

**ForteLeasing JSC**

**Financial statements**

*for 2016 together 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 significant accounting policies .....	6
5. Cash and cash equivalents .....	16
6. Amounts due from credit institutions .....	16
7. Net investment in finance leases .....	17
9. Investment property .....	18
10. Property and equipment .....	19
11. Other assets and liabilities .....	19
12. Amounts due to credit institutions .....	20
13. Taxation .....	20
14. Share capital .....	21
15. Fee and commission income .....	21
16. Personnel and other operating expenses .....	22
17. Earnings per share .....	22
18. Contingencies and commitments .....	22
19. Risk management .....	23
20. Fair value measurement .....	27
21. Maturity analysis of financial assets and liabilities .....	29
22. Related party transactions .....	29
23. Subsequent events .....	30



«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

### **Opinion**

We have audited the accompanying financial statements of ForteLeasing JSC ("the Organization"), which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

### **Basis for opinion**

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

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

### **Management's responsibility and those charged with governance for the financial statements**

Management of the Organization 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.

In preparing the financial statements, management is responsible for assessing the Organization'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 Organization or to cease operations, or has no realistic alternative but to do so.

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



### ***Auditor's responsibilities for the audit of the financial statements***

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

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

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



**STATEMENT OF FINANCIAL POSITION****As at 31 December 2016***(in thousands of tenge)*

	<i>Notes</i>	<i>2016</i>	<i>2015</i>
<b>Assets</b>			
Cash and cash equivalents	5	417,621	314,772
Amounts due from credit institutions	6	–	325,087
Net investment in finance leases	7	555,305	1,547,674
Inventories	8	44,864	75,211
Investment property	9	1,598,718	1,665,392
Property and equipment	10	10,727	15,789
Intangible assets		1,313	222
Current corporate income tax prepaid	13	1,753	7,126
Other assets	11	194,288	72,807
<b>Total assets</b>		<b>2,824,589</b>	<b>4,024,080</b>
<b>Liabilities</b>			
Amounts due to credit institutions	12	594,803	1,154,957
Deferred income tax liabilities	13	121,691	79,982
Other liabilities	11	84,656	119,806
<b>Total liabilities</b>		<b>801,150</b>	<b>1,354,745</b>
<b>Equity</b>			
Share capital	14	1,684,113	1,684,113
Retained earnings		339,326	985,222
<b>Total equity</b>		<b>2,023,439</b>	<b>2,669,335</b>
<b>Total equity and liabilities</b>		<b>2,824,589</b>	<b>4,024,080</b>

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

Rakhmanov T.M.



Chairman of the Management Board

Kenzhibekova B.A.

Chief accountant

10 May 2017

*The accompanying notes on pages 5 to 30 are an integral part of these financial statements.*



**STATEMENT OF COMPREHENSIVE INCOME**

for the year ended 31 December 2016

*(in thousands of tenge)*

	<i>Notes</i>	<i>2016</i>	<i>2015</i>
<b>Interest income</b>			
Net investment in finance leases		179,530	354,922
Amounts due from credit institutions		17,131	4,142
		<u>196,661</u>	<u>359,064</u>
<b>Interest expense</b>			
Amounts due to credit institutions		(107,542)	(164,521)
		<u>(107,542)</u>	<u>(164,521)</u>
<b>Net interest income</b>			
		89,119	194,543
(Charge)/reversal for impairment of investments in finance leases	7	(344,816)	38,825
<b>Net interest (expenses)/income after allowance for impairment of investments in finance leases</b>			
		<u>(255,697)</u>	<u>233,368</u>
Operating lease income	9	499,912	374,033
Fee and commission income	15	819	4,922
Net foreign exchange (losses)/gains		(8,057)	107,895
Other income		217,213	54,025
<b>Non-interest income</b>			
		<u>709,887</u>	<u>540,875</u>
Personnel expenses	16	(192,700)	(191,430)
Depreciation and amortisation	9, 10	(47,270)	(47,963)
Net losses from derivative financial instruments		-	(55,698)
Loss on sale of inventory		(3,260)	(1,382)
Charge for impairment of amounts due from credit institutions		(536,255)	-
Other operating expenses	16	(233,146)	(229,235)
<b>Non-interest expense</b>			
		<u>(1,012,631)</u>	<u>(525,708)</u>
<b>(Loss)/profit before corporate income tax expense</b>			
		<u>(558,441)</u>	<u>248,535</u>
Corporate income tax expense		(87,455)	(18,775)
<b>(Loss)/profit for the year</b>			
		<u>(645,896)</u>	<u>229,760</u>
Other comprehensive income		-	-
<b>Total comprehensive (loss)/income for the year</b>			
		<u>(645,896)</u>	<u>229,760</u>
<b>Basic and diluted (loss)/earnings per share (in tenge)</b>			
	17	(414.04)	147.28

The accompanying notes on pages 5 to 30 are an integral part of these financial statements.

**STATEMENT OF CHANGES IN EQUITY****for the year ended 31 December 2016***(in thousands of tenge)*

	<i>Share capital</i>	<i>Retained earnings</i>	<i>Total equity</i>
<b>As at 31 December 2014</b>	1,684,113	755,462	2,439,575
Total comprehensive income for the year	–	229,760	229,760
<b>As at 31 December 2015</b>	1,684,113	985,222	2,669,335
Total comprehensive loss for the year	–	<b>(645,896)</b>	<b>(645,896)</b>
<b>As at 31 December 2016</b>	<b>1,684,113</b>	<b>339,326</b>	<b>2,023,439</b>

*The accompanying notes on pages 5 to 30 are an integral part of these financial statements.*



**STATEMENT OF CASH FLOWS****for the year ended 31 December 2016***(in thousands of tenge)*

	<i>Notes</i>	<i>2016</i>	<i>2015</i>
<b>Cash flows from operating activities</b>			
Interest received		214,174	337,345
Interest paid		(93,024)	(149,787)
Fee and commission income received	15	819	4,922
Operating lease income received		507,894	356,972
Other income received		173,595	54,025
Personnel expenses paid	16	(192,700)	(191,430)
Other operating expenses paid		(205,317)	(220,285)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>405,441</b>	<b>191,762</b>
<i>Net decrease/ (increase) in operating assets</i>			
Net investment in finance leases		628,817	396,837
Amounts due from credit institutions		(219,219)	(196,524)
Inventories		27,087	4,134
Other assets		(89,791)	47,723
<i>Net decrease in operating liabilities</i>			
Other liabilities		(35,150)	(120,118)
<b>Net cash from operating activities before corporate income tax</b>		<b>717,185</b>	<b>323,814</b>
Corporate income tax paid		(40,373)	(3,244)
<b>Net cash flows received from operating activities</b>		<b>676,812</b>	<b>320,570</b>
<b>Cash from investing activities</b>			
Purchase of investment property		-	(37,894)
Purchase of property and equipment		(4,453)	-
Proceeds from sale of property and equipment		5,162	17,546
<b>Net cash flows received from/(used in) investing activities</b>		<b>709</b>	<b>(20,348)</b>
<b>Cash flows from financing activities</b>			
Repayment of amounts due to credit institutions		(574,672)	(552,904)
<b>Net cash flows used in financing activities</b>		<b>(574,672)</b>	<b>(552,904)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>102,849</b>	<b>(252,682)</b>
Cash and cash equivalents, beginning of the period	5	314,772	567,454
<b>Cash and cash equivalents, end of the period</b>	<b>5</b>	<b>417,621</b>	<b>314,772</b>
<b>Non-cash transactions:</b>			
Transfer of equipment and collateral repossessed from lessees to inventories	7	13,480	5,635

*The accompanying notes on pages 5 to 30 are an integral part of these financial statements.*

(in thousands of tenge, unless otherwise is stated)

## 1. General information

ForteLeasing Joint Stock Company (hereinafter – the “Company”) was established on 5 March 2001 under the laws of the Republic of Kazakhstan. The Company’s principal business activity includes 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 2016 was 27 persons (as at 31 December 2015: 34 person).

As at 31 December, the following shareholders owned more than 1.0% of the outstanding shares:

<i>Shareholders</i>	<i>2016, %</i>	<i>2015, %</i>
Fortebank JSC	80.56	75.60
Francis Alliance LTD UL	5.64	5.64
Company Premium Invest LLP	5.06	5.06
Corvet LLP	3.35	3.35
Intellectual Creative Solutions LTD UL	2.56	2.56
Standart-YUG LLP	1.09	1.09
VOSTOKSTROYMARK LLP	–	4.96
Other	1.74	1.74
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

On 20 March 2014, the National Bank of the Republic of Kazakhstan (hereinafter – the “NBRK”) provided its a consent to Utemuratov B.Zh. to obtain a status of a major shareholder of Temirbank JSC.

In May 2014 the “Sovereign Wealth 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 “Sovereign Wealth 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, an 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 through merges, 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 2016 and 2015 authorised and paid capital of the Company comprised 1,560,000 common shares. As at 31 December 2016 and 2015, the controlling shareholder of the Company is represented by Mr. 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.

### Reclassifications

The statement of financial position and statement of comprehensive income for 2015 were amended as follows to comply with the 2016 presentation.

<i>31 December 2016</i>	<i>Note</i>	<i>As previously reported</i>	<i>Amount of reclassification</i>	<i>As reported herein</i>
<b>Statement of financial position</b>				
Intangible assets	[1]	–	222	222
Other assets	[1]	73,029	(222)	72,807
<b>Statement of comprehensive income</b>				
Net investment in finance leases	[2]	380,030	(25,108)	354,922
Amounts due to credit institutions	[2]	(189,629)	25,108	(164,521)

[1] Intangible assets were shown as separate line item in the statement of financial position.

[2] Discount on loans from EDF “Damu” JSC was reclassified from income from net investment in finance leases to interest expense from amounts due to credit institutions.



(in thousands of tenge, unless otherwise is stated)

### 3. Summary of significant accounting policies

#### Changes in accounting policy

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

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

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

- The materiality requirements in IAS 1;
- That specific line items in the statement(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. These amendments do not have any impact on the Company.

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

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

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 "Investments in Associates and Joint Ventures" allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Company as the Company does not apply the consolidation exception.

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

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

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

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

##### *IFRS 7 "Financial Instruments: Disclosures"*

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments. The amendment did not have any impact on the financial statements of the Company.

#### **Fair value measurement**

The Company evaluates such financial instruments as derivatives at fair value at each balance sheet date. Information on fair value of financial instruments measured at amortized cost is disclosed in *Note 20*.

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.



(in thousands of tenge, unless otherwise is stated)

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

#### Fair value measurement (continued)

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are 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 all inputs that relate to the lower hierarchy level which have a significant effect on the fair value are not observable.

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

#### Financial 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 Company determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

##### *Date of recognition*

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Company commits to purchase the asset. Regular way purchases or sales of financial assets 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.

##### *Loans 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. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable



(in thousands of tenge, unless otherwise is stated)

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

#### 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.

#### 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 in the trading portfolio 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 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.

Such instruments include amounts due to credit institutions, amounts due to customers, debt securities issued, other borrowed funds and subordinated loans. 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.

#### 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-cancellable 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. 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 recognised 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.



(in thousands of tenge, unless otherwise is stated)

### 3. Summary of significant 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;
- The event of default; and
- The event of insolvency or bankruptcy of the entity and all of the counterparties.

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

#### Impairment of financial assets

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

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

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

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

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.



(in thousands of tenge, unless otherwise is stated)

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

#### Impairment of financial assets (continued)

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 Company or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

#### 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 finance lease restructuring is not caused by the financial difficulties of the lessee the Company uses the same approach as for financial liabilities described below;
- If the finance lease restructuring is due to the financial difficulties of the lessee and the finance lease receivable is impaired after restructuring, the Company recognizes the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the allowance charges for the period. In case finance lease receivable 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.

#### Derecognition of financial assets and liabilities

##### Financial assets

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

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

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

##### 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.



(in thousands of tenge, unless otherwise is stated)

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

#### Taxation

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

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred 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 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 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.

The 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 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 over the following estimated useful lives.

	<u>Years</u>
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.

#### 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 assets with finite lives are amortised over the useful economic lives of 15 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.

#### 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 Company 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 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.

(in thousands of tenge, unless otherwise is stated)

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

#### Investment property (continued)

Investment property is derecognised when either they it has 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 amounts 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.

#### Inventories

Inventory represents forfeited collateral or leased object and are stated at the lower of cost and net realizable 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.

#### Share capital

Common shares and non-redeemable preference shares with discretionary dividends are both 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 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 expense is charged in the period the related salaries are earned. In addition, the Company has no significant post-employment benefits.

#### Provisions

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

#### 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.



(in thousands of tenge, unless otherwise is 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 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.

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.

##### *Interest and similar income and expenses*

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

##### *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 Kazakhstani 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 (losses)/gains 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.

The KASE market exchange rates at 31 December 2016 and 2015, were 333.29 KZT and 340.01 KZT to 1 USD, respectively.