*Average annual interest rate, %*
Statement of financial position				
Liabilities				
Amounts due to credit institutions	**21,963,123**	**11.10**	22,790,390	13.18
Statement of comprehensive income				
Interest expense	**(3,434,695)**	**–**	(2,650,696)	–

(In thousands of tenge, unless otherwise indicated)

25. Related party transactions (continued)

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

Below is the information about compensation of 11 members of key management personnel:

	2022	*2021*
Salaries and other short-term benefits	**536,656**	447,434
Social security costs	**49,138**	34,518
Total compensation to the key management personnel	**585,794**	481,952

For the years ended 31 December 2022 and 2021, key management personnel did not receive any non-cash remuneration.

	31 December 2022	*Average annual interest rate, %*	*31 December 2021*	*Average annual interest rate, %*
Statement of financial position				
Assets				
Loans to customers	**32,658**	**19.29**	14,652	19.1

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

	2022	*2021*
Statement of comprehensive income		
Interest revenue	**2,810**	6,678

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 2022 is as follows:

	1 January 2022	*Net cash flows*	*Foreign currency translation*	*Other*	*31 December 2022*
Amounts due to credit institutions	**123,898,949**	**37,341,594**	**1,716,116**	**779,798**	**163,736,457**
Debt securities issued	**10,370,322**	**(1,300,000)**	**–**	**1,319,314**	**10,389,636**
Total liabilities from financing activities	**134,269,271**	**36,041,594**	**1,716,116**	**2,099,112**	**174,126,093**

Reconciliation of movements of liabilities to cash flows arising from financing activities during the year ended 31 December 2021 is as follows:

	1 January 2021	*Net cash flows*	*Foreign currency translation*	*Other*	*31 December 2021*
Amounts due to credit institutions	101,827,992	21,721,427	239,505	110,025	123,898,949
Debt securities issued	–	9,975,221	–	395,101	10,370,322
Total liabilities from financing activities	101,827,992	31,696,648	239,505	505,126	134,269,271

The "Other" line includes the effect of accrued, but not yet paid interest on amounts due to credit institutions and debt securities issued. The Company classifies interest paid as cash flows from operating activities.

27. Capital adequacy

In accordance with the Law of the Republic of Kazakhstan On Microfinance Organisations dated 26 November 2012, the Company is obliged to have the charter capital paid in the amount not less than 30,000 times the monthly calculation index (MCI) equal to 3,063 tenge as at 31 December 2022 (as at 31 December 2021: 2,917 tenge).

In addition, in accordance with the credit agreements with certain foreign financial institutions, the Company must maintain a ratio of capital to total assets at the level of not less than 15%.

27. Capital adequacy (continued)

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

As at 31 December 2022 and 2021, the Company had complied with all its externally imposed capital requirements.

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

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

The NBRK requires microfinance organizations to maintain a Tier 1 capital adequacy ratio in the amount of not less than 10% of the assets. As at 31 December 2022 and 2021, the Company's capital adequacy ratio based on the NBRK methodology exceeded the statutory minimum.

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

	31 December 2022	*31 December 2021*
Tier 1 capital	**52,320,487**	42,452,504
Total assets	**233,578,837**	182,925,128
Tier 1 capital ratio	**22%**	23%

GLOSSARY

KMF MFO LLC, KMF, the Company – KMF Microfinance Organization LLC

ADB – Asian Development Bank

BIA – Business Impact Analysis

CIA – Certified Internal Auditor

CRMA – Certification in Risk Management Assurance

EBRD – European Bank for Reconstruction and Development

HR – Human Resources

EIB – European Investment Bank

IFC – International Finance Corporation

KASE – Kazakhstan Stock Exchange

KPI – Key Performance Indicators

NPL – Non-Performing Loans

NPL 90+ – NonPerforming Loans 90+

OeEB – Oesterreichische Entwicklungsbank

POS – Point of sale

ROA – Return on Assets

ROE – Return on Equity

SIFEM – Swiss Investment Fund for Emerging Markets

USAID – United States Agency for International Development

JSC DAMU EDF – JSC DAMU Entrepreneurship Development Fund

ADMC – Automated Decision Making Center

OSH – Occupational Safety and Health

BNS ASPR RoK – Bureau of National Statistics of the Agency for Strategic Planning and Reforms of the Republic of Kazakhstan

GDP – Gross Domestic Product

Gcal – Gigacalorie (unit of heat energy, equal to 10^9 calories

RMD – Risk Management Department

IE – Individual Entrepreneurship

IAV – Index of actual volumea

kWh – Kilowatt-hour (unit of electrical energy consumption)

CIT – Corporate Income Tax

KLF – Kazakhstan Loan Fund

KCLF – Kazakhstan Community Loan Fund

SME – Small and Medium-sized Enterprises

IPPF – International Professional Practices Framework

MFO – Microfinance organization

NB RoK – National Bank of the Republic of Kazakhstan

UN – United Nations Organisation

AML/CFT – Anti-Money Laundering, Combating the Financing of Terrorism

p. p. – percentage point

RMS – Risk Management System

USA – United States of America

SMS – Short Message Service

LLC – Limited Liability Company

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