KazAgroFinance Joint Stock Company

Financial statements

Year ended 31 December 2017 together with independent auditor's report

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NOTES TO THE FINANCIAL STATEMENTS

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Independent auditor's report

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

Opinion

We have audited the financial statements of KazAgroFinance Joint Stock Company (the "Company"), which comprise the statement of financial position as at 31 December 2017, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

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

Key audit matters

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

We have fulfilled the responsibilities described in the *Auditor's responsibility for the audit of the financial statements* section of our report, including with respect to these matters. Accordingly, our audit included performance of procedures designed to respond to our assessment of risks of significant misstatement of the financial statements. The results of our audit procedures including procedures performed during the consideration of the following matter serve as a basis for our audit opinion on the accompanying financial statements.

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Key audit matter	How the matter was addressed in the audit
Allowance for impairment of loans to customers and finance lease receivables	
Adequacy of the amount of allowance for impairment of loans to customers and finance lease receivables is the key area of the Company's management judgement. Determination of the evidence of impairment and determination of the recoverable amount are the processes that involve high level of subjective judgment, use of assumptions and analysis of different factors, including lessee's or borrower's financial position, expected future cash flows and value of collateral and leased property. Use of different models and assumptions may materially affect the amount of allowance for impairment of loans to customers and finance lease receivables. Due to the substantial amounts of finance lease receivables and loans to customers, which in aggregate amount to 65% and 16% of the Company's total assets as at 31 December 2017, respectively, and significant judgments used by the management, estimation of allowance for impairment was the key audit matter.	Our audit procedures included analysis of the methodology on estimation of allowance for impairment of loans to customers and finance lease receivables and assessment and testing of the design and operating effectiveness of controls over the processes of impairment identification and estimation. As part of the audit procedures, we analysed assumptions and tested the accuracy of inputs used by the Company in its assessment of impairment of loans to customers and finance lease receivables on a collective basis, such as loss rates, probability of default and loss given default rates. We analysed the sequence of the Company's management judgments used in assessment of the statistical information on the losses incurred, as well as conformity of the applied impairment model with general practice and our professional judgment. With regard to assessment of impairment of loans to customers and finance lease receivables on an individual basis, we performed the analysis of the Company's management expectations on future cash flows, including the cash flows that may result from foreclosure of collateral and repossession of leased property, based on our professional judgment and information available in the market. We assessed the information on allowance for impairment of loans to customers and finance lease receivables disclosed in *Notes 8, 9 and 29* to the financial statements.

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Other information included in the Company's 2017 Annual report

Other information comprises information included in the Annual report, but does not comprise the financial statements and our audit report thereon. Management is responsible for other information.

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

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

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

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

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

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

The Board of Directors is responsible for the supervision of the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that the audit performed in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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As part of the audit performed in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the management's application of going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such a disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We perform communication with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including significant deficiencies in internal control system that we identify during our audit.

We also provide the Board of Directors with the statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and, where necessary, related safeguards.

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

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

Ernst & Young LLP

Bakhtiyor Eshonkulov Auditor / Audit partner	Gulmira Turmagambetova General director Ernst & Young LLP
Auditor qualification certificate No. МФ-0000099 dated 27 August 2012	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

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Al-Farabi Ave., 77/7, Esentai Tower

15 March 2018

STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

(thousands of Tenge)

	Notes	*2017*	*2016*
Assets			
Cash and cash equivalents	5	**41,239,167**	22,989,891
Amounts due from credit institutions	6	**149,809**	662,881
Derivative financial assets	7	**–**	829,066
Loans to customers	8	**45,066,761**	54,841,601
Finance lease receivables	9	**183,288,007**	197,402,364
Property held for financial lease	10	**5,131,712**	5,292,406
Current corporate income tax prepaid	17	**125,579**	894,899
Property and equipment	11	**1,040,490**	1,010,749
Intangible assets		**530,043**	216,334
VAT and other taxes receivable	12	**3,106,338**	1,874,026
Advances paid	13	**2,558,452**	284,744
Other assets	19	**576,406**	484,261
Total assets		282,812,764	286,783,222
Liabilities			
Amounts due to the Shareholder	14	**75,539,402**	85,638,633
Amounts due to credit institutions	15	**40,429,623**	39,556,372
Debt securities issued	16	**46,969,316**	46,841,139
Deferred corporate income tax liabilities	17	**1,669,304**	2,133,275
Advances received	18	**3,555,199**	2,502,225
Deferred VAT payable		**3,979,227**	2,945,520
Other liabilities	19	**7,885,742**	7,798,233
Total liabilities		**180,027,813**	187,415,397
Equity			
Share capital	21	**82,837,204**	82,837,204
Additional paid-in capital	21	**24,912,791**	23,282,853
Reserve funds	21	**1,436,184**	1,436,184
Provision for notional distribution	21	**(9,542,733)**	(9,372,015)
Retained earnings		**3,141,505**	1,183,599
Total equity		**102,784,951**	99,367,825
Total liabilities and equity		282,812,764	286,783,222
Book value per common share (in tenge)	21	**1,234.41**	1,196.94

Signed and authorized for issue on behalf of the Management Board of the Company:

Karagoishin Rustam Timurovich — Acting Chairman of the Management Board

Shodanova Gulnara Takisheyna — Chief accountant

15 March 2018

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

STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2017

(thousands of tenge)

	Notes	*2017*	*2016*
Interest income			
Finance lease receivables		**18,966,880**	17,788,390
Loans to customers		**6,184,998**	5,763,140
Amounts due from credit institutions		**1,953,413**	1,761,051
Total interest income		**27,105,291**	25,312,581
Interest expenses			
Amounts due to the Shareholder		**(5,990,768)**	(6,356,922)
Debt securities issued		**(4,551,325)**	(3,500,199)
Amounts due to credit institutions		**(3,757,399)**	(2,512,193)
Total interest expense		**(14,299,492)**	(12,369,314)
Net interest income		**12,805,799**	12,943,267
Allowance for impairment of loans to customers and finance lease receivables	8, 9	**(2,711,001)**	(6,187,708)
Net interest income after allowance for impairment of loans to customers and finance lease receivables		**10,094,798**	6,755,559
Net losses from transactions with derivative financial assets	7	**(786,945)**	(947,531)
Net (losses)/gains from transactions in foreign currencies		**(1,274,414)**	290,810
Other income	22	**1,024,387**	878,302
Non-interest (expenses)/income		**(1,036,972)**	221,581
Personnel expenses	23	**(2,620,500)**	(2,380,330)
Other operating expenses	23	**(1,034,092)**	(732,470)
Net loss from restructuring of loans to customers	24	**(599,402)**	(669,237)
Other impairment and provisions	25	**(1,105,641)**	(300,170)
Amortisation		**(192,108)**	(171,086)
Non-interest expenses		**(5,551,743)**	(4,253,293)
Profit before corporate income tax benefit		**3,506,083**	2,723,847
Corporate income tax benefit	17	**66,137**	504,782
Profit for the year		**3,572,220**	3,228,629

Signed and authorized for issue on behalf of the Management Board of the Company:

Karagoishin Rustam Timurovich — Acting Chairman of the Management Board

Shodanova Gulnara Takishevna — Chief accountant

15 March 2018

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 2017

(thousands of tenge)

	Notes	*2017*	*2016*
Profit for the year		**3,572,220**	3,228,629
Other comprehensive income for the year		**–**	–
Total comprehensive income for the year		**3,572,220**	3,228,629

Signed and authorized for issue on behalf of the Management Board of the Company:

Karagoishin Rustam Timurovich — Acting Chairman of the Management Board

Shodanova Gulnara Takishevna — Chief accountant

15 March 2018

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STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2017

(thousands of tenge)

	Share capital	*Additional paid-in capital*	*Reserve funds*	*Provision for notional distribution*	*Retained earnings / (accumulated loss)*	*Total equity*
As at 31 December 2015	82,837,204	22,248,866	1,436,184	(9,047,665)	(2,045,030)	95,429,559
Total comprehensive income for the year	–	–	–	–	3,228,629	3,228,629
Gain on initial recognition of loans due to the Shareholder at fair value, net of tax *(Note 21)*	–	1,033,987	–	–	–	1,033,987
Dividends declared *(Note 21)*	–	–	–	–	–	–
Provision for notional distribution for the year, net of tax *(Note 21)*	–	–	–	(324,350)	–	(324,350)
As at 31 December 2016	82,837,204	23,282,853	1,436,184	(9,372,015)	1,183,599	99,367,825
Total comprehensive income for the year	–	–	–	–	**3,572,220**	**3,572,220**
Gain on initial recognition of loans due to the Shareholder at fair value net of tax *(Note 21)*	–	**1,629,938**	–	–	–	**1,629,938**
Dividends declared *(Note 21)*	–	–	–	–	**(1,614,314)**	**(1,614,314)**
Provision for notional distribution for the year net of tax *(Note 21)*	–	–	–	**(170,718)**	–	**(170,718)**
As at 31 December 2017	**82,837,204**	**24,912,791**	**1,436,184**	**(9,542,733)**	**3,141,505**	**102,784,951**

Signed and authorized for issue on behalf of the Management Board of the Company:

Karagoishin Rustam Timurovich — Acting Chairman of the Management Board

Shodanova Gulnara Takishevna — Chief accountant

15 March 2018

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 2017

(thousands of tenge)

	Notes	*2017*	*2016*
Cash flows from operating activities			
Interest received		**23,717,641**	21,400,923
Interest paid		**(10,307,315)**	(7,556,872)
Realised gains less losses from transactions with derivative financial assets	7	**42,121**	70,223
Personnel expenses paid		**(2,788,270)**	(2,339,589)
Other operating expenses paid		**(995,693)**	(750,221)
Other income received		**318,740**	258,194
Realised losses less gains from dealing in foreign currencies		**(107,662)**	(130,688)
Cash flows from operating activities before changes in operating assets and liabilities		**9,879,562**	10,951,970
Net decrease/(increase) in operating assets:			
Amounts due from credit institutions		**532,728**	1,871,187
Loans to customers		**7,561,478**	3,026,777
Finance lease receivables		**17,276,929**	(12,507,446)
VAT and other taxes receivable		**(1,232,312)**	(319,875)
Advances paid		**(2,256,264)**	(120,144)
Other assets		**(794,817)**	(440,736)
Net decrease in operating liabilities:			
Advances received		**1,052,974**	299,740
Other liabilities		**445,659**	1,383,809
Net cash flows from operating activities before corporate income tax		**32,465,937**	4,145,282
Corporate income tax paid		**(293,319)**	(268,167)
Net cash flows from operating activities		**32,172,618**	3,877,115
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		**(537,062)**	(93,142)
Proceeds from sale of property, plant and equipment		**4,526**	1,682
Net cash used in investing activities		**(532,536)**	(91,460)
Cash flows from financing activities			
Proceeds from loans due to the Shareholder	30	**6,653,248**	5,504,093
Repayment of loans due to the Shareholder	30	**(18,511,028)**	(27,007,199)
Proceeds from loans due to credit institutions	30	**11,220,884**	26,712,535
Repayment of loans due to credit institutions	30	**(10,953,506)**	(17,621,359)
Proceeds from debt securities issued	30	**–**	8,000,000
Dividends paid to the Shareholder	21	**(1,614,314)**	–
Net cash used in financing activities		**(13,204,716)**	(4,411,930)
Effect of exchange rate changes on cash and cash equivalents		**(186,090)**	(258,166)
Net increase/(decrease) in cash and cash equivalents		**18,249,276**	(884,441)
Cash and cash equivalents, beginning of the year	5	**22,989,891**	23,874,332
Cash and cash equivalents, ending of the year	5	**41,239,167**	22,989,891
Non-cash transactions			
Offsetting of current corporate income tax assets against other tax liabilities		**300,000**	–

Signed and authorized for issue on behalf of the Management Board of the Company:

Karagoishin Rustam Timurovich — Acting Chairman of the Management Board

Shodanova Gulnara Takishevna — Chief accountant

15 March 2018

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

(thousands of tenge)

1. Principal activities

KazAgroFinance Joint Stock Company (hereinafter - the "Company") was established in accordance with the Resolution 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 the National Bank of the Republic of Kazakhstan (hereinafter - "NBRK") for conducting operations specified by the banking legislation of the Republic of Kazakhstan No. 16 dated 31 March 2006. In addition, the Company has a status of financial agency according to the Resolution of the NBRK No. 195 dated 23 September 2006.

The Company's principal activities are as follows:

- leasing activities in agricultural sector;
- lending and other types of activity that are not prohibited by the laws, correspond with goals and objectives of the Company and provided for by this Charter;
- participation in implementation of republican budget and other programs aimed at the development of agricultural sector.

Registered office of the Company is located at the following address: 51, Kenesary Str., Astana, Republic of Kazakhstan.

As at 31 December 2017 and 2016, the Company has 15 registered branches in the Republic of Kazakhstan.

As at 31 December 2017 and 2016, National Managing Holding "KazAgro" Joint Stock Company (hereinafter -"KazAgro" or the "Shareholder") is a sole shareholder of the Company. Ultimate shareholder of KazAgro is the Government of 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 are prepared under the historical cost convention except for mentioned in Summary of significant accounting policies.

The financial statements are presented in thousands of Kazakhstani tenge ("tenge" or "KZT"), except for common share carrying amounts calculations or unless otherwise is stated.

3. Summary of significant accounting policies

Changes in accounting policies

The Company applied for the first time certain amendments to standards, which are effective for annual periods beginning on or after 1 January 2017. The Company has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective. The nature and impact of each amendment is described below:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their financial liabilities arising from financing activities ,including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Company has provided the information for both the current and comparative period in *Note 30*.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealised losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Company applied amendments retrospectively. However, their application has no effect on the Company's financial position and performance as the Company has no deductible temporary differences or assets that are in the scope of the amendments.

(thousands of tenge)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12

The amendments clarify that the disclosure requirements in IFRS 12 apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposed group that is classified) as held for sale. These amendments did not have any impact on the financial position and performance of the Company.

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 27*.

The fair value is a 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 categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

In the event of assets and liabilities recognised in the financial statements on a regular basis, the Company determines the fact of transfer between levels of hierarchy sources by re-assessing categorization (based on the lowest level input that is significant to the fair value evaluation in whole) at the end of each reporting period.

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, held-to-maturity investments, or available-for-sale financial assets, as appropriate. 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.

(thousands of tenge)

3. Summary of accounting policies (continued)

Financial assets (continued)

Initial recognition (continued)

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 to customers 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 to customers provided by the Company are initially recorded at fair value plus transaction costs. When the Company 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 in the statement of financial position together with reversing entry, which is included in either income statement if the decision to undertake the obligation was adopted by the Company'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 or loss before granting a loan, when credit commitment is reduced by consideration paid, and remaining balance is recorded as loans issued to customers in the statement of financial position. 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 recorded net of any provisions for impairment.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified to any previously named 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 statement of profit or loss. However, interest calculated using the effective interest method is recognised in the statement of profit or loss.

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 Group 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 through 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.

(thousands of tenge)

3. Summary of accounting policies (continued)

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 (ninety) days as the day of the asset origination.

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. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

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

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

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 profit or loss when liabilities are derecognised, as well as through the amortization process.

If the Company purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in profit or loss.

Lease

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.

(thousands of tenge)

3. Summary of accounting policies (continued)

Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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 profit or loss. 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 recognised in profit or loss.

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 Company 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.

(thousands of tenge)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

Restructuring of loans to customers 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 derecognized where:

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

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized 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 profit or loss.

Taxation

The current corporate income tax expenses are calculated in accordance with the tax legislation of the Republic of Kazakhstan.

Deferred corporate income tax assets and liabilities are calculated in respect of all temporary differences using the liability method. Deferred income taxes are recognised in respect of all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes.

(thousands of tenge)

3. Summary of accounting policies (continued)

Taxation (continued)

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

The Company performs offsetting of deferred tax assets and deferred tax liabilities and records them in the statement of financial position on a net basis, when:

- the Company has a legally enforced right to offset current tax assets against current tax liabilities; and
- deferred tax assets and deferred tax liabilities refer to corporate 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 profit or loss within other operating expenses.

Property and equipment

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

The carrying values of property, plant 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 ready 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 finance lease

Property held for finance lease is valued at the lower of acquisition and net realisable value. Cost of property intended for finance lease 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.

Assets available 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.

(thousands of tenge)

3. Summary of accounting policies (continued)

Assets available for sale (continued)

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

Share capital

Share capital

Contributions to charter capital are recognised at historic cost less direct share 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 funds

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

Dividends

Dividends are recognized 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.

Reserve for notional distribution

When the Company enters into a loan agreement or finance lease agreements at below market rates on behalf of its Shareholder, the difference between the amounts issued and fair value of loans provided or other finance lease 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.

(thousands of tenge)

3. Summary of accounting policies (continued)

Income and expense recognition

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 income 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 current 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 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 recognised upon service is provided.

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 income statement as net gains/(losses) from foreign currencies. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Difference between the contractual exchange rate of a transaction in a foreign currency and the Kazakhstan Stock Exchange ("KASE") exchange rate on the date of the transaction are included in gains less losses from foreign currencies. Below are the exchange rates used by the Company in preparation of the financial statements:

	2017	*2016*
Tenge/US Dollars	**332.33**	333.29
Tenge/Euro	**398.23**	352.42
Tenge/Russian Rouble	**5.77**	5.43

3. Summary of accounting policies (continued)

Standards and interpretations issued but not yet effective

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

IFRS 9 Financial Instruments

In July 2014, the IASB issued IFRS 9 *Financial Instruments* that replaces IAS 39 *Financial Instruments: Recognition and Measurement.* The standard brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018,with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory.

The Company plans to adopt the new standard by recognising the cumulative transition effect in opening retained earnings on 1 January 2018 and will not restate comparative information. Based on the data as at 31 December 2017 and the status of assessment, the Company believes that implementation of IFRS 9 will result in a decrease in equity as at 1 January 2018 by approximately KZT 5,142,000 thousand.

(a) Classification and measurement

Under IFRS 9, all debt financial assets that do not meet a "solely payment of principal and interest" (SPPI) criterion, are classified at initial recognition as fair value through profit or loss (FVPL). Under this criterion, debt instruments that do not correspond to a "basic lending arrangement", such as instruments containing embedded conversion options or "non-recourse" loans, are measured at FVPL. For debt financial assets that meet the SPPI criterion, classification at initial recognition is determined based on the business model, under which these instruments are managed:

- instruments that are managed on a "hold to collect" basis are measured at amortised cost;
- instruments that are managed on a "hold to collect and for sale" basis are measured at fair value through other comprehensive income (FVOCI);
- Instruments that are managed on other basis are classified as measured at FVPL.

Equity financial assets are required to be classified at initial recognition as FVPL unless an irrevocable designation is made to classify the instrument as FVOCI. For equity investments classified as FVOCI, all realised and unrealised gains and losses, except for dividend income, are recognised in other comprehensive income with no subsequent reclassification to profit and loss.

The classification and measurement of financial liabilities remain largely unchanged from the current IAS 39 requirements. Derivatives will continue to be measured at FVPL.

The majority of loans are expected to meet SPPI criteria and will continue to be measured at amortized cost however some of the loans will be reclassified as measured at FVPL.

(b) Impairment

IFRS 9 requires the Company to record an allowance for expected credit losses (ECL) on all of its debt financial assets at amortised cost or FVOCI, as well as loan commitments and financial guarantees. The allowance is based on the ECL associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case the allowance is based on the ECL over the life of the asset. If the financial asset meets the definition of purchased or originated credit impaired, the allowance is based on the change in the lifetime ECL.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 with amendments introduced in April 2016. The new standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. The Company plans to adopt the new standard using the modified retrospective method by recognising the cumulative transition effect in opening retained earnings on 1 January 2018, without restating comparative information.

IFRS 15 establishes a five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. However, interest and fee income integral to financial instruments and leases will fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (IFRS 9 and IFRS 16 *Leases*). As a result, the majority of the Company's income will not be impacted by the adoption of this standard.

The Company currently does not expect a material effect from application of IFRS 15.

(thousands of tenge)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

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 conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Company expects that application of these amendments will not have an effect on the financial statements.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions

The IASB issued amendments to IFRS 2 *Share-based Payments* that address three main areas: The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; classification of a share-based payment transaction with net settlement features for withholding tax obligations; the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. In adopting the amendments, entities are not obliged to restate information for the prior periods, however retrospective application is permitted provided that amendments are applied in respect of all three aspects and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018. Early application is allowed. The Company expects that application of these amendments will not have an effect on the financial statements.

IAS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 becomes effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. In 2018, the Company will continue to assess the potential effect of IFRS 16 on its financial statements.

Annual IFRS improvements, 2014-2016 cycle (issued in December 2016)

These improvements include:

IFRS 1 First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters

Short-term exemptions in paragraphs E3-E7 of IFRS 1 were deleted because they have now served their intended purpose. The amendment is effective from 1 January 2018. This amendment is not applicable to the Company.

(thousands of tenge)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

Annual IFRS improvements, 2014-2016 cycle (issued in December 2016) (continued)

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – amendments to IFRS 4

The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing IFRS 17 *Insurance Contracts*, which will replace IFRS 4. The amendments provide two options for entities that issue insurance contracts: temporary exemption from applying IFRS 9 and overlay approach. Temporary exemption is applied for the first time for reporting periods beginning on or after 1 January 2018. An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to financial assets designated on transition to IFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying IFRS 9. These amendments are not applicable to the Company.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. The interpretation is effective for annual periods beginning on or after 1 January 2018. However, since the Company's current practice is in line with the Interpretation, the Company does not expect any effect on its financial statements.

IFRIC Interpretation 23 – Uncertainty over Income Tax Treatments

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The Interpretation also addresses the assumptions an entity makes about the examination of tax treatments by taxation authorities, as well as how it considers changes in facts and circumstances.

The interpretation is effective for annual periods beginning on or after 1 January 2019. The Company will apply the interpretation from its effective date. Since the Company operates in a complex tax environment, applying the Interpretation may affect its financial statements and the required disclosures. In addition, the Company may be need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

4. Significant accounting judgements and estimates

Estimation uncertainty

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

Fair value 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. More details are provided in *Note 27*.

Deferred corporate income tax

Deferred corporate income 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 corporate 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.

(thousands of tenge)

4. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Allowance for impairment of loans and finance lease receivables

The Company regularly reviews its loans to customers and finance lease 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 to customers or finance lease receivables to reflect current circumstances. The total amount of provision for impairment of loans and finance lease receivables recognised in the statement of financial position as at 31 December 2017 was KZT 29,822,760 thousand (as at 31 December 2016: KZT 28,646,092 thousand). Further details are provided in *Notes 8 and 9*.

Taxation

Tax, currency and customs legislation of the Republic of Kazakhstan 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 local or state authorities. As such, significant additional taxes, penalties and interest may be assessed. Tax periods remain open to review by relevant authorities for 5 (five) calendar years preceding the year of tax inspection. The review may cover longer periods under certain circumstances.

As at 31 December 2017 and 2016, management believes that its interpretation of the 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 2017 and 2016 cash and cash equivalents comprised the following:

	2017	*2016*
Cash on current accounts with banks in tenge	**21,608,242**	10,384,373
Cash on current accounts with banks in foreign currency	**19,630,925**	12,605,518
Cash and cash equivalents	**41,239,167**	22,989,891

As at 31 December 2017, the funds on current accounts with one bank was equal to KZT 14,503,363 thousand or 35.2% of total cash and cash equivalents (31 December 2016: KZT 7,584,844 thousand or 33.0%).

6. Amounts due from credit institutions

As at 31 December 2017 and 2016 amounts due from credit institutions comprised the following:

	2017	*2016*
Cash on current accounts restricted in use	**149,809**	662,881
Amounts due from credit institutions	**149,809**	662,881

Amounts on current accounts due from credit organizations represent restricted cash as collateral for letters of credit for purchase of property held for finance lease.

(thousands of tenge)

7. Derivative financial assets

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

	2017			*2016*		
	Notional principal	*Fair values*		*Notional principal*	*Fair values*	
		Asset	*Liability*		*Asset*	*Liability*
Currency options in US Dollars	–	–	–	1,199,056	743,027	–
Currency options in Euro	–	–	–	242,770	86,039	–
	–	–	–	1,441,826	829,066	–

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.

As at 31 December 2017 the Company does not have derivative financial assets.

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

	2017	*2016*
Realised gains from transactions with derivative financial assets	**42,121**	70,223
Unrealized losses from transactions with derivative financial assets	**(829,066)**	(1,017,754)
Net losses from transactions with derivative financial assets	**(786,945)**	(947,531)

8. Loans to customers

As at 31 December 2017 and 2016, loans to customers comprise:

	2017	*2016*
Loans to legal entities	**56,812,680**	63,711,411
Loans to customers before allowance for impairment	**56,812,680**	63,711,411
Less allowance for impairment	**(11,745,919)**	(8,869,810)
Loans to customers	**45,066,761**	54,841,601

Allowance for loans impairment

Movement of the allowance for impairment of loans to customers is as follows:

	2017	*2016*
At 1 January	**8,869,810**	5,594,631
Charge for the year	**4,369,124**	3,275,179
Write-off for the year	**(1,493,015)**	–
As at 31 December	**11,745,919**	8,869,810
Individual impairment	**10,421,139**	7,821,930
Collective impairment	**1,324,780**	1,047,880
As at 31 December	**11,745,919**	8,869,810
Total amount of loans to customers individually determined to be impaired, before deducting allowance for impairment	**25,176,781**	16,698,431

Individually impaired loans

For the year ended 31 December 2017, interest income accrued on individually impaired loans to customers was equal to KZT 1,588,925 thousand (for 2016: KZT 1,156,334 thousand).

(thousands of tenge)

8. Loans to customers (continued)

Collateral and other credit enhancements

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

The main types of commercial lending collateral include real estate, land, agricultural equipment, inventories and receivables, guarantees.

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 2017, the Company had a concentration of loans represented by KZT 20,636,224 thousand issued by the Company to ten large related parties or 36.3% of gross loan portfolio (31 December 2016: KZT 21,873,680 thousand or 34.3% of gross loan portfolio). As at 31 December 2017, allowance for impairment recognized by the Company with respect to these loans amounted to KZT 3,331,759 thousand (as at 31 December 2016: KZT 2,809,161 thousand).

Loans are issued to clients within the Republic of Kazakhstan operating in the agricultural sector of economy.

9. Finance lease receivables

As at 31 December 2017, the analysis of finance lease receivables is presented below:

	Not later than 1 year	*1 to 5 years*	*Over 5 years*	*Total*
Gross investments in finance leases	**58,202,290**	**147,819,207**	**62,813,007**	**268,834,504**
Unearned finance income on finance lease of future periods	**(1,955,860)**	**(34,301,664)**	**(31,212,132)**	**(67,469,656)**
Total investments into finance lease	**56,246,430**	**113,517,543**	**31,600,875**	**201,364,848**
Less allowance for impairment	**(5,049,330)**	**(10,190,650)**	**(2,836,861)**	**(18,076,841)**
Net investment in finance leases	**51,197,100**	**103,326,893**	**28,764,014**	**183,288,007**

As at 31 December 2016, the analysis of finance lease receivables is presented below:

	Not later than 1 year	*1 to 5 years*	*Over 5 years*	*Total*
Gross investments in finance leases	60,796,212	153,879,474	86,980,230	301,655,916
Unearned finance income on finance lease of future periods	(1,827,975)	(38,506,768)	(44,142,527)	(84,477,270)
Total investments into finance lease	58,968,237	115,372,706	42,837,703	217,178,646
Less allowance for impairment	(4,482,584)	(11,152,713)	(4,140,985)	(19,776,282)
Net investment in finance leases	54,485,653	104,219,993	38,696,718	197,402,364

(thousands of tenge)

9. Finance lease receivables (continued)

Allowance for impairment of finance lease receivables

Movement of the allowance for impairment of finance lease receivables is as follows:

	2017	*2016*
At 1 January	**19,776,282**	16,863,753
(Reversal)/charge for the year	**(1,658,123)**	2,912,529
Write-off for the year	**(41,318)**	–
As at 31 December	**18,076,841**	19,776,282
Individual impairment	**12,600,525**	12,224,787
Collective impairment	**5,476,316**	7,551,495
As at 31 December	**18,076,841**	19,776,282
Total amount of finance lease receivables, individually determined to be impaired, before deducting allowance for impairment	**45,661,053**	35,845,856

Finance lease receivables individually assessed as impaired

For the year ended 31 December 2017, interest income accrued on finance lease receivables, individually determined as impaired, was equal to KZT 2,840,667 thousand (for 2016: KZT 1,492,674 thousand).

Concentration of financial lease receivables

As at 31 December 2017, the Company had a concentration of finance lease receivables represented by KZT 30,759,192 thousand issued by the Company to ten largest third parties or 15.3% of gross finance lease receivables (31 December 2016: KZT 33,916,954 thousand or 15.6%). As at 31 December 2017, allowance for impairment on these receivables was equal to KZT 3,061,839 thousand (31 December 2016: KZT 4,300,705 thousand).

10. Property held for finance lease

As at 31 December 2017 and 2016,property held for finance lease comprises the following:

	2017	*2016*
Equipment held for finance lease	**4,999,127**	5,008,181
Repossessed collateral	**688,371**	721,408
Other materials	**21,978**	15,228
	5,709,476	5,744,817
Less allowance for impairment *(Note 25)*	**(577,764)**	(452,411)
Property held for finance lease	**5,131,712**	5,292,406

(thousands of tenge)

11. Property, plant and equipment

Movements in property, plant and equipment were as follows:

	Land	*Buildings and constructions*	*Vehicles*	*Computers and office equipment*	*Other*	*Total*
Cost						
At 31 December 2015	31,922	847,303	131,516	439,482	106,852	1,557,075
Additions	–	3,186	–	37,888	4,958	46,032
Disposals	–	–	(2,338)	(25,710)	(8,465)	(36,513)
At 31 December 2016	31,922	850,489	129,178	451,660	103,345	1,566,594
Additions	–	–	**30,120**	**120,852**	**4,921**	**155,893**
Disposals	–	–	**(15,050)**	**(481)**	**(1,004)**	**(16,535)**
At 31 December 2017	**31,922**	**850,489**	**144,248**	**572,031**	**107,262**	**1,705,952**
Accumulated depreciation						
At 31 December 2015	–	(181,576)	(45,130)	(177,847)	(74,484)	(479,037)
Charge	–	(23,578)	(14,792)	(66,607)	(7,637)	(112,614)
Disposals	–	–	1,781	25,706	8,319	35,806
At 31 December 2016	–	(205,154)	(58,141)	(218,748)	(73,802)	(555,845)
Charge	–	**(23,871)**	**(13,921)**	**(79,113)**	**(7,743)**	**(124,648)**
Disposals	–	–	**13,596**	**480**	**955**	**15,031**
At 31 December 2017	–	**(229,025)**	**(58,466)**	**(297,381)**	**(80,590)**	**(665,462)**
Net book value						
At 31 December 2015	31,922	665,727	86,386	261,635	32,368	1,078,038
At 31 December 2016	31,922	645,335	71,037	232,912	29,543	1,010,749
At 31 December 2017	**31,922**	**621,464**	**85,782**	**274,650**	**26,672**	**1,040,490**

12. VAT and other taxes receivable

As at 31 December 2017 and 2016, VAT and other taxes receivable comprise the following:

	2017	*2016*
VAT receivable	**2,844,351**	1,859,679
Other taxes	**261,987**	14,347
VAT and other taxes recoverable	**3,106,338**	1,874,026

13. Advances paid

As at 31 December 2017 and 2016, advances paid comprise the following:

	2017	*2016*
Advances paid for agricultural machinery	**2,558,044**	179,190
Advances paid for equipment	**10,770**	10,770
Other advances paid	**1,341**	123,931
	2,570,155	313,891
Less allowance for impairment *(Note 25)*	**(11,703)**	(29,147)
Advances paid	**2,558,452**	284,744

As at 31 December 2017 and 2016, advances paid represent prepayment for delivery of agricultural machinery, equipment and cattle stock for further transfer to finance lease.

(thousands of tenge)

14. Amounts due to the Shareholder

	2017	*2016*
Loans from the Shareholder	**75,539,402**	85,638,633
Amounts due to the Shareholder	**75,539,402**	85,638,633

Investment loan

As at 31 December 2017 and 2016, the due to the Shareholder includes the amount due under the Framework Loan Agreement No. 35 (the "Agreement"). In accordance with this Agreement, the Company was provided with 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 is carried out by the Shareholder from the National Fund under bond program through National Bank of the Republic of Kazakhstan. The agreement is effective until 30 December 2023. As at 31 December 2017 and 2016, the financing limit under the Agreement amounted to KZT 113,459,000 thousand with a nominal interest rate of 1.02% per annum. The effective interest rate on loans obtained amounted to 6.0% per annum. As at 31 December 2017, the amount due under this Agreement is KZT 47,010,150 thousand (31 December 2016: KZT 59,453,707 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 (seven) years and a nominal interest rate of 5.8% per annum. As at 31 December 2017, the amount due under this Agreement is KZT 12,073,337 thousand (31 December 2016: KZT 12,149,796 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 (nine) 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 2017, the amount due under this Agreement is KZT 4,950,805 thousand (31 December 2016: KZT 6,666,979 thousand).

On 1 October 2014, the Company and the Shareholder entered into the loan agreement No. 118 in the amount of KZT 6,189,000 thousand for a period of 7 (seven) years and a nominal interest rate of 1.02% per annum, the effective interest rate on a loan amounts to 7.17% per annum. As at 31 December 2017, the amount due under this Agreement is KZT 3,638,755 thousand (31 December 2016: KZT 4,425,369 thousand).

On 12 May 2016, the Company and the Shareholder entered into the loan agreement No. 64 in the amount of KZT 3,800,000 thousand for a period of 7 (seven) years and a nominal interest rate of 1.02% per annum, the effective interest rate on a loan amounts to 11.97% per annum. As at 31 December 2017, the amount due under this Agreement is KZT 2,286,808 thousand (31 December 2016: KZT 2,942,782 thousand).

On 16 June 2017, the Company and the Shareholder entered into the framework agreement No. 39 in the amount of KZT 8,220,600 thousand for a period of 15 years and an interest rate of 1.02% per annum, the effective interest rate on a loan amounts to 8.49% per annum. As at 31 December 2017, as part of this Agreement, the amount due is KZT 5,579,547 thousand.

As at 31 December 2017 and 2016 the Company has no obligations on execution of financial covenants under agreements with the Shareholder. The amount due to the Shareholder is not secured by collateralised property.

15. Amounts due to credit institutions

As at 31 December 2017 and 2016, amounts due to credit institutions comprise:

	Currency	*Maturity*	*2017*	*2016*
Eurasian Development Bank JSC	KZT	2018	**9,789,090**	9,846,693
SB Sberbank of Russia JSC	KZT	2021	**9,089,195**	4,036,736
BOT Lease Co. Ltd	Euro (EUR)	2021-2022	**6,975,009**	2,822,493
Roseksimbank JSC	Russian Rouble	2022-2023	**4,490,378**	3,223,608
Societe Generale Bank	US dollars	2020	**4,178,568**	5,863,642
Islamic Development Bank	US dollars	2020	**2,111,824**	7,101,016
Deere Credit, Inc.	US dollars	2019	**1,483,475**	2,231,294
Landesbank Berlin AG	Euro (EUR)	2019	**1,107,038**	1,465,250
Rosselhozbank JSC	US dollars	2018-2019	**586,813**	1,223,420
GazPromBank JSC	US dollars	2019	**509,999**	863,359
CNH International SA	US dollars	2018	**108,234**	325,258
SB Sberbank of Russia JSC	Russian Rouble	2021	**–**	553,603
Amounts due to credit institutions			**40,429,623**	39,556,372

(thousands of tenge)

15. Due to credit institutions (continued)

Restrictive covenants

In accordance with the terms of the credit organization loan agreements, the Company is required to comply with certain financial ratios, including prudential standards established by the NBRK for KazAgro's subsidiaries in the agro-industrial complex area of the Republic of Kazakhstan, as well as interest expense coverage ratio (EBIT and interest expenses).

As at 31 December 2017 and 2016, the Company complied with the requirements related to restrictive covenants under the agreements with these credit organizations.

16. Debt securities issued

As at 31 December 2017 and 2016, debt securities issued comprise the following:

	Maturity	*Rate, %*	*Currency*	*2017*	*2016*
Second issue of coupon bonds	12 June 2022	8.5%	Tenge	**17,998,251**	17,985,346
Third issue of bonds as part of the first bond program	16 January 2023	8.0%	Tenge	**16,905,832**	16,802,814
Second issue of bonds as part of the second bond program	14 November 2021	15.0%	Tenge	**8,118,222**	8,108,287
First issue of coupon bonds	12 June 2024	8.5%	Tenge	**3,947,011**	3,944,692
Debt securities issued				**46,969,316**	46,841,139

As at 31 December 2017 and 2016, the Company's debt securities issued are represented by bonds issued in tenge.

As at 31 December 2017 and 2016, the Company was in compliance with covenants related to the issued debt securities.

17. Taxation

The corporate income tax benefit comprises:

	2017	*2016*
Current corporate income tax expenses	**–**	–
Adjustment of current corporate income tax of prior years	**762,639**	–
Deferred corporate income tax benefit	**(828,776)**	(504,782)
Corporate income tax benefit	**(66,137)**	(504,782)

	2017	*2016*
Deferred corporate income tax recognized in the income statement	**(828,776)**	(504,782)
Deferred corporate income tax recognized in equity	**364,805**	177,409
Change in deferred corporate income tax	**(463,971)**	(327,373)

Deferred corporate income tax recognized in equity is allocated as follows:

	2017	*2016*
By assets	**42,680**	81,087
By liabilities	**(407,485)**	(258,496)
Corporate income tax recognized in equity	**(364,805)**	(177,409)

As at 31 December 2017, current corporate income tax prepaid of Company was equal to KZT 125,579 thousand (as at 31 December 2016: KZT 894,899 thousand).

Kazakhstan legal entities are obliged to submit tax declarations individually. Corporate income tax rate for the Company was 20.0% in 2017 and 2016.

(thousands of tenge)

17. Taxation (continued)

The effective corporate income tax rate differs from the statutory corporate income tax rate. Below is the reconciliation of corporate income tax expenses based on statutory rate with corporate income tax benefit recorded in the financial statements:

	2017	*2016*
Profit before taxation	**3,506,083**	2,723,847
Statutory corporate income tax rate	20%	20%
Theoretical corporate income tax expenses at the statutory rate	**701,217**	544,769
Non-taxable interest income on finance lease receivables	**(2,332,448)**	(2,348,500)
Expenses for corporate income tax withheld at the source of payment of income of previous years	**762,639**	–
Non-deductible expenses:		
- allowance for impairment of loans to customers and finance lease receivables	**542,200**	1,227,003
- allowance for impairment of property held for finance lease and other assets	**221,128**	60,034
- expenses not related to principal activities	**37,753**	10,263
- fines and penalties on taxes	**1,374**	1,649
Corporate income tax benefit	**(66,137)**	(504,782)

Deferred corporate income tax assets and liabilities, and their movement for respective years comprised the following at 31 December:

		Origination and decrease of temporary differences			*Origination and decrease of temporary differences*		
	2015	*In the statement of profit or loss*	*In equity*	*2016*	*In the statement of profit or loss*	*In equity*	*2017*
Tax effect of deductible temporary differences							
Loans to customers	993,183	(254,006)	81,087	820,264	**(263,909)**	**42,680**	**599,035**
Amounts due from credit institutions	–	–	–	–	**16,080**	**–**	**16,080**
Provision for unused vacations	47,650	1,956	–	49,606	**3,844**	**–**	**53,450**
Guarantees	36,840	–	–	36,840	**–**	**–**	**36,840**
Property, plant and equipment and intangible assets	–	7,330	–	7,330	**(7,330)**	**–**	**–**
Deferred corporate income tax assets	1,077,673	(244,720)	81,087	914,040	**(251,315)**	**42,680**	**705,405**
Tax effect of taxable temporary differences							
Derivative financial assets	(346,913)	181,100	–	(165,813)	**165,813**	**–**	**–**
Finance lease receivables	(76,684)	(353,166)	–	(429,850)	**137,219**	**–**	**(292,631)**
Amounts due from credit institutions	(55,553)	31,276	–	(24,277)	**24,277**	**–**	**–**
Amounts due to the Shareholder	(3,029,478)	860,599	(258,496)	(2,427,375)	**802,337**	**(407,485)**	**(2,032,523)**
Property, plant and equipment and intangible assets	(29,693)	29,693	–	–	**(49,555)**	**–**	**(49,555)**
Deferred corporate income tax liabilities	(3,538,321)	749,502	(258,496)	(3,047,315)	**1,080,091**	**(407,485)**	**(2,374,709)**
Net deferred corporate income tax liability	(2,460,648)	504,782	(177,409)	(2,133,275)	**828,776**	**(364,805)**	**(1,669,304)**

Deferred corporate income 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 corporate income tax assets are decreased to the extent that it is no longer probable that a respective tax benefit will be realized.

18. Advances received

As at 31 December 2017, advances received in the amount of KZT 3,555,199 thousand (31 December 2016: KZT 2,502,225 thousand) represent prepayment from clients for property held for finance lease that was acquired under finance lease agreements but still not transferred to lessee.

(thousands of tenge)

19. Other assets and other liabilities

As at 31 December 2017 and 2016, other assets comprise the following:

	2017	*2016*
Accounts receivable recognized based on the court decision	**687,284**	444,094
Deferred expenses	**413,635**	145,983
Accounts receivable for reimbursement of lost objects of leasing	**96,859**	63,092
Other accounts receivable	**712,191**	435,175
	1,909,969	1,088,344
Less allowance for impairment *(Note 25)*	**(1,333,563)**	(604,083)
Other assets	**576,406**	484,261

As at 31 December 2017 and 2016, other liabilities comprise:

	2017	*2016*
Deferred interest income	**4,746,109**	1,724,638
Payable to suppliers	**2,579,367**	5,482,712
Taxes other than corporate income tax payable	**87,529**	107,991
Payable on obligatory payments to the budget and due to employees	**43,797**	45,992
Other current liabilities	**428,940**	436,900
Other liabilities	**7,885,742**	7,798,233

As at 31 December 2017 and 2016, payable to suppliers comprise the following:

	2017	*2016*
Agricultural machinery	**1,391,730**	2,588,320
Equipment	**1,042,221**	2,765,340
Other	**145,416**	129,052
Payable to suppliers	**2,579,367**	5,482,712

20. Commitments and contingencies

Operating environment

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

In 2017, low prices for crude oil and the volatility of the KZT exchange rate against major foreign currencies continued to have a negative impact on the Kazakhstan economy. Interest rates in KZT remain high. 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.

Litigation

In the ordinary course of business, the Company is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints, will not have a material adverse effect on the financial conditions of the results of future operations of the Company.

Management is unaware of any significant acting, pending or threatened claims against the Company.

Taxation

Commercial, and in particular, tax legislation in Kazakhstan contains 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. The Company's management considers that all necessary tax accruals were fulfilled and, correspondingly, there were no any allowances charged in the financial statements. Tax periods remain open for 5 (five) years.

(thousands of tenge)

20. Commitments and contingencies (continued)

Credit related commitments

As at 31 December 2017 and 2016, credit related commitments and contingencies of the Company comprise:

	2017	*2016*
Undrawn credit lines	**4,112,673**	3,605,734
Guarantees issued	**1,897,933**	2,342,807
Total	**6,010,606**	5,948,541

On 16 June 2011 the Company entered into the agreement for granting a financial guarantee in the amount of 6,661,130 Islamic dinar to Islamic Development Bank to ensure obligations of Fund for financial support of agriculture JSC under the loan arrangement. As at 31 December 2017, the outstanding balance was amounted to 3,200,001 Islamic dinars or KZT 1,897,933 thousand (31 December 2016: 4,114,287 Islamic dinars or KZT 2,342,807 thousand).

21. Equity

As at 31 December 2017 and 2016, authorized and paid common shares of the Company in the amount of 82,837,204 shares have been fully paid by the sole Shareholder of the Company at the placement value of KZT 1 thousand per one common share.

In accordance with the decision of the sole Shareholder dated 26 May 2017, the Company declared dividends for 2016 in the amount of KZT 1,614,314 thousand or KZT 19.49 per one common share. As at 31 December 2017, the dividends were fully paid. There were no dividends declared or paid on common shares in 2016.

In accordance with the regulation of the Company, reserve funds are made for general risks including future losses and other unforeseen risks and obligations. Reserve funds are subject to distribution on the basis of the decision of a sole Shareholder.

Presented below is movement in items of additional paid-in capital and reserves:

	Additional paid-in capital	*Reserve funds*	*Provision for notional distribution*
As at 31 December 2015	22,248,866	1,436,184	(9,047,665)
Provision for notional distribution for the year	–	–	(405,437)
Tax effect of recognition of reserve for notional distribution *(Note 17)*	–	–	81,087
Gain on initial recognition of loans due to the Shareholder at fair value	1,292,483	–	–
Tax effect on initial recognition of loans due to the Shareholder at fair value *(Note 17)*	(258,496)	–	–
As at 31 December 2016	23,282,853	1,436,184	(9,372,015)
Provision for notional distribution for the year	–	–	**(213,398)**
Tax effect of recognition of reserve for notional distribution *(Note 17)*	–	–	**42,680**
Gain on initial recognition of loans due to the Shareholder at fair value	**2,037,423**	–	–
Tax effect on initial recognition of loans due to the Shareholder at fair value *(Note 17)*	**(407,485)**	–	–
As at 31 December 2017	**24,912,791**	**1,436,184**	**(9,542,733)**

(thousands of tenge)

21. Equity (continued)

As at 31 December 2017 the Company's book value per one common share, calculated in accordance with KASE methodology, was KZT 1,234.41 (as at 31 December 2016: KZT 1,196.94):

	2017	*2016*
Assets	**282,812,764**	286,783,222
Less intangible assets	**(530,043)**	(216,334)
Less liabilities	**(180,027,813)**	(187,415,397)
Net assets	**102,254,908**	99,151,491
Number of common shares as at 31 December, shares	**82,837,204**	82,837,204
Book value per common share (in tenge)	**1,234.41**	1,196.94

22. Other income

Other income comprises the following:

	2017	*2016*
Gain from write-off of liabilities	**418,130**	80,654
Income from reimbursement of expenses	**315,213**	148,118
Income from finance lease items subject to return	**137,494**	451,571
Fines and penalties received	**17,865**	30,469
Other	**135,685**	167,490
Other income	**1,024,387**	878,302

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

23. Personnel and other operating expenses

Personnel and other operating expenses comprise the following:

	2017	*2016*
Personnel expenses	**(2,375,964)**	(2,167,267)
Social security costs	**(244,536)**	(213,063)
Personnel expenses	**(2,620,500)**	(2,380,330)
Professional services	**(219,789)**	(113,213)
Repair and maintenance	**(139,814)**	(78,387)
Lease	**(116,417)**	(116,015)
Taxes other than corporate income tax	**(94,306)**	(75,406)
Maintenance of leasing items	**(87,057)**	(40,397)
Advertising and marketing	**(67,480)**	(67,038)
Business trip expenses	**(53,887)**	(50,328)
Materials	**(42,107)**	(41,268)
Communication	**(31,886)**	(34,270)
Insurance	**(25,022)**	(27,570)
Bank fees	**(19,418)**	(41,627)
Trainings	**(18,477)**	(14,210)
Sponsorship	**(18,000)**	(2,979)
Legal expenses	**(10,879)**	(10,128)
Office supplies	**(9,202)**	(8,208)
Utility costs	**(5,926)**	(5,732)
Social program expenses	**(2,369)**	(2,209)
Other	**(72,056)**	(3,485)
Other operating expenses	**(1,034,092)**	(732,470)

(thousands of tenge)

24. Net loss from restructuring of loans to customers

In the normal course of business, the Company revises the terms of loans to customers by providing the grace period and allowing early repayment due to events not related to impairment of loans. The effect of change in the carrying amount due to the revision of the terms of loans to customers is recognized in profit or loss. In 2017, the net loss from restructuring of loans to customers was equal to KZT 599,402 thousand (in 2016: KZT 669,237 thousand).

25. Other impairment and provisions

Movement in allowance for other impairment and other provisions were as follows:

	Property held for finance lease	*Advances paid*	*Other assets*	*Property, plant and equipment*	*Total*
As at 31 December 2015	853,339	171,238	514,876	967	1,540,420
Charge/(reversal) for the year	322,820	(141,910)	119,260	–	300,170
Write-off for the year	(723,748)	(181)	(30,053)	(967)	(754,949)
As at 31 December 2016	452,411	29,147	604,083	–	1,085,641
Charge/(reversal) for the year	**393,546**	**(17,444)**	**729,539**	**–**	**1,105,641**
Write-off for the year	**(268,193)**	**–**	**(59)**	**–**	**(268,252)**
As at 31 December 2017	**577,764**	**11,703**	**1,333,563**	**–**	**1,923,030**

Provisions for impairment of assets are deducted from the carrying amount of related assets.

26. 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.

(thousands of tenge)

26. Risk management (continued)

Introduction (continued)

Treasury

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, value at risk, 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 value at risk, 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 (additional information is presented below).

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)

26. 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 8*.

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 statement of financial position 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.

	Neither past due nor impaired individually				
As at 31 December 2017	*Standard grade*	*Sub-standard grade*	*Past due, but not impaired individually*	*Individually impaired*	*Total*
Cash and cash equivalents	41,239,167	–	–	–	41,239,167
Amounts due from credit institutions	149,809	–	–	–	149,809
Derivative financial assets	–	–	–	–	–
Loans to customers	9,442,745	10,547,607	11,645,547	25,176,781	56,812,680
Finance lease receivables	12,113,992	122,895,515	20,694,288	45,661,053	201,364,848
Total	62,945,713	133,443,122	32,339,835	70,837,834	299,566,504

	Neither past due nor impaired individually				
As at 31 December 2016	*Standard grade*	*Sub-standard grade*	*Past due, but not impaired individually*	*Individually impaired*	*Total*
Cash and cash equivalents	22,989,891	–	–	–	22,989,891
Amounts due from credit institutions	662,881	–	–	–	662,881
Derivative financial assets	829,066	–	–	–	829,066
Loans to customers	4,367,374	22,438,532	20,207,074	16,698,431	63,711,411
Finance lease receivables	7,849,251	166,318,432	7,165,107	35,845,856	217,178,646
Total	36,698,463	188,756,964	27,372,181	52,544,287	305,371,895

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

Overdue but not individually impaired loans to customers and financial lease receivables are as follows:

2017	*Less than 30 days*	*31-60 days*	*61-90 days*	*Over 90 days*	*Total*
Loans to customers	2,722,107	4,857,663	566,394	3,499,383	11,645,547
Finance lease receivables	1,737,374	3,701,896	1,322,918	13,932,100	20,694,288
Total	4,459,481	8,559,559	1,889,312	17,431,483	32,339,835

(thousands of tenge)

26. Risk management (continued)

Credit risk (continued)

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

2016	*Less than 30 days*	*31-60 days*	*61-90 days*	*Over 90 days*	*Total*
Loans to customers	2,773,442	2,095,870	1,018,383	14,319,379	20,207,074
Finance lease receivables	480,442	574,109	352,474	5,758,082	7,165,107
Total	3,253,884	2,669,979	1,370,857	20,077,461	27,372,181

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

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, taking into account its specifics, 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 of 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.

(thousands of tenge)

26. Risk management (continued)

Credit risk (continued)

Collectively assessed allowances (continued)

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

	2017					2016				
	Kazakh-stan	*OECD*	*CIS*	*Other*	*Total*	*Kazakh-stan*	*OECD*	*CIS*	*Other*	*Total*
Assets										
Cash and cash equivalents	41,239,167	–	–	–	41,239,167	22,989,891	–	–	–	22,989,891
Amounts due from credit institutions	149,809	–	–	–	149,809	662,881	–	–	–	662,881
Derivative financial assets	–	–	–	–	–	829,066	–	–	–	829,066
Loans to customers	45,066,761	–	–	–	45,066,761	54,841,601	–	–	–	54,841,601
Finance lease receivables	183,288,007	–	–	–	183,288,007	197,402,364	–	–	–	197,402,364
Other financial assets	162,523	–	–	–	162,523	338,193	–	–	–	338,193
	269,906,267	–	–	–	269,906,267	277,063,996	–	–	–	277,063,996
Liabilities										
Amounts due to the Shareholder	75,539,402	–	–	–	75,539,402	85,638,633	–	–	–	85,638,633
Amounts due to credit institutions	9,089,195	13,852,324	15,376,280	2,111,824	40,429,623	4,590,339	12,707,937	15,157,080	7,101,016	39,556,372
Debt securities issued	46,969,316	–	–	–	46,969,316	46,841,139	–	–	–	46,841,139
Other financial liabilities	520,792	2,021,447	37,128	–	2,579,367	1,807,414	2,613,751	1,061,547	–	5,482,712
	132,118,705	15,873,771	15,413,408	2,111,824	165,517,708	138,877,525	15,321,688	16,218,627	7,101,016	177,518,856
Net position on assets and liabilities	137,787,562	(15,873,771)	(15,413,408)	(2,111,824)	104,388,559	138,186,471	(15,321,688)	(16,218,627)	(7,101,016)	99,545,140

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, the management has arranged diversified funding sources. 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 creditors will not request repayment on the earliest date the Company could be required to pay.

As at 31 December 2017	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Amounts due to the Shareholder	**5,742,914**	**14,602,489**	**59,462,889**	**9,570,378**	**89,378,670**
Amounts due to credit institutions	**2,635,436**	**16,905,063**	**26,443,191**	**573,725**	**46,557,415**
Debt securities issued	**678,500**	**3,743,400**	**41,713,025**	**22,676,339**	**68,811,264**
Other financial liabilities	**–**	**2,579,367**	**–**	**–**	**2,579,367**
Total undiscounted financial liabilities	**9,056,850**	**37,830,319**	**127,619,105**	**32,820,442**	**207,326,716**

As at 31 December 2016	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Amounts due to the Shareholder	6,000,981	15,219,399	76,681,058	7,421,201	105,322,639
Amounts due to credit institutions	1,748,536	13,555,468	26,787,240	–	42,091,244
Debt securities issued	678,500	3,743,400	44,934,925	22,094,625	71,451,450
Other financial liabilities	–	5,482,712	–	–	5,482,712
Total undiscounted financial liabilities	8,428,017	38,000,979	148,403,223	29,515,826	224,348,045

(thousands of tenge)

26. Risk management (continued)

Liquidity risk and funding management (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)

The table below shows the contractual expiry by maturity of the Company's contractual 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 *(Note 20)*.

	Less than 3 months	*3 to 12 months*	*1 to 5 years*	*More than 5 years*	*Total*
2017	**362,492**	**3,715,361**	**1,932,753**	**–**	**6,010,606**
2016	910,955	2,241,279	2,603,767	192,540	5,948,541

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 because of 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.

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 profit or loss.

The sensitivity of the statement of profit or loss 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 2017*	*Sensitivity of net interest income 2017*	*Sensitivity of equity 2017*
Euro	**100**	**(11,330)**	**(11,330)**
US Dollar	**100**	**(42,740)**	**(42,740)**

Currency	*Increase in basis points 2016*	*Sensitivity of net interest income 2016*	*Sensitivity of equity 2016*
Euro	100	(15,416)	(15,416)
US Dollar	100	(64,119)	(64,119)

(thousands of tenge)

26. Risk management (continued)

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

Currency	*Change in currency rate % 2017*	*Effect on profit before tax 2017*	*Change in currency rate % 2016*	*Effect on profit before tax 2016*
US Dollar	**-10%**	**(759,976)**	-13%	914,056
US Dollar	**10%**	**759,976**	13%	(914,056)
Euro	**-9.5%**	**658,126**	-15%	576,706
Euro	**13.5%**	**(935,231)**	15%	(576,706)
Russian Rouble	**-16%**	**511,251**	-23%	993,514
Russian Rouble	**16%**	**(511,251)**	19%	(820,729)

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 loans to clients and finance lease receivables were to prepay at the beginning of 2017, with all other variables held constant, the profit before corporate income taxes would be decreased by KZT 245,700 thousand (in the beginning of 2016: would be increased by KZT 350,510 thousand).

If 10% of debt instruments were to prepay at the beginning of 2017, with all other variables held constant, the profit before corporate income taxes would be decreased by KZT 541,518 thousand (in the beginning of 2016: would be decreased by KZT 1,043,939 thousand).

Operational risk

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

27. Fair value 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;
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

(thousands of tenge)

27. Fair value of financial instruments (continued)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as at 31 December 2017:

As at 31 December 2017	*Fair value measurement with the use of* Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant non-observable inputs (Level 3)	*Total*
Financial assets measured at fair value				
Derivative financial assets	–	–	–	–
Total financial assets measured at fair value	**–**	**–**	**–**	**–**
Assets for which fair value is disclosed				
Cash and cash equivalents	41,239,167	–	–	41,239,167
Amounts due from credit institutions	–	149,809	–	149,809
Loans to customers	–	–	36,590,292	36,590,292
Finance lease receivables	–	–	178,557,626	178,557,626
Other financial assets	–	–	162,523	162,523
Total financial assets for which fair value is disclosed	**41,239,167**	**149,809**	**215,310,441**	**256,699,417**
Financial liabilities for which fair value is disclosed				
Amounts due to the Shareholder	–	66,979,211	–	66,979,211
Amounts due to credit institutions	–	40,086,083	–	40,086,083
Debt securities issued	46,270,941	–	–	46,270,941
Other financial liabilities	–	–	2,579,367	2,579,367
Total financial liabilities for which fair value is disclosed	**46,270,941**	**107,065,294**	**2,579,367**	**155,915,602**

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as at 31 December 2016:

As at 31 December 2016	*Fair value measurement with the use of* Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant non-observable inputs (Level 3)	*Total*
Financial assets measured at fair value				
Derivative financial assets	–	829,066	–	829,066
Total financial assets measured at fair value	–	829,066	–	829,066
Assets for which fair value is disclosed				
Cash and cash equivalents	22,989,891	–	–	22,989,891
Amounts due from credit institutions	–	662,881	–	662,881
Loans to customers	–	–	47,425,415	47,425,415
Finance lease receivables	–	–	198,263,817	198,263,817
Other financial assets	–	–	338,193	338,193
Total financial assets for which fair value is disclosed	22,989,891	662,881	246,027,425	269,680,197
Financial liabilities for which fair value is disclosed				
Amounts due to the Shareholder	–	75,020,801	–	75,020,801
Amounts due to credit institutions	–	37,195,465	–	37,195,465
Debt securities issued	46,008,238	–	–	46,008,238
Other financial liabilities	–	–	5,482,712	5,482,712
Total financial liabilities for which fair value is disclosed	46,008,238	112,216,266	5,482,712	163,707,216

(thousands of tenge)

27. Fair value of financial instruments (continued)

Financial instruments recorded 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 the Black-Scholes model to evaluate its financial instruments.

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.

	At 31 December 2017			*At 31 December 2016*		
	Carrying amount	*Fair value*	*Unrecognised (loss)/ income*	*Carrying value*	*Fair value*	*Unrecognised (loss)/ income*
Financial assets						
Cash and cash equivalents	**41,239,167**	**41,239,167**	**–**	22,989,891	22,989,891	–
Amounts due from credit institutions	**149,809**	**149,809**	**–**	662,881	662,881	–
Loans to customers	**45,066,761**	**36,590,292**	**(8,476,469)**	54,841,601	47,425,415	(7,416,186)
Finance lease receivables	**183,288,007**	**178,557,626**	**(4,730,381)**	197,402,364	198,263,817	861,453
Other financial assets	**162,523**	**162,523**	**–**	338,193	338,193	–
	269,906,267	**256,699,417**	**(13,206,850)**	276,234,930	269,680,197	(6,554,733)
Financial liabilities						
Amounts due to the Shareholder	**75,539,402**	**66,979,211**	**8,560,191**	85,638,633	75,020,801	10,617,832
Amounts due to credit institutions	**40,429,623**	**40,086,083**	**343,540**	39,556,372	37,195,465	2,360,907
Debt securities issued	**46,969,316**	**46,270,941**	**698,375**	46,841,139	46,008,238	832,901
Other financial liabilities	**2,579,367**	**2,579,367**	**–**	5,482,712	5,482,712	–
	165,517,708	**155,915,602**	**9,602,106**	177,518,856	163,707,216	13,811,640
Total unrecognised change in unrealised fair value			**(3,604,744)**			7,256,907

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 to carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value.

(thousands of tenge)

27. Fair value of financial instruments (continued)

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 value 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 NBRK. 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.

28. 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 26* "Risk management" for the Company's contractual undiscounted repayment obligations.

	2017			*2016*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Assets						
Cash and cash equivalents	41,239,167	–	41,239,167	22,989,891	–	22,989,891
Amounts due from credit institutions	149,809	–	149,809	662,881	–	662,881
Derivative financial assets	–	–	–	829,066	–	829,066
Loans to customers	25,701,203	19,365,558	45,066,761	26,185,392	28,656,209	54,841,601
Finance lease receivables	51,197,100	132,090,907	183,288,007	54,485,653	142,916,711	197,402,364
Property held for financial lease	5,131,712	–	5,131,712	5,292,406	–	5,292,406
Current corporate income tax prepaid	125,579	–	125,579	894,899	–	894,899
Property, plant and equipment	–	1,040,490	1,040,490	–	1,010,749	1,010,749
Intangible assets	–	530,043	530,043	–	216,334	216,334
VAT and other taxes recoverable	3,106,338	–	3,106,338	1,874,026	–	1,874,026
Advances paid	45,063	2,513,389	2,558,452	120,564	164,180	284,744
Other assets	576,406	–	576,406	484,261	–	484,261
Total	127,272,377	155,540,387	282,812,764	113,819,039	172,964,183	286,783,222
Liabilities						
Amount due to the Shareholder	19,183,905	56,355,497	75,539,402	24,839,930	60,798,703	85,638,633
Amounts due to credit institutions	17,215,746	23,213,877	40,429,623	13,526,255	26,030,117	39,556,372
Debt securities issued	877,050	46,092,266	46,969,316	877,050	45,964,089	46,841,139
Deferred corporate income tax liabilities	–	1,669,304	1,669,304	–	2,133,275	2,133,275
Advances received	3,555,199	–	3,555,199	2,502,225	–	2,502,225
Deferred VAT payable	784,709	3,194,518	3,979,227	467,588	2,477,932	2,945,520
Other liabilities	7,701,547	184,195	7,885,742	7,614,038	184,195	7,798,233
Total	49,318,156	130,709,657	180,027,813	49,827,086	137,588,311	187,415,397
Net position	77,954,221	24,830,730	102,784,951	63,991,953	35,375,872	99,367,825

(thousands of tenge)

29. 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. Prices and terms of such transactions may differ from prices and terms of transactions between unrelated parties.

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. The Company executes bank transactions with these entities such as raising of loans and placement of cash.

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

	2017			*2016*		
	Parent	*Companies under common control*	*Other related parties*	*Parent*	*Companies under common control*	*Other related parties*
Finance lease receivables as at 1 January	–	432,032	–	–	682,976	–
Issued during the year	–	–	–	–	–	–
Repaid during the year	–	(167,566)	–	–	(258,222)	–
Interest income accrued	–	13,151	–	–	7,278	–
Finance lease receivables at 31 December	–	277,617	–	–	432,032	–
Less allowance for impairment at 31 December	–	–	–	–	(22,163)	–
Finance lease receivables at 31 December after allowance for impairment	–	277,617	–	–	409,869	–
Loans received at 1 January	85,638,633	–	–	104,286,082	–	–
Loans received	6,653,248	–	–	5,504,093	–	–
Loans repaid	(17,235,920)	–	–	(24,850,694)	–	–
Interest expenses accrued	483,441	–	–	699,152	–	–
Loans obtained at 31 December	75,539,402	–	–	85,638,633	–	–
Dividends payable as at 1 January	–	–	–	–	–	–
Dividends declared during the year	1,614,314	–	–	–	–	–
Dividends paid during the year	(1,614,314)	–	–	–	–	–
Dividends payable as at 31 December	–	–	–	–	–	–
Debt securities issued	35,786,367	–	–	35,686,800	–	–
Interest income on finance lease receivables	–	29,816	–	–	49,541	–
Reversal of allowance for impairment of finance lease receivables	–	22,163	–	–	5,637	–
Interest expense on loans received	(5,990,768)	–	–	(6,356,922)	–	–
Other expense	–	(938)	–	–	(4,173)	–

Loans issued to related parties and finance lease receivables were at rates ranging from 6.0% to 13.4% per annum with the term from 2 to 8 years.

Compensation of key management personnel consisting of 5 (five) persons in 2017 and 2016 was comprised of the following:

	2017	*2016*
Salary and other short-term benefits	75,925	57,863
Social security taxes and costs	7,863	5,740
Total key management personnel compensation	83,788	63,603

(thousands of tenge)

30. Changes in liabilities arising from financing activities

	Debt securities issued	*Amounts due to credit institutions*	*Loans from the Shareholder*	*Total liabilities from financial activities*
Carrying amount as at 31 December 2015	38,624,394	30,424,302	104,286,082	173,334,778
Additions	8,000,000	26,712,535	5,504,093	40,216,628
Repayment	–	(17,621,359)	(27,007,199)	(44,628,558)
Foreign exchange differences	–	409,576	–	409,576
Other	216,745	(368,682)	2,855,657	2,703,720
Carrying amount as at 31 December 2016	46,841,139	39,556,372	85,638,633	172,036,144
Additions	–	**11,220,884**	**6,653,248**	**17,874,132**
Repayment	–	**(10,953,506)**	**(18,511,028)**	**(29,464,534)**
Foreign exchange differences	–	**537,844**	–	**537,844**
Other	**128,177**	**68,029**	**1,758,549**	**1,954,755**
Carrying amount as at 31 December 2017	**46,969,316**	**40,429,623**	**75,539,402**	**162,938,341**

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

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.

As at 31 December 2017 and 2016 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 Tier 2 capital adequacy ratio of 6.0% of assets and minimum general total capital adequacy ratio of 12.0% of risk-weighted assets. At 31 December, the Company's capital adequacy ratio on this basis was as follow:

	2017	*2016*
Tier 1 capital	**99,106,240**	96,087,808
Tier 2 capital	**3,572,220**	3,228,629
Total capital	**102,678,460**	99,316,437
Assets	**282,812,764**	286,783,222
Risk weighted assets and contingent and potential liabilities	**287,943,904**	267,564,893
Operational risk	**7,868,464**	4,008,320
Capital adequacy ratio (k1) – not less than 6.0%	**35.04%**	33.51%
Capital adequacy ratio (k1-2) – not less than 6.0%	**34.42%**	35.91%
Capital adequacy ratio (k1-3) – not less than 12.0%	**34.71%**	36.57%

(thousands of tenge)

31. Capital adequacy (continued)

Capital adequacy ratio under 1988 Basel agreement

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

	2017	*2016*
Tier 1 capital	**99,106,240**	96,087,808
Tier 2 capital	**3,572,220**	3,228,629
Total equity	**102,678,460**	99,316,437
Risk weighted assets	**282,172,412**	261,742,218
Tier 1 capital ratio	**35.12%**	36.71%
Total capital ratio	**36.39%**	37.94%