KazAgroFinance Joint Stock Company

Financial statements

Year ended 31 December 2016
together with independent auditor's report

CONTENTS

INDEPENDENT AUDITOR'S REPORT

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 2016, 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 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *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 judgment, were of most significance in the audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

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

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Adequacy of 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 69% and 19% of the Company's total assets as at 31 December 2016, 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 and 9 to the financial statements.

Other information included in the Company's 2016 Annual report

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

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

Our opinion on the financial statements does not cover the other information and we do 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 the management and the Board of Directors for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

Ernst & Young LLP

Bakhtiyor Eshonkulov
Auditor / audit partner

Auditor qualification certificate
No. МФ-0000099 dated 27 August 2012

Gulmira Turmagambetova
General Director
Ernst & Young LLP

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

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18 March 2017

STATEMENT OF FINANCIAL POSITION

as at 31 December 2016

(thousands of tenge)

	Notes	2016	2015
Assets			
Cash and cash equivalents	5	**22,989,891**	23,874,332
Amounts due from credit institutions	6	**662,881**	2,549,777
Derivative financial assets	7	**829,066**	1,734,567
Loans to customers	8	**54,841,601**	59,739,798
Finance lease receivables	9	**197,402,364**	179,633,484
Assets held for sale	10	**–**	508,034
Property held for finance lease	11	**5,292,406**	7,594,407
Current corporate income tax prepaid	18	**894,899**	626,732
Property and equipment	12	**1,010,749**	1,078,038
Intangible assets		**216,334**	227,695
VAT and other taxes receivable	13	**1,874,026**	1,554,151
Advances paid	14	**284,744**	5,996,446
Other assets	20	**484,261**	180,819
Total assets		**286,783,222**	285,298,280
Liabilities			
Amounts due to the Shareholder	15	**85,638,633**	104,286,082
Amounts due to credit institutions	16	**39,556,372**	30,424,302
Debt securities issued	17	**46,841,139**	38,624,394
Deferred corporate income tax liabilities	18	**2,133,275**	2,460,648
Advances received	19	**2,502,225**	4,760,927
Deferred VAT payable		**2,945,520**	2,533,534
Other liabilities	20	**7,798,233**	6,778,834
Total liabilities		**187,415,397**	189,868,721
Equity			
Share capital	22	**82,837,204**	82,837,204
Additional paid-in capital	22	**23,282,853**	22,248,866
Reserve funds	22	**1,436,184**	1,436,184
Reserve for notional distribution	22	**(9,372,015)**	(9,047,665)
Retained earnings / (accumulated deficit)		**1,183,599**	(2,045,030)
Total equity		**99,367,825**	95,429,559
Total liabilities and equity		**286,783,222**	285,298,280
Book value per common share (in tenge)	22	**1,196.94**	1,149.26

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

Izbastin Kanysh Temirtayevich — Chairman of the Management Board

Shodanova Gulnara Takishevna — Chief accountant

18 March 2017

The accompanying notes on pages 6 to 38 are an integral part of these financial statements.

STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2016

(thousands of tenge)

	Notes	*2016*	*2015*
Interest income			
Finance lease receivables		**17,788,390**	14,918,315
Loans to customers		**5,763,140**	6,032,488
Amounts due from credit institutions		**1,761,051**	822,340
		25,312,581	21,773,143
Interest expenses			
Amounts due to the Shareholder		**(6,356,922)**	(6,298,616)
Debt securities issued		**(3,500,199)**	(2,024,110)
Amounts due to credit institutions		**(2,512,193)**	(1,782,960)
		(12,369,314)	(10,105,686)
Net interest income		**12,943,267**	11,667,457
Allowance for impairment of loans to customers and finance lease receivables	8, 9	**(6,187,708)**	(4,611,789)
Net interest income after allowance for impairment of loans to customers and finance lease receivables		**6,755,559**	7,055,668
Net (losses)/gains from transactions with derivative financial assets	7	**(947,531)**	1,280,852
Net gains from transactions in foreign currencies		**290,810**	(10,489,402)
Other income	23	**878,302**	930,326
Non-interest income		**221,581**	(8,278,224)
Personnel expenses	24	**(2,380,330)**	(2,355,234)
Other operating expenses	24	**(732,470)**	(811,297)
Net loss from restructuring of loans to customers	25	**(669,237)**	(647,866)
Other impairment and provisions	26	**(300,170)**	(540,540)
Amortisation		**(171,086)**	(144,888)
Non-interest expenses		**(4,253,293)**	(4,499,825)
Profit/(loss) before corporate income tax benefit		**2,723,847**	(5,722,381)
Corporate income tax benefit	18	**504,782**	145,698
Profit/(loss) for the year		**3,228,629**	(5,576,683)

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

Izbastin Kanysh Temirtayevich — Chairman of the Management Board

Shodanova Gulnara Takishevna — Chief accountant

18 March 2017

The accompanying notes on pages 6 to 38 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2016

(thousands of tenge)

	Notes	*2016*	*2015*
Profit/(loss) for the year		**3,228,629**	(5,576,683)
Other comprehensive income for the year		**–**	–
Total comprehensive income/(loss) for the year		**3,228,629**	(5,576,683)

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

Izbastin Kanysh Temirtayevich — Chairman of the Management Board

Shodanova Gulnara Takishevna — Chief accountant

18 March 2017

The accompanying notes on pages 6 to 38 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2016

(thousands of tenge)

	Share capital	*Additional paid-in capital*	*Reserve funds*	*Reserve for notional distribution*	*Retained earnings / (accumulated deficit)*	*Total equity*
As at 31 December 2014	82,837,204	18,786,572	1,436,184	(7,885,776)	6,387,585	101,561,769
Total comprehensive loss for the year	–	–	–	–	(5,576,683)	(5,576,683)
Gain on initial recognition of loans due to the Shareholder at fair value, net of tax *(Note 22)*	–	3,462,294	–	–	–	3,462,294
Dividends declared *(Note 22)*	–	–	–	–	(2,855,932)	(2,855,932)
Reserve for notional distribution for the year, net of tax *(Note 22)*	–	–	–	(1,161,889)	–	(1,161,889)
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 22)*	–	**1,033,987**	–	–	–	**1,033,987**
Reserve for notional distribution for the year, net of tax *(Note 22)*	–	–	–	(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

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

Izbastin Kanysh Temirtayevich — Chairman of the Management Board

Shodanova Gulnara Takishevna — Chief accountant

18 March 2017

The accompanying notes on pages 6 to 38 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

for the year ended 31 December 2016

(thousands of tenge)

	Notes	*2016*	*2015*
Cash flows from operating activities			
Interest received		**21,400,923**	16,198,885
Interest paid		**(7,556,872)**	(3,917,832)
Realised gains less losses from transactions with derivative financial assets	7	**70,223**	15,008
Personnel expenses paid		**(2,339,589)**	(2,381,558)
Other operating expenses paid		**(750,221)**	(815,003)
Other income received		**258,194**	923,201
Realised losses less gains from dealing in foreign currencies		**(130,688)**	(386,220)
Cash flows from operating activities before changes in operating assets and liabilities		**10,951,970**	9,636,481
Net decrease/(increase) in operating assets			
Amounts due from credit institutions		**1,871,187**	1,494,180
Derivative financial assets		**–**	111
Loans to customers		**3,026,777**	(5,464,672)
Finance lease receivables		**(12,507,446)**	(26,983,980)
Assets held for sale		**–**	5,895
Property held for finance lease		**–**	3,756,988
VAT and other taxes receivable		**(319,875)**	(265,808)
Advances paid		**(120,144)**	(1,330,499)
Other assets		**(440,736)**	(16,072)
Net increase/(decrease) in operating liabilities			
Advances received		**299,740**	1,339,358
Other liabilities		**1,383,809**	(3,519,059)
Net cash flows from / (used in) operating activities before corporate income tax		**4,145,282**	(21,347,077)
Corporate income tax paid		**(268,167)**	(74,865)
Net cash received from / (used in) operating activities		**3,877,115**	(21,421,942)
Cash flows from investing activities			
Purchase of property and equipment and intangible assets		**(93,142)**	(192,866)
Proceeds from sale of property and equipment		**1,682**	–
Net cash used in investing activities		**(91,460)**	(192,866)
Cash flows from financing activities			
Proceeds from loans due to the Shareholder		**5,504,093**	24,883,416
Repayment of loans due to the Shareholder		**(27,007,199)**	(18,107,533)
Proceeds from loans due to credit institutions		**26,712,535**	6,901,367
Repayments of loans due to credit institutions		**(17,621,359)**	(14,365,824)
Proceeds from debt securities issued	17	**8,000,000**	19,984,542
Dividends paid to the Shareholder	22	**–**	(2,855,932)
Net cash (used in) / received from financing activities		**(4,411,930)**	16,440,036
Effect of exchange rate changes on cash and cash equivalents		**(258,166)**	5,523,279
Net (decrease)/increase in cash and cash equivalents		**(884,441)**	348,507
Cash and cash equivalents, beginning of the year	5	**23,874,332**	23,525,825
Cash and cash equivalents, end of the year	5	**22,989,891**	23,874,332

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

Izbastin Kanysh Temirtayevich — Chairman of the Management Board

Shodanova Gulnara Takishevna — Chief accountant

18 March 2017

The accompanying notes on pages 6 to 38 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 state 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 2016 and 2015, the Company has 15 registered branches in the Republic of Kazakhstan.

As at 31 December 2016 and 2015, "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 have been prepared under the historical cost convention except for mentioned in the Summary of accounting policies.

The financial statements are presented in thousands of Kazakhstan 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 accounting policies of the Company were approved on 20 December 2013 according to the decision of the Board of Directors of KazAgroFinance JSC No. 28. The Company has adopted the following amended IFRS which are effective for annual periods beginning on or after 1 January 2016:

Amendments to IAS 1 Disclosure Initiative

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

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

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and other comprehensive income. These amendments are effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Company.

(thousands of tenge)

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

Annual improvements 2012-2014 cycle

These improvements are effective for annual periods beginning on or after 1 January 2016. They include, in particular:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or through distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

IFRS 7 Financial Instruments: Disclosures

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

Fair value measurement

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

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

Information on fair value of financial instruments measured at amortised cost is disclosed in *Note 28.*

(thousands of tenge)

3. Summary of significant accounting policies (continued)

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. 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 recognised on the trade date i.e. the date that the Company commits to purchase the asset. Regular way purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Derivative financial instruments embedded into other financial instruments or other host contracts as separate derivative instruments, when their risks and characteristics are not related to those of the host contracts, and host contracts are not at fair value though profit or loss with changes recognised 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 are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, except assets, that are classified in 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 statement of profit or loss 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 and 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 recognised at fair value in the statement of financial position, and subsequently these loans are recorded at amortised cost, using the effective interest rate. Loans to customers are recorded net of any allowance 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.

(thousands of tenge)

3. Summary of significant accounting policies (continued)

Financial assets (continued)

Reclassification of financial assets

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

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

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

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognised 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, as applicable.

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;
- the event of default; and
- the event 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, amounts due to credit institutions and debt securities issued. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the profit or loss when liabilities are derecognised, as well as through the amortisation 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.

Leases

Finance – Company as lessee

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

(thousands of tenge)

3. Summary of significant accounting policies (continued)

Leases (continued)

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.

Impairment of financial assets

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

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected losses on loans and finance lease receivables that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in 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 Company's 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 Company. 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 significant accounting policies (continued)

Impairment of financial assets (continued)

Available-for-sale financial investments

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

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

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

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

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

Derecognition of financial assets and liabilities

Financial assets

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

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

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

(thousands of tenge)

3. Summary of significant accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

Financial liabilities

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

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

Taxation

The current corporate income tax 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.

Deferred corporate 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 and credits 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 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 and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Depreciation is charged to profit or loss on a straight-line basis over the following estimated useful lives of the individual assets:

	Depreciation rate
Buildings and constructions	2%
Vehicles	10-14%
Computer hardware 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 cost and net realizable value. Net realisable value is the estimated asset's selling price in the ordinary course of the Company's business, less the estimated costs to sell.

(thousands of tenge)

3. Summary of significant accounting policies (continued)

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 held for sale

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

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

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

Provisions

Provisions are recognised in the statement of financial position when the Company has a legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation.

Share capital

Share capital

Contributions to share 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 received 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 recognised as a liability and deducted from equity at the reporting date only if they are approved before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised.

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 provided loans or 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.

(thousands of tenge)

3. Summary of significant accounting policies (continued)

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.

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 revenue is recognised:

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing securities classified as trading and available-for-sale instruments, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Company revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

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

Fee and commission income

The Company earns 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 statement of profit or loss 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 statement of profit or loss on its expiration date. Fees for loan servicing are recognised upon rendering of services. Loan syndication fees are recognised in the statement of profit or loss when such services have been provided. Other fees, commissions and other income and expense items are recognised when the corresponding service is provided.

Foreign currency translation

The financial statements are presented in Kazakhstan tenge, which is the Company's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the market exchange rate established on the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of profit or loss as Net gains from foreign currencies. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the official exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the 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:

	2016	*2015*
Tenge/US Dollars	**333.29**	340.01
Tenge/Euro	**352.42**	371.46
Tenge/Russian Ruble	**5.43**	4.61

(thousands of tenge)

3. Summary of significant accounting policies (continued)

Future changes in accounting policies

Standards and interpretations issued but not yet effective

The standard 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 the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* as well as all previous version of IFRS 9. The standard introduces new requirements to classification and measurement, impairment, and hedge accounting.

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by: fair value through profit or loss, fair value through other comprehensive income, and amortised cost categories. IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or fair value through other comprehensive income instruments as fair value through profit or loss, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as fair value through other comprehensive income, with no subsequent reclassification of gains or losses to the statement of profit or loss. The accounting for financial liabilities will largely be the same as the requirements of IAS 39.

IFRS 9 will also fundamentally change the approach to loan impairment. The standard will replace IAS 39's incurred loss approach with a forward-looking expected credit loss approach. The Company will be required to record an allowance for expected losses for all loans and other debt financial assets not carried at fair value through profit or loss, as well as for loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses 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 would be based on the probability of default over the life of the asset.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but restatement of comparative information is not required; the effect on the transition date – 1 January 2018 – would be recorded in retained earnings. The adoption of IFRS 9 is expected to have an effect on the classification and measurement of the Company's financial assets, but no impact on the classification and measurement of the Company's financial liabilities. Currently the Company is evaluating impact on its equity due to adoption of IFRS 9 impairment requirements and it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*, effective for periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g., IFRS 9, and IFRS 16 *Leases*).

Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers.

The Company does not anticipate early adopting IFRS 15 and is currently evaluating its impact.

IFRS 16 Leases

The IASB issued the new standard for accounting for leases – IFRS 16 *Leases* in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately within profit or loss.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date.

The Company does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

3. Summary of significant accounting policies (continued)

Future changes in accounting policies (continued)

Standards issued but not yet effective (continued)

Amendments to IAS 12 Income Taxes

In January 2016, through issuing amendments to IAS 12, the IASB clarified the accounting treatment of deferred tax assets of debt instruments measured at fair value for accounting, but measured at cost for tax purposes. The Company does not anticipate that adopting the amendments would have a material impact on its financial statements.

Amendments to IAS 7 Statement of Cash Flows

In January 2016, the IASB issued amendments to IAS 7 *Statement of Cash Flows* with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g., gains and losses due to foreign currency movements). The amendment is effective from 1 January 2017. The Company is currently evaluating the impact.

Amendments to IFRS 2 Share-based Payment

The IASB issued amendments to IFRS 2 *Share-based Payment* in relation to the classification and measurement of share-based payment transactions. The amendments are intended to eliminate diversity in practice, but are narrow in scope and address specific areas of classification and measurement. The amendments address three main areas:

- The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction.
- The 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.

The amendments are effective for annual periods beginning on or after 1 January 2018. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. Early application is permitted. These amendments are not expected to have any impact on the Company.

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 the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. The optional temporary exemption from IFRS 9 is available to entities whose activities are predominantly connected with insurance. The temporary exemption permits such entities to continue to apply IAS 39 *Financial Instruments: Recognition and Measurement* while they defer the application of IFRS 9 until 1 January 2021 at the latest. The overlay approach requires an entity to remove from profit or loss additional volatility that may arise if IFRS 9 is applied with IFRS 4.

The temporary exemption is first applied 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. These amendments are not expected to have any impact to the Company.

4. Significant accounting judgements and estimates

Estimation uncertainty

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

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.

(thousands of tenge)

4. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Deferred income tax

Deferred 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 income tax assets, which may be recognised in the financial statements based on possible dates of generation and amount of future taxable profit as well as strategy of tax planning.

Allowance for impairment of loans to customers 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.

Taxation

Kazakhstan tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by the respective local or state authorities. As such, significant additional taxes, penalties and interest could be assessed. Tax periods remain open to inspection by respective authorities for 5 (five) calendar years preceding the year of tax inspection. The inspection may cover longer periods under certain circumstances.

As at 31 December 2016 and 2015, the 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 2016 and 2015, cash and cash equivalents comprised the following:

	2016	*2015*
Cash on current accounts with banks in foreign currency	**12,605,518**	11,374,345
Cash on current accounts with banks in tenge	**10,384,373**	12,499,987
Cash and cash equivalents	**22,989,891**	23,874,332

As at 31 December 2016, the cash on current accounts with one bank was equal to KZT 7,584,844 thousand or 33.0% of total cash and cash equivalents (as at 31 December 2015: KZT 5,379,962 thousand or 22.5%).

6. Amounts due from credit institutions

As at 31 December 2016 and 2015, amounts due from credit institutions comprised the following:

	2016	*2015*
Cash on current accounts restricted in use	**662,881**	2,549,777
Amounts due from credit institutions	**662,881**	2,549,777

Amounts on current accounts due from credit institutions represent restricted cash placed 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:

	2016			2015		
	Notional principal	*Fair values*		*Notional principal*	*Fair values*	
		Asset	*Liability*		*Asset*	*Liability*
Currency options in US Dollars	**1,199,056**	**743,027**	**–**	1,519,413	1,255,929	–
Currency options in Euro	**242,770**	**86,039**	**–**	659,093	478,638	–
	1,441,826	**829,066**	**–**	2,178,506	1,734,567	–

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

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

	2016	*2015*
Realised gains from transactions with derivative financial assets	**70,223**	15,008
Unrealised (losses)/gains from transactions with derivative financial assets	**(1,017,754)**	1,265,844
Net (losses)/gains from transactions with derivative financial assets	**(947,531)**	1,280,852

8. Loans to customers

As at 31 December 2016 and 2015, loans to customers comprised the following:

	2016	*2015*
Loans to legal entities	**63,711,411**	65,330,232
Loans to individuals	**–**	4,197
Loans to customers before allowance for impairment	**63,711,411**	65,334,429
Less allowance for impairment	**(8,869,810)**	(5,594,631)
Loans to customers	**54,841,601**	59,739,798

Allowance for loans impairment

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

	2016	*2015*
At 1 January	**5,594,631**	5,792,542
Charge/(reversal) for the year	**3,275,179**	(197,911)
As at 31 December	**8,869,810**	5,594,631
Individual impairment	**7,821,930**	4,139,399
Collective impairment	**1,047,880**	1,455,232
As at 31 December	**8,869,810**	5,594,631
Total amount of loans to customers, individually determined to be impaired, before deducting allowance for impairment	**16,698,431**	12,131,796

Individually impaired loans

For the year ended 31 December 2016, interest income accrued on individually impaired loans to customers was equal to KZT 2,486,815 thousand (for 2015: KZT 2,080,569 thousand).

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

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

(thousands of tenge)

8. Loans to customers (continued)

Collateral and other credit enhancements (continued)

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 2016, the Company had a concentration of loans represented by KZT 2,168,720 thousand issued by the Company to ten largest third parties or 34.3% of gross loan portfolio (as at 31 December 2015: KZT 23,480,170 thousand or 35.9% of gross loan portfolio). As at 31 December 2016, allowance for impairment on these loans of KZT 2,809,161 thousand was recognised against these loans (as at 31 December 2015: KZT 2,352,907 thousand).

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

	2016	*2015*
Agriculture	**63,711,411**	65,330,232
Construction	**–**	4,197
Loans to customers	**63,711,411**	65,334,429

9. Finance lease receivables

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 lease	**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 lease	**54,485,653**	**104,219,993**	**38,696,718**	**197,402,364**

As at 31 December 2015, 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 lease	52,439,105	135,729,038	69,548,149	257,716,292
Unearned finance income on finance lease of future periods	(1,425,604)	(30,284,157)	(29,509,294)	(61,219,055)
Total investments into finance lease	51,013,501	105,444,881	40,038,855	196,497,237
Less allowance for impairment	(3,619,194)	(9,599,498)	(3,645,061)	(16,863,753)
Net investment in finance lease	47,394,307	95,845,383	36,393,794	179,633,484

Allowance for impairment of finance lease receivables

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

	2016	*2015*
At 1 January	**16,863,753**	12,062,962
Charge/(reversal) for the year	**2,912,529**	4,809,700
Write-off for the year	**–**	(8,909)
As at 31 December	**19,776,282**	16,863,753
Individual impairment	**12,224,787**	10,858,508
Collective impairment	**7,551,495**	6,005,245
As at 31 December	**19,776,282**	16,863,753
Total amount of finance lease receivables, individually determined to be impaired, before deducting allowance for impairment	**35,845,856**	34,858,743

(thousands of tenge)

9. Finance lease receivables (continued)

Finance lease receivables individually assessed as impaired

For the year ended 31 December 2016, interest income accrued on finance lease receivables, individually determined as impaired, was equal to KZT 5,498,708 thousand (for 2015: KZT 4,837,443 thousand).

Concentration of finance lease receivables

As at 31 December 2016, the Company had a concentration of finance lease receivables represented by KZT 33,916,954 thousand issued by the Company to ten largest third parties or 15.6% of gross finance lease receivables (as at 31 December 2015: KZT 31,627,075 thousand or 16.1%). As at 31 December 2016, allowance for impairment on these receivables was equal to KZT 4,300,705 thousand (as at 31 December 2015: KZT 4,021,956 thousand).

10. Assets held for sale

During 2016, the Company transferred assets held for sale with carrying amount of KZT 508,034 thousand into property held for finance lease.

11. Property held for finance lease

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

	2016	*2015*
Equipment held for finance lease	**5,008,181**	7,924,117
Repossessed collateral	**721,408**	508,235
Other materials	**15,228**	15,394
	5,744,817	8,447,746
Less allowance for impairment *(Note 26)*	**(452,411)**	(853,339)
Property held for finance lease	**5,292,406**	7,594,407

12. Property and equipment

Movements in property and equipment were as follows:

	Land	*Buildings and constructions*	*Motor vehicles*	*Computers and office equipment*	*Other*	*Total*
Cost						
At 31 December 2014	31,922	847,303	134,636	401,047	105,264	1,520,172
Additions	–	–	25,710	73,098	5,235	104,043
Disposals	–	–	(27,863)	(34,663)	(3,647)	(66,173)
Loss from impairment of property and equipment	–	–	(967)	–	–	(967)
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**
Accumulated depreciation						
At 31 December 2014	–	(158,023)	(52,442)	(157,117)	(69,968)	(437,550)
Charge	–	(23,553)	(14,657)	(55,374)	(7,648)	(101,232)
Disposals	–	–	21,969	34,644	3,132	59,745
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)**
Net book value						
At 31 December 2014	31,922	689,280	82,194	243,930	35,296	1,082,622
At 31 December 2015	31,922	665,727	86,386	261,635	32,368	1,078,038
At 31 December 2016	**31,922**	**645,335**	**71,037**	**232,912**	**29,543**	**1,010,749**

(thousands of tenge) 2016 financial statements

13. VAT and other taxes receivable

As at 31 December 2016 and 2015, VAT and other taxes receivable comprise the following:

	2016	2015
VAT receivable	1,859,679	1,553,585
Other taxes	14,347	566
VAT and other taxes receivable	**1,874,026**	1,554,151

14. Advances paid

As at 31 December 2016 and 2015, advances paid comprise the following:

	2016	2015
Advances paid for agricultural machinery	179,190	1,291,287
Advances paid for equipment	10,770	4,100,451
Advances paid for great cattle	–	158,703
Other advances paid	123,931	617,243
	313,891	6,167,684
Less allowance for impairment *(Note 26)*	(29,147)	(171,238)
Advances paid	284,744	5,996,446

As at 31 December 2016 and 2015, advances paid represent prepayment for delivery of agricultural machinery, equipment and cattle stock for further transfer to finance lease.

15. Amounts due to the Shareholder

	2016	2015
Loans from the Shareholder	85,638,633	104,286,082
Amounts due to the Shareholder	85,638,633	104,286,082

Investment loan

As at 31 December 2016 and 2015, 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 obtains 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 NBRK. The agreement is effective until 30 December 2013. As at 31 December 2016 and 2015, 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 received equalled to 6.0% per annum. As at 31 December 2016, the amount due under this Agreement is KZT 59,453,707 thousand (as at 31 December 2015: KZT 70,419,859 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 2016, the amount due under this Agreement is KZT 12,149,796 thousand (as at 31 December 2015: KZT 21,834,447 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 2016, the amount due under this Agreement is KZT 6,666,979 thousand (as at 31 December 2015: KZT 6,862,841 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 with nominal interest rate of 1.02% per annum, the effective interest rate on loan amounts to 7.17% per annum. As at 31 December 2016, the amount due under this Agreement is KZT 4,425,369 thousand (as at 31 December 2015: KZT 5,168,935 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 with nominal interest rate of 1.02% per annum, the effective interest rate on loan amounts to 11.97% per annum. As at 31 December 2016, the amount due under this Agreement is KZT 2,942,782 thousand (as at 31 December 2015: nil).

As at 31 December 2016 and 2015 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.

(thousands of tenge)

16. Amounts due to credit institutions

As at 31 December 2016 and 2015, amounts due to credit institutions comprise:

	Currency	*Maturity*	*Interest rate, %*	*2016*	*2015*
Islamic Development Bank	US Dollars	21 September 2020	6.0%	**7,101,016**	8,747,570
Eurasian Development Bank	Tenge	7 and 14 July 2017	15.0%	**6,249,375**	–
Societe Generale Bank	US Dollars	20 May 2020	6 months LIBOR + 3.0%	**5,863,642**	7,689,484
SB Sberbank of Russia JSC	Tenge	16 June 2021	14.0%	**4,036,736**	–
Eurasian Development Bank	Tenge	19 March 2018 and 6 April 2018	14.0%	**3,597,318**	–
Roseksimbank JSC	Russian Rouble	20 December 2023	5.75%	**3,223,608**	–
BOT Lease Co. Ltd	Euro	22 December 2021	4.0%	**2,822,493**	–
Deere Credit, Inc.	US Dollars	20 November 2019	5.6%	**2,231,294**	3,035,521
Landesbank Berlin AG	Euro	30 December 2019	6 months EURIBOR + 1.15%	**1,465,250**	2,062,249
GazPromBank JSC	US Dollars	30 April 2019	4.3%	**863,359**	1,239,740
Rosselhozbank JSC	US Dollars	24 April 2019	4.9%	**679,990**	852,247
SB Sberbank of Russia JSC	Russian Rouble	16 June 2021	16.0%	**553,603**	–
Rosselhozbank JSC	US Dollars	24 May 2018	4.9%	**543,430**	931,222
CNH International SA	US Dollars	2 June 2018	6.0%	**325,258**	553,034
Deere Credit, Inc.	US Dollars	15 November 2018	5.9%	**–**	3,475,933
Deere Credit, Inc.	US Dollars	15 March 2018	LIBOR + 2.3%	**–**	1,656,906
Landesbank Berlin AG	Euro	28 August 2016	6 months EURIBOR + 1.0% + spread for financing	**–**	180,396
Amounts due to credit institutions				**39,556,372**	30,424,302

Restrictive covenants

In accordance with the terms of the credit organization loan agreements, the Company is required to comply with certain financial covenants. In particular, under the agreement with the Eurasian Development Bank, the Company is obliged to comply with prudential standards established for KazAgro's subsidiaries in the agro-industrial complex area of the Republic of Kazakhstan. Under a loan agreement with Societe Generale Bank, the Company should comply with certain ratio between the operating profit (EBIT) and interest expenses, as well as prudential standards established for subsidiaries of KazAgro in the area of agro-industrial complex of the Republic of Kazakhstan, and interest expense coverage ratio.

As at 31 December 2016 and 2015, the Company complied with the requirements related to restrictive covenants under the agreements with these credit organizations.

Credit lines

Under the Agreement for opening of a letter of credit dated 24 April 2014 with Rosselkhozbank JSC, the Company disbursed funds in the amount of USD 3,681 thousand (or KZT 1,227,040 thousand). As at 31 December 2016, the amount due under this Agreement was equal to USD 2,027 thousand or KZT 679,990 thousand.

17. Debt securities issued

As at 31 December 2016 and 2015, debt securities issued comprise the following:

	Maturity	*Rate, %*	*Currency*	*2016*	*2015*
Third issue of bonds as part of the first bond program	16 January 2023	8.0%	Tenge	**16,802,814**	16,716,868
First issue of coupon bonds	12 June 2024	8.5%	Tenge	**3,944,692**	3,942,566
Second issue of coupon bonds	12 June 2022	8.5%	Tenge	**17,985,346**	17,964,960
Second issue of bonds as part of the second bond program	14 November 2021	15.0%	Tenge	**8,108,287**	–
Debt securities issued				**46,841,139**	38,624,394

As at 31 December 2016 and 2015, the Company's debt securities issued are represented by bonds issued in tenge.

In November 2016, the Company placed bonds with a total nominal value of KZT 8,000,000 thousand at KASE with wide range of investors for a period of 5 (five) years with an interest rate of 15% per annum.

(thousands of tenge)

18. Taxation

The corporate income tax benefit comprises:

	2016	2015
Current corporate income tax expenses	–	–
Deferred corporate income tax (benefit)/charge – origination and reversal of temporary differences	(327,373)	429,404
Less: deferred corporate income tax recognised in equity	(177,409)	(575,102)
Corporate income tax benefit	**(504,782)**	(145,698)

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

	2016	2015
By assets	81,087	290,472
By liabilities	(258,496)	(865,574)
Corporate income tax recognised in equity	**(177,409)**	(575,102)

As at 31 December 2016, current corporate income tax prepaid of the Company was equal to KZT 894,899 thousand (as at 31 December 2015: KZT 626,732 thousand).

Kazakhstan legal entities are obliged to submit tax returns individually. Corporate income tax rate for the Company was 20.0% in 2016 and 2015.

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:

	2016	2015
Profit/(loss) before corporate income tax	**2,723,847**	(5,722,381)
Statutory corporate income tax rate	20%	20%
Theoretical corporate income tax expenses / (benefit) at the statutory rate	**544,769**	(1,144,476)
Non-taxable interest income on finance lease receivables	(2,348,500)	(73,943)
Non-deductible expenses:		
- allowance for impairment of loans to customers and finance lease receivables	1,227,003	962,341
- allowance for impairment of property held for finance lease	64,564	75,048
- expenses not related to principal activities	5,733	21,683
- fines and penalties on taxes	1,649	13,649
Corporate income tax benefit	**(504,782)**	(145,698)

(thousands of tenge)

18. Taxation (continued)

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*		
	2014	*in the statement of profit or loss*	*in equity*	*2015*	*in the statement or profit or loss*	*in equity*	*2016*
Tax effect of deductible temporary differences							
Loans to customers	908,185	(205,474)	290,472	993,183	**(254,006)**	**81,087**	**820,264**
Finance lease receivables	64,859	(64,859)	–	–	**–**	**–**	**–**
Provisions for unused vacations	44,241	3,409	–	47,650	**1,956**	**–**	**49,606**
Guarantees	36,840	–	–	36,840	**–**	**–**	**36,840**
Property and equipment and intangible assets	–	–	–	–	**7,330**	**–**	**7,330**
Deferred corporate income tax assets	1,054,125	(266,924)	290,472	1,077,673	**(244,720)**	**81,087**	**914,040**
Tax effect of taxable temporary differences							
Derivative financial assets	(93,767)	(253,146)	–	(346,913)	**181,100**	**–**	**(165,813)**
Finance lease receivables	–	(76,684)	–	(76,684)	**(353,166)**	**–**	**(429,850)**
Amounts due from credit institutions	(34,400)	(21,153)	–	(55,553)	**31,276**	**–**	**(24,277)**
Amounts due to the Shareholder	(2,927,880)	763,976	(865,574)	(3,029,478)	**860,599**	**(258,496)**	**(2,427,375)**
Property and equipment and intangible assets	(29,322)	(371)	–	(29,693)	**29,693**	**–**	**–**
Deferred corporate income tax liabilities	(3,085,369)	412,622	(865,574)	(3,538,321)	**749,502**	**(258,496)**	**(3,047,315)**
Net deferred corporate income tax liability	(2,031,244)	145,698	(575,102)	(2,460,648)	**504,782**	**(177,409)**	**(2,133,275)**

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 realised.

19. Advances received

As at 31 December 2016, advances received in the amount of KZT 2,502,225 thousand (as at 31 December 2015: KZT 4,760,927 thousand) represent prepayment from clients for property held for finance lease and acquired under loan agreements or finance lease agreements but still not transferred to lessees.

20. Other assets and other liabilities

As at 31 December 2016 and 2015, other assets comprise the following:

	2016	*2015*
Accounts receivable	**942,276**	645,017
Deferred expenses	**145,983**	50,131
Other assets	**85**	547
	1,088,344	695,695
Less allowance for impairment *(Note 26)*	**(604,083)**	(514,876)
Other assets	**484,261**	180,819

As at 31 December 2016 and 2015, other liabilities comprise the following:

	2016	*2015*
Payables to suppliers	**5,482,712**	5,233,635
Deferred interest income	**1,724,638**	1,016,887
Amounts due to employees	**294,027**	270,531
Taxes other than corporate income tax payable	**107,991**	73,570
Other current liabilities	**188,865**	184,211
Other liabilities	**7,798,233**	6,778,834

(thousands of tenge)

20. Other assets and other liabilities (continued)

As at 31 December 2016 and 2015, the payables to suppliers comprise the following:

	2016	*2015*
Agricultural machinery	**2,588,320**	1,397,778
Equipment	**2,765,340**	2,800,004
Great cattle	**–**	2,508
Other liabilities	**129,052**	1,033,345
Payables to suppliers	**5,482,712**	5,233,635

21. 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 2016, 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 actual, 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.

Credit related commitments

As at 31 December 2016 and 2015, credit related commitments and contingencies of the Company comprise:

	2016	*2015*
Undrawn credit lines	**3,605,734**	5,750,161
Guarantees issued	**2,342,807**	2,827,399
Total	**5,948,541**	8,577,560

On 16 June 2011, the Company entered into the agreement for granting a financial guarantee in the amount of 6,661,130 Islamic dinars to Islamic Development Bank to ensure obligations of Fund for financial support of agriculture JSC under the loan arrangement. This guarantee was secured by counter-guarantee of KazAgro. As at 31 December 2016, the amount of the loan obtained by Fund for financial support of agriculture JSC totalled to USD 7,029 thousand, or KZT 2,342,807 thousand (as at 31 December 2015: USD 8,316 thousand or KZT 2,827,399 thousand).

22. Equity

As at 31 December 2016 and 2015, 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 30 April 2015, the Company declared dividends for 2014 in the amount of KZT 2,855,932 thousand or KZT 34.48 per one common share. As at 31 December 2015 the dividends were fully paid. There were no dividends declared or paid on common shares in 2016.

(thousands of tenge)

22. Equity (continued)

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 the 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*
Aa at 31 December 2014	18,786,572	1,436,184	(7,885,776)
Reserve for notional distribution for the year	–	–	(1,452,361)
Tax effect of recognition of reserve for notional distribution *(Note 18)*	–	–	290,472
Gain on initial recognition of loans due to the Shareholder at fair value	4,327,868	–	–
Tax effect on initial recognition of loans due to the Shareholder at fair value *(Note 18)*	(865,574)	–	–
As at 31 December 2015	22,248,866	1,436,184	(9,047,665)
Reserve for notional distribution for the year	–	–	**(405,437)**
Tax effect of recognition of reserve for notional distribution *(Note 18)*	–	–	**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 18)*	**(258,496)**	–	–
As at 31 December 2016	**23,282,853**	**1,436,184**	**(9,372,015)**

As at 31 December 2016 the Company's book value per one common share, calculated in accordance with KASE methodology, was KZT 1,196.94 (as at 31 December 2015: KZT 1,149.26):

	2016	*2015*
Assets	**286,783,222**	285,298,280
Less intangible assets	**(216,334)**	(227,695)
Less liabilities	**(187,415,397)**	(189,868,721)
Net assets	**99,151,491**	95,201,864
Number of common shares as at 31 December, shares	**82,837,204**	82,837,204
Book value per one common share (in tenge)	**1,196.94**	1,149.26

23. Other income

Other income comprises the following:

	2016	*2015*
Income from finance lease items subject to return	**451,571**	595,603
Income from reimbursement of expenses	**148,118**	114,367
Gain from write-off of liabilities	**80,654**	122,692
Fines and penalties received	**30,469**	56,312
Other	**167,490**	41,352
Other income	**878,302**	930,326

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

(thousands of tenge)

24. Personnel and other operating expenses

Personnel and other operating expenses comprise the following:

	2016	2015
Personnel expenses	(2,167,267)	(2,146,064)
Social security costs	(213,063)	(209,170)
Personnel expenses	**(2,380,330)**	(2,355,234)
Lease	(116,015)	(117,791)
Professional services	(113,213)	(88,539)
Repair and maintenance	(78,387)	(81,218)
Taxes other than corporate income tax	(75,406)	(140,323)
Advertising and marketing	(67,038)	(69,293)
Business trip expenses	(50,328)	(45,659)
Bank fees	(41,627)	(50,506)
Materials	(41,268)	(37,928)
Communication	(34,270)	(36,716)
Insurance	(27,570)	(17,406)
Trainings	(14,210)	(5,242)
Legal expenses	(10,128)	(2,988)
Office supplies	(8,208)	(7,854)
Utility costs	(5,732)	(4,929)
Sponsorship	(2,979)	(54,999)
Social program expenses	(2,209)	(2,115)
Other	(43,882)	(47,791)
Other operating expenses	**(732,470)**	(811,297)

25. 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 changes in the carrying amount due to the revision of the terms of loans to customers is recognised in profit or loss. In 2016, the net loss from restructuring of loans to customers was equal to KZT 669,237 thousand (in 2015: KZT 647,866 thousand).

26. Other impairment and provisions

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

	Property held for finance lease	*Advances paid*	*Other assets*	*Property and equipment*	*Total*
As at 31 December 2014	620,306	116,529	409,786	–	1,146,621
Charge for the year	374,276	54,709	110,588	967	540,540
Write-off for the year	(141,243)	–	(5,498)	–	(146,741)
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**

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

27. Risk management

Introduction

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

27. Risk management (continued)

Introduction (continued)

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.

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.

(thousands of tenge)

27. Risk management (continued)

Introduction (continued)

Risk measurement and reporting systems (continued)

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.

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 2016	*Standard grade*	*Substandard 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

(thousands of tenge)

27. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets (continued)

As at 31 December 2015	*Neither past due nor impaired individually* Standard grade	Substandard grade	*Past due but not impaired individually*	*Individually impaired*	*Total*
Cash and cash equivalents	23,874,332	–	–	–	23,874,332
Amounts due from credit institutions	2,549,777	–	–	–	2,549,777
Derivative financial assets	1,000,497	–	–	734,070	1,734,567
Loans to customers	9,162,110	29,458,128	14,582,395	12,131,796	65,334,429
Finance lease receivables	9,081,318	142,119,747	10,437,429	34,858,743	196,497,237
Total	45,668,034	171,577,875	25,019,824	47,724,609	289,990,342

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.

Ageing 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:

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**

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

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.

(thousands of tenge)

27. Risk management (continued)

Credit risk (continued)

Collectively assessed allowances (continued)

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

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

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

	2016				*2015*			
	Kazakhstan	*OECD*	*CIS*	*Total*	*Kazakhstan*	*OECD*	*CIS*	*Total*
Assets								
Cash and cash equivalents	**22,989,891**	**–**	**–**	**22,989,891**	23,874,332	–	–	23,874,332
Amounts due from credit institutions	**662,881**	**–**	**–**	**662,881**	2,549,777	–	–	2,549,777
Derivative financial assets	**829,066**	**–**	**–**	**829,066**	1,734,567	–	–	1,734,567
Loans to customers	**54,841,601**	**–**	**–**	**54,841,601**	59,739,798	–	–	59,739,798
Finance lease receivables	**197,402,364**	**–**	**–**	**197,402,364**	179,633,484	–	–	179,633,484
Other financial assets	**338,193**	**–**	**–**	**338,193**	130,141	–	–	130,141
	277,063,996	**–**	**–**	**277,063,996**	267,662,099	–	–	267,662,099
Liabilities								
Amounts due to the Shareholder	**85,638,633**	**–**	**–**	**85,638,633**	104,286,082	–	–	104,286,082
Amounts due to credit institutions	**4,590,339**	**29,655,646**	**5,310,387**	**39,556,372**	–	27,401,093	3,023,209	30,424,302
Debt securities issued	**46,841,139**	**–**	**–**	**46,841,139**	38,624,394	–	–	38,624,394
Other financial liabilities	**1,807,414**	**2,613,751**	**1,061,547**	**5,482,712**	392,374	3,744,454	1,096,807	5,233,635
	138,877,525	**32,269,397**	**6,371,934**	**177,518,856**	143,302,850	31,145,547	4,120,016	178,568,413
Net position on assets and liabilities	**138,186,471**	**(32,269,397)**	**(6,371,934)**	**99,545,140**	124,359,249	(31,145,547)	(4,120,016)	89,093,686

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 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**
Total undiscounted financial liabilities	**8,428,017**	**32,518,267**	**148,403,223**	**29,515,826**	**218,865,333**

(thousands of tenge)

27. Risk management (continued)

Liquidity risk and funding management (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)

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

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 21)*.

	Less than 3 months	*3 to 12 months*	*1 to 5 years*	*More than 5 years*	*Total*
2016	**910,955**	**2,241,279**	**2,603,767**	**192,540**	**5,948,541**
2015	757,548	5,200,588	2,362,388	257,036	8,577,560

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

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

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

Market risk

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

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 2016*	*Sensitivity of net interest income 2016*	*Sensitivity of equity 2016*
Euro	**100**	**(15,416)**	**(15,416)**
US Dollar	**100**	**(64,119)**	**(64,119)**

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

(thousands of tenge)

27. Risk management (continued)

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 the 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 % 2016*	*Effect on profit before tax 2016*	*Change in currency rate % 2015*	*Effect on profit before tax 2015*
US dollar	**-13%**	**914,056**	-60%	(13,142,654)
US dollar	**13%**	**(914,056)**	20%	4,380,885
Euro	**-15%**	**576,706**	-60%	6,440
Euro	**15%**	**(576,706)**	20%	(2,147)
Russian rouble	**-23%**	**993,514**	-40%	(17,452)
Russian rouble	**19%**	**(820,729)**	29%	12,652

Prepayment risk

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

If 10% of loan portfolio were to prepay at the beginning of 2016, with all other variables held constant, the profit before corporate income taxes would be increased by KZT 350,510 thousand (in the beginning of 2015: would be increased by KZT 223,937 thousand).

If 10% of debt instruments were to prepay at the beginning of 2016, with all other variables held constant, the profit before corporate income taxes would be decreased by KZT 1,043,939 thousand (in the beginning of 2015: would be decreased by KZT 260,002 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 include effective segregation of duties, access rights, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

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

(thousands of tenge)

28. Fair values 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 2016:

	Fair value measurement with the use of			
As at 31 December 2016	*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 whose 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 whose fair value is disclosed	22,989,891	662,881	246,027,425	269,680,197
Financial liabilities whose fair value is disclosed				
Amounts due to the Shareholder	–	81,528,905	–	81,528,905
Amounts due to credit institutions	–	35,805,084	–	35,805,084
Debt securities issued	45,675,214	–	–	45,675,214
Other financial liabilities	–	–	5,482,712	5,482,712
Total financial liabilities whose fair value is disclosed	45,675,214	117,333,989	5,482,712	168,491,915

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as at 31 December 2015:

	Fair value measurement with the use of			
As at 31 December 2015	*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	–	1,734,567	–	1,734,567
Total financial assets measured at fair value	–	1,734,567	–	1,734,567
Assets whose fair value is disclosed				
Cash and cash equivalents	23,874,332	–	–	23,874,332
Amounts due from credit institutions	–	2,549,777	–	2,549,777
Loans to customers	–	–	54,472,255	54,472,255
Finance lease receivables	–	–	170,528,033	170,528,033
Other financial assets	–	–	130,141	130,141
Total financial assets whose fair value is disclosed	23,874,332	2,549,777	225,130,429	251,554,538
Financial liabilities whose fair value is disclosed				
Amounts due to the Shareholder	–	94,626,632	–	94,626,632
Amounts due to credit institutions	–	28,136,223	–	28,136,223
Debt securities issued	36,570,500	–	–	36,570,500
Other financial liabilities	–	–	5,233,635	5,233,635
Total financial liabilities whose fair value is disclosed	36,570,500	122,762,855	5,233,635	164,566,990

(thousands of tenge)

28. Fair values 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 Black-Scholes model to evaluate its financial instruments and valuation models (such as risk free rates and volatility coefficients), are determined on the basis of financial instruments with similar characteristics quoted at Bloomberg.

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

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

	As at 31 December 2016			*As at 31 December 2015*		
	Carrying amount	*Fair value*	*Unrecognised (loss)/ gain*	*Carrying amount*	*Fair value*	*Unrecognised (loss)/ gain*
Financial assets						
Cash and cash equivalents	**22,989,891**	**22,989,891**	**–**	23,874,332	23,874,332	–
Amounts due from credit institutions	**662,881**	**662,881**	**–**	2,549,777	2,549,777	–
Loans to customers	**54,841,601**	**47,425,415**	**(7,416,186)**	59,739,798	54,472,255	(5,267,543)
Finance lease receivables	**197,402,364**	**198,263,817**	**861,453**	179,633,484	170,528,033	(9,105,451)
Other financial assets	**338,193**	**338,193**	**–**	130,141	130,141	–
	276,234,930	**269,680,197**	**(6,554,733)**	265,927,532	251,554,538	(14,372,994)
Financial liabilities						
Amounts due to the Shareholder	**85,638,633**	**81,528,905**	**4,109,728**	104,286,082	94,626,632	9,659,450
Amounts due to credit institutions	**39,556,372**	**35,805,084**	**3,751,288**	30,424,302	28,136,223	2,288,079
Debt securities issued	**46,841,139**	**45,675,214**	**1,165,925**	38,624,394	36,570,500	2,053,894
Other financial liabilities	**5,482,712**	**5,482,712**	**–**	5,233,635	5,233,635	–
	177,518,856	**168,491,915**	**9,026,941**	178,568,413	164,566,990	14,001,423
Total unrecognised change in unrealised fair value			**2,472,208**			(371,571)

Methods of measurement and assumptions

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

Assets for which fair value approximates carrying value

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

Fixed and variable rate financial instruments

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

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

(thousands of tenge)

28. Fair values of financial instruments (continued)

Fixed and variable rate financial instruments (continued)

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.

29. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See *Note 27 Risk management* for the Company's contractual undiscounted repayment obligations.

	2016			*2015*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Assets						
Cash and cash equivalents	**22,989,891**	**–**	**22,989,891**	23,874,332	–	23,874,332
Amounts due from credit institutions	**662,881**	**–**	**662,881**	2,549,777	–	2,549,777
Derivative financial assets	**829,066**	**–**	**829,066**	1,608,230	126,337	1,734,567
Loans to customers	**26,185,392**	**28,656,209**	**54,841,601**	23,256,088	36,483,710	59,739,798
Finance lease receivables	**54,485,653**	**142,916,711**	**197,402,364**	47,394,307	132,239,177	179,633,484
Assets held for sale	**–**	**–**	**–**	508,034	–	508,034
Property held for finance lease	**5,292,406**	**–**	**5,292,406**	7,594,407	–	7,594,407
Current corporate income tax prepaid	**894,899**	**–**	**894,899**	626,732	–	626,732
Property and equipment	**–**	**1,010,749**	**1,010,749**	–	1,078,038	1,078,038
Intangible assets	**–**	**216,334**	**216,334**	–	227,695	227,695
VAT and other taxes receivable	**1,874,026**	**–**	**1,874,026**	1,554,151	–	1,554,151
Advances paid	**120,564**	**164,180**	**284,744**	–	5,996,446	5,996,446
Other assets	**484,261**	**–**	**484,261**	180,819	–	180,819
Total	**113,819,039**	**172,964,183**	**286,783,222**	109,146,877	176,151,403	285,298,280
Liabilities						
Amounts due to the Shareholder	**24,839,930**	**60,798,703**	**85,638,633**	21,789,323	82,496,759	104,286,082
Amounts due to credit institutions	**13,526,255**	**26,030,117**	**39,556,372**	6,923,504	23,500,798	30,424,302
Debt securities issued	**877,050**	**45,964,089**	**46,841,139**	720,384	37,904,010	38,624,394
Deferred corporate income tax liabilities	**–**	**2,133,275**	**2,133,275**	–	2,460,648	2,460,648
Advances received	**2,502,225**	**–**	**2,502,225**	4,760,927	–	4,760,927
Deferred VAT payable	**467,588**	**2,477,932**	**2,945,520**	367,518	2,166,016	2,533,534
Other liabilities	**7,614,038**	**184,195**	**7,798,233**	6,594,639	184,195	6,778,834
Total	**49,827,086**	**137,588,311**	**187,415,397**	41,156,295	148,712,426	189,868,721
Net position	**63,991,953**	**35,375,872**	**99,367,825**	67,990,582	27,438,977	95,429,559

30. Related party transactions

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

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

Transactions with government-related entities (excluding the shareholder)

The 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.

(thousands of tenge)

30. Related party transactions (continued)

Transactions with government-related entities (excluding the shareholder) (continued)

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

Transactions with non government-related entities including the shareholder

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

	2016			*2015*		
	Parent	*Companies under common control*	*Other related parties*	*Parent*	*Companies under common control*	*Other related parties*
Loans issued as at 1 January	–	–	–	–	–	–
Loans issued	–	–	–	–	–	–
Loans repaid	–	–	–	–	–	–
Loans issued as at 31 December	–	–	–	–	–	–
Finance lease receivables as at 1 January	–	682,976	–	–	466,063	–
Issued during the year	–	–	–	–	363,651	–
Repaid during the year	–	(258,222)	–	–	(146,738)	–
Finance lease receivables at 31 December	–	424,754	–	–	682,976	–
Interest income accrued on finance lease as at 31 December	–	7,278	–	–	45,072	–
Less allowance for impairment at 31 December	–	(22,163)	–	–	(27,800)	–
Finance lease receivables at 31 December after allowance for impairment	–	409,869	–	–	700,248	–
Loans received at 1 January	103,432,078	–	–	97,164,180	–	–
Loans received	5,504,093	–	–	24,375,431	–	–
Loans repaid	(23,996,690)	–	–	(18,107,533)	–	–
Loans received at 31 December	84,939,481	–	–	103,432,078	–	–
Interest expense accrued on loans as at 31 December	(699,152)	–	–	(854,004)	–	–
Dividends payable as at 1 January	–	–	–	–	–	–
Dividends declared during the year	–	–	–	2,855,932	–	–
Dividends paid during the year	–	–	–	(2,855,932)	–	–
Dividends payable as at 31 December	–	–	–	–	–	–
Debt securities issued	35,686,800	–	–	35,595,477	–	–
Interest income on finance lease receivables	–	49,541	–	–	57,248	–
Allowance for impairment of finance lease receivables	–	5,637	–	–	128,342	–
Interest expense	(6,356,922)	–	–	(6,298,616)	–	–
Other expense	–	(4,173)	–	–	(5,697)	–

Loans issued to other related parties and finance lease receivables were at rates ranging from 4.0% to 13.4% per annum with maturity term from 4 to 7 years.

Compensation of key management personnel consisting of 5 (five) persons in 2016 and 2015 was comprised of the following:

	2016	*2015*
Salaries and other short-term benefits	**57,863**	58,631
Social security taxes and costs	**5,740**	5,897
Total key management personnel compensation	**63,603**	64,528

(thousands of tenge)

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 2016 and 2015, the Company had complied in full with all its externally imposed capital requirements.

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

Capital adequacy ratio established by the NBRK

The NBRK requires companies engaged in certain types of banking activities to maintain a minimum Tier 1 capital adequacy ratio of 6.0% 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:

	2016	*2015*
Tier 1 capital	**96,087,808**	95,358,573
Tier 2 capital	**3,228,629**	–
Total capital	**99,316,437**	95,358,573
Assets	**286,783,222**	285,298,280
Risk weighted assets and contingent and potential liabilities	**267,564,893**	271,111,965
Operational risk	**4,008,320**	5,969,930
Capital adequacy ratio (k1) – not less than 6.0%	**33.51%**	33.42%
Capital adequacy ratio (k1-2) – not less than 6.0%	**35.91%**	35.17%
Capital adequacy ratio (k1-3) – not less than 12.0%	**36.57%**	34.42%

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:

	2016	*2015*
Tier 1 capital	**96,087,808**	95,358,573
Tier 2 capital	**3,228,629**	–
Total capital	**99,316,437**	95,358,573
Risk weighted assets	**261,742,218**	260,381,364
Tier 1 capital ratio	**36.71%**	36.62%
Total capital ratio	**37.94%**	36.62%