

**Agrarian Credit Corporation
Joint Stock Company**

Financial statements

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



CONTENT

INDEPENDENT AUDITOR'S REPORT

Statement of financial position	1
Statement of profit or loss	2
Statement of comprehensive income.....	3
Statement of changes in equity	4
Statement of cash flows	5

NOTES TO THE FINANCIAL STATEMENTS

1. Principal activities.....	6
2. Basis of preparation	6
3. Summary of significant accounting policies	7
4. Significant accounting judgements and estimates.....	15
5. Cash and cash equivalents	16
6. Amounts due from credit institutions	16
7. Held-to-maturity investment securities	16
8. Loans to customers.....	16
9. Property and equipment.....	18
10. Investment property	18
11. Intangible assets.....	19
12. Other assets	19
13. Due to the Shareholder.....	19
14. Debt securities issued	20
15. Amounts due to state and budget organizations	20
16. Other liabilities.....	21
17. Taxation	21
18. Equity	22
19. Personnel and other operating expenses.....	24
20. Commitments and contingencies	24
21. Risk management	25
22. Fair value of financial instruments	29
23. Maturity analysis of assets and liabilities	31
24. Related party disclosures.....	31
25. Capital adequacy	33
26. Subsequent events.....	33



«Эрнст энд Янг» ЖШС
Әл-Фараби д-лы, 77/7
«Есентай Тауэр» ғимараты
Алматы қ., 050060
Қазақстан Республикасы
Тел.: +7 727 258 5960
Факс: +7 727 258 5961
www.ey.com

ТОО «Эрнст энд Янг»
пр. Аль-Фараби, 77/7
здание «Есентай Тауэр»
г. Алматы, 050060
Республика Казахстан
Тел.: +7 727 258 5960
Факс: +7 727 258 5961

Ernst & Young LLP
Al-Farabi ave., 77/7
Esentai Tower
Almaty, 050060
Republic of Kazakhstan
Tel.: +7 727 258 5960
Fax: +7 727 258 5961

Independent auditor's report

To the Shareholder and Management of
Agrarian Credit Corporation Joint Stock Company

Opinion

We have audited the financial statements of Agrarian Credit Corporation Joint Stock Company (the "Corporation"), 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 Corporation 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 Corporation in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled 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.

Adequacy of impairment allowance for loans to customers

The assessment of allowance for impairment of loans to customers is a key area of judgement for the Corporation's management. Identification of impairment evidence and measurement of the recoverable value is a process involving a significant use of subjective judgment, use of assumptions and analysis of various factors, including the financial condition of the borrower, estimated future cash flows and value of the collateral. The use of various models and assumptions can significantly affect the amount of allowance for impairment of loans to customers.

Due to the substantial amounts of loans to customers, which in aggregate equal to 62% of the Corporation's total assets as at 31 December 2016, and significant judgments used by management, estimation of allowance for impairment was a key audit matter.

Our audit procedures included analysis of the methodology estimation of allowance for impairment of loans to customers, 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 Corporation in its assessment of impairment of loans to customers on a collective basis, such as loss rates, probability of default rates and the level of non-recoverable losses. We analysed the sequence of the Corporation's management judgements 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 on an individual basis, we performed the analysis of the Corporation's management expectations on future cash flows, including the cash flows that may result from foreclosure of collateral, based on our professional judgment and information available in the market.

We have performed the procedures on the information on allowance for impairment of loans to customers disclosed in Note 8 to the financial statements.

Other information included in the Corporation'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 IFRS, and for such internal controls as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors is responsible for overseeing the Corporation'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 scepticism 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 Corporation'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 Corporation'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 Corporation to cease to continue as a going concern;
- ▶ Evaluate the overall presentation, structure and content of the consolidated 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.

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. MF-0000099 dated 27 August 2012

050060, Kazakhstan, Almaty
Al Farabi Ave, 77/7

18 March 2017



Gulmira Turmagambetova
General Director

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

STATEMENT OF FINANCIAL POSITION

as at 31 December 2016

(thousands of Tenge)

	<i>Note</i>	<i>2016</i>	<i>2015</i>
Assets			
Cash and cash equivalents	5	30,072,378	7,414,124
Amounts due from credit institutions	6	26,053,315	9,243,167
Loans to customers	8	135,725,198	124,504,541
Assets held for sale		–	5,250
Held-to-maturity investment securities	7	23,306,474	–
Investment property	10	348,631	359,573
Property and equipment	9	208,369	244,758
Intangible assets	11	193,681	175,247
Current corporate income tax prepaid	17	205,713	233,574
Deferred corporate income tax assets	17	1,459,287	427,022
Other assets	12	795,526	1,362,163
Total assets		218,368,572	143,969,419
Liabilities			
Amounts due to the Shareholder	13	13,361,704	27,360,358
Debt securities issued	14	51,648,620	27,742,150
Amounts due to state and budget organizations	15	2,192,352	19,942
Short-term accrued liabilities		171,045	152,885
Other liabilities	16	622,563	230,230
Total liabilities		67,996,284	55,505,565
Equity			
Share capital	18	158,630,371	94,227,371
Additional paid-in capital	18	6,831,528	5,291,347
Reserve funds	18	1,086,111	1,086,111
Reserve for notional distribution	18	(15,008,072)	(8,594,957)
Accumulated deficit		(1,167,650)	(3,546,018)
Total equity		150,372,288	88,463,854
Total liabilities and equity		218,368,572	143,969,419
Book value per common share (in Tenge)	18	946.72	936.97

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

Atamkulova Gulnaz Turekhanovna



Chairman of the Management Board

Zaitullayeva Irina Nikolayevna

Chief Accountant

18 March 2017

The accompanying notes on pages 6 to 33 are an integral part of these financial statements.

STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2016

(thousands of Tenge)

	<i>Note</i>	<i>2016</i>	<i>2015</i>
Interest income			
Cash and cash equivalents		2,668,972	575,443
Amounts due from credit institutions		1,836,697	540,437
Loans to customers		14,224,721	10,088,673
Held-to-maturity investment securities		80,096	-
		<u>18,810,486</u>	<u>11,204,553</u>
Interest expenses			
Amounts due to the Shareholder		(1,552,760)	(1,889,074)
Debt securities issued		(3,572,108)	(1,414,937)
Amounts due to state and budget organizations		(120,111)	(3,056)
Amounts due to credit institutions		-	(55,155)
		<u>(5,244,979)</u>	<u>(3,362,222)</u>
Net interest income			
		<u>13,565,507</u>	<u>7,842,331</u>
Allowance for impairment of interest bearing assets	6, 8	(6,629,690)	(3,557,741)
Net interest income, net of allowance for impairment of interest bearing assets			
		<u>6,935,817</u>	<u>4,284,590</u>
Net (loss)/gain from foreign currency transactions		(234)	14,129
Other income		248,092	397,608
Other expenses		(196,552)	(541)
Non-interest income			
		<u>51,306</u>	<u>411,196</u>
Personnel expenses	19	(1,950,581)	(1,861,433)
Other operating expenses	19	(1,288,657)	(1,243,335)
Non-interest expenses			
		<u>(3,239,238)</u>	<u>(3,104,768)</u>
Profit before corporate income tax expenses			
		<u>3,747,885</u>	<u>1,591,018</u>
Corporate income tax expenses	17	(826,853)	(505,689)
Profit for the year			
		<u>2,921,032</u>	<u>1,085,329</u>
Basic and diluted earnings per common share (in Tenge)		26.25	11.52

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

Atamkulova Gulnaz Turekhanovna

Chairman of the Management Board

Zaitullayeva Irina Nikolayevna

Chief Accountant

18 March 2017

The accompanying notes on pages 6 to 33 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME**for the year ended 31 December 2016***(thousands of Tenge)*

	<i>Note</i>	<i>2016</i>	<i>2015</i>
Profit for the year		2,921,032	1,085,329
Other comprehensive income for the year		-	-
Total comprehensive income for the year		<u>2,921,032</u>	<u>1,085,329</u>

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

Atamkulova Gulnaz Turekhanovna



Chairman of the Management Board

Zaitullayeva Irina Nikolayevna

Chief Accountant

18 March 2017

STATEMENT OF CHANGES IN EQUITY**for the year ended 31 December 2015***(thousands of Tenge)*

	<i>Share capital</i>	<i>Additional paid-in capital</i>	<i>Reserve funds</i>	<i>Reserve for notional distribution</i>	<i>Accumulated deficit</i>	<i>Total equity</i>
As at 31 December 2014	94,227,371	4,296,627	1,036,490	(7,521,118)	(4,135,140)	87,904,230
Total comprehensive income for the year	-	-	-	-	1,085,329	1,085,329
Gain on initial recognition of loans from the Shareholder at fair value, net of tax (<i>Note 18</i>)	-	994,720	-	-	-	994,720
Reserve for notional distribution for the year, net of tax (<i>Note 18</i>)	-	-	-	(1,073,839)	-	(1,073,839)
Transfer to reserve funds	-	-	49,621	-	(49,621)	-
Dividends declared	-	-	-	-	(446,586)	(446,586)
As at 31 December 2015	94,227,371	5,291,347	1,086,111	(8,594,957)	(3,546,018)	88,463,854
Total comprehensive income for the year	-	-	-	-	2,921,032	2,921,032
Gain on initial recognition of loans from the Shareholder at fair value, net of tax (<i>Note 18</i>)	-	1,540,181	-	-	-	1,540,181
Reserve for notional distribution for the year, net of tax (<i>Note 18</i>)	-	-	-	(6,413,115)	-	(6,413,115)
Increase in share capital (<i>Note 18</i>)	64,403,000	-	-	-	-	64,403,000
Dividends declared (<i>Note 18</i>)	-	-	-	-	(542,664)	(542,664)
As at 31 December 2016	158,630,371	6,831,528	1,086,111	(15,008,072)	(1,167,650)	150,372,288

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

Atamkulova Gulnaz Turekhanovna

Chairman of the Management Board

Zaitullayeva Irina Nikolayevna

Chief Accountant

18 March 2017



STATEMENT OF CASH FLOWS
for the year ended 31 December 2016
(thousands of Tenge)

	<i>Note</i>	<i>2016</i>	<i>2015</i>
Cash flows from operating activities			
Interest received		15,057,565	6,971,177
Interest paid		(3,708,767)	(1,750,287)
Realized gain on derivative financial instruments		79,913	24,129
Realized (loss)/gain on operations with foreign currencies		(234)	14,129
Personnel expenses paid		(1,922,446)	(1,759,300)
Other operating expenses paid		(1,221,603)	(1,087,908)
Cash flows from operating activities before changes in operating assets and liabilities		8,284,428	2,411,940
<i>Net (increase)/ decrease in operating assets</i>			
Amounts due from credit institutions		(16,681,137)	(8,985,859)
Loans to customers		(22,808,806)	(25,016,196)
Other assets		685,404	598,657
<i>Net increase/ (decrease) in operating liabilities</i>			
Other liabilities		757,589	337,341
Net cash flows used in operating activities before corporate income tax		(29,762,522)	(30,654,117)
Corporate income tax paid		(584,864)	(158,453)
Net cash flows used in operating activities		(30,347,386)	(30,812,570)
Cash flows from investing activities			
Acquisition of held-to-maturity investment securities	7	(23,238,497)	-
Purchase of property and equipment	9	(20,325)	(94,157)
Purchase of intangible assets	11	(71,672)	(22,018)
Sale of assets held for sale		-	5,250
Net cash flows used in investing activities		(23,330,494)	(110,925)
Cash flows from financing activities			
Proceeds from borrowings from the Shareholder		45,519,031	31,587,143
Repayment of borrowings from the Shareholder		(59,739,473)	(16,821,274)
Proceeds from debt securities issued		22,826,050	27,412,689
Repayment of debt securities		-	(2,870,000)
Proceeds from borrowings from state and budget organizations	15	3,890,000	-
Repayment of borrowings from state and budget organizations	15	(19,810)	(42,471)
Proceeds from increase in share capital	18	64,403,000	-
Repayment of loans received from credit institutions		-	(2,000,000)
Dividends paid to the Shareholder	18	(542,664)	(446,586)
Net cash flows received from financing activities		76,336,134	36,819,501
Net increase in cash and cash equivalents		22,658,254	5,896,006
Cash and cash equivalents, beginning of the year	5	7,414,124	1,518,118
Cash and cash equivalents, end of the year	5	30,072,378	7,414,124

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

Atamkulova Gulnaz Turekhanovna

Chairman of the Management Board

Zaitullayeva Irina Nikolayevna

Chief Accountant

18 March 2017

The accompanying notes on pages 6 to 33 are an integral part of these financial statements.

(Thousands of Tenge)

1. Principal activities

Agrarian Credit Corporation JSC (further – the “Corporation”) was established by the Resolution of the Government of the Republic of Kazakhstan No. 137 dated 25 January 2001 *On Issues of Credit Financing of Agricultural Sector* in the form of a joint stock company in accordance with the legislation of the Republic of Kazakhstan. The Corporation performs its activities on the basis of a license to conduct operations provided for by banking legislation of the Republic of Kazakhstan No. 5.2.24 as of 5 November 2013, issued by the Committee on Regulation and Supervision of the Financial Market and Financial Organizations under the National Bank of the Republic of Kazakhstan. The Corporation activities are regulated by the National Bank of the Republic of Kazakhstan (further – the “NBRK”).

The principal activities of the Corporation include implementation of government programs to support the agricultural sector, attraction of domestic and foreign investments for implementation of their own projects in the agricultural sector, development and implementation of projects in the agricultural sector, sale of collateral and agricultural products received in repayment of financing provided, banking borrowing operations on the basis of a license, leasing activities, and other activities not prohibited by the legislative acts and meeting goals and objectives of the Corporation stipulated by the Charter.

The financing activities of the Corporation provide for specific requirements and limitations on the use of funds. Interest rate for loans provided to customers is below market rate due to implementation of the state agriculture development programs in the Republic of Kazakhstan.

As at 31 December 2016 and 2015, KazAgro National Managing Holding Joint Stock Company (hereinafter, “KazAgro” or the “Shareholder”) owns 100% shares of the Corporation. The ultimate controlling party of the Corporation is the Government of the Republic of Kazakhstan.

As at 31 December 2016 and 2015 the Corporation has 13 registered branches throughout the Republic of Kazakhstan.

The address of the Corporation’s registered office is: Republic of Kazakhstan, Astana, Imanov Str., 11.

2. Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (further “IFRS”). The financial statements are prepared under the historical cost convention except as disclosed in summary of significant accounting policies.

These financial statements are presented in thousands of Kazakh Tenge (“thousand of Tenge”, “Tenge” or “KZT”), except per common share amounts and unless otherwise indicated.

Changes in accounting policy

The Corporation applied the following IFRS amendments, which became effective for annual periods on or after 1 January 2016:

Amendments to IAS 1 Disclosure Initiative

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

- The materiality requirements in IAS 1;
- That specific line items in the statement of profit or loss and statements of other comprehensive income and 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 broken down by items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss and statement of other comprehensive income. These amendments become effective for annual periods beginning on or after 1 January 2016. These amendments have no effect on the Corporation.

(Thousands of Tenge)

2. Basis of preparation (continued)

Changes in accounting policy (continued)

Annual IFRS improvements 2012-2014 Cycle

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

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

Disposal of assets (or group of assets) is generally carried out through sale of distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. 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 will need to be done retrospectively. In this regard, an entity is not obligated to disclose the required information with respect to any period preceding that one, in which an entity applied this amendment for the first time.

3. Summary of significant accounting policies

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 provided to customers and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. At initial recognition financial assets are measured at fair value. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Corporation determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

Date of recognition

All regular way purchases and sales of financial assets are recognized on the trade date i.e. the date that the Corporation 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.

'Day 1' profit

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Corporation immediately recognizes the difference between the transaction price and fair value (a 'Day 1' profit) within profit or loss. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable, or when the instrument is derecognized.

Loans to customers

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

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

(Thousands of Tenge)

3. Summary of significant accounting policies (continued)

Financial assets (continued)

Fair value measurement

The Corporation measures such financial instruments as derivatives at fair value at each reporting date. Information on fair value of financial instruments measured at amortized cost is disclosed in *Note 22*.

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

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

The principal or the most advantageous market must be accessible to by the Corporation. 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.

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 recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. An offsetting right must not be preconditioned by a future event and must have a legal force at all circumstances:

- In the normal course of business;
- In case of failure to discharge an obligation; and
- In case of insolvency or bankruptcy of an entity or any counteragent.

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

Cash and cash equivalents

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

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Corporation 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 Government, due to credit institutions, amounts due the shareholder and debt securities issued. After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest method. Income and expenses are recorded within profit or loss upon derecognition of liabilities as well as in the process of amortization.

If the Corporation 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 recognized in profit or loss.

Taxation

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

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

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

(Thousands of Tenge)

3. Summary of significant accounting policies (continued)

Taxation (continued)

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

Operating lease – Corporation 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 recognized as expenses on a straight-line basis over the lease term and included into other operating expenses.

Impairment of financial assets

The Corporation assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Amounts due from credit institutions and loans provided to customers

For amounts due from credit institutions and loans provided to customers carried at amortized cost, the Corporation 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, or continues to be, recognized 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 credit losses that have not yet been incurred). The current amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of profit or loss. Interest income continues to be accrued on the reduced current amount based on the original effective interest rate of the asset. Loans 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 Corporation. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the statement of 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 has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

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

Restructuring of loans

Where possible, the Corporation seeks to restructure loans 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 a loan has been changed the old loan is derecognized and the new loan is recognized in the statement of financial position;
- If the loan restructuring is not caused by the financial difficulties of the borrower the Corporation uses the same approach as for financial liabilities described below;
- If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Corporation recognizes the difference between the present value of the new cash flows discounted using the original effective interest rate and the current amount before restructuring in the allowance charges for the period. In case loan is not impaired after restructuring the Corporation recalculates the effective interest rate;
- Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original or current effective interest rate.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized from the statement of financial position where:

- The rights to receive cash flows from the asset have expired;
- The Corporation 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 Corporation either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Corporation has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Corporation'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 Corporation could be required to repay.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized within profit or loss.

Property and equipment

Property, plant and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met. The carrying amounts of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

*(Thousands of Tenge)***3. Summary of significant accounting policies (continued)****Property and equipment (continued)**

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

Computers and office equipment	10-20%
Vehicles	10-25%
Other	10-33%

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

Investment property

Investment properties are not intended for earning income from long-term leasing out of property or income from increment in value of property, which is not used by the Corporation as property and equipment.

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing parts of an existing investment property at the time when such cost are incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Investment properties are subsequently measured at cost less accumulated depreciation. Investment property is depreciated on a straight-line basis over the period of useful life, which is 50 years.

Investment properties are derecognized when either they have been disposed of or when no future economic benefit is expected from its disposal. Any income and losses from disposal of investment properties are recognized within profit or loss in the year of derecognition.

Transfers to and from investment properties are carried out only when there is a change in use. For a transfer from investment property to owner occupied property, the carrying amount is not changed because the Corporation uses the model of cost accounting for both categories: investment property and owner occupied property.

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 amortization and any accumulated impairment losses. Intangible assets have finite lives and are amortized 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 Corporation classifies non-current assets 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 Corporation's management is committed to a plan to sell

the non-current asset and 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 Corporation measures an asset classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Corporation recognizes 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.

Repossessed collateral

Repossessed collateral represents pledged property repossessed from the Corporation's borrowers to repay the debt on loans on a voluntary or compulsory basis. The decision on the recognition of repossessed property in the Corporation's statement of financial position by the Credit Committee and then the Management Board of the Corporation. After all the procedures, property is recognized in the Corporation's statement of financial position at its current assessed value. These assets are recorded within other assets in the statement of financial position.

Share capital

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

(Thousands of Tenge)

3. Summary of significant accounting policies (continued)

Dividends

Dividends are recognized as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorized.

Reserve for notional distribution

When the Corporation enters into a loan agreement with borrowers at below market rates on behalf of the Shareholder, the difference between the nominal value and fair value of the loan upon initial recognition is recorded as reserve for notional distribution as deemed distribution to the Shareholder.

Additional paid-in capital

When the Corporation receives loans or other financial assistance from the Shareholder and state and state-financed organizations of the Republic of Kazakhstan at below market rates, the difference between cash consideration received and fair value of loans or other financial assistance at the date of initial recognition is recorded as additional paid-in capital.

Provisions

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

Contingent assets and liabilities

Contingent liabilities are not recognized in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote.

Revenue and expense recognition

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

Interest and similar income and expenses

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

Foreign currency translation

The financial statements are presented in Kazakhstani Tenge, which is the Corporation's functional and presentation currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the statement of profit or loss as net (loss)/ 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 exchange rates at the date when the fair value is determined.

*(Thousands of Tenge)***3. Summary of significant accounting policies (continued)****Foreign currency translation (continued)**

Difference between the contractual exchange rate of a transaction in a foreign currency and the Kazakhstan Stock Exchange official exchange rate on the date of the transaction are included in gains less losses from foreign exchange difference. Below are the exchange rates used by the Corporation in preparation of the financial statements:

	<u>2016</u>	<u>2015</u>
KZT/USD	333.29	339.47
KZT/EUR	352.42	371.31
KZT/RUR	5.43	4.65

Standards and interpretations issued but not yet effective

Standards and interpretations issued but not yet effective up to the date of issuance of the Corporation's financial statements are listed below. The Corporation intends to adopt those standards 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 for classification and measurement, impairment, and hedge accounting.

In the area of classification and evaluation, the new standard requires that all financial assets, except for equity and derivative instruments, be valued using a combined approach based on the business model used by the organization for managing financial assets and the characteristics of the financial asset associated with the contractual cash flows. The IAS 39 measurement categories will be replaced by: fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI), and amortized cost categories. IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortized cost or FVOCI instruments as FVPL, 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 FVOCI, with no subsequent reclassification of gains or losses to the income statement. 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 (ECL) approach. The Bank will be required to record an allowance for expected losses for all loans and other debt financial assets not carried at FVPL, 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 becomes effective for financial years beginning on or after 1 January 2018. Early application is allowed. 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. Application of IFRS 9 will have an impact on classification and measurement of the Corporation's financial assets and will not have an impact on classification and measurement of its financial liabilities. The Corporation expects a significant impact on its equity due to adoption of IFRS 9 impairment requirements, but 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. Early application is allowed. 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 recognized 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 Corporation does not anticipate early adopting IFRS 15 and is currently evaluating its impact.

(Thousands of Tenge)

3. Summary of significant accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

IAS 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 recognized 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 recognized leases will be similar to today’s finance lease accounting, with interest and depreciation expense recognized separately within profit or loss.

IFRS 16 becomes effective for financial years 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 Corporation does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

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 Corporation does not anticipate that adopting the amendments would have a material impact on its financial statements.

Amendment to IAS 7 Cash Flow Statement

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. Currently the Corporation evaluates the impact of these amendments.

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.

These amendments become 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 to the Corporation.

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 relief 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 Corporation.

(Thousands of Tenge)

4. Significant accounting judgements and estimates

Estimation uncertainty

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

Allowance for impairment of loans

The Corporation regularly reviews loans to customers to assess impairment. The Corporation 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 Corporation 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 Corporation uses its subjective judgement to adjust observable data for a group of loans or receivables to reflect current circumstances.

Collateral valuation

The management of the Corporation monitors collateral on a regular basis using experienced judgements or independent estimate in order to adjust the cost of collateral considering the current market situation.

Taxation

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

Management believes that the Corporation is in substantially complies with the tax laws regulating its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretive tax issues.

Recovery of deferred tax assets

It is necessary to use judgement in determining whether deferred corporate income tax assets are recognized in the statement of financial position. Deferred corporate income tax assets including those arising from unused tax losses carry forward require the management to assess whether it is probable that the Corporation will generate sufficient taxable income in future periods for the purpose of using recognized deferred corporate income tax assets. Assumptions relating to generation of taxable income in future depend on estimates of the management regarding future cash flows. These estimates of future taxable income are based on forecasts of cash flows from operating activities (interest income, interest expenses, allowance for impairment) and judgements regarding application of existing tax legislation in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Corporation to realize the net deferred corporate income tax assets recorded at the reporting date could be impacted.

Moreover, future changes in tax legislation could limit the Corporation's ability to obtain tax deductions in future periods.

*(Thousands of Tenge)***5. Cash and cash equivalents**

Cash and cash equivalents comprise:

	<u>2016</u>	<u>2015</u>
Cash on current accounts in Tenge	30,066,217	7,390,832
Cash on current accounts in US Dollars	6,135	23,259
Cash on hand	26	33
Cash and cash equivalents	<u>30,072,378</u>	<u>7,414,124</u>

Concentration of cash and cash equivalents

As at 31 December 2016, cash placed on current accounts included funds in the amount of KZT 9,674,581 thousand or 32% of the total cash and cash equivalents placed with Tsesnabank JSC (as at 31 December 2015: KZT 2,925,733 thousand or 40% of the total amount of cash and cash equivalents placed with Bank RBK JSC).

6. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	<u>2016</u>	<u>2015</u>
Loans issued to the second tier banks	26,053,315	9,307,490
Less allowance for impairment	-	(64,323)
Amounts due from credit institutions	<u>26,053,315</u>	<u>9,243,167</u>

As at 31 December 2016, due from credit institutions include loans in Tenge issued to Bank RBK JSC, Bank of Astana JSC, Halyk Bank Kazakhstan JSC, Qazaq Banki JSC, Eurasian Bank JSC and Tsesnabank JSC for lending to agroindustrial enterprises, with maturity of up to 2023 and interest rates of 8.0% to 12.5% per annum. As at 31 December 2015, due from credit organizations comprise loans issued to Bank of Astana JSC, Bank RBK JSC, Tsesnabank JSC for lending to agroindustrial enterprises with interest rates of 8.0% to 10.0% per annum and maturity of up to 2023.

Movements in allowance for impairment of amounts due from credit institutions were as follows:

	<u>2016</u>	<u>2015</u>
At 1 January	64,323	-
(Decrease)/charge for the year	(64,323)	64,323
As at 31 December	<u>-</u>	<u>64,323</u>

7. Held-to-maturity investment securities

Held-to-maturity investment securities comprise:

	<u>2016</u>	<u>2015</u>
Notes of the NBRK	23,306,474	-
Held-to-maturity investment securities	<u>23,306,474</u>	<u>-</u>

As at 31 December 2016, held-to-maturity investment securities include discount notes of the NBRK with maturity in January and March 2017.

8. Loans to customers

Loans to customers comprise loans to borrowers operating in the agricultural sector and include the following:

	<u>2016</u>	<u>2015</u>
Loans to legal entities	119,156,959	108,892,032
Loans to individuals	41,650,122	35,325,077
	<u>160,807,081</u>	<u>144,217,109</u>
Less allowance for impairment	(25,081,883)	(19,712,568)
Loans to customers	<u>135,725,198</u>	<u>124,504,541</u>

*(Thousands of Tenge)***8. Loans to customers (continued)****Allowance for impairment of loans to customers**

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

	<u>2016</u>	<u>2015</u>
At 1 January	19,712,568	16,326,699
Charge for the year	6,629,690	3,493,418
Recovery of amounts previously written-off for the year	64,323	–
Write-off	(1,324,698)	(107,549)
As at 31 December	25,081,883	19,712,568
Individual impairment	22,878,924	15,985,377
Collective impairment	2,202,959	3,727,191
	25,081,883	19,712,568
Total amount of loans, individually determined as impaired, before deduction of allowance	31,269,087	26,972,047

In 2016, the Corporation revised the pools of loans issued to customers assessed for impairment on an aggregate basis by combining four pools with similar credit risk characteristics into two pools. In addition, the Corporation assesses impairment on an individual basis of individually insignificant loans in respect of which court decisions are issued to collect debts.

Management of the Corporation believes that the change in estimate assesses more accurately determines the probability of repayments of loans issued to customers.

Below is an effect of application of the above changes in the assessment of allowance on a collective basis for the year ended 31 December 2016:

	<u>2016</u>
As per new assessment	25,081,883
As per previous assessment	24,888,018
Total effect from changes in methodology	193,865

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- For commercial lending – collateral of real estate properties, inventory and receivables, guarantees and securities;
- For retail lending, charges over residential properties and other assets.

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. In 2016, loss of KZT 8,016,394 thousand (2015: KZT 1,342,299 thousand) resulting from recognition of fair values of loans issued to customers in 2016 at below market rate, which were financed by the Shareholder, was recognized within equity as increase of reserve for notional distribution (*Note 18*).

Individually assessed loans

For the year ended 31 December 2016, interest income accrued on loans individually determined as impaired was equal to KZT 1,155,482 thousand (in 2015: KZT 1,534,614 thousand).

Concentration of loans issued to customers

As at 31 December 2016, the Corporation had a concentration of loans represented by KZT 26,120,148 thousand due from the ten largest borrowers or 15% of gross loan portfolio (31 December 2015: KZT 23,873,921 thousand or 16% of gross loan portfolio).

(Thousands of Tenge)

9. Property and equipment

Movements in property and equipment were as follows:

	<i>Land</i>	<i>Computers and office equipment</i>	<i>Vehicles</i>	<i>Other</i>	<i>Total</i>
Cost					
At 31 December 2014	5,397	175,475	66,125	89,626	336,623
Additions	–	82,420	6,163	5,574	94,157
Disposals	–	(1,458)	(15,740)	(1,733)	(18,931)
At 31 December 2015	5,397	256,437	56,548	93,467	411,849
Additions	–	11,079	–	9,246	20,325
Disposals	–	(7,224)	–	(2,102)	(9,326)
At 31 December 2016	5,397	260,292	56,548	100,611	422,848
Accumulated depreciation					
At 31 December 2014	–	(68,958)	(24,175)	(38,301)	(131,434)
Depreciation charge	–	(31,937)	(5,861)	(9,444)	(47,242)
Disposals	–	1,428	8,711	1,446	11,585
At 31 December 2015	–	(99,467)	(21,325)	(46,299)	(167,091)
Depreciation charge	–	(40,803)	(5,655)	(9,763)	(56,221)
Disposals	–	7,151	–	1,682	8,833
At 31 December 2016	–	(133,119)	(26,980)	(54,380)	(214,479)
Carrying amount					
At 31 December 2014	5,397	106,517	41,950	51,325	205,189
At 31 December 2015	5,397	156,970	35,223	47,168	244,758
At 31 December 2016	5,397	127,173	29,568	46,231	208,369

10. Investment property

Below are movements in investment property:

	<i>Buildings</i>
Cost	
At 31 December 2014	133,668
Additions	292,632
At 31 December 2015	426,300
Additions	–
At 31 December 2016	426,300
Accumulated depreciation	
At 31 December 2014	(59,069)
Depreciation charge	(7,658)
At 31 December 2015	(66,727)
Depreciation charge	(10,942)
At 31 December 2016	(77,669)
Carrying amount	
At 31 December 2015	359,573
At 31 December 2016	348,631

Income from lease of investment property was equal to KZT 53,825 thousand in 2016 (2015: KZT 38,969 thousand).

(Thousands of Tenge)

11. Intangible assets

Movements in intangible assets were as follows:

	<u>Software</u>
Cost	
At 31 December 2014	452,666
Additions	22,018
Disposals	(1,606)
At 31 December 2015	<u>473,078</u>
Additions	71,672
Disposals	(9,097)
At 31 December 2016	<u>535,653</u>
Accumulated amortization	
At 31 December 2014	(246,038)
Amortization charge	(52,741)
Disposals	948
At 31 December 2015	<u>(297,831)</u>
Amortization charge	(53,238)
Disposals	9,097
At 31 December 2016	<u>(341,972)</u>
Carrying amount	
At 31 December 2014	<u>206,628</u>
At 31 December 2015	<u>175,247</u>
At 31 December 2016	<u>193,681</u>

12. Other assets

Other assets comprise:

	<u>2016</u>	<u>2015</u>
Repossessed collateral	332,094	1,024,494
Accounts receivable	365,959	274,357
Deferred expenses	63,890	40,769
Other assets	60,834	23,046
Total other assets before allowance for impairment	<u>822,777</u>	<u>1,362,666</u>
Less allowance for impairment of other assets	(27,251)	(503)
Other assets	<u>795,526</u>	<u>1,362,163</u>

As at 31 December 2016 and 2015, repossessed collateral comprise real estate received by the Corporation from borrowers who failed to meet the obligations to repay loans to the Corporation. In 2016, the Corporation sold the repossessed collateral with carrying amount of KZT 732,219 thousand (in 2015: KZT 291,728 thousand).

13. Due to the Shareholder

Amounts due to the Shareholder comprise:

	<u>Maturity</u>	<u>Nominal interest rate per a year, %</u>	<u>Currency</u>	<u>2016</u>	<u>2015</u>
Investment loan under contract No. 36	30 December 2023	1.02%	Tenge	8,493,793	10,328,819
Loan under agreement No. 148	10 December 2019	9.00%	Tenge	4,324,784	16,356,670
Loan under agreement No. 124	1 January 2023	3.00%	Tenge	399,868	383,659
Loan under agreement No. 148	10 December 2019	1.00%	Tenge	143,259	291,210
Due to the Shareholder				<u>13,361,704</u>	<u>27,360,358</u>

*(Thousands of Tenge)***13. Due to the Shareholder (continued)****Investment loan under agreement No. 36**

As at 31 December 2016 and 2015, due to the Shareholder includes the amount due under the Framework Loan Agreement No. 36 dated 18 May 2009. In accordance with this Agreement, the Corporation obtains an investment loan to develop, expand and modify production in agricultural sector. Effective interest rates for tranches obtained under this agreement are 4.5–6.19% per year. During 2016 the Corporation repaid the outstanding amount under the Framework Loan Agreement No. 36 in the amount of KZT 2,250,442 thousand (2015: KZT 1,791,774 thousand).

Loan under agreement No. 148

On 10 December 2012 the Corporation entered into Framework Loan Agreement No. 148 with the Shareholder. The initial amount of the loan under the agreement was equal to KZT 2,000,000 thousand. The lending purpose is to meet liquidity needs sufficient to cover obligations; support agricultural enterprises; purchase, repair and upgrade property, plant and equipment and other purposes in accordance with the legislation. The tranches obtained by the Corporation as part of this agreement before 1 January 2015 had a nominal interest rate of 1.0% per annum.

On 11 February 2015 a supplementary agreement No. 1 to the Framework Loan Agreement No. 148 was signed, under which interest is accrued on all tranches received after 1 January 2015 at the nominal rate of 9.00% per annum. Effective interest rates for tranches obtained under the Framework Loan Agreement No. 148 are 9.63–11.63% per annum.

During 2016, the Corporation repaid the debt in the amount of KZT 15,970,000 thousand and received KZT 4,000,000 thousand under this Framework Agreement.

Loan under agreement No. 124

On 23 December 2015 the Corporation entered into Loan Agreement No. 124 with the Shareholder. The initial amount of the loan was equal to KZT 591,108 thousand. Effective interest rates for tranches obtained under this agreement are 9.63% per year. The loan is intended for restructuring/refinancing of loan/lease obligations of borrowers that have arisen before 1 January 2014 in relation with a loan/lease granted to replenish working capital, purchase PPE and construction, as well as to refinance the debts incurred in relation with obtaining a loan/lease for the above purposes.

As at 31 December 2016 and 2015, there are no obligations to comply with financial covenants related to amounts due to the Shareholder.

14. Debt securities issued

Debt securities issued comprise:

	<i>Maturity</i>	<i>Rate per a year, %</i>	<i>Currency</i>	<i>2016</i>	<i>2015</i>
Fixed income bonds (1st issue of the 3d bond Programme)	30 December 2021	8.5%	Tenge	23,818,987	–
Fixed income bonds (2nd issue of the 2d bond programme)	17 December 2022	8.0%	Tenge	17,753,589	17,693,329
Fixed income bonds (1st issue of the 2d bond programme)	20 February 2023	8.5%	Tenge	10,076,044	10,048,821
Debt securities issued				51,648,620	27,742,150

During 2016, the Corporation placed 1st issue bonds of the third bond program with the total nominal value of KZT 22,940,000 thousand. The bonds were placed by the Corporation at the KASE and were primarily acquired by the Shareholder (100.0%).

15. Amounts due to state and budget organizations

Amounts due to the state and budget organizations comprise:

	<i>Maturity</i>	<i>Nominal rate per a year, %</i>	<i>Currency</i>	<i>2016</i>	<i>2015</i>
Loan under agreement No. 93	30 September 2021	0.01%	Tenge	1,896,729	–
Loan under agreement No. 06-AK3/2016-AKK	17 March 2021	0.01%	Tenge	295,623	–
The loan under contract No. 1	8 July 2016	1.0%	Tenge	–	19,942
Due to state and budget organizations				2,192,352	19,942

(Thousands of Tenge)

16. Amounts due to state and budget organizations (continued)**Loan under agreement No. 93**

On 18 August 2016, the Corporation concluded an agreement on loan No. 93 with the State Institution *Administration of Entrepreneurship, Industrial-Innovative Development and Tourism of the South-Kazakhstan Oblast*. The initial amount of the loan at the date of receipt under the agreement was equal to KZT 3,390,000 thousand. The effective interest rate on the loan obtained is 13.3% per annum. The loan is intended to ensure sustainable and balanced growth of regional business, as well as maintaining of existing jobs and creating new permanent jobs. The priority direction of microcrediting is the organization or expansion of one's own business in the livestock sector and related activities (storage, processing, fattening, marketing of products).

Loan under agreement No. 06-ДК3/2016-AKK

On the 15th of August 2016 the Corporation entered into Loan Agreement No. 6 with the Akimat of Almaty oblast. The initial amount of the loan at the date of receipt under the agreement was equal to KZT 500,000 thousand. The effective interest rate on the loan obtained is 13.3 % per annum. The loan is intended to promote the development of regional business in rural areas for 2016-2017 as part of the Employment Road Map 2020.

As at 31 December 2016 there are no obligations to comply with financial covenants related to amounts due to the state and budget organizations.

16. Other liabilities

Other liabilities comprise:

	<u>2016</u>	<u>2015</u>
Subsidizing of interest rates by the Ministry of Agriculture of the Republic of Kazakhstan as part of the program to support agriculture	353,077	78,918
Accounts payable	101,236	30,942
Salary and taxes payable	85,153	78,891
Pension and social deductions payable	28,492	25,512
Other	54,605	15,967
Other liabilities	<u>622,563</u>	<u>230,230</u>

As at 31 December 2016 and 2015, other liabilities of the Corporation include amounts received from the Ministry of Agriculture of the Republic of Kazakhstan to reimburse the subsidized portion of interest on loans issued to customers for the purchase of farm animals under budget program 056 "Subsidizing interest rates on loans, and leasing of technological equipment and agricultural machinery".

17. Taxation

The corporate income tax expenses comprise:

	<u>2016</u>	<u>2015</u>
Current corporate income tax expense	640,884	347,369
Deferred corporate income tax (benefit) / charge – origination and reversal of temporary differences	(1,032,265)	138,540
Net of deferred corporate income tax recognized in equity	1,218,234	19,780
Corporate income tax expenses	<u>826,853</u>	<u>505,689</u>

As at 31 December 2016, current corporate income tax prepaid of the Corporation was equal to KZT 205,713 thousand (as at 31 December 2015: KZT 233,574 thousand).

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

	<u>2016</u>	<u>2015</u>
By assets	1,603,279	268,460
By liabilities	(385,045)	(248,680)
Deferred income tax benefit recognized in equity	<u>1,218,234</u>	<u>19,780</u>

(Thousands of Tenge)

17. Taxation (continued)

Kazakhstan legal entities are obliged to file tax declarations individually. Corporate income tax rate for the Corporation was 20% in 2016 and 2015.

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

	<u>2016</u>	<u>2015</u>
Profit before corporate income tax expenses	3,747,885	1,591,018
Statutory corporate income tax rate	20%	20%
Theoretical corporate income tax expenses at the statutory rate	(749,577)	(318,204)
Non-deductible expenses	(77,276)	(187,485)
Corporate income tax expenses	(826,853)	(505,689)

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

	<i>Origination and reversal of temporary differences</i>			<i>Origination and reversal of temporary differences</i>			
	<i>2014</i>	<i>In the statement of profit or loss</i>	<i>Within equity</i>	<i>2015</i>	<i>In the statement of profit or loss</i>	<i>Within equity</i>	<i>2016</i>
Tax effect of deductible temporary differences							
Loans to customers	893,701	(352,391)	268,460	809,770	(341,503)	1,603,279	2,071,546
Allowance for accounts receivable	-	-	-	-	24,323	-	24,323
Short-term accrued liabilities	26,783	3,794	-	30,577	3,632	-	34,209
Deferred corporate income tax assets	920,484	(348,597)	268,460	840,347	(313,548)	1,603,279	2,130,078
Tax effect of taxable temporary differences							
Due to the Shareholder	(330,382)	226,441	(248,680)	(352,621)	98,977	(21,531)	(275,175)
Due to state and budget organizations	-	-	-	-	23,981	(363,514)	(339,533)
Property and equipment and intangible assets	(24,540)	(36,164)	-	(60,704)	4,621	-	(56,083)
Deferred corporate income tax liabilities	(354,922)	190,277	(248,680)	(413,325)	127,579	(385,045)	(670,791)
Net deferred corporate income tax asset	565,562	(158,320)	19,780	427,022	(185,969)	1,218,234	1,459,287

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

18. Equity

Below is information on movement of declared, issued and fully paid common shares of the Corporation:

	<i>Number of shares (pieces)</i>	<i>Price of placement (in Tenge)</i>	<i>Total</i>
At 31 December 2014	94,227,371	-	94,227,371
At 31 December 2015	94,227,371	-	94,227,371
Increase in share capital	64,403,000	1,000	64,403,000
At 31 December 2016	158,630,371	-	158,630,371

On 5 March 2016, the Corporation's Shareholder approved a decision to issue 23,150,000 common shares. This issue was registered by the National Bank of the Republic of Kazakhstan on 25 March 2016.

*(Thousands of Tenge)***18. Equity (continued)**

On 30 September 2016, in accordance with the decision of the Shareholder, the Corporation's share capital was increased by 41,253,000 common shares. This issue was registered by the National Bank of the Republic of Kazakhstan on 26 October 2016.

As at 31 December 2016, declared and outstanding common shares of the Corporation in the amount of 158,630,371 shares (at 31 December 2015: 94,227,371 shares) are fully paid by the sole Shareholder at the price of placement of KZT 1 thousand per common share.

In 2016, in accordance with the decision of the sole Shareholder dated 27 May 2016, the Corporation declared and paid dividends in the amount of KZT 542,664 thousand or KZT 5.76 per common share for the year ended 31 December 2015.

In 2015, in accordance with the decision of the sole Shareholder dated 5 June 2015, the Corporation declared and paid dividends in the amount of KZT 446,586 thousand or KZT 4.74 per common share for the year ended 31 December 2014.

In accordance with the Corporation's policy, the reserve capital is created for general risks including future losses and other unforeseen risks and obligations. Reserve capital is subject to distribution on the basis of decision of the Shareholder.

Movements in additional paid-in capital and reserves for the years ended 31 December 2016 and 2015 are provided below:

	<i>Reserve capital</i>	<i>Additional paid- in capital</i>	<i>Reserve for notional distribution</i>
At 31 December 2014	1,036,490	4,296,627	(7,521,118)
Reserve for notional distribution for the year	-	-	(1,342,299)
Tax effect of recognition of reserve for notional distribution (<i>Note 17</i>)	-	-	268,460
Gain on initial recognition of loans from the Shareholder and state institutions at fair value	-	1,243,400	-
Tax effect on initial recognition of loans from the Shareholder at fair value (<i>Note 17</i>)	-	(248,680)	-
Transfer to reserve capital from retained earnings	49,621	-	-
At 31 December 2015	1,086,111	5,291,347	(8,594,957)
Reserve for notional distribution for the year	-	-	(8,016,394)
Tax effect of recognition of reserve for notional distribution (<i>Note 17</i>)	-	-	1,603,279
Gain on initial recognition of loans from the Shareholder and state institutions at fair value	-	1,925,226	-
Tax effect on initial recognition of loans from the Shareholder at fair value (<i>Note 17</i>)	-	(385,045)	-
At 31 December 2016	1,086,111	6,831,528	(15,008,072)

As at 31 December 2016, book value per common share calculated in accordance with Kazakhstan Stock Exchange methodology was equal to KZT 946.72 (31 December 2015: KZT 936.97):

	<i>At 31 December 2016</i>	<i>At 31 December 2015</i>
Assets	218,368,572	143,969,419
Less intangible assets	193,681	175,247
Less liabilities	67,996,284	55,505,565
Net assets	150,178,607	88,288,607
Number of common shares as at 31 December, pieces	158,630,371	94,227,371
Book value per common share, Tenge	946.72	936.97

*(Thousands of Tenge)***19. Personnel and other operating expenses**

Personnel and other operating expenses comprise:

	<u>2016</u>	<u>2015</u>
Personnel expenses and other benefits	(1,775,971)	(1,694,905)
Social security costs	(174,610)	(166,528)
Personnel expenses	(1,950,581)	(1,861,433)
Premises rent and maintenance	(343,270)	(333,911)
Legal and advisory services	(296,281)	(261,387)
Depreciation and amortization	(120,402)	(107,641)
Marketing and advertising	(99,579)	(85,438)
Business trip expenses	(58,450)	(50,233)
Expenses related to the assessment of collateral	(47,678)	(102,051)
Maintenance of property, plant and equipment	(46,545)	(53,523)
State duty	(45,941)	(7,225)
Materials including fuels and lubricants	(41,090)	(34,838)
Insurance expenses	(34,276)	(20,985)
Charity and sponsorship	(26,558)	(60,784)
Communications	(23,835)	(27,831)
Training of personnel	(12,973)	(19,400)
Bank services	(6,001)	(13,549)
Other	(85,778)	(64,539)
Other operating expenses	(1,288,657)	(1,243,335)

20. Commitments and contingencies**Credit related commitments**

As at 31 December 2016 the Corporation's commitments and contingencies comprised the following:

	<u>2016</u>	<u>2015</u>
Credit related commitments		
Undrawn loan commitments	57,184,942	30,092,376
Operating lease commitments		
Not later than 1 year	9,551	9,537
Commitments and contingencies	57,194,493	30,101,913

Many of these credit related contingencies can be terminated without their partial or full execution. As a result, the contractual credit related commitments indicated in the table above do not represent the expected outflow of cash. Most of the contingencies to extend loans do not represent unconditional obligations of the Corporation.

Undrawn credit lines

Agreement on loan commitments provide for the right of the Corporation to unilaterally withdraw from the agreement in the event of occurrence of adverse conditions for the Corporation, as well as in the event of absence of resources for lending

Economic environment

The Republic of Kazakhstan continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Kazakhstani 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 crude oil prices and the volatility of the Tenge's exchange rate against major foreign currencies continued to have a negative impact on the Kazakhstan economy.

The management of the Corporation believes that it is taking appropriate measures to support the sustainability of the Company's business in the current circumstances.

(Thousands of Tenge)

20. Commitments and contingencies (continued)

Taxation

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

As at 31 December 2016 and 2015, management of the Corporation believes that its interpretation of the legislation is appropriate and that the Corporation's tax, currency and customs positions will be sustained.

Legal issues

In the ordinary course of business, the Corporation 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 position or the results of future operations of the Corporation.

21. Risk management

Introduction

Risk is inherent to the activities of the Corporation. The Corporation 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 Corporation's continuing profitability and each individual within the Corporation is accountable for the risk exposures relating to his or her responsibilities. The Corporation is exposed to credit risk, liquidity risk and market risk. It is also subject to operating risks.

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

Risk controlling

The Risk Management Unit is responsible for introduction and performance of risk management related procedures in order to ensure an independent control process as well as compliance with principles, risk management policies and risk limits across the Corporation. The Risk Management Unit consists of two structural subdivisions: Financial Risk Department and Credit Risk Department.

Treasury department

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

Internal audit function

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

*(Thousands of Tenge)***21. Risk management (continued)****Introduction (continued)***Risk measurement and reporting systems*

The Corporation'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.

Monitoring and controlling risks is primarily performed based on limits established by KazAgro for the Corporation. These limits reflect the business strategy and market environment of the Corporation.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, Board of Directors, and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry, customer risks takes place. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Corporation.

Excessive risk concentration

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

Credit risk

Credit risk is the risk that the Corporation will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Corporation 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. Thus, in order to avoid a concentration of credit risk in one or a group of affiliates, has been established a limit of no more than 25.00% of the Corporation's own equity. Bank-counterparty limits are established by the Shareholder for interbank transactions.

The Corporation has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions which are performed by separate units of the Corporation. 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 Corporation to assess the potential loss as a result of the risks to which it is exposed and undertake corrective action.

The maximum exposure to credit risk for the components of the statement of financial position before the influence of risk mitigation through the use of master netting agreements and collateral agreements is most accurately reflected by their carrying amounts.

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

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Corporation's internal credit ratings. The table below shows the credit quality by class of asset for loan-related balance sheet lines, based on the Corporation's credit rating system. Loans to borrowers with good financial position and no overdue payments are defined as standard. In the event of a number of impairment factors, including overdue payments of more than 90 days and the application of a high percentage of provisioning on a collective basis, these loans are included in the category of "overdue but not impaired individually".

<i>At 31 December 2016</i>	<i>Standard grade</i>	<i>Past due, but not impaired, individually</i>	<i>Individually impaired</i>	<i>Total</i>
Cash and cash equivalents less cash on hand	30,072,352	–	–	30,072,352
Due from credit institutions	26,053,315	–	–	26,053,315
Held-to-maturity investment securities	23,306,474	–	–	23,306,474
Loans to customers	90,051,824	39,486,170	31,269,087	160,807,081
Total	169,483,965	39,486,170	31,269,087	240,239,248

*(Thousands of Tenge)***21. Risk management (continued)****Credit risk (continued)***Credit quality per class of financial assets (continued)*

<i>At 31 December 2015</i>	<i>Standard grade</i>	<i>Past due, but not impaired, individually</i>	<i>Individually impaired</i>	<i>Total</i>
Cash and cash equivalents less cash on hand	7,414,091	–	–	7,414,091
Due from credit institutions	9,307,490	–	–	9,307,490
Loans to customers	93,418,389	24,104,067	26,694,653	144,217,109
Total	110,139,970	24,104,067	26,694,653	160,938,690

It is the Corporation'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

As at 31 December 2016 and 2015, past due but not impaired individual loans are presented as follows:

<i>Loans to customers</i>	<i>Less than 30 days</i>	<i>31-60 days</i>	<i>61-90 days</i>	<i>More than 90 days</i>	<i>Total</i>
At 31 December 2016	24,140,706	5,742,253	1,777,233	7,825,978	39,486,170
At 31 December 2015	4,040,947	3,219,104	600,448	16,243,568	24,104,067

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 Corporation addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Collectively assessed allowance

Allowances are assessed collectively for losses on loans to customers that are not individually significant and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet 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 Corporation's overall policy.

Liquidity risk and funding management

Liquidity risk is the risk that the Corporation will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, the management of the Corporation 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.

*(Thousands of Tenge)***21. Risk management (continued)****Liquidity risk and funding management (continued)***Analysis of financial liabilities by remaining contractual maturities*

The table below summarizes the maturity profile of the Corporation's financial liabilities at 31 December 2016 and 2015, based on contractual undiscounted payments.

<i>At 31 December 2016</i>	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>More than 5 years</i>	<i>Total</i>
Due to the Shareholder	582,929	3,163,524	12,000,979	–	15,747,432
Debt securities issued	425,000	3,829,683	39,958,732	30,914,570	75,127,985
Due to state and budget organizations	–	589	3,891,213	–	3,891,802
Total undiscounted financial liabilities	1,007,929	6,993,796	55,850,924	30,914,570	94,767,219

<i>At 31 December 2015</i>	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
Due to the Shareholder	541,255	16,927,820	11,826,716	1,794,278	31,090,069
Debt securities issued	425,000	1,879,783	9,219,132	33,219,353	44,743,268
Due to state and budget organizations	–	20,008	–	–	20,008
Total undiscounted financial liabilities	966,255	18,827,611	21,045,848	35,013,631	75,853,345

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 and foreign exchanges.

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. Interest rates on assets and liabilities of the Corporation are fixed.

Foreign currency risk

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

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

<i>Currency</i>	<i>2016</i>		<i>2015</i>	
	<i>Change in currency rate in %</i>	<i>Effect on profit before tax</i>	<i>Change in currency rate in %</i>	<i>Effect on profit before tax</i>
US dollars	+13.00%	798	+60.00%	13,933
US dollars	-13.00%	(798)	-20.00%	(4,644)

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Corporation 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.

*(Thousands of Tenge)***22. Fair value of financial instruments**

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.

The following table shows an analysis of financial instruments whose fair value is disclosed by levels of the fair value hierarchy:

	<i>Date of measurement</i>	<i>Fair value measurement with the use of</i>			<i>Total</i>
		<i>Quoted prices in active markets (Level 1)</i>	<i>Significant observable inputs (Level 2)</i>	<i>Significant non-observable inputs (Level 3)</i>	
At 31 December 2016					
Assets whose fair value is disclosed					
Cash and cash equivalents	31 December 2016	30,072,378	–	–	30,072,378
Due from credit institutions	31 December 2016	–	20,167,315	–	20,167,315
Held-to-maturity investment securities	31 December 2016	23,306,474	–	–	23,306,474
Loans to customers	31 December 2016	–	–	116,381,309	116,381,309
Other financial assets	31 December 2016	–	–	367,458	367,458
Liabilities whose fair value is disclosed					
Due to the Shareholder	31 December 2016	–	11,061,781	–	11,061,781
Debt securities issued	31 December 2016	52,046,590	–	–	52,046,590
Due to state and budget organizations	31 December 2016	–	2,474,733	–	2,474,733
At 31 December 2015					
Assets whose fair value is disclosed					
Cash and cash equivalents	31 December 2015	7,414,124	–	–	7,414,124
Due from credit institutions	31 December 2015	–	9,232,119	–	9,232,119
Loans to customers	31 December 2015	–	–	120,959,253	120,959,253
Other financial assets	31 December 2015	–	–	274,357	274,357
Liabilities whose fair value is disclosed					
Due to the Shareholder	31 December 2015	–	26,322,770	–	26,322,770
Debt securities issued	31 December 2015	23,510,200	–	–	23,510,200
Due to state and budget organizations	31 December 2015	–	19,942	–	19,942

*(Thousands of Tenge)***22. Fair values of financial instruments (continued)****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 Corporation's financial instruments recorded in the financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

	<i>Carrying amount</i>	<i>Fair value</i>	<i>Unrecognized (loss)/gain</i>
At 31 December 2016			
Financial assets			
Cash and cash equivalents	30,072,378	30,072,378	-
Due from credit institutions	26,053,315	20,167,315	(5,886,000)
Held-to-maturity investment securities	23,306,474	23,306,474	-
Loans to customers	135,725,198	116,381,309	(19,343,889)
Other financial assets	365,959	367,458	1,499
Financial liabilities			
Due to the Shareholder	13,361,704	11,061,781	2,299,923
Debt securities issued	51,648,620	52,046,590	(397,970)
Due to state and budget organizations	2,192,352	2,474,733	(282,381)
Total unrecognized change in unrealized fair value			(23,608,817)
At 31 December 2015			
Financial assets			
Cash and cash equivalents	7,414,124	7,414,124	-
Due from credit institutions	9,243,167	9,232,119	(11,048)
Loans to customers	124,504,541	120,959,253	(3,545,288)
Other financial assets	274,357	274,357	-
Financial liabilities			
Due to the Shareholder	27,360,358	26,322,770	1,037,588
Debt securities issued	27,742,150	23,510,200	4,231,950
Due to state and budget organizations	19,942	19,942	-
Total unrecognized change in unrealized fair value			1,713,202

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

Assets for which fair value approximates current 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 current amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Fixed and variable rate financial instruments

In the event of quoted debt instruments, fair value is based on quoted market prices. The fair values of unquoted debt instruments are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

(Thousands of Tenge)

23. 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 21 "Risk management" for the Corporation's contractual undiscounted repayment obligations.

	2016			2015		
	Within one year	More than one year	Total	Within one year	More than one year	Total
Financial assets						
Cash and cash equivalents	30,072,378	–	30,072,378	7,414,124	–	7,414,124
Due from credit institutions	6,968,241	19,085,074	26,053,315	5,421,028	3,822,139	9,243,167
Loans to customers	39,920,242	95,804,956	135,725,198	40,839,599	83,664,942	124,504,541
Held-to-maturity investment securities	23,306,474	–	23,306,474	–	–	–
Assets held for sale	–	–	–	5,250	–	5,250
Property and equipment	–	208,369	208,369	–	244,758	244,758
Investment property	–	348,631	348,631	–	359,573	359,573
Intangible assets	–	193,681	193,681	–	175,247	175,247
Current corporate income tax prepaid	205,713	–	205,713	233,574	–	233,574
Deferred corporate income tax assets	–	1,459,287	1,459,287	–	427,022	427,022
Other assets	511,609	283,917	795,526	365,145	997,018	1,362,163
Total assets	100,984,657	117,383,915	218,368,572	54,278,720	89,690,699	143,969,419
Financial liabilities						
Due to the Shareholder	3,400,560	9,961,144	13,361,704	16,372,242	10,988,116	27,360,358
Debt securities issued	1,346,247	50,302,373	51,648,620	365,880	27,376,270	27,742,150
Due to state and budget organizations	217	2,192,135	2,192,352	19,942	–	19,942
Short-term accrued liabilities	171,045	–	171,045	152,885	–	152,885
Other liabilities	622,563	–	622,563	230,230	–	230,230
Total liabilities	5,540,632	62,455,652	67,996,284	17,141,179	38,364,386	55,505,565
Net position	95,444,025	54,928,263	150,372,288	37,137,541	51,326,313	88,463,854

24. Related party disclosures

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.

The Government of the Republic of Kazakhstan controls the activities of the Corporation through the Shareholder.

(Thousands of Tenge)

24. Related party transactions (continued)

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

	2016			2015		
	Shareholder	Entities under common control	State and budget organizations	Shareholder	Entities under common control	State and budget organizations
Loans to customers as at 1 January	-	-	-	-	4,289,597	-
Loans issued	-	-	-	-	-	-
Loans repaid	-	-	-	-	(4,289,597)	-
Loans issued at 31 December	-	-	-	-	-	-
Interest income on loans issued	-	-	-	-	207,244	-
Loans obtained at 1 January	27,360,358	-	19,942	12,532,609	-	59,779
Loans obtained	45,519,031	-	3,890,000	31,587,143	-	-
Loans repaid	(59,739,473)	-	(19,810)	(16,821,274)	-	(42,471)
Other differences	221,788	-	(1,697,780)	61,880	-	2,634
Loans obtained at 31 December	13,361,704	-	2,192,352	27,360,358	-	19,942
Debt securities issued at 1 January	26,924,361	797,174	-	-	-	-
Debt securities placed	22,826,050	-	-	26,524,405	794,701	-
Debt securities redeemed	-	-	-	-	-	-
Other differences	1,080,420	-	-	399,956	2,473	-
Debt securities issued at 31 December	50,830,831	797,174	-	26,924,361	797,174	-
Interest expenses on loans received	1,552,760	-	120,111	759,614	-	310
Interest expense on debt securities issued	3,506,825	63,583	-	1,138,658	31,797	-

As at 31 December 2016 loans received from the Shareholder have an effective interest rate from 11.5% to 16.3% per annum (as at 31 December 2015: 9.63% per annum).

As at 31 December 2016 loans received from the state and budget organizations have an effective interest rate of 13.3% per annum.

Compensation to the key management personnel

Key management personnel in 2016 and 2015 consisted of 5 persons. Compensation of key management personnel comprised of the following:

	2016	2015
Salary and other short-term benefits	78,032	68,995
Social security contributions	8,072	6,992
Total key management personnel compensation	86,104	75,987

*(Thousands of Tenge)***25. Capital adequacy**

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

As at 31 December 2016 and 2015 the Corporation had complied in full with all its externally imposed capital requirements.

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

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

The NBRK requires entities engaged in certain types of banking activities to maintain a capital adequacy ratio of 1 level (k1) of at least 6% of assets; capital adequacy ratio (k1-2) in the amount of not less than 6% of risk weighted assets and contingent liabilities; and the total capital adequacy ratio (k1-3) in the amount of at least 12% of risk/operational weighted assets and contingent and possible liabilities and operational risk.

As at 31 December 2016 and 31 December 2015 the capital adequacy ratios of the Corporation calculated in accordance with the requirements of the NBRK were as follows:

	<i>2016</i>	<i>2015</i>
Tier 1 capital	147,334,428	87,315,602
Tier 2 capital	2,921,032	1,085,329
Shares in the share capital of legal entities	-	(5,250)
Total capital	150,255,460	88,395,681
Risk weighted assets	192,931,226	142,871,092
Commitments and contingencies	28,592,471	15,046,188
Operational risk	6,413,201	4,232,651
Capital adequacy ratio k1	67.5%	60.6%
Capital adequacy ratio k1-2	66.5%	55.3%
Capital adequacy ratio k1-3	65.9%	54.5%

26. Subsequent events

On 23 February 2017, the Corporation obtained a short-term loan in the amount of KZT 60,000,000 thousand in accordance with the agreement No. 9 ППЧ 839 dated 22 February 2017 from the Ministry of Finance of the Republic of Kazakhstan to support agro-industrial enterprises with an interest rate of 0.01% per annum and maturity till 20 December 2017.