ForteLeasing JSC
(formerly Temirleasing JSC)

Financial statements

Year ended 31 December 2015
with independent auditor's report

CONTENTS

INDEPENDENT AUDITOR'S REPORT

Statement of financial position 1
Statement of comprehensive income 2
Statement of changes in equity 3
Statement of cash flows 4

NOTES TO THE FINANCIAL STATEMENTS

1. General information 5
2. Basis of preparation 5
3. Summary of accounting policies 5
4. Significant accounting judgements and estimates 18
5. Cash and cash equivalents 18
6. Amounts due from credit institutions 18
7. Net investment in finance leases 19
8. Derivative financial instruments 20
9. Inventories 20
10. Investment property 21
11. Property and equipment 22
12. Other assets and liabilities 22
13. Amounts due to credit institutions 23
14. Taxation 23
15. Authorised capital 24
16. Fee and commission income 24
17. Personnel and other operating expenses 25
18. Earnings per share 25
19. Contingent liabilities 25
20. Risk management 26
21. Fair value measurement 30
22. Maturity analysis of financial assets and liabilities 33
23. Related party transactions 33

EY
Building a better working world

«Эрнст энд Янг» ЖШС
Әл-Фараби д-лы, 77/7
«Есентай Тауэр» ғимараты
Алматы қ., 050060
Қазақстан Республикасы
Тел.: +7 727 258 5960
Факс: +7 727 258 5961
www.ey.com

ТОО «Эрнст энд Янг»
пр. Аль-Фараби, 77/7
здание «Есентай Тауэр»
г. Алматы, 050060
Республика Казахстан
Тел.: +7 727 258 5960
Факс: +7 727 258 5961

Ernst & Young LLP
Al-Farabi ave., 77/7
Esentai Tower
Almaty, 050060
Republic of Kazakhstan
Tel.: +7 727 258 5960
Fax: +7 727 258 5961

Independent auditor's report

To the Shareholders and Board of Directors of ForteLeasing JSC (formerly Temirleasing JSC)

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

Audited entity's responsibility for the separate financial statements

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

Auditor's responsibility

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

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

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

A member firm of Ernst & Young Global Limited

Building a better
working world

Conclusion

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

Ernst & Young LLP

Zhemaletdinov Evgeny
Auditor/General Director
Ernst and Young LLP

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

Auditor Qualification Certificate No. 0000553 dated 24 December 2003

29 April 2016

STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

(In thousands of tenge)

	Notes	2015	2014
Assets			
Cash and cash equivalents	5	314,772	567,454
Amounts due from credit institutions	6	325,087	–
Net investment in finance leases	7	1,547,674	1,859,925
Derivative financial instruments	8	–	55,698
Inventories	9	75,211	92,318
Investment property	10	1,665,392	1,671,373
Property and equipment	11	15,789	37,361
Current corporate income tax asset	14	7,126	12,750
Other assets	12	73,029	101,112
Total assets		4,024,080	4,397,991
Liabilities			
Amounts due to credit institutions	13	1,154,957	1,651,541
Deferred corporate income tax liabilities	14	79,982	70,075
Other liabilities	12	119,806	236,800
Total liabilities		1,354,745	1,958,416
Equity			
Share capital	15	1,684,113	1,684,113
Retained earnings		985,222	755,462
Total equity		2,669,335	2,439,575
Total equity and liabilities		4,024,080	4,397,991

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

Mendigaliyev A.S. — Chairperson of the Management Board

Kenzhibekova B.A. — Chief Accountant

29 April 2016

The accompanying notes on pages 5 to 34 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

(In thousands of tenge)

	Notes	2015	2014
Interest income			
Net investment in finance leases		380,030	372,955
Amounts due from credit institutions		4,142	–
		384,172	372,955
Interest expense			
Amounts due to credit institutions		(189,629)	(170,610)
		(189,629)	(170,610)
Net interest income		194,543	202,345
Reversal of allowance/(allowance) for impairment of investments in finance leases	–	38,825	(3,410)
Net interest income after allowance for impairment of investments in finance leases		233,368	198,935
Operating lease income	10	374,033	427,673
Fee and commission income	16	4,922	7,241
Net foreign exchange gains/(losses)		107,895	(17,241)
Other income		54,025	14,944
Non-interest income		540,875	432,617
Personnel expenses	17	(191,430)	(197,437)
Depreciation and amortisation	10, 11	(47,963)	(30,250)
Net (losses)/gains from derivative financial instruments		(55,698)	39,535
Loss from sale of inventory		(1,382)	(4,828)
Other operating expenses	17	(229,235)	(158,771)
Non-interest expense		(525,708)	(351,751)
Profit before corporate income tax expense		248,535	279,801
Corporate income tax expense		(18,775)	(25,174)
Profit for the year		229,760	254,627
Other comprehensive income		–	–
Total comprehensive income for the year		229,760	254,627
Basic and diluted earnings per share (in tenge)	18	147.28	163.22

The accompanying notes on pages 5 to 34 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

(In thousands of tenge)

	Share capital	*Retained earnings*	*Total equity*
As at 31 December 2013	1,684,113	500,835	2,184,948
Total comprehensive income for the year	–	254,627	254,627
As at 31 December 2014	1,684,113	755,462	2,439,575
Total comprehensive income for the year	–	229,760	229,760
As at 31 December 2015	1,684,113	985,222	2,669,335

The accompanying notes on pages 5 to 34 are an integral part of these financial statements.

STATEMET OF CASH FLOWS

For the year ended 31 December 2015

(In thousands of tenge)

	Notes	2015	2014
Cash flows from operating activities			
Interest received		337,345	377,596
Interest paid		(149,787)	(143,214)
Fee and commission income received		4,922	7,241
Operating lease income received		356,972	661,094
Other income received		54,025	10,617
Foreign currency loss		–	(45,464)
Personnel expenses paid		(191,430)	(197,437)
Other operating expenses paid		(220,285)	(128,481)
Cash flows from operating activities before changes in operating assets and liabilities		191,762	541,952
Net decrease/(increase) in operating assets			
Net investment in finance leases		396,837	524,375
Amounts due from credit institutions		(196,524)	–
Inventories		4,134	(5,116)
Other assets		47,723	13,616
Net decrease in operating liabilities			
Other liabilities		(120,118)	(43,273)
Net cash from operating activities before corporate income tax		323,814	1,031,553
Corporate income tax paid	14	(3,244)	(11,000)
Net cash flow from operating activities		320,570	1,020,554
Cash from investing activities			
Purchase of investment property		(37,894)	(762,437)
Purchase of property and equipment		–	(17,162)
Proceeds from sale of property and equipment		17,546	–
Net cash used in investing activities		(20,348)	(779,599)
Cash flows from financing activities			
Repayment of amounts due to credit institutions		(552,904)	(836,593)
Amounts due to credit institutions received		–	907,859
Net cash (used in) / from financing activities		(552,904)	71,266
Net (decrease)/increase in cash and cash equivalents		(252,682)	312,221
Cash and cash equivalents, beginning of the period	5	567,454	255,233
Cash and cash equivalents, end of the period	5	314,772	567,454
Non-cash transactions			
Transfer of equipment and collaterals withdrawn from lessees to inventories	7	5,635	27,646
Transfer of CIT prepayment to other payments to the budget		–	2,000

The accompanying notes on pages 5 to 34 are an integral part of these financial statements.

(In thousands of tenge)

1. General information

ForteLeasing Joint Stock Company (formerly Temirleasing) (hereinafter – the "Company") was formed on 5 March 2001 under the laws of the Republic of Kazakhstan. The Company's principal business activity is carrying out leasing operations in Kazakhstan.

The Company's registered office is located at the following address: 68/74 Abai Ave., Almaty, 050008, Republic of Kazakhstan.

The number of employees of the Company as at 31 December 2015 was 34 persons (as at 31 December 2014: 37 person).

As at 31 December, the following shareholders owned more than 2.5% of the outstanding shares:

Shareholders	*2015, %*	*2014, %*
Fortebank JSC	75.60	75.60
Francis Alliance LTD UL	5.64	5.87
Company Premium Invest LLP	5.06	5.06
VOSTOKSTROYMARK LLP	4.96	–
Corvet LLP	3.35	3.35
Intellectual Creative Solutions LTD UL	2.56	2.56
Standart-YUG LLP	1.09	1.09
Other	1.74	6.70
Total	100.00	100.00

On 20 March 2014, the National Bank of the Republic of Kazakhstan (hereinafter – the "NBRK") gave a consent to B.Zh. Utemuratov to get a status of a major participant of Temirbank JSC.

In May 2014 the "National Welfare Fund "Samruk-Kazyna" JSC and Mr. Utemuratov B.Zh. completed a transaction on acquisition by Mr. Utemuratov B.Zh. of 79.90% of Temirbank JSC common shares from the "National Welfare Fund "Samruk-Kazyna" JSC. As a result of the transaction, Mr. Utemuratov B.Zh. became a controlling shareholder of Temirbank JSC.

On 12 December 2014, there was the exchange of Temirbank JSC shares between Alliance Bank JSC and shareholders of Temirbank JSC. As the result, Alliance Bank JSC became the owner of 100% of Temirbank JSC outstanding common and preferred shares.

As part of the voluntary reorganization by merging, on 1 January 2015, Temirbank JSC and Alliance Bank JSC signed transfer notices, according to which all property, including rights of claims and liabilities of Temirbank JSC were transferred to Alliance Bank JSC. In accordance with the decision of the General meeting of the Shareholders dated 12 February 2015 Temirleasing JSC was renamed to ForteLeasing JSC.

As at 31 December 2015 and 2014 authorised and paid capital of the Company comprised 1,560,000 common shares. As at 31 December 2015 and 2014, the controlling shareholder of the Company is represented by an individual Utemuratov B.Zh. through Fortebank JSC ((hereinafter – the "Parent").

2. Basis of preparation

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

These financial statements are prepared under the historical cost convention, except for derivative financial instruments measured at fair value.

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

3. Summary of accounting policies

Changes in accounting policy

During the year the Company applied the following revised IFRSs and interpretations effective for annual reporting periods started on or after 1 January 2015:

Amendments to IAS 19 Defined Benefit Plans: Employee Benefits

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where such contributions are linked to the services, they must be attributed to periods of service by reducing the service cost. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise them as a reduction in the service cost in the period in which the service is rendered, instead of allocating these contributions to the periods of service.

3. Summary of accounting policies (continued)

Changes in accounting policy (continued)

These amendments are not relevant to the Company, since the Company does not have defined benefit plans with contributions from employees or third parties.

Annual improvements 2010-2012 cycle

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

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

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

These amendments do not impact the accounting policy of the Company.

IFRS 3 Business Combinations

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

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

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

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

IFRS 13 Fair Value Measurement

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

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

The amendments are applied retrospectively and clarify provisions of IAS 16 and IAS 38 stating that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross carrying amount of the asset and its carrying amount. The Company did not record any revaluation adjustments during the current period.

IAS 24 Related Party Disclosures

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

3. Summary of accounting policies (continued)

Changes in accounting policy (continued)

Annual IFRS improvements 2011-2013 cycle

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

IFRS 3 Business Combinations

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

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

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

IFRS 13 Fair Value Measurement

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

IAS 40 Investment Property

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

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

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

Fair value measurement

The Company evaluates such financial instruments as derivatives at fair value at each reporting date. Information on fair value of financial instruments measured at amortized cost is disclosed in *Note 21*.

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

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

The principal or the most advantageous market must be accessible to 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 Fund 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.

3. Summary of accounting policies (continued)

Fair value measurement (continued)

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

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

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

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. At initial recognition financial assets are measured at fair value. In case of investments are not classified at fair value through profit or loss, directly attributable transaction costs are added to the fair value measurement. The Company determines the classification of its financial assets upon initial recognition and, where appropriate, re-evaluates this designation at each financial year-end.

Date of recognition

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

"Day 1" profit

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Company immediately recognises the difference between the transaction price and fair value (a "Day 1" profit) in the statement of comprehensive income. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognised in the statement of comprehensive income when the inputs become observable, or when the instrument is derecognised.

Investments in finance leases and receivables

Investments in finance leases 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 resale in the near future and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised within profit or loss when the finance leases and receivables are derecognised or impaired, as well as through the amortisation process.

Reclassification of financial assets

Financial assets are reclassified at their fair value on the date of reclassification. Gains and expenses recognized in the statement of comprehensive income are not reversed. The fair value of the financial asset on 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, amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

3. Summary of accounting policies (continued)

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 contracts, and the host contracts are not itself held for trading or revalued at fair value through profit and loss. The embedded derivatives separated from the host are carried at fair value, with changes in fair value recognised in the statement of comprehensive income within net gains/(losses) from derivative financial instruments.

Borrowings

Borrowings are classified as liabilities, where the substance of the contractual arrangement results in the Company 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.

Borrowings include amounts due to credit institutions recognised at fair value of consideration received, net of expenses directly related to transaction. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the statement of comprehensive income when the borrowings are derecognised as well as through the amortisation process.

Leases

Finance – Company as lessor

The Company 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.

Assets owned by the Company but subject to finance lease are included in the financial statements as "Net investment in finance leases", which is the gross investment in finance lease less unearned finance income. Unearned finance income is amortized over the lease term, applying the annuity method, so as to produce a systematic return on the net investment in finance lease.

The lease term is the non-cancelable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, which option at the inception of the lease it is reasonably certain that the lessee will exercise.

Gross investment in a lease is the aggregate of the minimum lease payments under a finance lease from the standpoint of the lessor. Minimum lease payments are the payments over the lease term that the lessee is, or can be required, to make excluding contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor.

Unearned finance income is the difference between the aggregate of the minimum lease payments under a finance lease from the standpoint of the lessor and the present value of those minimum lease payments, at the interest rate implicit in the lease.

The interest rate implicit in the lease is the discount rate that, at the inception of the lease, causes the aggregate present value of the minimum lease payments to be equal to the fair value of the leased asset.

Operating – Company as lessee

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

Operating – Company as lessor

The Company presents assets subject to operating leases in the statement of financial position according to the nature of the asset. Income from operating lease is recognized in the statement of comprehensive income on a straight line basis over the life of a lease. The aggregate cost of incentives provided to lessees is recorded on a straight-line basis as reduction of lease income over the lease term. Initial direct costs incurred in connection with the operating lease agreement are added to the carrying amount of an asset, which is leased out.

3. Summary of accounting policies (continued)

Measurement of financial instruments at initial recognition

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

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

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

Offsetting

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

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

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

Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost, the Company first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' current 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 recognized in the statement of comprehensive income . Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Investments in finance leases together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred by the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the statement of comprehensive income.

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

The present value of the estimated future cash flows is discounted at the financial assets original 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 similar credit risk characteristics that considers asset type, industry, geographical location, type of security, 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 Bank 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.

Renegotiated investments in finance leases

Where possible, the Company seeks to restructure investment in finance leases rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new finance leases conditions.

The accounting treatment of such restructuring is as follows:

- if the currency of the investment in finance lease has been changed the old finance lease payables are derecognised and the new finance lease payables are recognized in the statement of financial position;
- if the restructuring is not caused by the financial difficulties of the lessee, the Company uses the same approach as for financial liabilities described below;
- if restructuring is due to the financial difficulties of the lessee and investment in finance leases is impaired after restructuring, the Company recognizes the difference between the present value of future cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period. In case investment in finance leases is not impaired after restructuring, the Company recalculates the effective interest rate.

In the event a financial asset has been renegotiated, it is no longer considered past due. Management continuously reviews renegotiated financial assets to ensure that all criteria are met and that future payments are likely to occur. Such financial assets continue to be subject to an individual or collective impairment assessment, calculated using the financial asset's original effective interest rate.

Financial assets

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

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

Financial liabilities

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

When 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 the statement of comprehensive income.

3. Summary of accounting policies (continued)

Taxation

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

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 income 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 laws that have been enacted or substantively enacted at the reporting date.

Deferred 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.

Republic of Kazakhstan also has various operating taxes that are assessed on the Company's activities. These taxes are included within other operating expenses within taxes other than corporate income tax.

Property and equipment

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

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

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

	Years
Buildings and constructions	25-40
Motor vehicles	7-10
Other property and equipment	10-14

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

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

Investment property

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

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing parts of an existing investment property at the time when such cost are incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Investment property is subsequently stated at cost, less accumulated amortisation and accumulated impairment losses. Buildings within investment property are depreciated on a straight-line basis over the period of useful life, which is 40 years.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statement of comprehensive income in the year of retirement or disposal.

Transfers to and from investment property are made when, and only when, there is a change in use. For a transfer from investment property to owner occupied property, its carrying amount at the date of reclassification becomes its deemed cost.

Impairment of property and equipment and investment property

The carrying amounts of property and equipment and investment property are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amounts. Where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount. The recoverable amount of property and equipment and investment property is the greater of the net selling price and the value in use. In assessing the 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.

3. Summary of accounting policies (continued)

Inventories

Inventory represents forfeited collateral or leased object and are stated at the lower of cost and net realizable value. cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Authorised capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares are shown as a deduction from the proceeds in equity.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are approved before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue.

Retirement and other employee benefit obligations

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

Provisions

Provisions are recognized when the Company has present obligation (legal or constructive) as a result of past event and where it is probable that outflow of resources embodying economic benefits will be required to settle the liabilities and the amount of the liability can be reasonably estimated.

Contingencies

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

Revenue and expense recognition

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

Finance leases receivables and recognition of rental income

The Company recognises finance leases receivables at the cost equal to net investments in leasing starting from the commencement of the leasing term. Net investment in leases is calculated in the statement of financial position as the current value of minimum lease payments. In calculating the present value of the minimum lease payments, the interest rate implicit in the lease is used as the discount factor. Initial direct costs are recorded within the initial recognition of finance lease receivables.

Recognition of the investments in the finance lease originates at the earliest of the date when lease agreement is signed or when the parties undertake obligations on major lease provisions. As at this date

- lease is classified as finance lease; and
- the amount, which must be recognized at the beginning of the leases term, is determined.

Inception of the lease is the date when the right to use the leased asset is transferred to the lessee. It is the date of initial lease recognition (i.e. recognition of assets, liabilities, income or loss resulting from the lease).

Lease payments received are proportionally distributed between the finance income and decrease in outstanding lease accounts receivable. Finance income is based on the model reflecting permanent rate of return on net outstanding investments.

3. Summary of accounting policies (continued)

Revenue and expense recognition (continued)

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

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

Proceeds from sale of inventory

Revenue is recognized when the significant risks and rewards of ownership of finance lease items have passed to the buyer and the amount of revenue can be measured reliably. The profit from the sale of inventory comprises of the difference between sales revenue and the cost of the sales. The cost of sale recognized at the commencement of the lease term is the cost, or carrying amount if different, of the leased property less the discounted value of the non-guaranteed residual value.

Fee income earned from services that are provided over a certain period of time

Fee and commission income obtained for rendering the services during a certain period of time are accrued during this period. These items include commission income from project evaluation and other advisory services.

Operating expenses

Expenses are accounted for at the time the actual flow of the related goods or services occur, regardless of when cash or its equivalent is paid, and are reported in the financial statements in the period to which they relate.

Foreign currency translation

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

On 20 August 2015, the Government of the Republic of Kazakhstan implemented a new credit and monetary policy based on inflation targeting with the cancellation of the exchange rate band and the transition to a free floating exchange rate of tenge. This resulted in significant depreciation of tenge in relation to US dollar and other leading world currencies. The KASE market exchange rates at 31 December 2015 and 2014, were 340.01 KZT and 182.35 KZT to 1 USD, respectively.

Future changes in accounting policy

Standards and interpretations issued but not yet effective:

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

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* as well as all previous version of IFRS 9. The standard introduces new requirements to classification and measurement, impairment and hedge accounting.

3. Summary of accounting policies (continued)

Future changes in accounting policy (continued)

IFRS 9 Financial Instruments (continued)

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

IFRS 15 Revenue from Contracts with Customers

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

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

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

IFRS 14 Regulatory Deferral Accounts

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

Amendments to IAS 11 Joint Operations: Accounting for Acquisitions of Interests

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

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

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

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

3. Summary of accounting policies (continued)

Standards issued but not yet effective

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

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

Amendments to IAS 27 Equity Method in Separate Financial Statements

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

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

The amendments address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. The amendments clarify that an investor recognises a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. The amendments must be applied prospectively to transactions occurring in annual periods beginning on or after 1 January 2016. Early application is permitted. These amendments are not expected to have any impact to the financial statements of the Company.

Amendments to IAS 1 Disclosure Initiative

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

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

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

Investment Entities (amendments to IFRS 10, IFRS 12 and IAS 28) Applying the Consolidation Exception

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

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