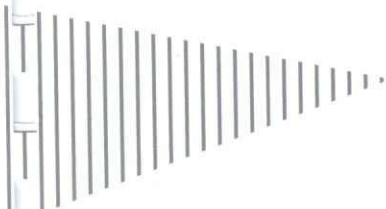


Joint Stock Company
Agrarian Credit Corporation

Financial statements

*For 2015
together with independent auditors' report*



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Independent auditors' report

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

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

Management's responsibility for the financial statements

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Ernst & Young LLP

[Handwritten signature]

Zhemaletdinov Evgeny
Auditor / General Director
Ernst & Young LLP

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

18 March 2016



Auditor Qualification Certificate No. 0000553
dated 24 December 2003

STATEMENT OF FINANCIAL POSITION

At 31 December 2015

(Thousands of tenge)

	Note	31 December 2015	31 December 2014
Assets			
Cash and cash equivalents	5	7,414,124	1,518,118
Amounts due from credit institutions	6	9,243,167	107,523
Loans to customers	7	124,504,541	100,605,389
Investment in real estate	8	359,573	74,599
Property and equipment	8	244,758	205,189
Intangible assets	9	175,247	206,628
Current corporate income tax assets	15	233,574	422,490
Deferred corporate income tax assets	15	427,022	565,562
Assets held for sale		5,250	10,500
Other assets	10	1,362,163	1,935,233
Total assets		143,969,419	105,651,231
Liabilities			
Amounts due to credit institutions	11	–	2,012,375
Amounts due to the Shareholder	12	27,360,358	12,532,609
Debt securities issued	13	27,742,150	2,883,066
Amounts due to state and state-financed organizations		19,942	59,779
Short-term estimated liabilities		152,885	133,914
Other liabilities	14	230,230	125,258
Total liabilities		55,505,565	17,747,001
Equity			
Share capital	16	94,227,371	94,227,371
Additional paid-in capital		5,291,347	4,296,627
Reserve funds		1,086,111	1,036,490
Provision for notional distribution		(8,594,957)	(7,521,118)
Accumulated deficit		(3,546,018)	(4,135,140)
Total equity		88,463,854	87,904,230
Total liabilities and equity		143,969,419	105,651,231
Book value per share (in tenge)		936.97	930.70

Signed and authorised for release on behalf of the Management Board of the Corporation:

Atamkulova Gennaz Turckhanovna



Chairperson of the Management Board

Zaitullayeva Irina Nikolayevna

Chief Accountant

18 March 2016

The accompanying notes on pages 6 to 39 are an integral part of these financial statements.

INCOME STATEMENT

For the year ended 31 December 2015

(Thousands of tenge)

	<i>Note</i>	<i>2015</i>	<i>2014</i>
Interest income			
Loans to customers		10,088,673	7,148,646
Amounts due from credit institutions		540,437	532,856
Cash and cash equivalents		575,443	104,587
Income from repurchase transactions		-	11,759
		<u>11,204,553</u>	<u>7,797,848</u>
Interest expenses			
Amounts due to the Shareholder		(1,889,074)	(1,009,852)
Amounts due to credit institutions		(55,155)	(221,340)
Debt securities issued		(1,414,937)	(340,463)
Amounts due to state and state-financed organizations		(3,056)	(4,680)
		<u>(3,362,222)</u>	<u>(1,576,335)</u>
Net interest income			
Provision for impairment of loans	6,7	(3,557,741)	(2,517,182)
Net interest income after allowance for impairment		<u>4,284,590</u>	<u>3,704,331</u>
Non-interest income			
Net gains/(losses) from foreign currencies		14,129	(29,251)
Gains from dealing operations		-	99,300
Other income		397,067	131,404
Non-interest income		<u>411,196</u>	<u>201,453</u>
Non-interest expense			
Personnel expenses	17	(1,861,433)	(1,600,122)
Other operating expenses	17	(1,243,335)	(1,032,307)
Non-interest expense		<u>(3,104,768)</u>	<u>(2,632,429)</u>
Profit before income tax expense			
Income tax expense	15	(505,689)	(777,148)
Profit for the year		<u>1,085,329</u>	<u>496,207</u>
Basic and diluted earnings per share (in tenge)		11.52	5.88

Signed and authorised for release on behalf of the Management Board of the Corporation:

Atamkulova Gulnara Turekhanovna



Chairperson of the Management Board

Zaitullayeva Irina Nikolayevna

Chief Accountant

18 March 2016

The accompanying notes on pages 6 to 39 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

(Thousands of tenge)

	<i>Note</i>	<i>2015</i>	<i>2014</i>
Profit for the year		1,085,329	496,207
Other comprehensive income		-	-
Total comprehensive income for the year		1,085,329	496,207

Signed and authorised for release on behalf of the Management Board of the Corporation:

Atamkulova Gulnaz Turekhanovna



Chairperson of the Management Board

Zaitullayeva Irina Nikolayevna

Chief Accountant

18 March 2016

The accompanying notes on pages 6 to 39 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

(Thousands of tenge)

	Share capital	Additional paid-in capital	Reserve funds	Provision for notional distribution	Accumu- lated deficit	Total equity
At 31 December 2013	74,227,371	4,296,627	992,725	(6,320,292)	(4,193,698)	69,002,733
Total comprehensive income for the year	-	-	-	-	496,207	496,207
Provisioning for notional distribution (Note 16)	-	-	-	(1,200,826)	-	(1,200,826)
Increase in share capital (Note 16)	20,000,000	-	-	-	-	20,000,000
Distribution of dividends	-	-	-	-	(393,884)	(393,884)
Increase in reserve funds (Note 16)	-	-	43,765	-	(43,765)	-
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
Recognition of additional paid-in capital from initial recognition of loans from the Shareholder (Note 16)	-	994,720	-	-	-	994,720
Provisioning for notional distribution (Note 16)	-	-	-	(1,073,839)	-	(1,073,839)
Distribution of dividends (Note 16)	-	-	-	-	(446,586)	(446,586)
Increase in reserve funds (Note 16)	-	-	49,621	-	(49,621)	-
At 31 December 2015	94,227,371	5,291,347	1,086,111	(8,594,957)	(3,546,018)	88,463,854

Signed and authorised for release on behalf of the Management Board of the Corporation:

Atamkulova Gulnazar Turkhanoovna



Chairperson of the Management Board

Zaitullayeva Irina Nikolayevna

Chief Accountant

18 March 2016

The accompanying notes on pages 6 to 39 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

(Thousands of tenge)

	Note	2015	2014
Cash flows from operating activities			
Interest received		6,971,177	5,980,985
Interest paid		(1,750,287)	(964,727)
Income from repurchase agreements		–	11,759
Realized income on derivative financial assets		24,129	52,968
Realized losses / (income) on operations with foreign currencies		14,129	(29,251)
Gains from dealing operations		–	99,300
Personnel expenses paid		(1,759,300)	(1,588,331)
Other operating expenses paid		(1,087,908)	(943,253)
Cash flows from operating activities before changes in operating assets and liabilities		2,411,940	2,619,450
<i>Net (increase)/ decrease in operating assets</i>			
Loans to customers		(25,016,196)	9,380,947
Amounts due from credit institutions		(8,985,859)	8,389,445
Other assets		598,657	76,588
<i>Net increase in operating liabilities</i>			
Other liabilities		337,341	8,008
Net cash flows (used in)/ from operating activities before income tax		(30,654,117)	20,474,438
Income tax paid		(158,453)	(263,720)
Net cash (used in)/ from operating activities		(30,812,570)	20,210,718
Cash flows from investing activities			
Purchase of property and equipment		(94,157)	(51,424)
Purchase of intangible assets		(22,018)	(28,075)
Realization of assets held for sale		5,250	7,000
Net cash used in investing activities		(110,925)	(72,499)
Cash flows from financing activities			
Proceeds from increase in share capital	16	–	20,000,000
Proceeds from credit institutions		–	7,000,000
Redemption of amounts due to credit institutions		(2,000,000)	(8,000,000)
Proceeds from borrowings from the Shareholder		31,587,143	8,822,854
Repayment of borrowings from the Shareholder		(16,821,274)	(44,411,590)
Repayment of borrowings from state and state-financed organisations		(42,471)	(31,140)
Debt securities issued		27,412,689	20,610
Debt securities repurchased		(2,870,000)	(2,919,600)
Distribution of dividends	16	(446,586)	(393,884)
Net cash from / (used in) financing activities		36,819,501	(19,912,750)
Net increase in cash and cash equivalents		5,896,006	225,469
Cash and cash equivalents, at the beginning of the year	5	1,518,118	1,292,649
Cash and cash equivalents, at the end of the year	5	7,414,124	1,518,118

Signed and authorised for release on behalf of the Management Board of the Corporation:

Atamkulova Gulnara Furekhanovna



Chairperson of the Management Board

Zairullayeva Irina Nikolayevna

Chief Accountant

18 March 2016

The accompanying notes on pages 6 to 39 are an integral part of these financial statements.

(In thousands of tenge, unless otherwise indicated)

1. Principal activities

Agrarian Credit Corporation JSC (the "Corporation") was established by the Decree 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 issued by the National Bank of the Republic of Kazakhstan Committee on Regulation and Supervision of the Financial Market and Financial Organizations (the "FMSC") for conducting operations specified by the banking legislation of the Republic of Kazakhstan No. 5.2.24 dated 5 November 2013. The Corporation's principal activities are:

- Implementation of government programs to support an agricultural sector;
- Attraction of domestic and foreign investments for implementation of own projects in the agricultural complex;
- Development and realization of projects in agricultural sector;
- Sale of collateral and agricultural products received against repayment of funds issued;
- Performing bank borrowing operations based on appropriate license;
- Leasing activities;
- Other types of activities that are not prohibited by enactments, that serve the purposes and objectives of the Corporation and provided by the Charter.

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

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

As at 31 December 2015, the Corporation has 13 registered branches throughout the Republic of Kazakhstan (at 31 December 2014: 13).

2. Basis of preparation

General

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

The financial statements are prepared under the historical cost convention except as disclosed in Summary of significant accounting policies. For example, embedded derivatives should be accounted for at fair value, assets held-for-sale at the lower of their fair value, less costs to sell or their present value.

These financial statements are presented in thousands of Kazakh tenge ("thousand of tenge", "tenge" or "KZT"), except per 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 2015:

Amendments to IAS 19 Defined benefit plans: Employee Benefits

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where such contributions are linked to the services, they must be attributed to periods of service by reducing the service cost. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise them as a reduction in the service cost in the period in which the service is rendered, instead of allocating these contributions to the periods of service. These amendments are not relevant to the Corporation, since the Corporation does not have defined benefit plans with contributions from employees or third parties.

(In thousands of tenge, unless otherwise indicated)

2. Basis of preparation (continued)

Changes in accounting policy (continued)

Annual IFRS improvements: 2010-2012 cycle

These improvements are effective from 1 July 2014. These amendments are not expected to have a significant impact on the Corporation. They include:

IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition;
- A performance target must be met while the counterparty is rendering service;
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group;
- A performance condition may be a market or non-market condition;
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable). Such approach is consistent with the Corporation's accounting policies and for this reason this amendment has no impact on its accounting policies.

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

- an entity must disclose the judgments made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar';
- the reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

The Corporation does not disclose reconciliation of segment assets to total assets in these financial statements as the reconciliation is not reported to the chief operating decision maker for the purpose of her decision making.

IFRS 13 Fair Value Measurement

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

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

The amendments are applied retrospectively and clarify provisions of IAS 16 and IAS 38 stating that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross carrying amount of the asset and its carrying amount.

IAS 24 Related Party Disclosures

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

(In thousands of tenge, unless otherwise indicated)

2. Basis of preparation (continued)

Changes in accounting policy (continued)

Annual IFRS improvements: 2011-2013 cycle

These improvements are effective from 1 July 2014. These amendments are not expected to have a significant impact on the Corporation. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- joint arrangements, not just joint ventures, are outside the scope of IFRS 3;
- this scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

The Corporation is not a joint arrangement, accordingly, this amendment is not relevant to it.

IFRS 13 Fair Value Measurement

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

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination. In previous periods, the Corporation has applied IFRS 3, not IAS 40, in determining whether the transaction constitutes an asset acquisition or a business combination. Thus, this amendment has no effect on the accounting policy of the Corporation.

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

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

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 and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. At initial recognition financial assets 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 recognised 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.

(In thousands of tenge, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Financial assets (continued)

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 recognises the difference between the transaction price and fair value (a 'Day 1' profit) in the income statement. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognised in the income statement when the inputs become observable, or when the instrument is derecognised.

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 and loss before granting a loan, when credit commitment is reduced by consideration paid, and remaining balance is recorded as loans issued to customers in the statement of financial position. As a result, loans to customers are initially recognized at fair value in the statement of financial position, and subsequently these loans are recorded at amortized cost, using the effective interest rate. Loans to customers are recorded net of any allowances for impairment.

Determination of fair value

The fair value for financial instruments traded in active market at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For other financial instruments not traded at an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Cash and cash equivalents

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

Derivative financial instruments

In the normal course of business, the Corporation enters into various derivative financial instruments on currency markets and capital markets. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the income statement as net gains/(losses) from trading securities or net gains/(losses) from foreign currencies (dealing), depending on the nature of the instrument.

(In thousands of tenge, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Derivative financial instruments (continued)

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair on the trading portfolio with changes in fair value recognised in the income statement.

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 amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the borrowings are derecognised as well as through the amortisation process.

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 recognised 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 reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Amounts due from credit institutions and loans to customers

For amounts due from credit institutions and loans to customers carried at amortised 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, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' current 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 recognised in the income statement. 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 recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan 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.

(In thousands of tenge, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

Amounts due from credit institutions and loans to customers (continued)

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.

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 derecognised 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 provision 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 recognised 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 current amount of the asset and the maximum amount of consideration that the Corporation could be required to repay.

(In thousands of tenge, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

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 current amounts is recognised in the income statement.

Property and equipment

Property and equipment are carried at historical cost less day-to-day maintenance costs and accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

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

Buildings and constructions	4,5%
Computers and office equipment	10%-20%
Vehicles	10%
Other	7%-10%

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

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

Investment properties

Investment property is intended to earn rentals or capital appreciation, and which is not used by the Corporation as fixed assets.

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.

Investment properties are derecognised when either they have been disposed of or when no future economic benefit is expected from its disposal. Any income or losses from disposal of investment properties are recognized in the income statement 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 amortisation and any accumulated impairment losses. Intangible assets have finite lives and are amortised over the useful economic lives of 1 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Depreciation is calculated on a straight-line basis over the following estimated useful lives per a year:

Intangible assets	10%-100%
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(In thousands of tenge, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Assets classified as held for sale

The Corporation classifies non-current assets as held for sale if its current 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 current amount and fair value less costs to sell. The Corporation recognises an impairment loss for any initial or subsequent write-down of the asset to fair value less costs to sell if events or changes in circumstance indicate that their current 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 balance sheet is made by the Credit Committee and then by the Management Board of the Corporation. After all procedures, property is recognized in the Corporation's balance sheet at its current assessed value. It is recorded in other assets in the financial statements.

Share capital

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

Dividends

Dividends are recognised 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 authorised.

Allowance for deemed distribution

When the Corporation enters into a loan agreement at below market rates on behalf of the Shareholder, the difference between the fair value of credit commitment and nominal value is recognized as allowance for notional distribution as deemed distribution to the Shareholder.

Additional capital

When the Corporation receives loans or other financial support from the Shareholder at below market rates, the difference between received cash consideration and fair value of loans or other financial support is recorded as additional 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 recognised in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote.

(In thousands of tenge, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Recognition of income and expenses

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

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing securities classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net 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 current amount of the financial asset or financial liability is adjusted if the Corporation revises its estimates of payments or receipts. The adjusted current amount is calculated based on the original effective interest rate and the change in current amount is recorded as interest income or expense.

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

Fee and commission income

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

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

Foreign currency translation

The financial statements are presented in Kazakh 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 recognised in the income statement as net gains / losses from foreign exchange revaluation. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the official exchange rates at the date when the fair value was determined.

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

	<i>31 December</i>	
	<i>2015</i>	<i>2014</i>
KZT / USD	339.47	182.35
KZT / EURO	371.31	221.97
KZT / RUR	4.65	3.17

(In thousands of tenge, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Future changes in accounting policies

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 to classification and measurement, impairment and hedge accounting.

IFRS 9 becomes effective for financial years beginning on or after 1 January 2018. Early application is permitted. The standard is applied retrospectively but provision of comparative information is not mandatory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. 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 that IFRS 9 requirements to impairment will have a significant impact on its equity. The Corporation will need a more detailed analysis comprising all reasonable and acceptable, including but not limited to prospective, information to measure the extent of such impact.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 published in May 2014 establishes a new five-step model of accounting for revenue from contracts with customers. Revenue arising from lease contracts within the scope of IAS 17 *Leases*, insurance contracts within the scope of IFRS 4 *Insurance Contracts* and financial instruments and other contractual rights and obligations within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* (or IFRS 9 *Financial Instruments*, if early adopted) is out of IFRS 15 scope and is dealt by respective standards.

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

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. This standard is applied retrospectively either in full or using the simplifications of practical nature for annual periods beginning on or after 1 January 2018. Early application is permitted. The Corporation is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

IFRS 14 Regulatory Deferral Accounts

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

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

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

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

(In thousands of tenge, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Future changes in accounting policies (continued)

Standards issued but not yet effective (continued)

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

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

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

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

Amendments to IAS 27 Equity Method in Separate Financial Statements

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

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

The amendments address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. The amendments clarify that an investor recognises a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. The gain or loss resulting from the re-measurement at fair value of an investment retained in a former subsidiary is recognised only to the extent of unrelated investors' interests in that former subsidiary. The amendments are applied prospectively to transactions occurring in annual periods beginning on or after 1 January 2016. Early application is permitted.

Amendments to IAS 1 Disclosure Initiative

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

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

(In thousands of tenge, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Future changes in accounting policies (continued)

Standards issued but not yet effective (continued)

Amendments to LAS 1 Disclosure Initiative (continued)

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

Investment Entities – amendments to IFRS 10, IFRS 12 and LAS 28 Applying the Consolidation Exception.

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its profit in subsidiaries. These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016. Early application is permitted. These amendments are not expected to have any impact on the Corporation.

Annual IFRS improvements 2012-2014 cycle

These improvements are effective from 1 January 2016. These amendments are not expected to have a significant impact on the Corporation. They include:

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

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

IFRS 7 Financial Instruments: Disclosures – servicing contracts

IFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognised in its entirety. The Board was asked whether servicing contracts constitute continuing involvement for the purposes of applying these disclosure requirements. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in paragraphs IFRS 7.B30 and IFRS 7.42C in order to assess whether the disclosures are required. The amendments are effective for annual periods beginning on or after 1 January 2016. Early application is permitted. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

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

In December 2011, IFRS 7 was amended to add guidance on offsetting of financial assets and financial liabilities. In the effective date and transition for that amendment IFRS 7 states that “An entity shall apply those amendments for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. However, the interim disclosure standard, IAS 34, does not reflect this requirement. As a result, it is not clear whether the respective information should be disclosed in the condensed interim financial statements or not.

The amendment removes the phrase ‘and interim periods within those annual periods’, clarifying that these IFRS 7 disclosures are not required in the condensed interim financial statements. These amendment must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016. Early application is permitted.

(In thousands of tenge, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Future changes in accounting policies (continued)

Standards issued but not yet effective (continued)

Annual IFRS improvements 2012-2014 cycle (continued)

IAS 19 Employee Benefits – discounting rate for regional market

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

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

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

4. Significant accounting judgements and estimates

Estimation uncertainty

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

Fair values of financial instruments

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

Provision 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 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.

(In thousands of tenge, unless otherwise indicated)

4. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Taxation

Kazakhstan currently has a single Tax Code that regulates main taxation matters. The applicable taxes include value added tax, corporate income tax, social taxes, and others. Implementing regulations are often unclear or nonexistent and insignificant amount of precedents has been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organisations; 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 substantial compliance 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 income tax assets are recognized in the statement of financial position. Deferred income tax assets including those arising from unused tax losses 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 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, provision 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 realise the net deferred 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.

5. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	<i>31 December 2015</i>	<i>31 December 2014</i>
Cash on bank accounts in tenge	7,390,832	1,496,403
Cash on bank accounts in US dollars	23,259	21,591
Cash on hand	33	124
Cash and cash equivalents	7,414,124	1,518,118

Concentration of cash and cash equivalents

As at 31 December 2015, the Corporation had cash placed at settlement accounts in banks represented by KZT 2,925,733 thousand placed in one bank, Bank RBK JSC, or 40% of balance of cash and cash equivalents (31 December 2014: KZT 881,389 thousand in Bank CenterCredit JSC or 58%).

6. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	<i>31 December 2015</i>	<i>31 December 2014</i>
Loans to the second tier banks	9,168,962	-
Accrued interest on loans provided to the second tier banks	138,528	-
Less provision for impairment	(64,323)	-
Cash in term bank deposits	-	99,195
Interest accrued on deposits	-	8,328
Amounts due from credit institutions	9,243,167	107,523

Loans to the second-tier banks comprise loans to Bank of Astana JSC, Bank of RBK JSC, Tsesnabank JSC for lending to agroindustrial complex facilities with an interest rate of 8 to 10% per annum with a credit period of up to 96 months.

(In thousands of tenge, unless otherwise indicated)

6. Amounts due from credit institutions (continued)

Provision for impairment of loans provided to the second tier banks:

	<i>2015</i>	<i>2014</i>
At 1 January	–	–
Charge for the year	64,323	–
Write-off	–	–
At 31 December	64,323	–

Expenses for loan impairment in the income statement for 2015 comprise provisions for impairment of loans issued to second-tier banks in the amount of KZT 64,323 thousand.

7. Loans to customers

Loans to customers comprise:

	<i>31 December 2015</i>	<i>31 December 2014</i>
Loans granted to legal entities in the agricultural sector	108,892,032	91,915,779
Loans granted to individuals in the agricultural sector	35,325,077	25,016,309
Total loans to customers	144,217,109	116,932,088
Less allowance for impairment	(19,712,568)	(16,326,699)
Loans to customers	124,504,541	100,605,389

Allowance for impairment of loans to customers

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

	<i>2015</i>	<i>2014</i>
At 1 January	16,326,699	13,858,698
Charge for the year	3,493,418	2,517,182
Write-off	(107,549)	(49,181)
At 31 December	19,712,568	16,326,699
Individual impairment	15,985,377	8,262,768
Collective impairment	3,727,191	8,063,931
	19,712,568	16,326,699
Total amount of loans, individually determined as impaired, before deduction of provision	26,972,047	10,673,364

In 2015, the loss of KZT 1,342,299 thousand (2014: KZT 1,501,032 thousand) resulting from measurement of fair values of loans granted to customers in 2015 at below market rate, which were financed by the Shareholder, are recognized within the provision for notional distribution.

Loans individually determined as impaired

The fair value of collateral that the Corporation holds relating to loans individually determined as impaired at 31 December 2015 amounts to KZT 10,385,082 thousand (2014: KZT 2,410,596 thousand).

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- For commercial lending – 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 thousands of tenge, unless otherwise indicated)***7. Loans to customers (continued)****Concentration of loans to customers**

At 31 December 2015, the Corporation had a concentration of loans represented by KZT 29,934,974 thousand due from 10 largest borrowers that comprised 22% of the total gross loan portfolio (at 31 December 2014 – KZT 18,892,006 thousand and 16% of the total gross loan portfolio).

Interest income accrued on assets, individually determined as impaired, for the year ended 31 December 2015, amounted to KZT 201,090 thousand (in 2014: KZT 95,343 thousand).

8. Property and equipment

	<i>Land</i>	<i>Buildings and construc- tions</i>	<i>Computers and office equipment</i>	<i>Vehicles</i>	<i>Other</i>	<i>Total</i>
Original cost						
At 31 December 2013	5,397	–	147,219	58,864	79,640	291,120
Additions	–	–	45,715	7,261	11,632	64,608
Disposal	–	–	(17,459)	–	(1,646)	(19,105)
At 31 December 2014	5,397	–	175,475	66,125	89,626	336,623
Additions	–	–	82,420	6,163	5,574	94,157
Disposal	–	–	(1,458)	(15,740)	(1,733)	(18,931)
At 31 December 2015	5,397	–	256,437	56,548	93,467	411,849
Accumulated depreciation						
At 31 December 2013	–	–	64,751	18,302	31,833	114,886
Accrued depreciation	–	–	20,748	5,873	8,868	35,489
Disposal	–	–	(16,541)	–	(2,400)	(18,941)
At 31 December 2014	–	–	68,958	24,175	38,301	131,434
Accrued depreciation	–	–	31,937	5,861	9,444	47,242
Disposal	–	–	(1,428)	(8,711)	(1,446)	(11,585)
At 31 December 2015	–	–	99,467	21,325	46,299	167,091
Net book value						
At 31 December 2013	5,397	–	82,468	40,562	47,807	176,234
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

*(In thousands of tenge, unless otherwise indicated)***8. Property and equipment (continued)****Investments in real estate**

	<i>Buildings</i>
Original cost	
At 31 December 2013 and 2014	133,668
Proceeds	292,632
At 31 December 2015	<u>426,300</u>
Accumulated depreciation	
At 31 December 2013	53,054
Accrued depreciation	6,015
At 31 December 2014	<u>59,069</u>
Accrued depreciation	7,658
At 31 December 2015	<u>66,727</u>
Net book value	
At 31 December 2014	<u>74,599</u>
At 31 December 2015	<u>359,573</u>

In 2015 income from lease of investment property amounted to KZT 38,969 thousand (2014: KZT 18,493 thousand).

9. Intangible assets

The movements in intangible assets were as follows:

	<i>Software</i>
Original cost	
At 31 December 2013	420,151
Additions	37,325
Disposal	(4,810)
At 31 December 2014	<u>452,666</u>
Additions	22,018
Disposal	(1,606)
At 31 December 2015	<u>473,078</u>
Accumulated depreciation	
At 31 December 2013	203,409
Accrued depreciation	47,439
Disposal	(4,810)
At 31 December 2014	<u>246,038</u>
Accrued depreciation	52,741
Disposal	(948)
At 31 December 2015	<u>297,831</u>
Net book value	
At 31 December 2013	<u>216,742</u>
At 31 December 2014	<u>206,628</u>
At 31 December 2015	<u>175,247</u>

(In thousands of tenge, unless otherwise indicated)

10. Other assets

	<i>31 December 2015</i>	<i>31 December 2014</i>
Reposessed collateral	1,024,494	1,310,788
Other assets	337,669	624,445
Total other assets	1,362,163	1,935,233

As at 31 December 2015, reposessed collaterals comprise real estate that was collected by the Corporation from borrowers who failed to meet the obligations to repay a loan to the Corporation. During 2015, the Corporation collected property from the borrowers in the amount of KZT 557,475 thousand. During 2014, the Corporation collected from the borrowers land plots in the amount of KZT 1,028,176 thousand.

11. Amounts due to credit institutions

Short-term borrowings obtained from banks comprise:

<i>Bank</i>	<i>Currency</i>	<i>Maturity</i>	<i>Nominal interest rate</i>	<i>31 December 2015</i>	<i>31 December 2014</i>
SB Sberbank Russia JSC	Tenge	28 May 2015	6.75%	–	2,012,375
				–	2,012,375

On 28 November 2014, the Corporation received a short-term loan in the amount of KZT 2,000,000 thousand from SB Sberbank of Russia JSC with an interest rate of 6.75% per annum and maturity until 28 May 2015. On 28 May 2015, the loan was fully repaid.

12. Amounts due to the Shareholder

	<i>Maturity</i>	<i>Nominal interest rate</i>	<i>31 December 2015</i>	<i>31 December 2014</i>
The loan under contract No. 148	10 December 2019	9.00%	16,356,670	–
Investment loan under agreement No. 36	30 December 2023	1.02%	10,328,819	12,176,340
The loan under contract No. 124	1 January 2023	3.00%	383,659	–
The loan under contract No. 148	10 December 2019	1.00%	291,210	356,269
Due to the Shareholder			27,360,358	12,532,609

Investment loan under agreement No. 36

On the 18 May 2009, the Corporation entered into Master Lending Agreement with KazAgro No. 36. In accordance with this Agreement, the Corporation obtains an investment loan to develop, expand and modify production in agricultural sector. The investment loan matures on 30 December 2023, the amortised cost of loan at 31 December 2015 under the Agreement is KZT 10,328,819 thousand, and interest is accrued at nominal rate of 1.02% per annum and effective interest rate of 6.00% at the date of issue. During 2015, the Corporation under this Master Agreement received long-term funds in the amount of KZT 18,899 thousand (during 2014: KZT 132,027 thousand). During 2015 the Corporation also repaid loans under Master Lending Agreement with KazAgro No. 36 in the amount of KZT 1,791,774 thousand (during 2014: KZT 1,640,763 thousand).

The loan under contract No. 148

On the 10 December 2012, the Corporation entered into Master Lending Agreement with KazAgro No. 148. The amount of the loan under the agreement is KZT 2,000,000 thousand. Interest on tranches issued before 1 January 2015, is accrued at the rate of 1.00%. The loan matures in 7 years after signing date of the agreement. The loan may be used to: meet liquidity needs sufficient to cover the liabilities; support agricultural complex entities; acquire, repair and upgrade property and equipment and other purposes in accordance with the legislation.

The carrying amount of loans issued at the rate of 1.00% as at 31 December 2015, amounted to KZT 291,210 thousand.

On 11 February 2015, a supplementary lending agreement No. 1 to contract No. 148, under which interest is accrued on all tranches received after 1 January 2015, at the rate of 9.00% per annum.

The carrying amount of loans issued at the rate of 9.00% per annum as at 31 December 2015, amounted to KZT 16,356,670 thousand.

(In thousands of tenge, unless otherwise indicated)

12. Amounts due to the Shareholder (continued)

The loan under contract No. 124

On 23 December 2015, the Corporation entered into Lending Agreement with KazAgro No. 124. The amount of the loan under the agreement is KZT 591,108 thousand. Interest is accrued at the nominal rate of 3.00% per annum. The loan is intended for the purposes of restructuring/refinancing of loan/lease obligations of borrowers that have arisen before 1 January 2014, in connection with a loan/lease granted to replenish working capital, purchase of fixed assets and construction, as well as to refinance the debts incurred in connection with obtaining a loan/lease for the above purposes.

As at 31 December 2015, the Corporation had no violations of financial covenants related to amounts due to the Shareholder.

13. Debt securities issued

	<i>Maturity</i>	<i>Rate, %</i>	<i>Currency</i>	<i>31 December 2015</i>	<i>31 December 2014</i>
Fixed income debt securities, 2nd issue of the 2nd bond program	17 December 2022	8,00%	tenge	17,693,329	–
Fixed income debt securities, 1st issue of the 2nd bond program	20 February 2023	8,50%	tenge	10,048,821	20,615
Fixed income debt securities, 2nd issue of the 1st bond program	5 December 2015	7,00%	tenge	–	2,862,451
				<u>27,742,150</u>	<u>2,883,066</u>

On 9 July 2015, the Corporation repaid the 2nd bond issue of the first bond program in the amount of KZT 2,970,450 thousand. The principal and coupon interest amounted to KZT 2,870,000 thousand and KZT 100,450 thousand, respectively.

During 2015, the Corporation placed 1st issue bonds under the second bond program in the quantity of 9,980,000 units, in the amount of KZT 9,700,135 thousand, 2nd issue under the second bond program of 18,184,787 units in the amount of KZT 17,618,974 thousand.

14. Other liabilities

	<i>31 December 2015</i>	<i>31 December 2014</i>
Ministry of Agriculture of the Republic of Kazakhstan subsidizes interest rates to support agriculture	78,918	25,180
Salary and taxes payable	78,891	11,861
Accounts payable	30,942	72,166
Liabilities on pension and social deductions	25,512	10,967
Other	15,967	5,084
Total other liabilities	<u>230,230</u>	<u>125,258</u>

15. Taxation

A reconciliation of corporate income tax expenses ("CIT") applicable to income before taxation at the statutory corporate income tax rate, with the corporate income tax expenses for the years ended 31 December is set out below:

	<i>2015</i>	<i>2014</i>
Current income tax	347,369	223,275
Deferred tax: origination and decrease of temporary differences	138,540	253,667
Less: deferred tax expense recognized in other comprehensive income	19,780	300,206
Income tax expense	<u>505,689</u>	<u>777,148</u>

(In thousands of tenge, unless otherwise indicated)

15. Taxation (continued)

At 31 December 2015, CIT prepaid amounted to KZT 233,574 thousand (2014: KZT 422,490 thousand).

Deferred tax recognized in equity is allocated as follows:

	2015	2014
On assets	268,460	300,206
On liabilities	(248,680)	-
CIT benefit recognised in equity	19,780	300,206
	2015	2014
Profit before tax	(1,591,018)	(1,273,355)
Statutory tax rate	20%	20%
Theoretical corporate income tax expenses at the statutory rate	(318,204)	(254,671)
Expense from provision for indexation impairment	-	(394,596)
Other non-deductible tax expenses	(187,485)	(127,881)
Income tax expense	(505,689)	(777,148)

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

	<i>Origination and reversal of temporary differences</i>			<i>Origination and reversal of temporary differences</i>			2015
	2013	<i>In the income statement</i>	<i>In equity</i>	2014	<i>In the income statement</i>	<i>In equity</i>	
Tax effect of deductible temporary differences							
Tax loss carried forward	59,813	(59,813)	-	-	-	-	-
Loans to customers	1,199,703	(606,208)	300,206	893,701	(352,391)	268,460	809,770
Short-term estimated liabilities	19,759	7,024	-	26,783	3,794	-	30,577
Assets held for sale	2,116	(2,116)	-	-	-	-	-
Deferred tax asset	1,281,391	(661,113)	300,206	920,484	(348,597)	268,460	840,347
Tax effect of taxable temporary differences							
Due to the Shareholder	(454,036)	123,654	-	(330,382)	226,441	(248,680)	(352,621)
Property and equipment and intangible assets	(8,126)	(16,414)	-	(24,540)	(36,164)	-	(60,704)
Deferred tax liability	(462,162)	107,240	-	(354,922)	190,277	(248,680)	(413,325)
Total deferred income tax asset	819,229	(553,873)	300,206	565,562	(158,320)	19,780	427,022

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

16. Equity

Below is information on movement of issued and fully paid shares:

	<i>Offering price (KZT)</i>	<i>Number of common shares</i>	<i>Total in thousands of tenge</i>
At 31 December 2013			
Increase in share capital	1.000	74,227,371	74,227,371
At 31 December 2014		94,227,371	94,227,371
Increase in share capital		-	-
At 31 December 2015		94,227,371	94,227,371

At 31 December 2015 and 2014, total quantity of authorized and paid common shares comprised 94,227,371 units. On the basis of the decision of the sole Shareholder dated 10 April 2014, the share capital was increased by 20,000 thousand of common shares with the placement value of KZT 1.000 each; cash was obtained from the sole Shareholder as a contribution to the share capital in 2014.

(In thousands of tenge, unless otherwise indicated)

16. Equity (continued)

At 31 December 2015 and 2014, an owner of a common share has the right for one vote and an equal right for dividends. Distributable profit is determined on the basis of profit recorded in the Corporation's financial statements.

In 2015, the Corporation declared and paid dividends for 2014 in the amount of KZT 446,586 thousand (KZT 4.74 per a share) based on the decision of the sole Shareholder No.34 dated 5 June 2015.

In 2014, the Corporation declared and paid dividends for 2013 in the amount of KZT 393,884 thousand (KZT 5.31 per a share) based on the decision of the sole Shareholder No.32 dated 9 June 2014.

In accordance with the Regulation of the Corporation, provisions are made for general risks including future losses and other unforeseen risks and obligations. Reserve capital is subject to distribution on the basis of decision of the Shareholder.

In 2015, based on the decision of the sole Shareholder dated 5 June 2015 the reserve capital was increased by KZT 49,621 thousand with the use of 2014 income. In 2014, based on the decision of the sole Shareholder dated 9 June 2014 the reserve capital was increased by KZT 43,765 thousand with the use of 2013 income.

The movements in other reserves were as follows:

	<i>Reserve funds</i>	<i>Additional paid-in capital</i>	<i>Provision for notional distribution</i>	<i>Total</i>
At 31 December 2013	992,725	4,296,627	(6,320,292)	(1,030,940)
Provisioning for notional distribution (<i>Note 7</i>)	–	–	(1,501,032)	(1,501,032)
Income tax on notional distribution provision (<i>Note 15</i>)	–	–	300,206	300,206
Increase of the reserve funds against the retained earnings	43,765	–	–	43,765
At 31 December 2014	1,036,490	4,296,627	(7,521,118)	(2,188,001)
Provisioning for notional distribution (<i>Note 7</i>)	–	–	(1,342,299)	(1,342,299)
Income tax on notional distribution provision (<i>Note 15</i>)	–	–	268,460	268,460
Initial recognition of income from loans at below market rates (<i>Note 12</i>)	–	1,243,400	–	1,243,400
Income tax on recognised income from loans at below market rates (<i>Note 15</i>)	–	(248,680)	–	(248,680)
Increase of the reserve funds against the retained earnings	49,621	–	–	49,621
At 31 December 2015	1,086,111	5,291,347	(8,594,957)	(2,217,499)

As at 31 December 2015, the book value per common share calculated in accordance with Kazakhstan Stock Exchange methodology is KZT 936.97 (31 December 2014: KZT 930.70).

The calculation of carrying amount of one share as at 31 December 2015 and 31 December 2014, is as follows:

	<i>31 December 2015</i>	<i>31 December 2014</i>
Assets	143,969,419	105,651,231
Intangible assets	175,247	206,628
Liabilities	55,505,565	17,747,001
Net assets	88,288,607	87,697,602
Number of common shares as at the calculation date, shares	94,227,371	94,227,371
Book value per common share (in tenge)	936.97	930.70

(In thousands of tenge, unless otherwise indicated)

17. Personnel and other operating expenses

Personnel expenses and other employee benefits and other operating expenses comprise:

	<i>2015</i>	<i>2014</i>
Personnel expenses and other payments	(1,694,905)	(1,458,437)
Social security costs	(166,528)	(141,685)
Personnel expenses	(1,861,433)	(1,600,122)
Operating lease	(333,911)	(288,051)
Legal and advisory services	(261,387)	(209,294)
Depreciation and amortisation	(107,641)	(88,943)
Expenses associated with the assessment of collateral	(102,051)	(31,023)
Advertising expenses	(85,438)	(89,497)
Charity and sponsorship	(60,784)	–
Property and equipment maintenance	(53,523)	(39,389)
Business trip expenses	(50,233)	(54,703)
Materials, including fuel and lubricants	(34,838)	(31,261)
Communications	(27,831)	(34,611)
Insurance	(20,985)	(19,455)
Training of personnel	(19,400)	(8,125)
Bank charges	(13,549)	(9,734)
State duty	(7,225)	(62,862)
Other	(64,539)	(65,359)
	(1,243,335)	(1,032,307)

18. Commitments and contingencies

Economic environment

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

In 2015, the Kazakhstan economy continued to be negatively impacted by a significant decline in crude oil prices and a significant Kazakhstani tenge devaluation. The combination of the above factors resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth. The management of the Company believes that it is taking appropriate measures to support the sustainability of the Company's business in the current circumstances.

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 condition or the results of future operations of the Corporation.

Undrawn loan facilities

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

	<i>2015</i>	<i>2014</i>
Undrawn credit lines – loans to customers	30,092,376	27,153,834

As at 31 December 2015, the concentration of undrawn credit facilities to 10 largest independent parties totalled KZT 3,170,304 thousand or 12% of the total amount of undrawn credit facilities (31 December 2014: KZT 11,748,517 thousand or 23%).

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.

(In thousands of tenge, unless otherwise indicated)

19. 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, risk of liquidity, market risk and prepayment 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 management department

The Risk Management Department 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 Department 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.

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 and 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.

(In thousands of tenge, unless otherwise indicated)

19. Risk management (continued)

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 23% of the Corporation's own equity. Bank-counterparty limits are established by KazAgro 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, including derivatives, 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 additional information on the maximum credit exposure for each class of financial instruments, see *Notes 5-7 and 20*.

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 case of a number of impairment factors and use of high ratio of reserve on a collective basis, these loans are included in the substandard category.

<i>At 31 December 2015</i>	<i>Standard grade</i>	<i>Substandard</i>	<i>Past due but not impaired</i>	<i>Individually impaired</i>	<i>Total</i>
Cash and cash equivalents (excluding cash on hand)	7,414,091	–	–	–	7,414,091
Amounts due from credit institutions	9,307,490	–	–	–	9,307,490
Loans to customers	93,742,584	16,243,568	7,860,499	26,370,458	144,217,109
Total	110,464,165	16,243,568	7,860,499	26,370,458	160,938,690

<i>At 31 December 2014</i>	<i>Standard grade</i>	<i>Substandard</i>	<i>Past due but not impaired</i>	<i>Individually impaired</i>	<i>Total</i>
Cash and cash equivalents (excluding cash on hand)	1,517,994	–	–	–	1,517,994
Amounts due from credit institutions	107,523	–	–	–	107,523
Loans to customers	76,688,753	20,166,273	9,509,679	10,567,383	116,932,088
Total	78,314,270	20,166,273	9,509,679	10,567,383	118,557,605

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.

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

	<i>Less than 30 days</i>	<i>31-60 days</i>	<i>61-90 days</i>	<i>Total</i>
Loans to customers				
2015	4,040,947	3,219,104	600,448	7,860,499
2014	3,495,830	4,788,920	1,224,929	9,509,679

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.

(In thousands of tenge, unless otherwise indicated)

19. Risk management (continued)

Credit risk (continued)

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.

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Corporation's financial liabilities at 31 December 2015 and 2014, based on contractual undiscounted payments.

<i>Financial liabilities</i> <i>At 31 December 2015</i>	<i>Less than</i> <i>3 months</i>	<i>3 to</i> <i>12 months</i>	<i>1 to</i> <i>5 years</i>	<i>More than</i> <i>5 years</i>	<i>Total</i>
Amounts 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
Amounts due to state and state-financed organizations	–	20,008	–	–	20,008
Total undiscounted financial liabilities	966,255	18,827,611	21,045,848	35,013,631	75,853,345

<i>Financial liabilities</i> <i>At 31 December 2014</i>	<i>Less than</i> <i>3 months</i>	<i>3 to</i> <i>12 months</i>	<i>1 to</i> <i>5 years</i>	<i>More than</i> <i>5 years</i>	<i>Total</i>
Amounts due to credit institutions	35,250	2,032,250	–	–	2,067,500
Amounts due to the Shareholder	209,806	1,763,762	9,729,037	3,042,082	14,744,687
Debt securities issued	850	3,071,750	8,500	24,250	3,105,350
Amounts due to state and state-financed organizations	11,353	31,540	20,008	–	62,901
Total undiscounted financial liabilities	257,259	6,899,302	9,757,545	3,066,332	19,980,438

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 (except for indexed issued debt securities) of the Corporation are fixed. The Corporation regularly monitors inflation risks arising from indexed debt securities. The Corporation has the right to consider repurchasing of these instruments at the open market in the event of the significant increase of debt service expenses linked to the change in inflation index.

(In thousands of tenge, unless otherwise indicated)

19. Risk management (continued)

Currency risk

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

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

<i>Currency</i>	<i>Change</i>	<i>Effect on profit</i>	<i>Change</i>	<i>Effect on profit</i>
	<i>in currency rate</i>		<i>in currency rate</i>	
	<i>in %</i>	<i>before tax</i>	<i>in %</i>	<i>before tax</i>
	<i>2015</i>	<i>2015</i>	<i>2014</i>	<i>2014</i>
USD	+60.00%	13,933	+17.37%	3,751
USD	-20.00%	(4,644)	-17.37%	(3,751)

Prepayment risk

Prepayment risk is the risk that the Corporation will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected.

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.

20. Fair values of financial instruments

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

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

(In thousands of tenge, unless otherwise indicated)

20. Fair values of financial instruments (continued)

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

	Date of valuation	Fair value measurement with the use of			Total
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant non-observable inputs (Level 3)	
Assets whose fair value is disclosed					
Cash and cash equivalents	31 December 2015	7,414,124	–	–	7,414,124
Amounts 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
Liabilities whose fair value is disclosed					
Amounts 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
Amounts due to state and state-financed organizations	31 December 2015	–	–	19,942	19,942
Assets whose fair value is disclosed					
Cash and cash equivalents	31 December 2014	1,518,118	–	–	1,518,118
Amounts due from credit institutions	31 December 2014	–	–	107,523	107,523
Loans to customers	31 December 2014	–	–	97,563,033	97,563,033
Liabilities whose fair value is disclosed					
Amounts due to credit institutions	31 December 2014	–	–	2,012,375	2,012,375
Amounts due to the Shareholder	31 December 2014	–	–	11,859,366	11,859,366
Debt securities issued	31 December 2014	2,864,997	–	–	2,864,997
Amounts due to state and state-financed organizations	31 December 2014	–	–	60,278	60,278

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

Set out below is a comparison of the current 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.

	Carrying amount	Fair value	Unrecognised gain/(loss)
At 31 December 2015			
Financial assets			
Cash and cash equivalents	7,414,124	7,414,124	–
Amounts due from credit institutions	9,243,167	9,232,119	(11,048)
Loans to customers	124,504,541	120,959,253	(3,545,288)
Financial liabilities			
Amounts 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
Amounts due to state and state-financed organizations	19,942	19,942	–
Total unrecognised change in unrealised fair value			1,713,202
At 31 December 2014			
Financial assets			
Cash and cash equivalents	1,518,118	1,518,118	–
Amounts due from credit institutions	107,523	107,523	–
Loans to customers	100,605,389	97,563,033	(3,042,356)
Financial liabilities			
Amounts due from credit institutions	2,012,375	2,012,375	–
Amounts due to the Shareholder	12,532,609	11,859,366	673,243
Debt securities issued	2,883,066	2,864,997	18,069
Amounts due to state and state-financed organizations	59,779	60,278	(499)
Total unrecognised change in unrealised fair value			(2,351,543)

(In thousands of tenge, unless otherwise indicated)

20. Fair values of financial instruments (continued)

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

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

Assets for which fair value approximates 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.

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

	2015			2014		
	Within one year	More than one year	Total	Within one year	More than one year	Total
Financial assets						
Cash and cash equivalents	7,414,124	–	7,414,124	1,518,118	–	1,518,118
Amounts due from credit institutions	5,421,028	3,822,139	9,243,167	20,185	87,338	107,523
Loans to customers	40,839,599	83,664,942	124,504,541	36,571,416	64,033,973	100,605,389
Assets held for sale	5,250	–	5,250	10,500	–	10,500
Property and equipment	–	244,758	244,758	–	205,189	205,189
Investment in real estate	–	359,573	359,573	–	74,599	74,599
Intangible assets	–	175,247	175,247	–	206,628	206,628
Current income tax assets	233,574	–	233,574	422,490	–	422,490
Deferred income tax assets	–	427,022	427,022	–	565,562	565,562
Other assets	365,145	997,018	1,362,163	624,445	1,310,788	1,935,233
Total assets	54,278,720	89,690,699	143,969,419	39,167,154	66,484,077	105,651,231
Financial liabilities						
Amounts due to credit institutions	–	–	–	2,012,375	–	2,012,375
Amounts due to the Shareholder	16,372,242	10,988,116	27,360,358	1,961,952	10,570,657	12,532,609
Debt securities issued	365,880	27,376,270	27,742,150	2,863,070	19,996	2,883,066
Amounts due to state and state-financed organizations	19,942	–	19,942	42,054	17,725	59,779
Short-term estimated liabilities	152,885	–	152,885	133,914	–	133,914
Other liabilities	230,230	–	230,230	125,258	–	125,258
Total liabilities	17,141,179	38,364,386	55,505,565	7,138,623	10,608,378	17,747,001
Net position	37,137,541	51,326,313	88,463,854	32,028,531	55,875,699	87,904,230

22. Related party transactions

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, and 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.

(In thousands of tenge, unless otherwise indicated)

22. Related party disclosures (continued)

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

	2015				2014			
	Shareholder	Entities under common control	Associates	Due to the government	Shareholder	Entities under common control	Associates	Due to the government
Loans to customers as at 1 January	-	4,289,597	-	-	-	3,566,177	-	-
Loans issued during the year	-	-	-	-	-	972,078	-	-
Loans repaid during the year	-	(4,289,597)	-	-	-	(248,658)	-	-
Loans issued but not repaid at 31 December	-	-	-	-	-	4,289,597	-	-
Interest income during the year	-	207,244	-	-	-	158,169	-	-
Loans obtained at 1 January	12,532,609	-	-	59,779	47,536,685	-	-	86,868
Loans obtained during the year	31,587,143	-	-	-	8,822,854	-	-	-
Loans repaid during the year	(16,821,274)	-	-	(42,471)	(44,411,590)	-	-	(31,140)
Unwinding of discount	61,880	-	-	2,634	584,660	-	-	4,051
Loans obtained at 31 December	27,360,358	-	-	19,942	12,532,609	-	-	59,779
Interest expenses during the year	759,614	-	-	310	395,740	-	-	523

Key management personnel in 2015 consisted of 5 persons (2014: 5 persons). Compensation of key management personnel comprised of the following:

	2015	2014
Salaries and other short-term benefits	68,995	60,982
Social security contributions	6,992	6,227
Total compensation to the key management personnel	75,987	67,209

	2015	2014
Undrawn credit lines – loans to associates	-	180,180

23. 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 FMSC in supervising the Corporation.

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. During 2015, the Corporation had complied in full with all its external statutory capital requirements.

(In thousands of tenge, unless otherwise indicated)

23. Capital adequacy (continued)

Capital adequacy ratio established by the Committee

The FMSC requires companies engaged in certain types of bank activities to maintain a k1 and k1-2 capital adequacy ratio of 6% of assets and k1-3 general capital adequacy ratio of 12% of risk-weighted assets. In 2015 and 2014 the risk-weighted assets, calculated under FMSC requirements were obtained on the basis of the Corporation's financial statements prepared in accordance with International Financial Reporting Standards. As at 31 December, the Corporation's capital adequacy ratio on this basis was as follows:

	<i>2015</i>	<i>2014</i>
Tier 1 capital	87,315,602	87,349,189
Tier 2 capital	1,085,329	426,207
Participatory shares in charter capital of a legal entity	(5,250)	(10,500)
Total equity	88,395,681	87,834,896
Risk weighted assets	142,871,092	104,518,486
Commitments and contingencies	15,046,188	13,576,917
Operational risk	4,232,651	3,476,372
Capital adequacy ratio k1	60.6%	82.5%
Capital adequacy ratio (k1-2)	55.3%	74.0%
Capital adequacy ratio (k1-3)	54.5%	72.3%

24. Subsequent events

On 26 February 2016 the Corporation entered into a lending agreement with KazAgro No. 22. The amount of the loan under the agreement is KZT 21,000,000 thousand. The loan is provided for subsequent lending to agro-industrial complex facilities.