“Microfinance organization “KMF” Limited Liability Company

Financial statements

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

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Building a better working world

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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 2017, 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 2017 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 and those charged with governance 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.

Building a better working world

Auditor's responsibilities for the audit of the financial statements

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

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

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

We communicate with 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

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

Gulmira Turmagambetova
General director
Ernst & Young LLP

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

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13 March 2018

STATEMENT OF FINANCIAL POSITION

At 31 December 2017

(in thousands of Tenge)

	Note	31 December 2017	31 December 2016
Assets			
Cash and cash equivalents	5	**5,720,727**	3,285,266
Amounts due from credit institutions		**12,347**	14,766
Loans to customers	6	**87,264,557**	51,342,886
Property and equipment	7	**3,318,316**	2,904,854
Intangible assets	8	**157,129**	176,812
Deferred corporate income tax assets	12	**23,995**	–
Other assets	9	**299,712**	235,118
Total assets		**96,796,783**	57,959,702
Liabilities			
Amounts due to credit institutions	10	**74,138,294**	45,431,369
Financial instruments at fair value through profit or loss	11	**5,230**	286,730
Current corporate income tax payable	12	**50,065**	46,720
Deferred corporate income tax liabilities	12	**–**	10,525
Other liabilities	9	**2,206,615**	1,262,854
Total liabilities		**76,400,204**	47,038,198
Equity	13		
Charter capital		**14,430,993**	8,461,187
Reserve capital		**423,059**	360,119
Retained earnings		**5,542,527**	2,100,198
Total equity		**20,396,579**	10,921,504
Total equity and liabilities		**96,796,783**	57,959,702

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

Zhusupov Sh.A. Chairperson of the Management Board

Yugay O.V. Chief accountant

13 March 2018

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

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

(in thousands of Tenge)

	Note	2017	2016
Interest income			
Loans to customers		**29,798,309**	17,493,443
Cash and cash equivalents		**177,887**	108,835
		29,976,196	17,602,278
Interest expenses			
Amounts due to credit institutions		**(10,946,677)**	(5,447,495)
		(10,946,677)	(5,447,495)
Net interest income		**19,029,519**	12,154,783
Charge of allowance for loan impairment	6	**(526,348)**	(261,209)
Net interest income after allowance for loan impairment		**18,503,171**	11,893,574
Net expenses on transactions with financial instruments at fair value through profit or loss	11	**(600,694)**	(1,970,379)
Net gains/(losses) from foreign currencies		**234,542**	(39,564)
Other income		**25,132**	28,996
Personnel expenses	15	**(7,906,071)**	(5,083,985)
Other operating expenses	15	**(3,199,763)**	(2,168,090)
Profit before corporate income tax expense		**7,056,317**	2,660,552
Corporate income tax expense	12	**(1,513,790)**	(560,354)
Profit for the year		**5,542,527**	2,100,198
Other comprehensive income for the year		**–**	–
Total comprehensive income for the year		**5,542,527**	2,100,198

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

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

(in thousands of Tenge)

	Charter capital	*Reserve capital*	*Retained earnings*	*Total equity*
At 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 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)	–
At 31 December 2016	8,461,187	360,119	2,100,198	10,921,504
Comprehensive income for the year	**–**	**–**	**5,542,527**	**5,542,527**
Contribution to charter capital *(Note 13)*	**5,969,806**	**–**		**5,969,806**
Dividends declared *(Note 13)*	**–**	**–**	**(2,037,258)**	**(2,037,258)**
Transfers to the reserve capital *(Note 13)*	**–**	**62,940**	**(62,940)**	**–**
At 31 December 2017	**14,430,993**	**423,059**	**5,542,527**	**20,396,579**

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

STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

(in thousands of Tenge)

	Note	2017	2016* (restated) (Note 3)
Cash flows from operating activities			
Interest received on loans to customers		**27,087,454**	16,070,562
Interest received on cash and cash equivalents		**138,405**	90,103
Interest paid on amounts due to credit institutions		**(8,293,005)**	(4,659,127)
Net gains from dealing in foreign currencies		**118,127**	490,065
Net payments on financial instruments at fair value through profit or loss		**(882,194)**	1,300,951
Personnel expenses paid		**(6,730,000)**	(4,580,558)
Other operating expenses paid		**(2,816,181)**	(1,912,521)
Taxes paid		**(1,421,645)**	(936,927)
Cash flows from operating activities before changes in operating assets and liabilities:		**7,200,961**	5,862,548
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		**2,419**	(2,671)
Loans to customers		**(33,737,164)**	(15,536,455)
Other assets		**(22,352)**	12,951
Net increase/(decrease) in operating liabilities			
Amounts due from credit institutions		**(696,206)**	(453,149)
Other liabilities		**432,031**	297,094
Net cash flows used in operating activities before corporate income tax		**(26,820,311)**	(9,819,682)
Corporate income tax paid		**(1,519,679)**	(489,487)
Net cash flows used in operating activities		**(28,339,990)**	(10,309,169)
Cash flows from investing activities			
Purchase of property and equipment	7	**(793,495)**	(1,390,005)
Sale of property and equipment		**66,262**	10,523
Purchase of intangible assets	8	**(34,899)**	(107,432)
Net cash flows used in investing activities		**(762,132)**	(1,486,914)

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

STATEMENT OF CASH FLOWS (continued)

	Note	*2017*	*2016* (restated) (Note 3)*
Cash flows from financing activities			
Contribution to charter capital	13	**4,340,000**	–
Receipt of amounts due to credit institutions		**45,631,398**	27,402,746
Repayment of amounts due to credit institutions		**(17,979,002)**	(16,015,359)
Payment of dividends	13	**(407,452)**	(392,693)
Net cash flows received from financing activities		**31,584,944**	10,994,694
Effect of exchange rate changes on cash and cash equivalents		**(47,361)**	(293,837)
Net increase/(decrease) in cash and cash equivalents		**2,435,461**	(1,095,226)
Cash and cash equivalents, beginning		**3,285,266**	4,380,492
Cash and cash equivalents, ending	5	**5,720,727**	3,285,266
Non-cash transactions			
Contribution to charter capital	13	**1,629,806**	1,258,817
Payment of dividends	13	**(1,629,806)**	(1,258,817)
Offset of withholding tax on short-term amounts due from credit institutions	12	**25,286**	–

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

(in thousands of Tenge, unless otherwise indicated)

1. Principal activities

"Microfinance organization "KMF" Limited Liability Company (the "Company") was established in 2006 in accordance with legislation of the Republic of Kazakhstan as "Microcredit organisation "KazMicroFinance" Limited Liability Company.

Due to 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 within the Ministry of Justice of the Republic of Kazakhstan as a regulated microfinance organisation "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") through procedure of registration in the authorized body and compliance with prudential regulations.

The Company's principal activity includes granting micro loans to customers. As at 31 December 2017, the Company has 15 branches and 91 outlets throughout Kazakhstan (31 December 2016: 17 branches and 85 outlets). Branches are located in the following cities: Almaty, Astana, Kokshetau, Kyzylorda, Pavlodar, Semey, Shymkent, Taldykorgan, Taraz, Turkestan, Ust-Kamenogorsk, Kostanay, Aktobe, Uralsk and Petropavlovsk. The Company' activities are located and carried out in the Republic of Kazakhstan.

Legal address of the Company's head office: 50 Nazarbayev Ave., 050004, Almaty, the Republic of Kazakhstan.

As at 31 December 2017 and 2016, the Company's charter capital was owned by to the following participants (hereinafter – "shareholders"):

	Ownership in %	
Name	*31 December 2017*	*31 December 2016*
Corporate Fund KMF-Demeu	**45.435**	63.490
ResponsAbility Management Company S.A.	**18.127**	10.429
Triodos Custody B.V.	**12.085**	6.953
Triodos SICAV II	**12.085**	6.953
Management and employees of the Company	**6.226**	8.699
ResponsAbility SICAV (Lux)	**6.042**	3.476
	100.000	100.000

The majority shareholder of the Company is Corporate Fund "KMF-Demeu" (the "Fund"), which sole participant is ACDI/VOCA, a non-profit entity registered in the United States of America.

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 performance and the financial position of the Company. The actual influence of 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 ("IFRS").

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

The financial statements are presented in thousands of Kazakhstani Tenge ("KZT" or "Tenge"), unless otherwise indicated.

3. Summary of significant accounting policies

Changes in accounting policy and disclosures

The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31 December 2016, except for the adoption of new standards and interpretations effective as at 1 January 2017 and changes in method of presentation of cash flow. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

(in thousands of Tenge, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Restatement of comparative information

The Company changed method of presentation of statement of cash flows from indirect method to direct method and restated respective comparative amounts for 2016 as the Company believes direct method is more relevant to the users of financial statements. The Company adopted a method of presenting the statement of cash flows on a retrospective basis.

Amendments to IAS 7 Statement of Cash Flows – Disclosure Initiative

Amendments require entities to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (for example, gains or losses from the change in foreign exchange rates). The Company provided information both for the current and comparative period in *Note 16*.

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

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference associated with unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. Their application had no impact on the financial position and performance results of the Company, as the Company does not have deductible temporary differences or assets related to the scope of application of these amendments.

Amendment to IFRS 12 Disclosure of Interests in Other Entities – Clarification of the scope of the disclosure requirements in IFRS 12.

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

Fair value measurement

The Company evaluates derivative financial instruments at fair value at reporting date. Information on fair value of financial instruments measured at amortised cost is disclosed in *Note 17*.

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

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

The principal or the most advantageous market must be accessible to by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best profit. 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 Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – techniques for which all inputs that relate to the lower hierarchy level which have a significant effect on the fair value are not observable.

In the event of assets and liabilities recognized in the financial statements on a regular basis, the Company determines the fact of transfer between levels of hierarchy sources by analysing the classification once again (based on initial data of the lowest level that are significant for fair value evaluation in whole) at the end of each reporting period.

(in thousands of Tenge, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

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 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 and 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.

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 amortized 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 on currency markets to reduce foreign exchange risk exposure. Such financial instruments are held for trading and are recorded at fair value. The fair value is 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 expenses from financial instruments at fair value through profit or loss.

Lease

Operating – Company as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into other operating expenses.

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.

3. Summary of significant accounting policies (continued)

Measurement of financial instruments at initial recognition (continued)

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 the deferred difference as a gain or loss only when the inputs become observable, or when the instrument is derecognised.

Offsetting of financial assets

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

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

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

Impairment of financial assets

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

Amounts due from credit institutions 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 it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected loan 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 realized or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the statement of comprehensive income.

3. Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

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

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

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

Restructuring of loans

The Company restructures loans when a borrower does not follow an approved repayment schedule due to objective changes in circumstances. At that 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 recognizes the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the statement of comprehensive income within Charge of allowance for loan impairment for the 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 of the Company continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original or current effective interest rate.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised from the statement of financial position 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. In this case 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.

(in thousands of Tenge, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

Financial liabilities

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

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

Taxation

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

Deferred corporate income tax assets and liabilities are calculated in respect of all temporary differences using the liability method. Deferred corporate income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their 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 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 are carried at historical cost less day-to-day maintenance costs and accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

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

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.

Reserves

Provisions are recognized 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.

(in thousands of Tenge, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

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. Such expenses are charged in the period the related salaries are earned. In addition, the Company has no post-retirement benefits or any other compensated benefits requiring accrual.

Charter capital

Charter capital

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

Dividends

Dividends are recognised as liabilities 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.

Recognition of income and expenses

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

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

Foreign currency translation

The financial statements are presented in Kazakhstani Tenge, which is the Company's functional and presentation currency. Transactions in foreign currencies are initially translated into functional currency at the official exchange rate at the date of the transaction established by the Kazakhstan Stock Exchange (hereinafter – the "KASE"). 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 KASE as at 31 December 2017 and 2016, were KZT 332.33 and KZT 333.29 to USD 1, respectively.

(in thousands of Tenge, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Standards issued but not yet effective

Standards and interpretations issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. The Company intends to adopt those standards when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued IFRS 9 *Financial Instruments* which replaces IAS 39 *Financial Instruments: Recognition and Measurement*. The standard introduces new requirements to classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. Except for hedge accounting, retrospective application is required but restating comparative information is not compulsory.

The Company plans to adopt the new standard by recognising the cumulative transition effect in opening retained earnings on 1 January 2018 and will not restate comparative information. As at 31 December 2017, the Company was in the process of quantifying the effect of adoption of IFRS 9, however no definitive estimate of this effect is yet available.

(a) Classification and measurement

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

- Instruments that are managed on a "hold to collect" basis are measured at amortised cost.
- Instruments that are managed on a "hold to collect and for sale" basis are measured at fair value through other comprehensive income (FVOCI).
- Instruments that are managed on other basis, including trading financial assets, will be measured at FVPL.

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

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

(b) Impairment

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

IFRS 15 Revenue from Contracts with Customers

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

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

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

3. Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

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

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

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

The IASB issued amendments to IFRS 2 *Share-based Payment* that address three main areas: The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; classification of a share-based payment transaction with net settlement features for withholding tax obligations; the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. 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. The amendments are effective for annual periods beginning on or after 1 January 2018. Early application is permitted. The Company does not expect a material effect from application of these amendments.

IFRS 16 Leases

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

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

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

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

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

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 replaces IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

There are several scope exceptions. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.

IFRS 17 is effective for annual periods beginning on or after 1 January 2021, with early application permitted. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Company will assess the effect of IFRS 17 on its financial statements. This standard is not applicable to the Company's financial statements.

3. Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

Transfers of Investment Property – Amendments to IAS 40

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if that is possible without the use of hindsight. The amendments are effective for annual periods beginning on or after 1 January 2018. The Company does not expect a material effect from application of these amendments.

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

These improvements comprise the following:

IFRS 1 First-time Adoption of International Financial Reporting Standards – Deletion of Short-Term Exemptions for First-time Adopters

Short-term exemptions in paragraphs E3-E7 of IFRS 1 were deleted because they have now served their intended purpose. These amendments are effective from 1 January 2018. These amendments are not applicable to the Company's financial statements.

IAS 28 Investments in Associates and Joint Ventures – clarification that the decision to evaluate investees at fair value through profit or loss should be taken separately for each investment

The amendments clarify:

- An entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. Such a decision is taken separately for each investment upon initial recognition.
- If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

These amendments are applied retrospectively and take effect from 1 January 2018. These amendments are not applicable to the Company's financial statements.

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

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

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

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

3. Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

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

IFRIC Interpretation 23 – Uncertainty over Income Tax Treatments

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

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

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

4. Significant accounting judgements and estimates

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 value 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 impairment of loans

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.

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 nonexistent and insignificant amount of precedents has been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organisations; thus creating uncertainties and areas of conflict. Tax returns, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and forfeits. These facts create tax risks in Kazakhstan substantially more significant than typically found in countries with more developed tax systems.

Management believes that the 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.

(in thousands of Tenge, unless otherwise indicated)

5. Cash and cash equivalents

	31 December 2017	*31 December 2016*
Cash on hand	**127,611**	91,402
Cash in transit	**40,418**	42,883
Current accounts with banks	**401,320**	1,440,974
Term deposits with banks	**5,151,378**	1,710,007
Cash and cash equivalents	**5,720,727**	3,285,266

As at 31 December 2017 and 2016 cash and cash equivalents are neither past due nor impaired.

As at 31 December 2017 the Company had one bank account with the balance exceeding 10% of it's equity (31 December 2016: one bank account). The total balance of the above counteragent as at 31 December 2017 was equal to KZT 2,130,460 thousand (31 December 2016: KZT 1,261,300 thousand).

6. Loans to customers

Loans to customers comprise:

	31 December 2017	*31 December 2016*
Retail trade, services and production loans	**45,714,876**	27,518,518
Agricultural loans	**28,317,496**	15,242,340
Consumer loans	**14,461,254**	9,316,881
Total loans to customers	**88,493,626**	52,077,739
Less: allowance for impairment	**(1,229,069)**	(734,853)
Loans to customers	**87,264,557**	51,342,886

As at 31 December 2017 and 2016 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 2017	553,342	129,326	52,185	734,853
Net charge of allowance for impairment during the year	**332,281**	**99,905**	**94,162**	**526,348**
Write-off during the year	**(41,545)**	**(16,339)**	**(18,375)**	**(76,259)**
Recovered during the year	**30,789**	**9,538**	**3,800**	**44,127**
At 31 December 2017	**874,867**	**222,430**	**131,772**	**1,229,069**

	Retail trade, services and production loans	*Agricultural loans*	*Consumer loans*	*Total*
At 1 January 2016	370,953	68,779	31,267	470,999
Net charge of allowance for impairment during the year	179,316	63,269	18,624	261,209
Write-off during the year	(32,595)	(11,581)	(12,952)	(57,128)
Recovered during 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)

6. Loans to customers (continued)

Quality of loans issued to customers

Quality of loans in the loan portfolio was as follows:

31 December 2017	*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				
– not overdue	44,398,198	(34,710)	44,363,488	0.1%
– overdue for less than 30 days	172,923	(32,138)	140,785	18.6%
– overdue from 30 to 89 days	144,550	(43,990)	100,560	30.4%
– overdue from 90 to 179 days	214,767	(135,815)	78,952	63.2%
– overdue for more than 180 days	784,438	(628,214)	156,224	80.1%
Total retail trade, services and production loans	45,714,876	(874,867)	44,840,009	1.9%
Agricultural loans				
– not overdue	27,903,979	(10,676)	27,893,303	0.0%
– overdue for less than 30 days	54,215	(4,297)	49,918	7.9%
– overdue from 30 to 89 days	61,090	(10,902)	50,188	17.8%
– overdue from 90 to 179 days	62,599	(28,765)	33,834	46.0%
– overdue for more than 180 days	235,613	(167,790)	67,823	71.2%
Total agricultural loans	28,317,496	(222,430)	28,095,066	0.8%
Consumer loans				
– not overdue	14,113,887	(3,598)	14,110,289	0.0%
– overdue for less than 30 days	58,971	(2,500)	56,471	4.2%
– overdue from 30 to 89 days	63,069	(4,602)	58,467	7.3%
– overdue from 90 to 179 days	78,635	(30,383)	48,252	38.6%
– overdue for more than 180 days	146,692	(90,689)	56,003	61.8%
Total consumer loans	14,461,254	(131,772)	14,329,482	0.9%
Total loans to customers	88,493,626	(1,229,069)	87,264,557	1.4%

(in thousands of Tenge, unless otherwise indicated)

6. Loans to customers (continued)

Quality of loans issued to customers (continued)

31 December 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				
– not overdue	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 from 30 to 89 days	90,317	(25,418)	64,899	28.1%
– overdue from 90 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				
– not overdue	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 from 30 to 89 days	27,723	(4,183)	23,540	15.1%
– overdue from 90 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				
– not overdue	9,180,412	(2,267)	9,178,145	0.1%
– overdue for less than 30 days	19,738	(654)	19,084	3.3%
– overdue from 30 to 89 days	25,201	(1,751)	23,450	6.9%
– overdue from 90 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%

The Company estimates impairment allowance based on its past loss experience on these 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 the 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.

(in thousands of Tenge, unless otherwise indicated)

6. Loans to customers (continued)

Analysis of collateral and other credit enhancements (continued)

The following tables comprise analysis of net book value of loans by collateral classes:

31 December 2017	*Retail trade, services and production loans*	*Agricultural loans*	*Consumer loans*	*Total loans to customers*	*Share of loan portfolio, %*
Personal guarantees	**19,261,335**	**17,449,295**	**7,482,109**	**44,192,739**	**50.6%**
Goods for sale	**9,371,417**	**144,159**	**2,626**	**9,518,202**	**10.9%**
Property	**8,374,543**	**1,707,544**	**443,192**	**10,525,279**	**12.1%**
Vehicles	**345,403**	**45,139**	**57,469**	**448,011**	**0.5%**
Other collateral	**2,177,888**	**5,002,031**	**409,160**	**7,589,079**	**8.7%**
No collateral	**5,309,423**	**3,746,898**	**5,934,926**	**14,991,247**	**17.2%**
Total	**44,840,009**	**28,095,066**	**14,329,482**	**87,264,557**	**100.0%**

31 December 2016	*Retail trade, services and production loans*	*Agricultural loans*	*Consumer loans*	*Total loans to customers*	*Share of 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%
Property	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%
No collateral	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%

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 at maturity. 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 for credit risk mitigation.

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

As at 31 December 2017, for loans with a net carrying amount of KZT 10,525,279 thousand (31 December 2016: KZT 6,806,747 thousand), secured by pledged 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 collateral value at the loan disbursement date must be a maximum of 90%.

Concentration of loans to customers

As at 31 December 2017 and 2016, the Company has no borrowers or groups of interrelated borrowers whose loan balances exceed 10% of equity.

(in thousands of Tenge, unless otherwise indicated)

7. 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*
Original cost						
At 1 January 2016	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)
Transfer 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
Additions	**14,959**	**235,981**	**100,472**	**238,497**	**229,680**	**819,589**
Disposals	**(75,312)**	**(61,385)**	**(50,509)**	**(46,062)**	**(4,154)**	**(237,422)**
Transfer between groups	**204,590**	**11,004**	**67**	**6,094**	**(221,755)**	**–**
At 31 December 2017	**2,200,484**	**815,731**	**291,645**	**786,928**	**3,898**	**4,098,686**
Accumulated depreciation						
At 1 January 2016	(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)
Depreciation charge	**(41,410)**	**(159,677)**	**(38,420)**	**(89,493)**	**–**	**(329,000)**
Disposals	**35,083**	**59,252**	**25,620**	**40,340**	**–**	**160,295**
At 31 December 2017	**(110,344)**	**(332,592)**	**(94,343)**	**(243,091)**	**–**	**(780,370)**
Net carrying amount						
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
At 31 December 2017	**2,090,140**	**483,139**	**197,302**	**543,837**	**3,898**	**3,318,316**

As at 31 December 2017, the original cost of fully depreciated property and equipment in use of the Company was equal to KZT 15,581 thousand (31 December 2016: KZT 9,240 thousand). As at 31 December 2017, the Company made prepayments for supply of property and equipment for a total amount of KZT 12,114 thousand which are included in prepayments to suppliers disclosed in *Note 9* Other assets (31 December 2016: KZT 34,661 thousand).

(in thousands of Tenge, unless otherwise indicated)

8. Intangible assets

	Software
Original cost	
At 1 January 2016	246,062
Additions	107,432
Disposals	(641)
At 31 December 2016	352,853
Additions	**34,899**
Disposals	**(507)**
At 31 December 2017	**387,245**
Accumulated amortization	
At 1 January 2016	(141,136)
Amortization charge	(34,917)
Disposals	12
At 31 December 2016	(176,041)
Amortization charge	**(54,582)**
Disposals	**507**
At 31 December 2017	**(230,116)**
Net carrying amount	
At 31 December 2015	104,926
At 31 December 2016	176,812
At 31 December 2017	**157,129**

9. Other assets and liabilities

Other assets comprise:

	31 December 2017	*31 December 2016*
Prepayments to suppliers	**207,622**	170,685
Inventories	**69,380**	47,810
Accounts receivable from customers	**5,991**	3,440
Taxes prepaid and other prepayments to budget	**5,056**	5,217
Other	**11,663**	7,966
Other assets	**299,712**	235,118

Other liabilities comprise:

	31 December 2017	*31 December 2016*
Overpayments received on loans to customers	**806,879**	520,192
Payables to employees	**768,971**	318,434
Taxes payable other than corporate income tax	**333,368**	192,289
Provision for vacations	**224,393**	162,560
Payables to suppliers	**61,423**	58,739
Other	**11,581**	10,640
Other liabilities	**2,206,615**	1,262,854

10. Amounts due to credit institutions

	31 December 2017	*31 December 2016*
Loans from financial institutions, other than banks, from OECD countries	**62,088,175**	36,642,393
Loans from banks from OECD countries	**7,339,766**	5,678,030
Loans from local banks	**4,710,353**	3,110,946
Amounts due to credit institutions	**74,138,294**	45,431,369

As at 31 December 2017, the Company had borrowings from two banks and nine other financial institutions (31 December 2016: two banks and eight other financial institutions) to which liabilities exceeded 10% of the Company's equity. As at 31 December 2017 the total balance of liabilities to the above counteragents was equal to KZT 71,260,428 thousand (31 December 2016: KZT 43,859,833 thousand).

(in thousands of Tenge, unless otherwise indicated)

10. Amounts due to credit institutions (continued)

During 2016, the Company concluded the following agreements with Altyn Bank JSC:

- A revolving credit line agreement for KZT 915,000 thousand, which was fully utilised as at 31 December 2017 (as at 31 December 2016: KZT 886,000 thousand). The Company pledged real estate, buildings, with original cost of KZT 1,689,583 thousand as at 31 December 2017 (as at 31 December 2016: KZT 844,235 thousand).
- A revolving blank credit line for KZT 3,800,000 thousand, which was fully utilised as at 31 December 2017 (as at 31 December 2016: KZT 3,175,000 thousand).

Covenants compliance

As at 31 December 2017 and 2016, the Company complied with all requirements of loan agreements with credit institutions in respect of financial covenants.

11. 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.

	31 December 2017			*31 December 2016*		
	Notional amount of transaction	*Fair value*		*Notional amount of transaction*	*Fair value*	
		Asset	*Liability*		*Asset*	*Liability*
Currency agreements						
Currency swaps	**1,445,356**	**–**	**(5,230)**	2,649,548	–	(81,788)
Forwards	**–**	**–**	**–**	3,699,060	–	(204,942)
	1,445,356	**–**	**(5,230)**	6,348,608	–	(286,730)

Currency swaps

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 2017, the Company had Tenge denominated loans in the amount of KZT 1,445,356 thousand received from a local bank and security deposits denominated in US Dollars in the amount of USD 4,349 thousand, which serve as security against this loan. As at 31 December 2016, the Company had Tenge denominated loans in the amount of KZT 2,649,469 thousand received from local banks and security deposits denominated in US Dollars in the amount USD 7,950 thousand. Since the contractual effect of these loans and deposits is equivalent to a currency swap, the said transactions have been treated as a derivative.

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 2017, the Company did not have any forward agreements. As at 31 December 2016, the Company had three forward agreements to purchase USD 2,400 thousand with a settlement on 28 February 2017, USD 5,000 thousand with a settlement on 13 January 2017 and USD 3,000 thousand with a settlement on 27 January 2017.

Net gains from financial instruments at fair value through profit or loss in the statement of comprehensive income in 2017 include gain from changes in fair value of currency swaps in the amount of KZT 398,495 thousand (2016: KZT 1,433,765 thousand) and forwards in the amount of KZT 202,199 thousand (2016: KZT 536,614 thousand).

(in thousands of Tenge, unless otherwise indicated)

12. Taxation

The corporate income tax expense comprises:

	2017	*2016*
Current corporate income tax charge	**(1,548,310)**	(652,630)
Deferred tax benefit – origination and decrease of temporary differences	**34,520**	92,276
Corporate income tax expense	**(1,513,790)**	(560,354)

The Republic of Kazakhstan was only one tax jurisdiction in which the Company's income is taxable. In accordance with tax legislation the applied corporate income tax rate is 20% in 2017 and 2016.

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

	2017	*2016*
Profit before corporate income tax expense	**7,056,317**	2,660,552
Statutory rate	**20%**	20%
Theoretical corporate income tax expense at the statutory rate	**(1,411,263)**	(532,110)
Non-deductible forward transactions expenses	**(51,259)**	–
Non-deductible charges for impairment	**(24,036)**	(150)
Non-deductible other expenses	**(27,232)**	(28,094)
Corporate income tax expense	**(1,513,790)**	(560,354)

As at 31 December 2017, current corporate income tax payable was equal to KZT 50,065 thousand (31 December 2016: KZT 46,720 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 asset as of 31 December 2017 and to net deferred tax liability as of 31 December 2016. The future tax benefits will only be received in the event that there are no changes in the legislation of Kazakhstan that adversely affect the Company's ability to utilize the above benefits in future periods.

Change in the amount of temporary differences during 2017 and 2016 may be presented as follows:

	2015	*Origination and reversal of temporary differences within profit or loss*	*2016*	*Origination and reversal of temporary differences within profit or loss*	*2017*
Tax effect of deductible temporary differences					
Accrued unused vacations and bonuses expenses	79,407	9,573	88,980	**101,087**	**190,067**
Accrued interest expense	24,470	(16,392)	8,078	**(3,284)**	**4,794**
Forward transactions	–	40,988	40,988	**(40,988)**	**–**
Other liabilities	2,401	(290)	2,111	**326**	**2,437**
Deferred corporate income tax assets	106,278	33,879	140,157	**57,141**	**197,298**
Tax effect of deductible temporary differences					
Property and equipment and intangible assets	(112,000)	(38,682)	(150,682)	**(22,621)**	**(173,303)**
Forward transactions	(97,079)	97,079	–	**–**	**–**
Deferred corporate income tax liabilities	(209,079)	58,397	(150,682)	**(22,621)**	**(173,303)**
Net deferred corporate income tax (liabilities)/assets	(102,801)	92,276	(10,525)	**34,520**	**23,995**

(in thousands of Tenge, unless otherwise indicated)

13. Equity

Charter capital

As at 31 December 2017 the paid and outstanding charter capital of the Company amounted to KZT 14,430,993 thousand. In accordance with the decision made by the General Meeting of Shareholders, held on 30 March 2017, the charter capital of the Company was increased by KZT 4,340,000 thousand through additional cash contribution of the participants and by KZT 1,629,806 thousand through offset with dividends declared.

As at 31 December 2016 the paid and outstanding charter capital of the Company amounted to KZT 8,461,187 thousand. In accordance with the decision made 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 through offset with dividends declared.

Dividends to shareholders

In accordance with Kazakhstan legislation, the Company's distributable earnings 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 the accumulated loss. Distribution will not be performed if the amount of Company's equity becomes negative as a result of the distribution, or will result the insolvency and bankruptcy of the Company.

In accordance with the requirements of Kazakhstan legislation, as of 31 December 2017 an increase in the funds available for distribution was equal to KZT 5,542,527 thousand (31 December 2016: KZT 2,100,198 thousand).

In accordance with the decision of the General Meeting of Shareholders, held on 30 March 2017, the Company declared dividends for 2016 in the amount of KZT 2,037,258 thousand (2016: dividends for 2015 in the amount of KZT 1,651,510 thousand). In April 2017, the Company offset dividends payable with contribution to the charter capital in the amount of KZT 1,629,806 thousand and made an actual net payment of dividends in cash for KZT 323,045 thousand after the deduction of income tax for KZT 84,407 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 327,713 thousand after the deduction of income tax for KZT 64,980 thousand.

Reserve capital

In accordance with the decision of the General Meeting of Shareholders held on 4 May 2012, reserve capital was created during the year and to be at least 5% of the charter capital at the beginning of the reporting year.

In 2017, the Supervisory Board of the Company approved the transfer of KZT 62,940 thousand from retained earnings to reserve capital (2016: KZT 49,717 thousand). As at 31 December 2017, the reserve capital was equal to KZT 423,059 thousand (31 December 2016: KZT 360,119 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 Kazakhstan 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 parts 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 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.

(in thousands of Tenge, unless otherwise indicated)

14. Commitments and contingencies (continued)

Legal issues

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 recognize 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 Kazakhstan 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 2017. Although such amounts are possible and may be material, it is the opinion of the Bank's management that these amounts are either not probable, not reasonably determinable, or both.

Commitments and contingencies

The Company has commitments to provide credit resources. These credit related commitments provide for issuance of credit resources in the form of approved credit facilities.

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

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

	31 December 2017	*31 December 2016*
Credit related commitments		
Undrawn loan commitments	**8,330,225**	1,413,208
Operating lease commitments		
Not later than 1 year	**251,831**	242,458
1 to 5 years	**588,202**	120,969
Commitments and contingencies	**9,170,258**	1,776,635

These credit related commitments may terminate without being partially or fully funded. As a result of this contingent condition, the above does not necessarily represent the future cash outflow.

(in thousands of Tenge, unless otherwise indicated)

15. Personnel and other operating expenses

	2017	*2016*
Payroll, bonuses and other taxes	**(7,223,769)**	(4,637,022)
Social taxes and deductions	**(682,302)**	(446,963)
Personnel expenses	**(7,906,071)**	(5,083,985)
Professional services	**(584,323)**	(401,957)
Lease	**(538,147)**	(477,630)
Depreciation and amortisation *(Note 7 and 8)*	**(383,582)**	(255,569)
Office supplies	**(209,562)**	(149,673)
Security	**(208,978)**	(189,098)
Not refundable VAT	**(178,834)**	–
Communication and information services	**(174,239)**	(134,423)
Advertising and marketing	**(163,209)**	(74,983)
Business trip expenses	**(145,980)**	(83,685)
Bank fees	**(112,084)**	(70,176)
Repair and maintenance	**(98,084)**	(54,094)
Transportation expenses	**(74,166)**	(75,532)
Taxes other than corporate income tax	**(73,323)**	(50,828)
Encashment	**(67,296)**	(50,325)
Expenses for corporate events	**(65,469)**	–
Insurance	**(40,422)**	(34,953)
Training of personnel	**(23,663)**	(22,384)
Membership fees	**(10,474)**	(7,220)
Charity	**(10,354)**	(9,741)
Other	**(37,574)**	(25,819)
Other operating expenses	**(3,199,763)**	(2,168,090)

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 foreign exchange risk, credit risk and liquidity risk, form the major risk 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 monitor continuously 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.

Risk Committee

The 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.

16. Risk management (continued)

Introduction (continued)

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.

Management Board

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

Asset Liability Management Committee (ALCO)

The management level Asset Liability Management Committee (hereinafter – "ALCO") of the Company is responsible for the overall asset liability 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 carrying out the transactional aspects of asset and liability management and for managing the balance sheet structure. It is also primarily responsible for implementing the funding and liquidity strategy of the Company.

Risk measurement and reporting systems

Credit, market and liquidity risks are managed and controlled through a system of Credit Committees and the ALCO, 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 organisational 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 ALCO headed by the Chairman of the Management Board is responsible for market risk management.

(in thousands of Tenge, unless otherwise indicated)

16. Risk management (continued)

Market risk (continued)

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.

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 interest – bearing assets and liabilities with floating interest rate existing as at 31 December 2017 and 2016, is as follows:

	2017		*2016*	
	Effect on profit before tax	*Effect on equity*	*Effect on profit before tax*	*Effect on equity*
100 basis point parallel increase	**12,919**	**12,919**	22,434	22,434
100 basis point parallel decrease	**(12,919)**	**(12,919)**	(22,434)	(22,434)

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:

31 December 2017	*US dollars*	*Total*
Assets		
Cash and cash equivalents	**2,240,731**	**2,240,731**
Amounts due from credit institutions	**6,646**	**6,646**
Total assets	**2,247,377**	**2,247,377**
Liabilities		
Amounts due to credit institutions	**4,808,386**	**4,808,386**
Total liabilities	**4,808,386**	**4,808,386**
Net position	**(2,561,009)**	**(2,561,009)**
Impact of derivative financial instruments held for the purpose of risk management	**1,445,356**	**1,445,356**
Net position adjusted for impact of derivative financial instruments held for the purpose of risk management	**(1,115,653)**	**(1,115,653)**

31 December 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)

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.

	2017			
Currency	*Change in exchange rates in %*	*Effect on profit before tax*	*Change in exchange rates in %*	*Effect on profit before tax*
US dollar	**10.00%**	**(111,565)**	**-10.00%**	**111,565**

	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

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 policy of granting microcredit loans is 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.

The maximum level of the balance sheet credit risk of the Company is generally reflected in the carrying amount of financial assets in the statement of financial position and unrecognized 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:

	31 December 2017	*31 December 2016*
Assets		
Cash and cash equivalents (excluding cash on hand)	**5,593,116**	3,193,864
Amounts due from credit institutions	**12,347**	14,766
Loans to customers	**87,264,557**	51,342,886
	92,870,020	54,551,516

(in thousands of Tenge, unless otherwise indicated)

16. Risk management (continued)

Credit risk (continued)

The maximum exposure to credit risk in relation to unrecognised contractual commitments at the reporting date are presented in *Note 14*. See *Note 6* for more detailed information on credit risk with respect to loans to customers.

Credit quality per class of financial assets

In the table below cash and cash equivalents (other than cash on hand), amounts due from credit institutions and loans to customers of high grade are those having a minimal level of credit risk, normally with a credit rating on or close to sovereign level or very well collateralised. Credit institutions and borrowers with good financial position and good debt service are included in the standard grade. Sub-standard grade comprises assets below standard grade but not individually impaired.

		Neither past due nor impaired					
At 31 December 2017	*Notes*	*High grade*	*Standard grade*	*Substandard grade*	*Past due but not impaired*	*Non-grade*	*Total*
Cash and cash equivalents, except for cash on hand	5	–	**5,513,868**	–	–	**79,248**	**5,593,116**
Amounts due from credit institutions		–	**12,347**	–	–	–	**12,347**
Loans to customers	6						
Retail trade, services and production loans		–	**44,363,488**	–	**476,521**	–	**44,840,009**
Agricultural loans		–	**27,893,303**	–	**201,763**	–	**28,095,066**
Consumer loans		–	**14,110,289**	–	**219,193**	–	**14,329,482**
Total		–	**91,893,295**	–	**897,477**	**79,248**	**92,870,020**

		Neither past due nor impaired					
At 31 December 2016	*Notes*	*High grade*	*Standard grade*	*Substandard grade*	*Past due but not impaired*	*Non-grade*	*Total*
Cash and cash equivalents, except for cash on hand	5	–	3,160,341	–	–	33,523	3,193,864
Amounts due from credit institutions		–	14,766	–	–	–	14,766
Loans to customers	6						
Retail trade, services and production loans		–	26,693,042	–	272,134	–	26,965,176
Agricultural loans		–	15,001,329	–	111,685	–	15,113,014
Consumer loans		–	9,178,145	–	86,551	–	9,264,696
Total		–	54,047,623	–	470,370	33,523	54,551,516

Past due loans include loans that are past due by more than one day. An analysis of past due loans, by age, is provided in *Note 6*.

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 can lead to financial loss. The Company cannot expect to eliminate all operational risks, but a control framework and monitoring and responding to potential risks could be effective tools to manage the risks. Controls include effective segregation of duties, access rights, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

(in thousands of Tenge, unless otherwise indicated)

16. Risk management (continued)

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.

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.

Changes in liabilities arising from financing activities

	1 January 2017	*Net cash flows*	*Change in currency rates*	*Other*	*31 December 2017*
Amounts due to credit institutions	45,431,369	**27,652,396**	**(163,743)**	**1,218,272**	**74,138,294**
Total liabililities from financing activities	45,431,369	**27,652,396**	**(163,743)**	**1,218,272**	**74,138,294**

	1 January 2016	*Net cash flows*	*Change in currency rates*	*Other*	*31 December 2016*
Amounts due to credit institutions	33,968,256	11,387,387	(205,264)	280,990	45,431,369
Total liabililities from financing activities	33,968,256	11,387,387	(205,264)	280,990	45,431,369

"Other" mainly represents the effect of accrued, but not yet paid interest on amounts due to credit institutions. The Company classifies interest paid as cash flows from operating activities.

(in thousands of Tenge, unless otherwise indicated)

16. Risk management (continued)

Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Company's financial liabilities as at 31 December based on contractual undiscounted repayment obligations.

31 December 2017	*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	3,044,722	8,225,239	8,000,239	23,894,662	48,371,428	91,536,290
Financial instruments at fair value through profit or loss	5,230	–	–	–	–	5,230
Other liabilities	61,423	–	–	–	–	61,423
Total liabilities	3,111,375	8,225,239	8,000,239	23,894,662	48,371,428	91,602,943
Credit related commitments *(Note 14)*	8,330,225	–	–	–	–	8,330,225

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 commitments *(Note 14)*	1,413,208	–	–	–	–	1,413,208

(in thousands of Tenge, unless otherwise indicated)

17. Fair value measurement

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.

	Date of valuation	*Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant non-observable inputs (Level 3)*	*Total*
31 December 2017					
Assets fair value of which is disclosed					
Cash and cash equivalents	31 December 2017	**5,720,727**	**–**	**–**	**5,720,727**
Amounts due from credit institutions	31 December 2017	**12,347**	**–**	**–**	**12,347**
Loans to customers	31 December 2017	**–**	**–**	**87,076,357**	**87,076,357**
Liabilities measured at fair value					
Financial instruments at fair value through profit or loss	31 December 2017	**–**	**5,230**	**–**	**5,230**
Liabilities fair value of which is disclosed					
Amounts due to credit institutions	31 December 2017	**–**	**72,534,546**	**–**	**72,534,546**
Other financial liabilities	31 December 2017	**–**	**–**	**61,423**	**61,423**
31 December 2016					
Assets fair value of which is 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 fair value of which is 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

During 2017 and 2016 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. Measurement of fair value (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.

	31 December 2017			*31 December 2016*		
	Carrying amount	*Fair value*	*Unrecognised gain/ (loss)*	*Carrying amount*	*Fair value*	*Unrecognised gain/ (loss)*
Financial assets						
Cash and cash equivalents	**5,720,727**	**5,720,727**	–	3,285,266	3,285,266	–
Amounts due from credit institutions	**12,347**	**12,347**	–	14,766	14,766	–
Loans to customers	**87,264,557**	**87,076,357**	**(188,200)**	51,342,886	51,172,470	(170,416)
Financial liabilities						
Amounts due to credit institutions	**74,138,294**	**72,534,546**	**1,603,748**	45,431,369	45,263,630	167,739
Other liabilities	**61,423**	**61,423**	–	58,739	58,739	–
Total unrecognised change in fair value			**1,415,548**			(2,677)

Methods of measurement 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 to carrying value

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

The fair value of unquoted instruments, including loans to customers, amounts due from credit institutions and amounts due to credit institutions, other financial assets and obligations 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. See *Note 16* for the Company's contractual undiscounted repayment obligations.

	31 December 2017			*31 December 2016*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Cash and cash equivalents	**5,720,727**	**–**	**5,720,727**	3,285,266	–	3,285,266
Amounts due from credit institutions	**11,847**	**500**	**12,347**	11,766	3,000	14,766
Loans to customers	**49,832,538**	**37,432,019**	**87,264,557**	38,398,999	12,943,887	51,342,886
Property and equipment	**–**	**3,318,316**	**3,318,316**	–	2,904,854	2,904,854
Intangible assets	**–**	**157,129**	**157,129**	–	176,812	176,812
Deferred corporate income tax assets	**–**	**23,995**	**23,995**	–	–	–
Other assets	**299,712**	**–**	**299,712**	235,118	–	235,118
Total	**55,864,824**	**40,931,959**	**96,796,783**	41,931,149	16,028,553	57,959,702
Amounts due to credit institutions	**34,908,490**	**39,229,804**	**74,138,294**	17,112,495	28,318,874	45,431,369
Financial instruments at fair value through profit or loss	**5,230**	**–**	**5,230**	286,730	–	286,730
Current corporate income tax payable	**50,065**	**–**	**50,065**	46,720	–	46,720
Deferred corporate income tax liabilities	**–**	**–**	**–**	–	10,525	10,525
Other liabilities	**2,206,615**	**–**	**2,206,615**	1,262,854	–	1,262,854
Total	**37,170,400**	**39,229,804**	**76,400,204**	18,708,799	28,329,399	47,038,198
Net position	**18,694,424**	**1,702,155**	**20,396,579**	23,222,350	(12,300,846)	10,921,504

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.

Transactions with shareholders

Transactions with shareholders comprise transactions with the Fund and 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	
	31 December 2017	*Average interest rate, %*
Statement of financial position		
Liabilities		
Amounts due to credit institutions:		
– in Tenge	**6,204,018**	**19.8%**
– in US Dollars	**340,858**	**7.3%**
Statement of comprehensive income		
Interest expenses	**(1,196,128)**	**–**

(in thousands of Tenge, unless otherwise indicated)

19. Related party transactions (continued)

Transactions with shareholders (continued)

	Shareholders of the Company's charter capital	
	31 December 2016	*Average interest rate, %*
Statement of financial position		
Liabilities		
Amounts due to credit institutions:		
– in Tenge	5,423,980	16.4%
– in US dollars	683,685	6.2%
Statement of comprehensive income		
Interest expenses	(1,066,629)	–

Transactions with members of key management personnel

Compensation of key management personnel was comprised of the following:

	2017	*2016*
Salaries and other short-term benefits	**285,016**	218,173
Social taxes and deductions	**8,767**	8,222
Total compensation to the key management personnel	**293,783**	226,395

For the years ended 31 December 2017 and 2016, key management personnel did not receive any non-cash remuneration.

	31 December 2017	*Average interest rate, %*	*31 December 2016*	*Average interest rate, %*
Statement of financial position				
Assets				
Loans to customers	**6,766**	**20.8%**	12,127	21%

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

	2017	*2016*
Statement of comprehensive income		
Interest income	**546**	717

20. Capital adequacy

In accordance with the Law of the Republic of Kazakhsan *On Microcredit Organisations* dated 26 November 2012, the paid in capital of the Company should be at least 30,000 times the monthly calculation index (MCI), which was equal to KZT 2,269 as at 31 December 2017 (31 December 2016: KZT 2,121).

In addition, in accordance with the credit agreements with certain foreign financial institutions, the Company should 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.

(in thousands of Tenge, unless otherwise indicated)

20. Capital adequacy (continued)

As at 31 December 2017 and 2016 the Company had fully complied 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.

NBRK requires microfinance organizations to maintain a tier 1 capital adequacy ratio in the amount of not less than 0.1 times of the assets, the total maximum risk factor per a single borrower in the amount of not more than 0.25 times 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 10 times of equity. As at 31 December 2017 and 2016, 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:

	31 December 2017	*31 December 2016*
Tier 1 capital	**20,380,203**	10,907,810
Total assets	**96,796,783**	57,959,702
Tier 1 capital ratio	**0.21**	0.19

	31 December 2017	*31 December 2016*
Tier 1 capital	**20,380,203**	10,907,810
Total amount due from one borrower	**18,364**	16,311
Maximum exposure limit per single borrower	**0.0009**	0.0015

	31 December 2017	*31 December 2016*
Tier 1 capital	**20,380,203**	10,907,810
Total aggregate liabilities of a microfinance organization except for liabilities to non-residents of the Republic of Kazakhstan, which are international financial organizations	**54,148,123**	40,615,047
Maximum limit of total liabilities	**2.66**	3.72