“KazAgro” National Management Holding Joint Stock Company

Consolidated financial statements

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

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Independent auditor's report

To the Shareholders and Board of Directors of Joint Stock Company "KazAgro" National Management Holding

Opinion

We have audited the consolidated financial statements of Joint Stock Company "KazAgro" National Management Holding and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters.

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Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matters	***Description of Auditor's Response***
Allowance for impairment of loans to customers and finance lease receivables	
Allowance for impairment of loans to customers and finance lease receivables is the key area of the Group's management judgement. Determination of the evidence of impairment and assessment of the recoverable amount are the processes that involve high level of subjective judgment, use of assumptions and analysis of different factors, including borrower's or lessee's financial position, expected future cash flows and value of collateral or leased property. Use of different models and assumptions may materially affect the amount of allowance for impairment. Due to the substantial balances of loans to customers and finance lease receivables, which in aggregate amount to 24% and 16% of the Group's total assets as at 31 December 2017, respectively, and significant judgments used by the management, estimation of allowance for impairment was the key audit matter.	Our audit procedures included analysis of the methodology on estimation of allowance for impairment of loans to customers and finance lease receivables. As part of the audit procedures, we analyzed assumptions and tested the accuracy of inputs used by the Group in its assessment of impairment of loans to customers and finance lease receivables on a collective basis, such as loss rates, probability of default and loss given default rates. We analyzed the sequence of the Group's management judgments used in assessment of the statistical information on the losses incurred, as well as conformity of the applied impairment model with general practice and our professional judgment. With regard to assessment of impairment of loans to customers and finance lease receivables on an individual basis, we performed the analysis of the Group's management expectations on future cash flows, including the cash flows that may result from foreclosure of collateral or repossession of leased property, based on our professional judgment and information available in the market. We assessed the information on allowance for impairment of loans to customers and finance lease receivables disclosed in *Notes 10, 11* and *45* to the consolidated financial statements.

Compliance with debt covenants

In accordance with the terms of Eurobonds issued, the Group should maintain and comply with certain financial and non-financial covenants. Breaching covenants could result in significant fines and penalties along with funding shortages. Cross-default provisions are in place under the Group's certain financing arrangements with credit institutions and the documentation of Eurobonds issuance. Compliance with the covenants is one of the matters of most significance in the audit as it can have a major impact on the going concern assumption used in the preparation of the consolidated financial statements, and on classification of financial liabilities in the consolidated financial statements.

We have examined the terms of financing arrangements with credit institutions and the documentation of Eurobonds issuance. We evaluated management's calculations on the covenant ratios and the sensitivity analysis on covenant ratio forecast throughout 2018.

We assessed the information disclosed in *Note 27* to the consolidated financial statements.

Recoverability of deferred income tax assets

We considered this matter to be one of the key audit matters of the current period due to the magnitude of the amounts involved and subjective judgments of the Group's management used in estimating the recoverability of deferred income tax assets, which is impacted by uncertainties regarding the likely timing and amount of future taxable profits, together with tax planning strategies and the statutory expiration of tax losses.

Our audit procedures in respect of recoverability of deferred income tax assets included assessment, with involvement of our tax specialists, of the forecasts of future taxable profit developed by the management of the Group based on budgets and management's assessment of business perspectives. We evaluated the significant assumptions made in the forecasts and compared them to externally available data and actual data on the Group's business activity.

We assessed the information on deferred income tax assets disclosed in Note 30 to the consolidated financial statements.

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Allowance for impairment of amounts due from credit institutions

The assessment of allowance for impairment of amounts due from credit institutions is a key area of judgement for management. The identification of impairment and the determination of the recoverable amount are an inherently uncertain process involving various assumptions and factors including the financial condition of the credit institutions and expected future cash flows.

The use of different modelling techniques and assumptions could produce significantly different estimates of impairment allowance. Due to the significance of amounts due from credit institutions, representing 21% of total assets, and the related assumptions used by the management, estimation of impairment allowance on amounts due from credit institutions is considered as one of the key audit matters.

We assessed the assumptions underlying the impairment identification including credit ratings and liquidity position of credit institutions and existence of any violations of local solvency requirements.

With regards to impairment identification of credit institutions we assessed management's expectations on collection of future cash flows based on our professional judgement and available information in the market.

We analyzed information on impairment allowance on amounts due from credit institutions, provided in *Note 8* to the consolidated financial statements.

Other information included in the Group's 2017 Annual report

Other information consists of the information included in the Annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available to us and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of management and the Audit Committee of the Board of Directors for the consolidated financial statements

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

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

The Internal Audit and Risk Committee of the Board of Directors ("the Audit Committee of the Board of Directors") preliminary approves the consolidated financial statements, makes recommendations to the Board of Directors on the fundamentals, components and principles of the risk management structure and internal control system.

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

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- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the Audit Committee of the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee of the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Bakhtiyor Eshonkulov.

Ernst & Young LLP

Bakhtiyor Eshonkulov
Auditor / audit partner

Gulmira Turmagambetova
General director
Ernst & Young LLP

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

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

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Al-Farabi Ave., 77/7, Esentai Tower

20 April 2018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2017

(thousands of tenge)

	Notes	*2017*	*2016**
Assets			
Cash and cash equivalents	7	**257,786,972**	277,763,188
Amounts due from credit institutions	8	**253,883,472**	367,640,831
Derivative financial assets	9	**–**	829,066
Loans to customers	10	**292,132,717**	264,324,127
Finance lease receivables	11	**193,143,852**	207,316,386
Available-for-sale investment securities	12	**336,600**	272,754
Held-to-maturity investment securities	13	**67,928,097**	23,306,474
Investments in associates and joint ventures	14	**6,047,437**	3,147,071
Accounts receivable	15	**33,614,838**	47,031,635
Advances paid	16	**6,634,268**	5,988,726
Inventories	17	**24,447,966**	14,024,060
Minimum stock of grain	18	**20,684,273**	16,783,105
Assets held for finance lease	19	**5,957,215**	6,519,211
Assets held for sale	20	**914,235**	1,279,864
VAT and other taxes recoverable	21	**5,249,073**	3,464,767
Current corporate income tax assets	30	**12,054,639**	8,870,231
Deferred corporate income tax assets	30	**2,080,553**	6,266,626
Investment property		**386,730**	522,299
Property and equipment	22	**9,096,963**	9,491,715
Goodwill		**41,300**	41,300
Intangible assets	23	**1,262,474**	770,948
Other assets		**4,444,438**	2,962,102
Total assets		**1,198,128,112**	1,268,616,486
Liabilities			
Amounts due to the Government of the Republic of Kazakhstan	24	**67,648,798**	69,458,586
Amounts due to credit institutions	25	**48,753,900**	51,423,485
Debt securities issued in tenge	26	**232,147,922**	214,396,259
Eurobonds issued	27	**559,652,694**	531,168,887
Trade accounts payable	28	**4,989,594**	6,557,170
Advances received	29	**6,639,129**	2,888,370
Current corporate income tax liabilities	30	**37,492**	119,542
Deferred corporate income tax liabilities	30	**8,092,552**	3,629,851
VAT and other taxes payable		**5,353,112**	3,737,949
Other liabilities		**8,828,028**	5,326,659
Total liabilities		**942,143,221**	888,706,758

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

as at 31 December 2017

(thousands of tenge)

	Notes	*2017*	*2016**
Equity			
Share capital	31	**417,922,214**	364,515,731
Additional paid-in capital	31	**140,205,586**	131,355,626
Consolidation reserve	31	**(10,974,734)**	(10,974,734)
Foreign currency translation reserve		**101,648**	335,650
Revaluation reserve for available-for-sale investment securities		**112,891**	49,044
Reserve funds	31	**22,094,033**	10,184,314
Reserve for notional distribution	31	**(53,363,848)**	(36,745,010)
Accumulated losses		**(260,113,731)**	(78,846,663)
Total equity attributable to the Shareholder of the Company		255,984,059	379,873,958
Non-controlling interests		**832**	35,770
Total equity		255,984,891	379,909,728
Total equity and liabilities		1,198,128,112	1,268,616,486
Book value per common share (in tenge)	31	**609.40**	1,040.00

** Certain amounts included in this column do not agree to the consolidated financial statements for 2016 as they reflect the reclassifications made and disclosed in Note 5.*

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

«КазАгро»

Malelov N.T. — Chairman of the Management Board

Zholdassov Y.R. — Managing Director for Finance – member of the Management Board

Zhumabayeva S.R. — Chief Accountant

20 April 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2017

(thousands of tenge)

	Notes	*2017*	*2016**
Revenue from sale of goods and services	33	**18,121,696**	31,898,256
Cost of sales	34	**(15,046,013)**	(20,703,515)
Gross profit		**3,075,683**	11,194,741
Interest income	35	**108,191,786**	92,641,975
Interest expenses	36	**(57,653,649)**	(43,400,296)
Net interest income		**50,538,137**	49,241,679
Impairment charge on interest earning assets	37	**(106,686,738)**	(25,969,140)
Net interest (loss)/income after impairment charge on interest earning assets		**(56,148,601)**	23,272,539
Net losses from transactions with derivative financial assets	38	**(767,540)**	(947,531)
Net (losses)/gains from foreign currencies		**(28,449,520)**	12,529,878
Share in loss of associates and joint ventures	14	**(145,789)**	(22,128)
Other income	39	**6,463,280**	8,052,688
Net other operating (loss)/income		**(22,899,569)**	19,612,907
Personnel expenses	40	**(5,282,031)**	(4,724,130)
Other operating expenses	40	**(6,312,556)**	(6,121,455)
Selling expenses	41	**(7,385,127)**	(7,895,750)
Net losses from restructuring of loans to customers	42	**(1,329,450)**	(818,922)
Other impairment charge	43	**(15,622,639)**	(8,856,442)
Non-interest expenses		**(35,931,803)**	(28,416,699)
(Loss)/profit before corporate income tax expense		**(111,904,290)**	25,663,488
Corporate income tax expense	30	**(14,113,829)**	(7,111,645)
(Loss)/profit for the year		**(126,018,119)**	18,551,843
Attributable to:			
- Shareholder of the Company		**(126,020,149)**	18,550,687
- non-controlling interests		**2,030**	1,156
		(126,018,119)	18,551,843
Basic and diluted (loss)/earnings per share (in tenge)	31	**(322.68)**	60.20

** Certain amounts included in this column do not agree to the consolidated financial statements for 2016 as they reflect the reclassifications made and disclosed in Note 5.*

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

«КазАгро»

Malelov N.T. — Chairman of the Management Board

Zholdassov Y.R. — Managing Director for Finance – member of the Management Board

Zhumabayeva S.R. — Chief Accountant

20 April 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2017

(thousands of tenge)

	2017	*2016*
(Loss)/profit for the year	**(126,018,119)**	18,551,843
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Net change in fair value of available-for-sale investment securities, net of tax	**63,847**	33,292
Foreign currency translation differences (*Note 14*)	**(234,002)**	(274,289)
Other comprehensive loss to be reclassified to profit or loss in subsequent periods	**(170,155)**	(240,997)
Total comprehensive (loss)/income for the year	**(126,188,274)**	18,310,846
Attributable to:		
- Shareholder of the Company	**(126,190,304)**	18,309,690
- non-controlling interests	**2,030**	1,156
	(126,188,274)	18,310,846

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

«ҚазАгро» "ҚазАгро" ҰЛТТЫҚ БАСҚАРУШЫ ХОЛДИНГІ АКЦИОНЕРНОЕ ОБЩЕСТВО НАЦИОНАЛЬНЫЙ УПРАВЛЯЮЩИЙ ХОЛДИНГ "КазАгро" ҚАЗАҚСТАН РЕСПУБЛИКАСЫ АСТАНА ҚАЛАСЫ

Malelov N.T.	Chairman of the Management Board
Zholdassov Y.R.	Managing Director for Finance – member of the Management Board
Zhumabayeva S.R.	Chief Accountant

20 April 2018

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2017

(thousands of tenge)

	Equity attributable to the Shareholder of the Company										
	Share capital	*Additional paid-in capital*	*Consolida-tion reserve*	*Foreign currency translation reserve*	*Revaluation reserve for available-for-sale investment securities*	*Reserve funds*	*Reserve for notional distribution*	*Accumulated losses*	*Total*	*Non-controllin g interests*	*Total equity*
As at 31 December 2015	287,816,731	124,984,940	(10,974,734)	609,939	15,752	10,008,217	(26,752,342)	(97,221,253)	288,487,250	34,614	288,521,864
Profit for the year	–	–	–	–	–	–	–	18,550,687	18,550,687	1,156	18,551,843
Other comprehensive loss for the year	–	–	–	(274,289)	33,292	–	–	–	(240,997)	–	(240,997)
Total comprehensive income for the year	–	–	–	(274,289)	33,292	–	–	18,550,687	18,309,690	1,156	18,310,846
Issue of share capital *(Note 31)*	76,699,000	–	–	–	–	–	–	–	76,699,000	–	76,699,000
Gain on initial recognition of loans from the Shareholder at fair value *(Note 31)*	–	6,370,686	–	–	–	–	–	–	6,370,686	–	6,370,686
Reserve for notional distribution for the year *(Note 31)*	–	–	–	–	–	–	(9,992,668)	–	(9,992,668)	–	(9,992,668)
Transfer to reserve funds *(Note 31)*	–	–	–	–	–	176,097	–	(176,097)	–	–	–
As at 31 December 2016	364,515,731	131,355,626	(10,974,734)	335,650	49,044	10,184,314	(36,745,010)	(78,846,663)	379,873,958	35,770	379,909,728
Loss for the year	–	–	–	–	–	–	–	**(126,020,149)**	**(126,020,149)**	**2,030**	**(126,018,119)**
Other comprehensive loss for the year	–	–	–	**(234,002)**	**63,847**	–	–	–	**(170,155)**	–	**(170,155)**
Total comprehensive loss for the year	–	–	–	**(234,002)**	**63,847**	–	–	**(126,020,149)**	**(126,190,304)**	**2,030**	**(126,188,274)**
Issue of share capital *(Note 31)*	**53,406,483**	–	–	–	–	–	–	–	**53,406,483**	–	**53,406,483**
Gain on initial recognition of loans from the Shareholder at fair value *(Note 31)*	–	**8,849,960**	–	–	–	–	–	–	**8,849,960**	–	**8,849,960**
Reserve for notional distribution for the year *(Note 31)*	–	–	–	–	–	–	**(16,618,838)**	–	**(16,618,838)**	–	**(16,618,838)**
Other transactions with the Shareholder *(Note 13, 18)*	–	–	–	–	–	–	–	**(42,225,072)**	**(42,225,072)**	–	**(42,225,072)**
Disposal of non-controlling interest	–	–	–	–	–	–	–	–	–	**(36,968)**	**(36,968)**
Dividends declared *(Note 31)*	–	–	–	–	–	–	–	**(1,112,128)**	**(1,112,128)**	–	**(1,112,128)**
Transfer to reserve funds *(Note 31)*	–	–	–	–	–	**11,909,719**	–	**(11,909,719)**	–	–	–
As at 31 December 2017	**417,922,214**	**140,205,586**	**(10,974,734)**	**101,648**	**112,891**	**22,094,033**	**(53,363,848)**	**(260,113,731)**	**255,984,059**	**832**	**255,984,891**

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

Malelov N.T. — Chairman of the Management Board

Zholdassov Y.R. — Managing Director for Finance – member of the Management Board

Zhumabayeva S.R. — Chief Accountant

«КазАгро»

20 April 2018

The accompanying notes on pages 8 to 64 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2017

(thousands of tenge)

	Notes	2017	2016*
Cash flows from operating activities			
(Loss)/profit before corporate income tax expense		**(111,904,290)**	25,663,488
Adjustments for:			
Depreciation and amortisation		**847,938**	870,217
Share in loss of associates and joint ventures	14	**145,789**	22,128
Interest income accrued	35	**(108,191,786)**	(92,641,975)
Interest expenses accrued	36	**57,653,649**	43,400,296
Impairment charge for interest earning assets	37	**106,686,738**	25,969,140
Other impairment charge	43	**15,622,639**	8,856,442
Net losses from restructuring of loans to customers	42	**1,329,450**	818,922
Loss on disposal of subsidiary		**–**	612,813
Unrealised losses from derivative financial assets	38	**829,066**	1,017,754
Gain on re-acquisition of Eurobonds issued	39	**–**	(1,901,834)
Unrealised losses/(gains) from foreign currencies		**27,577,713**	(12,463,976)
Other expenses		**(165,746)**	–
Cash flows from operating activities before changes in operating assets and liabilities		**(9,568,840)**	223,415
Net decrease/(increase) in operating assets:			
Amounts due from credit institutions		**82,653,282**	35,472,175
Loans to customers		**(44,227,378)**	(31,764,504)
Finance lease receivables		**18,278,523**	(11,973,032)
Accounts receivable		**(16,099,658)**	9,531,925
Advances paid		**(3,608,486)**	(1,910,906)
Inventories		**(5,012,568)**	8,340,924
Assets held for finance lease		**–**	(307)
VAT and other taxes recoverable		**(2,739,360)**	227,114
Other assets		**(2,124,688)**	(9,645)
Net increase/(decrease) in operating liabilities:			
Trade accounts payable		**4,379,338**	(749,144)
Advances received		**12,651,732**	344,730
VAT and other taxes payable		**(85,394)**	(142,503)
Other liabilities		**3,862,466**	1,379,510
Net cash flows from operating activities before corporate income tax		38,358,969	8,969,752
Interest received		**88,071,017**	78,088,813
Interest paid		**(42,166,528)**	(34,766,963)
Corporate income tax paid		**(6,633,056)**	(4,839,131)
Net cash flows received from operating activities		77,630,402	47,452,471

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

for the year ended 31 December 2017

(thousands of tenge)

	Notes	*2017*	*2016**
Cash flows from investing activities			
Proceeds from sale of property and equipment		**132,866**	72,565
Purchase of property and equipment		**(586,062)**	(298,810)
Purchase of intangible assets	23	**(690,714)**	(172,666)
Advance payment received for sale of a subsidiary		**–**	236,100
Acquisition of held-to-maturity investment securities		**(95,012,966)**	(23,238,497)
Contribution to capital of associates and joint ventures	14	**(3,432,608)**	(78,323)
Proceeds from disposal of a subsidiary, net of cash disposed		**(26,058)**	–
Dividends received		**131,674**	–
Net cash flows used in investing activities		**(99,483,868)**	(23,479,631)
Cash flows from financing activities			
Proceeds from issue of shares	31	**23,267,000**	76,699,000
Proceeds from debt securities issued in tenge	50	**10,000,000**	78,000,000
Re-acquisition of Eurobonds issued	50	**–**	(11,052,343)
Costs and fees paid for modification of the terms of Eurobonds issued	50	**–**	(6,531,820)
Proceeds from amounts due to the Government of the Republic of Kazakhstan	50	**90,532,771**	94,150,641
Repayment of amounts due to the Government of the Republic of Kazakhstan	50	**(80,664,503)**	(60,384,288)
Proceeds from amounts due to credit institutions	50	**19,408,761**	62,690,275
Repayment of amounts due to credit institutions	50	**(22,772,585)**	(61,674,209)
Dividends paid	31	**(1,112,128)**	–
Net cash flows received from financing activities		**38,659,316**	171,897,256
Reclassification of cash on current accounts	8	**(36,770,666)**	–
Effect of exchange rates changes on cash and cash equivalents		**(11,400)**	(3,478,959)
Net change in cash and cash equivalents		**(19,976,216)**	192,391,137
Cash and cash equivalents, beginning of the year	7	**277,763,188**	85,372,051
Cash and cash equivalents, end of the year	7	**257,786,972**	277,763,188

** Certain amounts included in this column do not agree to the consolidated financial statements for 2016 as they reflect the reclassifications made and disclosed in Note 5.*

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

«КазАгро»

Malelov N.T. — Chairman of the Management Board

Zholdassov Y.R. — Managing Director for Finance – member of the Management Board

Zhumabayeva S.R. — Chief Accountant

20 April 2018

(thousands of tenge, unless otherwise stated)

1. Principal activities

Joint Stock Company "KazAgro" National Management Holding (hereinafter, the "Company") was established in 2007 by the Government of the Republic of Kazakhstan in accordance with the laws of the Republic of Kazakhstan. The Company was established in accordance with the Order of the President of the Republic of Kazakhstan dated 11 December 2006 No. 220 *On Certain Issues Related to Development of Agro-Industrial Complex* for the purpose of implementing the governmental policy related to generation and development of the competitive and export oriented agricultural industry.

The registered office of the Company is located at the following address: 24, Republic Ave., Astana, Republic of Kazakhstan.

These consolidated financial statements comprise of the financial statements of the Company and its subsidiaries (hereinafter, the "Group"). The following subsidiaries are owned by the Company as at 31 December:

Name	*Country*	*Type of activities*	*Year of establish-ment*	*Year of acquisi-tion*	*Percentage of ownership, %* 2017	2016
National Company "Food Contract Corporation" JSC	Kazakhstan	Maintaining state grain reserves at the levels required to supply the population of Kazakhstan with grain and grain products, to maintain grain reserves at the required level and to ensure timely grain replenishment.	1995	2007	**100.0%**	100.0%
KazAgroProduct JSC	Kazakhstan	Organisation of the livestock products purchase, production, processing and supply to export and domestic markets.	2001	2007	**100.0%**	100.0%
KazAgroFinance JSC	Kazakhstan	Financing of enterprises in agricultural sector of the Republic of Kazakhstan.	1999	2007	**100.0%**	100.0%
Agrarian Credit Corporation JSC	Kazakhstan	Implementation of state policy regarding financing the development of competitive businesses in the countryside	2001	2007	**100.0%**	100.0%
Fund of Financial Support for Agriculture JSC	Kazakhstan	Implementation of state policies for expanding access to financial and credit resources for the rural population through the creation of institutional infrastructure of microcredit in rural areas for economic development of rural areas, social equality, increasing the income level of disadvantaged population, as well as assistance in development of insurance market, in particular the obligatory insurance of crop husbandry as an agent of the Government of the Republic of Kazakhstan.	1998	2007	**100.0%**	100.0%
KazAgroGarant JSC	Kazakhstan	Implementation of state policy for growth in lending of agricultural sector, minimizing the risks of grain and cotton holders by expanding guarantee volumes on a non-commercial basis.	2003	2007	**100.0%**	100.0%
KazAgroMarketing LLP	Kazakhstan	Implementation of state policies for the creation of a market infrastructure to promote agricultural products and services, which guarantees greater access for agricultural entities to data resources and consulting based on developed regional network of rural information centers, and modern technology.	2003	2007	**100.0%**	100.0%

The Group's principal activities include maintenance of state grain reserves at the levels required to supply the population of Kazakhstan with grain and grain products, timely grain replenishment, lending, and investing in finance leases to the agricultural sector, financing infrastructure for preparation, processing, storage and supply and distribution of agricultural products, financing non-agricultural entrepreneurship in rural areas and marketing research.

The Group is also responsible for accounting maintenance and monitoring of quality, quantity and safety of the state grain reserves, and also participates in the development and implementation of government lending programs and financial support for the agricultural sector.

(thousands of tenge, unless otherwise stated)

1. Principal activities (continued)

As at 31 December, the Company's main subsidiaries owned the following companies:

Name	*Country of residence*	*Type of activities*	*Percentage of ownership 2017*	*Percentage of ownership 2016*
Ak-Bidai Terminal JSC	Kazakhstan	Grain terminal	**100.0%**	100.0%
Expert Agrarian Company LLP	Kazakhstan	Business review, issue of guarantees	**100.0%**	100.0%
Astyk Koimalary LLP	Kazakhstan	Grain storage and processing	**100.0%**	100.0%
NurAgro LLP	Kazakhstan	Storage and sale of tomatoes and onions	**100.0%**	100.0%
Astana Agro LLP	Kazakhstan	Production of agricultural products	**100.0%**	100.0%
Rudnenskiy GMK LLP	Kazakhstan	Production of milk	**100.0%**	100.0%
KazMeat LLP	Kazakhstan	Finance lease of cattle	**100.0%**	100.0%
AgroKurylys Kazakhstan LLP	Kazakhstan	Construction of agricultural facilities	**100.0%**	100.0%
Center for Assistance of Microcredit Organizations LLP	Kazakhstan	Development of microfinance sector	**0.0%**	90.0%

The Group is also responsible for keeping accounting records and monitoring the quality, quantity and security of state grain resources.

As at 31 December 2017, investments in associates include the Group's share in 17 micro-credit organisations (in 2016: 17 organizations). The Group's ownership share in micro-credit organizations as at 31 December 2017 ranged from 41.6% to 49.0% (in 2016: 49.0%).

On 7 December 2015, Group signed an agreement with Hungarian Export-Import Bank Plc. on creation of the Kazakh-Hungarian private equity fund "Kazakhstan Hungarian Investment Private Equity Fund CV" / trade name "CCL Kazakhstan "Silk Road" Agriculture Growth Fund", with contribution in the total amount of 20,000,000 US Dollars within 10 years, the share of the Group is 49.5%.

The founder and sole shareholder of the Company is the Republic of Kazakhstan represented by the Government of the Republic of Kazakhstan. In accordance with the Resolution of the Government of the Republic of Kazakhstan No. 1247 dated 23 December 2006, the title of the state package of shares of the Company was transferred to the Ministry of Agriculture of the Republic of Kazakhstan (hereinafter, the "Shareholder").

2. Basis of preparation

General

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

These consolidated financial statements have been prepared under the historical cost convention, except for available-for-sale investment securities, biological assets and derivative financial assets which have been measured at fair value and inventory stated at the lower of cost and net realisable value.

These consolidated financial statements are presented in thousands of Kazakhstan tenge ("tenge" or "KZT"), unless otherwise stated.

The consolidated financial statements of the Group have been prepared on the assumption that the Group will be able to continue as a going concern based on expectations and estimates made by management. The availability of sufficient financing and the Group's ability to settle its existing obligations are critical for the going concern assumption. These expectations and assessments can be influenced by events, such as future support from the Shareholder, expected future cash flows and projected financial results. The management believes that the Group will continue its operations in the foreseeable future and, if necessary, is able to obtain the necessary financial support from the Shareholder.

(thousands of tenge, unless otherwise stated)

3. Summary of significant accounting policies

Changes in accounting policies

The Group applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2017. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective. The nature and the impact of each amendment is described below:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Group has provided the information for both the current and the comparative period in *Note 50*.

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

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealised losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. Application of the amendments has no effect on the Group's financial position and performance as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the Scope of Disclosure Requirements

The amendments clarify that certain disclosure requirements in IFRS 12 apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified as held for sale or included in a disposal group. These amendments did not affect the Group's consolidated financial statements.

Basis of consolidation

Subsidiaries, which are those entities which are controlled by the Group, are consolidated. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee).
- Exposure, or rights, to variable returns from its involvement with the investee.
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee.
- Rights arising from other contractual arrangements.
- The Group's voting rights and potential voting rights.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

If the Group loses control over a subsidiary, it derecognises the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognises the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

(thousands of tenge, unless otherwise stated)

3. Summary of significant accounting policies (continued)

Basis of consolidation (continued)

Investments in associates and joint ventures

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognised at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate. The Group's share of its associates' profits or losses is recognised in the consolidated statement of profit or loss, and its share of movements in reserves is recognised in other comprehensive income. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investments in its associate and joint venture are accounted for using the equity method. Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is subsequently increased or decreased due to recognition of the Group's share in changes in net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. The consolidated statement of profit or loss reflects the share of the Group in the financial results of operations of the associate or joint venture. Any change in other comprehensive income (OCI) of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The Group's share in profit or loss of the associate and joint venture is shown directly in the consolidated statement of profit or loss beyond the operating profit. It represents profit or loss after tax and non-controlling interests in the subsidiaries of the joint venture or associate. The financial statements of the associate or joint venture are prepared for the same reporting period as the Group's consolidated financial statements.

When necessary, adjustments are made to bring the accounting policies in line with those of the Group. After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. As at each reporting date the Group determines if there is objective evidence that an investment in associate and joint is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying amount and recognizes the loss in the "share in loss of associates and joint ventures" in the consolidated statement of profit or loss.

Upon loss of significant influence on the associate or joint venture, the Group measures and recognises its remaining investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

(thousands of tenge, unless otherwise stated)

3. Summary of significant accounting policies (continued)

Fair value measurement

The Group measures financial instruments, such as trading and available-for-sale securities, derivatives and non-financial assets such as investment property, at fair value at each balance sheet date. Fair values of financial instruments measured at amortised cost are disclosed in *Note 46*.

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

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

The principal or the most advantageous market must be accessible by the Group. 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 Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. The Group 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 Group 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.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. Income and expenses are recorded in profit or loss upon impairment of investments as well as in the process of amortization.

Loans and receivables

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

3. Summary of significant accounting policies (continued)

Financial assets (continued)

Available-for-sale financial assets

Available-for-sale financial assets represent non-derivative financial assets that are classified as available-for-sale or are not included in any of three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired. At which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to the consolidated statement of profit or loss. However, interest calculated using the effective interest method is recognised in profit or loss.

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Group has the intention and ability to hold it for the foreseeable future or until maturity;
- other financial assets may be reclassified to available-for-sale or held-to-maturity categories only in rare circumstances.

A financial asset classified as available for sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category if the Group has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognised in profit or loss is not reversed. The fair value of the financial asset as at the date of reclassification becomes its new cost or amortised cost, as applicable.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and amounts due from credit institutions that mature within 90 (ninety) days of the date of origination and are free from contractual encumbrances.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments, including swaps and options in the foreign exchange market. 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 consolidated statement of profit or loss as net gains/(losses) from transactions with derivative financial instruments.

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

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to the Government of the Republic of Kazakhstan, amounts due to credit institutions and debt securities issued. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the borrowings are derecognised as well as through the amortisation process.

If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in profit or loss.

(thousands of tenge, unless otherwise stated)

3. Summary of significant accounting policies (continued)

Leases

Finance – Group as lessee

The Group recognises finance leases as assets and liabilities in the consolidated statement of financial position at the date of commencement of the lease term at amounts equal to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise the Group's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The costs identified as directly attributable to activities performed by the lessee for a finance lease, are included as part of the amount recognised as an asset under the lease.

Finance – Group as lessor

The Group recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are recorded within the initial amount of lease receivables.

Operating lease – Group 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.

Operating lease – Group as lessor

The Group presents assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in profit or loss on a straight-line basis over the lease term. The aggregate cost of incentives provided to lessees is recorded as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

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

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

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

(thousands of tenge, unless otherwise stated)

3. Summary of significant accounting policies (continued)

Advances paid

Advances paid are stated at cost after deducting allowances for impairment losses for uncollectable amounts.

Impairment of financial assets

The Group 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 Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's 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 together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. 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 consolidated statement of profit or loss.

The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

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

(thousands of tenge, unless otherwise stated)

3. Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

Held-to-maturity financial investments

For held-to-maturity investments the Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to the consolidated statement of profit or loss.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition coast and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is reclassified from other comprehensive income to the consolidated statement of profit or loss. Impairment losses on equity investments are not reversed through the consolidated statement of profit or loss; increases in their fair value after impairment are recognised in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in profit or loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated statement of profit or loss.

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. The accounting treatment of such restructuring is as follows:

- If the currency of the loan has been changed the old loan is derecognised and the new loan is recognised.
- If the loan restructuring is not caused by the financial difficulties of the borrower the Group uses the same approach as for financial liabilities described below.
- If the loan/finance lease receivables restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Group recognizes the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period. In case loan is not impaired after restructuring the Group recalculates the effective interest rate.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

(thousands of tenge, unless otherwise stated)

3. Summary of significant accounting policies (continued)

Derecognition of financial assets and liabilities

Financial assets

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

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

Where the Group 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 Group'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 Group 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 Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group'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.

Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of guarantees and acceptances. Financial guarantees are initially recognised in the consolidated financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of: the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated statement in profit or loss. The premium received is recognised in the consolidated statement of profit or loss on a straight-line basis over the life of the guarantee.

Taxation

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

Current corporate income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in the countries where the Group operates and generates taxable income.

Current corporate income tax relating to items recognised directly in equity is recognised in equity and not in the consolidated statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(thousands of tenge, unless otherwise stated)

3. Summary of significant accounting policies (continued)

Taxation (continued)

Deferred tax assets and liabilities are calculated in respect of 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 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.

Deferred corporate income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Property and equipment

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

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

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis with the following depreciation rates:

	Depreciation rates
Buildings	2-7%
Motor vehicles	15-25%
Equipment and furniture	4-20%
Other	7-10%

Unit of production method is used to calculate the depreciation of technological complex on cotton processing and grain terminals.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end. Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

Investment property

Investment property is land or building or a part of building held to earn rental income or for capital appreciation and which is not used by the Group or held for the sale in the ordinary course of business. Property that is being constructed or developed or redeveloped for future use as investment property is also classified as investment property.

Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value reflecting market conditions at the end of the reporting period. Fair value of the Group's investment property is determined on the base of various sources including reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value. Earned rental income is recorded in the consolidated statement of profit or loss within other income. Gains and losses resulting from changes in the fair value of investment property are recorded in the consolidated statement of profit or loss and presented within other income or other operating expense.

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to premises and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated

(thousands of tenge, unless otherwise stated)

3. Summary of significant accounting policies (continued)

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. Goodwill on an acquisition of a subsidiary is included in goodwill and other intangible assets. Goodwill on an acquisition of an associate is included in the investments in associates. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than the operating segment as defined in IFRS 8 *Operating Segments* before aggregation.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible with finite lives assets are amortised over the useful economic lives of 1 to 7 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

Property held for financial lease

Property held for finance lease is stated at the lower of cost and net realisable value. Cost comprises charges incurred in bringing the property to its location and condition.

Minimum stock of grain

The minimum stock of grain is recorded at the lower of cost or net realisable value.

Assets classified as held for sale

The Group classifies a non-current asset (or a disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.

The sale qualifies as highly probable if the Group's management is committed to a plan to sell the non-current asset (or a disposal group) and an active program to locate a buyer and complete the plan must have been initiated. Further, the non-current asset (or group of disposal) must have been actively marketed for a sale at price that is reasonable in relation to its current fair value and in addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the non-current asset (or group of disposal) as held for sale.

The Group measures an asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Group recognises an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell if events or changes in circumstance indicate that their carrying amount may be impaired.

(thousands of tenge, unless otherwise stated)

3. Summary of significant accounting policies (continued)

Biological assets

The Group recognises a biological asset when and only when:

- the Group controls the asset as a result of past event;
- it is probable that future economic benefits associated with the asset will flow to the Group; and
- the fair value or cost of the asset can be measured reliably.

A biological asset is measured on initial recognition and at the end of each reporting period at its fair value less costs to sell.

Inventory

Inventories are valued at the lower of cost and net realisable value. Cost of grain stock is accounted for based on weighted average cost method. Inventory cost includes all costs incurred in the normal course of business in bringing each item to its present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale. FIFO method is used to write off the cost of other inventories such as materials or supplies to be consumed in the production process or in the rendering of services.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's or cash-generating unit's (CGU) recoverable amount is the higher of: fair value of the asset (CGU) less costs to sell and its value in use. Recoverable amount is determined for an individual asset, unless the asset generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. Discounted cash flow model is used when they are absent. Cash flows are based on the assumption of the most beneficial use of assets by independent market participants, i.e., other companies in the same industry, in the current economic environment. Such an approach involves the use of only those assumptions that would have been used by other independent market participants and it is not allowed to use assumptions or information that are unknown or for any reasons would have not recorded by other typical market participants These calculations are corroborated by valuation multiples, quoted prices for publicly traded shares of subsidiaries or other available fair value indicators.

Impairment losses are recognised in the consolidated statement of profit or loss in those expense categories consistent with the function of the impaired asset. For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of profit or loss unless the asset is carried at a revalued amount. In this case the reversal is treated as a revaluation increase.

Provisions

Provisions are recognised when the Group 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 Group does not have any pension arrangements separate from the State pension system of the Republic of Kazakhstan, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Group has no significant post-employment benefits.

(thousands of tenge, unless otherwise stated)

3. Summary of significant accounting policies (continued)

Equity

Share capital

Common shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

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 consolidated financial statements are authorised for issue.

Additional paid-in capital

When the Group receives loans and other financial support from its Shareholder at below market interest rates, the difference between received cash consideration and fair value of loans or other financial support is recorded as additional paid in capital.

Consolidation reserve

The Group received common shares of its subsidiaries as contribution to its share capital. The difference between fair value of shares and the cost of shares transferred as at the date of transfer is recorded as consolidation reserve.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of functional currencies of the foreign operations to tenge, whose financial statements are included in these consolidated financial statements.

Reserve funds

In accordance with the Group's policy, reserve funds are formed to cover general Group's risks, including deferred losses and other contingent risks and liabilities. Reserve funds are subject to distribution on the basis of decision of the Shareholder.

Reserve for notional distribution

When the Group enters into a loan agreement at below market interest rates on behalf of its Shareholder, the difference between the nominal and fair values of credit commitment is charged to retained earnings as notional distribution to Shareholder.

Fiduciary activities

Assets held in a fiduciary capacity are not reported in the consolidated financial statements, as they are not the assets of the Group.

Segment reporting

The Group's segmental reporting is based on the following operating segments: financial services, grain and cotton cluster, and other.

Contingent assets and liabilities

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

(thousands of tenge, unless otherwise stated)

3. Summary of significant accounting policies (continued)

Recognition of income and expenses

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

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

Interest and similar income and expenses

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

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

Fee and commission income

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

In accordance with the Rules established by Kazakhstani Government the Group is entitled to deduct a certain percent from revenue from the sale of the state grain resources as a commission. The commission is used for maintenance of office premises, employees' salary and to cover other expenses associated with purchase of goods and services to support the Group activities.

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

Rendering of services

Revenue from rendering of services is recognised by reference to the stage of completion. When the contract outcome cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Dividend income

Dividend income is recognised when the Groups' right to receive the payment is established.

Foreign currency translation

The consolidated financial statements are presented in Kazakhstani tenge ("tenge" or "KZT"), which is the Group's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange, 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 consolidated statement of profit or loss as gains less losses from transactions in foreign currencies.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(thousands of tenge, unless otherwise stated)

3. Summary of significant accounting policies (continued)

Foreign currency translation (continued)

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

	31 December	
	2017	***2016***
Tenge/US Dollar	**332.33**	333.29
Tenge/Euro	**398.23**	352.42
Tenge/Russian Rouble	**5.77**	5.43

The assets and liabilities of foreign operations are translated into tenge at the rate of exchange prevailing at the reporting date and their statements of profit or losss are translated at exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the consolidated statement of profit or loss.

Weighted average currency exchange rates established by the KASE are used as official currency exchange rates in the Republic of Kazakhstan. For foreign currencies, which are not quoted by the KASE, the exchange rates are calculated by the National Bank of Kazakhstan using the cross-rates to the US Dollar ("USD" or "US Dollar") in accordance with the quotations received from relevant sites of national banks.

Standards and interpretations issued but not yet effective

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

IFRS 9 Financial Instruments

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

The Group plans to adopt the new standard by recognizing the cumulative transition effect in opening retained earnings on 1 January 2018 and will not restate comparative information. The Group is in the process of quantifying the effect of adoption of IFRS 9, however no reasonable estimate of this effect is yet available.

(a) Classification and measurement

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

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

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

(thousands of tenge, unless otherwise stated)

3. Summary of significant accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

IFRS 9 Financial Instruments (continued)

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

The Group expects to continue measuring at fair value all financial assets currently held at fair value.

Debt securities currently classified as available-for-sale are expected to be measured at FVOCI under IFRS 9 as the Group expects not only to hold these assets to collect contractual cash flows, but also to sell a significant amount on a relatively frequent basis. Loans to customers are expected to satisfy the SPPI criterion and will continue to be measured at amortised cost.

(b) Impairment

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

IFRS 15 Revenue from Contracts with Customers

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

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

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

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

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

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

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group does not expect a material effect from application of these amendments.

(thousands of tenge, unless otherwise stated)

3. Summary of significant accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

IFRS 16 Leases

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

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

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

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

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

IFRS 17 Insurance Contracts

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

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

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Group will assess the potential effect of IFRS 17 on its consolidated financial statements, including treatment of non-financial guarantees issued by the Group.

Transfers of Investment Property — Amendments to IAS 40

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

(thousands of tenge, unless otherwise stated)

3. Summary of significant accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

Annual Improvements 2014-2016 Cycle (issued in December 2016)

These improvements include:

IFRS 1 First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters

Short-term exemptions in paragraphs E3–E7 of IFRS 1 were deleted because they have now served their intended purpose. The amendment is effective from 1 January 2018. This amendment is not applicable to the Group.

IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

The amendments clarify that:

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

The amendments should be applied retrospectively and are effective from 1 January 2018. The Group does not expect a material effect from application of these amendments.

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

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 Insurance Contracts, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after 1 January 2018. An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to financial assets designated on transition to IFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying IFRS 9. There is no effect on the Group from these amendments.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. The Interpretation is effective for annual periods beginning on or after 1 January 2018. Since the Group’s current practice is in line with the Interpretation, the Group does not expect any effect on its consolidated financial statements.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

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

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

(thousands of tenge, unless otherwise stated)

3. Summary of significant accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment (continued)

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

4. Significant accounting judgments and estimates

Estimation of uncertainty

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimates, which have the most significant effect on the amounts recognised in these consolidated financial statements.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated 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 judgment is required in establishing fair values.

Allowance for impairment of loans to customers, finance lease receivables and accounts receivable

The Group regularly reviews its amounts due from credit institutions, loans to customers, accounts receivable and finance lease receivables to assess for impairment. The Group uses its experienced judgment to estimate the amount of any impairment loss in cases where a counterparty is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group 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 Group has issued its experienced judgment to adjust observable data for a group of loans to customers or accounts or receivables of finance lease receivables to reflect current circumstances.

Collateral assessment

Management monitors market value of collateral on a regular basis. Management uses its experienced judgement or independent opinion to adjust the fair value of collateral to reflect current circumstances.

Taxation

Tax, currency and customs legislation of the Republic of Kazakhstan is subject to varying interpretations, and changes, which can occur frequently. The management interpretation of such legislation as applied to the transactions and activities of the Group may be challenged by the relevant regional and republic authorities. Thus, significant additional taxes, penalties and interest may be accrued. Tax periods remain open for inspection by the relevant authorities with respect to the calculation of taxes during the five calendar years preceding the following reporting period. Under certain circumstances, such reviews can cover longer periods.

The management believes that as at 31 December 2017 its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

(thousands of tenge, unless otherwise stated)

4. Significant accounting judgments and estimates (continued)

Estimation of uncertainty

Taxation (continued)

Deferred corporate income tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which unused tax losses can be utilised. A significant judgement of management is required to calculate the amount of deferred corporate income tax assets which may be recognised in the consolidated financial statements based on possible dates of generation and amount of the future taxable profit as well as strategy of tax planning. The Group has tax loss carry forwards in the amount of KZT 27,593,990 thousand as at 31 December 2017 (as at 31 December 2016: KZT 22,995,136 thousand). These losses primarily relate to foreign exchange loss incurred in 2015 due to tenge devaluation and material liabilities of the Group's Eurobonds issued in USD and Euro and expire for tax purposes ten years from the date they are incurred. Further details on corporate income tax is disclosed in *Note 30*.

5. Reclassifications

The following reclassifications were made in the consolidated statement of financial position as at 31 December 2016 and consolidated statement of profit or loss for the year ended 31 December 2016, to conform with the presentation as at 31 December 2017 and for the year then ended:

Consolidated statement of financial position as at 31 December 2016	Before reclassification	Reclassification	As reclassified
Trade accounts payable	8,286,478	(1,729,308)	6,557,170
Other liabilities	3,597,351	1,729,308	5,326,659

Consolidated statement of profit or loss for the year ended 31 December 2016	Before reclassification	Reclassification	As reclassified
Interest income	92,492,290	149,685	92,641,975
Net losses from restructuring of loans to customers	(669,237)	(149,685)	(818,922)

Consolidated statement of cash flows for the year ended 31 December 2016	Before reclassification	Reclassification	As reclassified
Interest income accrued	(92,492,290)	(149,685)	(92,641,975)
Net losses from restructuring of loans to customers	669,237	149,685	818,922

(thousands of tenge, unless otherwise stated)

6. Segment information

For management purposes, the Group's activities are organised into three operating segments based on products and services as follows:

Financial services	Providing loans and finance leases to credit institutions, corporate and individual customers.
Grain	Buying and selling grain.
Other	Marketing services, cattle farms, horticulture and other.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance, as explained in the table below, is measured differently from profit or loss in the consolidated financial statements. Corporate income taxes are not managed on the Group basis and are allocated to operating segments.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue during 2017 and 2016.

The following tables present income and expenses and certain asset and liability information regarding the Group's operating segments.

2017	*Financial services*	*Grain and cotton cluster*	*Other*	*Adjustments and eliminations*	*Total*
Revenue					
Revenue from sale of goods and services	–	13,366,427	4,755,269	–	18,121,696
Interest income	104,528,239	2,463,624	1,199,923	–	108,191,786
Other income	3,208,849	2,840,248	414,183	–	6,463,280
Total revenue	107,737,088	18,670,299	6,369,375	–	132,776,762
Cost of sales	–	(10,829,421)	(4,216,592)	–	(15,046,013)
Interest expenses	(55,258,765)	(2,368,325)	(26,559)	–	(57,653,649)
Impairment charge for interest earning assets	(104,004,537)	(2,241,821)	(440,380)	–	(106,686,738)
Net losses from transactions with derivative financial assets	(767,540)	–	–	–	(767,540)
Net (losses)/gains from foreign currencies	(28,328,787)	(120,740)	7	–	(28,449,520)
Share of (loss)/profit of associates	(185,071)	180,083	(140,801)	–	(145,789)
Personnel expenses	(3,665,075)	(888,486)	(728,470)	–	(5,282,031)
Other operating expenses	(4,675,454)	(894,388)	(742,714)	–	(6,312,556)
Selling expenses	(3,622,722)	(3,762,405)	–	–	(7,385,127)
Other impairment charge	(1,524,265)	(14,056,258)	(42,116)	–	(15,622,639)
Net losses from restructuring of loans to customers	(1,329,450)	–	–	–	(1,329,450)
Segment results	(95,624,578)	(16,311,462)	31,750	-	(111,904,290)
Corporate income tax expense	(14,201,272)	155,457	(68,014)	–	(14,113,829)
Net loss for the year	(109,825,850)	(16,156,005)	(36,264)	–	(126,018,119)
Segment assets	1,067,156,343	108,052,227	22,919,542	–	1,198,128,112
Segment liabilities	(907,336,939)	(33,968,491)	(837,791)	–	(942,143,221)
Other segment information					
Capital expenditures	362,328	386,852	81,790	–	830,970

(thousands of tenge, unless otherwise stated)

6. Segment information (continued)

2016	*Financial services*	*Grain and cotton cluster*	*Other*	*Adjustments and eliminations*	*Total*
Revenue					
Revenue from sale of goods and services	–	24,845,066	7,053,190	–	31,898,256
Interest income	87,706,819	3,901,420	1,033,736	–	92,641,975
Other income	4,389,177	3,237,444	426,067	–	8,052,688
Total revenue	92,095,996	31,983,930	8,512,993	–	132,592,919
Cost of sales	–	(14,867,489)	(5,836,026)	–	(20,703,515)
Interest expenses	(40,421,612)	(2,932,818)	(45,866)	–	(43,400,296)
Impairment charge for interest earning assets	(25,918,054)	–	(51,086)	–	(25,969,140)
Net losses from transactions with derivative financial assets	(947,531)	–	–	–	(947,531)
Net gains/(losses) from foreign currencies	12,975,279	(869,032)	423,631	–	12,529,878
Share of (loss)/profit of associates	(151,458)	188,151	(58,821)	–	(22,128)
Personnel expenses	(3,378,249)	(894,451)	(451,430)	–	(4,724,130)
Other operating expenses	(4,090,067)	(1,763,502)	(267,886)	–	(6,121,455)
Selling expenses	(3,322,085)	(4,566,725)	(6,940)	–	(7,895,750)
Other impairment charge	(475,782)	(7,887,763)	(492,897)	–	(8,856,442)
Net losses from restructuring of loans to customers	(818,922)	–	–	–	(818,922)
Segment results	25,547,515	(1,609,699)	1,725,672	–	25,663,488
Corporate income tax expense	(6,291,904)	(613,626)	(206,115)	–	(7,111,645)
Profit/(loss) for the year	19,255,611	(2,223,325)	1,519,557	–	18,551,843
Segment assets	1,152,148,386	94,005,729	24,094,660	(1,632,289)	1,268,616,486
Segment liabilities	(800,746,095)	(84,393,427)	(1,934,760)	(1,632,476)	(888,706,758)
Other segment information					
Capital expenditures	124,197	485,444	13,672	–	623,313

7. Cash and cash equivalents

Cash and cash equivalents are comprised of the following:

	31 December 2017	*31 December 2016*
Cash on current accounts with banks	**257,786,951**	277,762,412
Cash on hand	**21**	776
Cash and cash equivalents	**257,786,972**	277,763,188

As at 31 December 2017, the Group had concentration of cash balances with one bank represented by KZT 71,629,141 thousand or 28% of total cash and cash equivalents (as at 31 December 2016: KZT 68,142,127 thousand or 25%).

8. Amounts due from credit institutions

Amounts due from credit institutions are comprised of the following:

	31 December 2017	*31 December 2016*
Loans issued to the second-tier banks	**233,847,314**	368,716,093
Time deposits placed for more than 90 days	**13,174,540**	9,816,329
Amounts on current accounts restricted in use	**149,809**	747,597
Other receivables from credit institutions	**37,324,556**	–
	284,496,219	379,280,019
Less: allowance for impairment	**(30,612,747)**	(11,639,188)
Amounts due from credit institutions	**253,883,472**	367,640,831

As at 31 December 2017, the Group has amounts due from one bank, which comprise KZT 181,408,303 thousand or 64% of the total gross amounts due from credit institutions (as at 31 December 2016: KZT 198,043,833 thousand or 52%).

As at 31 December 2017 and 2016, amounts on current accounts restricted in use comprise term deposits in credit institutions in the amount of KZT 149,809 thousand and KZT 747,597 thousand, respectively, representing security deposits under the letters of credit issued by credit institutions in favour of suppliers of KazAgroFinance JSC and Fund of Financial Support for Agriculture JSC.

(thousands of tenge, unless otherwise stated)

8. Amounts due from credit institutions (continued)

In 2017, the Group recognised allowance for impairment of amounts due from the second-tier banks of KZT 97,218,013 thousand (in 2016: KZT 11,639,188 thousand) as a result of events of default and deterioration in financial position of certain banks, followed by liquidity and capital adequacy pressures and downgrade of credit ratings by international rating agencies.

In December 2016 and November 2017 banking licenses of KazInvestBank JSC and Delta Bank JSC, respectively, were revoked by the National Bank of the Republic of Kazakhstan. As at 31 December 2017, full allowance for of amounts due from KazInvestBank JSC and DeltaBank JSC was recognised by the Group in its consolidated financial statements, which reflects its best estimate of recoverability of these financial assets.

In 2017, the Group concluded a cession agreement with Delta Bank JSC, under which the Group received loans to customers of Delta Bank JSC with a total nominal value of KZT 49,337,899 thousand in exchange for amounts payable by Delta Bank JSC to the Group. As at 31 December 2017, the Group does not expect any collections from assets received under the cession agreement.

In 2017, the Group reclassified cash on current accounts with Delta Bank JSC and Qazaq Banki JSC with a total gross value of KZT 36,770,666 thousand to amounts due from credit institutions.

During 2017, as a result of rehabilitation process and restructuring of financial liabilities of Bank RBK JSC, the Group recognized impairment charge of KZT 28,924,503 thousand on amounts due from Bank RBK JSC in the consolidated statement of profit or loss (*Note 13*).

Allowance for impairment of amounts due from credit institutions

A reconciliation of the allowance for impairment of amounts due from credit institutions is set out below:

	2017	*2016*
At 1 January	**11,639,188**	168,605
Charge for the year *(Note 37)*	**97,218,013**	11,639,188
Write-offs	–	(168,605)
Correction of previously recognized assets	**(78,244,454)**	–
At 31 December	**30,612,747**	11,639,188

9. Derivative financial assets

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts.

	31 December 2017			*31 December 2016*		
	Notional	*Fair values*		*Notional*	*Fair values*	
Foreign exchange contracts	*principal*	*Asset*	*Liability*	*principal*	*Asset*	*Liability*
Options in US Dollars	–	–	–	1,199,056	743,027	–
Options in Euro	–	–	–	242,770	86,039	–
	–	–	–	1,441,826	829,066	–

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at fixed future date or at any time within a specified period.

As at 31 December 2016, the Group had certain loans to customers and finance lease receivables that are foreign currency linked debt instruments with a floor feature, i.e. where interest and principal payments are linked to foreign currencies, in such a way, that the Group has an option to demand higher payments if the foreign currency specified in the contract will appreciate above a certain floor (floor is generally set at the level of spot rates prevailing on the origination date). At the same time, if the foreign currency rates will fall below the floor, interest and principal payments will remain at original level. The Group believes that the above feature comprises an embedded foreign currency option, an embedded derivative that should be separated from the host contract and recorded as a separate financial instrument measured at fair value through profit or loss in the consolidated financial statements.

As at 31 December 2017, the Group does not have any derivative financial instruments.

Net losses from transactions with derivative financial assets are disclosed in *Note 38*.

(thousands of tenge, unless otherwise stated)

10. Loans to customers

Loans to customers are comprised of the following:

	31 December 2017	*31 December 2016*
Loans to customers	**344,820,926**	308,847,396
Loans to employees	**7,129**	16,394
Total gross loans to customers before allowance for impairment	**344,828,055**	308,863,790
Less: allowance for impairment	**(52,695,338)**	(44,539,663)
Loans to customers	**292,132,717**	264,324,127

Allowance for impairment of loans to customers

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

	2017	*2016*
At 1 January	**44,539,663**	34,594,031
Charge for the year *(Note 37)*	**10,057,960**	11,230,826
Write-offs	**(1,902,285)**	(1,349,517)
Recovery	**–**	64,323
At 31 December	**52,695,338**	44,539,663
Individual impairment	**47,618,310**	38,788,622
Collective impairment	**5,077,028**	5,751,041
	52,695,338	44,539,663
Total amount of loans to customers, individually determined to be impaired, before deducting allowance for impairment	**75,366,226**	56,791,407

Individually impaired loans

Interest income accrued on individually impaired loans to customers in 2017 was equal to KZT 3,001,873 thousand (in 2016: KZT 3,170,853 thousand).

The Group writes-offs loans with the approval of the Board of Directors and, in certain cases, with the respective decision of the Courts of the Republic of Kazakhstan.

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- For loans to customers – real estate properties, agricultural equipment, inventory and trade receivables, guarantees;
- For loans to employees – mortgages over residential properties.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment of loans to customers.

Concentration of loans to customers

As at 31 December 2017, the Group had 10 (ten) major borrowers, whose loan balances accounted for 11% of the total gross loan portfolio (as at 31 December 2016: 10%). The total aggregate amount of these loans was equal to KZT 36,323,677 thousand (as at December 2016: KZT 30,739,213 thousand). Loans were issued to customers operating in the agricultural industry.

(thousands of tenge, unless otherwise stated)

11. Finance lease receivables

An analysis of finance lease receivables as at 31 December 2017 is presented below:

	Not later than 1 year	***1 to 5 years***	***Over 5 years***	***Total***
Gross investment in finance leases	**62,301,018**	**155,843,102**	**68,361,023**	**286,505,143**
Unearned future finance income on finance leases	**(2,660,150)**	**(36,358,215)**	**(32,848,348)**	**(71,866,713)**
Total investments in finance leases	**59,640,868**	**119,484,887**	**35,512,675**	**214,638,430**
Less: allowance for impairment	**(5,458,810)**	**(11,719,818)**	**(4,315,950)**	**(21,494,578)**
Net investments in finance leases	**54,182,058**	**107,765,069**	**31,196,725**	**193,143,852**

An analysis of finance lease receivables as at 31 December 2016 is presented below:

	Not later than 1 year	***1 to 5 years***	***Over 5 years***	***Total***
Gross investment in finance leases	64,077,312	161,792,858	91,350,983	317,221,153
Unearned future finance income on finance leases	(2,036,306)	(40,031,259)	(45,668,797)	(87,736,362)
Total investments in finance leases	62,041,006	121,761,599	45,682,186	229,484,791
Less: allowance for impairment	(4,788,125)	(12,363,115)	(5,017,165)	(22,168,405)
Net investments in finance leases	57,252,881	109,398,484	40,665,021	207,316,386

Allowance for impairment of finance lease receivables

A reconciliation of the allowance for impairment of finance lease receivables is set out below:

	2017	***2016***
At 1 January	**22,168,405**	18,768,733
(Reversal)/charge for the year *(Note 37)*	**(589,235)**	3,099,126
(Write-off)/recovery	**(84,592)**	300,546
At 31 December	**21,494,578**	22,168,405
Individual impairment	**16,018,262**	14,616,910
Collective impairment	**5,476,316**	7,551,495
	21,494,578	22,168,405
Gross amount of finance lease receivables, individually determined to be impaired, before deducting any individually assessed impairment allowance	**54,716,376**	40,013,979

Finance lease receivables individually assessed as impaired

For the year ended 31 December 2017, interest income accrued on finance lease receivables, individually determined as impaired, was equal to KZT 3,534,882 thousand (in 2016: KZT 5,498,708 thousand).

Concentration of finance lease receivables

As at 31 December 2017, concentration of finance lease receivables issued by the Group to the ten largest independent parties amounted to KZT 30,147,152 thousand or 14% of the aggregate finance lease portfolio (as at 31 December 2016: KZT 33,916,954 thousand or 15%).

(thousands of tenge, unless otherwise stated)

12. Available-for-sale investment securities

Available-for-sale investment securities are comprised of the following:

	31 December 2017	*31 December 2016*
Shares of Kazakhtelecom JSC	**322,569**	258,723
Shares of Delta Bank JSC	**14,031**	14,031
Available-for-sale investment securities	**336,600**	272,754

In 2017, the Group received dividends on common shares of Kazakhtelecom JSC in the amount of KZT 10,975 thousand (in 2016: KZT 2,654 thousand).

13. Held-to-maturity investment securities

As at 31 December 2017, held-to-maturity investment securities include short-term discount notes of the National Bank of Republic of Kazakhstan in the amount of KZT 58,480,115 thousand (as at 31 December 2016: KZT 23,306,474 thousand) with interest rates of 9.00%-9.43% per annum (as at 31 December 2016: 11.19%-11.67% per annum) and maturity in January 2018 (as at 31 December 2016: in January and March 2017).

On 7 November 2017 framework agreement was concluded between the Government of the Republic of Kazakhstan, National Bank of the Republic of Kazakhstan, Sovereign Wealth Fund "Samruk-Kazyna" JSC, National Management Holding "KazAgro" JSC, National Management Holding "Baiterek" JSC, Bank RBK JSC and Kazakhmys Corporation LLC on terms of settlement of the liabilities of Bank RBK JSC to its creditors, including the Group. On 26 December 2017, under the framework agreement, the Group received 63,303,017,708 debt securities of SFC "DSFK" LLP with a nominal value of 1 tenge per each debt security maturing in 15 years and fixed coupon rate of 0.01% per annum, as a settlement of liabilities of Bank RBK JSC to the Group. On the date of initial recognition the fair value of the debt securities was equal to KZT 9,447,982 thousand and was estimated by the Group by discounting expected cash flows from debt securities at 13% per annum market interest rate. In 2017, the Group recognized impairment charge on the amounts due from Bank RBK JSC of KZT 28,924,503 thousand in the consolidated statement of profit or loss (*Note 8*) and loss in the amount of KZT 24,930,532 thousand directly in the equity as other transactions with Shareholder.

14. Investments in associates and joint ventures

Movement of investments in associates and joint ventures is presented as follows:

	2017	*2016*
At 1 January	**3,147,071**	3,660,559
Contributions to equity of associates and joint ventures	**3,432,608**	188,620
Dividends declared	**(71,916)**	(138,961)
Share in loss of associates and joint ventures	**(145,789)**	(22,128)
Share in foreign currency translation reserve	**(234,002)**	(274,289)
Impairment	**(23,853)**	–
Disposals	**–**	(266,730)
Other	**(56,682)**	–
At 31 December	**6,047,437**	3,147,071

15. Accounts receivable

Accounts receivable are comprised of the following:

	31 December 2017	*31 December 2016*
Trade accounts receivable	**26,352,766**	45,012,691
Other accounts receivable	**26,425,564**	20,965,473
	52,778,330	65,978,164
Less: allowance for impairment *(Note 43)*	**(19,163,492)**	(18,946,529)
Accounts receivable	**33,614,838**	47,031,635

(thousands of tenge, unless otherwise stated)

15. Accounts receivable (continued)

As at 31 December 2017, other accounts receivable include claims on loans issued by Delta Bank JSC to its customers assigned to the Group under cession agreement between the Group and Delta Bank JSC dated 26 October 2017. The transfer of claims on loans was made as a settlement of obligations of the Group's debtors under contracts on sale of grain guaranteed by Delta Bank JSC. As a result of the transaction, the Group recognized allowance for impairment of these trade receivables of KZT 14,200,557 thousand in the consolidated statement of profit or loss (*Note 43*).

Concentration of accounts receivable

As at 31 December 2017, the Group had a concentration of accounts receivable represented by KZT 24,289,315 thousand due from the ten largest debtors or 46% of total accounts receivable (as at 31 December 2016: KZT 42,318,089 thousand or 64%).

16. Advances paid

Advances paid are comprised of the following:

	31 December 2017	*31 December 2016*
Advances paid for grain	**3,808,648**	4,412,891
Advances paid for equipment for finance lease	**5,628,547**	3,327,564
Advances paid for materials	**1,174,117**	2,335,970
Advances paid for services	**87,652**	–
Advances paid for equipment and for installation works	**56,758**	97,354
Other	**181,663**	204,790
	10,937,385	10,378,569
Less: allowance for impairment *(Note 43)*	**(4,303,117)**	(4,389,843)
Advances paid	**6,634,268**	5,988,726

Concentration of advances paid

As at 31 December 2017, a concentration of advances paid by the Group to the ten largest counterparties amounted to KZT 7,220,863 thousand or 66% of gross advances paid (as at 31 December 2016: KZT 6,344,831 thousand or 61%).

17. Inventories

Inventories are comprised of the following:

	31 December 2017	*31 December 2016*
Grain	**23,230,694**	13,304,886
Finished goods	**504,063**	60,916
Work-in-process	**112,034**	3,258
Other inventories	**601,175**	655,000
Inventory	**24,447,966**	14,024,060

18. Minimum stock of grain

In accordance with the Resolution of the Government of the Republic of Kazakhstan dated 28 March 2011 (the "Resolution") and the trust management agreement, the Group acted as the sole agent to manage minimum state stock of grain. In accordance with the Resolution, the Group was responsible for generation, storage, renewal, transfer and use of state grain resources. Under the Resolution and the trust management agreement, the Group individually managed state grain resources. The term of the trust management agreement expired on 31 December 2015.

As a result, pursuant to the Resolution of the Government of the Republic of Kazakhstan No. 789 dated 9 December 2016, state reserves of grain were returned to the state, and then in 2017 were transferred as payment for the Company's shares.

(thousands of tenge, unless otherwise stated)

18. Minimum stock of grain (continued)

Return of the grain to the Government was made by transfer of assets and liabilities, related to the trust management activities of the Group, with total carrying amount on the date of transfer of KZT 17,294,540 thousand, including cash in the amount of KZT 716,370 thousand and the loan received from the Ministry of Agriculture of the Republic of Kazakhstan in the amount of KZT 7,078,500 thousand (*Note 24*).

Creation by the Group of minimum grain resources of 500 thousand tons was approved by the instruction of the President of the Republic of Kazakhstan No. 1050-2 dated 13 May 2016 to the letter of the Prime Minister of the Republic of Kazakhstan No. 11-8/907//1050 dated 3 May 2016.

As at 31 December 2017, the carrying amount of minimum stock of grain was equal to KZT 20,684,273 thousand (as at 31 December 2016: KZT 16,783,105 thousand).

19. Assets held for finance lease

Assets held for finance lease are comprised of the following:

	31 December 2017	*31 December 2016*
Property and equipment held for finance lease	**6,031,513**	6,419,891
Repossessed collateral	**688,371**	721,408
Other assets held for finance lease	**–**	15,228
	6,719,884	7,156,527
Less: allowance for impairment *(Note 43)*	**(762,669)**	(637,316)
Assets held for finance lease	**5,957,215**	6,519,211

Repossessed collateral

In the course of ordinary business the Group repossesses collateral from borrowers on doubtful debts. Such collateral generally includes immovable property and agricultural equipment.

20. Assets held for sale

Assets held for sale are comprised of the following:

	31 December 2017	*31 December 2016*
Buildings	**567,223**	36,915
Land	**491,262**	306,378
Equipment	**37,898**	280,294
Other assets held for sale	**18,012**	656,277
	1,114,395	1,279,864
Less: allowance for impairment *(Note 43)*	**(200,160)**	–
Assets held for sale	**914,235**	1,279,864

21. VAT and other taxes recoverable

VAT and other taxes recoverable are comprised of the following:

	31 December 2017	*31 December 2016*
VAT recoverable	**4,979,732**	3,422,493
Other taxes prepaid	**269,341**	42,274
VAT and other taxes recoverable	**5,249,073**	3,464,767

(thousands of tenge, unless otherwise stated)

22. Property and equipment

The movements in property and equipment were as follows:

	Land	*Buildings*	*Vehicles*	*Construc-tion-in-progress*	*Equip-ment and furniture*	*Other*	*Total*
Cost							
At 31 December 2015	145,912	8,656,575	1,226,065	2,385,266	4,961,441	734,683	18,109,942
Additions	209	214,254	7,498	130,734	214,638	55,980	623,313
Disposals	(36,305)	(1,322,352)	(149,166)	(796,936)	(1,191,612)	(85,002)	(3,581,373)
Internal transfers	(72,474)	90,223	8,488	(119,603)	94,146	(780)	–
Transfer to assets classified as held for sale	–	97,292	–	–	261,724	8,848	367,864
At 31 December 2016	37,342	7,735,992	1,092,885	1,599,461	4,340,337	713,729	15,519,746
Additions	**–**	**100,553**	**150,252**	**161,398**	**361,879**	**56,888**	**830,970**
Disposals	**(14,909)**	**(78,151)**	**(43,495)**	**(74,328)**	**(30,783)**	**(12,778)**	**(254,444)**
Disposals on disposed entities	**–**	**–**	**–**	**–**	**(1,830)**	**(432)**	**(2,262)**
Internal transfers	**273,384**	**(527,329)**	**(151,422)**	**223,408**	**271,010**	**(89,051)**	**–**
Transfer from assets classified as held for sale	**–**	**–**	**–**	**–**	**–**	**39**	**39**
Transfer to assets classified as held for sale	**(48,656)**	**(649,982)**	**(36,119)**	**–**	**(16,812)**	**(18,410)**	**(769,979)**
At 31 December 2017	**247,161**	**6,581,083**	**1,012,101**	**1,909,939**	**4,923,801**	**649,985**	**15,324,070**
Accumulated depreciation and impairment							
At 31 December 2015	–	(1,533,558)	(559,787)	(2,333,345)	(2,065,455)	(443,324)	(6,935,469)
Depreciation charge	–	(206,052)	(67,743)	–	(357,738)	(64,293)	(695,826)
Impairment	–	(14,321)	–	–	(9,310)	–	(23,631)
Disposals	–	158,319	117,455	951,847	417,416	80,534	1,725,571
Transfer from assets classified as held for sale	–	(11,633)	–	–	(79,922)	(7,121)	(98,676)
At 31 December 2016	–	(1,607,245)	(510,075)	(1,381,498)	(2,095,009)	(434,204)	(6,028,031)
Depreciation charge	**–**	**(157,535)**	**(83,854)**	**–**	**(319,008)**	**(64,534)**	**(624,931)**
Internal transfers	**–**	**10,431**	**42,276**	**(7,711)**	**(103,926)**	**58,930**	**–**
Disposals	**–**	**40,463**	**8,638**	**74,328**	**29,890**	**11,209**	**164,528**
Disposals on disposed entities	**–**	**–**	**–**	**–**	**1,787**	**397**	**2,184**
Transfer to assets classified as held for sale	**–**	**230,545**	**23,995**	**–**	**1,840**	**2,763**	**259,143**
At 31 December 2017	**–**	**(1,483,341)**	**(519,020)**	**(1,314,881)**	**(2,484,426)**	**(425,439)**	**(6,227,107)**
Net book value							
At 31 December 2016	37,342	6,128,747	582,810	217,963	2,245,328	279,525	9,491,715
At 31 December 2017	**247,161**	**5,097,742**	**493,081**	**595,058**	**2,439,375**	**224,546**	**9,096,963**

(thousands of tenge, unless otherwise stated)

23. Intangible assets

The movements in intangible assets were as follows:

Cost	Computer software and licenses
31 December 2015	1,568,662
Additions	172,666
Disposals	(12,227)
31 December 2016	1,729,101
Additions	**744,106**
Disposals	**(84,111)**
31 December 2017	**2,389,096**
Accumulated amortization	
31 December 2015	(761,940)
Amortisation charge	(174,391)
Disposals	9,717
Impairment	(31,539)
31 December 2016	(958,153)
Amortisation charge	**(210,875)**
Disposals	**73,945**
Impairment	**(31,539)**
31 December 2017	**(1,126,622)**
Net book value	
31 December 2016	770,948
31 December 2017	**1,262,474**

24. Amounts due to the Government of the Republic of Kazakhstan

The Group received loans from the Government of the Republic Kazakhstan to facilitate the development of the agricultural sector in the Republic of Kazakhstan. The management of the Group believes that interest rates on these loans are lower than the market interest rates. The difference between the nominal value of loans received and their fair value as at the date of initial recognition is recognised by the Group as a contribution of the Shareholder to the additional paid-in capital *(Note 31)*.

Amounts due to the Government of the Republic of Kazakhstan are comprised of the following:

	Maturity	*Annual nominal interest rate, %*	*31 December 2017*	*31 December 2016*
Local government executive bodies	2019-2024	0.01-1.00%	**57,757,631**	60,187,734
Regional administrations of business activities and industry	2021-2024	0.01%	**9,891,167**	2,192,352
Ministry of Agriculture of the Republic of Kazakhstan	2016	0.00%	**–**	7,078,500
Amounts due to the Government of the Republic of Kazakhstan			**67,648,798**	69,458,586

During 2017 in accordance with the agreement signed between the Ministry of Agriculture of the Republic of Kazakhstan, the Ministry of Finance of the Republic of Kazakhstan and the Group dated 22 February 2017, the Group received a short-term loan in the total amount of KZT 60,000,000 thousand (in 2016: KZT 60,000,000 thousand) with the nominal interest rate of 0.01% per annum and maturity in 2017 to finance the spring sowing campaign and harvesting operations.

(thousands of tenge, unless otherwise stated)

25. Amounts due to credit institutions

Amounts due to credit institutions are comprised of the following:

Bank	*Currency*	*Maturity*	*Annual interest rate, %*	*2017*	*2016*
Eurasian Development Bank	tenge	2018	14.0-15.0%	**9,789,090**	9,846,693
SB Sberbank of Russia JSC	tenge	2018-2021	12.5%-14.0%	**9,089,195**	4,036,736
Bank CenterCredit JSC	tenge	2018	12.60%	**1,515,288**	–
Amounts due to credit institutions in tenge				**20,393,573**	13,883,429
Islamic Bank Al Hilal JSC	US Dollar	2018	3.70%	**5,298,133**	6,735,374
Societe General Bank	US Dollar	2018-2020	6 months LIBOR+4.63%	**4,178,568**	5,863,642
Islamic Development Bank	US Dollar	2018-2020	6.00%	**2,111,824**	7,101,016
Deere Credit, Inc.	US Dollar	2018-2019	5.60%	**1,483,475**	2,231,294
Russian Agricultural Bank JSC	US Dollar	2018-2019	4.90%	**586,813**	1,223,420
GazPromBank JSC	US Dollar	2018-2019	4.30%	**509,999**	863,359
United Nations Organisation	US Dollar	2024	0.00%	**117,683**	135,631
CNH International SA	US Dollar	2018	6.00%	**108,234**	325,258
Bank CenterCredit JSC	US Dollar	2017	4.50%	**–**	3,334,133
Amounts due to credit institutions in US Dollars				**14,394,729**	27,813,127
BOT Lease Co. Ltd	euro	2021-2022	4.0%	**6,975,009**	2,822,493
Landesbank Berlin AG	euro	2018-2019	6 months EURIBOR+1.35%	**1,107,038**	1,465,250
Amounts due to credit institutions in euro				**8,082,047**	4,287,743
Eximbank of Russia JSC	Russian Ruble	2018-2023	5.75%	**4,490,378**	3,223,608
SB Sberbank of Russia JSC	Russian Ruble	2021	16.00%	**–**	553,603
Amounts due to credit institutions in Russian Rubles				**4,490,378**	3,777,211
Islamic Development Bank	Islamic Dinar	2021	0.83%	**1,393,173**	1,661,975
Amounts due to credit institutions in Islamic Dinars				**1,393,173**	1,661,975
Total amounts due to credit institutions				**48,753,900**	51,423,485

Analysis by types of attracted loans as at 31 December is presented as follows:

	31 December 2017		*31 December 2016*	
	In thousands of tenge	*Share, in %*	*In thousands of tenge*	*Share, in %*
Loans with fixed interest rates				
Loans from banks of non-OECD countries	**34,901,576**	**71.59%**	38,715,548	75.29%
Loans from banks of OECD countries	**8,566,718**	**17.57%**	5,379,045	10.46%
Total loans with fixed interest rates	**43,468,294**	**89.16%**	44,094,593	85.75%
Floating interest rate loans				
Loans from banks of OECD countries	**5,285,606**	**10.84%**	7,328,892	14.25%
Loans from banks of non-OECD countries	**–**	**–**	–	0.00%
Total loans with floating interest rates	**5,285,606**	**10.84%**	7,328,892	14.25%
Amounts due to credit institutions	**48,753,900**	**100%**	51,423,485	100%

(thousands of tenge, unless otherwise stated)

25. Amounts due to credit institutions (continued)

Analysis of amounts due to credit institutions by currencies is presented as follows:

	31 December 2017	*31 December 2016*
Loans in tenge		
Loans from Kazakhstani banks	**10,604,483**	4,036,736
Loans from international banks	**9,789,090**	9,846,693
	20,393,573	13,883,429
Loans in US Dollars		
Loans from Kazakhstani banks	**5,298,133**	10,069,507
Loans from foreign and international banks	**9,096,596**	17,743,620
	14,394,729	27,813,127
Loans in euro		
Loans from foreign banks	**8,082,047**	4,287,743
	8,082,047	4,287,743
Loans in Russian Roubles:		
Loans from foreign banks	**4,490,378**	3,777,211
	4,490,378	3,777,211
Loans in Islamic Dinars:		
Loans from international banks	**1,393,173**	1,661,975
	1,393,173	1,661,975
Amounts due to credit institutions	**48,753,900**	51,423,485

Financial covenants

In accordance with the terms of loan agreements with credit institutions, the Group is required to comply with certain financial covenants. In particular, under the agreement with Eurasian Development Bank, the Group is obliged to comply with prudential norms established for the Group's subsidiaries in the Republic of Kazakhstan. Under the loan agreement with Societe Generale Bank, the Group should comply with the ratio of operating profit to interest expenses (EBIT), interest expense coverage ratio, as well as prudential norms established for the Group's subsidiaries in the Republic of Kazakhstan. As at 31 December 2017 and 2016, the Group complied with all financial covenants under agreements concluded with these banks.

26. Debt securities issued in tenge

Debt securities issued in tenge are comprised of the following:

	Maturity	*Annual nominal interest rate,%*	*31 December 2017*	*31 December 2016*
Local bonds issued by "KazAgro" National Management Holding JSC	2024-2041	0.02%-15.0%	**187,579,799**	180,050,540
Local bonds issued by National Company Food Contract Corporation JSC	2018	7.5%	**23,272,893**	23,170,765
Local bonds issued by KazAgroFinance JSC	2021-2024	8.0%-15.0%	**11,182,949**	11,154,339
Local bonds issued by Agrarian Credit Corporation JSC	2018-2023	8.0%-11.0%	**10,112,281**	20,615
Debt securities issued in tenge			**232,147,922**	214,396,259

On 17 February 2009 according to the Resolution of the Government of the Republic of Kazakhstan No. 1085 dated 25 November 2008, an amount of KZT 120,000,000 thousand was allocated by the National Fund of the Republic of Kazakhstan to the Company for support and development of the agricultural sector. Financing was made through private placement of the Company's bonds to the National Bank of the Republic of Kazakhstan with maturity in 2023 and nominal coupon interest rate at 0.02% per annum. At initial recognition, the difference between fair value and nominal value of these debt instruments was recorded in additional paid-in capital. The fair value of the instrument as at the date of initial recognition was determined by discounting of cash flows at yield to maturity of 6.0% per annum.

In accordance with the decision of the Management Board of the National Fund of the Republic of Kazakhstan No. 01-9.5 dated 30 December 2015, the period of use of funds in the amount of KZT 120,000,000 thousand to support and develop the agro-industrial complex was extended to 2041.

In December 2016, the Group issued debt securities in two tranches with a nominal value of KZT 32,900,000 thousand and KZT 37,100,000 thousand with maturity in 2026 and 2031, and with coupon rates of 14% per annum and 15% per annum, respectively.

(thousands of tenge, unless otherwise stated)

26. Debt securities issued in tenge (continued)

In December 2017, the Group issued short-term debt securities with a nominal value of KZT 10,000,000 thousand with maturity in September 2018 and with coupon rate of 11% per annum.

In accordance with the terms of the debt securities issue documents, the Group is required to comply with certain non-financial covenants. As at 31 December 2017 and 2016, the Group complied with all covenants under debt securities issue documents.

27. Eurobonds issued

Eurobonds issued are comprised of the following:

	31 December 2017	*31 December 2016*
Eurobonds denominated in US Dollars	**317,007,834**	317,295,748
Eurobonds denominated in Euro	**242,644,860**	213,873,139
Eurobonds issued	**559,652,694**	531,168,887

On 24 May 2013, the Company issued Eurobonds for the purpose of general corporate needs in the amount of USD 1,000,000,000 within the USD 2,000,000,000 bond Programme of issuing debt instruments with maturity in 2023 and nominal interest rate of 4.625% per annum.

As part of this program, in May 2014, the second issue of Eurobonds has been made with the total nominal value of EUR 600,000,000 with a nominal interest rate of 3.255% per annum and maturity in 2019.

These Eurobonds are listed on the Irish Stock Exchange Limited and the KASE.

In May 2016, the Company re-acquired part of the Eurobonds issued with a total outstanding amount of USD 38,500,000 or KZT 12,678,894 thousand. Gain on re-acquisition of issued bonds recognised in other income of the consolidated statement of profit or loss was equal to KZT 1,901,834 thousand (*Note 39*).

In accordance with the terms of the Eurobond issue documents, the Group is required to comply with certain financial and non-financial covenants. As at 31 December 2017 and 2016, the Group complied with all covenants under debt securities issue document.

28. Trade accounts payable

Trade accounts payable are comprised of the following:

	31 December 2017	*31 December 2016*
Trade accounts payable to vendors	**3,368,134**	5,770,126
Trade accounts payable for grain supply	**734,448**	294,048
Other trade accounts payable	**887,012**	492,996
Trade accounts payable	**4,989,594**	6,557,170

29. Advances received

Advances received are comprised of the following:

	31 December 2017	*31 December 2016*
Advances received for property held for finance lease	**3,555,199**	2,778,635
Advances received for grain	**2,884,729**	11,855
Other	**199,201**	97,880
Advances received	**6,639,129**	2,888,370

As at 31 December 2017, advances received for property held for finance lease include prepayments received from customers for property held for finance lease and acquired under finance lease agreements but not transferred to lessees in the amount of KZT 3,555,199 thousand (as at 31 December 2016: KZT 2,502,225 thousand).

(thousands of tenge, unless otherwise stated)

30. Taxation

The corporate income tax expense is comprised of the following:

	2017	*2016*
Current corporate income tax expense	**2,342,462**	2,901,344
Adjustment of corporate income tax of prior periods	**1,167,390**	–
Deferred corporate income tax charge – origination and reversal of temporary differences	**10,603,977**	4,210,301
Corporate income tax expense	**14,113,829**	7,111,645

Deferred corporate income tax charge is allocated as follows:

	2017	*2016*
Changes in temporary differences recognized in profit and loss	**10,603,977**	4,210,301
Changes in temporary differences recognized in equity	**(1,955,203)**	(905,495)
Deferred corporate income tax charge	**8,648,774**	3,304,806

The Company and its subsidiaries, other than Batumi Grain Terminal LLP, are subject to taxation in the Republic of Kazakhstan. Batumi Grain Terminal LLP is subject to taxation in Georgia. Kazakhstan legal entities have to file individual corporate income tax declarations. Statutory corporate income tax rate comprised 20% in 2017 and 2016. The effective tax rate differs from the statutory corporate income tax rates.

As at 31 December 2017 and 2016, the Group had current corporate income tax assets and liabilities as follows:

	2017	*2016*
Current corporate income tax assets	**12,054,639**	8,870,231
Current corporate income tax liabilities	**(37,492)**	(119,542)
	12,017,147	8,750,689

Reconciliation between corporate income tax expense in the consolidated financial statements and (loss)/profit before taxation multiplied by the statutory tax rate for the years ended 31 December, is as follows:

	2017	*2016*
(Loss)/profit before corporate income tax expense	**(111,904,290)**	25,663,488
Statutory corporate income tax rate	**20%**	20%
Theoretical corporate income tax (benefit)/expense at the statutory rate	**(22,380,858)**	5,132,698
Adjustment of corporate tax of prior periods	**1,167,390**	–
Non-taxable income		
Income on finance lease receivables	**(2,456,649)**	(2,380,819)
Other non-taxable income	**(553,180)**	(33,259)
Non-deductible expenses		
Impairment charge for interest earning assets	**18,762,565**	4,222,165
Impairment charge for non-interest earning assets	**3,103,510**	245,334
Change in unrecognized deferred corporate income tax assets	**11,712,948**	–
Other permanent differences	**4,758,103**	(74,474)
Corporate income tax expense	**14,113,829**	7,111,645

(Thousands of tenge, unless otherwise stated)

30. Taxation (continued)

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

	2015	Origination and reversal of temporary differences: in the statement of profit or loss	Origination and reversal of temporary differences: in the statement of changes in equity	2016	Origination and reversal of temporary differences: in the statement of profit or loss	Origination and reversal of temporary differences: in the statement of changes in equity	2017
Tax effect of deductible temporary differences							
Tax losses carry-forward	26,898,049	(3,902,913)	–	22,995,136	**4,598,854**	**–**	**27,593,990**
Loans to customers	626,526	(788,488)	2,498,167	2,336,205	**56,318**	**4,154,710**	**6,547,233**
Accounts receivable	(790,509)	211,213	–	(579,296)	**733,407**	**–**	**154,111**
Provision for unused vacations	106,944	27,520	–	134,464	**(3,212)**	**–**	**131,252**
Amounts due to credit institutions	(127,606)	47,697	–	(79,909)	**95,989**	**–**	**16,080**
Amounts due to the Government	3,494,293	378,766	(1,592,672)	2,280,387	**(3,715,224)**	**(2,199,507)**	**(3,634,344)**
Debt securities issued in tenge	(23,719,179)	439,175	–	(23,280,004)	**521,792**	**–**	**(22,758,212)**
Eurobonds issued	(199,037)	(920,979)	–	(1,120,016)	**95,343**	**–**	**(1,024,673)**
Property and equipment	(522,332)	(429)	–	(522,761)	**(58)**	**–**	**(522,819)**
Finance lease receivables	517,501	(329,868)	–	187,633	**(480,264)**	**–**	**(292,631)**
Derivative financial assets	(346,913)	181,100	–	(165,813)	**165,813**	**–**	**–**
Other	691,329	446,905	–	1,138,234	**(959,787)**	**–**	**178,447**
Deferred corporate income tax assets/(liabilities)	6,629,066	(4,210,301)	905,495	3,324,260	**1,108,971**	**1,955,203**	**6,388,434**
Unrecognised deferred corporate income tax assets	(687,485)	–	–	(687,485)	**(11,712,948)**	**–**	**(12,400,433)**
Net deferred corporate income tax assets/(liabilities)	5,941,581	(4,210,301)	905,495	2,636,775	**(10,603,977)**	**1,955,203**	**(6,011,999)**
Deferred corporate income tax assets	10,114,855	(6,346,396)	2,498,167	6,266,626	**(8,340,783)**	**4,154,710**	**2,080,553**
Deferred corporate income tax liabilities	(4,173,274)	2,136,095	(1,592,672)	(3,629,851)	**(2,263,194)**	**(2,199,507)**	**(8,092,552)**

Deferred corporate income tax assets are recognised only to the extent that it is probable that the future taxable profit will be available against which an asset can be utilized. In the Republic of Kazakhstan tax losses are carried forward for a period of ten years. The management of the Group believes that the recognized deferred tax assets originated from tax losses carry-forward will be utilized.

(thousands of tenge, unless otherwise stated)

31. Equity

Movements in shares outstanding, issued and fully paid were as follows:

	Placement value per share (in tenge)	*Number of outstanding shares*	*Total placement value*
At 31 December 2015		287,816,731	287,816,731
Issue of share	1,000	76,699,000	76,699,000
At 31 December 2016		364,515,731	364,515,731
Issue of share	**1,000**	**53,406,483**	**53,406,483**
At 31 December 2017		**417,922,214**	**417,922,214**

As at 31 December 2017, total amount of authorized, issued and fully paid common shares comprised 417,922,214 shares (as at 31 December 2016: 364,515,731 shares) with a placement value of KZT 1,000 per common share.

In accordance with the decision of the Shareholder No. 141 dated 29 March 2017, the Company issued 14,967,000 common shares with a placement value of KZT 1,000 per common share, which were fully paid by the Shareholder in cash.

In accordance with the decisions of the Shareholder No. 182 and 183 dated 25 April 2017, the Company issued 30,139,483 common shares, including 30,139,482 common shares with a placement value of KZT 1,000 per share and 1 common share with a placement value of KZT 711 per share, which were fully paid by the Shareholder. Acquisition of these shares by the Shareholder was made through transfer of 679 thousand tons of grain to the Company at fair value of KZT 28,873,933 thousand and financial assets in the amount of KZT 1,265,550 thousand, respectively.

In accordance with the decision of the Shareholder No. 518 dated 26 December 2017, the Company issued 8,300,000 common shares, which were fully paid by the Shareholder in cash at placement value of KZT 1,000 per common share.

Book value per common share

As at 31 December 2017, the book value of the Group's common share calculated in accordance with Kazakhstan Stock Exchange methodology was equal to KZT 609.40 (as at 31 December 2016: KZT 1,040.00).

Dividends

In accordance with the decision of the Shareholder dated 31 August 2017, the Company declared dividends for 2016 in the amount of KZT 1,112,128 thousand on common shares or KZT 3.05 per common share. Dividends for 2016 were fully paid in cash in September 2017. During 2016, the Company neither declared nor paid any dividends on common shares.

Additional paid-in capital

Upon initial recognition, the difference between the nominal amount of loans from the Government of the Republic of Kazakhstan received at below-market rates and their fair value is recognised as the Shareholder's contribution within additional paid-in capital and was equal to KZT 140,205,586 thousand as at 31 December 2017 (as at 31 December 2016: KZT 131,355,626 thousand). During 2017, the gain from initial recognition of loans obtained from the Shareholder at below market rates, less corporate income tax, was equal to KZT 8,849,960 thousand (in 2016: KZT 6,370,686 thousand).

Consolidation reserve

In April 2007, the Group received common shares of its subsidiaries as contribution to its share capital. As at the date of transfer, the fair value of the shares was lower than the cost of transferred shares. The difference in the amount of KZT 10,974,734 thousand was considered as a consolidation reserve. There were no changes in this reserve during 2017 and 2016.

Reserve funds

In accordance with the policies of the Group, reserve funds are established for general risks, including future losses and other unforeseen risks and obligations. Reserve funds are subject to distribution on the basis of decision of the Shareholder. In 2017, in accordance with the decision of the Shareholder, based on the result of 2016, it was decided to allocate an amount of KZT 11,909,719 thousand to the reserve funds (2016: KZT 176,097 thousand). As at 31 December 2017 reserve fund of the Group were equal to KZT 22,094,033 thousand as at 31 December 2017 (as at 31 December 2016: KZT 10,184,314 thousand).

(thousands of tenge, unless otherwise stated)

31. Equity (continued)

Reserve for notional distribution

Upon initial recognition, the difference between the nominal value of loans issued by the Group using funds received from the Shareholder and the fair value of loans is recognised as deemed distribution to the Shareholder. During 2017, the Group recognised an amount of KZT 16,618,838 thousand, net of tax, as increase in reserve for notional distribution to the Shareholder (in 2016: KZT 9,992,668 thousand).

Earnings per share

Basic and diluted earnings per share are calculated by dividing the net (loss)/profit for the year attributable to common shareholders by the weighted average number of shares outstanding during the year.

The following table reflects the (loss)/profit and share data used in the basic earnings per share computations for the years ended 31 December:

	31 December 2017	*31 December 2016*
Net (loss)/profit attributable to the Shareholder for the calculation of basic and diluted (loss)/earnings per share	**(126,020,149)**	18,550,687
Weighted average number of common shares for basic and diluted (loss)/earnings per share computation	**390,541,506**	308,157,840
Basic and diluted (loss)/earnings per share for the year (in tenge)	**(322.68)**	60.20

As at 31 December 2017 and 2016, the Group did not have any financial instruments diluting earnings per share.

32. Commitments and contingencies

Economic environment

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

The volatility of crude oil prices and tenge's exchange rate against major foreign currencies continue to have a negative impact on the Kazakhstan economy. Interest rates of attracted financing in tenge remain high. The combination of these factors, along with other factors, led to a decrease in the availability of capital, increase in the cost of capital, higher inflation and uncertainty about economic growth. The management of the Group believes that it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

Litigation

In the ordinary course of business, the Group 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 conditions or the results of future operations of the Group.

Taxation

Commercial, and in particular, tax legislation in Kazakhstan contains regulations, interpretation of which could vary, and in certain cases the legislation could be amended with indirect retrospective impact. In addition, the Group's management's interpretation of the legislation may differ from that of tax authorities, and in the result transactions carried out by the Group could be estimated by tax authorities in other way, and this could result in additional charge of taxes, fines and penalties. The Group's management considers that all necessary tax accruals were fulfilled and, correspondingly, there were no any provision charged in the consolidated financial statements. Tax periods remain open for 5 (five) years.

Financial commitments and contingencies

The Group's commitments and contingencies comprised the following:

	31 December 2017	*31 December 2016*
Undrawn credit lines	**48,069,001**	64,857,504
Guarantees issued	**2,944,942**	2,342,807
Guaranteed grain and cotton receipts	–	22,706,480
Credit related commitments	**51,013,943**	89,906,791

(thousands of tenge, unless otherwise stated)

33. Revenue from sale of goods and services

Revenue from sale of goods and services is comprised of the following:

	2017	*2016*
Sale of grain	**11,382,219**	24,845,066
Rendering of services	**1,848,078**	1,597,357
Sale of flour	**405,639**	668,191
Sale of wool	**950**	232,291
Sale of tomato paste	**–**	14,741
Other revenue	**4,484,810**	4,540,610
Revenue from sale of goods and services	**18,121,696**	31,898,256

34. Cost of sales

Cost of sales is comprised of the following:

	2017	*2016*
Cost of grain sold	**(9,190,226)**	(14,867,489)
Cost of services rendered	**(1,581,950)**	(1,300,228)
Cost of flour sold	**(433,730)**	(464,393)
Cost of wool sold	**(2,067)**	(242,889)
Cost of tomato paste sold	**–**	(56,243)
Cost of other sales	**(3,838,040)**	(3,772,273)
Cost of sales	**(15,046,013)**	(20,703,515)

35. Interest income

Interest income is comprised of the following:

	2017	*2016*
Interest income on loans to customers	**33,283,643**	34,562,440
Interest income on cash and cash equivalents	**24,936,357**	12,015,506
Interest income on finance lease receivables	**19,661,095**	18,378,835
Interest income on loans subsidized by the Government of the Republic of Kazakhstan	**15,041,127**	20,957,029
Interest income on amounts due from credit institutions	**11,032,854**	4,962,707
Interest income on held-to-maturity investment securities	**3,108,281**	80,096
Other	**1,128,429**	1,685,362
Interest income	**108,191,786**	92,641,975

In 2017, the Group recognised interest income of KZT 15,041,127 thousand (in 2016: KZT 20,957,029 thousand) or 7% per annum in tenge and 5% per annum in foreign currencies on loans issued to the second-tier banks subsidized by the Government of the Republic of Kazakhstan within the framework of the program of financial rehabilitation of agro-industrial complex entities based on the Order of the Minister of Agriculture of the Republic of Kazakhstan No. 205 dated 5 May 2016.

36. Interest expenses

Interest expenses are comprised of the following:

	2017	*2016*
Interest expense on debt securities issued in tenge	**(24,298,039)**	(12,917,117)
Interest expense on Eurobonds issued	**(23,068,637)**	(23,803,648)
Interest expense on amounts due to the Government of the Republic of Kazakhstan	**(5,767,316)**	(2,922,560)
Interest expense on amounts due to credit institutions	**(4,110,554)**	(3,490,468)
Other	**(409,103)**	(266,503)
Interest expenses	**(57,653,649)**	(43,400,296)

(thousands of tenge, unless otherwise stated)

37. Impairment charge for interest earning assets

Impairment charge for interest earning assets is comprised of the following:

	2017	*2016*
Amounts due from credit institutions (*Note 8*)	**(97,218,013)**	(11,639,188)
Loans to customers *(Note 10)*	**(10,057,960)**	(11,230,826)
Finance lease receivables *(Note 11)*	**589,235**	(3,099,126)
Impairment charge for interest earning assets	**(106,686,738)**	(25,969,140)

38. Net losses from transactions with derivative financial assets

Net losses from derivative financial assets are comprised of the following:

	2017	*2016*
Unrealised losses from transactions with derivative financial assets	**(829,066)**	(1,017,754)
Realised gains from transactions with derivative financial assets	**61,526**	70,223
Net losses from transactions with derivative financial assets	**(767,540)**	(947,531)

39. Other income

Other income is comprised of the following:

	2017	*2016*
Agency services	**1,506,638**	1,221,546
Income from instalment sales of grain	**1,229,460**	1,229,460
Fees and commissions	**734,291**	764,235
Gain from reimbursement of losses by third parties	**456,485**	–
Fines and penalties	**428,022**	808,129
Dividend income (*Note 12*)	**10,975**	2,654
Gain from re-acquisition of issued Eurobonds (*Note 27*)	**–**	1,901,834
Income from grain transportation service	**–**	265,473
Gain on sale of property and equipment	**–**	142,030
Gain from revaluation of biological assets	**–**	44,360
Gain from revaluation of investment in associates and joint ventures	**–**	42,362
Other	**2,097,409**	1,630,605
Other income	**6,463,280**	8,052,688

40. Personnel and other operating expenses

Personnel and other operating expenses are comprised of the following:

	2017	*2016*
Salaries and bonuses	**(4,879,641)**	(4,171,666)
Social security contribution	**(402,390)**	(552,464)
Personnel expenses	**(5,282,031)**	(4,724,130)
Professional services	**(1,253,039)**	(549,263)
Lease	**(874,426)**	(760,190)
Depreciation and amortization	**(691,387)**	(870,217)
Third party services	**(432,984)**	(396,764)
Advertising and marketing expenses	**(353,653)**	(254,557)
Taxes other than corporate income tax	**(347,364)**	(697,128)
Repair and maintenance expenses	**(322,300)**	(206,759)
Business trip and representation expenses	**(272,252)**	(252,314)
Materials	**(220,968)**	(197,061)
Communication	**(137,447)**	(143,674)
Insurance	**(128,504)**	(133,835)
Charity	**(120,802)**	(152,799)
Training	**(75,398)**	(50,745)
Utilities	**(62,834)**	(54,640)
Bank fees	**(62,697)**	(83,655)
Other	**(956,501)**	(1,317,854)
Other operating expenses	**(6,312,556)**	(6,121,455)

(thousands of tenge, unless otherwise stated)

41. Selling expenses

Selling expenses are comprised of the following:

	2017	*2016*
Salaries and related taxes	**(4,142,926)**	(3,786,552)
Grain storage	**(1,657,010)**	(1,876,457)
Shipping and transportation	**(1,086,638)**	(1,704,402)
Materials	**(173,068)**	(283,603)
Grain certification and analysis	**(82,256)**	(96,904)
Other selling expenses	**(243,229)**	(147,832)
Selling expenses	**(7,385,127)**	(7,895,750)

42. Net losses from restructuring of loans to customers

In the normal course of business, the Group revises the terms of loans to customers by providing the grace period and allowing early repayment due to events not related to impairment of loans. The effect of changes in the carrying amount due to modification of the terms of loans to customers is recognised in profit or loss. In 2017, net losses from restructuring of loans to customers were equal to KZT 1,329,450 thousand (in 2016: KZT 818,922 thousand).

43. Other impairment charge

The movements in other impairment charge are comprised of the following:

	Accounts receivable	*Advances paid*	*Assets held for sale*	*Assets held for finance lease*	*Property and equipment and intangible assets*	*Other assets*	*Total*
31 December 2015	11,155,432	3,322,578	111,676	881,276	3,554,887	992,199	20,018,048
Charge for the year	7,039,029	1,067,446	–	385,789	55,170	309,008	8,856,442
Write-offs	(175,808)	(181)	(17,677)	(723,748)	(967)	(64,323)	(982,704)
Reclassifications	927,876	–	(93,999)	93,999	–	(927,876)	–
31 December 2016	18,946,529	4,389,843	–	637,316	3,609,090	309,008	27,891,786
Charge/(reversal) for the year	**14,820,525**	**(72,476)**	**382,840**	**393,546**	**31,539**	**66,665**	**15,622,639**
Write-offs	**(14,603,562)**	**(14,250)**	**(182,680)**	**(268,193)**	–	**(195,919)**	**(15,264,604)**
Reclassifications	**–**	**–**	**–**	**–**	**(107,570)**	**76,149**	**(31,421)**
31 December 2017	**19,163,492**	**4,303,117**	**200,160**	**762,669**	**3,533,059**	**255,903**	**28,218,400**

44. Fiduciary activities

Mortgage program in the rural area

Starting from April 2010, the Group has been taking part in the mortgage lending program in rural settlements jointly with local executive bodies. The Group acts as an agent in granting mortgage in rural sector. The Group charges a management fee of 3.0% per annum of the total amount of issued mortgage loans less repaid loans. As at 31 December 2017, the total amount of mortgage loans issued by the Group on behalf of local executive authorities was equal to KZT 56,511,949 thousand (as at 31 December 2016: KZT 45,476,051 thousand). During the year ended 31 December 2017, the Group's agency commission was equal to KZT 1,494,994 thousand (in 2016: KZT 1,221,546 thousand).

45. Risk management

Introduction

Risk is inherent in the Group's activities. The Group manages these risks through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk associated with non-trading activities. It is also subject to operating risks.

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

Risk management structure

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

Board of Directors

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

Management Board

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

Risk management

The Risk Management Unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process.

Control of Risks

The Risk Controlling Unit is responsible for monitoring compliance with risk principles, policies and limits, across the Group. Each business group has a decentralised unit which is responsible for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This unit also ensures the complete capture of the risks in risk measurement and reporting systems.

Group Treasury

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

Internal audit

The objective of internal audit is to provide the Board of Directors with independent, objective and unbiased information based on audits performed throughout the year. Risk management processes throughout the Group are audited annually by the internal audit function that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Board of Directors.

Risk measurement and reporting systems

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

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

(thousands of tenge, unless otherwise stated)

45. Risk management (continued)

Introduction (continued)

Risk measurement and reporting systems (continued)

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Board of Directors, the Management Board, the Assets and Liabilities Management Committee, Credit Committee and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, liquidity ratios and risk profile changes.

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

Regular reports are provided to the Management Board and all other relevant employees of the Group on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

Risk mitigation

As part of its overall risk management, the Group uses derivatives to manage exposures resulting from changes foreign currencies. The Group actively uses collateral to reduce its credit risks (see below for more details).

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the consolidated statement of financial position.

Credit-related commitments risks

The Group makes available to its customers guarantees which may require that the Group make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Group to similar risks to loans and these are mitigated by the same control processes and policies.

The maximum exposure to credit risk for the components of the consolidated statement of financial position, including derivatives, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying amounts.

Where financial instruments are recorded at fair value, the carrying value represents the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

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

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group's internal credit ratings. The table below shows the credit quality by class of asset for loan-related lines in the consolidated statement of financial position, based on the Group's credit rating system.

(thousands of tenge, unless otherwise stated)

45. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets (continued)

In the table below cash and cash equivalents, loans to banks and customers of high grade are those having a minimal level of credit risk, normally with a credit rating on or close to sovereign level or very well collateralized. Other borrowers with good financial position and good debt service are included in the standard grade. Sub-standard grade comprises loans below standard grade but not individually impaired. For debt securities high grade is equivalent to Moody's Baa3 rating and above, standard – below Baa3 but above B3, sub-standard – below B3.

2017	*Standard grade*	*Sub-standard grade*	*Past due but not impaired*	*Individually impaired*	*Total*
Cash and cash equivalents (excluding cash on hand)	**253,008,589**	**4,778,362**	–	–	**257,786,951**
Amounts due from credit institutions	**214,983,211**	–	**3,579,508**	**65,933,500**	**284,496,219**
Loans to customers	**224,077,238**	**13,090,625**	**32,293,966**	**75,366,226**	**344,828,055**
Finance lease receivables	**16,332,251**	**122,895,515**	**20,694,288**	**54,716,376**	**214,638,430**
Available-for-sale investment securities	**322,569**	–	–	**14,031**	**336,600**
Held-to-maturity investment securities	**58,480,115**	–	–	**9,447,982**	**67,928,097**
Accounts receivable	**27,806,288**	–	**2,063,540**	**22,908,502**	**52,778,330**
Total	**795,010,261**	**140,764,502**	**58,631,302**	**228,386,617**	**1,222,792,682**

2016	*Standard grade*	*Sub-standard grade*	*Past due but not impaired*	*Individually impaired*	*Total*
Cash and cash equivalents (excluding cash on hand)	272,189,209	5,573,203	–	–	277,762,412
Amounts due from credit institutions	367,640,831	–	–	11,639,188	379,280,019
Derivative financial assets	829,066	–	–	–	829,066
Loans to customers	103,162,599	88,849,455	60,060,329	56,791,407	308,863,790
Finance lease receivables	15,785,537	166,318,432	7,366,843	40,013,979	229,484,791
Available-for-sale investment securities	258,723	14,031	–	–	272,754
Held-to-maturity investment securities	23,306,474	–	–	–	23,306,474
Accounts receivable	24,141,323	–	23,586,372	18,250,469	65,978,164
Total	807,313,762	260,755,121	91,013,544	126,695,043	1,285,777,470

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk.

Ageing analysis of past due but not impaired assets per class of financial assets

Overdue but not individually impaired loans to customers and financial lease receivables are as follows:

2017	*Less than 30 days*	*31-60 days*	*61-90 days*	*Over 90 days*	*Total*
Loans to customers	**6,962,780**	**7,801,981**	**1,661,175**	**15,868,030**	**32,293,966**
Finance lease receivables	**1,737,374**	**3,701,896**	**1,322,918**	**13,932,100**	**20,694,288**
Total	**8,700,154**	**11,503,877**	**2,984,093**	**29,800,130**	**52,988,254**

(thousands of tenge, unless otherwise stated)

45. Risk management (continued)

Credit risk (continued)

Ageing analysis of past due but not impaired assets per class of financial assets (continued)

2016	***Less than 30 days***	***31-60 days***	***61-90 days***	***Over 90 days***	***Total***
Loans to customers	26,914,148	8,092,281	2,908,543	22,145,357	60,060,329
Finance lease receivables	682,178	574,109	352,474	5,758,082	7,366,843
Total	27,596,326	8,666,390	3,261,017	27,903,439	67,427,172

See *Notes 10* and *11* for more detailed information with respect to the allowance for impairment of loans to customers and finance lease receivables.

Impairment assessment

The main considerations for the loan impairment assessment comprise: whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Group determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining allowance amounts include: the sustainability of the counterparty's business plan; its ability to improve performance once a financial difficulty has arisen; projected receipts and the expected dividend payout should bankruptcy ensue; the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

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

The collective assessment takes account of impairment that is likely to be present in the pool of loans even though there is no yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Management of the unit is responsible for determining the appropriate delay which can be last up to one year. Then allowance for impairment is tested by the credit management unit on compliance with the Group's overall policy.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

(Thousands of tenge, unless otherwise stated)

45. Risk management (continued)

Credit risk (continued)

The geographical concentration of Group's financial assets and liabilities is set out below:

	2017					*2016*				
	Republic of Kazakhstan	*OECD*	*CIS*	*Other*	*Total*	*Republic of Kazakhstan*	*OECD*	*CIS*	*Other*	*Total*
Assets										
Cash and cash equivalents	**257,786,972**	**–**	**–**	**–**	**257,786,972**	277,763,188	–	–	–	277,763,188
Amounts due from credit institutions	**253,883,472**	**–**	**–**	**–**	**253,883,472**	367,640,831	–	–	–	367,640,831
Derivative financial assets	**–**	**–**	**–**	**–**	**–**	829,066	–	–	–	829,066
Loans to customers	**291,156,363**	**–**	**976,354**	**–**	**292,132,717**	263,286,463	–	–	1,037,664	264,324,127
Finance lease receivables	**193,143,852**	**–**	**–**	**–**	**193,143,852**	207,316,386	–	–	–	207,316,386
Available-for-sale investment securities	**336,600**	**–**	**–**	**–**	**336,600**	272,754	–	–	–	272,754
Held-to-maturity investment securities	**67,928,097**	**–**	**–**	**–**	**67,928,097**	23,306,474	–	–	–	23,306,474
Accounts receivable	**33,614,838**	**–**	**–**	**–**	**33,614,838**	47,031,635	–	–	–	47,031,635
	1,097,850,194	**–**	**976,354**	**–**	**1,098,826,548**	1,187,446,797	–	–	1,037,664	1,188,484,461
Liabilities										
Amounts due to the Government of the Republic of Kazakhstan	**67,648,798**	**–**	**–**	**–**	**67,648,798**	69,458,586	–	–	–	69,458,586
Amounts due to credit institutions	**15,902,616**	**13,852,324**	**15,376,280**	**3,622,680**	**48,753,900**	14,106,243	12,707,937	15,710,683	8,898,622	51,423,485
Debt securities issued in tenge	**232,147,922**	**–**	**–**	**–**	**232,147,922**	214,396,259	–	–	–	214,396,259
Eurobonds issued	**–**	**559,652,694**	**–**	**–**	**559,652,694**	–	531,168,887	–	–	531,168,887
Trade accounts payable	**2,931,019**	**2,021,447**	**37,128**	**–**	**4,989,594**	6,557,170	–	–	–	6,557,170
Other financial liabilities	**–**	**–**	**–**	**–**	**–**	316,669	–	–	–	316,669
	318,630,355	**575,526,465**	**15,413,408**	**3,622,680**	**913,192,908**	304,834,927	543,876,824	15,710,683	8,898,622	873,321,056
	779,219,839	**(575,526,465)**	**(14,437,054)**	**(3,622,680)**	**185,633,640**	882,611,870	(543,876,824)	(15,710,683)	(7,860,958)	315,163,405

(thousands of tenge, unless otherwise stated)

45. Risk management (continued)

Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. In order to limit this risk the management ensured availability of different funding sources in addition to the existing minimal amount of bank deposits. Management also controls assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can assess to meet liquidity needs.

Analysis of financial liabilities by remaining contractual maturities

The tables below summarize the maturity profile of the Group's financial liabilities at 31 December, based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many counterparties will not request repayment on the earliest date the Group could be required to pay.

	31 December 2017				
Financial liabilities	***Less than 3 months***	***From 3 to 12 months***	***From 1 to 5 years***	***Over 5 years***	***Total***
Amounts due to the Government of the Republic of Kazakhstan	**879,197**	**4,791,965**	**50,158,517**	**29,410,916**	**85,240,595**
Amounts due to credit institutions	**3,206,277**	**23,649,477**	**27,556,889**	**573,725**	**54,986,368**
Debt securities issued in tenge	**135,850**	**55,794,769**	**87,807,962**	**386,734,725**	**530,473,306**
Eurobonds issued	**–**	**22,555,939**	**305,829,461**	**326,924,549**	**655,309,949**
Trade accounts payable	**2,402,675**	**2,586,919**	**–**	**–**	**4,989,594**
Total undiscounted financial liabilities	**6,623,999**	**109,379,069**	**471,352,829**	**743,643,915**	**1,330,999,812**

	31 December 2016				
Financial liabilities	***Less than 3 months***	***From 3 to 12 months***	***From 1 to 5 years***	***Over 5 years***	***Total***
Amounts due to the Government of the Republic of Kazakhstan	10,098	7,790,412	74,125,008	–	81,925,518
Amounts due to credit institutions	1,748,536	47,203,871	28,266,506	–	77,218,913
Debt securities issued in tenge	1,115,500	26,852,994	206,267,554	454,617,367	688,853,415
Eurobonds issued	–	21,703,498	284,500,467	342,679,440	648,883,405
Trade accounts payable	727,608	5,829,562	–	–	6,557,170
Other financial liabilities	42,203	274,466	–	–	316,669
Total undiscounted financial liabilities	3,643,945	109,654,803	593,159,535	797,296,807	1,503,755,090

The table below shows the contractual expiry by maturity of the Group's financial commitments and contingencies. Each undrawn commitment on lending is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	Less than 3 months	***From 3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
2017	**2,175,569**	**20,335,218**	**7,389,142**	**21,114,014**	**51,013,943**
2016	28,908,951	3,432,456	7,473,588	50,091,796	89,906,791

The Group expects that not all of the financial contingent liabilities or commitments will be drawn before expiry of the commitments. The Group's capability to repay its liabilities relies on its ability to realise an equivalent amount of assets within the same period of time.

(thousands of tenge, unless otherwise stated)

45. Risk management (continued)

Liquidity risk and funding management (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)

The Group has received significant funds from the Government of the Republic of Kazakhstan and credit institutions. Any significant withdrawal of these funds would have an adverse impact on the operations of the Group. Management believes that this level of funding will remain with the Group for the foreseeable future and that in the event of withdrawal of funds, the Group would be given sufficient notice so as to realise its liquid assets to enable repayment.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchanges. The market risk of the non-trading portfolio is managed and monitored using sensitivity analysis.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's consolidated statement of profit or loss.

The sensitivity of the consolidated statement of profit or loss is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December.

Currency	*Increase in basis points 2017*	*Sensitivity of net interest income 2017*	*Sensitivity of equity 2017*
Euro	**100**	**(11,330)**	**(11,330)**
US Dollar	**100**	**(42,740)**	**(42,740)**

Currency	*Increase in basis points 2016*	*Sensitivity of net interest income 2016*	*Sensitivity of equity 2016*
Euro	100	(15,416)	(15,416)
US Dollar	100	(64,119)	(64,119)

Currency risk

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

The tables below indicate the currencies to which the Group had significant exposure at 31 December on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the KZT, with all other variables held constant on the consolidated statement of profit or loss (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 consolidated statement of profit or loss. A negative amount in the table reflects a potential net reduction in the consolidated statement of profit or loss or equity, while a positive amount reflects a net potential increase.

Currency	*Change in currency rates in % 2017*	*Effect on profit before tax 2017*	*Change in currency rates in % 2016*	*Effect on profit before tax 2016*
US Dollar	**-10%**	**6,333,909**	-13%	(20,167,276)
US Dollar	**+10%**	**(6,333,909)**	+13%	25,048,222
Euro	**-9.5%**	**23,810,720**	-15%	74,591,736
Euro	**+13.5%**	**(33,836,285)**	+15%	(72,786,049)
Russian Rouble	**-16%**	**511,251**	-23%	993,514
Russian Rouble	**+16%**	**(511,251)**	+19%	(820,729)
Islamic Dinar	**-10%**	**139,654**	-13%	216,686
Islamic Dinar	**+10%**	**(139,654)**	+13%	(216,686)

(thousands of tenge, unless otherwise stated)

45. Risk management (continued)

Market risk (continued)

Prepayment risk

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

If 10% of loan portfolio were to prepay at the beginning of the year, with all other variables held constant, the profit before tax for the year would be decreased by KZT 491,450 thousand (2016: KZT 916,159 thousand).

If 10% of debt portfolio were to prepay at the beginning of the year, with all other variables held constant, the profit before tax for the year would be increased by KZT 2,384,294 thousand (2016: KZT 2,527,997 thousand).

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or can lead to financial loss. The Group 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 should include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

46. Fair values of financial instruments

The Group's management determines the policies and procedures for both recurring fair value measurement, such as unquoted securities available-for-sale, unquoted derivatives, investment property and for non-recurring measurement.

At each reporting date, the management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

(thousands of tenge, unless otherwise stated)

46. Fair values of financial instruments (continued)

Fair value hierarchy

For the purpose of fair value disclosures, the Group's has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

The following table shows an analysis of financial instruments by level of the fair value hierarchy:

		Fair value measurement using			
As at 31 December 2017	***Date of measurement***	***Quoted prices in active markets (Level 1)***	***Significant observable inputs (Level 2)***	***Significant unobservable inputs (Level 3)***	***Total***
Assets measured at fair value					
Available-for-sale investment securities	31 December 2017	**336,600**	**–**	**–**	**336,600**
Total financial assets measured at fair value		**336,600**	**–**	**–**	**336,600**
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2017	**–**	**257,786,972**	**–**	**257,786,972**
Amounts due from credit institutions	31 December 2017	**–**	**215,168,780**	**22,662,319**	**237,831,099**
Loans to customers	31 December 2017	**–**	**–**	**247,088,826**	**247,088,826**
Finance lease receivables	31 December 2017	**–**	**–**	**188,395,751**	**188,395,751**
Held-to-maturity investment securities	31 December 2017	**58,475,009**	**–**	**9,447,983**	**67,922,992**
Accounts receivable	31 December 2017	**–**	**–**	**33,614,838**	**33,614,838**
Total financial assets for which fair values are disclosed		**58,475,009**	**472,955,752**	**501,209,717**	**1,032,640,478**
Liabilities for which fair values are disclosed					
Amounts due to the Government of the Republic of Kazakhstan	31 December 2017	**–**	**62,890,648**	**–**	**62,890,648**
Amounts due to credit institutions	31 December 2017	**–**	**48,276,725**	**–**	**48,276,725**
Debt securities issued in tenge	31 December 2017	**226,307,998**	**18,819,857**	**–**	**245,127,855**
Eurobonds issued	31 December 2017	**569,010,898**	**–**	**–**	**569,010,898**
Trade accounts payable	31 December 2017	**4,624**	**2,078,326**	**2,848,497**	**4,931,447**
Other financial liabilities	31 December 2017	**–**	**-**	**887,359**	**887,359**
Total financial liabilities for which fair values are disclosed		**795,323,520**	**132,065,556**	**3,735,856**	**931,124,932**

(thousands of tenge, unless otherwise stated)

46. Fair values of financial instruments (continued)

Fair value hierarchy (continued)

		Fair value measurement using			
As at 31 December 2016	***Date of measurement***	***Quoted prices in active markets (Level 1)***	***Significant observable inputs (Level 2)***	***Significant unobservable inputs (Level 3)***	***Total***
Assets measured at fair value					
Derivative financial assets	31 December 2016	–	829,066	–	829,066
Available-for-sale investment securities	31 December 2016	272,754	–	–	272,754
Total financial assets measured at fair value		272,754	829,066	–	1,101,820
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2016	–	272,189,985	5,573,203	277,763,188
Amounts due from credit institutions	31 December 2016	–	300,628,605	61,126,225	361,754,830
Loans to customers	31 December 2016	–	–	231,653,469	231,653,469
Finance lease receivables	31 December 2016	–	–	207,988,597	207,988,597
Held-to-maturity investment securities	31 December 2016	23,306,474	–	–	23,306,474
Accounts receivable	31 December 2016	–	–	47,031,635	47,031,635
Total financial assets for which fair values are disclosed		23,306,474	572,818,590	553,373,129	1,149,498,193
Liabilities for which fair values are disclosed					
Amounts due to the Government of the Republic of Kazakhstan	31 December 2016	–	57,316,164	7,078,500	64,394,664
Amounts due to credit institutions	31 December 2016	–	47,398,536	–	47,398,536
Debt securities issued in tenge	31 December 2016	138,066,149	64,258,562	–	202,324,711
Eurobonds issued	31 December 2016	510,213,651	–	–	510,213,651
Trade accounts payable	31 December 2016	–	–	6,557,170	6,557,170
Other financial liabilities	31 December 2016	–	–	316,669	316,669
Total financial liabilities for which fair values are disclosed		648,279,800	168,973,262	13,952,339	831,205,401

(thousands of tenge, unless otherwise stated)

46. Fair values of financial instruments (continued)

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 Group's financial instruments that are not carried at fair value in the consolidated financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

	2017			2016		
	Carrying amount	Fair value	Unrecog-nized (loss)/gain	Carrying amount	Fair value	Unrecog-nized (loss)/gain
Financial assets						
Cash and cash equivalents	**257,786,972**	**257,786,972**	**–**	277,763,188	277,763,188	–
Amounts due from credit institutions	**253,883,472**	**237,831,099**	**(16,052,373)**	367,640,831	361,754,830	(5,886,001)
Loans to customers	**292,132,717**	**247,088,826**	**(45,043,891)**	264,324,127	231,653,469	(32,670,658)
Finance lease receivables	**193,143,852**	**188,395,751**	**(4,748,101)**	207,316,386	207,988,597	672,211
Held-to-maturity investment securities	**67,928,097**	**67,922,992**	**(5,105)**	23,306,474	23,306,474	–
Accounts receivable	**33,614,838**	**33,614,838**	**–**	47,031,635	47,031,635	–
			(65,849,470)			(37,884,448)
Financial liabilities						
Amounts due to the Government of the Republic of Kazakhstan	**67,648,798**	**62,890,648**	**4,758,150**	69,458,586	64,394,664	5,063,922
Amounts due to credit institutions	**48,753,900**	**48,276,725**	**477,175**	51,423,485	47,398,536	4,024,949
Debt securities issued in tenge	**232,147,922**	**245,127,855**	**(12,979,933)**	214,396,259	202,324,711	12,071,548
Eurobonds issued	**559,652,694**	**569,010,898**	**(9,358,204)**	531,168,887	510,213,651	20,955,236
Trade accounts payable	**4,989,594**	**4,931,447**	**58,147**	6,557,170	6,557,170	–
Other financial liabilities	**887,359**	**887,359**	**–**	316,669	316,669	–
			(17,044,665)			42,115,655
Total unrecognised change in unrealized fair value			**(82,894,135)**			4,231,207

Financial instruments measured at fair value

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Derivatives

The Group determines fair value using valuation method, usually applied by market participants. As for embedded derivative instruments assumptions are made on the basis of market data adjusted for specific characteristics of the instruments. The Group uses Black-Scholes model to determine fair value of its financial instruments and assumptions (such as risk free rates and volatility coefficients) quoted at Bloomberg.

Methods of measurement and assumptions

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not recorded at fair value in the consolidated 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 their fair value approximates to their carrying amount. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

(thousands of tenge, unless otherwise stated)

46. Fair values of financial instruments (continued)

Fixed and variable rate financial instruments

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

For assets whose fair value is disclosed in the consolidated financial statements, future cash flows are discounted using average market rate for financial instruments with similar maturities based on the statistics published by the NBRK. The indicated approach is used in determining the fair value of loans to customers and finance lease receivables.

In case of liabilities with fair values disclosed in the consolidated financial statements, future cash flows are discounted at the average market rate of financial instruments with similar maturities.

Future cash flows include repayment of principal and interest calculated at the interest rate provided in the agreement.

47. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See *Note 45* for the Group's contractual undiscounted repayment obligations.

	2017			*2016*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Assets						
Cash and cash equivalents	**257,786,972**	**–**	**257,786,972**	277,763,188	–	277,763,188
Amounts due from credit institutions	**21,056,303**	**232,827,169**	**253,883,472**	17,205,149	350,435,682	367,640,831
Derivative financial assets	**–**	**–**	**–**	829,066	–	829,066
Loans to customers	**100,580,817**	**191,551,900**	**292,132,717**	70,952,332	193,371,795	264,324,127
Finance lease receivables	**54,182,058**	**138,961,794**	**193,143,852**	57,252,881	150,063,505	207,316,386
Available-for-sale investment securities	**–**	**336,600**	**336,600**	–	272,754	272,754
Held-to-maturity investment securities	**58,480,114**	**9,447,983**	**67,928,097**	23,306,474	–	23,306,474
Investments in associates and joint ventures	**–**	**6,047,437**	**6,047,437**	–	3,147,071	3,147,071
Accounts receivable	**28,031,976**	**5,582,862**	**33,614,838**	30,546,641	16,484,994	47,031,635
Advances paid	**4,120,879**	**2,513,389**	**6,634,268**	5,824,546	164,180	5,988,726
Inventories	**24,447,966**	**–**	**24,447,966**	14,024,060	–	14,024,060
Minimum stock of grain	**–**	**20,684,273**	**20,684,273**	–	16,783,105	16,783,105
Assets held for finance lease	**5,109,734**	**847,481**	**5,957,215**	6,519,211	–	6,519,211
Assets held for sale	**914,235**	**–**	**914,235**	1,279,864	–	1,279,864
VAT and other taxes recoverable	**5,249,073**	**–**	**5,249,073**	3,464,767	–	3,464,767
Current corporate income tax assets	**928,710**	**11,125,929**	**12,054,639**	1,518,424	7,351,807	8,870,231
Deferred corporate income tax assets	**–**	**2,080,553**	**2,080,553**	–	6,266,626	6,266,626
Investments property	**–**	**386,730**	**386,730**	–	522,299	522,299
Property and equipment	**–**	**9,096,963**	**9,096,963**	–	9,491,715	9,491,715
Goodwill	**–**	**41,300**	**41,300**	–	41,300	41,300
Intangible assets	**–**	**1,262,474**	**1,262,474**	–	770,948	770,948
Other assets	**3,994,792**	**449,646**	**4,444,438**	1,963,555	998,547	2,962,102
Total assets	**564,883,629**	**633,244,483**	**1,198,128,112**	512,450,158	756,166,328	1,268,616,486

(thousands of tenge, unless otherwise stated)

47. Maturity analysis of assets and liabilities (continued)

	2017			2016		
	Within one year	More than one year	Total	Within one year	More than one year	Total
Liabilities						
Amounts due to the Government of the Republic of Kazakhstan	**5,667,882**	**61,980,916**	**67,648,798**	7,800,138	61,658,448	69,458,586
Amounts due to credit institutions	**24,460,840**	**24,293,060**	**48,753,900**	24,163,090	27,260,395	51,423,485
Debt securities issued in tenge	**40,833,024**	**191,314,898**	**232,147,922**	1,105,820	213,290,439	214,396,259
Eurobonds issued	**6,312,731**	**553,339,963**	**559,652,694**	10,496,167	520,672,720	531,168,887
Trade accounts payable	**4,989,594**	**–**	**4,989,594**	6,557,170	–	6,557,170
Advances received	**6,639,129**	**–**	**6,639,129**	2,888,370	–	2,888,370
Current corporate income tax liabilities	**37,492**	**–**	**37,492**	119,542	–	119,542
Deferred corporate income tax liabilities	**–**	**8,092,552**	**8,092,552**	–	3,629,851	3,629,851
VAT and other taxes payable	**1,104,694**	**4,248,418**	**5,353,112**	888,123	2,849,826	3,737,949
Other liabilities	**8,630,627**	**197,401**	**8,828,028**	5,142,462	184,197	5,326,659
Total liabilities	**98,676,013**	**843,467,208**	**942,143,221**	59,160,882	829,545,876	888,706,758
Net position	**466,207,616**	**(210,222,725)**	**255,984,891**	453,289,276	(73,379,548)	379,909,728

48. Related party transactions

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

Related parties may enter into transactions which unrelated parties might not. Prices and terms of such transactions may differ from prices and terms of transactions between unrelated parties.

The Republic of Kazakhstan, acting through the State Property Committee of the Ministry of Finance, controls the Group and has a significant impact on its activities.

The Republic of Kazakhstan through its state agencies and other institutions directly and indirectly controls and has significant influence over a significant number of entities (together referred to as "entities under common control of the Government"). The Group executes banking transactions with these entities such as raising of loans and placement of cash and letter of credits.

(Thousands of tenge, unless otherwise stated)

48. Related party transactions (continued)

The volumes of related party transactions, outstanding balances at year end and related expenses and income of the operation with the Shareholder and other related parties comprise:

	2017			2016		
	Shareholder	*Entities under common control of the Government*	*Associates*	*Shareholder*	*Entities under common control of the Government*	*Associates*
Loans to customers as at 1 January	**–**	**–**	**2,527,806**	–	–	2,576,804
Loans issued	**–**	**–**	**–**	–	–	39,015
Loans repaid	**–**	**–**	**(77,824)**	–	–	(154,972)
Allowance for impairment	**–**	**–**	**(1,140,509)**	–	–	66,959
Other	**–**	**–**	**(39,561)**	–	–	–
Loans to customers as at 31 December	**–**	**–**	**1,269,912**	–	–	2,527,806
Finance lease receivables as at 1 January	**–**	**–**	**432,032**	–	–	682,976
Repaid during the year	**–**	**–**	**(167,566)**	–	–	(258,222)
Other	**–**	**–**	**13,219**	–	–	7,278
Finance lease receivables as at 31 December	**–**	**–**	**277,685**	–	–	432,032
Available-for-sale investment securities as at 1 January	**–**	**258,722**	**–**	–	197,893	–
Revaluation	**–**	**63,847**	**–**	–	60,829	–
Available-for-sale investment securities as at 31 December	**–**	**322,569**	**–**	–	258,722	–
Amounts due to the Government of the Republic of Kazakhstan and debt securities issued as at 1 January	**7,078,500**	**240,768,503**	**–**	7,078,500	141,226,731	–
Debt securities issued	**–**	**–**	**–**	–	76,994,917	–
Accrued discount during the year	**–**	**(5,538,740)**	**–**	–	(1,852,492)	–
Loans received during the year	**–**	**30,107,070**	**–**	–	90,840,698	–
Loans repaid during the year	**(7,078,500)**	**(19,948,133)**	**–**	–	(68,792,210)	–
Amortisation of discount during the year	**–**	**8,048,893**	**–**	–	2,350,859	–
Amounts due to the Government of the Republic of Kazakhstan and debt securities issued as at 31 December	**–**	**253,437,593**	**–**	7,078,500	240,768,503	–
Dividends payable as at 1 January	**–**	**–**	**–**	–	–	–
Dividends declared during the year	**1,112,128**	**–**	**–**	–	–	–
Dividends paid during the year	**(1,112,128)**	**–**	**–**	–	–	–
Dividends payable as at 31 December	**–**	**–**	**–**	–	–	–
Interest income accrued on loans to customers	**–**	**–**	**–**	–	–	47,372
Interest expense accrued on amounts due to the Government of the Republic of Kazakhstan and debt securities issued	**–**	**(26,502,299)**	**–**	–	(11,592,477)	–
Undrawn credit lines	**–**	**–**	**–**	–	–	13,646
Revenues from fiduciary activities	**–**	**1,494,994**	**–**	–	1,221,546	–
Other income	**–**	**–**	**–**	–	77,229	–
Other expense	**–**	**–**	**–**	–	892	–

Compensation of key management personnel consisting of 5 (five) persons in 2017 and 2016 comprised:

	2017	*2016*
Salaries and other short-term benefits	**69,048**	72,795
Social tax	**6,285**	6,874
Social deductions	**673**	526
Total compensation to the key management personnel	**76,006**	80,195

(Thousands of tenge, unless otherwise stated)

49. Capital adequacy

The Group maintains an actively managed capital base to cover risks inherent in the business.

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

As at 31 December 2017 and 2016, the Group had complied in full with all its externally imposed capital requirements.

The adequacy of the Group's capital is monitored using, among other measures, the ratios established by the NBRK.

Capital adequacy ratios established by the NBRK

The NBRK requires companies engaged in certain types of banking activities to maintain a minimum Tier 1 capital adequacy ratio (k1) of 6% of total assets; minimum capital adequacy ratio (k1−2) of 6% of risk−weighted assets and contingent liabilities; and minimum total capital adequacy ratio (k1−3) of 12% of risk−weighted assets and contingent liabilities and operational risk. As at 31 December 2017 and 2016, risk weighted assets of the Company's subsidiaries engaged in certain types of banking operation were calculated in accordance with the NBRK requirements and derived from the financial statements of the subsidiaries. As at 31 December 2017 and 2016 the subsidiaries' capital adequacy ratios on this basis were as follows:

Agrarian Credit Corporation JSC

	2017	*2016*
Tier 1 capital	**145,409,627**	147,334,428
Tier 2 capital	**6,982,809**	2,921,032
Total regulatory capital	**152,392,436**	150,255,460
Risk−weighted assets	**193,652,341**	192,931,226
Contingent liabilities	**19,059,244**	28,592,471
Operational risk	**10,867,218**	6,413,201
Capital adequacy ratio k1	**58.8%**	67.5%
Capital adequacy ratio (k1−2)	**68.4%**	66.5%
Capital adequacy ratio (k1−3)	**68.2%**	65.9%

Fund of Financial Support for Agriculture JSC

	2017	*2016*
Tier 1 capital	**55,934,540**	41,184,666
Tier 2 capital	**2,259,988**	3,935,248
Investments in associates	**(40,090)**	(68,838)
Total regulatory capital	**58,154,438**	45,051,076
Risk−weighted assets	**118,077,990**	115,931,125
Contingent liabilities	**5,837,841**	79,262,340
Operational risk	**3,153,624**	2,372,391
Capital adequacy ratio (k1)	**44.4%**	35.5%
Capital adequacy ratio (k1-2)	**48.1%**	53.0%
Capital adequacy ratio (k1−3)	**48.7%**	56.2%

(Thousands of tenge, unless otherwise stated)

49. Capital adequacy (continued)

Capital adequacy ratios established by the NBRK (continued)

KazAgroFinance JSC

	2017	*2016*
Tier 1 capital	**99,106,240**	96,087,808
Tier 2 capital	**3,572,220**	3,228,629
Total regulatory capital	**102,678,460**	99,316,437
Risk– weighted assets and contingent liabilities	**287,943,904**	267,564,893
Operational risk	**7,868,464**	4,008,320
Capital adequacy ratio (k1)	**35.0%**	33.5%
Capital adequacy ratio (k1–2)	**34.4%**	35.9%
Capital adequacy ratio (k1–3)	**34.7%**	36.6%

50. Changes in liabilities arising from financing activities

	Amounts due to the Government of the Republic of Kazakhstan	*Amounts due to credit institutions*	*Debt securities issued in tenge*	*Eurobonds issued*	*Total liabilities from financing activities*
Carrying amount at 31 December 2015	40,741,427	50,716,012	134,154,273	567,290,410	792,902,122
Proceeds	94,150,641	62,690,275	78,000,000	–	234,840,916
Repayment	(60,384,288)	(61,674,209)	–	(17,584,163)	(139,642,660)
Recognition of discount	(7,963,358)	–	–	(2,177,116)	(10,140,474)
Foreign currency translation	–	(102,307)	–	(18,315,947)	(18,418,254)
Other	2,914,164	(206,286)	2,241,986	1,955,703	6,905,567
Carrying amount at 31 December 2016	69,458,586	51,423,485	214,396,259	531,168,887	866,447,217
Proceeds	**90,532,771**	**19,408,761**	**10,000,000**	**–**	**119,941,532**
Repayment	**(80,664,503)**	**(22,772,585)**	**–**	**–**	**(103,437,088)**
Recognition of discount	**(11,062,450)**	**–**	**–**	**–**	**(11,062,450)**
Foreign currency translation	**–**	**623,272**	**–**	**26,558,859**	**27,182,131**
Other	**(615,606)**	**70,967**	**7,751,663**	**1,924,948**	**9,131,972**
Carrying amount at 31 December 2017	**67,648,798**	**48,753,900**	**232,147,922**	**559,652,694**	**908,203,314**

The "Other" line includes the effect of accrued but not yet paid interest, recognition and amortization of discounts on borrowings. The Group classifies interest paid as cash flows from operating activities.

51. Subsequent events

In accordance with the decision of the Shareholder No. 120 dated 16 March 2018, the Company declared 54,880,000 common shares, of which 22,880,000 were issued and paid by the Shareholder in cash at placement value of KZT 1,000 per common share.