

KASPI.KZ
JOINT STOCK COMPANY

Interim Condensed Consolidated
Financial Information
For the six months ended
30 June 2020 (Unaudited)

Kaspi.kz Joint Stock Company

Table of Contents

	Page
STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED 30 JUNE 2020 (UNAUDITED)	1
REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION	2
INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED 30 JUNE 2020 (UNAUDITED):	
Interim condensed consolidated statement of profit or loss (unaudited)	3
Interim condensed consolidated statement of other comprehensive income (unaudited)	4
Interim condensed consolidated statement of financial position (unaudited)	5
Interim condensed consolidated statement of changes in equity (unaudited)	6
Interim condensed consolidated statement of cash flows (unaudited)	7
Selected explanatory notes to the interim condensed consolidated financial information (unaudited)	8-29

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

To the Shareholders of Kaspi.kz Joint Stock Company

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Kaspi.kz Joint Stock Company and its subsidiaries ("the Group") as at 30 June 2020 and the related interim condensed consolidated statements of profit or loss, other comprehensive income for the three and six months then ended, changes in equity and cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim condensed consolidated financial information in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim condensed consolidated financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

Deloitte LLP

1 September 2020
Almaty, Kazakhstan

Kaspi.kz Joint Stock Company

Interim Condensed Consolidated Statement of Other Comprehensive Income
For the Three and Six Months Ended 30 June 2020 (Unaudited)
(in millions of KZT)

	Six Months Ended		Three Months Ended	
	30 June 2020 (unaudited)	30 June 2019 (unaudited)	30 June 2020 (unaudited)	30 June 2019 (unaudited)
NET INCOME	115,579	77,001	52,646	44,490
OTHER COMPREHENSIVE INCOME				
<i>Items that will not be reclassified subsequently to profit or loss:</i>				
Movement in investment revaluation reserve for equity instruments at fair value through other comprehensive income	(11)	(83)	(6)	(24)
<i>Items that may be reclassified subsequently to profit or loss:</i>				
Movement in investment revaluation reserve for debt instruments at fair value through other comprehensive income: (Gains)/losses arising during the period, net of tax KZT Nil	184	(1,918)	2,568	43
Reclassification of (losses)/gains included in profit or loss, net of tax KZT Nil	(276)	(609)	(243)	(48)
Other comprehensive (loss)/gain for the period	(103)	(2,610)	2,319	(29)
TOTAL COMPREHENSIVE INCOME	115,476	74,391	54,965	44,461
Attributable to:				
Shareholders of the Company	114,398	72,246	54,444	43,835
Non-controlling Interests	1,078	2,145	521	626
TOTAL COMPREHENSIVE INCOME	115,476	74,391	54,965	44,461

On behalf of the Management:


Mikhail Lomtadze
Chairman of the Management Board




Nailya Ualibekova
Chief Accountant

The notes on pages 8-29 form an integral part of this interim condensed consolidated financial information.

Kaspi.kz Joint Stock Company

Interim Condensed Consolidated Statement of Financial Position As at 30 June 2020 (Unaudited) (in millions of KZT)

	Notes	30 June 2020 (unaudited)	31 December 2019
ASSETS:			
Cash and cash equivalents	10	361,727	239,140
Mandatory cash balances with National Bank of the Republic of Kazakhstan		25,057	25,243
Due from banks		41,453	43,484
Investment securities and derivatives	11	701,168	474,581
Loans to customers	12	1,227,990	1,292,104
Property, equipment and intangible assets		66,163	60,985
Other assets		59,543	52,044
TOTAL ASSETS		2,483,101	2,187,581
LIABILITIES AND EQUITY			
LIABILITIES:			
Due to banks		-	3,000
Customer accounts	13, 15	1,814,757	1,626,973
Debt securities issued		138,835	138,574
Insurance reserves		3,273	3,608
Other liabilities	16	117,504	42,018
Subordinated debt		77,792	77,786
TOTAL LIABILITIES		2,152,161	1,891,959
EQUITY:			
Share capital		95,825	95,825
Additional paid-in-capital		506	506
Revaluation reserve of financial assets		370	472
Retained earnings		230,132	195,232
Total equity attributable to Shareholders of the Company		326,833	292,035
Non-controlling interests		4,107	3,587
TOTAL EQUITY		330,940	295,622
TOTAL LIABILITIES AND EQUITY		2,483,101	2,187,581

On behalf of the Management:


Mikheil Lomtadze
Chairman of the Management Board




Nailya Ualibekova
Chief Accountant

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Kaspi.kz Joint Stock Company

Interim Condensed Consolidated Statement Of Changes in Equity For the Six Months Ended 30 June 2020 (Unaudited)

(in millions of KZT)

	Share capital	Additional paid-in capital	Revaluation reserve/(deficit) of financial assets	Retained earnings	Total equity attributable to Shareholders of the Company	Non-controlling interests	Total equity
Balance at 1 January 2019	54,857	506	3,307	142,822	201,492	12,426	213,918
Net Income	-	-	-	74,766	74,766	2,235	77,001
Other comprehensive loss	-	-	(2,520)	-	(2,520)	(90)	(2,610)
Total comprehensive (loss)/income	-	-	(2,520)	74,766	72,246	2,145	74,391
Change in non-controlling interest due to exchange of treasury shares with Kaspi Bank JSC subsidiary shares	40,968	-	-	(31,358)	9,610	(9,610)	-
Dividends declared by subsidiary Kaspi Bank JSC	-	-	-	-	-	(2,513)	(2,513)
Dividends declared	-	-	-	(31,140)	(31,140)	-	(31,140)
Balance at 30 June 2019 (unaudited)	95,825	506	787	155,090	252,208	2,448	254,656
Balance at 31 December 2019	95,825	506	472	195,232	292,035	3,587	295,622
Net Income	-	-	-	114,500	114,500	1,079	115,579
Other comprehensive loss	-	-	(102)	-	(102)	(1)	(103)
Total comprehensive (loss)/income	-	-	(102)	114,500	114,398	1,078	115,476
Dividends declared by subsidiary Kaspi Bank JSC	-	-	-	-	-	(558)	(558)
Dividends declared	-	-	-	(79,600)	(79,600)	-	(79,600)
Balance at 30 June 2020 (unaudited)	95,825	506	370	230,132	326,833	4,107	330,940

On behalf of the Management:


Mikheil Lomtadze
Chairman of the Management Board




Nailya Ualibekova
Chief Accountant

The notes on pages 8-29 form an integral part of this interim condensed consolidated financial information.

Kaspi.kz Joint Stock Company

Interim Condensed Consolidated Statement of Cash Flows For the Six Months Ended 30 June 2020 (Unaudited) (in millions of KZT)

Notes	Six months ended 30 June 2020 (unaudited)	Six months ended 30 June 2019 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Interest received*	139,744	109,470
Interest paid	(60,061)	(54,961)
Expenses paid on obligatory insurance of individual deposits	(2,597)	(2,042)
Fee & commissions received	138,287	112,484
Fee & commissions paid	(22,532)	(15,481)
Other income received	8,056	2,843
Other expenses paid	(38,178)	(32,851)
Cash flows from operating activities before changes in operating assets and liabilities	162,719	119,462
Changes in operating assets and liabilities (Increase)/decrease in operating assets:		
Mandatory cash balances with NBRK	185	(3,571)
Financial assets at FVTPL	5,136	661
Due from banks	4,101	(6,351)
Loans to customers	27,727	(96,446)
Other assets	(2,605)	(23,333)
Increase/(decrease) in operating liabilities:		
Due to banks	(3,000)	1,201
Customer accounts	170,713	176,331
Financial liabilities at FVTPL	(7,967)	3,183
Other liabilities	(410)	(16,310)
Cash inflow from operating activities before income tax	356,599	154,827
Income tax paid	(21,811)	(6,921)
Net cash inflow from operating activities	334,788	147,906
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, equipment and intangible assets	(9,365)	(3,389)
Proceeds on sale of property and equipment	558	219
Proceeds on disposal of financial assets at FVTOCI	315,563	478,280
Purchase of financial assets at FVTOCI	(526,999)	(545,504)
Net cash outflow from investing activities	(220,243)	(70,394)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid by subsidiary to non-controlling interests	(562)	(2,513)
Dividends paid	-	(30,664)
Net cash outflow from financing activities	(562)	(33,177)
Effect of changes in foreign exchange rate on cash and cash equivalents	8,604	(871)
NET INCREASE IN CASH AND CASH EQUIVALENTS	122,587	43,464
CASH AND CASH EQUIVALENTS, beginning of period	239,140	168,471
CASH AND CASH EQUIVALENTS, end of period	361,727	211,935

*Please see Note 3 on presentation of interest received on loans participated in repayment holidays program.

On behalf of the Management:


Mikhail Lomtadze
Chairman of the Management Board




Nailya Ualibekova
Chief Accountant

The notes on pages 8-29 form an integral part of this interim condensed consolidated financial information.

Kaspi.kz Joint Stock Company

Notes to the Interim Condensed Consolidated Financial Information For the Six Months Ended 30 June 2020 (Unaudited)

(in millions of KZT)

1. Corporate information

Overview

Kaspi.kz is the Payments, Marketplace and Fintech Ecosystem in Kazakhstan. Mobile App is at the core of the Kaspi.kz Ecosystem.

Our Mobile App serves as a single gateway to all our products and services. Through the Kaspi.kz Mobile App we provide a growing range of innovative, interconnected, technologically advanced products that change the way our customers pay, shop and manage their personal finance.

Kaspi.kz operates its Ecosystem with the mission of improving people's lives by developing innovative products and services that address their everyday needs. We are executing our strategy and growing our business by leveraging advanced technology and proprietary big data analytics as well as by designing a seamless customer experience.

Our Ecosystem serves both consumers and merchants and enables all participants to interact with each other. The growth and development of one service contributes to the growth and development of other services creating a powerful network effect, with each participant deriving greater value than if they were to use a standalone service.

Kaspi.kz Segments

The Kaspi.kz Ecosystem is comprised of the following three market leading platforms centred around our customers' everyday needs:

- *Payments Platform* connects our customers, which consist of both consumers and merchants, to facilitate cashless, digital payment transactions. We offer our customers a technology platform to both pay and receive payments for goods and services, as well as to transfer and withdraw money. We enable consumers to transact with merchants and amongst themselves using a variety of payment options, including Kaspi Gold card and virtual account, any bank card and QR-code. Our Kaspi.kz Mobile App and Kaspi QR technology enable us to build a proprietary payment network that provides end-to-end payment functionality directly from our Kaspi.kz Mobile App to a merchant, without the need for a card and third-party payment network.
- *Marketplace Platform* connects merchants and consumers enabling merchants to increase their sales and enabling consumers to buy a broad selection of products and services from a variety of merchants. We help merchants increase their sales by linking them to our technology, Payments Platform, Buy Now Pay Later consumer finance products, marketing and fulfillment. Fulfilment options include in-store pick up, delivery by merchants and delivery powered by Kaspi.kz.
- *Fintech Platform* enables customers to manage their personal finance online and access consumer finance and deposit products primarily through the Kaspi.kz Mobile App. Our Buy Now Pay Later consumer finance products are also strategically designed around the product and merchant selection on our Marketplace Platform, which means that customers are able to shop seamlessly and pay later for their purchases in several affordable monthly installments.

Kaspi.kz Joint Stock Company

Notes to the Interim Condensed Consolidated Financial Information (Continued) For the Six Months Ended 30 June 2020 (Unaudited) (in millions of KZT)

Information about the group of companies

Kaspi.kz Joint Stock Company ("the Company") was incorporated in the Republic of Kazakhstan in 2008. The Company is regulated by the National Bank of the Republic of Kazakhstan ("NBRK"). The registered address of the Company is 154A, Nauryzbai Batyr street, Almaty, 050013, the Republic of Kazakhstan. During the six months ended 30 June 2020, the Company's indirectly held subsidiary «Kaspi Insurance» JSC was renamed to Insurance Company «Basel» JSC. The Group structure has not changed during 2020.

As at 30 June 2020 and 31 December 2019, the ultimate shareholders' structure of the Company was as follows:

	30 June 2020 %	31 December 2019 %
Ultimate shareholders:		
Baring Vostok Funds	35.23	35.23
Kim Vyacheslav	31.77	31.77
Lomtadze Mikheil (CEO)	25.98	29.00
Goldman Sachs	4.00	4.00
Management	3.02	-
Total	100.00	100.00

In June 2020 members of the founding management team of the Company acquired 3.02% of Kaspi.kz shares from M. Lomtadze. This transaction was not accounted as a share-based payment arrangement as it was exchange of assets between M. Lomtadze and other members of the founding management team and shares were not transferred as compensation for their service as employees of the Group.

Operating environment

External factors affecting Expected credit loss ("ECL") estimates

At the end of the 1st quarter of 2020, there were significant changes in the economic environment where the Group operates. The global pandemic spread of COVID-19 and consecutive "lock down" measures implemented by governments around the world, led to a global deterioration of the macroeconomic environment. As a result of the global pandemic, a significant reduction in oil demand led to a sharp fall of oil prices in March 2020 with further stabilization of oil price in the second quarter of 2020.

To address the spike of COVID-19 cases in Kazakhstan, the Government imposed a state of emergency and severe restrictions on movement of the population and on activity of non-essential entities starting from mid-March 2020 for three months. In the first half of May 2020 the state of emergency was ended with consecutive removal of the majority of restrictions. As a result of these temporary "lock down" measures Kazakhstan's annual economic outlook forecasts were revised downwards for 2020.

In mid-July 2020, the Government re-imposed for certain restrictions on the activity of some entities associated with a high concentration of population in confined areas due to the continued instances of COVID-19. These restrictions were removed in mid-August 2020, with the introduction of strict sanitary rules to prevent further cases.

Kaspi.kz Joint Stock Company

Notes to the Interim Condensed Consolidated Financial Information (Continued) For the Six Months Ended 30 June 2020 (Unaudited) (in millions of KZT)

To support customers that got into temporary financial difficulties and/or had limited access to loan repayment infrastructure due to the Government imposed "lock down" measures, the Group announced a loan repayment holidays program ("the Program"). The Program allowed customers to postpone three upcoming monthly payments to later periods with corresponding extension of loan term for three months via the Kaspi.kz Mobile App.

The Program fully complies with the Government's support measures for individuals in the form of the right for repayment holidays that was declared a few days after the Group's announcement. In addition, the Government issued a substantial stimulation and supportive measures package to mitigate the consequences of the macroeconomic shock. In particular, the package includes:

- Direct distribution of a minimal salary amount for all individuals and entrepreneurs, that lost income due to "lock down" measures for each month of activity restriction;
- Support measures to SME's and corporates, to maintain employment levels;
- Repayment holidays for SME's and individuals for a period of up to three months;
- Concessional financing for SME's and corporates;
- Tax payment deferrals for SME's and corporates in certain industries.

The Group has reflected the updated macroeconomic outlooks along with borrowers support measures launched by the Group, and stimulating measures package by Government in its ECL estimates. Further details on the adjustments to the criteria of significant increase of credit risk, credit impairment and ECL are described in Note 3.

The management's analysis of the Group's liquidity and capital position in the second quarter of 2020, demonstrate that the Group has sufficient liquidity buffer and will continue to comply with regulatory requirements, including liquidity risk and capital adequacy ratios, for the foreseeable future.

This interim condensed consolidated financial information was approved on 1 September 2020.

2. Basis of presentation

This interim condensed consolidated financial information has been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*. This interim condensed consolidated financial information has been prepared assuming that the Group is a going concern, as the Group have the resources to continue in operation for the foreseeable future. In making this assessment, the management have considered a wide range of information in relation to present and future economic conditions, including projections of cash flows, profit and capital resources. This consolidated financial information does not include all the information and disclosures required in the annual consolidated financial statements. The Group omitted disclosures, which would substantially duplicate the information contained in its audited annual consolidated financial statements for 2019 prepared in accordance with International Financial Reporting Standards ("IFRS"), such as accounting policies and details of accounts, which have not changed significantly in amount or composition.

The exchange rates at the period-end used by the Group in the preparation of the interim condensed consolidated financial information are as follows:

	30 June 2020	31 December 2019
KZT/USD	403.93	382.59
KZT/EUR	452.52	429.00

3. Significant accounting policies

This interim condensed consolidated financial information has been prepared under the historical cost convention, except for the revaluation of certain properties and financial instruments.

The same accounting policies, presentation and methods of computation have been followed in this interim condensed consolidated financial information as were applied in the preparation of the Group's consolidated financial statements for the year ended 31 December 2019, except for the changes as set out below:

Criteria for significant increase of credit risk and credit impairment

To capture additional uncertainties caused by the macroeconomic shock, the management has applied following changes to criteria of impairment staging of loans to customers:

- Loans in the non-past due bucket, that participated in the Program, were maintained in Stage 1, as based on management's assumption, the participation in the Program is not an indicator of significant increase of credit risk by itself;
- Loans with early past due days up to the 30 days, that participated in the Program, were moved from Stage 1 (12 month ECL) to Stage 2 (SICR);
- Loans with past due more than 30 days, that participated in the Program, were moved from Stage 2 (SICR) to Stage 3 (Credit impaired).

The managerial adjustment to the criteria for loan staging is made in a light of IASB clarification "IFRS 9 and COVID-19" taking into account all support measures available to the customers of the Group, that mitigates credit risk over the *expected life* of a financial instrument, as well as the high level of uncertainty regarding the full economic effect of "lock down" measures.

ECL measurement

The Group's ECL model incorporates the historic correlation of macroeconomic and credit risk data, including data from previous macroeconomic shocks in years 2014 - 2015. The ECL estimates as at 30 June 2020, already employ downturn economic outlooks, which were further adjusted, based on management's expertise, to capture most recent effects of "lock down" on economic development. In particular, the Group made the following additional adjustments to the ECL of loans that participated in the Program:

- For loans in non-past due bucket:
 - ECL assessment based on 12 month period, but with additional conservative adjustment to capture possible negative "lock down" effect;
- Loans with early past due days up to 30 days:
 - Switch to lifetime ECL assessment by transferring loans from stage 1 to stage 2;
- Loans with past due more than 30 days:
 - ECL assessment for credit impaired loans by transferring loans to stage 3.

As a result of the updated macroeconomic outlooks and additional management adjustments, the provision expense on loans to customers increased to KZT 28,966 million for the six months ended 30 June 2020 as compared to KZT 24,827 million for the six months ended 30 June 2019, reflecting the forward looking ECL as a result of "lock down". The Group has analyzed actual statistical data through July 2020 to ensure that ECL estimates at the reporting date were affirmed by the actual payment behavior of the Program participants in subsequent periods.

Management makes the assumptions that the further gradual easing of restrictions and adaptation of businesses to new sanitary rules will continue until the end of 2020 year accompanied by the macroeconomic environment's gradual recovery. The overall contraction of GDP experienced during 2020 is forecast to rebound by 2021.

Accounting policy for repayment holidays

Given the mission of the Program, described in Note 1, the Group structured repayment holidays in a way to avoid a higher debt repayment burdens and allow customers to defer payments during the lockdown period. To enable this, interest income accrued during the repayment holidays was recorded as received for the cash flow statement purposes during the period as it was formally financed by providing short-term overdrafts to these borrowers with no additional interest or penalties accrued for the deferral period. Interest received in the cash flow statement for the first half of 2020 includes KZT 32,089 million, representing interest payments from borrowers who, participated in the Program.

As at 19 August 2020, 94% of all customers, participating in the Program, made their monthly payment including interest after expiry of the payments holiday.

Application of new and revised International Financial Reporting Standards (IFRSs)

The following amended standards and interpretations became effective for the Group from 1 January 2020, but did not have any significant impact on the Group's interim condensed consolidated financial information for the six months ended 30 June 2020:

- Amendments to IFRS 3 Definition of a business;
- Amendments to IAS 1 and IAS 8 Definition of material;
- Amendments to References to the Conceptual Framework in IFRS Standards.

The Group did not early adopt any other standards, amendments or interpretations that have been issued and are not yet effective.

4. Revenue by Segments

The Group reports its business in three operating segments as described in Note 1 under Kaspi.kz Segments.

Revenue by segments for the six months ended 30 June 2020 and 2019 is presented below:

	Six months ended 30 June 2020 (unaudited)	Six months ended 30 June 2019 (unaudited)
REVENUE	299,096	226,862
Marketplace	19,151	15,761
Seller fees	18,137	15,761
Other	1,014	-
Payments	48,594	25,330
Transaction & Membership Revenue	34,880	18,492
Interest Revenue	13,714	6,838
Fintech	231,351	185,771
Interest Revenue	142,970	111,725
Fees & Commissions	86,890	77,986
Transaction & Membership Revenue	2,885	1,678
Other gains/(losses)	(1,394)	(5,618)

Revenue classification and distribution among segments is performed in accordance with the following guidelines:

Marketplace revenue includes seller fees paid by merchants and other partners when a sale is closed within the Marketplace Platform.

It also includes revenue from delivery service and revenue from Digital Classifieds in the Republic of Azerbaijan.

Kaspi.kz Joint Stock Company

Notes to the Interim Condensed Consolidated Financial Information (Continued) For the Six Months Ended 30 June 2020 (Unaudited) (in millions of KZT)

Payments revenue includes transaction fees originated from processing payments for regular household needs, payments for purchases both online and in-store, other debit card transactions, online money wire transfers within the Kaspi Ecosystem, both inside the country and globally, and transactions by SME and corporate customers. It also includes membership and annual fees paid by individual customers, SME and corporate customers for engagement in Kaspi Ecosystem. The Payments Platform segment also derives treasury revenue from cash balances.

Fintech revenue includes interest income from financing customers which is mainly originated online through the Mobile App or to finance purchases on the Marketplace Platform, third party merchant sites and third-party mobile apps.

It also includes banking fees and commissions, membership and other fees paid by customers, income/loss from foreign exchange revaluation, securities, interbank and derivatives, and fees/commissions from other banking services.

5. Segment Reporting

The Group reports its business in three operating segments as described in Note 1 to the interim condensed consolidated financial information of the Group. In 2019, the Group decided to combine two platforms, Consumer Financial Services Platform and e-Finance Platform into one platform Fintech. The reason for combination is that migration from offline to online & mobile operations is developing rapidly resulting in about 70% of transactions executed in online & mobile.

The following tables present the summary of each segments revenue, net revenue and net income for the six months ended 30 June 2020 and 2019:

	Six months ended 30 June 2020 (unaudited)	Six months ended 30 June 2019 (unaudited)
REVENUE	299,096	226,862
Marketplace	19,151	15,761
Payments	48,594	25,330
Fintech	231,351	185,771
NET REVENUE	205,594	141,538
Marketplace	17,437	14,951
Payments	39,573	18,053
Fintech	148,584	108,534
NET INCOME	115,579	77,001
Marketplace	10,213	9,668
Payments	23,885	9,160
Fintech	81,481	58,173

Operating segments are reported in a manner consistent with internal reports, which are reviewed and used by management and board of directors (who are identified as Chief Operating Decision Makers).

Kaspi.kz Joint Stock Company

Notes to the Interim Condensed Consolidated Financial Information (Continued) For the Six Months Ended 30 June 2020 (Unaudited) (in millions of KZT)

6. Revenue

Revenue includes interest revenue, fees, commissions, seller fees, transaction & membership revenue and other gains/(losses).

	Six months ended 30 June 2020 (unaudited)	Six months ended 30 June 2019 (unaudited)
REVENUE	299,096	226,862
Interest Revenue	156,684	118,563
Fees & Commissions	86,890	77,986
Seller Fees	18,137	15,761
Transaction & Membership Revenue	37,765	20,170
Other gains/(losses)	(380)	(5,618)

Interest revenue includes interest originated on loans to customers, securities and deposits placed with banks, only.

Fees & Commissions revenue mainly includes banking service fees and commissions, which are paid by customers on a monthly basis.

Seller Fees includes fees paid by merchants from shopping transaction originated on the Marketplace Platform. The Group earns seller fees when transactions are completed and are generally determined as a percentage based on the value of merchandise and services being sold by merchants.

The Group earns Transaction and Membership Revenues when processing payments and engaging customers in the Kaspi Ecosystem. This includes transaction fees paid by merchants when the Group enables various payment and purchase transactions. It also includes membership fees paid by customers and merchants for accessing various Kaspi Ecosystem services.

Other gains/(losses) are mainly due to net gains/(losses) on foreign exchange operations and financial assets and liabilities at fair value through profit or loss. For the six months ended 30 June 2020 and 2019, the net gain/(loss) on financial assets and liabilities at fair value through profit or loss amounted to KZT 8,369 million and KZT (9,281) million, respectively. For the six months ended 30 June 2020 and 2019, the net gain/(loss) on foreign exchange operations amounted to KZT (6,171) million and KZT 4,922 million, respectively. It also includes revenue from delivery service and revenue from Digital Classifieds in the Republic of Azerbaijan.

Kaspi.kz Joint Stock Company

Notes to the Interim Condensed Consolidated Financial Information (Continued) For the Six Months Ended 30 June 2020 (Unaudited) (in millions of KZT)

7. Cost of revenue

Cost of revenue includes interest expense, transaction expenses and operating expenses which are directly attributable for the Group's everyday operating activities.

	Six months ended 30 June 2020 (unaudited)	Six months ended 30 June 2019 (unaudited)
COST OF REVENUE	(93,502)	(85,324)
Interest Expenses	(64,380)	(58,841)
Transaction Expenses	(6,987)	(6,213)
Operating Expenses	(22,135)	(20,270)

Interest expenses include interest expenses on customer accounts, mandatory insurance of retail deposits and interest expense on debt securities, including subordinated debt.

Transaction expenses are mainly composed of the costs associated with accepting, processing and otherwise enabling payment transactions. Those costs include fees paid to payment processors, payment networks and various service providers.

Operating expenses include costs incurred to operate retail network, 24-hour call support and communication with customers, product packaging, loan origination and risk assessment, customer deposit acquisition and other expenses which can be attributed to the Group's operating activities related to the origination and delivery of the products and services.

Employee benefits, depreciation and amortisation expenses and operating lease expenses for the six months ended 30 June 2020 and 2019 are presented as follows:

	Six months ended 30 June 2020 (unaudited)			Six months ended 30 June 2019 (unaudited)		
	Employee benefits	Deprecia- tion & amortisa- tion	Operating lease	Employee benefits	Deprecia- tion & amortisa- tion	Operating lease
Cost of Revenue	(8,847)	(292)	(674)	(8,786)	(221)	(736)
Sales & Marketing	(167)	-	(2)	(150)	-	(12)
Technology & Product Development	(5,488)	(2,946)	(791)	(4,249)	(2,086)	(680)
General & Administrative expenses	(2,976)	(1,038)	(971)	(2,700)	(710)	(1,068)
Total	(17,478)	(4,276)	(2,438)	(15,885)	(3,017)	(2,496)

Kaspi.kz Joint Stock Company

Notes to the Interim Condensed Consolidated Financial Information (Continued) For the Six Months Ended 30 June 2020 (Unaudited)

(in millions of KZT)

8. Provision expense

The movements in loss allowance for the six months ended 30 June 2020 were as follows:

	Loans to customers			Due from banks	Financial assets at fair value through other comprehensive income		Cash and cash equivalents	Other assets	Contingencies	Total
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 1	Stage 2	Stage 1	Stage 3	Stage 1	
Loss allowance for ECL as at 31 December 2019	31,983	5,235	70,195	22	304	789	9	2,378	51	110,966
Changes in provisions										
-Transfer to Stage 1	3,068	(519)	(2,549)	-	-	-	-	-	-	-
-Transfer to Stage 2	(557)	1,218	(661)	-	-	-	-	-	-	-
-Transfer to Stage 3	(1,364)	(3,495)	4,859	-	-	-	-	-	-	-
Net changes, resulting from changes in credit risk parameters	4,703	6,400	8,961	(12)	(17)	854	(6)	245	29	21,157
New assets issued or acquired	18,728	-	-	-	39	-	-	-	-	18,767
Repaid assets (except for write-off)	(7,614)	(446)	(1,766)	-	(3)	-	-	-	-	(9,829)
Write-off, net of recoveries	-	-	(10,989)	-	-	-	-	(7)	-	(10,996)
Foreign exchange difference	-	-	57	3	-	-	-	2	-	62
As at 30 June 2020 (unaudited)	48,947	8,393	68,107	13	323	1,643	3	2,618	80	130,127

The effects of managerial adjustment to ECL, which is described in Note 3 (Significant accounting policies), is allocated in rows "Net changes, resulting from changes in credit risk parameters" and "New assets issued or acquired".

Kaspi.kz Joint Stock Company

Notes to the Interim Condensed Consolidated Financial Information (Continued)

For the Six Months Ended 30 June 2020 (Unaudited)

(in millions of KZT)

The movements in loss allowance for the six months ended 30 June 2019 were as follows:

	Loans to customers			Due from banks	Financial assets at fair value through other comprehensive income			Cash and cash equivalents	Other assets	Contingencies	Total
	Stage 1	Stage 2	Stage 3 and POCI	Stage 1	Stage 1	Stage 3	Stage 1	Stage 3	Stage 1		
Loss allowance for ECL as at 31 December 2018	21,193	7,028	92,574	13	409	1,940	4	2,063	42	125,266	
Changes in provisions											
-Transfer to Stage 1	6,597	(376)	(6,221)	-	-	-	-	-	-	-	
-Transfer to Stage 2	(440)	1,415	(975)	-	-	-	-	-	-	-	
-Transfer to Stage 3	(2,465)	(5,975)	8,440	-	-	-	-	-	-	-	
Net changes, resulting from changes in credit risk parameters	(7,744)	4,290	26,347	(7)	(14)	(1,940)	8	327	7	21,274	
Write off, net of recoveries	-	-	(48,793)	-	-	-	-	(8)	-	(48,801)	
New assets issued or acquired	12,953	-	-	4	-	-	-	-	-	12,957	
Repaid assets (except for write off)	(5,815)	(448)	(4,756)	-	-	-	-	-	-	(11,019)	
Foreign exchange difference	-	-	519	-	-	-	-	(1)	-	518	
As at 30 June 2019 (unaudited)	24,279	5,934	67,135	10	395	-	12	2,381	49	100,195	

Kaspi.kz Joint Stock Company

Notes to the Interim Condensed Consolidated Financial Information (Continued) For the Six Months Ended 30 June 2020 (Unaudited) (in millions of KZT)

9. Income tax

The Group provides for taxes for the current period based on the tax accounts maintained and prepared in accordance with the tax regulations of the Republic of Kazakhstan and the Republic of Azerbaijan, where the Company and its subsidiaries operate and which may differ from IFRS.

The Group is subject to certain permanent tax differences due to non-tax deductibility of certain expenses and a tax free regime for certain income.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 30 June 2020 and 31 December 2019 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Deferred income tax liabilities as at 30 June 2020 and 31 December 2019 comprise:

	30 June 2020 (unaudited)	31 December 2019
Vacation reserve and accrued bonuses	482	605
Property, equipment and intangible assets	(3,189)	(2,999)
Other	36	21
Net deferred tax liability	(2,671)	(2,373)

Relationships between tax expenses and accounting profit for the six months ended 30 June 2020 and 2019 are explained as follows:

	Six months ended 30 June 2020 (unaudited)	Six months ended 30 June 2019 (unaudited)
Net income before income tax	138,869	91,676
Tax at the statutory tax rate of 20%	27,774	18,335
Non-taxable income	(4,879)	(3,907)
Non-deductible expense	395	247
Income tax expense	23,290	14,675
Current income tax expense	22,992	14,617
Deferred tax expense	298	58
Income tax expense	23,290	14,675

During the six months ended 30 June 2020 and 2019, non-taxable income was represented by interest income on governmental and other qualified securities in accordance with the tax legislation. Corporate income tax rate is 20% in Kazakhstan and Azerbaijan in 2020 and 2019 years.

Kaspi.kz Joint Stock Company

Notes to the Interim Condensed Consolidated Financial Information (Continued) For the Six Months Ended 30 June 2020 (Unaudited) (in millions of KZT)

	30 June 2020 (unaudited)	31 December 2019
Net deferred tax liability:		
As at 1 January	(2,373)	(1,833)
Change in deferred income tax balances recognized in consolidated profit or loss	(298)	(540)
At the end of the period	(2,671)	(2,373)

10. Cash and cash equivalents

	30 June 2020 (unaudited)	31 December 2019
Cash on hand	111,445	102,143
Current accounts with other banks	24,500	15,576
Short-term deposits with other banks	199,169	103,852
Reverse repurchase agreements	26,613	17,569
Total cash and cash equivalents	361,727	239,140

As at 30 June 2020 and 31 December 2019, the fair value of collateral of reverse repurchase agreements, which were classified as cash and cash equivalents, amounted to KZT 28,578 million and KZT 22,079 million, respectively.

11. Investment securities and derivatives

	30 June 2020 (unaudited)	31 December 2019
Total financial assets at FVTOCI	696,599	473,255
Total financial assets at FVTPL	4,569	1,326
Total investment securities and derivatives	701,168	474,581

	30 June 2020 (unaudited)	31 December 2019
Debt securities	696,298	472,943
Equity investments	301	312
Total financial assets at FVTOCI	696,599	473,255

As at 30 June 2020 and 31 December 2019, sovereign debt securities of KZT 590,309 million and KZT 391,467 million, respectively, were included in debt securities.

Kaspi.kz Joint Stock Company

Notes to the Interim Condensed Consolidated Financial Information (Continued) For the Six Months Ended 30 June 2020 (Unaudited) (in millions of KZT)

	A- and higher	BBB+ to BBB-	BB+ to B-	CCC+ and lower	Total
Investment securities and derivatives as at 30 June 2020 (unaudited)	4,394	683,513	11,992	1,269	701,168
Investment securities and derivatives as at 31 December 2019	3,092	438,975	30,530	1,984	474,581

As at 30 June 2020, investment securities and derivatives at FVTOCI of the Group in the amount of KZT 699,899 million and KZT 1,269 million are classified in Stage 1 and Stage 2 (2019: KZT 472,597 million and KZT 1,984 million), respectively according to IFRS 9.

Financial assets at fair value through profit or loss comprise:

	30 June 2020 (unaudited)	31 December 2019
Financial assets at fair value through profit or loss:		
Derivative financial instruments	4,569	1,326
Total financial assets at fair value through profit or loss	4,569	1,326

As at 30 June 2020, financial assets at FVTPL included swap and spot instruments in the amount of KZT 13 million with a notional amount of KZT 16,850 million and forwards in the amount of KZT 4,556 million with a notional amount of KZT 130,904 million. Financial liabilities at FVTPL included swap and spot instruments in the amount of KZT 7 million with a notional amount of KZT 16,813 million and forwards in the amount of KZT 864 million with a notional amount of KZT 133,979 million.

As at 31 December 2019, financial assets at FVTPL included swap and spot instruments in the amount of KZT 6 million with a notional amount of KZT 2,761 million and forwards in the amount of KZT 1,320 million with a notional amount of KZT 193,683 million. Financial liabilities at FVTPL included swap and spot instruments in the amount of KZT 21 million with a notional amount of KZT 8,915 million and forwards in the amount of KZT 8,817 million with a notional amount of KZT 205,458 million.

As at 30 June 2020 and 31 December 2019, restricted deposits included in due from banks with investment credit ratings (higher than 'BBB-') in favour of international payments systems amounted to KZT 26,339 million and KZT 22,227 million, respectively and in favour of non-deliverable forwards amounted to KZT 13,863 million and KZT 19,913 million, respectively.

Kaspi.kz Joint Stock Company

Notes to the Interim Condensed Consolidated Financial Information (Continued) For the Six Months Ended 30 June 2020 (Unaudited) (in millions of KZT)

12. Loans to customers

	30 June 2020 (unaudited)	31 December 2019
Gross loans to customers	1,353,437	1,399,517
Less: allowance for impairment losses (Note 8)	(125,447)	(107,413)
Total loans to customers	1,227,990	1,292,104

As at 30 June 2020 and 31 December 2019, all loans to customers issued by the Group were allocated to Fintech segment for internal segment reporting purposes.

Movements in allowances for impairment losses on loans to customers for the six months ended 30 June 2020 and 2019 are disclosed in Note 8.

As at 30 June 2020 and 31 December 2019, accrued interest of KZT 16,727 million and KZT 17,677 million, respectively, was included in loans to customers.

The following tables set forth the Group's outstanding NPLs as compared to the total allowance for impairment losses on total loans to customers as at the dates indicated:

	Gross NPLs	Total allowance for impairment losses	Total allowance for impairment to losses gross NPLs
Non-performing loans	120,692	125,447	104%
Total non-performing loans to customers as at 30 June 2020 (unaudited)	120,692	125,447	104%

	Gross NPLs	Total allowance for impairment losses	Total allowance for impairment to losses gross NPLs
Non-performing loans	115,817	107,413	93%
Total non-performing loans to customers as at 31 December 2019	115,817	107,413	93%

Provision expense on loans to customers for the six months ended 30 June 2020 and 2019:

	Six months ended 30 June 2020 (unaudited)	Six months ended 30 June 2019 (unaudited)
Provision expense on loans to customers:		
Fintech	(28,966)	(24,827)
Total provision expenses on loans to customers	(28,966)	(24,827)

As at 30 June 2020 and 31 December 2019, the Group did not have outstanding loans which individually exceeded 10% of the Group's equity.

Kaspi.kz Joint Stock Company

Notes to the Interim Condensed Consolidated Financial Information (Continued) For the Six Months Ended 30 June 2020 (Unaudited) (in millions of KZT)

As at 30 June 2020 and 31 December 2019, the gross carrying amount and related loss allowance on loans to customers by stage were as follows:

Loans to customers	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Gross carrying amount	1,173,959	25,864	153,614	1,353,437
Loss allowance	(48,947)	(8,393)	(68,107)	(125,447)
Carrying amount as at 30 June 2020 (unaudited)	1,125,012	17,471	85,507	1,227,990

Loans to customers	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Gross carrying amount	1,228,093	15,383	156,041	1,399,517
Loss allowance	(31,983)	(5,235)	(70,195)	(107,413)
Carrying amount as at 31 December 2019	1,196,110	10,148	85,846	1,292,104

As at 30 June 2020 and 31 December 2019, commitments on loans and unused credit lines represented by revocable loan commitments amounted to KZT 91,400 million and KZT 77,239 million, respectively.

During the second quarter of 2020, KZT 610,306 million of loans participated in the Program described in Note 1. Out of the loans to customers, participating in the Program, the Group has classified loans of KZT 18,396 million in Stage 2 and KZT 18,898 million in Stage 3 as at 30 June 2020.

As at 19 August 2020, 94% of all customers, participating in the Program, made their monthly payment after expiry of the payments holiday.

13. Customer accounts

	30 June 2020 (unaudited)	31 December 2019
Individuals		
Time deposits	1,405,128	1,298,772
Current accounts	314,126	242,206
Total due to individuals	1,719,254	1,540,978
Corporate customers		
Time deposits	45,672	44,118
Current accounts	49,831	41,877
Total due to corporate customers	95,503	85,995
Total customer accounts	1,814,757	1,626,973

As at 30 June 2020 and 31 December 2019, accrued interest of KZT 10,332 million and KZT 8,996 million, respectively, was included in customer accounts.

As at 30 June 2020 and 31 December 2019, customer accounts of KZT 9,455 million and KZT 13,109 million, respectively, were held as security against loans, letters of credit, guarantees issued by the Group and other transactions related to contingent liabilities.

As at 30 June 2020 and 31 December 2019, customer accounts of KZT 98,701 million (5.4%) and KZT 97,195 million (6.0%), respectively, were due to the top twenty customers.

14. Fair value of financial instruments

a. Fair value of financial instruments

IFRS defines fair value as 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.

b. Fair value of the Group's financial assets and financial liabilities measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Kaspi.kz Joint Stock Company

Notes to the Interim Condensed Consolidated Financial Information (Continued) For the Six Months Ended 30 June 2020 (Unaudited)

(in millions of KZT)

Financial assets/financial liabilities	Fair value as at 30 June 2020 (unaudited)	Fair value as at 31 December 2019	Fair value hierarchy	Valuation technique(s) and key input(s)
Non-derivative financial assets at FVTOCI (Note 11)	689,172	442,002	Level 1	Quoted bid prices in an active market.
Non-derivative financial assets at FVTOCI (Note 11)	7,356	31,183	Level 2	Quoted prices in markets that are not active or DCF method. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.
Unlisted Equity Investments classified as financial assets at FVTOCI (Note 11)	71	70	Level 3	Adjusted net assets based on most recent published financial statements of unlisted companies with discount for marketability and liquidity. Discount ratios varies from 10% to 30%.
Derivative financial assets (Note 11)	4,569	1,326	Level 2	DCF method. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.
Derivative financial liabilities (Note 11)	871	8,838	Level 2	DCF method. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.

Kaspi.kz Joint Stock Company

Notes to the Interim Condensed Consolidated Financial Information (Continued) For the Six Months Ended 30 June 2020 (Unaudited)

(in millions of KZT)

c. Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required).

Except as detailed in the following table, management of the Group considers that the carrying amount of financial assets and financial liabilities recognised in the interim condensed consolidated financial information approximate their fair values.

	30 June 2020 (unaudited)		Fair value hierarchy
	Carrying amount	Fair value	
Due from banks	41,453	41,429	Level 2
Loans to customers	1,227,990	1,274,103	Level 3
Customer accounts	1,814,757	1,768,738	Level 2
Debt securities issued	138,835	138,011	Level 2
Subordinated debt	77,792	75,864	Level 2

	31 December 2019		Fair value hierarchy
	Carrying amount	Fair value	
Due from banks	43,484	43,621	Level 2
Loans to customers	1,292,104	1,334,322	Level 3
Customer accounts	1,626,973	1,610,650	Level 2
Debt securities issued	138,574	137,651	Level 2
Subordinated debt	77,786	76,347	Level 2

Due from banks

The estimated fair value of term due from banks is determined by discounting the contractual cash flows using interest rates currently offered for due from banks with similar terms.

Loans to customers

Loans to individual customers are made at fixed rates. The fair value of fixed rate loans has been estimated by reference to market rates available at the reporting date for loans with a similar maturity profile.

Due to banks

The estimated fair value of due to banks is determined by discounting the contractual cash flows using interest rates currently offered for due to banks with similar terms.

Customer accounts

The estimated fair value of term deposits is determined by discounting contractual cash flows using interest rates currently offered for deposits with similar terms. For current accounts, the Group considers fair value to equal carrying value, which is equivalent to the amount payable on the balance sheet date.

Kaspi.kz Joint Stock Company

Notes to the Interim Condensed Consolidated Financial Information (Continued) For the Six Months Ended 30 June 2020 (Unaudited) (in millions of KZT)

Debt securities issued, subordinated debt

Debt securities issued and subordinated debt are valued using quoted prices.

Assets and liabilities for which fair value approximates carrying value

For financial assets and liabilities that have a short term maturity (less than 3 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 maturity.

15. Transactions with related parties

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Group had the following transactions outstanding as at 30 June 2020 and 31 December 2019 with related parties:

	As at 30 June 2020 (unaudited)		As at 31 December 2019	
	Transactions with related parties	Total category as per financial statements captions	Transactions with related parties	Total category as per financial statements captions
Interim condensed consolidated statement of financial position				
Customer accounts	9,992	1,814,757	10,303	1,626,973
- key management personnel of the Group	991		1,018	
- other related parties	9,001		9,285	

Compensation to directors and other members of key management is presented as follows:

	Six months ended 30 June 2020 (unaudited)	Six months ended 30 June 2019 (unaudited)
Compensation to key management personnel:		
Employee benefits	(393)	(568)

During the six months ended 30 June 2020 and 2019, interest income from transactions with key management personnel amounted to KZT Nil and KZT 81 million, respectively. During the six months ended 30 June 2020 and 2019, interest expense from transactions with key management personnel amounted to KZT 6 million and KZT 38 million, respectively, and other related parties amounted to KZT 53 million and KZT 66 million, respectively. During the six months ended 30 June 2020 and 2019, transaction costs attributable to origination of loans to customers and paid to other related parties on an arm's length basis, amounted KZT 4,174 million and KZT 4,921 million, respectively.

Kaspi.kz Joint Stock Company

Notes to the Interim Condensed Consolidated Financial Information (Continued)

For the Six Months Ended 30 June 2020 (Unaudited)

(in millions of KZT)

16. Other liabilities

	30 June 2020 (unaudited)	31 December 2019
Other financial liabilities:		
Accrued dividends	80,624	1,028
Payables for customers' online transactions	9,341	11,703
Payables for Visa and Master Card transactions	1,669	482
Accrued expenses	1,348	1,918
Derivative financial liabilities	871	8,838
Other	1,540	174
Total financial liabilities	95,393	24,143
Other non-financial liabilities:		
Prepayments	4,335	4,779
Current income tax payable	3,288	1,084
Deferred tax liabilities	2,671	2,373
Accumulated employee benefits	2,232	1,733
Employee vacation reserves	1,586	1,338
Other taxes payable	1,329	2,191
Other	6,670	4,377
Total non-financial liabilities	22,111	17,875
Total other liabilities	117,504	42,018

In July 2020, Kaspi.kz JSC paid dividends to the shareholders in the amount of KZT 79,600 million.

17. Regulatory matters

The management of JSC Kaspi Bank (subsidiary of the Company) monitor capital adequacy ratio based on requirements of standardized approach of Basel Committee of Banking Supervision "Basel III: A global regulatory framework for more resilient banks and banking systems" (December 2010, updated in June 2011). The capital adequacy ratios calculated on the basis of JSC Kaspi Bank's consolidated financial statements under Basel III are presented in the following table:

	30 June 2020 (unaudited)	31 December 2019
Capital adequacy ratios:		
Tier 1 capital	19.5%	17.6%
Total capital	23.9%	22.4%

Kaspi.kz Joint Stock Company

Notes to the Interim Condensed Consolidated Financial Information (Continued) For the Six Months Ended 30 June 2020 (Unaudited)

(in millions of KZT)

As at 30 June 2020 and 31 December 2019, JSC Kaspi Bank had complied with NBRK's capital requirements. The following table presents the JSC Kaspi Bank's capital adequacy ratios in accordance with the NBRK requirements:

	30 June 2020 (unaudited)	31 December 2019
Capital adequacy ratios:		
Tier 1 capital (k1.2)	14.7%	11.4%
Total Capital (k.2)	18.0%	14.5%

18. Subsequent events

In July 2020, the Company acquired a 100% share of Traveleasy LLC, whose primary business is selling online airline and railway tickets. The initial accounting for the business combination was incomplete at the time the interim consolidated financial information is authorized for issue.

In July 2020, the Company established a fully owned subsidiary Kaspi Pay LLC to launch new mobile payments platform for merchants, enabled by QR technology and Kaspi Pay mobile app.