

**Microfinance organization "Asian Credit Fund"  
Limited Liability Company**

**Financial statements**

*For the year ended 31 December 2015,  
together with independent auditor's report*

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## Independent auditors' report

To the Participants and Supervisory board of Microfinance Organisation Asian Credit Fund LLC

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

### ***Management's responsibility for the financial statements***

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

### ***Auditors' responsibility***

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

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

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

**Basis for qualified opinion**

- 1) Interest income on loans to customers was not accounted for by the Company under effective interest rate method during 2015 and 2014. Therefore, interest income on loans issued was overstated by 110,280 thousand tenge in 2015 and understated by 18,031 thousand tenge in 2014. As at 31 December 2014, loans to customers were understated by 110,280 thousand tenge.
- 2) Loans obtained by the Company in tenge and backed in full by the Company with foreign currency deposits, representing foreign currency swap, were not accounted for as derivative financial instruments as at 31 December 2015 and 2014. Therefore, the Company did not recognize loss from change in fair value of derivative financial instruments for 19,857 thousand tenge in 2015 and gain from change in fair value of derivative financial instruments for 21,916 thousand tenge in 2014. Derivative financial assets were not recorded at the amount of 679,372 thousand tenge and 106,621 thousand tenge as at 31 December 2015 and 2014, respectively. Amounts due from credit institutions were overstated by 1,280,417 thousand tenge and 687,790 thousand tenge as at 31 December 2015 and 2014, respectively. Amounts due to credit institutions were overstated by 632,736 thousand tenge and 632,717 thousand tenge as at 31 December 2015 and 2014, respectively.
- 3) Allowance for impairment of loans to customers was estimated not in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* as at 31 December 2015. That resulted in an overstatement of allowance charge for loan impairment for the year ended 31 December 2015 by 51,017 thousand tenge and understatement of loans to customers as at 31 December 2015 by the same amount.

**Qualified opinion**

In our opinion, except for the effects of the matters described in the Basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Microfinance Organisation Asian Credit Fund LLC as at 31 December 2015, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Ernst & Young LLP*



Evgeny Zhemaletdinov  
Auditor / General Director  
Ernst & Young LLP



State Audit License for the 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 dated 15 July 2005

Auditor Qualification Certificate  
No. 0000553 dated 24 December 2003

1 August 2016

**STATEMENT OF FINANCIAL POSITION**

As of 31 December 2015

*(Thousands of tenge)*

	<i>Notes</i>	<i>31 December 2015</i>	<i>31 December 2014</i>
<b>Assets</b>			
Cash and cash equivalents	5	333,127	98,104
Amounts due from credit institutions	6	1,280,417	687,790
Loans to customers	7	1,860,047	1,468,901
Deferred corporate income tax assets	10	14,100	3,757
Property and equipment		39,209	30,033
Intangible assets		6,165	4,255
Other assets	8	27,204	33,409
<b>Total assets</b>		<b>3,560,269</b>	<b>2,326,249</b>
<b>Liabilities</b>			
Amounts due to credit institutions	9	2,916,962	2,006,555
Current corporate income tax liabilities	10	62,697	25,695
Other liabilities	8	39,052	18,545
<b>Total liabilities</b>		<b>3,018,711</b>	<b>2,050,795</b>
<b>Equity</b>			
Charter capital	11	341,297	286,922
Retained earnings / (accumulated deficit)		200,261	(11,468)
<b>Total equity</b>		<b>541,558</b>	<b>275,454</b>
<b>Total equity and liabilities</b>		<b>3,560,269</b>	<b>2,326,249</b>

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

Zhakupova Zh. B.



Executive Director

An O.K.

01 August 2016

Chief Accountant

**STATEMENT OF COMPREHENSIVE INCOME****For the year ended 31 December 2015***(Thousands of tenge)*

	<i>Notes</i>	<i>2015</i>	<i>2014</i>
Interest income on loans to customers		1,001,924	612,080
Interest expenses on amounts due to credit institutions		<u>(265,237)</u>	<u>(182,602)</u>
<b>Net interest income</b>		<b>736,687</b>	<b>429,478</b>
Allowance charge for loan impairment	7	<u>(51,783)</u>	<u>(41,691)</u>
<b>Net interest income after allowance for loan impairment</b>		<b>684,904</b>	<b>387,787</b>
Net gain from foreign currency translation		29,923	16,523
Other income		5,048	=
Other expense		(9,863)	(7,469)
Other operating expenses	12	<u>(441,360)</u>	<u>(316,370)</u>
<b>Profit before corporate income tax expense</b>		<b>268,652</b>	<b>80,471</b>
Corporate income tax expense	10	<u>(56,923)</u>	<u>(24,751)</u>
<b>Profit for the year</b>		<b>211,729</b>	<b>55,720</b>
Other comprehensive income for the year		-	-
<b>Total comprehensive income for the year</b>		<b>211,729</b>	<b>55,720</b>

*The accompanying notes on pages 5 to 32 are an integral part of these financial statements.*

**STATEMENT OF CHANGES IN EQUITY****For the year ended 31 December 2015***(Thousands of tenge)*

	<i>Charter capital</i>	<i>Retained earnings / (accumulated deficit)</i>	<i>Total equity</i>
<b>31 December 2013</b>	195,922	(67,188)	128,734
Comprehensive income for the year	–	55,720	55,720
Contribution to the charter capital <i>(Note 11)</i>	91,000	–	91,000
<b>31 December 2014</b>	286,922	(11,468)	275,454
Comprehensive income for the year	–	211,729	211,729
Contribution to the charter capital <i>(Note 11)</i>	54,375	–	54,375
<b>31 December 2015</b>	<b>341,297</b>	<b>200,261</b>	<b>541,558</b>

*The accompanying notes on pages 5 to 32 are an integral part of these financial statements.*

**STATEMENT OF CASH FLOWS****For the year ended 31 December 2015***(Thousands of tenge)*

	<i>Notes</i>	<i>2015</i>	<i>2014</i>
<b>Cash flows from operating activities</b>			
Profit before corporate income tax expense		268,652	80,471
<b>Adjustments:</b>			
Depreciation and amortisation	12	9,282	6,674
Accrued interest income		(1,001,924)	(612,080)
Accrued interest expense		265,237	182,602
Impairment charge on loans to customers	7	51,783	41,691
Accrued vacation reserve and other payroll accruals		5,829	3,586
Unrealised gains from foreign currencies		(29,923)	(16,523)
Loss from disposal of property and equipment		2,221	232
<i>Net decrease/ (increase) in operating assets:</i>			
Amounts due from credit institutions		–	(90,837)
Loans to customers		(407,681)	(534,410)
Other assets		(993)	(11,914)
<i>Net (decrease)/increase in operating liabilities:</i>			
Other liabilities		(16,264)	116,839
<b>Net cash used in operating activities before corporate income tax</b>		<b>(853,781)</b>	<b>(833,669)</b>
Interest income received		966,676	560,082
Interest expense paid		(216,437)	(130,550)
Corporate income tax paid		(29,967)	(11,436)
<b>Net cash used in operating activities</b>		<b>(133,509)</b>	<b>(415,573)</b>
<b>Cash flows from investing activities</b>			
Purchase of property and equipment		(20,631)	(15,844)
Proceeds from sale of property and equipment		–	89
Purchase of intangible assets		(1,958)	(129)
<b>Net cash used in investing activities</b>		<b>(22,589)</b>	<b>(15,884)</b>
<b>Cash flows from financing activities</b>			
Contribution to the charter capital	11	54,375	91,000
Proceeds from amounts due to credit institutions		678,830	916,012
Repayment of amounts due to credit institutions		(411,409)	(554,325)
<b>Net cash flow from financing activities</b>		<b>321,796</b>	<b>452,687</b>
Effect of exchange rate changes on cash and cash equivalents		69,325	21,004
<b>Net increase in cash and cash equivalents</b>		<b>235,023</b>	<b>42,234</b>
Cash and cash equivalents, beginning		98,104	55,870
<b>Cash and cash equivalents, ending</b>	5	<b>333,127</b>	<b>98,104</b>

*The accompanying notes on pages 5 to 32 are an integral part of these financial statements.*



(Thousands of tenge, unless otherwise indicated)

## 1. Principal activities

Asian Credit Fund Microfinance Organization Limited Liability Company ("the Company") was registered on 27 October 2005, and carrying out its activities in the territory of the Republic of Kazakhstan. On 29 December 2014, the Company was re-registered in connection with the decision of Participants on changing the name of the company from Microcredit to Microfinance Organization as per requirement of the Law of Republic of Kazakhstan "Law on Microfinance Organizations", issued on 26 November 2012, with last amendments on 28 November 2014.

The Company's principal activity is granting micro loans to customers. The Company's operations are administered in the head office, which is located in Almaty. As at 31 December 2015, the Company had 4 branches in the Republic of Kazakhstan (2014: 3 branches).

The Company is located at 189 D Tole bi St., Almaty, the Republic of Kazakhstan.

Participatory shares in the Company are distributed as follows:

<i>Name</i>	<i>Ownership in %</i>	
	<i>31 December 2015</i>	<i>31 December 2014</i>
BOPA Pte LTD	47.57	41.40
Mercy Corps	30.35	35.20
"Asian Credit Fund" Public Fund	20.18	23.40
Caravella Invest LLP	1.90	—
	<b>100.000</b>	<b>100.000</b>

The Company's shares in the charter capital are not proportional to contributions made. Controlling shareholder of the Company is Mercy Corps which has additional participatory share in the Company through "Asian Credit Fund" Public Fund.

## 2. Basis of preparation

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

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

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

## 3. Summary of significant accounting policies

### Changes in accounting policies

The Company applied the following IFRS amendments, which are effective for annual periods beginning on or after 1 January 2015:

#### *Amendments to IAS 19 Defined Benefit Plans: Employee Contributions*

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

(Thousands of tenge, unless otherwise indicated)

### 3. Summary of significant accounting policies (continued)

#### Changes in accounting policies (continued)

##### *Annual IFRS improvements 2010-2012 cycle*

These improvements are effective from 1 July 2014 and applied by the Company in these financial statements for the first time. They include:

##### *IFRS 2 Share-based Payment*

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

- a performance condition must contain a service condition;
- a performance target must be met while the counterparty is rendering service;
- a performance target may relate to the operations or activities of an entity, or to those of another entity in the same group;
- a performance condition may be a market or non-market condition;
- if the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied. The amendment had no impact on the Company's accounting policies.

##### *IFRS 3 Business Combinations*

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

##### *IFRS 8 Operating Segments*

Amendments are applied on a retrospective basis and clarify that:

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

The Company has not applied the aggregation criteria in IFRS 8.12.

##### *IFRS 13 Fair Value Measurement*

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

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

The amendments are applied retrospectively and clarify provisions of IAS 16 and IAS 38 stating that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset. The amendment had no impact on the Company's accounting policies.

##### *IAS 24 Related Party Disclosures*

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

(Thousands of tenge, unless otherwise indicated)

### 3. Summary of significant accounting policies (continued)

#### Changes in accounting policies (continued)

##### *Annual IFRS improvements 2011-2013 cycle*

These improvements are effective from 1 July 2014 and applied by the Company in these financial statements for the first time. They include:

##### *IFRS 3 Business Combinations*

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

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

The Company is not a joint arrangement, accordingly, this amendment has no impact on its accounting policies.

##### *IFRS 13 Fair Value Measurement*

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

##### *IAS 40 Investment Property*

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination. In previous periods, the Company has applied IFRS 3, not IAS 40, in determining whether the transaction constitutes an asset acquisition or a business combination. Thus, this amendment does not impact the accounting policy of the Company.

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

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

#### **Fair value measurement**

The Company evaluates such financial instruments as derivatives at fair value at each reporting date. Fair values of financial instruments measured at amortised cost are disclosed in *Note 18*.

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

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

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

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

*(Thousands of tenge, unless otherwise indicated)*

### 3. Summary of significant accounting policies (continued)

#### Fair value measurement (continued)

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

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

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

#### Financial instruments

##### *Initial recognition*

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

##### *Date of recognition*

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

##### *Financial assets at fair value through profit or loss*

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

##### *Loans to customers 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 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 months, which are not exposed to significant risk of changes in fair value and are used by the Company to settle short-term liabilities. Cash and cash equivalents are recorded at amortised cost in the statement of financial position.

#### Derivative financial instruments

In the normal course of business, the Company enters into various derivative financial instruments, including forwards and swaps in foreign exchange markets. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the statement of comprehensive income within net gains or losses from financial instruments at fair value through profit and loss.

(Thousands of tenge, unless otherwise indicated)

### 3. Summary of significant accounting policies (continued)

#### Leases

##### *Operating – Company as lessee*

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

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 instruments

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

- in the normal course of business;
- in the event of default; and
- in the event 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.

(Thousands of tenge, unless otherwise indicated)

### 3. Summary of significant accounting policies (continued)

#### Impairment of financial assets (continued)

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the 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 and relevant provision are written-off in case they are not likely to be recovered. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the statement of comprehensive income.

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

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

##### *Restructuring of loans*

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

The accounting treatment of such restructuring is as follows:

- If the loan restructuring is not caused by the financial difficulties of the borrower the Company uses the same approach as for financial liabilities described below.
- If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Company recognises the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges 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 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.

(Thousands of tenge, unless otherwise indicated)

### 3. Summary of significant accounting policies (continued)

#### Derecognition of financial assets and liabilities (continued)

##### Financial assets (continued)

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.

##### Financial liabilities

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

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

#### Taxation

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

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

A deferred 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.

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

#### Property and equipment

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

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

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

	<u>Years</u>
Computer hardware	2.5
Vehicles	4
Office furniture and equipment	2.5-7

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

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

*(Thousands of tenge, unless otherwise indicated)*

### **3. Summary of significant accounting policies (continued)**

#### **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 of 4 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

#### **Provisions**

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

#### **Retirement and other employee benefit obligations**

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

#### **Charter capital**

##### *Charter capital*

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

##### *Dividends*

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue. The ability of the Company to declare and pay dividends is subject to the rules and regulations of the Kazakhstan legislation.

#### **Contingent assets and liabilities**

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

#### **Income and expense recognition**

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

##### *Interest and similar income and expense*

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

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

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

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



(Thousands of tenge, unless otherwise indicated)

### 3. Summary of significant accounting policies (continued)

#### Foreign currency translation

The financial statements are presented in Kazakhstan tenge, which is the Company's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency at the official exchange rate established by NBRK ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of comprehensive income as "net gains/(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.

On 20 August 2015, the Government of the Republic of Kazakhstan implemented a new credit and monetary policy based on inflation targeting with the cancellation of the exchange rate band and the transition to a free floating exchange rate of tenge. This resulted in significant depreciation of tenge in relation to US dollar and other leading world currencies.

The official exchange rate established by the NBRK as at 31 December 2015 and 2014 was KZT 339.47 and KZT 182.35 to US dollar 1, respectively. The currency exchange rate as at 14 March 2016 was 343.92 tenge to US dollar 1.

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

IFRS 9 is effective for annual periods beginning on or after 1 January 2018. Early application is permitted. The standard is applied retrospectively but provision of comparative information is not mandatory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. Application of IFRS 9 will have an impact on classification and measurement of the Company's financial assets and will not have an impact on classification and measurement of its financial liabilities. The Company expects that IFRS 9 requirements to impairment will have a significant impact on its equity. The Company will need a more detailed analysis comprising all reasonable and acceptable information, including but not limited to prospective data, in order to measure the extent of such impact.

##### *IFRS 15 Revenue from Contracts with Customers*

IFRS 15 published in May 2014 establishes a new five-step model of accounting for revenue from contracts with customers. Recognition of revenue arising from lease contracts within the scope of IAS 17 *Leases* and insurance contracts within the scope of IFRS 4 *Insurance Contracts* and revenue arising in connection with financial instruments and other contractual rights and obligations within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* (or IFRS 9 *Financial Instruments*, if early adopted) is not within the scope of application of IFRS 15 and regulated by the respective standards.

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

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

(Thousands of tenge, unless otherwise indicated)

### 3. Summary of significant accounting policies (continued)

#### Standards and interpretations issued but not yet effective (continued)

##### *IFRS 14 Regulatory Deferral Accounts*

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

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

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

##### *Amendments to IAS 27 Equity Method in Separate Financial Statements*

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

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

The amendments address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture as a contribution to equity. The amendments clarify that an investor recognises a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. The amendments must be applied prospectively to transactions occurring in annual periods beginning on or after 1 January 2016. Early application is permitted.

##### *Amendments to IAS 1 Disclosure Initiative*

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

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

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of other comprehensive income. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Company.

(Thousands of tenge, unless otherwise indicated)

### 3. Summary of significant accounting policies (continued)

#### Standards and interpretations issued but not yet effective (continued)

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

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

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

##### *Annual IFRS improvements 2012-2014 cycle*

These improvements are effective on or after 1 January 2016 and are not expected to have a material impact on the Company. They include:

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

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

##### *IFRS 7 Financial Instruments: Disclosures – servicing contracts*

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

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

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

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

##### *IAS 19 Employee Benefits – discounting rate for regional market*

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

(Thousands of tenge, unless otherwise indicated)

### 3. Summary of significant accounting policies (continued)

#### Standards and interpretations issued but not yet effective (continued)

##### *Annual IFRS improvements 2012-2014 cycle (continued)*

##### *LAS 34 Interim Financial Reporting – disclosure of information 'elsewhere in the interim financial report'*

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

### 4. Significant accounting judgements and estimates

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

#### **Fair values of financial instruments**

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

#### **Allowance for impairment of loans to customers**

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 non-existent and only an insignificant number of precedents have been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organisations; thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and forfeits.

These facts create tax risks in Kazakhstan substantially more significant than typically found in countries with more developed tax systems.

Management believes that the Company is in compliance with the tax laws of the Republic of Kazakhstan regulating its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretive tax issues.

(Thousands of tenge, unless otherwise indicated)

**5. Cash and cash equivalents**

	<u>2015</u>	<u>2014</u>
Cash on hand	9	222
Current accounts with banks	333,118	97,882
<b>Cash and cash equivalents</b>	<u>333,127</u>	<u>98,104</u>

As at 31 December 2015 and 2014, cash and cash equivalents are neither past due nor impaired.

**6. Amounts due from credit institutions**

As at 31 December 2015, the Company had deposits denominated in US dollars in the amount of KZT 1,280,417 thousand or equivalent of USD 3,771 thousand (31 December 2014: KZT 687,790 thousand or USD 3,771 thousand), which are pledged as security against borrowed KZT denominated loans from Capital Bank Kazakhstan JSC (formerly SB Taib Kazakh Bank JSC) and Bank Pozitiv Kazakhstan JSC in the total amount of KZT 632,736 thousand (31 December 2014: KZT 632,717 thousand).

As at 31 December 2015 and 2014, amounts due from credit institutions are non-interest bearing and not impaired.

**7. Loans to customers**

Loans to customers comprise:

	<u>2015</u>	<u>2014</u>
Group loans	1,741,293	1,328,064
Individual loans	220,253	221,988
<b>Gross loans to customers</b>	<u>1,961,546</u>	<u>1,550,052</u>
Less: allowance for impairment	(101,499)	(81,151)
<b>Loans to customers</b>	<u>1,860,047</u>	<u>1,468,901</u>

Group loans are unsecured loans granted to groups of borrowers, who sign loan agreements with joint responsibility to repay their loans.

Loans to customers are mainly presented in the following economic sectors:

	<u>2015</u>	<u>2014</u>
Agriculture	1,230,647	877,660
Trading	437,401	418,032
Consumer	214,394	182,309
Services	61,257	53,622
Production	17,847	18,429
<b>Gross loans to customers</b>	<u>1,961,546</u>	<u>1,550,052</u>
Less: allowance for impairment	(101,499)	(81,151)
<b>Loans to customers</b>	<u>1,860,047</u>	<u>1,468,901</u>

**Allowance for impairment of loans to customers**

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

	<u>2015</u>	<u>2014</u>
<b>At the beginning of the period</b>	(81,151)	(48,383)
Net impairment charge for the year	(51,783)	(41,691)
Amounts written off for the year	38,460	10,844
Recoveries for the year	(7,025)	(1,921)
<b>At the end of the period</b>	<u>(101,499)</u>	<u>(81,151)</u>

(Thousands of tenge, unless otherwise indicated)

**7. Loans to customers (continued)****Quality of loans to customers**

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

<b>2015</b>	<i>Loans before allowance for impairment</i>	<i>Allowance for impairment</i>	<i>Loans less allowance for impairment</i>	<i>Allowance for impairment to total loans before allowance for impairment, %</i>
<b>Agriculture</b>				
- current	1,198,823	(57,220)	1,141,603	4.8%
- overdue for less than 30 days	24,613	(2,358)	22,255	9.6%
- overdue for 30 days to 59 days	3,406	(822)	2,584	24.1%
- overdue for 60 days to 89 days	1,016	(461)	555	45.4%
- overdue for 90 days to 179 days	2,789	(2,613)	176	93.7%
<b>Total agriculture</b>	<b>1,230,647</b>	<b>(63,474)</b>	<b>1,167,173</b>	<b>5.2%</b>
<b>Trading</b>				
- current	420,879	(18,902)	401,977	4.5%
- overdue for less than 30 days	10,259	(982)	9,277	9.6%
- overdue for 30 days to 59 days	2,275	(550)	1,725	24.2%
- overdue for 60 days to 89 days	1,734	(817)	917	47.1%
- overdue for 90 days to 179 days	2,254	(1,996)	258	88.6%
<b>Total trading</b>	<b>437,401</b>	<b>(23,247)</b>	<b>414,154</b>	<b>5.3%</b>
<b>Consumer loans</b>				
- current	211,610	(9,893)	201,717	4.7%
- overdue for less than 30 days	1,448	(138)	1,310	9.5%
- overdue for 30 days to 59 days	840	(191)	649	22.7%
- overdue for 90 days to 179 days	496	(471)	25	95.0%
<b>Total consumer loans</b>	<b>214,394</b>	<b>(10,693)</b>	<b>203,701</b>	<b>5.0%</b>
<b>Services</b>				
- current	60,139	(2,657)	57,482	4.4%
- overdue for less than 30 days	492	(47)	445	9.6%
- overdue for 30 days to 59 days	41	(10)	31	24.4%
- overdue for 90 days to 179 days	585	(524)	61	89.6%
<b>Total Services</b>	<b>61,257</b>	<b>(3,238)</b>	<b>58,019</b>	<b>5.3%</b>
<b>Production</b>				
- current	17,442	(808)	16,634	4.6%
- overdue for less than 30 days	405	(39)	366	9.6%
<b>Total production</b>	<b>17,847</b>	<b>(847)</b>	<b>17,000</b>	<b>4.8%</b>
<b>Total loans to customers</b>	<b>1,961,546</b>	<b>(101,499)</b>	<b>1,860,047</b>	<b>5.2%</b>

(Thousands of tenge, unless otherwise indicated)

**7. Loans to customers (continued)****Quality of loans to customers (continued)**

<b>2014</b>	<i>Loans before allowance for impairment</i>	<i>Allowance for impairment</i>	<i>Loans less allowance for impairment</i>	<i>Allowance for impairment to total loans before allowance for impairment, %</i>
<b>Agriculture</b>				
- current	854,966	(40,991)	813,975	4.8%
- overdue for less than 30 days	12,361	(1,181)	11,180	9.6%
- overdue for 30 days to 59 days	4,979	(1,162)	3,817	23.3%
- overdue for 60 days to 89 days	2,730	(1,259)	1,471	46.1%
- overdue for 90 days to 179 days	2,624	(1,988)	636	75.8%
<b>Total agriculture</b>	<b>877,660</b>	<b>(46,581)</b>	<b>831,079</b>	<b>5.3%</b>
<b>Trading</b>				
- current	405,208	(18,247)	386,961	4.5%
- overdue for less than 30 days	7,444	(717)	6,727	9.6%
- overdue for 30 days to 59 days	1,848	(437)	1,411	23.6%
- overdue for 60 days to 89 days	2,325	(1,106)	1,219	47.6%
- overdue for 90 days to 179 days	1,207	(871)	336	72.2%
<b>Total trading</b>	<b>418,032</b>	<b>(21,378)</b>	<b>396,654</b>	<b>5.1%</b>
<b>Consumer loans</b>				
- current	175,832	(8,533)	167,299	4.9%
- overdue for less than 30 days	3,795	(364)	3,431	9.6%
- overdue for 30 days to 59 days	1,698	(388)	1,310	22.9%
- overdue for 60 days to 89 days	984	(458)	526	46.5%
<b>Total consumer loans</b>	<b>182,309</b>	<b>(9,743)</b>	<b>172,566</b>	<b>5.3%</b>
<b>Services</b>				
- current	52,601	(2,278)	50,323	4.3%
- overdue for less than 30 days	818	(80)	738	9.8%
- overdue for 30 days to 59 days	174	(41)	133	23.6%
- overdue for 90 days to 179 days	29	(24)	5	82.8%
<b>Total Services</b>	<b>53,622</b>	<b>(2,423)</b>	<b>51,199</b>	<b>4.5%</b>
<b>Production</b>				
- current	17,987	(861)	17,126	4.8%
- overdue for less than 30 days	298	(27)	271	9.1%
- overdue for 90 days to 179 days	144	(138)	6	95.8%
<b>Total production</b>	<b>18,429</b>	<b>(1,026)</b>	<b>17,403</b>	<b>5.6%</b>
<b>Total loans to customers</b>	<b>1,550,052</b>	<b>(81,151)</b>	<b>1,468,901</b>	<b>5.2%</b>

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

**Analysis of collateral and other credit enhancements**

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

(Thousands of tenge, unless otherwise indicated)

**7. Loans to customers (continued)****Analysis of collateral and other credit enhancements (continued)**

The following tables comprise analysis of loans by collateral classes:

<i>2015</i>	<i>Agriculture</i>	<i>Trading</i>	<i>Consumer loans</i>	<i>Services</i>	<i>Production</i>	<i>Total loans to customers</i>	<i>Share in loan portfolio, %</i>
Real estate	–	21,869	–	3,583	–	25,452	1.3%
Other collateral	79,579	76,552	24,580	11,602	2,670	194,983	9.9%
Unsecured loans	1,151,068	338,980	189,814	46,072	15,177	1,741,111	88.8%
<b>Total</b>	<b>1,230,647</b>	<b>437,401</b>	<b>214,394</b>	<b>61,257</b>	<b>17,847</b>	<b>1,961,546</b>	<b>100.0%</b>

<i>2014</i>	<i>Agriculture</i>	<i>Trading</i>	<i>Consumer loans</i>	<i>Services</i>	<i>Production</i>	<i>Total loans to customers</i>	<i>Share in loan portfolio, %</i>
Real estate	173	8,774	–	–	–	8,947	0.6%
Other collateral	86,591	93,203	13,626	16,867	1,966	212,253	13.7%
Unsecured loans	790,896	316,055	168,683	36,755	16,463	1,328,852	85.7%
<b>Total</b>	<b>877,660</b>	<b>418,032</b>	<b>182,309</b>	<b>53,622</b>	<b>18,429</b>	<b>1,550,052</b>	<b>100.0%</b>

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

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

**Concentration of loans to customers**

As at 31 December 2015 and 2014, the Company has no borrowers or groups of interrelated borrowers whose loan balances exceed 10% of equity.

**8. Other assets and liabilities**

Other assets comprise:

	<i>2015</i>	<i>2014</i>
Advances paid	19,785	9,427
Prepaid expenses	2,939	7,990
Receivables from sale of repossessed collateral	1,001	1,226
Prepaid taxes, other than income tax	599	5,860
Inventories	307	734
Other receivables	2,573	8,172
<b>Other assets</b>	<b>27,204</b>	<b>33,409</b>

Other liabilities comprise:

	<i>2015</i>	<i>2014</i>
Unused vacation reserve	14,201	8,372
Payables to employees	9,164	227
Taxes other than corporate income tax payable	7,672	3,548
Payables to suppliers	5,490	4,670
Other	2,525	1,728
<b>Other liabilities</b>	<b>39,052</b>	<b>18,545</b>



(Thousands of tenge, unless otherwise indicated)

## 9. Amounts due to credit institutions

	2015	2014
Investment funds	2,172,291	1,148,495
Loans from other credit institutions	744,671	858,060
<b>Amounts due to credit institutions</b>	<b>2,916,962</b>	<b>2,006,555</b>

As at 31 December 2015, the Company had borrowings from eleven investment funds and three other credit institutions (31 December 2014: eight bank and five other credit institutions).

### Covenants

As at 31 December 2015, the Company was in technical breach of financial covenant under the loan agreements with Triple Jump Innovation Fund B.V. (the "Lender") dated 28 April 2014 and 8 August 2014, in respect of loan write-off ratio, which should not exceed 2%. The actual write-off ratio as at 31 December 2015 was 2.2%. The Company duly notified the Lender and received information letter dated 27 July 2016 that the Lender is considering the breach of 0.2% as not material and no actions are planned against the Company. As at 31 December 2015, carrying value of amounts due to the Lender were KZT 193,317 thousand. The Company has not received waiver from the Lender during 2015. As at 31 December 2015, loans from the Lender are classified in category "On demand and less than 1 month" (Note 14).

## 10. Taxation

The corporate income tax expense comprises:

	2015	2014
Current corporate income tax charge	(63,167)	(28,508)
Correction of prior periods tax return	(4,099)	-
Deferred corporate income tax benefit	10,343	3,757
<b>Corporate income tax expense</b>	<b>(56,923)</b>	<b>(24,751)</b>

The Republic of Kazakhstan was the only tax jurisdiction in which the Company's income is taxable. In accordance with tax legislation the applied corporate income tax rate is 20% in 2015 and 2014.

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

	2015	2014
<b>Profit before tax</b>	<b>268,652</b>	<b>80,471</b>
Statutory rate	20%	20%
<b>Theoretical corporate income tax expense at the statutory rate</b>	<b>(53,730)</b>	<b>(16,094)</b>
Correction of tax return of prior periods	(4,099)	-
Non-deductible impairment charge	(1,102)	(9,951)
Other differences	2,008	1,294
<b>Corporate income tax expense</b>	<b>(56,923)</b>	<b>(24,751)</b>

As at 31 December 2015, current corporate income tax liabilities comprised KZT 62,697 thousand (31 December 2014: KZT 25,695 thousand).

### Deferred tax assets and deferred tax liabilities

Temporary differences between the carrying amounts of assets and liabilities recorded in the financial statements and the amounts used for the purposes of calculation of taxable base, give rise to net deferred tax liability as of 31 December 2015 and 2014. The future tax benefits will only be received in the event that there are no changes in the legislation of Kazakhstan that would adversely affect the Company's ability to utilise the above benefits in future periods.

*(Thousands of tenge, unless otherwise indicated)***10. Taxation (continued)****Deferred tax assets and deferred tax liabilities (continued)**

Change in the amount of temporary differences during 2015 and 2014, may be presented as follows:

	<i>Origination and reversal of temporary differences in</i>		<i>Origination and reversal of temporary differences in</i>		
	<i>2013</i>	<i>profit or loss</i>	<i>2014</i>	<i>profit or loss</i>	<i>2015</i>
<b>Tax effect of deductible temporary differences</b>					
Discount on loans to customers	3,049	1,407	4,456	(4,303)	153
Property and equipment and intangible assets	–	–	–	660	660
Allowance for impairment of loans to customers	–	–	–	11,073	11,073
Accrued expenses for unused vacations and bonuses	957	717	1,674	1,166	2,840
<b>Deferred corporate income tax assets</b>	<b>4,006</b>	<b>2,124</b>	<b>6,130</b>	<b>8,596</b>	<b>14,726</b>
<b>Tax effect of deductible temporary differences</b>					
Discount on loans received	(2,238)	844	(1,394)	1,394	–
Property and equipment and intangible assets	–	–	–	(626)	(626)
Other payables	(474)	(505)	(979)	979	–
<b>Deferred corporate income tax liabilities</b>	<b>(2,712)</b>	<b>339</b>	<b>(2,373)</b>	<b>1,747</b>	<b>(626)</b>
<b>Unrecognized deferred tax asset</b>	<b>(1,294)</b>	<b>1,294</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Net deferred corporate income tax liabilities</b>	<b>–</b>	<b>3,757</b>	<b>3,757</b>	<b>10,343</b>	<b>14,100</b>

**11. Equity****Charter capital**

As at 31 December 2015 the Company's paid and outstanding charter capital amounted to KZT 341,297 thousand (31 December 2014: KZT 286,922 thousand).

On 6 June 2014, BOPA Pte Ltd became new Participant of the Company by making a cash contribution for KZT 91,000 thousand to charter capital.

On 2 October 2015, Caravella Invest LLP became new Participant of the Company by making a cash contribution for KZT 7,500 thousand to charter capital.

On 6 October 2015, BOPA Pte Ltd made additional cash contribution for KZT 46,875 thousand to charter capital.

(Thousands of tenge, unless otherwise indicated)

## 12. Other operating expenses

	<i>2015</i>	<i>2014</i>
Payroll, bonuses and related taxes	238,845	168,859
Rent	31,189	22,510
Transportation	23,126	16,820
Business trip expenses	20,046	15,165
Other personnel expenses	14,676	10,370
Bank fees	12,773	10,684
Consulting services	12,338	2,895
Taxes other than income tax	11,125	10,653
Professional services	10,861	10,571
Depreciation and amortisation	9,282	6,674
Communication and information services	7,606	6,430
Training of personnel	7,151	1,442
Advertising and marketing expenses	5,062	2,983
Database maintenance services	4,608	2,539
Office supplies	3,827	1,933
Repair and maintenance	1,867	1,549
Other	26,978	24,293
<b>Other operating expenses</b>	<b>441,360</b>	<b>316,370</b>

## 13. Commitments and contingencies

### Political and economic environment

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

In 2015, significant decline in crude oil prices and a significant KZT devaluation had a negative impact on the Kazakhstan economy. Combination of these factors resulted in a reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth, which could negatively affect the Company's future financial position, results of operations and business prospects. The management of the Company believes that it is taking appropriate measures to support the sustainability of the Company's business in the current circumstances.

### Legal

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

### Tax contingencies

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

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

Because of the uncertainties associated with the Kazakh tax system, the ultimate amount of taxes, penalties and fines, if any, may be in excess of the amount expensed to date and accrued at 31 December 2015. Although such amounts are possible and may be material, it is the opinion of the Company's management that these amounts are either not probable, not reasonably determinable, or both.

(Thousands of tenge, unless otherwise indicated)

### 13. Commitments and contingencies (continued)

#### Commitments and contingencies

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

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

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

	<u>2015</u>	<u>2014</u>
<b>Operating lease commitments</b>		
Not later than 1 year	2,565	12,668
1 to 5 years	—	—
<b>Commitments and contingencies</b>	<u>2,565</u>	<u>12,668</u>

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

### 14. Risk management

Management of risk is fundamental to the Company's business and is an essential element of the Company's operations. The main risks inherent to the Company's operations are:

- Credit risk.
- Operational risk.
- Liquidity risk.
- Market risk.

The Company recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Company has established a risk management framework, whose main purpose is to protect the Company from risk and allow it to achieve its performance objectives.

#### Risk management policies and procedures

The Company's risk management policies aim to identify, analyze and manage the risks faced by the Company, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

Supervisory Board of the Company has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

Management Board of the Company is responsible for monitoring and implementation of risk mitigation measures and making sure that the Company operates within the established risk parameters. Each department is responsible for direct management of the relevant risks, and together with the lawyer continuously monitors compliance with currently effective legislation.

Credit, market and liquidity risks both at portfolio and transactional levels are managed and controlled through a system of different committees.

Both external and internal risk factors are identified and managed throughout the Company's organizational structure.

Through the risk management framework, the Company manages the following risks.

#### 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.

(Thousands of tenge, unless otherwise indicated)

**14. Risk management (continued)****Market risk (continued)**

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

**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 gap analysis*

Interest rate risk is managed principally through monitoring interest rates. A summary of the interest gap for the main interest-bearing financial instruments is as follows:

	<i>Less than 3 months</i>	<i>3 to 6 months</i>	<i>6 to 12 months</i>	<i>From 1 to 5 years</i>	<i>Over 5 years</i>	<i>Carrying amount</i>
<b>2015</b>						
<b>Assets</b>						
Cash and cash equivalents	333,127	–	–	–	–	333,127
Amounts due from credit institutions	–	543,152	567,530	169,735	–	1,280,417
Loans to customers	650,271	693,200	516,576	–	–	1,860,047
Other financial assets	–	–	–	3,574	–	3,574
	983,398	1,236,352	1,084,106	172,309	–	3,477,165
<b>Liabilities</b>						
Amounts due to credit institutions	644,999	315,540	339,171	1,617,252	–	2,916,962
Other financial liabilities	9,164	–	29,888	–	–	39,052
	654,163	315,540	369,059	1,617,252	–	2,956,014
	329,235	920,812	715,047	(1,443,943)	–	521,151
<b>2014</b>						
<b>Assets</b>						
Cash and cash equivalents	98,104	–	–	–	–	98,104
Amounts due from credit institutions	–	–	–	687,790	–	687,790
Loans to customers	601,465	578,929	271,106	17,401	–	1,468,901
Other financial assets	–	–	–	9,398	–	9,398
	699,569	578,929	271,106	714,589	–	2,264,193
<b>Liabilities</b>						
Amounts due to credit institutions	–	92,790	223,605	1,690,160	–	2,006,555
Other liabilities	–	–	18,545	–	–	18,545
	–	92,790	242,150	1,690,160	–	2,025,100
	699,569	486,139	28,956	(975,571)	–	239,093

(Thousands of tenge, unless otherwise indicated)

**14. Risk management (continued)****Market risk (continued)****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:

<i>2015</i>	<i>Tenge</i>	<i>US dollars</i>	<i>Kyrgyz som</i>	<i>Other currencies</i>	<i>Total</i>
<b>Assets</b>					
Cash and cash equivalents	20,793	311,341	987	6	333,127
Amounts due from credit institutions	–	1,280,417	–	–	1,280,417
Loans to customers	1,860,047	–	–	–	1,860,047
<b>Total assets</b>	<b>1,880,840</b>	<b>1,591,758</b>	<b>987</b>	<b>6</b>	<b>3,473,591</b>
<b>Liabilities</b>					
Amounts due to credit institutions	1,330,745	1,479,225	106,992	–	2,916,962
Other financial liabilities	38,151	537	–	–	39,052
<b>Total liabilities</b>	<b>1,369,260</b>	<b>1,479,762</b>	<b>106,992</b>	<b>–</b>	<b>2,956,014</b>
<b>Net position</b>	<b>511,580</b>	<b>111,996</b>	<b>(106,005)</b>	<b>6</b>	<b>517,577</b>
<b>2014</b>					
	<i>Tenge</i>	<i>US dollars</i>	<i>Kyrgyz som</i>	<i>Other currencies</i>	<i>Total</i>
<b>Assets</b>					
Cash and cash equivalents	12,213	85,854	37	–	98,104
Amounts due from credit institutions	–	687,790	–	–	687,790
Loans to customers	1,468,901	–	–	–	1,468,901
<b>Total assets</b>	<b>1,481,114</b>	<b>773,644</b>	<b>37</b>	<b>–</b>	<b>2,254,795</b>
<b>Liabilities</b>					
Amounts due to credit institutions	1,281,801	556,184	168,570	–	2,006,555
<b>Total liabilities</b>	<b>1,281,801</b>	<b>556,184</b>	<b>168,570</b>	<b>–</b>	<b>2,006,555</b>
<b>Net position</b>	<b>199,313</b>	<b>217,460</b>	<b>(168,533)</b>	<b>–</b>	<b>248,240</b>

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.

<i>Currency</i>	<i>2015</i>			
	<i>Change in exchange rates in %</i>	<i>Effect on profit before tax</i>	<i>Change in exchange rates in %</i>	<i>Effect on profit before tax</i>
US dollar	60.00%	67,198	-20.00%	(22,399)
<i>Currency</i>	<i>2014</i>			
	<i>Change in exchange rates in %</i>	<i>Effect on profit before tax</i>	<i>Change in exchange rates in %</i>	<i>Effect on profit before tax</i>
US dollar	20.00%	44,791	-20.00%	(44,791)

(Thousands of tenge, unless otherwise indicated)

## 14. Risk management (continued)

### 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 credit policy is reviewed and approved by the Supervisory Board.

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 value of financial assets in the statement of financial position and unrecognised contractual commitments. Netting of assets and liabilities is not significant for mitigating the potential credit exposure.

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

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

	<u>2015</u>	<u>2014</u>
<b>Assets</b>		
Cash and cash equivalents	333,127	98,104
Amounts due from credit institutions	1,280,417	687,790
Loans to customers	1,860,047	1,468,901
Other financial assets	3,574	9,398
	<u>3,477,165</u>	<u>2,264,193</u>

The maximum exposures to credit risk in relation to unrecognised contractual contingencies at the reporting date are presented in *Note 15*. For more detailed information on credit risk with respect to loans to customers refer to *Note 7*.

#### *Collectively assessed allowance*

Allowances for impairment of loans to customers are assessed collectively. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio and current economic conditions.

### Operational risk

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

(Thousands of tenge, unless otherwise indicated)

## 14. 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.

### Analysis of financial liabilities by remaining contractual maturities

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

<i>31 December 2015</i>	<i>On demand and less than 1 month</i>	<i>1 to 3 months</i>	<i>3 to 6 months</i>	<i>6 to 12 months</i>	<i>Over 1 year</i>	<i>Total gross cash outflow amount</i>	<i>Carrying value</i>
<b>Financial liabilities</b>							
Amounts due to credit institutions	253,288	406,767	391,587	439,959	1,771,597	3,263,198	2,916,962
Other liabilities	–	9,164	–	29,888	–	39,052	39,052
<b>Total liabilities</b>	<b>253,288</b>	<b>415,931</b>	<b>391,587</b>	<b>469,847</b>	<b>1,771,597</b>	<b>3,302,250</b>	<b>2,956,014</b>

<i>31 December 2014</i>	<i>On demand and less than 1 month</i>	<i>1 to 3 months</i>	<i>3 to 6 months</i>	<i>6 to 12 months</i>	<i>Over 1 year</i>	<i>Total gross cash outflow amount</i>	<i>Carrying value</i>
<b>Financial liabilities</b>							
Amounts due to credit institutions	17,063	168,740	418,825	1,677,417	–	2,282,045	2,006,555
Other liabilities	–	–	–	18,545	–	18,545	18,545
<b>Total liabilities</b>	<b>17,063</b>	<b>168,740</b>	<b>418,825</b>	<b>1,695,962</b>	<b>–</b>	<b>2,300,590</b>	<b>2,025,100</b>



(Thousands of tenge, unless otherwise indicated)

## 15. Fair value measurements

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

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

### Fair value hierarchy

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

	<i>Date of valuation</i>	<i>Fair value measurement using</i>			<i>Total</i>
		<i>Quoted prices in active markets (Level 1)</i>	<i>Significant observable inputs (Level 2)</i>	<i>Significant non-observable inputs (Level 3)</i>	
<b>31 December 2015</b>					
<b>Assets for which fair values are disclosed</b>					
Cash and cash equivalents	31 December 2015	333,127	–	–	333,127
Amounts due from credit institutions	31 December 2015	–	1,280,417	–	1,280,417
Loans to customers	31 December 2015	–	2,035,961	–	2,035,961
Other financial assets	31 December 2015	–	3,574	–	3,574
<b>Liabilities for which fair values are disclosed</b>					
Amounts due to credit institutions	31 December 2015	–	2,974,350	–	2,974,350
Other financial liabilities	31 December 2015	–	39,052	–	39,052
<b>31 December 2014</b>					
<b>Assets for which fair values are disclosed</b>					
Cash and cash equivalents	31 December 2014	98,104	–	–	98,104
Amounts due from credit institutions	31 December 2014	–	687,790	–	687,790
Loans to customers	31 December 2014	–	1,860,047	–	1,860,047
Other financial assets	31 December 2015	–	9,398	–	9,398
<b>Liabilities for which fair values are disclosed</b>					
Amounts due to credit institutions	31 December 2014	–	2,029,299	–	2,029,299
Other financial liabilities	31 December 2014	–	18,545	–	18,545

During 2015 and 2014 the Company did not make transfers between levels of the fair value hierarchy for financial instruments recorded at fair value.

(Thousands of tenge, unless otherwise indicated)

**15. Fair value measurements (continued)****Fair value of financial assets and liabilities not carried at fair value**

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

	2015			2014		
	Carrying value	Fair value	Unrecognised gain	Carrying value	Fair value	Unrecognised gain
<b>Financial assets</b>						
Cash and cash equivalents	333,127	333,127	—	98,104	98,104	—
Amounts due from credit institutions	1,280,417	1,280,417	—	687,790	687,790	—
Loans to customers	1,860,047	2,035,961	175,914	1,860,047	1,860,047	—
Other financial assets	3,574	3,574	—	9,398	9,398	—
<b>Financial liabilities</b>						
Amounts due to credit institutions	2,916,962	2,974,350	57,388	2,006,555	2,029,299	22,744
Other liabilities	39,052	39,052	—	18,545	18,545	—
<b>Total unrecognised change in fair value</b>			<b>233,302</b>			<b>22,744</b>

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

*Assets for which fair value approximates carrying value*

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

*Financial assets and financial liabilities carried at amortized cost*

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

**16. Maturity analysis of assets and liabilities**

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. For the Company's contractual undiscounted repayment obligations refer to *Note 17*.

	2015			2014		
	Within one year	More than one year	Total	Within one year	More than one year	Total
Cash and cash equivalents	333,127	—	333,127	98,104	—	98,104
Amounts due from credit institutions	1,110,682	169,735	1,280,417	—	687,790	687,790
Loans to customers	1,860,047	—	1,860,047	1,451,500	17,401	1,468,901
Deferred corporate income tax assets	—	39,209	39,209	—	30,033	30,033
Property and equipment	—	14,100	14,100	—	3,757	3,757
Intangible assets	—	6,165	6,165	—	4,255	4,255
Other assets	23,630	3,574	27,204	24,011	9,398	33,409
<b>Total</b>	<b>3,327,486</b>	<b>232,783</b>	<b>3,560,269</b>	<b>1,573,615</b>	<b>752,634</b>	<b>2,326,249</b>
Amounts due to credit institutions	1,299,710	1,617,252	2,916,962	316,395	1,690,160	2,006,555
Current corporate income tax liabilities	—	62,697	62,697	—	25,695	25,695
Other liabilities	39,052	—	39,052	18,545	—	18,545
<b>Total</b>	<b>1,338,762</b>	<b>1,679,949</b>	<b>3,018,711</b>	<b>334,940</b>	<b>1,715,855</b>	<b>2,050,795</b>
<b>Net position</b>	<b>1,988,724</b>	<b>(1,447,166)</b>	<b>541,558</b>	<b>1,238,675</b>	<b>(963,221)</b>	<b>275,454</b>

(Thousands of tenge, unless otherwise indicated)

## 17. 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 members of key management personnel

Compensation of key management personnel was comprised of the following:

	<u>2015</u>	<u>2014</u>
Salaries and other short-term benefits	50,576	30,075
Social security costs	5,011	3,308
<b>Total compensation to the key management personnel</b>	<b>55,587</b>	<b>33,383</b>

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

The balances as well as the corresponding gain or loss on transactions with other related parties are as follows:

	<i>Participants of the Company's charter capital</i>		<i>Entities under common control</i>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
<b>Statement of financial position</b>				
<b>Assets</b>				
Other assets	1,166	-	-	-
<b>Liabilities</b>				
Amounts due to credit institutions:	-	-	106,992	75,780
Other liabilities	160	10	-	-
<b>Statement of comprehensive income</b>				
Interest expenses	-	-	12,928	25,034

## 18. Capital adequacy

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

As at 31 December 2015 and 2014, the Company had complied in full with all its externally imposed capital requirements.

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

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

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

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

	<u>2015</u>
Tier 1 capital	639,741
<b>Total assets</b>	<b>3,626,528</b>
<b>Tier 1 capital ratio</b>	<b>17.6%</b>

*(Thousands of tenge, unless otherwise indicated)***18. Capital adequacy (continued)**

	<u>2015</u>
Tier 1 capital	639,741
Total amount due from one borrower	3,443
Maximum exposure per single borrower to Tier 1 Capital	0.2%
	<u>2015</u>
Tier 1 capital	639,741
Total liabilities of a microfinance organisation except for liabilities to non-residents of the Republic of Kazakhstan, which are international financial organisations	2,981,749
Maximum exposure of total liabilities to Tier 1 Capital	466%