KazAgroFinance Joint Stock Company

Financial statements

For the year ended 31 December 2015
Together with Independent auditors' report

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Independent auditors' report

To the Shareholder and Board of Directors of KazAgroFinance Joint Stock Company

We have audited the accompanying financial statements of KazAgroFinance JSC (the "Company"), which comprise the statement of financial position as at 31 December 2015, and the income statement, statement of comprehensive income, statement of changes in equity and statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards 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.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of KazAgroFinance JSC as at 31 December 2015, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Zhemaletdinov Evgeny
Auditor / General Director
Ernst & Young LLP

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

Auditor Qualification Certificate No. 0000553 dated 24 December 2003

18 March 2016

STATEMENT OF FINANCIAL POSITIONAt 31 December 2015

(Thousands of tenge)

	Notes	*2015*	*2014*
Assets			
Cash and cash equivalents	5	**23,874,332**	23,525,825
Amounts due from credit institutions	6	**2,549,777**	4,043,957
Derivative financial assets	7	**1,734,567**	468,834
Loans to customers	8	**59,739,798**	53,044,703
Finance lease receivables	9	**179,633,484**	155,525,718
Assets held for sale	10	**508,034**	–
Property held for financial lease	11	**7,594,407**	11,726,638
Property and equipment	12	**1,078,038**	1,082,622
Intangible assets		**227,695**	182,528
VAT and other taxes recoverable	13	**1,554,151**	1,288,343
Current corporate income tax assets		**626,732**	551,867
Advances paid	14	**5,996,446**	4,720,656
Other assets	20	**180,819**	275,336
Total assets		**285,298,280**	256,437,027
Liabilities			
Amounts due to the Shareholder	15	**104,286,082**	97,751,437
Amounts due to credit institutions	16	**30,424,302**	24,336,678
Debt securities issued	17	**38,624,394**	16,631,461
Deferred corporate income tax liabilities	18	**2,460,648**	2,031,244
Advances received	19	**4,760,927**	3,421,569
Deferred VAT		**2,533,534**	2,064,716
Other liabilities	20	**6,778,834**	8,638,153
Total liabilities		**189,868,721**	154,875,258
Equity			
Share capital	22	**82,837,204**	82,837,204
Additional paid-in capital	22	**22,248,866**	18,786,572
Reserve capital	22	**1,436,184**	1,436,184
Provision for notional distribution	22	**(9,047,665)**	(7,885,776)
(Accumulated deficit)/retained earnings		**(2,045,030)**	6,387,585
Total equity		**95,429,559**	101,561,769
Total liabilities and equity		**285,298,280**	256,437,027
Book value per common share, in tenge	22	**1,149.26**	1,223.84

Signed and authorized for release on behalf of the Management Board of the Company

Izbastin Kanysh Temirtayevich — Chairman of the Management Board

Shodanova Gulnara Takishevna — Chief Accountant

The accompanying notes on pages 6 to 41 are an integral part of these financial statements.

INCOME STATEMENT

For the year ended 31 December 2015

(Thousands of tenge)

	Notes	2015	2014
Interest income			
Finance lease receivables		14,918,315	11,921,480
Loans to customers		6,032,488	5,090,957
Amounts due from credit institutions		822,340	537,643
		21,773,143	17,550,080
Interest expenses			
Amounts due to the Shareholder		(6,298,616)	(5,707,929)
Amounts due to credit institutions		(1,782,960)	(1,563,620)
Debt securities issued		(2,024,110)	(458,467)
		(10,105,686)	(7,730,016)
Net interest income		11,667,457	9,820,064
Impairment charge on loans to customers and finance lease receivables	8	(4,611,789)	(3,886,444)
Net interest income less allowance for impairment of loans and finance lease receivables		7,055,668	5,933,620
Net gains from transactions with derivative financial assets	7	1,280,852	946,452
Net losses from foreign currency transactions		(10,489,402)	(570,193)
Other income	23	930,326	513,470
Other operating (expenses)/income		(8,278,224)	889,729
Personnel expenses	24	(2,355,234)	(2,542,508)
Other loss from impairment and provisions	26	(540,540)	(348,242)
Other operating expenses	24	(811,297)	(791,664)
Net losses less gains from changes in deferred cash flows of loans to customers	25	(647,866)	(567,194)
Amortisation		(144,888)	(120,030)
Non-interest expense		(4,499,825)	(4,369,638)
(Loss)/profit before corporate income tax expenses		(5,722,381)	2,453,711
Income tax benefit	18	145,698	719,547
(Loss)/profit for the year		(5,576,683)	3,173,258

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Izbastin Kanysh Temirtayevich — Chairman of the Management Board

Shodanova Gulnara Takishevna — Chief Accountant

The accompanying notes on pages 6 to 41 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

(Thousands of tenge)

	Notes	*2015*	*2014*
(Loss)/profit for the year		**(5,576,683)**	3,173,258
Other comprehensive income for the year		**–**	–
Total comprehensive (loss)/income for the year		**(5,576,683)**	3,173,258

Signed and authorized for release on behalf of the Management Board of the Company

Izbastin Kanysh Temirtayevich — Chairman of the Management Board

Shodanova Gulnara Takishevna — Chief Accountant

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

(Thousands of tenge)

	Share capital	*Additional paid-in capital*	*Reserve capital*	*Provision for notional distribution*	*(Accumulated deficit)/retained earnings*	*Total Equity*
At 31 December 2013	80,883,511	12,597,918	1,436,184	(6,525,798)	5,919,441	94,311,256
Total comprehensive income for the year	–	–	–	–	3,173,258	3,173,258
Increase in share capital	1,953,693	–	–	–	–	1,953,693
Income from initial recognition of loans obtained from the Shareholder at below market rates *(Note 22)*	–	6,188,654	–	–	–	6,188,654
Provision for notional distribution for the year *(Note 22)*	–	–	–	(1,359,978)	–	(1,359,978)
Dividends paid *(Note 22)*	–	–	–	–	(2,705,114)	(2,705,114)
At 31 December 2014	82,837,204	18,786,572	1,436,184	(7,885,776)	6,387,585	101,561,769
Total comprehensive loss for the year	–	–	–	–	**(5,576,683)**	**(5,576,683)**
Income from initial recognition of loans obtained from the Shareholder at below market rates *(Note 22)*	–	**3,462,294**	–	–	–	**3,462,294**
Provision for notional distribution for the year *(Note 22)*	–	–	–	**(1,161,889)**	–	**(1,161,889)**
Dividends paid *(Note 22)*	–	–	–	–	(2,855,932)	(2,855,932)
At 31 December 2015	82,837,204	22,248,866	1,436,184	(9,047,665)	(2,045,030)	95,429,559

Signed and authorized for release on behalf of the Management Board of the Company

Izbastin Kanysh Temirtayevich — Chairman of the Management Board

Shodanova Gulnara Takishevna — Chief Accountant

The accompanying notes on pages 6 to 41 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

(Thousands of tenge)

	Notes	*2015*	*2014*
Cash flows from operating activities			
Interest received		**16,198,885**	12,284,588
Interest paid		**(3,917,832)**	(4,240,533)
Realised gains from transactions with derivative financial assets	7	**15,008**	513,962
Personnel expenses paid		**(2,381,558)**	(2,502,473)
Other operating expenses paid		**(815,003)**	(780,094)
Other income received		**923,201**	351,889
Realised (losses)/gains from foreign currencies:		**(386,220)**	69,877
Cash flows from operating activities before changes in operating assets and liabilities		**9,636,481**	5,697,216
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		**1,494,180**	9,993,317
Derivative financial assets		**111**	20,126
Loans to customers		**(5,464,672)**	(13,130,101)
Finance lease receivables		**(26,983,980)**	(36,699,055)
Assets held for sale		**5,895**	237,220
Property held for financial lease		**3,756,988**	1,536,682
VAT and other taxes recoverable		**(265,808)**	4,393
Advances paid		**(1,330,499)**	2,501,345
Other assets		**(16,072)**	(258,847)
Net increase/(decrease) in operating liabilities			
Advances received		**1,339,358**	(334,164)
Other liabilities		**(3,519,059)**	2,466,019
Net cash flows used in operating activities before income tax		**(21,347,077)**	(27,965,849)
Income tax paid		**(74,865)**	(379,259)
Net cash flows used in operating activities		**(21,421,942)**	(28,345,108)
Cash flows from investing activities			
Purchase of property and equipment and intangible assets		**(192,866)**	(247,008)
Proceeds from sale of property and equipment		**–**	4,703
Net cash used in investing activities		**(192,866)**	(242,305)
Cash flows from financing activities			
Proceeds from increase in amounts due to the Shareholder		**24,883,416**	42,357,332
Payment of amounts due to the Shareholder		**(18,107,533)**	(19,839,039)
Receipt of loans from credit institutions		**6,901,367**	13,954,566
Payment of loans received from credit institutions		**(14,365,824)**	(9,391,204)
Proceeds from debt securities issued		**19,984,542**	16,196,665
Proceeds from increase in share capital	22	**–**	1,953,693
Dividends paid	22	**(2,855,932)**	(2,705,114)
Net cash from financing activities		**16,440,036**	42,526,899
Effect of exchange rates changes on cash and cash equivalents		**5,523,279**	270,597
Net increase in cash and cash equivalents		**348,507**	14,210,083
Cash and cash equivalents, at the beginning of the year	5	**23,525,825**	9,315,742
Cash and cash equivalents, at the ending of the year	5	**23,874,332**	23,525,825

Signed and authorized for release on behalf of the Management Board of the Company

Izbastin Kanysh Temirtayevich — Chairman of the Management Board

Shodanova Gulnara Takishevna — Chief Accountant

The accompanying notes on pages 6 to 41 are an integral part of these financial statements.

1. Principal activities

KazAgroFinance JSC (the "Company") was established by the Decree of the Government of the Republic of Kazakhstan No. 1777 dated 24 November 1999 "On certain agricultural issues" in accordance with Kazakhstan legislation. The Company performs its activities on the basis of a license issued by Committee of the Republic of Kazakhstan on Regulation and Supervision of Financial Market and Financial Organizations (the "FMSC") for conducting operations specified by the banking legislation of the Republic of Kazakhstan No. 16 dated 31 March 2006. The Company has a status of financial agency assigned by the resolution of the FMSC No. 195 dated 23 September 2006.

The Company's principal activities are:

- leasing activity in the agricultural sector;
- lending and other activities not prohibited by the legislative acts that meet the goals and objectives of the Company stipulated by this Charter;
- involvement in the republican budget and other programs intended to develop the agricultural complex.

The address of the Company's registered office is: 51, Kenesary Str., Astana, Republic of Kazakhstan.

The sole shareholder of the Company is National Management Holding "KazAgro" JSC ("KazAgro" or the "Shareholder"). Ultimate shareholder of KazAgro or the Shareholder is the Government of the Republic of Kazakhstan.

The Company has 15 registered branches in the Republic of Kazakhstan.

2. Basis of preparation

General

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

These financial statements have been prepared on a historical cost basis, except as described in the accounting policy.

These financial statements are presented in thousands of Kazakh Tenge ("KZT thousand" or "thousand Tenge"), or unless otherwise indicated.

3. Summary of accounting policies

Changes in accounting policy

By its resolution No. 28, KazAgroFinance JSC Board of Directors on 20 December 2013, approved the revised version of the Company' accounting policies. In 2015 the Company has implemented the following revised IFRS standards and new Interpretations. The principal effects of these changes are as follows:

IFRS 13 Fair Value Measurement

This amendment to IFRS 13 clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. Such an approach is not consistent with the Company's accounting policies and for this reason this amendment has no impact on its accounting policies.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendments are applied retrospectively and clarify provisions of IAS 16 and IAS 38 stating that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross carrying amount of the asset and its carrying amount. The Company did not record any revaluation adjustments during the current period.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management entity services. This amendment has no impact on the Company since it does not engage other entities to provide the key management personnel services.

3. Summary of accounting policies

Changes in accounting policies (continued)

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable). The Company does not apply the portfolio exception in IFRS 13.

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination. In previous periods, the Company has applied IFRS 3, not IAS 40, in determining whether the transaction constitutes an asset acquisition or a business combination. Thus, this amendment does not impact the accounting policy of the Company.

IFRS 1 First-time Adoption of International Financial Reporting Standards – Meaning of effective IFRSs

The amendment clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 has no impact on the Company, since the Company is an existing IFRS preparer.

Fair value measurement

The Company measures financial instruments, such as trading and available-for-sale securities, derivatives and non-financial assets such as investment property, at fair value at each balance sheet date. Information on fair value of financial instruments measured at amortized cost is disclosed in *Note 28*.

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

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

The principal or the most advantageous market must be accessible to 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 categorized 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 – techniques for which all inputs that relate to the lower hierarchy level which have a significant effect on the fair value are not observable.

In the event of assets and liabilities recognized in the financial statements on a regular basis, the Company determines the fact of transfer between levels of hierarchy sources by analysing the classification once again (based on initial data of the lowest level that are significant for fair value evaluation in whole) at the end of each reporting period.

3. Summary of accounting policies (continued)

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables. At initial recognition financial assets are measured at fair value. The Company determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

Date of recognition

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

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Derivative financial instruments embedded into other financial instruments or other host contracts as separate derivative instruments, when their risks and characteristics are not related to those of the host contracts, and host contracts are not at fair value though profit or loss with changes recognized in fair value in profit or loss. Embedded derivative instrument is a component of hybrid (combined) financial instrument, which includes both derivative and host contract, with the result that a portion of cash flows on combined instrument varies similar to derivative instrument. The Company enters into financial derivatives contracts to manage currency risks.

The Company determines fair value using valuation method, usually applied by market participants. As for embedded derivative instruments assumptions are made on the basis of market rates adjusted by specific characteristics of the instrument. The Company uses Black-Scholes model to evaluate its financial instruments and assumptions used in valuation model (such as risk free rates and volatility coefficients), are determined on the basis of financial instruments with similar characteristics quoted at Bloomberg.

Loans and receivables

Loans to customers represent non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, except for assets that are classified into other categories of financial instruments.

Loans provided by the Company are initially recorded at fair value plus transaction costs. When the Group accepts a credit commitment to provide loans to customers at below market interest rates, a liability at fair value of these credit commitments is recorded in other liabilities together with reversing entry, which is included in income statement if the decision to undertake the obligation was adopted by the Group's management; or as deemed distribution to the controlling shareholder, if the decision was adopted in accordance with controlling shareholder's instructions. Subsequently, credit commitment is adjusted to fair value through profit and loss before granting a loan, when credit commitment is reduced by consideration paid, and remaining balance is recorded as loans issued to customers. As a result, loans to customers are initially recognized at fair value in the statement of financial position, and subsequently these loans are recorded at amortized cost, using the effective interest rate. Loans to customers are carried net of any allowance for impairment losses.

Available-for-sale financial assets

Available-for-sale financial assets represent non-derivative financial assets that are classified as available-for-sale or are not included in any of the preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired. At which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to the income statement. However, interest calculated using the effective interest method is recognised in the income statement.

3. Summary of accounting policies (continued)

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Company has the intention and ability to hold it for the foreseeable future or until maturity;
- other financial assets may be reclassified to available for sale or held to maturity categories only in rare circumstances.

A financial asset classified as available for sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category if the Company has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.

Offsetting

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. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Cash and cash equivalents

Cash and cash equivalents include cash not restricted in use on current and term deposit accounts with maturity not more than 90 days as the day of the asset origination.

Borrowings

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

Leases

Finance – Company as lessee

The Company recognises finance leases as assets and liabilities in the statement of financial position at the date of commencement of the lease term at amounts equal to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Subsequently, lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Contingent rental payable are recognised as an expense in the period in which they are incurred. Depreciation of leasing assets is charged in accordance with depreciation policy, which is applied to assets owned by the Company.

Finance – Company as lessor

The Company recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are recorded within the initial amount of lease receivables.

Operating – Company as lessee

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

3. Summary of accounting policies (continued)

Impairment of financial assets

Amounts due from credit institutions, loans to customers and finance lease receivables

For amounts due from credit institutions, loans to customers and finance lease receivables carried at amortised cost, the Company first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. Assets that are individually assessed for impairment and for which an impairment loss is recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected losses on loans and finance lease receivables that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans, finance lease receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan/finance lease receivables has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

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

Financial investments available-for-sale

For available-for-sale financial investments, the Company assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition coast and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is reclassified from other comprehensive income to the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the income statement. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

Restructuring of loans and finance lease receivables

Where possible, the Company seeks to restructure loans / finance lease receivables rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

The accounting treatment of such restructuring is as follows:

- If the currency of the loan / finance lease receivables has been changed the old loan / finance lease receivables are derecognised and the new loan / finance lease receivables are recognized in the statement of financial position;
- If the restructuring is not caused by the financial difficulties of the borrower / lessee, the Company uses the same approach as for financial liabilities described below.
- If the loan restructuring is due to the financial difficulties of the borrower / lessee and the loan / finance lease receivables are impaired after restructuring, the Company recognizes the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period. In case loan / finance lease receivables are not impaired after restructuring the Company recalculates the effective interest rate.

Once the terms have been renegotiated, the loan / finance lease receivables are no longer considered past due. Management of the Company continuously reviews renegotiated loan and finance lease receivables to ensure that all criteria are met and that future payments are likely to occur. The loans and finance lease receivables continue to be subject to an individual or collective impairment assessment, calculated using the loan's or finance lease receivable's original or current effective interest rate.

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.

When 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.

Financial liabilities

A financial liability is derecognized 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 the income statement.

3. Summary of accounting policies (continued)

Taxation

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

Deferred tax assets and liabilities are calculated in respect of all temporary differences using the liability method. Deferred 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.

Deferred tax assets are 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 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 Company performs offsetting of deferred tax assets and deferred tax liabilities and records them in the balance sheet on a net basis, when:

- the Company has a legally enforced right to offset current tax assets against current tax liabilities; and
- and deferred tax assets and deferred tax liabilities refer to income tax charged by the same tax body from the same tax payer.

The Company performs its activities in the Republic of Kazakhstan, and it is required to accrue and pay different taxes that are applied to the Company's activities. These taxes are recorded in the statement of income within operating expenses.

Property and equipment

Property and equipment are carried at historical cost less day-to-day maintenance costs and accumulated depreciation and any accumulated impairment in value. 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.

	Depreciation rate
Buildings and constructions	2%
Vehicles	10-14%
Computers and office equipment	14-20%
Other	6-20%
Land	0%

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

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

Property held for financial lease

Property held for lease is stated at the lower of cost and net realizable value. Cost comprises direct charges incurred in bringing the property to its present location and condition.

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets with finite lives are amortised over the useful economic lives of 1 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

3. Summary of accounting policies (continued)

Assets classified as held for sale

The Company classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable.

The sale qualifies as highly probable if the Company's management is committed to a plan to sell the non-current asset. An active program to locate a buyer and complete the plan must have been initiated. Further, the non-current asset must have been actively marketed for a sale at price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the non-current asset as held for sale.

The Company measures an asset classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Company recognises an impairment loss for any initial or subsequent write-down of the asset to fair value less costs to sell if events or changes in circumstance indicate that their carrying amount may be impaired.

Provisions

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

Share capital

Share capital

Contributions to share capital are recognized at historic cost, less direct issuance costs.

Additional paid-in capital

When the Company receives loans and other financial support from its shareholder at below market rates, the difference between received cash consideration and fair value of loans is recorded as additional paid in capital.

Reserve capital

Reserve capital may be increased through transfer of funds from retained earnings based on the decision of the Company's shareholder.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are approved 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.

Provision for notional distribution

When the Company enters into a loan agreement of finance lease agreement at below market rates on behalf of its shareholder, the difference between the amounts obtained and fair value of credit commitment and other financial aid is charged to equity as deemed distribution to the shareholder.

Segment reporting

Business and geographical segments of the Company were not presented separately in these financial statements, since the Company's management believes that the chief operating segment for granting loans and finance lease are agricultural entities in the Republic of Kazakhstan, for which risks and recoverability level are considered to be the same throughout the country.

Contingent assets and liabilities

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

3. Summary of accounting policies (continued)

Recognition of income and expenses

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

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing securities classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which 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 income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Fee and commission income

The Company earns fee and commission income from a diverse range of services it provides to its customers.

Loan commitment fees are deferred together with any direct costs and recognised as an adjustment to the effective interest rate on the loan. If there is a possibility that due to loan commitment a credit arrangement will be signed, loan commitment fee is included in deferred income (together with corresponding direct costs), and subsequently is reflected as an adjustment of actual proceeds from a loan. When the probability to enter into credit arrangement under loan commitments is remote, loan commitment fees are recognised in the income statement during the remaining validity period of loan commitment. Upon expiration of loan commitment validity period, which is not resulted in loan issuance, loan commitment fees are recognised in the income statement on its expiration date. Fees for loan servicing are recognized upon rendering of services. Loan syndication fees are recognized in the income statement when such services have been provided. Other commissions are recognized upon rendering of services.

Foreign currency translation

The financial statements are presented in Kazakhstani Tenge, which is the Company's functional and presentation currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transactions. 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 profit or loss as net gains/(losses) from foreign currencies – translation differences. 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 Kazakhstan Stock Exchange exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. Below are the exchange rates used by the Company in preparation of these financial statements:

	31 December	
	2015	***2014***
KZT/US dollar	340.01	182.35
KZT/EURO	371.46	221.59
KZT/RUR	4.61	3.13

3. Summary of accounting policies (continued)

Future changes in accounting policies

Standards and interpretations issued but not yet effective

IFRS 9 Financial Instruments

In July 2014, IFRS Board published a final version of IFRS 9 *Financial Instruments*, which includes all stages of financial instruments' project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* as well as all previous version of IFRS 9. The standard introduces new requirements to classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018. Early application is permitted. Retrospective application is required however presentation of comparative information is not mandatory. Earlier application of previous versions of IFRS 9 is permitted if the date of initial application is 1 February 2015 or earlier. Application of IFRS 9 will have an impact on classification and measurement of the Company's financial assets and will not have an impact on classification and measurement of its financial liabilities. The Company expects that IFRS 9 requirements to impairment will have a significant impact on its equity. The Company will need a more detailed analysis comprising all reasonable and acceptable, including but not limited to prospective, information to measure the extent of such impact.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Revenue from lease contracts, insurance contracts and originated with respect to financial instruments and other contractual rights and obligations relating to scope of application of IAS 17 *Lease*, IFRS 4 *Insurance Contracts* and IAS 39 *Financial Instruments: Recognition and Measurement* (or, in case of early application, IFRS 9 *Financial Instruments*) accordingly is not within the scope of application of IFRS 15 and regulated by the respective standards.

According to IFRS 15, revenue is recognized in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue.

The new standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017. The Company is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral accounts upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these accounts as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual reporting periods beginning on or after 1 January 2016. The standard has no impact on the Company, since the Company is an existing IFRS preparer.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016. Earlier application is permitted. These amendments are not expected to have any impact to the financial statements of the Company.

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify one of the principles in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016. Early application is permitted. These amendments are not expected to have any impact to the financial statements of the Company given that the Company has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* will apply. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016. Early application is permitted. These amendments are not expected to have any impact to the Company as the Company does not have any bearer plants.

Amendments to IAS 27 Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016. Early application is permitted. These amendments will not have any impact on financial statements of the Company.

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

The amendments address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. The amendments clarify that an investor recognises a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. The gain or loss resulting from the re-measurement at fair value of an investment retained in a former subsidiary is recognised only to the extent of unrelated investors' interests in that former subsidiary. The amendments are applied prospectively to transactions occurring in annual periods beginning on or after 1 January 2016. These amendments will not have any impact on financial statements of the Company.

Amendments to IAS 1 Disclosure Initiative

Amendments to IAS 1 *Presentation of Financial Statements* clarify, rather than significantly change, the existing requirements of IAS 1. The amendments clarify:

- the materiality requirements in IAS 1;
- that specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated;
- that entities have flexibility as to the order in which they present the notes to financial statements;
- that the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company.

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

Annual IFRS improvements: 2012-2014 cycle

These improvements are effective on or after 1 January 2016 and are not expected to have a material impact on the Company. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – changes in methods of disposal

Assets (or disposal groups) are generally disposed of either through sale or through distribution to owners. The amendment to IFRS 5 clarifies that changing from one of these disposal methods to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification. The amendment must be applied prospectively to changes in methods of disposal that occur in annual periods beginning on or after 1 January 2016. Early application is permitted.

IFRS 7 Financial Instruments: Disclosures – servicing contracts

IFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognised in its entirety. The Board was asked whether servicing contracts constitute continuing involvement for the purposes of applying these disclosure requirements. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in paragraphs B30 and 42C IFRS 7 in order to assess whether the disclosures are required. The amendment becomes effective for annual periods beginning on or after 1 January 2016. Early application is permitted. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

IFRS 7 Financial Instruments: Disclosures – applicability of the offsetting disclosures to interim financial statements

In December 2011, IFRS 7 was amended to add guidance on offsetting of financial assets and financial liabilities. In the effective date and transition for that amendment IFRS 7 states that "An entity shall apply those amendments for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. However, the interim disclosure standard, IAS 34, does not reflect this requirement. It is not clear whether those disclosures are required in the condensed interim financial statements.

The amendment removes the phrase 'and interim periods within those annual periods', clarifying that these IFRS 7 disclosures are not required in the condensed interim financial report. The amendment becomes effective for annual periods beginning on or after 1 January 2016. Early application is permitted.

IAS 19 Employee Benefits – discounting rate for regional market

The amendment to IAS 19 clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. The amendment becomes effective for annual periods beginning on or after 1 January 2016. Early application is permitted.

IAS 34 Interim Financial Reporting – disclosure of information 'elsewhere in the interim financial report'

The amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete. The amendment becomes effective on a retrospective basis for annual periods beginning on or after 1 January 2016. Early application is permitted.

(Thousands of tenge)

4. Significant accounting judgements and estimates

Estimation uncertainty

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

Fair values of financial instruments

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

Deferred income tax

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which unused tax losses can be utilised. A significant judgement of management is required to calculate the amount of deferred tax assets, which may be recognized in the financial statements based on possible dates of generation and amount of future taxable profit as well as strategy of tax planning.

Provision for impairment of loans and finance lease receivables

The Company regularly reviews its loans and receivables to assess impairment. The Company uses its experienced judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Company estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Company uses its subjective judgement to adjust observable data for a group of loans or receivables to reflect current circumstances.

Taxation

Kazakh tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant regional and state authorities. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review. The review may cover longer periods under certain circumstances.

As at 31 December 2015 and 2014 management believes that its interpretation of the relevant legislation is appropriate and that the Company's tax, currency and customs positions will be sustained.

5. Cash and cash equivalents

As at 31 December cash comprise:

	2015	*2014*
Current accounts in Tenge	**12,499,987**	5,220,460
Current accounts in foreign currency	**11,374,345**	18,305,365
Cash and cash equivalents	**23,874,332**	23,525,825

As at 31 December 2015, the amount of cash and cash equivalents concentrated with one bank was KZT 5,379,962 thousand or 22.5% of the total amount (31 December 2014: KZT 6,984,623 thousand or 29.7%).

6. Amounts due from credit institutions

As at 31 December amounts due from credit institutions comprise:

	2015	*2014*
Cash balance with banks to cover liabilities for letters of credit	**2,549,777**	4,043,957
Amounts due from credit institutions	**2,549,777**	4,043,957

Amounts due from credit organizations represent restricted cash as collateral for letters of credit for purchase of equipment held for finance lease.

(Thousands of tenge)

7. Derivative financial assets

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts.

	2015			2014		
	Notional amount	Fair values		Notional amount	Fair values	
		Asset	Liability		Asset	Liability
Options in EUR	659,093	478,638	–	747,435	131,041	–
Option in US dollars	1,519,413	1,255,929	–	1,707,695	337,793	–
	2,178,506	1,734,567	–	2,455,130	468,834	–

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

Net gains from transactions with financial assets include the following positions:

	2015	2014
Realised gains from transactions with derivative financial assets	15,008	513,962
Unrealised gains from transactions with derivative financial assets	1,265,844	432,490
Net gains from transactions with derivative financial assets	1,280,852	946,452

8. Loans to customers

As at 31 December loans to customers comprise:

	2015	2014
Loans to legal entities	65,330,232	58,833,083
Loans to individuals	4,197	4,162
Total loans to customers	65,334,429	58,837,245
Less provision for impairment	(5,594,631)	(5,792,542)
Loans to customers	59,739,798	53,044,703

Allowance for impairment of loans to customers and finance lease

A reconciliation of allowance for impairment of loans to customers and finance lease receivables is as follows:

	Loans to customers	Finance lease receivables	Total
At 1 January 2015	5,792,542	12,062,962	17,855,504
Charge/(reversal) for the year	(197,911)	4,809,700	4,611,789
Write-off	–	(8,909)	(8,909)
At 31 December 2015	5,594,631	16,863,753	22,458,384
Individual impairment	4,139,399	10,858,508	14,997,907
Collective impairment	1,455,232	6,005,245	7,460,477
At 31 December 2015	5,594,631	16,863,753	22,458,384
Gross amount of loans and finance lease receivables, individually determined to be impaired, before deducting impairment allowance	12,131,796	34,858,743	46,990,539

	Loans to customers	Finance lease receivables	Total
At 1 January 2014	4,960,774	9,008,286	13,969,060
Charge for the year	831,768	3,054,676	3,886,444
At 31 December 2014	5,792,542	12,062,962	17,855,504
Individual impairment	3,645,290	6,503,592	10,148,882
Collective impairment	2,147,252	5,559,370	7,706,622
At 31 December 2014	5,792,542	12,062,962	17,855,504
Gross amount of loans and finance lease receivables, individually determined to be impaired, before deducting impairment allowance	14,343,005	38,307,418	52,650,423

(Thousands of tenge)

8. Loans to customers (continued)

Loans individually determined as impaired

Interest income accrued with respect to loans and finance lease receivables, individually determined to be impaired, for the year ended 31 December 2015, amounted to KZT 2,080,569 thousand and KZT 4,837,443 thousand (2014: KZT 1,511,135 thousand and KZT 4,283,450 thousand), respectively.

Fair value of collateral received by the Company under loans and finance lease receivables individually determined to be impaired at 31 December 2015, amounts to KZT 16,782,860 thousand and KZT 2,056,386 thousand (2014: KZT 42,190,280 thousand and KZT 3,307,108 thousand), respectively.

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- for commercial lending, collateral of real estate properties, land, agricultural equipment, inventory and trade receivables, guarantees;
- for retail lending, collateral of residential properties.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment.

Concentration of loans to customers

As at 31 December 2015, the Company had a concentration of loans represented by KZT 23,480,170 thousand due from 10 largest third party entities that comprised 35.9% of the total gross loan portfolio (2014: KZT 19,265,384 thousand and 32.7% of the total gross loan portfolio). An allowance of KZT 2,352,907 thousand was recognised against these loans (2014: KZT 2,790,342 thousand).

Loans are issued to customers in the Republic of Kazakhstan operating in the following economic sectors:

	2015	*2014*
Agriculture	**65,330,232**	58,833,083
Construction	**4,197**	4,162
Loans to customers	**65,334,429**	58,837,245

9. Finance lease receivables

An analysis of finance lease receivable as at 31 December 2015 is presented below:

	Not later than 1 year	*1 to 5 years*	*Over 5 years*	*Total*
Finance lease	**52,439,105**	**135,729,038**	**69,548,149**	**257,716,292**
Unearned finance income on finance lease of future periods	**(1,425,604)**	**(30,284,157)**	**(29,509,294)**	**(61,219,055)**
Net investment in finance lease	**51,013,501**	**105,444,881**	**40,038,855**	**196,497,237**
Less: allowance for impairment *(Note 8)*	**(3,619,194)**	**(9,599,498)**	**(3,645,061)**	**(16,863,753)**
Finance lease receivables	**47,394,307**	**95,845,383**	**36,393,794**	**179,633,484**

Analysis of finance lease receivables as at 31 December 2014 is presented below:

	Not later than 1 year	*1 to 5 years*	*Over 5 years*	*Total*
Finance lease	44,961,765	111,778,403	61,618,139	218,358,307
Unearned finance income on finance lease of future periods	(1,168,572)	(24,198,315)	(25,402,740)	(50,769,627)
Net investment in finance lease	43,793,193	87,580,088	36,215,399	167,588,680
Less: allowance for impairment *(Note 8)*	(3,152,216)	(6,303,978)	(2,606,768)	(12,062,962)
Finance lease receivables	40,640,977	81,276,110	33,608,631	155,525,718

(Thousands of tenge)

9. Finance lease receivables (continued)

Concentration of finance lease receivables

As at 31 December 2015, the Company had a concentration of finance lease receivables represented by KZT 31,627,075 thousand due from 10 largest third party entities that comprised 16.1% of the total gross lease portfolio (2014: KZT 27,153,736 thousand and 16.2% of the total gross lease portfolio). An allowance of KZT 4,021,956 thousand was recognised against these receivables (2014: KZT 1,607,330 thousand).

10. Assets held for sale

During 2015, the Company transferred to its ownership the collateral held for sale with assessed value of KZT 508,034 thousand.

11. Property held for financial lease

	2015	*2014*
Property and equipment held for finance lease	**7,924,117**	11,816,282
Collateral transferred to ownership	**508,235**	508,235
Other materials	**15,394**	22,427
	8,447,746	12,346,944
Provision for impairment of property held for finance lease and collateralised property transferred to ownership *(Note 26)*	**(853,339)**	(620,306)
Property held for financial lease	**7,594,407**	11,726,638

12. Property and equipment

The movements in property and equipment were as follows:

	Land	*Buildings and constructions*	*Vehicles*	*Computers and office equipment*	*Other*	*Total*
Cost						
At 31 December 2013	31,922	847,303	124,064	289,702	101,359	1,394,350
Additions	–	–	24,918	137,457	6,988	169,363
Disposal	–	–	(14,346)	(26,112)	(3,083)	(43,541)
At 31 December 2014	31,922	847,303	134,636	401,047	105,264	1,520,172
Additions	**–**	**–**	**25,710**	**73,098**	**5,235**	**104,043**
Disposal	**–**	**–**	**(27,863)**	**(34,663)**	**(3,647)**	**(66,173)**
Loss from impairment of property, plant and equipment	**–**	**–**	**(967)**	**–**	**–**	**(967)**
At 31 December 2015	**31,922**	**847,303**	**131,516**	**439,482**	**106,852**	**1,557,075**
Accumulated depreciation						
At 31 December 2013	–	134,401	48,393	142,613	65,203	390,610
Depreciation charge	–	23,622	14,688	40,182	7,649	86,141
Disposal	–	–	(10,639)	(25,678)	(2,884)	(39,201)
At 31 December 2014	–	158,023	52,442	157,117	69,968	437,550
Depreciation charge	**–**	**23,553**	**14,657**	**55,374**	**7,648**	**101,232**
Disposal	**–**	–	**(21,969)**	**(34,644)**	**(3,132)**	**(59,745)**
At 31 December 2015	**–**	**181,576**	**45,130**	**177,847**	**74,484**	**479,037**
Net book value						
At 31 December 2013	31,922	712,902	75,671	147,089	36,156	1,003,740
At 31 December 2014	31,922	689,280	82,194	243,930	35,296	1,082,622
At 31 December 2015	**31,922**	**665,727**	**86,386**	**261,635**	**32,368**	**1,078,038**

(Thousands of tenge)

13. VAT and other taxes recoverable

As at 31 December , VAT and other taxes recoverable comprise:

	2015	2014
VAT recoverable	1,553,585	1,286,721
Other taxes	566	1,622
VAT and other taxes recoverable	**1,554,151**	1,288,343

14. Advances paid

As at 31 December, advances were paid to the following counterparties:

	2015	2014
KUBO Greenhouse Projects B.V.	3,875,769	–
Eurasia Group AG	1,117,397	1,461,225
Aktobe tax committee	473,649	–
Agrofirma Aduchi LLC	158,703	–
EURASIA GROUP KAZAKHSTAN LLP	95,824	–
Frostera JSC	89,558	–
RKD Irrigacion, S.L.	82,359	68,185
Agralimex CmbH	78,066	–
Naan Dan Jain Irrigation (C.S)LTD	41,995	–
Farmpartner-tec GmbH	18,046	45,808
Stienen Bedrijfselectronika B.V.	16,411	–
KholodPromStroyInzhiniring LLC	14,522	–
KMTech Sp.zo.o.	12,519	–
EvrazStalcon LLP	10,770	10,770
Combine harvester plant "Vektor" LLP	–	1,885,028
Gesellschaft fur Schlacht- und Fordertechnik mbH	–	490,183
Buhler GmbH	–	144,420
Zherdan LLP	–	101,799
Me2 International BV	–	86,160
Combine harvester plant Rostselmash LLC	–	82,256
ZIRBUS Technology Gmbh	–	74,249
Ottevanger Milling Engineers	–	69,805
Formica Astana LLP	–	67,471
Voronezhselmash LLC	–	53,427
DELAVAL EXPORT SERVISE AB	–	32,013
Other	82,096	164,386
	6,167,684	4,837,185
Less: allowance for impairment *(Note 26)*	**(171,238)**	(116,529)
Advances paid	**5,996,446**	4,720,656

Advance payments represent prepayment for delivery of agricultural machinery, equipment and cattle stock for further transfer to finance lease.

15. Amounts due to the Shareholder

	2015	2014
Loans from the Shareholder	103,432,078	97,164,180
Interest payable on loans from the Shareholder	854,004	587,257
Amounts due to the Shareholder	**104,286,082**	97,751,437

(Thousands of tenge)

15. Amounts due to the Shareholder (continued)

Investment loans

The Company entered into Master Lending Agreement No. 35 (the "Agreement") with addendums with the Parent as at 31 December 2015. In accordance with the Agreement, the Company obtained a long-term investment loan to develop, expand and modify material production in agricultural sector. Proceeds from the loan are used by the Company to finance long term investment projects. The funding of the Parent is carried out from the National Fund under bond program through National Bank of the Republic of Kazakhstan. The loan matures on 30 December 2023. In accordance with the Agreement the limit of financing as at 31 December 2014 and 2015 composed KZT 113,459,000 thousand. Interest is accrued at nominal rate of 1.02% per annum (effective interest rate as at the date of receipt is 6.0%). Principal amount as at 31 December 2015, was KZT 84,180,079 thousand (2014: KZT 75,372,129 thousand).

On 23 September 2014, the Company and the Shareholder entered into a framework agreement No. 113 for a loan in the amount of KZT 14,272,998 thousand for the period of 9 years and an interest rate of 10% per annum subject to subsidizing by the Government, of which 7% is subsidized by the Government and 3% per annum is paid by the Company. As at 31 December 2015, as part of this Agreement, the balance of principal amounts to KZT 6,837,636 thousand.

On 1 October 2014, the Company and the Shareholder entered into the loan agreement in the amount of KZT 6,189,000 thousand for a period of 7 years and an interest rate of 1,02% per annum. As at 31 December 2015, as part of this Agreement, the balance of principal amounted to KZT 6,189,000 thousand.

On 24 June 2014, the Company and the Shareholder entered into the framework loan agreement No.63 in the amount of KZT 30,363,131 thousand for a period of 7 years and an interest rate of 5.8% per annum. As at 31 December 2015, as part of this Agreement, the balance of principal amounts to KZT 21,372,738 thousand.

As at 31 December 2015, the Company has no obligations on execution of financial covenants under agreements with the Shareholder. This debt is not secured by collateral.

16. Amounts due to credit institutions

	2015	*2014*
Loans from other banks and entities performing certain types of bank transactions	**30,139,607**	24,059,367
Expenses accrued in the form of interest on loans received	**284,695**	277,311
Due to credit institutions	**30,424,302**	24,336,678

Amounts due to credit institutions comprise:

	Currency	*Maturity*	*Interest rate*	*2015*	*2014*
Islamic Development Bank	US dollars	21 September 2020	6%	**8,747,570**	5,434,918
Societe Generale Bank	US dollars	20 May 2020	6 months LIBOR + 1.5%	**7,689,484**	–
Deere Credit, Inc	US dollars	15 November 2018	5.9%	**3,475,933**	2,601,648
Deere Credit, Inc	US dollars	20 November 2019	5.6%	**3,035,521**	2,034,658
Deere Credit, Inc.	US dollars	15 March 2018	LIBOR + 2.3%	**1,656,906**	1,240,760
Landesbank Berlin AG	EUR	29 December 2019	6 months EURIBOR + 1.35%	**2,062,249**	1,511,628
Landesbank Berlin AG	EUR	28 August 2016	6 months EURIBOR + 1% + Spread for financing	**180,396**	196,188
Landesbank Berlin AG	EUR	16 May 2015	6 months EURIBOR + 0.35%	**–**	71,852
GasPromBank OJSC	US dollars	30 April 2019	4.3%	**1,239,740**	850,625
Rosselhozbank JSC	US dollars	24 May 2018	4.9%	**931,222**	698,645
Rosselhozbank JSC	US dollars	24 April 2019	4.9%	**852,247**	256,298
CNH International SA	US dollars	2 June 2018	6%	**553,034**	415,229
SB Sberbank of Russia JSC	Tenge	6 November 2015	8%	**–**	5,043,800
Eurasian Development Bank JSC	Tenge	6 June 2018	7.5%	**–**	2,138,071
Eurasian Development Bank JSC	Tenge	11 March 2019	9.0%	**–**	1,684,604
HSBC Bank (Germany)	EUR	20 July 2015	6 months EURIBOR + 0.17%	**–**	157,754
Due to credit institutions				**30,424,302**	24,336,678

(Thousands of tenge)

16. Amounts due to credit institutions (continued)

Financial covenants

In accordance with the terms of the credit organization loan agreements, the Company is required to comply with certain financial covenants. In particular, in accordance with agreement with Eurasian Development Bank, the Company is obliged to comply with a certain ratio between the borrowed funds and equity, prudential standards established for subsidiaries of KazAgro in RK agro-industrial complex, as well as the cover ratio for interest expense, under a contract with Societe Generale ratio between the operating profit (EBIT) and compensation expenditures. As at 31 December 2015 and 31 December 2014, the Company complied with the requirements related to the restrictive financial indicators under the agreements with these banks.

Credit lines

As at 31 December 2015, under the Agreement for opening of a letter of credit dated 24 April 2014 with Rosselkhozbank JSC, the Company disbursed funds in the amount of US dollars 3,332 thousand or KZT 614,010 thousand. Balance of principal at 31 December 2015 under this Agreement amounts to US dollars 2,516 thousand or KZT 855,465 thousand.

17. Debt securities issued

In August-September 2014, the Company issued bonds at the domestic market in the amount of KZT 17,000,000 thousand for a period of 8.5 years and a nominal interest rate of 8% per annum. In July-September 2015, the Company issued bonds in the amount of KZT 18,000,000 thousand for a period of 7 years and a nominal rate of 8.5% per annum. Also, in July-September 2015, the Company issued bonds in the amount of KZT 10,000,000 thousand for a period of 9 years and an interest rate of 8.5% per annum.

The Company reflects the outstanding securities (bonds) within issued debt securities by taking into account the accrued interest, premium and adjusts by the amount of discount on these securities.

	2015	*2014*
Debt securities issued	**38,902,500**	16,962,500
Discount on debt securities issued	**(998,489)**	(952,997)
Interest accrued on debt securities issued	**720,383**	621,958
Total debt securities issued	**38,624,394**	16,631,461

18. Taxation

Corporate income tax benefit comprises:

	2015	*2014*
Tax charge – current portion	**–**	–
Adjustments to current corporate tax of prior years	**–**	(223,522)
Deferred corporate income tax benefit – origination and reversal of temporary differences	**429,404**	711,145
Less: deferred tax recognized in capital	**(575,102)**	(1,207,170)
Income tax benefit	**(145,698)**	(719,547)

Deferred tax recognized in equity is allocated as follows:

	2015	*2014*
By assets	**290,472**	339,994
By liabilities	**(865,574)**	(1,547,164)
Income tax recognised in equity	**(575,102)**	(1,207,170)

(Thousands of tenge)

18. Taxation (continued)

Kazakhstan legal entities have to independently file corporate income tax returns. Standard corporate income tax rate comprised 20% in 2014 and 2015. The effective income tax rate differs from the statutory income tax rates. A reconciliation of the corporate income tax expense based on statutory rates with actual income tax gains is as follows:

	2015	*2014*
Profit before tax	**(5,722,381)**	2,453,711
Statutory tax rate	**20%**	20%
Theoretical corporate income tax (benefit)/expenses at the statutory rate	**(1,144,476)**	490,742
Non-taxable interest income on finance lease receivables	**(73,943)**	(2,038,491)
Non-deductible expenses:		
- allowance for impairment of loans and finance lease receivables	**962,341**	764,249
- allowance for impairment of property held for finance lease	**75,048**	51,687
- expenses not related to principal activities	**21,683**	12,155
- tax penalties and fines	**13,649**	111
Corporate income tax benefit	**(145,698)**	(719,547)

Deferred tax assets and liabilities as at 31 December, as well as their movements for the respective years comprise the following:

		Origination and decrease of temporary differences			*Origination and decrease of temporary differences*		
	2013	*In the income statement*	*Within equity*	*2014*	*In the income statement*	*Within equity*	*2015*
Tax effect of deductible temporary differences of liability/(asset)							
Derivative financial assets	1,112,397	(1,112,397)	–	–	**–**	**–**	**–**
Loans to customers	369,968	205,403	332,814	908,185	**(205,474)**	**290,472**	**993,183**
Finance lease receivables	–	64,859	–	64,859	**(64,859)**	**–**	**–**
Allowance for unused vacations	38,047	6,194	–	44,241	**3,409**	**–**	**47,650**
Guarantees	29,660	–	7,180	36,840	**–**	**–**	**36,840**
Deferred tax asset	1,550,072	(835,941)	339,994	1,054,125	**(266,924)**	**290,472**	**1,077,673**
Derivative financial assets	–	(93,767)	–	(93,767)	**(253,146)**	**–**	**(346,913)**
Loans to customers	–	–	–	–	**–**	**–**	**–**
Finance lease receivables	(994,762)	994,762	–	–	**(76,684)**	**–**	**(76,684)**
Amounts due from credit institutions	31,577	(65,977)	–	(34,400)	**(21,153)**	**–**	**(55,553)**
Amounts due to the shareholder	(1,845,796)	465,080	(1,547,164)	(2,927,880)	**763,976**	**(865,574)**	**(3,029,478)**
Property and equipment and intangible assets	(61,190)	31,868	–	(29,322)	**(371)**	**–**	**(29,693)**
Deferred tax liability	(2,870,171)	1,331,966	(1,547,164)	(3,085,369)	**412,622**	**(865,574)**	**(3,538,321)**
Deferred tax (liabilities)	(1,320,099)	496,025	(1,207,170)	(2,031,244)	**145,698**	**(575,102)**	**(2,460,648)**

Deferred tax assets are recognised only to the extent that it is probable that the future taxable profit will be available against which an asset can be utilized. Deferred tax assets are decreased to the extent that it is no longer probable that a respective tax benefit will be realized.

According to the Law of the Republic of Kazakhstan "On Amendments and Additions to Certain Legislative Acts of the Republic of Kazakhstan on the permit system" dated 16 May 2014 203-V, Article 103 of the Tax Code was amended by paragraph 1-1. This clause has been put into force since 1 January 2013. According to this paragraph, under certain conditions, interest expenses are deductible on an accrual basis, whereas in 2013 only cash method was applied. Thus, in 2014 the Company reclassified income tax expenses between deferred and current income tax. The reclassification amounted to KZT 223,522 thousand.

(Thousands of tenge)

19. Advances received

Advances received as at 31 December 2015, were KZT 4,760,927 thousand (2014: KZT 3,421,569 thousand). They represented prepayments from clients for property held for finance lease that was acquired under loan agreements or finance lease agreements but transferred to lessee.

20. Other assets and other liabilities

As at 31 December other assets comprise:

	2015	2014
Accounts receivable	**645,017**	661,270
Prepaid expenses	**50,131**	23,636
Other assets	**547**	216
	695,695	685,122
Less: allowance for impairment of other assets *(Note 26)*	**(514,876)**	(409,786)
Other assets	**180,819**	275,336

Other liabilities comprise:

	2015	2014
Payables to suppliers	**5,233,635**	6,901,867
Deferred interest income	**1,016,887**	1,152,741
Due to employees	**270,531**	275,689
Taxes payable other than corporate income tax	**73,570**	122,569
Other current liabilities	**184,211**	185,287
Other liabilities	**6,778,834**	8,638,153

As at 31 December, payables to suppliers comprise:

	2015	2014
Dalsem Horticultural Projects B.V.	**1,001,746**	–
Eurasia Group AG	**622,352**	236,794
Shetelig Bel ChUP	**590,437**	391,353
Rostselmash LLC	**302,166**	1,096,980
Rufepa TecnoAgro.S/L	**182,936**	180,954
Silos Cordoba S.L	**163,227**	164,344
Agralimex CmbH	**160,978**	16,645
Birlesim Silo Energi Degirmen Makina San.Ve.Tic. Ltd	**160,662**	194,048
JIANGSU MUYANG GROUP CO., LTD	**140,297**	75,242
Altuntas Havalandirma ve HayvancilicSan.Tic.A.S	**131,039**	102,777
Techna PO LLC	**100,551**	59,983
Lorenz Handels GmbH	**99,084**	214,804
TT-62 VEHICULOS S.L.	**86,719**	46,508
IT integra LLP	**86,708**	34,600
Buhler GmbH	**77,244**	3,084
Elif Makina Mobilya Cida Kirtasiye Sanayi Ve Dis Ticaret Limited Sirketi	**41,981**	22,515
Eurasia Group Kazakhstan LLP	**39,354**	107,743
Combine harvester plant "Vektor" LLP	**29,490**	917,041
Bles Dairies Livestock B.v.	**2,508**	629,381
Agromashholding JSC	–	621,800
L.Rovani S.R.L.	–	305,920
Alapala Insaat Taahhut Turizm Sanayi Ve Ticaret LTD STI	–	181,384
Invernaderos Trigo S.A	–	124,739
Lidagroprommash OJSC	–	91,174
Other	**1,214,156**	1,082,054
Payables to suppliers	**5,233,635**	6,901,867

21. Commitments and contingencies

Operating environment

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.
In 2015, the Kazakhstan economy was negatively impacted by a significant drop in crude oil prices and a significant devaluation of the tenge. The combination of the above resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth. Management believes it is taking appropriate measures to support the sustainability of the Company's business in the current circumstances. However, further deterioration in the areas described above could have negative effect on the Company's operating results and financial position. In case of further deterioration in the areas described above the negative effect on the Fund's operating results and financial position is not currently determinable.

Also, Borrowers could be affected by deterioration in liquidity which, in turn, has an impact on their ability to settle their debt to the Company. The management of the Company believes that it is taking appropriate measures to support the sustainability of the Company's business in the current circumstances. However, further deterioration in the areas described above could have negative effect on the Company's operating results and financial position.

Political and economic environment

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

In 2015 the Kazakhstan economy continued to be negatively impacted by a significant decline in crude oil prices and a significant KZT devaluation. The combination of these factors, along with other factors, led to a decrease in the availability of capital, increase in the cost of capital, higher inflation and uncertainty about economic growth. The management of the Company believes that it is taking appropriate measures to support the sustainability of the Company's business in the current circumstances.

Taxation

Kazakhstani commercial, and in particular, tax legislation contain regulations, interpretation of which could vary, and in certain cases the legislation could be amended with indirect retrospective impact. In addition, Company's management's interpretation of the legislation may differ from that of tax authorities, and in the result transactions carried out by the Company could be estimated by tax authorities in other way, and this could result in additional charge of taxes, fines and penalties. Company's management considers that all necessary tax accruals were fulfilled and, correspondingly, there were no any allowances charged in the statements. Tax periods remain open for five years.

Undrawn loan facilities

At 31 December the Company's commitments and contingencies comprised the following:

	2015	*2014*
Credit related commitments		
Undrawn loan facilities	**5,750,161**	38,959,378
Issued guarantees	**2,827,399**	1,754,939
Total	**8,577,560**	40,714,317

On 16 June 2011, the Company issued a financial guarantee in the amount of 6,661,130 Islamic Dinar on behalf of associated company JSC Fund of financial support of agriculture to the Islamic Development Bank under loan facility. This guarantee was secured by counter-guarantee of KazAgro. The amount of the loan obtained by Fund for Financial Support of Agriculture JSC as at 31 December 2015, totalled to US dollar 8,316 thousand or KZT 2,827,399 thousand.

22. Equity

Movements in common shares outstanding, issued and fully paid were as follows:

	Offering price (KZT)	*Number of ordinary shares*	*Total (thousand of Tenge)*
At 31 December 2013		80,883,511	80,883,511
Increase in share capital	1,000	1,953,693	1,953,693
At 31 December 2014		82,837,204	82,837,204
Increase in share capital	**1,000**	**–**	**–**
At 31 December 2015		**82,837,204**	**82,837,204**

(Thousands of tenge)

22. Equity (continued)

As at 31 December 2015, the total number of authorized and paid common shares comprised 82,837,204 pieces (31 December 2014: 82,837,204 pieces) at the offering price of KZT 1,000. During the reporting period there were no changes. The owner of a common share has the right for one vote and an equal right for dividends. Distributable income is determined on the basis of income recorded in the Company's financial statements.

At the General shareholder's meeting held on 9 June 2014, the Company declared dividends for 2013 in the amount of KZT 2,705,114 thousand or KZT 33.44 per one common share. Dividends for 2013 were fully paid in November 2014. At the General Meeting of the Shareholder held on 30 April 2015, the Company declared dividends for 2014 in the amount of KZT 2,855,932 thousand or KZT 34.48 per one common share. As at 31 December 2015 the Fund were fully paid.

In accordance with the Regulation of the Company, provisions are made for general risks including future losses and other unforeseen risks and obligations. Reserve capital is subject to distribution on the basis of decision of general shareholders meeting. The reserve fund was not changed in 2015. As at 31 December 2014 and 2015 the reserve fund amounted to KZT 1,436,184 thousand.

Change in the allowances is presented as follows:

	Additional paid-in capital	*Provision for notional distribution*
At 31 December 2013	12,597,918	(6,525,798)
Provision for notional distribution	–	(1,699,972)
Tax effect on provision for notional distribution	–	339,994
Initial recognition of income on loans received at below market rates	7,735,818	–
Tax effect from initial recognition of income on loans received at below market rates	(1,547,164)	–
At 31 December 2014	18,786,572	(7,885,776)
At 31 December 2014	18,786,572	(7,885,776)
Provision for notional distribution	**–**	**(1,452,361)**
Tax effect on provision for notional distribution	**–**	**290,472**
Initial recognition of income on loans received at below market rates	**4,327,868**	**–**
Tax effect from initial recognition of income on loans received at below market rates	**(865,574)**	**–**
At 31 December 2015	**22,248,866**	**(9,047,665)**

At 31 December 2015 the Company's book value per common share calculated in accordance with Kazakhstan Stock Exchange methodology is KZT 1,159 (2014: KZT 1,224).

Calculation of book value per share as at 31 December:

	2015	*2014*
Assets	**285,298,280**	256,437,027
Intangible assets	**(227,695)**	(182,528)
Liabilities	**(189,868,721)**	(154,875,258)
Net assets	**95,201,864**	101,379,241
Number of common shares as at the calculation date, shares	**82,837,204**	82,837,204
Book value per share, in Tenge	**1,149.26**	1,223.84

(Thousands of tenge)

23. Other income

Other income less of other expenses comprise:

	2015	*2014*
Gain from leasing items subject to return	**595,603**	–
Gain from write-off of liabilities	**122,692**	161,218
Gain from expenses reimbursement	**114,367**	229,555
Fines and penalties received	**56,312**	25,942
Other	**41,352**	96,755
Other income	**930,326**	513,470

Fines and penalties were obtained by the Company from suppliers for late delivery of equipment held for finance lease.

24. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2015	2014
Personnel expenses and bonuses	**(2,146,064)**	(2,317,108)
Social security costs	**(209,170)**	(225,400)
Personnel expenses	**(2,355,234)**	(2,542,508)
Taxes, other than income tax	**(140,323)**	(67,628)
Leases	**(117,791)**	(107,789)
Professional services	**(88,539)**	(74,867)
Repair and maintenance	**(81,218)**	(104,934)
Advertising	**(69,293)**	(79,231)
Sponsorship	**(54,999)**	(18,997)
Bank fees	**(50,506)**	(79,036)
Business trip expenses	**(45,659)**	(60,539)
Materials	**(37,928)**	(47,238)
Communication	**(36,716)**	(48,314)
Insurance	**(17,406)**	(13,561)
Office supplies	**(7,854)**	(7,841)
Trainings	**(5,242)**	(13,886)
Utilities	**(4,929)**	(4,882)
Legal expenses	**(2,988)**	(5,115)
Social program expenses	**(2,115)**	(3,829)
Other	**(47,791)**	(53,977)
Other operating expenses	**(811,297)**	(791,664)

25. Net losses less gains from changes in deferred cash flows of loans to customers

In the ordinary course of business, the Company revises the estimated proceeds on loans to customers by providing the grace period and allowing early repayment due to events not related to impairment of loans. The Company recalculates the carrying amount by calculating the present value of expected future cash flows at the original effective interest rate. The effect of change in the carrying amount is recognized within profit or loss. In 2015, the net loss on revised loans amounted to KZT 647,866 thousand (2014: KZT 567,194 thousand).

(Thousands of tenge)

26. Other loss from impairment and provisions

The movements in other impairment allowances and provisions were as follows:

	Property held for financial lease	*Advances paid*	*Other assets*	*Loss from impairment of property, plant and equipment*	*Total*
At 31 December 2013	846,196	45,467	391,039	–	1,282,702
Charge	258,433	71,062	18,747	–	348,242
Write-off of assets	(628,863)	–	–	–	(628,863)
Reclassification from assets held for sale	144,540	–	–	–	144,540
At 31 December 2014	620,306	116,529	409,786	–	**1,146,621**
Charge	**374,276**	**54,709**	**110,588**	**967**	**540,540**
Write-off of assets	**(141,243)**	**–**	**(5,498)**	**–**	**(146,741)**
At 31 December 2015	**853,339**	**171,238**	**514,876**	**967**	**1,540,420**

Allowances for impairment are deducted from the related assets.

27. Risk management

Introduction

Risk is inherent in the Company's activities. The Company manages these risks through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities. The Company is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It also subject to operating risks.

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

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Management Board

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

Risk management

The Risk Management Unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process.

Control of risks

The Risk Controlling Unit is responsible for monitoring compliance with risk principles, policies and limits, across the Company. The Company's structure comprises a separate unit that is directly subordinate to the Board of Directors and which is responsible for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This unit also ensures the complete capture of the risks in risk measurement and reporting systems. There are risk managers for the purpose of risk controlling in the branches of the Company.

27. Risk management (continued)

Introduction (continued)

Treasury of the Company

The Company's Treasury is responsible for managing the Company's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Company.

Internal audit

The objective of internal audit is to provide the Board of Directors with independent, objective and unbiased information based on annual audits, both adequacy of procedures and compliance with these procedures by the Company. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations directly to the Boards of Directors.

Risk measurement and reporting systems

The Company's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Company also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

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.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented to the Board of Directors, Management Board, Credit Committee and the heads of departments. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, VaR, liquidity ratios, interest risk ratios and risk profile changes.

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.

The Company's Management Board and other relevant employees meetings are regularly held to discuss maintenance of established limits and analyse VaR, investments, liquidity, and risk developments.

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.

The Company actively uses collateral to reduce its credit risks (see below for more detail).

Credit risk

Credit risk is the risk that the Company will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Company manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Company has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions, Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Company to assess the potential loss as a result of the risks to which it is exposed and undertake corrective action.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

(Thousands of tenge)

27. Risk management (continued)

Credit risk (continued)

Credit-related commitments risks

The Company makes available to its customers guarantees which may require that the Company make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Company to similar risks to loans and these are mitigated by the same control processes and policies.

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 effect of collateral and other risk mitigation techniques is shown in *Note 6,7, 8 and 9.*

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Company's internal credit ratings. The table below shows the credit quality by class of asset for loan-related balance sheet lines, based on the Company's credit rating system. The borrowers with good financial position and good debt service are included in the standard grade. Sub-standard grade comprises loans below standard grade that are collectively assessed.

2015	*Standard grade*	*Substandard grade*	*Past due but not impaired*	*Individually impaired*	*Total 2015*
Cash and cash equivalents	**23,874,332**	–	–	–	**23,874,332**
Amounts due from credit institutions	**2,549,777**	–	–	–	**2,549,777**
Derivative financial assets	**1,000,497**	–	–	**734,070**	**1,734,567**
Loans to customers	**9,162,110**	**29,458,128**	**14,582,395**	**12,131,796**	**65,334,429**
Finance lease receivables	**9,081,318**	**142,119,747**	**10,437,429**	**34,858,743**	**196,497,237**
Total	**45,668,034**	**171,577,875**	**25,019,824**	**47,724,609**	**289,990,342**

2014	*Standard grade*	*Substandard grade*	*Past due but not impaired*	*Individually impaired*	*Total 2014*
Cash and cash equivalents	23,525,825	–	–	–	23,525,825
Amounts due from credit institutions	4,043,957	–	–	–	4,043,957
Derivative financial assets	468,834	–	–	–	468,834
Loans to customers	33,349,591	1,283,511	9,861,138	14,343,005	58,837,245
Finance lease receivables	107,599,570	8,398,802	13,282,890	38,307,418	167,588,680
Total	168,987,777	9,682,313	23,144,028	52,650,423	254,464,541

It is the Company's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products.

Aging analysis of past due but not impaired loans per class of financial assets

As at 31 December 2015	*Less than 30 days*	*31-60 days*	*61-90 days*	*Over 90 days*	*Total*
Loans to customers	**2,054,129**	**2,721,309**	**267,450**	**9,539,507**	**14,582,395**
Finance lease receivables	**3,377,998**	**612,649**	**399,791**	**6,046,991**	**10,437,429**
Total	**5,432,127**	**3,333,958**	**667,241**	**15,586,498**	**25,019,824**

As at 31 December 2014	*Less than 30 days*	*31-60 days*	*61-90 days*	*Over 90 days*	*Total*
Loans to customers	2,955,750	2,163,695	49,822	4,691,871	9,861,138
Finance lease receivables	2,763,538	4,767,592	606,635	5,145,125	13,282,890
Total	5,719,288	6,931,287	656,457	9,836,996	23,144,028

See *Notes 8 and 9* for more detailed information with respect to the allowance for impairment of loans to customers.

(Thousands of tenge)

27. Risk management (continued)

Credit risk (continued)

Impairment assessment

The main considerations for the loan impairment assessment comprise: whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Company addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Company determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining allowance amounts include: the sustainability of the counterparty's business plan; its ability to improve performance once a financial difficulty has arisen; projected receipts and the expected dividend payout should bankruptcy ensue; the availability of other financial support and the realisable value of collateral considering its specifications, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers that are not individually significant (including residential mortgages and unsecured consumer lending) and for individually significant loans where there is no objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Company's overall policy.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

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

	2015				*2014*			
	Kazakhstan	*OECD*	*CIS*	*Total*	*Kazakhstan*	*OECD*	*CIS*	*Total*
Assets								
Cash and cash equivalents	23,874,332	–	–	23,874,332	23,525,825	–	–	23,525,825
Amounts due from credit institutions	2,549,777	–	–	2,549,777	4,043,957	–	–	4,043,957
Derivative financial assets	1,734,567	–	–	1,734,567	468,834	–	–	468,834
Loans to customers	59,739,798	–	–	59,739,798	53,044,703	–	–	53,044,703
Finance lease receivables	179,633,484	–	–	179,633,484	155,525,718	–	–	155,525,718
Other financial assets	130,141	–	–	130,141	251,484	–	–	251,484
	267,662,099	–	–	267,662,099	236,860,521	–	–	236,860,521
Liabilities								
Amounts due to the Shareholder	104,286,082	–	–	104,286,082	97,751,437	–	–	97,751,437
Due to credit institutions	–	27,401,093	3,023,209	30,424,302	5,043,800	17,487,310	1,805,568	24,336,678
Outstanding securities	38,624,394	–	–	38,624,394	16,631,461	–	–	16,631,461
Other financial liabilities	1,409,277	3,744,454	1,096,807	6,250,538	3,229,204	3,086,987	1,739,507	8,055,698
	144,319,753	31,145,547	4,120,016	179,585,316	122,655,902	20,574,297	3,545,075	146,775,274
Net position on assets and liabilities	123,342,346	(31,145,547)	(4,120,016)	88,076,783	114,204,619	(20,574,297)	(3,545,075)	90,085,247

(Thousands of tenge)

27. Risk management (continued)

Liquidity risk and funding management

Liquidity risk is the risk that the Company will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. Also, it manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

Analysis of financial liabilities by remaining contractual maturities

The tables below summarise the maturity profile of the Company's financial liabilities at 31 December based on contractual undiscounted repayment obligations. Repayments, which are subject to notice are treated as if notice were to be given immediately. However, the Company expects that many customers will not request repayment on the earliest date the Company could be required to pay.

Financial liabilities as at 31 December 2015	***Less than 3 months***	***3 to 12 months***	***From 1 to 5 years***	***Over 5 years***	***Total***
Amounts due to the Shareholder	**6,453,293**	**16,704,839**	**78,244,721**	**24,464,807**	**125,867,660**
Due to credit institutions	**1,569,261**	**7,815,783**	**24,722,984**	**–**	**34,108,028**
Debt securities issued	**678,500**	**2,543,400**	**12,887,600**	**45,763,850**	**61,873,350**
Total undiscounted financial liabilities	**8,701,054**	**27,064,022**	**115,855,305**	**70,228,657**	**221,849,038**

Financial liabilities as at 31 December 2014	***Less than 3 months***	***3 to 12 months***	***From 1 to 5 years***	***Over 5 years***	***Total***
Amounts due to the Shareholder	3,208,113	10,029,763	74,596,682	32,343,444	120,178,002
Due to credit institutions	3,589,062	6,897,114	14,883,114	1,113,802	26,483,092
Debt securities issued	678,500	678,500	5,428,000	21,712,000	28,497,000
Total undiscounted financial liabilities	7,475,675	17,605,377	94,907,796	55,169,246	175,158,094

The table below shows the contractual expiry by maturity of the Company's commitments and contingencies. Each undrawn commitment on lending is included in the time band containing the earliest date it can be drawn down. In the case of financial guarantee contracts the maximum amount of guarantee applies to the earliest period in which this guarantee may be called.

	Less than 3 months	***3 to 12 months***	***From 1 to 5 years***	***More than 5 years***	***Total***
2015 *(Note 21)*	**757,548**	**5,200,588**	**2,362,388**	**257,036**	**8,577,560**
2014 *(Note 21)*	2,202,390	38,511,927	–	–	40,714,317

The Company expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

The Company's capability to meet its liabilities depends upon its ability to realise an equivalent amount of assets within the certain period of time.

The Company has received significant funds from the Shareholder, Management believes that this level of funding will remain with the Company for the foreseeable future and that in the event of withdrawal of funds, the Company would be given sufficient notice so as to realise its liquid assets to enable repayment.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The market risk for the non-trading portfolio is managed and monitored using sensitivity analysis. Except for the concentrations within foreign currency, the Company has no significant concentration of market risk.

(Thousands of tenge)

27. Risk management (continued)

Market risk (continued)

Market risk – non-trading

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Company's statement of comprehensive income.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December.

Currency	*Increase in basis points 2015*	*Sensitivity of net interest income 2015*	*Sensitivity of equity 2015*
EUR	**100**	**(70,097)**	**(70,097)**
US dollar	**100**	**15,379**	**15,379**

Currency	*Increase in basis points 2014*	*Sensitivity of net interest income 2014*	*Sensitivity of equity 2014*
EUR	100	(11,471)	(11,471)
US dollar	100	5,839	5,839

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates, The Management Board has set limits on positions by currency based on the NBRK recommendations. Positions are monitored on a daily basis.

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 the Tenge, with all other variables held constant on the income statement (due to the fair value of currency sensitive trading monetary assets). The effect on the equity does not differ from the effect on the income statement. All other parameters are held constant. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

Currency	*Change in currency rate, % 2015*	*Effect on profit before tax 2015*	*Change in currency rate, % 2014*	*Effect on profit before tax 2014*
US dollar	**(60)**	**(13,142,654)**	(17)	(304,739)
US dollar	**20**	**4,380,885**	17	314,776
EUR	**(60)**	**6,440**	(18)	(405,402)
EUR	**20**	**(2,147)**	18	416,789
RUR	**(40)**	**(17,452)**	(34)	(167,744)
RUR	**29**	**12,652**	34	167,744

Prepayment risk

Prepayment risk is the risk that the Company will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

If 10% of loan portfolio were to prepay at the beginning of the year, with all other variables held constant, the profit before tax for the year would be increased by KZT 223,937 thousand (2014: would be increased by KZT 8,343 thousand).

If 10% of debt portfolio were to prepay at the beginning of the year, with all other variables held constant, the profit before tax for the year would be decreased by KZT 260,002 thousand (2014: would be increased by KZT 871,709 thousand).

(Thousands of tenge)

27. 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 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.

28. Fair values of financial instruments

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

31 December 2015	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets measured at fair value				
Derivative financial assets	–	1,734,567	–	1,734,567
Total financial assets measured at fair value	–	1,734,567	–	1,734,567
Assets whose fair value is disclosed				
Cash and cash equivalents	–	23,874,332	–	23,874,332
Amounts due from credit institutions	–	–	2,549,777	2,549,777
Loans to customers	–	–	54,472,255	54,472,255
Finance lease receivables	–	–	170,528,033	170,528,033
Other assets	–	–	130,141	130,141
Total financial assets whose fair value is disclosed	–	23,874,332	227,680,206	251,554,538
Financial liabilities whose fair value is disclosed				
Due to the Shareholder	–	–	94,626,632	94,626,632
Due to credit institutions	–	–	28,136,223	28,136,223
Debt securities issued	–	36,570,500	–	36,570,500
Other liabilities	–	–	6,250,538	6,250,538
Total financial liabilities whose fair value is disclosed	–	36,570,500	129,013,393	165,583,893

(Thousands of tenge)

28. Fair values of financial instruments (continued)

31 December 2014	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets measured at fair value				
Derivative financial assets	–	468,834	–	468,834
Total financial assets measured at fair value	–	468,834	–	468,834
Assets whose fair value is disclosed				
Cash and cash equivalents	–	23,525,825	–	23,525,825
Amounts due from credit institutions	–	–	4,043,957	4,043,957
Loans to customers	–	–	54,968,984	54,968,984
Finance lease receivables	–	–	151,045,485	151,045,485
Other assets	–	–	251,484	251,484
Total financial assets whose fair value is disclosed	–	23,525,825	210,309,910	233,835,735
Financial liabilities whose fair value is disclosed				
Due to the Shareholder	–	–	86,483,872	86,483,872
Due to credit institutions	–	–	22,921,818	22,921,818
Debt securities issued	–	15,494,741	–	15,494,741
Other liabilities	–	–	8,055,698	8,055,698
Total financial liabilities whose fair value is disclosed	–	15,494,741	117,461,388	132,956,129

Financial instruments reflected at fair value

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Company's estimate of assumptions that a market participant would make when valuing the instruments.

Derivatives

Derivative instruments valued using a valuation technique with market observable inputs. As for embedded derivative instruments assumptions are made on the basis of market rates adjusted by specific characteristics of the instrument. The Company uses Black-Scholes model to evaluate its financial instruments and valuation models (such as risk free rates and volatility coefficients), are determined on the basis of financial instruments with similar characteristics quoted at Bloomberg.

Financial instruments not carried at fair value in the statement of financial position

Set out below is a comparison of the carrying values and fair values of the Company's financial instruments.

	Carrying value 2015	*Fair value 2015*	*Unrecog-nised gain/ (loss) 2015*	*Carrying value 2014*	*Fair value 2014*	*Unrecog-nised gain/ (loss) 2014*
Financial assets						
Cash and cash equivalents	**23,874,332**	**23,874,332**	**–**	23,525,825	23,525,825	–
Amounts due from credit institutions	**2,549,777**	**2,549,777**	**–**	4,043,957	4,043,957	–
Loans to customers	**59,739,798**	**54,472,255**	**(5,267,543)**	53,044,703	54,968,984	1,924,281
Finance lease receivables	**179,633,484**	**170,528,033**	**(9,105,451)**	155,525,718	151,045,485	(4,480,233)
Other assets	**130,141**	**130,141**	**–**	251,484	251,484	–
	265,927,532	**251,554,538**	**(14,372,994)**	236,391,687	233,835,735	(2,555,952)
Financial liabilities						
Due to the Shareholder	**104,286,082**	**94,626,632**	**9,659,450**	97,751,437	86,483,872	11,267,565
Due to credit institutions	**30,424,302**	**28,136,223**	**2,288,079**	24,336,678	22,921,818	1,414,860
Debt securities issued	**38,624,394**	**36,570,500**	**2,053,894**	16,631,461	15,494,741	1,136,720
Other liabilities	**6,250,538**	**6,250,538**	**–**	8,055,698	8,055,698	–
	179,585,316	**165,583,893**	**14,001,423**	146,775,274	132,956,129	13,819,145
Total unrecognised change in unrealized fair value			**(371,571)**			11,263,193

28. Fair value of financial instruments (continued)

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 the financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to amounts due from credit institutions placed on market terms.

Fixed and variable rate financial instruments

The fair values of unquoted financial instruments are estimated by discounting future cash flows using rates currently available for financial instruments on similar terms, credit risk and remaining maturities.

In case of assets with fair values disclosed in the financial statements, future cash flows are discounted at the average market rate of financial instruments with similar maturities based on the statistical data published by the National Bank of the Republic of Kazakhstan. The indicated approach is used in determining the fair value of loans issued to clients and finance lease receivables.

In case of liabilities with fair values disclosed in the financial statements, future cash flows are discounted at the average market rate of financial instruments with similar maturities.

- The amounts due to the Shareholder are discounted at the average rate of bonds of the Ministry of Finance of the Republic of Kazakhstan with similar maturity;
- The amounts due to credit institutions are discounted at the average market rate of financial organizations based on data placed on Bloomberg.

The future cash flows comprise repayment of principal and interest calculated at the interest rate stipulated by the agreement to the amount of principal.

Movements in level 2 assets and liabilities at fair value

The following table shows a reconciliation of the opening and closing amounts of Level 2 financial assets and liabilities, which are recorded at fair value:

	At 1 January 2015	*Gains recognized in the income statement*	*Acquisition*	*Repayment*	*At 31 December 2015*
Financial assets					
Derivative financial instruments	**468,834**	**1,280,852**	**(111)**	**(15,008)**	**1,734,567**

(Thousands of tenge)

29. 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 27* "Risk management" for the Company's contractual undiscounted repayment obligations.

	2015			*2014*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Assets						
Cash and cash equivalents	23,874,332	–	23,874,332	23,525,825	–	23,525,825
Amounts due from credit institutions	2,549,777	–	2,549,777	4,043,957	–	4,043,957
Derivative financial assets	1,608,230	126,337	1,734,567	409,046	59,788	468,834
Loans to customers	23,256,088	36,483,710	59,739,798	23,075,627	29,969,076	53,044,703
Finance lease receivables	47,394,307	132,239,177	179,633,484	40,640,977	114,884,741	155,525,718
Assets held for sale	508,034	–	508,034	–	–	–
Property held for financial lease	7,594,407	–	7,594,407	11,726,638	–	11,726,638
Property and equipment	–	1,078,038	1,078,038	–	1,082,622	1,082,622
Intangible assets	–	227,695	227,695	–	182,528	182,528
Income tax assets	626,732	–	626,732	551,867	–	551,867
VAT and other taxes recoverable	1,554,151	–	1,554,151	1,288,343	–	1,288,343
Advances paid	–	5,996,446	5,996,446	4,720,656	–	4,720,656
Other assets	180,819	–	180,819	275,336	–	275,336
Total	109,146,877	176,151,403	285,298,280	110,258,272	146,178,755	256,437,027
Liabilities						
Amounts due to the Shareholder	21,789,323	82,496,759	104,286,082	11,689,999	86,061,438	97,751,437
Due to credit institutions	6,923,504	23,500,798	30,424,302	9,759,749	14,576,929	24,336,678
Debt securities issued	720,384	37,904,010	38,624,394	621,958	16,009,503	16,631,461
Deferred income tax liabilities	–	2,460,648	2,460,648	–	2,031,244	2,031,244
Advances received	4,760,927	–	4,760,927	3,421,569	–	3,421,569
Deferred VAT	367,518	2,166,016	2,533,534	264,149	1,800,567	2,064,716
Other liabilities	6,594,639	184,195	6,778,834	8,453,958	184,195	8,638,153
Total	41,156,295	148,712,426	189,868,721	34,211,382	120,663,876	154,875,258
Net	67,990,582	27,438,977	95,429,559	76,046,890	25,514,879	101,561,769

30. 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.

Transactions with government-related entities (excluding the shareholder)

Republic of Kazakhstan, acting through the State Property Committee within the Ministry of Finance, controls the Company and has a significant impact on its activities.

The Republic of Kazakhstan through its state agencies and other institutions directly and indirectly controls and has significant influence over a significant number of entities (together referred to as "entities associated with the state"). The Company executes bank transactions with these entities such as raising of loans and placement of cash.

(Thousands of tenge)

30. Related party transactions (continued)

Transactions with non-government-related entities including the shareholder

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

	2015		*2014*	
	Entities under common control	*Other related parties*	*Entities under common control*	*Other related parties*
Loans issued as at 1 January	–	–	64,803	–
Loans issued during the year	–	–	–	–
Repayment of loans during the year	–	–	(64,803)	–
Loans issued as at 31 December	–	–	–	–
Finance lease receivables as at 1 January	466,063	–	511,175	–
Issued during the year	363,651	–	230,729	–
Repaid during the year	(146,738)	–	(275,841)	–
Finance lease receivables at 31 December	682,976	–	466,063	–
Interest income accrued on finance lease as at 31 December	45,072	–	12,494	–
Less: provision for impairment as at 31 December	(27,800)	–	(156,142)	–
Finance lease receivables as at 31 December, less provision	700,248	–	322,415	–

	2015			*2014*		
	Shareholder	*Entities under common control*	*Other related parties*	*Shareholder*	*Entities under common control*	*Other related parties*
Loans obtained at 1 January	97,164,180	–	–	79,328,128	–	–
Loans obtained during the year	24,375,431	–	–	37,675,091	–	–
Repayment of loans during the year	(18,107,533)	–	–	(19,839,039)	–	–
Loans obtained at 31 December	103,432,078	–	–	97,164,180	–	–
Interest expense accrued on loans as at 31 December	854,004	–	–	587,257	–	–
Dividends payable as at 1 January	–	–	–	–	–	–
Dividends declared during the year	2,855,932	–	–	2,705,114	–	–
Dividends paid during the year	(2,855,932)	–	–	(2,705,114)	–	–
Dividends payable as at 31 December	–	–	–	–	–	–
Interest income on finance lease receivables	–	57,248	–	–	11,283	–
Allowance for impairment of finance lease receivables	–	128,342	–	–	(44,901)	–
Interest expense	(6,298,616)	–	–	(5,707,929)	–	–
Other expense	–	(5,697)	–	–	(10,358)	–

(Thousands of tenge)

30. Related party transactions (continued)

Transactions with non-government-related entities including the shareholder (continued)

Loans and finance lease receivables were issued to other related parties at rates ranging from 4% to 13% with term from 4 to 7 years.

Compensation to the key management personnel consisting of 5 persons (2014: 3 persons) comprised the following:

	2015	*2014*
Salary and other short-term benefits	**58,631**	79,085
Taxes and social security costs	**5,897**	7,599
Total compensation to key management personnel	**64,528**	86,684

31. Capital adequacy

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 and 1988 Basel Agreement in supervising the Company.

During 2015, the Company had complied in full with all its externally imposed capital requirements.

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

Capital adequacy ratio established by the NBRK

The NBRK requires companies engaged in certain types of banking activities to maintain a minimum Tier 1 capital adequacy ratio of 6% of assets and minimum general total capital adequacy ratio of 12% of risk-weighted assets, At 31 December, the Company's capital adequacy ratio on this basis was as follow:

	2015	*2014*
Tier 1 capital	**95,358,573**	98,381,188
Tier 2 capital	**–**	3,173,258
Total capital	**95,358,573**	101,554,446
Assets	**285,298,280**	256,437,027
Risk weighted assets and contingent and potential liabilities	**271,111,965**	272,816,747
Operational risk	**5,969,930**	4,765,441
Capital adequacy ratio (k1) – not less than 6%	**33,42%**	38,36%
Capital adequacy ratio (k1-3) – not less than 12%	**34,42%**	36,59%

Capital adequacy ratio under 1988 Basel Accord

As at 31 December, the Company's capital adequacy ratio, computed in accordance with Basel Accord 1988 requirements together with subsequent adjustments pertaining to inclusion of market risk, comprise:

	2015	*2014*
Tier 1 capital	**95,358,573**	98,381,188
Tier 2 capital	**–**	3,173,258
Total capital	**95,358,573**	101,554,446
Risk weighted assets	**260,381,364**	228,610,536
Tier 1 capital ratio	**36,62%**	43,03%
Total capital ratio	**36,62%**	44,42%