“Microfinance organization “KMF” Limited Liability Company

Financial statements

For the year ended 31 December 2016
together with independent auditor’s report

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Independent auditor's report

To Shareholders and Supervisory Board of
"Microfinance organization "KMF" Limited Liability Company

Opinion

We have audited the financial statements of "Microfinance organization "KMF" Limited Liability Company (hereinafter - the "Company"), which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (hereinafter - "IFRSs").

Basis for opinion

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

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

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal 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.

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

Ernst & Young LLP

Bakhtiyor Eshonkulov
Auditor / audit partner

Gulmira Turmagambetova
General director
Ernst & Young LLP

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

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

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050060, Almaty, Republic of Kazakhstan

3 March 2017

STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

(Thousands of Tenge)

	Notes	31 December 2016	31 December 2015
Assets			
Cash and cash equivalents	5	**3,285,266**	4,380,492
Financial instruments at fair value through profit or loss	6	**–**	2,984,600
Amounts due from credit institutions		**14,766**	12,095
Loans to customers	7	**51,342,886**	34,644,759
Current corporate income tax assets	12	**–**	116,423
Property and equipment	8	**2,904,854**	1,785,527
Intangible assets	9	**176,812**	104,926
Other assets	10	**235,118**	161,854
Total assets		**57,959,702**	44,190,676
Liabilities			
Amounts due to credit institutions	11	**45,431,369**	33,968,256
Financial instruments at fair value through profit or loss	6	**286,730**	–
Current corporate income tax liabilities	12	**46,720**	–
Deferred corporate income tax liabilities	12	**10,525**	102,801
Other liabilities	10	**1,262,854**	905,620
Total liabilities		**47,038,198**	34,976,677
Equity	13		
Charter capital		**8,461,187**	7,202,370
Reserve capital		**360,119**	310,402
Retained earnings		**2,100,198**	1,701,227
Total equity		**10,921,504**	9,213,999
Total equity and liabilities		**57,959,702**	44,190,676

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

Zhussupov Sh.A. Chairman of the Management Board

Yugay O.V. Chief Accountant

3 March 2017

The accompanying notes on pages 5 to 37 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

(In thousands of Tenge)

	Notes	*2016*	*2015*
Interest income			
Loans to customers		**17,493,443**	12,882,838
Cash and cash equivalents		**108,835**	100,965
		17,602,278	12,983,803
Interest expenses			
Amounts due to credit institutions		**(5,447,495)**	(3,542,023)
Subordinated loan		**–**	(30,992)
		(5,447,495)	(3,573,015)
Net interest income		**12,154,783**	9,410,788
Allowance for loan impairment	7	**(261,209)**	(376,923)
Net interest income after allowance for loan impairment		**11,893,574**	9,033,865
Net (loss)/gain from financial instruments at fair value through profit or loss	6	**(1,970,379)**	5,611,233
Net losses from transactions in foreign currencies		**(39,564)**	(6,453,126)
Other income		**28,996**	17,710
Personnel expenses	15	**(5,083,985)**	(4,197,482)
Other operating expenses	15	**(2,168,090)**	(1,840,080)
Profit before corporate income tax expense		**2,660,552**	2,172,120
Corporate income tax expense	12	**(560,354)**	(470,893)
Profit for the year		**2,100,198**	1,701,227
Other comprehensive income for the year		**–**	–
Total comprehensive income for the year		**2,100,198**	1,701,227

The accompanying notes on pages 5 to 37 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

(In thousands of Tenge)

	Charter capital	*Reserve capital*	*Retained earnings*	*Total equity*
31 December 2014	6,208,056	156,599	1,445,433	7,810,088
Comprehensive income for the year	–	–	1,701,227	1,701,227
Contribution to the charter capital *(Note 13)*	994,314	–	–	994,314
Dividends declared *(Note 13)*	–	–	(1,291,630)	(1,291,630)
Transfers to the reserve capital *(Note 13)*	–	153,803	(153,803)	–
31 December 2015	7,202,370	310,402	1,701,227	9,213,999
Comprehensive income for the year	**–**	**–**	**2,100,198**	**2,100,198**
Contribution to the charter capital *(Note 13)*	**1,258,817**	**–**	**–**	**1,258,817**
Dividends declared *(Note 13)*	**–**	**–**	**(1,651,510)**	**(1,651,510)**
Transfers to the reserve capital *(Note 13)*	**–**	**49,717**	**(49,717)**	**–**
31 December 2016	**8,461,187**	**360,119**	**2,100,198**	**10,921,504**

The accompanying notes on pages 5 to 37 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

(In thousands of Tenge)

	Notes	*2016*	*2015*
Cash flows from operating activities			
Profit before corporate income tax expense		**2,660,552**	2,172,120
Adjustments			
Depreciation and amortisation	15	**255,569**	193,128
Accrued interest income		**(17,602,278)**	(12,983,803)
Accrued interest expense		**5,447,495**	3,573,015
Allowance for loan impairment	7	**261,209**	376,923
Loss on disposal of property and equipment and intangible assets		**5,904**	2,980
Unrealised loss/(gain) from financial instruments at fair value through profit or loss		**286,730**	(2,102,641)
Unrealised losses from transactions in foreign currencies		**88,963**	5,540,310
Accrued unused vacation reserve and other payroll accruals		**47,864**	42,405
Net decrease/(increase) in operating assets			
Amounts due from credit institutions		**(2,671)**	45,136
Loans to customers		**(15,536,455)**	(5,991,513)
Financial instruments at fair value through profit or loss		**2,984,600**	(388,100)
Other assets		**(39,036)**	(70,502)
Net (decrease)/increase in operating liabilities			
Other liabilities		**(179,666)**	248,157
Net cash used in operating activities before corporate income tax and interest received/paid		**(21,321,220)**	(9,342,385)
Interest received		**16,160,665**	11,962,596
Interest paid		**(4,659,127)**	(3,953,218)
Corporate income tax paid		**(489,487)**	(424,774)
Net cash used in operating activities		**(10,309,169)**	(1,757,781)
Cash flows from investing activities			
Purchase of property and equipment	8	**(1,390,005)**	(468,560)
Proceeds from sale of property and equipment		**10,523**	21,061
Purchase of intangible assets	9	**(107,432)**	(15,537)
Net cash used in investing activities		**(1,486,914)**	(463,036)
Cash flows from financing activities			
Contribution to the charter capital	13	**–**	994,314
Receipt of amounts from credit institutions		**27,402,746**	10,455,844
Repayment of amounts due to credit institutions		**(16,015,359)**	(7,415,242)
Repayment of subordinated loan		**–**	(558,600)
Dividends paid	13	**(392,693)**	(1,291,630)
Net cash received from financing activities		**10,994,694**	2,184,686
Effect of exchange rate changes on cash and cash equivalents		**(293,837)**	2,119,175
Net (decrease)/increase in cash and cash equivalents		**(1,095,226)**	2,083,044
Cash and cash equivalents, beginning		**4,380,492**	2,297,448
Cash and cash equivalents, ending	5	**3,285,266**	4,380,492
Significant non-cash transactions			
Contribution to the charter capital	13	**1,258,817**	–
Dividends declared	13	**(1,258,817)**	–

The accompanying notes on pages 5 to 37 are an integral part of these financial statements.

(In thousands of Tenge, unless otherwise indicated)

1. Principal activities

“Microfinance organization “KMF” Limited Liability Company (hereinafter – the “Company”) was established in 2006 in accordance with legislation of the Republic of Kazakhstan as “Microcredit organization “KazMicroFinance” Limited Liability Company.

In connection with the introduction of the Law of the Republic of Kazakhstan *On Microfinance Organizations* dated 26 November 2012, on 5 January 2015 the Company was officially re-registered in the Ministry of Justice of the Republic of Kazakhstan as a regulated microfinance organization “Microfinance organization “KMF” Limited Liability Company. The Company’s activities are supervised and regulated by the National Bank of the Republic of Kazakhstan (hereinafter – the “NBRK”) by registration in the authorised body and compliance with prudential ratios.

The Company’s principal activity is granting micro loans to customers. As at 31 December 2016, the Company has 17 branches and 85 outlets throughout Kazakhstan (31 December 2015: 18 branches and 84 outlets). Branches are located in the following cities: Almaty, Astana, Karaganda, Kokshetau, Kyzylorda, Pavlodar, Semey, Shymkent, Taldykorgan, Taraz, Turkestan, Ust-Kamenogorsk, Kostanay, Aktobe, Uralsk and Petropavlovsk. The Company’s activities are carried out in the Republic of Kazakhstan.

Legal address of the Company’s head office is: 39 Beregovaya Str., 050051, Almaty, the Republic of Kazakhstan.

As at 31 December 2016 and 2015, the Company’s charter capital was owned by the following participants (hereinafter – “shareholders”):

	Ownership in %	
Name	***31 December 2016***	***31 December 2015***
Corporate Fund “KMF-Demeu”	**63.490**	62.551
ResponsAbility Management Company S.A.	**10.429**	10.275
Management and employees of the Company	**8.699**	10.049
Triodos Custody B.V.	**6.953**	6.850
Triodos SICAV II	**6.953**	6.850
ResponsAbility SICAV (Lux)	**3.476**	3.425
	100.000	100.000

The ultimate controlling entity of the Company is ACDI/VOCA, a non-profit entity registered in the United States of America. ACDI/VOCA is the sole founder of Corporate Fund “KMF-Demeu”.

Kazakhstan business environment

The Company’s activities are carried out in the Republic of Kazakhstan. Consequently, the Company is exposed to the economic and financial risks at the markets of Kazakhstan which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue its development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Republic of Kazakhstan. The financial statements reflect management’s assessment of the impact of Kazakhstan business environment on the operations and the financial position of the Company. The future business environment may differ from management’s assessment.

2. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (hereinafter – “IFRS”).

The financial statements are prepared under the historical cost convention except as disclosed in *Summary of significant accounting policies*, for instance, financial instruments at fair value through profit or loss.

The financial statements are presented in thousands of Kazakhstani Tenge (hereinafter – “KZT” or “Tenge”), unless otherwise indicated.

(In thousands of Tenge, unless otherwise indicated)

3. Summary of significant accounting policies

Changes in accounting policies

The Company has adopted the following amended IFRS which are effective for annual periods beginning on or after 1 January 2016:

Amendments to IAS 1 Disclosure Initiative

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

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

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement comprehensive income. These amendments are effective for annual periods beginning on or after 1 January 2016. These amendments had no impact on the Company's accounting policy.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 *Consolidated Financial Statements*. 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 *Investments in Associates and Joint Ventures* 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 interests in subsidiaries.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016. These amendments had no impact on the Company's accounting policy.

Annual improvements 2012-2014 cycle

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

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

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

IFRS 7 Financial Instruments: Disclosures

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments. These amendments had no impact on the Company's accounting policy.

3. Summary of significant accounting policies (continued)

Fair value measurement

The Company evaluates such financial instruments as derivatives at fair value at each reporting date. Fair values of financial instruments measured at amortised cost are disclosed in *Note 17*.

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

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

The principal or the most advantageous market must be accessible by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial instruments

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. The Company determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

Date of recognition

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

Financial assets and liabilities at fair value through profit or loss

Derivatives are classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on financial assets held for trading are recognised in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

3. Summary of significant accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents include cash, current accounts of the Company in the commercial banks, and highly liquid financial assets with original maturities of less than 3 (three) months, which are not exposed to significant risk of changes in fair value and are used by the Company to settle short-term liabilities. Cash and cash equivalents are recorded at amortised cost in the statement of financial position.

Derivative financial instruments

In the normal course of business, the Company enters into various derivative financial instruments, including forwards and swaps in foreign exchange 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 statement of comprehensive income within *"Net (loss)/gain from financial instruments at fair value through profit or loss"*.

Leases

Operating – Company as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included in the statement of comprehensive income within *"Other operating expenses"*.

Measurement of financial instruments at initial recognition

When financial instruments are recognised initially, they are measured at fair value, adjusted, in the case of instruments not at fair value through profit or loss, for directly attributable fees and costs.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. If the Company determines that the fair value at initial recognition differs from the transaction price, then:

- If the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets, the Company recognises the difference between the fair value at initial recognition and the transaction price as a gain or loss;
- In all other cases, the initial measurement of the financial instrument is adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Company recognises that deferred difference as a gain or loss only when the inputs become observable, or when the instrument is derecognised.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

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

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

Impairment of financial assets

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

(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

For amounts due from credit institutions and loans to customers carried at amortised cost, the Company first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment.

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

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

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the 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 group 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

The Company restructures loans when a borrower does not follow an approved repayment schedule due to objective changes in circumstances. In this case, the Company considers that a borrower is able to repay a loan in full amount in case of changes of a repayment schedule.

The accounting treatment of such restructuring is as follows:

- If the loan restructuring is not caused by the financial difficulties of the borrower the Company uses the same approach as for financial liabilities described below.
- If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Company recognises the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the statement of comprehensive income within *"Allowance for loan impairment"* for the reporting period. In case loan is not impaired after restructuring the Company 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.

(In thousands of Tenge, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Derecognition of financial assets and liabilities

Financial assets

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

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

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

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Company's continuing involvement is the amount of the transferred asset that the Company may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

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

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

Taxation

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

Deferred corporate income tax assets and liabilities are calculated in respect of all temporary differences using the liability method. Deferred corporate income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred corporate income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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

The Republic of Kazakhstan also has various operating taxes that are assessed on the Company's activities. These taxes are recorded in the statement of comprehensive income within *"Other operating expenses"*.

Property and equipment

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

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

(In thousands of Tenge, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Property and equipment (continued)

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

	Years
Buildings	40
Computer hardware	2-7
Vehicles	5-7
Office furniture and equipment	5-25

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 the statement of comprehensive income within *"Other operating expenses"*, unless they qualify for capitalisation.

Intangible assets

Intangible assets include software and are initially measured at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised over the useful economic lives from 5 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Provisions

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

Retirement and other employee benefit obligations

The Company does not have any pension arrangements separate from the State pension system of the Republic of Kazakhstan, which requires current contributions by the employer calculated as a percentage of current gross salary payments for employees. These expenses are charged in the period the related salaries are earned. In addition, the Company has no post-retirement benefits or significant other compensated benefits requiring accrual.

Charter capital

Charter capital

Charter capital is classified as equity. Incremental costs directly attributable to the issue of additional charter capital are recognised as a deduction from equity, net of any tax effects.

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 for issue. The ability of the Company to declare and pay dividends is subject to the rules and regulations of the Kazakhstan legislation.

Contingent assets and liabilities

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

(In thousands of Tenge, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Income and expense recognition

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

Interest and similar income and expense

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

The carrying amount of the financial asset or financial liability is adjusted if the Company revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

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

Other fees and commissions that are not an integral part of the overall profitability of loans, as well as other income and expenses are recognised as at the date of rendering of the corresponding service.

Foreign currency translation

The financial statements are presented in Kazakhstan Tenge, which is the Company's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency at the official exchange rate established by Kazakhstan Stock Exchange (hereinafter – "KASE") ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of comprehensive income as *"Net losses from foreign currencies"*. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the 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 exchange rate on the date of the transaction are included in net gains or losses from dealing in foreign currencies.

The official exchange rate established by the KASE as at 31 December 2016 and 2015 was KZT 333.29 and KZT 340.01 to US Dollar 1, respectively.

Standards issued but not yet effective

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

IFRS 9 Financial Instruments

In July 2014, the IASB issued 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* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

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

(In thousands of Tenge, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

IFRS 9 Financial Instruments (continued)

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

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

IFRS 15 Revenue from Contracts with Customers

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

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

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

IFRS 16 Leases

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

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. The Company does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

Amendments to IAS 12 Income Taxes

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

Amendments to IAS 7 Statement of Cash Flows

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

3. Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

Amendments to IFRS 2 Share-based Payment

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

- The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction;
- The classification of a share-based payment transaction with net settlement features for withholding tax obligations;
- The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

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

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

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

The temporary exemption is first applied for reporting periods beginning on or after 1 January 2018. An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to financial assets designated on transition to IFRS 9. The amendments are not expected to have any impact on the Company.

4. Significant accounting judgements and estimates

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

Allowance for loan impairment

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

(In thousands of Tenge, unless otherwise indicated)

4. Significant accounting judgements and estimates (continued)

Taxation

The Republic of Kazakhstan currently has a single Tax Code that regulates main taxation matters. The existing taxes include value added tax, corporate income tax, social and other taxes. Implementing regulations are often unclear or non-existent and only an insignificant number of precedents have been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organizations; thus creating uncertainties and areas of conflict. Tax declarations, 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 Company is in compliance with the tax laws of the Republic of Kazakhstan regulating its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretive tax issues.

5. Cash and cash equivalents

	2016	*2015*
Cash on hand	**91,402**	88,706
Cash in transit	**42,883**	12,625
Current accounts with banks		
- rated from BB+ to BB-	**1,355,551**	1,438,238
- rated from B+ and lower	**55,414**	2,021,840
- not rated	**30,009**	16,140
Total current accounts with banks	**1,440,974**	3,476,218
Term deposits with banks		
- rated B+	**296,734**	445,814
- rated B	**1,413,273**	357,129
Total term deposits with banks	**1,710,007**	802,943
Cash and cash equivalents	**3,285,266**	4,380,492

The credit ratings are presented by reference to the credit ratings of Standard & Poor's credit rating agency or analogues of similar international agencies.

As at 31 December 2016 and 2015 cash equivalents are neither past due nor impaired.

As at 31 December 2016 the Company had one bank account with the balance exceeding 10% of the equity (31 December 2015: one bank account). As at 31 December 2016, the total aggregate account balance with the above counterparty was equal to KZT 1,261,300 thousand (31 December 2015: KZT 1,350,115 thousand).

6. Financial instruments at fair value through profit or loss

The Company enters into transactions with the use of derivative financial instruments for decreasing the currency risk. The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	2016			*2015*		
	Notional amount	*Fair values*		*Notional amount*	*Fair values*	
		Asset	*Liability*		*Asset*	*Liability*
Foreign exchange agreements						
Forwards	**3,699,060**	**–**	**(204,942)**	843,500	485,397	–
Cross currency swaps	**2,649,548**	**–**	**(81,788)**	12,579,991	2,499,203	–
	6,348,608	**–**	**(286,730)**	13,423,491	2,984,600	–

(In thousands of Tenge, unless otherwise indicated)

6. Financial instruments at fair value through profit or loss (continued)

Forwards

Forwards contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market.

As at 31 December 2016, the Company had three forward agreements to purchase USD 2,400 thousand with a settlement date of 28 February 2017, USD 5,000 thousand with a settlement date of 13 January 2017 and USD 3,000 thousand with a settlement date 27 January 2017 (31 December 2015: USD 3,500 thousand with a settlement date on 29 April 2016).

Cross currency swaps

Cross currency swaps are contractual agreements between two parties to exchange notional principal and interest amounts in two currencies at specified future payment dates and fixed exchange rates.

As at 31 December 2016, the Company had KZT denominated loans in the amount of KZT 2,649,469 thousand (31 December 2015: KZT 10,229,404 thousand) received from local banks and security deposits denominated in US Dollars in the amount of KZT 2,649,548 thousand (USD 7,950 thousand) (31 December 2015: KZT 12,579,991 thousand (USD 37,058 thousand), which serve as security against these loans.

Since the contractual effect of these loans and deposits is equivalent to a cross currency swap, the said transactions have been treated as a derivative financial instrument.

Net gains from financial instruments at fair value through profit or loss in the statement of comprehensive income in 2016 include income from changes in fair value of cross currency swaps in the amount of KZT 1,433,765 thousand (2015: KZT 5,125,836 thousand) and forwards in the amount of KZT 536,614 thousand (2015: KZT 485,397 thousand).

Below is a table of credit ratings of the entities acting as counterparties in the derivative financial instruments disclosed above. The credit ratings are presented by reference to the credit ratings of Standard & Poor's credit rating agency or analogues of similar international agencies.

	2016	***2015***
Derivative financial instruments		
- rated B+ or higher	**(286,730)**	2,984,600
	(286,730)	2,984,600

7. Loans to customers

Loans to customers comprise:

	2016	***2015***
Retail trade, services and production loans	**27,518,518**	19,290,755
Agricultural loans	**15,242,340**	9,979,624
Consumer loans	**9,316,881**	5,845,379
Gross loans to customers	**52,077,739**	35,115,758
Less: allowance for impairment	**(734,853)**	(470,999)
Loans to customers	**51,342,886**	34,644,759

As at 31 December 2016 and 2015, loans to customers mainly comprise loans issued to individuals.

Allowance for impairment of loans to customers

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

	Retail trade, services and production loans	***Agricultural loans***	***Consumer loans***	***Total***
At 1 January 2016	**370,953**	**68,779**	**31,267**	**470,999**
Net impairment charge for the year	**179,316**	**63,269**	**18,624**	**261,209**
Amounts written-off for the year	**(32,595)**	**(11,581)**	**(12,952)**	**(57,128)**
Recoveries for the year	**35,668**	**8,859**	**15,246**	**59,773**
At 31 December 2016	**553,342**	**129,326**	**52,185**	**734,853**

(In thousands of Tenge, unless otherwise indicated)

7. Loans to customers (continued)

Allowance for impairment of loans to customers (continued)

	Retail trade, services and production loans	*Agricultural loans*	*Consumer loans*	*Total*
At 1 January 2015	148,991	21,212	13,850	184,053
Net impairment charge for the year	298,360	53,500	25,063	376,923
Amounts written-off for the year	(107,547)	(13,972)	(11,472)	(132,991)
Recoveries for the year	31,149	8,039	3,826	43,014
At 31 December 2015	370,953	68,779	31,267	470,999

Quality of loans to customers

Below is information on quality of loans in the loan portfolio:

2016	*Loans before allowance for impairment*	*Allowance for impairment*	*Loans less allowance for impairment*	*Allowance for impairment to total loans before allowance for impairment, %*
Retail trade, services and production loans				
- current	**26,711,111**	**(18,069)**	**26,693,042**	**0.1%**
- overdue for less than 30 days	**69,990**	**(10,568)**	**59,422**	**15.1%**
- overdue for 30 days to 89 days	**90,317**	**(25,418)**	**64,899**	**28.1%**
- overdue for 90 days to 179 days	**83,309**	**(51,014)**	**32,295**	**61.2%**
- overdue for more than 180 days	**563,791**	**(448,273)**	**115,518**	**79.5%**
Total retail trade, services and production loans	**27,518,518**	**(553,342)**	**26,965,176**	**2.0%**
Agricultural loans				
- current	**15,006,641**	**(5,312)**	**15,001,329**	**0.1%**
- overdue for less than 30 days	**22,296**	**(1,721)**	**20,575**	**7.7%**
- overdue for 30 days to 89 days	**27,723**	**(4,183)**	**23,540**	**15.1%**
- overdue for 90 days to 179 days	**41,133**	**(15,210)**	**25,923**	**37.0%**
- overdue for more than 180 days	**144,547**	**(102,900)**	**41,647**	**71.2%**
Total agricultural loans	**15,242,340**	**(129,326)**	**15,113,014**	**0.8%**
Consumer loans				
- current	**9,180,412**	**(2,267)**	**9,178,145**	**0.1%**
- overdue for less than 30 days	**19,738**	**(654)**	**19,084**	**3.3%**
- overdue for 30 days to 89 days	**25,201**	**(1,751)**	**23,450**	**6.9%**
- overdue for 90 days to 179 days	**30,686**	**(10,623)**	**20,063**	**34.6%**
- overdue for more than 180 days	**60,844**	**(36,890)**	**23,954**	**60.6%**
Total consumer loans	**9,316,881**	**(52,185)**	**9,264,696**	**0.6%**
Total loans to customers	**52,077,739**	**(734,853)**	**51,342,886**	**1.4%**

(In thousands of Tenge, unless otherwise indicated)

7. Loans to customers (continued)

Quality of loans to customers (continued)

2015	*Loans before allowance for impairment*	*Allowance for impairment*	*Loans less allowance for impairment*	*Allowance for impairment to total loans before allowance for impairment, %*
Retail trade, services and production loans				
- current	18,731,218	(43,323)	18,687,895	0.2%
- overdue for less than 30 days	48,881	(6,741)	42,140	13.8%
- overdue for 30 days to 89 days	76,685	(18,630)	58,055	24.3%
- overdue for 90 days to 179 days	121,748	(66,676)	55,072	54.8%
- overdue for more than 180 days	312,223	(235,583)	76,640	75.5%
Total retail trade, services and production loans	19,290,755	(370,953)	18,919,802	1.9%
Agricultural loans				
- current	9,827,334	(3,199)	9,824,135	0.1%
- overdue for less than 30 days	16,617	(1,551)	15,066	9.3%
- overdue for 30 days to 89 days	36,558	(4,909)	31,649	13.4%
- overdue for 90 days to 179 days	32,009	(13,999)	18,010	43.7%
- overdue for more than 180 days	67,106	(45,121)	21,985	67.2%
Total agricultural loans	9,979,624	(68,779)	9,910,845	0.7%
Consumer loans				
- current	5,769,484	(1,450)	5,768,034	0.1%
- overdue for less than 30 days	12,363	(512)	11,851	4.1%
- overdue for 30 days to 89 days	10,722	(1,154)	9,568	10.8%
- overdue for 90 days to 179 days	14,952	(5,207)	9,745	34.8%
- overdue for more than 180 days	37,858	(22,944)	14,914	60.6%
Total consumer loans	5,845,379	(31,267)	5,814,112	0.5%
Total loans to customers	35,115,758	(470,999)	34,644,759	1.3%

The Company estimates impairment allowance based on its historical loss experience by types of loans. In assessing loan impairment, the greater focus is placed on the presence of overdue payments of principal and interest, or difficulties in relation to cash flows of counterparties, or violation of the original terms of the contract. The significant assumptions used by management in determining the loan impairment allowance include loss migration ratio, which is a constant and can be estimated based on migration patterns of actual losses incurred since the inception of the Company.

Analysis of 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 following tables comprise analysis of loans by collateral classes:

2016	*Retail trade, services and production loans*	*Agricultural loans*	*Consumer loans*	*Total loans to customers*	*Share in loan portfolio, %*
Personal guarantees	**11,855,282**	**10,578,083**	**5,494,813**	**27,928,178**	**54.4%**
Goods for sale	**5,973,966**	**16,275**	**808**	**5,991,049**	**11.7%**
Real estate	**5,599,498**	**833,017**	**374,232**	**6,806,747**	**13.3%**
Vehicles	**254,498**	**17,126**	**49,575**	**321,199**	**0.6%**
Other collateral	**1,447,245**	**2,435,079**	**301,203**	**4,183,527**	**8.1%**
Unsecured loans	**1,834,687**	**1,233,434**	**3,044,065**	**6,112,186**	**11.9%**
Total	**26,965,176**	**15,113,014**	**9,264,696**	**51,342,886**	**100.0%**

(In thousands of Tenge, unless otherwise indicated)

7. Loans to customers (continued)

Analysis of collateral and other credit enhancements (continued)

2015	*Retail trade, services and production loans*	*Agricultural loans*	*Consumer loans*	*Total loans to customers*	*Share in loan portfolio, %*
Personal guarantees	8,985,359	7,081,588	3,683,725	19,750,672	57.0%
Goods for sale	3,723,088	1,654	–	3,724,742	10.8%
Real estate	3,008,495	361,209	277,342	3,647,046	10.5%
Vehicles	103,571	7,516	13,519	124,606	0.4%
Other collateral	1,450,071	1,518,323	213,846	3,182,240	9.1%
Unsecured loans	1,649,218	940,555	1,625,680	4,215,453	12.2%
Total	18,919,802	9,910,845	5,814,112	34,644,759	100.0%

Recoverability of loans mainly depends on creditworthiness of the borrower rather than on collateral. The Company's policy provides for foreclosure by selling the collateral in exceptional cases. This is supported by previous experience of obtaining and selling the collateral in the event of the borrower's inability to meet its obligations to the Company when due. Thus, in many cases, the Company believes that the value of collateral should not be taken into account when assessing the impairment, and comes from the fact that the collateral has zero financial impact on credit risk mitigation.

The amounts reflected in the table above represent the carrying amount of loans, and do not necessarily represent the fair value of collateral. Personal guarantees are the main collateral securing group loans for which borrowers are jointly and severally liable. They were not taken into account when evaluating impairment allowance.

As at 31 December 2016, for loans with a net carrying amount of KZT 6,806,747 thousand (31 December 2015: KZT 3,647,046 thousand), secured by real estate, the fair value of collateral was estimated at the date of issuance of loans and was not adjusted for subsequent changes that have taken place before the reporting date. According to the policy of the Company the ratio between the amount of the loan secured by real estate and the value of collateral on the loan issue date is a maximum of 90%.

Concentration of loans to customers

As at 31 December 2016 and 2015, the Company has no borrowers or groups of interrelated borrowers whose loan balances exceed 10% of equity.

(In thousands of Tenge, unless otherwise indicated)

8. Property and equipment

The movements in property and equipment were as follows:

	Land and buildings	*Computer hardware*	*Vehicles*	*Office furniture and equipment*	*Construction-in-progress*	*Total*
Cost						
At 1 January 2015	970,339	277,609	230,658	368,408	–	1,847,014
Additions	118,752	185,023	47,818	115,964	1,003	468,560
Disposals	(3,655)	(15,432)	(42,307)	(16,517)	–	(77,911)
Transfers between groups	(108)	8	–	100	–	–
At 31 December 2015	1,085,328	447,208	236,169	467,955	1,003	2,237,663
Additions	**765,941**	**204,467**	**20,792**	**150,259**	**213,885**	**1,355,344**
Disposals	**(8,189)**	**(21,588)**	**(15,346)**	**(31,365)**	**–**	**(76,488)**
Transfers between groups	**213,167**	**44**	**–**	**1,550**	**(214,761)**	**–**
At 31 December 2016	**2,056,247**	**630,131**	**241,615**	**588,399**	**127**	**3,516,519**
Accumulated depreciation						
At 1 January 2015	(70,282)	(106,061)	(48,707)	(118,745)	–	(343,795)
Depreciation charge	(19,667)	(60,224)	(33,733)	(49,025)	–	(162,649)
Disposals	3,655	13,932	23,097	13,624	–	54,308
At 31 December 2015	(86,294)	(152,353)	(59,343)	(154,146)	–	(452,136)
Depreciation charge	**(24,341)**	**(99,862)**	**(32,118)**	**(64,331)**	**–**	**(220,652)**
Disposals	**6,618**	**20,048**	**9,918**	**24,539**	**–**	**61,123**
At 31 December 2016	**(104,017)**	**(232,167)**	**(81,543)**	**(193,938)**	**–**	**(611,665)**
Net book value						
At 31 December 2014	900,057	171,548	181,951	249,663	–	1,503,219
At 31 December 2015	999,034	294,855	176,826	313,809	1,003	1,785,527
At 31 December 2016	**1,952,230**	**397,964**	**160,072**	**394,461**	**127**	**2,904,854**

As at 31 December 2016, the cost of fully depreciated property and equipment in use by the Company was equal to KZT 9,240 thousand (31 December 2015: KZT 5,890 thousand). As at 31 December 2016, the Company made prepayments for supply of property and equipment for a total amount of KZT 34,661 thousand which are included in prepayments to suppliers disclosed in Note 10 *"Other assets"*.

(In thousands of Tenge, unless otherwise indicated)

9. Intangible assets

	Software
Cost	
At 1 January 2015	231,001
Additions	15,537
Disposals	(476)
At 31 December 2015	246,062
Additions	**107,432**
Disposals	**(641)**
At 31 December 2016	**352,853**
Accumulated amortisation	
At 1 January 2015	(110,695)
Amortisation charge	(30,479)
Disposals	38
At 31 December 2015	(141,136)
Amortisation charge	**(34,917)**
Disposals	**12**
At 31 December 2016	**(176,041)**
Net book value	
At 31 December 2014	120,306
At 31 December 2015	104,926
At 31 December 2016	**176,812**

10. Other assets and liabilities

Other assets comprise:

	2016	*2015*
Prepayments to suppliers	**170,685**	111,562
Inventories	**47,810**	32,857
Prepaid taxes and other prepayments to budget	**5,217**	4,623
Due from employees	**3,440**	4,300
Other	**7,966**	8,512
Other assets	**235,118**	161,854

Other liabilities comprise:

	2016	*2015*
Overpayments received on loans to customers	**520,192**	295,601
Payables to employees	**318,434**	265,965
Taxes other than corporate income tax payable	**192,289**	135,850
Accrual for unused vacations	**162,560**	157,366
Payables to suppliers	**58,739**	42,144
Other	**10,640**	8,694
Other liabilities	**1,262,854**	905,620

11. Amounts due to credit institutions

	2016	*2015*
Loans from financial institutions of OECD countries, other than banks	**36,642,393**	30,323,785
Loans from banks of OECD countries	**5,678,030**	2,955,834
Loans from financial institutions of non-OECD countries, other than banks	**–**	688,637
Loans from local banks	**3,110,946**	–
Amounts due to credit institutions	**45,431,369**	33,968,256

(In thousands of Tenge, unless otherwise indicated)

11. Amounts due to credit institutions (continued)

As at 31 December 2016, the Company had borrowings from two banks and eight other financial institutions (31 December 2015: one bank and eight other financial institutions) to which liabilities exceeded 10% of the Company's equity. The total aggregate balance of liabilities to the above counterparties as at 31 December 2016 was equal to KZT 43,859,833 thousand (31 December 2015: KZT 31,911,648 thousand).

During 2016 the Company concluded a revolving credit line agreement with a local bank for KZT 915,000 thousand and pledged real estate (buildings with initial cost of KZT 844,235 thousand as at 31 December 2016) under which KZT 886,000 thousand was utilized as at 31 December 2016 and concluded a revolving blank credit line for KZT 3,800,000 thousand under which KZT 3,175,000 thousand was utilized as at 31 December 2016.

Covenants compliance

As at 31 December 2016 and 2015, the Company complied with all requirements of loan agreements with credit institutions in respect of financial covenants.

12. Taxation

The corporate income tax expense comprises:

	2016	*2015*
Current corporate income tax charge	**(652,630)**	(375,756)
Deferred corporate income tax benefit/(expense) – origination and reversal of temporary differences	**92,276**	(95,137)
Corporate income tax expense	**(560,354)**	(470,893)

The Republic of Kazakhstan was the only tax jurisdiction in which the Company's income is taxable. In accordance with tax legislation the applied corporate income tax rate is 20% in 2016 and 2015.

The reconciliation between the corporate income tax expense in the accompanying financial statements and profit before corporate income tax multiplied by the statutory tax rate for the years ended 31 December is as follows:

	2016	*2015*
Profit before corporate income tax expense	**2,660,552**	2,172,120
Statutory rate	**20%**	20%
Theoretical corporate income tax expense at the statutory rate	**(532,110)**	(434,424)
Non-deductible interest expense	**(19,778)**	–
Non-deductible impairment charge	**(150)**	(26,167)
Other differences	**(8,316)**	(10,302)
Corporate income tax expense	**(560,354)**	(470,893)

As at 31 December 2016, current corporate income tax liabilities was equal to KZT 46,720 thousand (31 December 2015: current corporate income tax assets was equal to KZT 116,423 thousand).

Deferred tax assets and deferred tax liabilities

Temporary differences between the carrying amounts of assets and liabilities recorded in the financial statements and the amounts used for the purposes of calculation of taxable base, give rise to net deferred tax liability as at 31 December 2016 and 2015. The future tax benefits will only be received in the event that there are no changes in the legislation of Kazakhstan that would adversely affect the Company's ability to utilise the above benefits in future periods.

(In thousands of Tenge, unless otherwise indicated)

12. Taxation (continued)

Deferred tax assets and deferred tax liabilities (continued)

Change in the amount of temporary differences during 2016 and 2015 may be presented as follows:

	2014	*Origination and reversal of temporary differences in profit or loss*	*2015*	*Origination and reversal of temporary differences in profit or loss*	*2016*
Tax effect of deductible temporary differences					
Accrued expenses for unused vacations and bonuses	71,166	8,241	79,407	**9,573**	**88,980**
Forward transactions	–	–	–	**40,988**	**40,988**
Accrued interest expenses	5,972	18,498	24,470	**(16,392)**	**8,078**
Other liabilities	4,931	(2,530)	2,401	**(290)**	**2,111**
Deferred corporate income tax assets	82,069	24,209	106,278	**33,879**	**140,157**
Tax effect of deductible temporary differences					
Property and equipment and intangible assets	(89,733)	(22,267)	(112,000)	**(38,682)**	**(150,682)**
Forward transactions	–	(97,079)	(97,079)	**97,079**	**–**
Deferred corporate income tax liabilities	(89,733)	(119,346)	(209,079)	**58,397**	**(150,682)**
Net deferred corporate income tax liabilities	(7,664)	(95,137)	(102,801)	**92,276**	**(10,525)**

13. Equity

Charter capital

As at 31 December 2016, the paid and outstanding charter capital of the Company was equal to KZT 8,461,187 thousand. In accordance with the decision taken by the General Meeting of Shareholders, held on 18 March 2016, the charter capital of the Company was increased by KZT 1,258,817 thousand in 2016 through offset with declared dividends.

As at 31 December 2015, the paid and outstanding charter capital of the Company was equal to KZT 7,202,370 thousand. In accordance with the decisions taken by the General Meetings of Shareholders, held on 30 March 2015 and 18 November 2015, the charter capital of the Company was increased by KZT 766,995 thousand and KZT 227,319 thousand, respectively, and was fully paid in 2015.

Dividends to shareholders

In accordance with Kazakhstan legislation, the Company's distributable funds are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with IFRS or the amount of profit for the year in case of accumulated loss. Distribution will not be performed if the Company's equity becomes negative as a result of the distribution, or entail the insolvency and bankruptcy of the Company.

In accordance with the requirements of Kazakhstan legislation, as at 31 December 2016 an increase in the funds available for distribution was equal to KZT 2,100,198 thousand (31 December 2015: KZT 1,701,227 thousand).

In accordance with the decision of the General Meeting of Shareholders, held on 18 March 2016, the Company declared dividends for 2015 in the amount of KZT 1,651,510 thousand (2015: dividends for 2014 in the amount of KZT 1,291,630 thousand). In April 2016, the Company offset dividends payable with contribution to the charter capital in the amount of KZT 1,258,817 thousand and made an actual net payment of dividends in cash for KZT 392,693 thousand.

(In thousands of Tenge, unless otherwise indicated)

13. Equity (continued)

Reserve capital

In accordance with the decision of the General Meeting of Shareholders, held on 30 July 2010, the Company established a reserve capital, the amount of which shall be not less than 5% of the charter capital at the reporting date by transferring the amount from retained earnings to the non-distributable reserve.

In accordance with the decision of the General Meeting of Shareholders held on 4 May 2012, the Company revised its policy regarding the reserve capital, which is formed during the year and should be at least 5% of the charter capital at the beginning of the reporting year.

In 2016, the Supervisory Board of the Company approved transfer of KZT 49,717 thousand from retained earnings to reserve capital (2015: KZT 153,803 thousand).

14. Commitments and contingencies

Political and 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 Kazakh economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government.

Insurance

The insurance industry in the Republic of Kazakhstan is in a developing stage and many forms of insurance protection common in other countries of the world are not yet generally available. The Company does not have full coverage for business interruption, or third party liability in respect of property or environmental damage arising from accidents on the Company property or relating to the Company's operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position of the Company.

Legal

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

Tax contingencies

Various types of legislation and regulations are not always clearly written and their interpretation is subject to the opinions of the local tax inspectors and the Ministry of Finance of the Republic of Kazakhstan. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and profit related to reported and discovered violations of Kazakh laws, decrees and related regulations are severe. Penalties include confiscation of the amounts at issue (for currency law violations), as well as fines of generally 50% of the taxes unpaid.

The Company believes that it has paid or accrued all taxes that are applicable. Where practice concerning tax application is unclear, the Company has accrued tax liabilities based on management's best estimate. The Company's policy is to recognise provisions in the accounting period in which a loss is deemed probable and the amount is reasonably determinable.

Because of the uncertainties associated with the Kazakh tax system, the ultimate amount of taxes, penalties and fines, if any, may be in excess of the amount expensed to date and accrued at 31 December 2016. Although such amounts are possible and may be material, it is the opinion of the Company's management that these amounts are either not probable, not reasonably determinable, or both.

(In thousands of Tenge, unless otherwise indicated)

14. Commitments and contingencies (continued)

Commitments and contingencies

The Company has contingent liabilities to provide credit resources. These credit-related contingencies provide for issuance of credit resources in the form of approved credit facilities.

In providing credit related contingencies, the Company applies the same risk management policies and procedures used when issuing loans to customers.

The contractual amounts of credit related contingencies are set out in the below table by category. The amounts reflected in the table as credit related contingencies assume that the indicated contingencies will be fully settled.

	2016	*2015*
Credit related commitments		
Undrawn loan commitments	**1,413,208**	231,666
Operating lease commitments		
Up to 1 year	**242,458**	198,334
From 1 to 5 years	**120,969**	155,366
Commitments and contingencies	**1,776,635**	585,366

Credit related contingencies may terminate without being partially or fully funded. As a result, commitments shows in the table above do not necessarily represent future cash outflows.

15. Personnel and other operating expenses

	2016	*2015*
Payroll, bonuses and other expenses	**(4,637,022)**	(3,829,672)
Social taxes and contributions	**(446,963)**	(367,810)
Personnel expenses	**(5,083,985)**	(4,197,482)
Leases	**(477,630)**	(406,430)
Professional services	**(401,957)**	(317,814)
Depreciation and amortisation *(Note 8 and 9)*	**(255,569)**	(193,128)
Security	**(189,098)**	(172,630)
Office supplies	**(149,673)**	(117,719)
Communication and information services	**(134,423)**	(103,110)
Business trip expenses	**(83,685)**	(69,170)
Transportation	**(75,532)**	(76,390)
Advertising and marketing	**(74,983)**	(73,696)
Bank fees	**(70,176)**	(64,482)
Repair and maintenance	**(54,094)**	(46,710)
Taxes other than corporate income tax	**(50,828)**	(60,237)
Encashment	**(50,325)**	(45,099)
Insurance	**(34,953)**	(25,595)
Training of personnel	**(22,384)**	(15,213)
Charity	**(9,741)**	(35,926)
Membership fees	**(7,220)**	(5,705)
Other	**(25,819)**	(11,026)
Other operating expenses	**(2,168,090)**	(1,840,080)

(In thousands of Tenge, unless otherwise indicated)

16. Risk management

Introduction

Risk management is inherent in the Company's activities and is an essential element of the Company's operations. Market risk, which includes interest rate risk and currency risk, credit risk and liquidity risk, form the major risks faced by the Company in the course of its activities. The Company's risk management policies aim to identify, analyse and manage the risks faced by the Company, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

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

Risk management structure

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

Supervisory Board

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

Management Board

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

Risk Committee

The Supervisory Board's Risk Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

Audit Committee

The main purpose of the Audit Committee is to assist the effective implementation of control functions over the financial and economic activities of the Company by the Supervisory Board, evaluate the adequacy of the internal control system, and monitor the effectiveness of internal and external audit activities.

Assets and Liabilities Management Committee ("ALMC")

Assets and Liabilities Management Committee (hereinafter – "ALMC") of the Company is responsible for the overall assets and liabilities management, for control of prudential norms and covenants, for managing funding strategy, for managing and reporting on financial and non-financial risks.

Treasury

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

Internal control (audit)

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

(In thousands of Tenge, unless otherwise indicated)

16. Risk management (continued)

Introduction (continued)

Risk measurement and reporting systems

Credit, market and liquidity risks are managed and controlled through a system of Credit Committees and the ALMC, both at the portfolio and individual transaction levels. For improving the efficiency of decision-making process, the Company has established a hierarchy of credit committees depending on the type and amount of risk exposure. Both external and internal risk factors are identified and managed throughout the organizational structure of the Company.

Monitoring and controlling risks is primarily performed based on limits established by the Company. These limits reflect the business strategy and market environment of the Company as well as the level of risk that the Company is willing to accept, with additional emphasis on selected industries. In addition, the Company monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

For all levels throughout the Company, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

Risk mitigation

As part of its overall risk management, the Company uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies and exposures arising from forecast transactions.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location.

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

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 prices. Market risks comprise currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return on risk.

The ALMC headed by the Chairman of the Management Board is responsible for market risk management.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market interest rates. The Company is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may also reduce or create losses in the event that unexpected movements occur.

(In thousands of Tenge, unless otherwise indicated)

16. Risk management (continued)

Market risk (continued)

Interest rate risk (continued)

Average effective interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2016 and 2015. These interest rates are an approximation of the yields to maturity of respective assets and liabilities.

	2016		*2015*	
	Average effective interest rate, %		*Average effective interest rate, %*	
	Tenge	*USD*	*Tenge*	*US Dollars*
Interest-bearing assets				
Cash and cash equivalents	**7.8%**	**3.3%**	6.3%	2.8%
Loans to customers	**46.9%**	**–**	44.3%	–
Interest-bearing liabilities				
Amounts due to credit institutions:				
Loans from banks of OECD countries	**13.9%**	**–**	11.7%	–
Loans from financial institutions of OECD countries, other than banks	**17.6%**	**6.9%**	14.8%	7.1%
Loans from financial institutions of non-OECD countries, other than banks	**–**	**–**	–	7.5%
Loans from local banks	**15.0%**	**–**	–	–

Interest rate sensitivity analysis

The management of interest rate risk, based on an interest rate gap analysis, is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of the sensitivity of profit or loss before taxes and equity to changes in interest rates (interest rate risk), based on a simplified scenario of a 100 basis point symmetrical fall or rise in all positions of floating interest-bearing assets and liabilities existing as at 31 December 2016 and 2015, is as follows:

	2016		*2015*	
	Effect on profit before tax	*Effect on equity*	*Effect on profit before tax*	*Effect on equity*
100 basis point parallel increase	**22,434**	**22,434**	22,613	22,613
100 basis point parallel decrease	**(22,434)**	**(22,434)**	(22,613)	(22,613)

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The amounts by foreign currencies are presented below:

2016	*US Dollars*	*Total*
Assets		
Cash and cash equivalents	**2,431,288**	**2,431,288**
Amounts due from credit institutions	**6,666**	**6,666**
Total assets	**2,437,954**	**2,437,954**
Liabilities		
Amounts due to credit institutions	**10,055,636**	**10,055,636**
Total liabilities	**10,055,636**	**10,055,636**
Net position	**(7,617,682)**	**(7,617,682)**
Impact of derivative financial instruments held for the purpose of risk management	**6,115,764**	**6,115,764**
Net position adjusted for impact of derivative financial instruments held for the purpose of risk management	**(1,501,918)**	**(1,501,918)**

(In thousands of Tenge, unless otherwise indicated)

16. Risk management (continued)

Market risk (continued)

Currency risk (continued)

2015	*US Dollars*	*Total*
Assets		
Cash and cash equivalents	3,709,018	3,709,018
Amounts due from credit institutions	3,395	3,395
Total assets	3,712,413	3,712,413
Liabilities		
Amounts due to credit institutions	17,127,659	17,127,659
Total liabilities	17,127,659	17,127,659
Net position	(13,415,246)	(13,415,246)
Impact of derivative financial instruments held for the purpose of risk management	13,768,136	13,768,136
Net position adjusted for impact of derivative financial instruments held for the purpose of risk management	352,890	352,890

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

	2016			
Currency	*Change in exchange rates in %*	*Effect on profit before tax*	*Change in exchange rates in %*	*Effect on profit before tax*
US Dollar	**13.00%**	**(195,249)**	**-13.00%**	**195,249**

	2015			
Currency	*Change in exchange rates in %*	*Effect on profit before tax*	*Change in exchange rates in %*	*Effect on profit before tax*
US Dollar	60.00%	211,734	-20.00%	(70,578)

Credit risk

Credit risk is the risk that the Company will incur a financial loss because its customers or counterparties failed to discharge their contractual obligations. The Company manages credit risk through the adoption of approved policies and procedures, requiring to set and meet the limits of credit risk concentration as well as by means of establishing the credit committees whose functions include monitoring of a credit risk. The loan issuance policy is reviewed and approved by the General Meeting of Shareholders.

A credit policy establishes:

- Procedures for review and approval of loan applications;
- Methodology of borrowers' creditworthiness assessment;
- Methodology of proposed collateral assessment;
- Requirements to loan documentation;
- Procedures of on-going monitoring of loans and other credit risk bearing products.

The Company continuously monitors the performance of individual loans and other credit risks.

Apart from individual borrower analysis, the Company assesses the loan portfolio as a whole with regard to concentration of loans and market risks.

(In thousands of Tenge, unless otherwise indicated)

16. Risk management (continued)

Credit risk (continued)

The maximum level of the balance sheet credit risk of the Company is generally reflected in the carrying value of financial assets in the statement of financial position and unrecognised contractual commitments. Netting of assets and liabilities is not significant for mitigating the potential credit exposure.

Where financial instruments carried at fair value through profit or loss, their carrying amounts represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

The maximum exposure to credit risk in respect of financial assets as at the reporting date is as follows:

	2016	*2015*
Assets		
Cash and cash equivalents (less cash on hand)	**3,193,864**	4,291,786
Financial instruments at fair value through profit or loss	**–**	2,984,600
Amounts due from credit institutions	**14,766**	12,095
Loans to customers	**51,342,886**	34,644,759
	54,551,516	41,933,240

The maximum exposures to credit risk in relation to unrecognised contractual contingencies at the reporting date are presented in *Note 14*. For more detailed information on credit risk with respect to loans to customers refer to *Note 7*.

Collectively assessed allowance

Allowances for impairment of loans to customers are assessed collectively. 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 and current economic conditions.

Operational risk

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

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity risk management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Company maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. Liquidity management policy is reviewed and approved by the Management Board.

The Company seeks to actively support a diversified and stable funding base comprising long-term and short-term loans from other banks, as well as diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

(In thousands of Tenge, unless otherwise indicated)

16. Risk management (continued)

Liquidity risk (continued)

The liquidity management policy requires:

- Projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- Maintaining a diverse range of funding sources;
- Managing the concentration and profile of debts;
- Maintaining debt financing plans;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- Maintaining liquidity and funding contingency plans;
- Monitoring liquidity ratios against regulatory requirements.

(In thousands of Tenge, unless otherwise indicated)

16. Risk management (continued)

Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities

The tables below summarise the maturity profile of the Company's financial liabilities at 31 December based on contractual undiscounted repayment obligations:

31 December 2016	*On demand and less than 1 month*	*1 to 3 months*	*3 to 6 months*	*6 to 12 months*	*Over 1 year*	*Total*
Financial liabilities						
Amounts due to credit institutions	**1,042,498**	**2,718,800**	**7,477,042**	**10,659,868**	**34,113,035**	**56,011,243**
Financial instruments at fair value through profit or loss	**12,334**	**192,607**	**52,200**	**29,589**	**–**	**286,730**
Other liabilities	**58,739**	**–**	**–**	**–**	**–**	**58,739**
Total liabilities	**1,113,571**	**2,911,407**	**7,529,242**	**10,689,457**	**34,113,035**	**56,356,712**
Credit related contingencies *(Note 14)*	**1,413,208**	**–**	**–**	**–**	**–**	**1,413,208**

31 December 2015	*On demand and less than 1 month*	*1 to 3 months*	*3 to 6 months*	*6 to 12 months*	*Over 1 year*	*Total*
Financial liabilities						
Amounts due to credit institutions	259,899	1,228,959	5,727,895	8,597,115	23,831,002	39,644,870
Other liabilities	42,144	–	–	–	–	42,144
Total liabilities	302,043	1,228,959	5,727,895	8,597,115	23,831,002	39,687,014
Credit related contingencies *(Note 14)*	231,666	–	–	–	–	231,666

(In thousands of Tenge, unless otherwise indicated)

17. Fair value measurements

The estimate of fair value is intended to approximate the amount for which a financial instrument can be exchanged between knowledgeable, willing parties in an arm's length transaction. However, considering the uncertainties and the use of judgements, the fair value should not be interpreted as realisable within the framework of an immediate sale of assets or the transfer of liabilities.

The estimated fair values of financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date.

Fair value hierarchy

For the purpose of disclosing the fair values, the Company determined classes of assets and liabilities based on the assets and liabilities nature, characteristics and risks as well as the hierarchy of fair value sources.

		Fair value measurement using			
	Date of valuation	***Quoted prices in active markets (Level 1)***	***Significant observable inputs (Level 2)***	***Significant non-observable inputs (Level 3)***	***Total***
31 December 2016					
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2016	**3,285,266**	**–**	**–**	**3,285,266**
Amounts due from credit institutions	31 December 2016	**14,766**	**–**	**–**	**14,766**
Loans to customers	31 December 2016	**–**	**–**	**51,172,470**	**51,172,470**
Liabilities measured at fair value					
Financial instruments at fair value through profit or loss	31 December 2016	**–**	**286,730**	**–**	**286,730**
Liabilities for which fair values are disclosed					
Amounts due to credit institutions	31 December 2016	**–**	**45,263,630**	**–**	**45,263,630**
Other financial liabilities	31 December 2016	**–**	**–**	**58,739**	**58,739**
31 December 2015					
Assets measured at fair value					
Financial instruments at fair value through profit or loss	31 December 2015	–	2,984,600	–	2,984,600
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2015	4,380,492	–	–	4,380,492
Amounts due from credit institutions	31 December 2015	12,095	–	–	12,095
Loans to customers	31 December 2015	–	–	34,791,551	34,791,551
Liabilities for which fair values are disclosed					
Amounts due to credit institutions	31 December 2015	–	34,020,940	–	34,020,940
Other financial liabilities	31 December 2015	–	–	42,144	42,144

During 2016 and 2015, the Company did not make transfers between levels of the fair value hierarchy for financial instruments recorded at fair value.

(In thousands of Tenge, unless otherwise indicated)

17. Fair value measurements (continued)

Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Company's financial instruments that are not carried at fair value in the statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	2016			*2015*		
	Carrying amount	*Fair value*	*Unrecognised gain/ (loss)*	*Carrying amount*	*Fair value*	*Unrecognised gain/ (loss)*
Financial assets						
Cash and cash equivalents	**3,285,266**	**3,285,266**	**–**	4,380,492	4,380,492	–
Amounts due from credit institutions	**14,766**	**14,766**	**–**	12,095	12,095	–
Loans to customers	**51,342,886**	**51,172,470**	**(170,416)**	34,644,759	34,791,551	146,792
Financial liabilities						
Amounts due to credit institutions	**45,431,369**	**45,263,630**	**167,739**	33,968,256	34,020,940	(52,684)
Other liabilities	**58,739**	**58,739**	**–**	42,144	42,144	–
Total unrecognised change in fair value			**(2,677)**			94,108

Valuation techniques and assumptions

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

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Derivatives valued using a valuation technique with significant non-market observable inputs are primarily long dated option contracts. These derivatives are valued using the binomial models. Models combine various assumptions that are not observable at the market including volatility of market rates.

Financial assets and financial liabilities carried at amortised cost

Fair value of unquoted instruments, including loans to customers, amounts due from credit institutions and amounts due to credit institutions, and other financial assets and liabilities, is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

(In thousands of Tenge, unless otherwise indicated)

18. 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. For the Company's contractual undiscounted repayment obligations refer to *Note 16*.

	2016			*2015*		
	Within one year	***More than one year***	***Total***	***Within one year***	***More than one year***	***Total***
Cash and cash equivalents	**3,285,266**	**–**	**3,285,266**	4,380,492	–	4,380,492
Financial instruments at fair value through profit or loss	**–**	**–**	**–**	2,984,600	–	2,984,600
Amounts due from credit institutions	**11,766**	**3,000**	**14,766**	6,000	6,095	12,095
Loans to customers	**38,398,999**	**12,943,887**	**51,342,886**	29,449,213	5,195,546	34,644,759
Current corporate income tax assets	**–**	**–**	**–**	116,423	–	116,423
Property and equipment	**–**	**2,904,854**	**2,904,854**	–	1,785,527	1,785,527
Intangible assets	**–**	**176,812**	**176,812**	–	104,926	104,926
Other assets	**235,118**	**–**	**235,118**	161,854	–	161,854
Total	**41,931,149**	**16,028,553**	**57,959,702**	37,098,582	7,092,094	44,190,676
Amounts due to credit institutions	**17,112,495**	**28,318,874**	**45,431,369**	13,321,780	20,646,476	33,968,256
Financial instruments at fair value through profit or loss	**286,730**	**–**	**286,730**	–	–	–
Current corporate income tax liabilities	**46,720**	**–**	**46,720**	–	–	–
Deferred corporate income tax liabilities	**–**	**10,525**	**10,525**	–	102,801	102,801
Other liabilities	**1,262,854**	**–**	**1,262,854**	905,620	–	905,620
Total	**18,708,799**	**28,329,399**	**47,038,198**	14,227,400	20,749,277	34,976,677
Net position	**23,222,350**	**(12,300,846)**	**10,921,504**	22,871,182	(13,657,183)	9,213,999

19. Related party transactions

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

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

Parent

The Parent of the Company is Corporate Fund "KMF-Demeu".

The entity exercising ultimate control over the Company is ACDI/VOCA, a non-profit organization registered in the United States of America, which prepares its financial statements available to external users.

Transactions with the Parent

The Parent provided the Company with short-term borrowings with an average interest rate of 15.5% during 2016 (during 2015: 8%). Amounts included in profit or loss in relation to transactions with the Parent are as follows:

	2016	*2015*
Statement of comprehensive income		
Interest expense	**(28,333)**	(21,602)

(In thousands of Tenge, unless otherwise indicated)

19. Related party transactions (continued)

Transactions with members of key management personnel

Compensation of key management personnel comprised the following:

	2016	*2015*
Salaries and other short-term benefits	**218,173**	195,151
Social security costs	**8,222**	7,623
Total compensation to the key management personnel	**226,395**	202,774

For the years ended 31 December 2016 and 2015, key management personnel did not receive any non-cash remuneration.

	2016	*Average interest rate, %*	*2015*	*Average interest rate, %*
Statement of financial position				
Assets				
Loans to customers	**12,127**	**21%**	11,853	3.6%

Amounts included in profit or loss in relation to transactions with members of the key management personnel are as follows:

	2016	*2015*
Statement of comprehensive income		
Interest income	**717**	1,519

Transactions with other related parties

Transactions with other related parties comprise transactions with the Company's shareholders, international financial institutions *(Note 1)* and entities under common control of these financial institutions.

The balances and average effective interest rates as well as the corresponding gain or loss on transactions with other related parties are as follows:

	Shareholders of the Company's charter capital	
	2016	*Average interest rate, %*
Statement of financial position		
Liabilities		
Amounts due to credit institutions:		
- Tenge	**5,423,980**	**16.4%**
- US Dollars	**683,685**	**6.2%**
Statement of comprehensive income		
Interest expenses	**(1,038,296)**	**–**

	Shareholders of the Company's charter capital	
	2015	*Average interest rate, %*
Statement of financial position		
Liabilities		
Amounts due to credit institutions:		
- Tenge	3,890,229	14.3%
- US Dollars	1,044,544	6.2%
Statement of comprehensive income		
Interest expenses	(714,643)	–

(In thousands of Tenge, unless otherwise indicated)

20. Capital adequacy

In accordance with the Law of the Republic of Kazakhstan *On Microfinance Organizations* dated 26 November 2012, the Company is obliged to have the charter capital paid in to the amount of not less than 30,000 times the monthly calculation index (hereinafter – "MCI"), equal to 2,121 tenge as at 31 December 2016.

In addition, in accordance with the credit agreements with certain foreign financial institutions, the Company shall maintain a ratio of capital to total assets at the level of not less than 15%.

The Company maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Company's capital is monitored using, among other measures, the ratios established by the NBRK in supervising the Company.

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

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

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

The NBRK requires microfinance organizations to maintain a tier 1 capital adequacy ratio in the amount of not less than 10% of the assets, the total maximum risk factor per a single borrower in the amount of not more than 25% of equity, calculated in accordance with the requirements of the NBRK, and the overall rate of maximum limit of total liabilities in the amount of not more than 1,000% of equity. As at 31 December 2016 and 2015, the Company's capital adequacy ratio based on the NBRK methodology exceeded the statutory minimum.

The Company's capital adequacy ratio, computed in accordance with the NBRK requirements as at 31 December, comprise:

	2016	***2015***
Tier 1 capital	**10,907,810**	9,193,459
Total assets	**57,673,585**	44,190,677
Tier 1 capital ratio	**19%**	21%

	2016	***2015***
Tier 1 capital	**10,907,810**	9,193,459
Total amount due from one borrower	**16,311**	15,229
Maximum exposure per single borrower to Tier 1 Capital	**0.15%**	0.17%

	2016	***2015***
Tier 1 capital	**10,907,810**	9,193,459
Total liabilities of a microfinance organization except for liabilities to non-residents of the Republic of Kazakhstan, which are international financial organizations	**40,615,047**	31,255,074
Maximum exposure of total liabilities to Tier 1 Capital	**372%**	340%