(in thousands of tenge, unless otherwise is stated)

3. Summary of significant accounting policies (continued)

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, 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"* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by: fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI), and amortised cost categories. IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or FVOCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement. The accounting for financial liabilities will largely be the same as the requirements of IAS 39.

IFRS 9 will also fundamentally change the approach to loan impairment. The standard will replace IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. The Company will be required to record an allowance for expected losses for all loans and other debt financial assets not carried at FVPL, as well as for loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case the allowance would be based on the probability of default over the life of the asset.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but restatement of comparative information is not required; the effect on the transition date – 1 January 2018 – would be recorded in retained earnings. The adoption of IFRS 9 is expected to have an effect on the classification and measurement of the Company's financial assets, but no impact on the classification and measurement of the Company's financial liabilities. The Company expects a significant impact on its equity due to adoption of IFRS 9 impairment requirements, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

IFRS 15 "Revenue from Contracts with Customers"

In May 2014, the IASB issued IFRS 15 *"Revenue from Contracts with Customers"*, effective for periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g., IFRS 9, and IFRS 16 *"Leases"*).

Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers.

The Company does not anticipate early adopting IFRS 15 and is currently evaluating its impact.

IFRS 16 "Leases"

The IASB issued the new standard for accounting for leases – IFRS 16 *"Leases"* in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the statement of profit or loss.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date.

The Company does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

Amendments to IAS 12 "Income Taxes"

In January 2016, through issuing amendments to IAS 12, the IASB clarified the accounting treatment of deferred tax assets of debt instruments measured at fair value for accounting, but measured at cost for tax purposes. The Company does not anticipate that adopting the amendments would have a material impact on its financial statements.

(in thousands of tenge, unless otherwise is stated)

3. Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

Amendments to IAS 7 "Statement of Cash Flows"

In January 2016, the IASB issued amendments to IAS 7 "*Statement of Cash Flows*" with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g., gains and losses due to foreign currency movements). The amendment is effective from 1 January 2017. The Company is currently evaluating the impact.

Amendments to IFRS 2 "Share-based Payment"

The IASB issued amendments to IFRS 2 "*Share-based Payment*" in relation to the classification and measurement of share-based payment transactions. The amendments are intended to eliminate diversity in practice, but are narrow in scope and address specific areas of classification and measurement. The amendments address three main areas:

- The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction.
- The classification of a share-based payment transaction with net settlement features for withholding tax obligations.
- The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

The amendment is effective for annual periods beginning on or after 1 January 2018. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. Early application is permitted. The amendments are not expected to have any impact on the Company.

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

The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. The optional temporary exemption from IFRS 9 is available to entities whose activities are predominantly connected with insurance. The temporary exemption permits such entities to continue to apply IAS 39 "*Financial Instruments: Recognition and Measurement*" while they defer the application of IFRS 9 until 1 January 2021 at the latest. The overlay approach requires an entity to remove from profit or loss additional volatility that may arise if IFRS 9 is applied with IFRS 4.

The temporary exemption is first applied for reporting periods beginning on or after 1 January 2018. An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to financial assets designated on transition to IFRS 9. The amendments are not expected to have any impact on the Company.

4. Significant accounting judgements and estimates

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

Fair values of financial instruments

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

Collateral assessment

The Company's management performs monitoring of collateral on a regular basis. The management of the Company uses experienced judgements or an independent assessment in order to adjust the cost of collateral considering the current market situation.

(in thousands of tenge, unless otherwise is stated)

4. Significant accounting judgements and estimates (continued)

Allowance for impairment of finance leases and receivables

The Company analyses its investment in finance leases and receivables to assess impairment on a monthly basis. The Company uses its experienced judgement to estimate the amount of any impairment loss in cases where a lessee is in financial difficulties and there are few available sources of historical data relating to similar lessees. Similarly, the Company estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of lessees in a group, or local economic conditions that correlate with defaults on assets in the group. The Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of finance leases investment and receivables. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Taxation

Kazakhstan currently has a single Tax Code that regulates main taxation matters. The existing taxes include value added tax, corporate income tax, social taxes, and others. Implementation of these regulations is often unclear or nonexistent and insignificant amount of precedents has been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organisations; thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and forfeits. These facts create tax risks in Kazakhstan substantially more significant than typically found in countries with more developed tax systems.

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

5. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	2016	*2015*
Cash on hand	131	82
Cash in current bank accounts, tenge	417,490	311,443
Cash on current accounts in banks, USD	–	3,247
Cash and cash equivalents	417,621	314,772

6. Amounts due from credit institutions

As at 31 December 2016, amounts due from credit institutions comprise balance of current account of KZT 168,759 thousand and short-term deposit with Kazinvestbank JSC of KZT 367,496 thousand maturing in 2017 and an interest rate of 3.5% per annum.

As at 31 December 2015, amounts due from credit institutions includes short-term deposit with Kazinvestbank JSC of KZT 325,087 thousand maturing in 2016 and an interest rate of 3.5% per annum.

In accordance with the Resolution of the Management Board of the National Bank of the Republic of Kazakhstan dated December 26, 2016, it was decided to revoke Kazinvestbank JSC license to conduct banking and other operations. In this regard, the Company created an allowance for impairment of amounts due from credit institutions for the full balance of current account and short-term deposit in JSC Kazinvestbank, which as at December 31, 2016 were equal to KZT 536.255 thousand (December 31, 2015: nil thousand tenge).

(in thousands of tenge, unless otherwise is stated)

7. Net investment in finance leases

Net investment in finance leases includes:

	2016	*2015*
Minimum lease payments receivable	**1,331,118**	2,198,126
Unearned finance income	**(128,611)**	(263,674)
Net minimum lease payments receivable	**1,202,507**	1,934,452
Less: allowance for impairment	**(647,202)**	(386,778)
Net investment in finance leases	**555,305**	1,547,674
Current portion	**945,342**	1,368,728
Less: allowance for impairment	**(613,804)**	(378,504)
Current portion, net	**331,538**	990,224
Non-current portion	**257,165**	565,724
Less: allowance for impairment	**(33,398)**	(8,274)
Non-current portion, net	**223,767**	557,450
Net investment in finance leases	**555,305**	1,547,674

In 2016 and 2015, leased equipment transferred to finance lease was equal to KZT 20,412 thousand and KZT 728,244 thousand, respectively.

The interest rates on net investment in finance leases in 2016 range from 8% to 25% (2015: 8% to 25%). The effective interest rates on net investment in finance leases in 2016 was 12.89% p.a. (2015: 16.03% per annum).

Outstanding maturities of gross and net investment in finance leases at 31 December are as follows:

	2016		*2015*	
Years	*General investments*	*Net investments*	*General investments*	*Net investments*
2015	**–**	**–**	1,426,076	1,368,728
2016	**972,057**	**945,342**	434,425	348,270
2017	**204,064**	**161,369**	208,406	144,037
2018	**109,531**	**72,231**	103,164	60,194
2019	**26,055**	**14,733**	26,055	13,223
2020	**15,528**	**7,215**	–	–
2021	**3,883**	**1,617**	–	–
	1,331,118	**1,202,507**	2,198,126	1,934,452

At the end of lease term, the ownership to assets in finance lease is transferred to the lessee.

Movement of allowance for impairment of investment in finance leases is as follows:

	2016	*2015*
At 1 January	**386,778**	425,603
Charge/(reversal) for the year	**344,816**	(38,825)
Write off	**(65,779)**	–
Transfer to other assets *(Note 11)*	**(18,613)**	–
At 31 December	**647,202**	386,778
Individual impairment	**568,138**	370,956
Collective impairment	**79,064**	15,822
	647,202	386,778
Total amount of investment in finance leases, individually determined to be impaired, before deducting allowance for impairment	**593,716**	852,588

Individually impaired investments in finance leases

Interest income accrued on assets, individually determined as impaired, for the year ended 31 December 2016, was equal to KZT 20,644 thousand (in 2015: KZT 41,753 thousand).

The fair value of collateral on investments in finance leases that as at 31 December 2016 were individually determined as impaired was equal to KZT 1,075 thousand (31 December 2015: KZT 296,425 thousand). Investment in leases, against which full allowance for impairment was accrued, may only be written off with the approval of the Board of Directors and, in certain cases, with the respective decision of the Court.

(in thousands of tenge, unless otherwise is stated)

7. Net investment in finance leases (continued)

Collateral and other credit enhancements

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

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

During 2016, the Company repossessed specialised equipment and motor vehicles in the amount of KZT 13,480 thousand (in 2015: KZT 5,635 thousand), which were classified as inventories for further sale *(Note 8)*. According to the Company's policies, the repossessed property is sold or transferred to secondary finance lease in accordance with the established procedure. The proceeds are used to reduce or repay the current debt.

Concentration of investments in finance leases

As at 31 December 2016, the Company had 10 major lessees, which accounted for 62% (as at 31 December 2015: 48%) of the net minimum leases payments receivable or 37% (31 December 2015: 35%) of equity. The aggregate amount of these finance leases receivable was equal to KZT 742,534 thousand (31 December 2015: KZT 935,387 thousand). At 31 December 2016, an allowance for impairment of KZT 413,646 thousand was recognised for these investments (31 December 2015: KZT 17,682 thousand).

8. Inventories

Inventories comprise finance lease items taken back from lessees and either held for resale or for leasing out under finance lease. As at 31 December 2016, inventories were equal to KZT 44,864 thousand (31 December 2015: KZT 75,211 thousand) and fully consisted of motor vehicles and specialised equipment.

9. Investment property

The movements in investment property were as follows:

	Land	*Buildings*	*Total*
Cost			
31 December 2014	164,670	1,733,754	1,898,424
Additions	–	35,278	35,278
Disposals	(728)	(14,332)	(15,060)
Transfer from property and equipment	–	14,147	14,147
31 December 2015	163,942	1,768,847	1,932,789
Disposals	**(322)**	**(30,526)**	**(30,848)**
31 December 2016	**163,620**	**1,738,321**	**1,901,941**
Accumulated depreciation			
31 December 2014	–	227,051	227,051
Charge	–	(43,800)	(43,800)
Disposals	–	3,454	3,454
31 December 2015	–	(267,397)	(267,397)
	–		
Charge		**(44,475)**	**(44,475)**
Disposals	**–**	**8,649**	**8,649**
31 December 2016	**–**	**(303,223)**	**(303,223)**
Net book amount			
31 December 2016	**163,620**	**1,435,098**	**1,598,718**
31 December 2015	163,942	1,501,450	1,665,392
31 December 2014	164,670	1,506,703	1,671,373

	2016	*2015*
Operating lease income from investment property	**499,912**	374,033
Direct investment property operating expenses	**(51,826)**	(64,041)

(in thousands of tenge, unless otherwise is stated)

9. Investment property (continued)

Investment property consists of buildings and adjacent land lots. The fair value of investment property, which was determined as a result of assessment of real estate market performed by the internal experts of the Company using the comparative analysis method as at 31 December 2016 was equal to KZT 3,735,559 thousand (31 December 2015: KZT 3,869,630 thousand). This investment property is leased out with termination of agreements on 31 December 2017.

10. Property and equipment

The movements in property and equipment were as follows:

	Land, buildings and constructions	*Vehicles*	*Construction in progress*	*Other property and equipment*	*Total*
Cost					
31 December 2014	3,019	20,431	14,147	7,655	45,252
Disposals	–	(3,921)	–	–	(3,921)
Transfer to investment property *(Note 9)*	–	–	(14,147)	–	(14,147)
31 December 2015	3,019	16,510	–	7,655	27,184
Additions	**–**	**2,805**	**–**	**421**	**3,226**
Disposals	**–**	**(7,247)**	**–**	**(2,740)**	**(9,987)**
31 December 2016	**3,019**	**12,068**	**–**	**5,336**	**20,423**
Accumulated depreciation					
31 December 2014	(601)	(2,733)	–	(4,557)	(7,891)
Charge	(74)	(3,143)	–	(883)	(4,100)
Disposals	–	596	–	–	596
31 December 2015	(675)	(5,280)	–	(5,440)	(11,395)
Accrual	**(74)**	**(1,802)**	**–**	**(781)**	**(2,657)**
Disposals	**–**	**1,999**	**–**	**2,357**	**4,356**
31 December 2016	**(749)**	**(5,083)**	**–**	**(3,864)**	**(9,696)**
Net book amount					
31 December 2016	**2,270**	**6,985**	**–**	**1,472**	**10,727**
31 December 2015	2,344	11,230	–	2,215	15,789
31 December 2014	2,418	17,698	14,147	3,098	37,361

Depreciation and amortisation expense in the statement of comprehensive income also include amortisation of intangible assets for 2016 in the amount of KZT 138 thousand (2015: KZT 63 thousand).

11. Other assets and liabilities

Other assets comprise:

	2016	*2015*
Receivables from sold inventory	**137,311**	6,376
Receivable from operating lease	**25,934**	33,917
Advances and prepayments	**19,104**	21,950
Receivable from reimbursable expenses	**3,618**	9,510
Taxes prepaid other than corporate income tax	**1,732**	6,013
Other	**28,800**	4,424
	216,499	82,190
Less: allowance for impairment	**(22,211)**	(9,383)
Other assets	**194,288**	72,807

(in thousands of tenge, unless otherwise is stated)

11. Other assets and liabilities (continued)

The movements in allowance for impairment of other assets are as follows:

	Other assets
31 December 2014	9,383
Charge for the year	–
31 December 2015	9,383
Transfer from net investment in finance leases *(Note 7)*	**18,613**
Write-off for the year	**(5,785)**
31 December 2016	**22,211**

Other liabilities comprise:

	2016	*2015*
Value added tax payable	**60,178**	74,698
Deferred revenue	**21,537**	39,722
Payables to suppliers	**1,974**	2,263
Other	**967**	3,123
Other liabilities	**84,656**	119,806

12. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2016	*2015*
Loans from Entrepreneurship Development Fund "Damu" JSC	**393,474**	730,660
Loans from Fortebank JSC	**201,329**	424,297
Amounts due to credit institutions	**594,803**	1,154,957

As at 31 December 2016 and 2015, the Company had a credit facility provided by Fortebank JSC in the amount of KZT 2,300,000 thousand maturing in 2021. The credit facility is collaterised by investment properties of the Company with carrying amount of KZT 1,598,719 thousand at 31 December 2016 (31 December 2015: KZT 1,665,392 thousand). As at 31 December 2016 and 2015, nominal interest rates on loans obtained within this credit facility were 12.5% and 13.5% per annum.

The Company also obtained loans to finance leasing transactions of small and medium businesses from "Entrepreneurship Development Fund "Damu" JSC. As at 31 December 2016, such loans were equal to KZT 393,474 thousand (31 December 2015: KZT 730,661 thousand), nominal interest rates vary from 3.5% to 6.5% per annum (31 December 2015: 3.5% to 6.5%). Terms of this credit line include certain financial and non-financial covenants. In particular, the financial position of a borrower should not be defined as "Unstable" in accordance with the Resolution of the Government of the Republic of Kazakhstan, Clause 3, No. 2275 dated 30 December 2009. The default event also comes into force in case of failure to comply with the terms of investment in finance leases At 31 December 2016 and 2015, the Company was in compliance with covenants under the credit facility agreement.

13. Taxation

The corporate income tax expense comprises:

	2016	*2015*
Current corporate income tax expense	**(45,746)**	(8,868)
Deferred corporate income tax expense – origination and decrease of temporary differences	**(41,709)**	(9,907)
Corporate income tax expense	**(87,455)**	(18,775)

In accordance with Kazakhstan legislation, income derived from financial leasing for a period of more than three years, with subsequent transfer of the title of equipment to a lessee, is exempt from corporate income tax. As a result, the Company deducts interest income from finance leases for the purpose of computing net income liable to tax. This computation gives rise to tax losses that are not subject to carry forward to future periods.

In accordance with tax legislation the applied corporate income tax rate is 20% in 2016 and 2015.

(in thousands of tenge, unless otherwise is stated)

13. Taxation (continued)

Below is the reconciliation of income tax expenses based on statutory rate with income tax expenses recorded in the financial statements:

	2016	*2015*
(Loss)/profit before corporate income tax expense	(558,441)	248,535
Statutory corporate income tax rate	20%	20%
Theoretical corporate income tax (benefit)/expense at the statutory rate	(111,688)	49,691
Non-taxable income from investment in finance leases	(32,918)	(49,661)
Non-deductible expense from derivative financial instruments	–	11,140
Allowance/(reversal of allowance) for impairment of investment in finance leases	68,963	(7,753)
Allowance for impairment of amounts due from credit institutions	107,251	–
Non-deductible expenses on loans received	8,754	4,370
Non-deductible expenses on impairment of inventories	–	2,318
Other non-deductible expenses	47,093	8,670
Corporate income tax expense	87,455	18,775

	2014	*Origination and reversal of temporary differences in profit or loss*	*2015*	*Origination and reversal of temporary differences in profit or loss*	*2016*
Tax effect of deductible temporary differences					
Amounts due to credit institutions	–	382	382	382	–
Deferred tax asset	–	382	382	382	–
Tax effects of taxable temporary differences					
Investment property and property and equipment	(70,075)	(10,181)	(80,256)	(39,801)	(120,057)
Amounts due to credit institutions	–	–	–	(1,634)	(1,634)
Other liabilities		(108)	(108)	108	–
Deferred tax liabilities	(70,075)	(10,289)	(80,364)	(41,327)	(121,691)
Deferred tax liability, net	(70,075)	(9,907)	(79,982)	(41,709)	(121,691)

As at 31 December 2016, current corporate income tax prepaid was equal to KZT 1,753 thousand (as at 31 December 2015: KZT 7,126 thousand).

14. Share capital

As at 31 December 2016 and 2015, authorised and paid share capital of the Company comprised 1,560,000 common shares.

15. Fee and commission income

Fee and commission income comprises the following:

	2016	*2015*
Income from expertise services, change in the agreement terms and indirect advertising	819	4,922
Fee and commission income	819	4,922

(in thousands of tenge, unless otherwise is stated)

16. Personnel and other operating expenses

Personnel and other operating expenses comprise the following:

	2016	*2015*
Salaries and bonuses	**(175,034)**	(173,110)
Social security contributions	**(17,666)**	(18,320)
Personnel expenses	**(192,700)**	(191,430)
Rent	**(53,766)**	(72,725)
Utilities	**(39,996)**	(35,286)
Professional services	**(35,566)**	(15,796)
Taxes other than corporate income tax	**(33,924)**	(31,160)
Property insurance	**(15,548)**	(13,909)
Repair works	**(12,301)**	(6,113)
Security	**(11,919)**	(24,116)
Write-off of inventory	**(11,173)**	(11,591)
Business trips	**(1,881)**	(1,172)
Advertising expenses	**(1,645)**	(902)
Communication	**(1,253)**	(1,732)
Repair of vehicles	**(776)**	(1,409)
Bank charges	**(674)**	(3,467)
Other expenses	**(12,724)**	(9,857)
Other operating expenses	**(233,146)**	(229,235)

17. Earnings per share

Basic and diluted earnings per share is calculated by dividing the net income for the year attributable to common shareholders by the weighted average number of shares outstanding during the year. The Company does not have any options or convertible debt instruments.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2016	*2015*
Net (loss)/profit attributable to common shareholders for calculation of basic earnings per share representing net profit less dividends declared on irredeemable convertible preferred shares	**(645,896)**	229,760
Weighted average number of common shares	**1,560,000**	1,560,000
Basic and diluted (loss)/earnings per share (in tenge)	**(414.04)**	147.28

As at 31 December 2016 and 2015, the Company did not have any financial instruments diluting earnings per share.

18. Contingencies and commitments

Legal actions and claims

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

The Company assesses the likelihood of material liabilities arising from individual circumstances and makes provision in its financial statements only 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.

The Company did not recognize any provisions in these financial statements for any legal liabilities related to legal proceedings.

Political and economic environment

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

In 2016, decline in crude oil prices and a volatility of exchange rate to major foreign currencies continued to cause a negative impact on Kazakhstan economy. Combination of these factors resulted in a reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth, which could negatively affect the Company's future financial position, results of operations and business prospects.

(in thousands of tenge, unless otherwise is stated)

19. Risk management

Introduction

Risk is inherent in the Company's activities. The Company manages these risks through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The Company is mainly exposed to credit risk, liquidity risk, currency risk and operating risk.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Company's strategic planning process. The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles. The Company's internal risk management technique focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Company. Risk management is carried out by Finance function.

Credit risk

Credit risk is the risk that the Company will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations, arising primarily from the Company's net investments in finance leases. Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location.

The Company manages and controls credit risk by setting limits on the amount of risk it is willing to accept by individual counterparty, industry concentration and type of asset, and by monitoring exposures in relation to such limits.

Exposure to credit risk is managed through regular analysis of the ability of lessees and potential lessees to meet financial obligations and by changing those limits where appropriate. Exposure to credit risk is also managed by insuring the leased assets. The Company has also established authorization structure and limits of credit approval Adherence to credit policies formulated and approved by the Board of Directors is monitored by a separate Credit department, which is responsible for overseeing the Company's credit risk.

The carrying amount of components of the statement of financial position, including derivatives, without the influence of risk mitigation through the use of master netting agreements and collateral agreements, most accurately reflects the maximum credit exposure on these components.

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

Credit risk on gross amounts due in relation to investment in finance leases is further mitigated by the retention of title on leased assets and obtaining additional collateral, if necessary.

The table below shows the credit quality by class of asset for lease-related statement of financial position lines, based on the Company's credit rating system.

	2016			
	Standard grade			
	Total	*Including past due but not impaired*	*Impaired*	*Total*
Financial assets				
Cash and cash equivalents (excluding cash on hand)	**417,621**	**–**	–	**417,621**
Amounts due from credit institutions	**–**	**–**	–	**–**
Net investment in finance leases	**608,791**	**52,041**	593,716	**1,202,507**
Other financial assets	**163,267**	**–**	–	**163,267**
Total	**1,189,679**	**52,041**	593,716	**1,783,395**

	2015			
	Standard grade			
	Total	*Including past due but not impaired*	*Impaired*	*Total*
Financial assets				
Cash and cash equivalents (excluding cash on hand)	314,690	–	–	314,690
Amounts due from credit institutions	325,087	–	–	325,087
Net investment in finance leases	1,081,864	201,475	852,588	1,934,452
Other financial assets	40,420	–	–	40,420
Total	1,762,061	201,475	852,588	2,614,649

(in thousands of tenge, unless otherwise is stated)

19. Risk management (continued)

Credit risk (continued)

Aging analysis of past due but not impaired assets is as follows:

	Less than 30 days	*Total*
31 December 2016		
Net investment in finance leases	52,041	52,041
Total	52,041	52,041
31 December 2015		
Net investment in finance leases	201,475	201,475
Total	201,475	201,475

Leases overdue by less than 90 days are considered past due but not impaired, unless other objective information is available to classify the investment in finance leases as impaired. Impaired financial assets are those for which the Company determines that it is probable it will be unable to collect all principal and lease income due according to contractual terms of the finance lease agreements. Financial assets are considered impaired when they are past due by 90 days. The Company addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

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

Collectively assessed allowances

Allowances are assessed collectively for impairment of investments in finance lease that are not individually significant and provisions for individually significant investments, where there is not yet objective evidence of individual impairment. Allowances are evaluated at each reporting date with each portfolio of finance leases receiving a separate review

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been incured and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Credit department management is responsible for deciding the length of this period which can extend for as long as one year.

Financial assets with restructuring terms are those which have been restructured due to deterioration in the customer's financial position and where the Company has made concessions that it would not otherwise consider.

Concentration of credit risk

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

By counterparties

The Company focuses on small and medium sized business and its credit risk is diversified over a large number of clients. The concentration of risk by counterparties is disclosed in *Note 7*.

(in thousands of tenge, unless otherwise is stated)

19. Risk management (continued)

Concentration of credit risk (continued)

By economic sectors

Economic sector risk concentrations for net finance lease investments are as follows:

	2016	*%*	*2015*	*%*
Services sector	**321,652**	**26.75**	539,109	28.14
Vehicles	**289,955**	**24.11**	489,306	25.54
Retail trading	**229,233**	**19.06**	248,908	12.99
Construction	**178,350**	**14.83**	266,028	13.89
Road construction	**101,361**	**8.43**	116,989	6.11
Manufacturing	**61,497**	**5.11**	173,033	9.03
Printing industry	**18,957**	**1.58**	40,080	2.09
Agriculture	**1,502**	**0.13**	13,699	0.71
Food industry	**–**	**–**	28,687	1.50
	1,202,507	**100.00**	1,915,839	100.00

By geographic concentration

At 31 December 2016 and 2015, all monetary assets and liabilities of the Company are concentrated in Kazakhstan.

Liquidity risk and funding management

Liquidity risk is the risk that the Company will be unable to meet its obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required. Fund management is carried out by Finance function. It includes managing and monitoring day to day cash flows and funding needs.

The liquidity position is assessed and managed by the Company based on the ratios of net liquid assets and liabilities. As at 31 December, these ratios were as follows:

	2016	*2015*
Current liquidity ratio (assets receivable or realizable within one year / liabilities repayable within one year)	**2.14**	3.04
Long-term liquidity ratio (assets receivable or realisable in more than one year / liabilities repayable in more than one year)	**5.43**	2.92

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Company's financial liabilities at 31 December 2016 and 2015, based on contractual undiscounted payments:

	2016			
	Less than 3 months	*From 3 to 12 months*	*From 1 to 5 years*	*Total*
Financial liabilities				
Amounts due to credit institutions	**41,051**	**324,843**	**257,467**	**623,361**
Other financial liabilities	**–**	**1,975**	**–**	**1,975**
Total undiscounted financial liabilities	**41,051**	**326,818**	**257,467**	**625,336**

	2015			
	Less than 3 months	*From 3 to 12 months*	*From 1 to 5 years*	*Total*
Financial liabilities				
Amounts due to credit institutions	125,396	427,508	756,827	1,309,731
Other financial liabilities	–	2,263	–	2,263
Total undiscounted financial liabilities	125,396	429,771	756,827	1,311,994

(in thousands of tenge, unless otherwise is stated)

19. Risk management (continued)

Liquidity risk and funding management (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)

The Company's capability to meet its liabilities depends upon its ability to realise an equivalent amount of assets within the certain period of time.

Management believes that this level of funding will remain with the Company for the foreseeable future and that in the event of withdrawal of funds, the Company would be given sufficient notice so as to realise its liquid assets to enable repayment.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. Except for the concentrations within foreign currency, the Company has no significant concentration of market risk.

Interest rate risk

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

The sensitivity of profit or loss is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2016. The effect on equity does not differ from the effect on profit or loss. At 31 December 2016, the Company had no financial assets and financial liabilities with floating rate.

Currency risk

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

The Company limits its exposure to currency risk by indexing the minimum lease payments receivable under finance leases to either USD or euro.

The tables below indicate the currencies to which the Company had significant exposure at 31 December on its monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Tenge, with all other variables held constant on the profit or loss. The effect on equity does not differ from the effect on profit or loss. The negative amount in the table reflects a potential net reduction in statement of comprehensive income or equity, while a positive amount reflects a net potential increase.

	2016			
Currency	*Increase in currency rate in %*	*Effect on profit before tax*	*Decrease in currency rate in %*	*Effect on profit before tax*
USD	**13**	**48,273**	**(13)**	**(48,273)**

	2015			
Currency	*Increase in currency rate in %*	*Effect on profit before tax*	*Decrease in currency rate in %*	*Effect on profit before tax*
USD	60	197,639	(20)	(65,880)

Operational risk

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

(in thousands of tenge, unless otherwise is stated)

19. Risk management (continued)

Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Company is not the subject to externally imposed capital requirements.

20. Fair value measurement

Fair value hierarchy

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

		Fair value measurement using			
	Date of valuation	*Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant non-observable inputs (Level 3)*	*Total*
Assets with disclosed fair value					
Cash and cash equivalents	31 December 2016	**417,621**	–	–	**417,621**
Net investment in finance leases	31 December 2016	–	–	549,938	**549,938**
Investment property	31 December 2016	–	**1,598,718**	–	**1,598,718**
Other financial assets	31 December 2016	–	–	163,267	**163,267**
Liabilities whose fair value is disclosed					
Amounts due to credit institutions	31 December 2016	–	–	555,899	**555,899**

		Fair value measurement using			
	Date of valuation	*Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant non-observable inputs (Level 3)*	*Total*
Assets fair value of which is disclosed					
Cash and cash equivalents	31 December 2015	314,772	–	–	314,772
Amounts due from credit institutions	31 December 2015	325,087	–	–	325,087
Net investment in finance leases	31 December 2015	–	–	1,554,615	1,554,615
Investment property	31 December 2015	–	1,665,392	–	1,665,392
Other financial assets	31 December 2015	–	–	40,420	40,420
	31 December 2015				
Liabilities whose fair value is disclosed					
Amounts due to credit institutions	31 December 2015	–	–	1,124,593	1,124,593

(in thousands of tenge, unless otherwise is stated)

20. Fair value measurement (continued)

Fair value hierarchy (continued)

The following tables show a reconciliation of 2015 opening and closing amount of Level 3 assets and liabilities which are recorded at fair value:

	Derivative financial assets
As at 1 January 2015	55,698
Net gains from derivative financial instruments at fair value through profit or loss for the period	(55,698)
As at 31 December 2015	–

Total income and expenses on financial instruments of Level 3 for the years ended 31 December 2016 and 31 December 2015, shown in the above tables are presented in the statement of comprehensive income as follows:

	2016		*2015*	
	Realised loss	*Unrealised gains*	*Realised gain*	*Unrealised gains*
Losses recognised in profit or loss	–	–	(55,698)	–

Derivatives

Derivative instruments valued using a valuation technique with market significant observable inputs are currency options. The most often used valuation techniques comprise option price determination models using present value estimations. The techniques combine various inputs, including credit quality of counterparties, currencies forward and spot rates and interest rates curves.

Financial instruments not carried at fair value in the statement of financial position

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

	2016			*2015*		
	Carrying amount	*Fair value*	*Unrecog-nised gain/ (loss)*	*Carrying amount*	*Fair value*	*Unrecog-nised gain/ (loss)*
Financial assets						
Cash and cash equivalents	**417,621**	**417,621**	–	314,772	314,772	–
Amounts due from credit institutions	–	–	–	325,087	325,087	–
Net investment in finance leases	**555,305**	**549,938**	**(5,367)**	1,547,674	1,554,615	6,941
Other financial assets	**163,267**	**163,267**	–	40,420	40,420	–
Financial liabilities						
Amounts due to credit institutions	**594,803**	**555,899**	**(38,904)**	1,154,957	1,124,593	30,364
Other financial liabilities	**1,975**	**1,975**	–	2,263	2,263	–
Total unrecognised change in unrealized fair value			**(44,271)**			37,305

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

Assets for which fair value approximates carrying value

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

(in thousands of tenge, unless otherwise is stated)

20. Fair value measurement (continued)

Fair value hierarchy (continued)

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity.

21. Maturity analysis of financial assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled:

	2016			*2015*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Financial assets						
Cash and cash equivalents	**417,621**	**–**	**417,621**	314,772	–	314,772
Amounts due from credit institutions	**–**	**–**	**–**	325,087	–	325,087
Net investment in finance leases	**331,538**	**223,767**	**555,305**	993,791	553,883	1,547,674
Inventories	**44,864**	**–**	**44,864**	75,211	–	75,211
Investment property	**–**	**1,598,718**	**1,598,718**	–	1,665,392	1,665,392
Property and equipment	**–**	**10,727**	**10,727**	–	15,789	15,789
Intangible assets	**–**	**1,313**	**1,313**	–	222	222
Current corporate income tax prepaid	**1,753**	**–**	**1,753**	7,126	–	7,126
Other assets	**194,288**	**–**	**194,288**	72,807	–	72,807
Total	**990,064**	**1,834,525**	**2,824,589**	1,788,794	2,235,286	4,024,080
Financial liabilities						
Amounts due to credit institutions	**378,510**	**216,293**	**594,803**	467,900	687,057	1,154,957
Deferred corporate income tax liabilities	**–**	**121,691**	**121,691**	–	79,982	79,982
Other liabilities	**84,656**	**–**	**84,656**	119,806	–	119,806
Total	**463,166**	**337,984**	**801,150**	587,706	767,039	1,354,745
Net	**526,898**	**1,496,541**	**2,023,439**	1,197,743	1,471,592	2,669,335

22. Related party transactions

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

Related parties include Company's shareholders, key management personnel and organization in which shareholders or key management personnel of the Company directly or indirectly have the significant influence. Transactions between related parties are effected on the same terms, conditions and amounts as transactions between unrelated parties.

(in thousands of tenge, unless otherwise is stated)

22. Related party transactions (continued)

The amount of related party transactions and balances as of 31 December 2016 and 31 December 2015 as well as the respective amounts of income and expenses for the years ended 31 December 2016 and 2015 are as follows:

	2016		*2015*	
	Parent	*Entities under common control*	*Parent*	*Entities under common control*
Current accounts at 1 January	**254,747**	–	550,685	–
Additions	**1,787,724**	–	2,699,902	–
Disposal	**(1,643,221)**	–	(2,995,840)	–
Current accounts at 31 December	**399,250**	–	254,747	–
Amounts due to credit institutions at 1 January	**424,296**	–	651,884	–
Loans obtained	–	–	–	–
Loans repaid	**(222,968)**	–	(227,588)	–
Amounts due to credit institutions at 31 December	**201,328**	–	424,296	–
Interest expense	**46,560**	–	(84,098)	–
Operating lease income	**204,422**	–	257,319	–
Other operating expenses	**51,826**	–	(67,056)	–

In 2016, compensation to 8 members of key management personnel (2015: 8) comprised of the following:

	2016	*2015*
Salaries and other short-term benefits	73,992	75,869
Social security contributions	7,272	7,467
Total key management personnel compensation	81,264	83,336

23. Subsequent events

During the first quarter of 2017, the Company repaid before its due date the outstanding debt under the following loan agreements:

– tranche issue agreement No. CREL00123 / 14-GLV dated December 26, 2014 with JSC "ForteBank";

– loan agreement No. 2 dated March 28, 2014, No. 1 of December 2, 2011 and No. 2 dated March 29, 2012, concluded within the framework of the agreement on the provision of a credit line for financing leasing transactions of small and medium-sized business entities No. 14 9-L2 dated May 28, 2013 and No. 347-1-L2 dated November 28, 2011 with the JSC "EDF Damu".