



**KAZAGROFINANCE**

Development  
Through Investments

# Annual Report

**2016**

KazAgroFinance JSC





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Photo of the Project Farm "Zhatva"  
(Karagandinskaya oblast)

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# Overview

## On Report

*Dear reader, you hold the next Annual Report on performance of KazAgroFinance JSC. We are excited to provide you with the information on performance, share the interesting facts and achievements of 2016.*

KazAgroFinance JSC had been issuing the Annual Reports since 2004. The previous report was issued in August, 2015 at Kazakhstan Stock Exchange website and the Company's corporate Internet resource – [www.kaf.kz](http://www.kaf.kz).

This Report covers the essential facts on activities, review of performance and achievements for all interested parties of the Company. The information is provided from January 1 through December 31, 2016.

The Company's Financial Statements for 2016 is prepared by the independent auditor "Ernst & Young" LLP.

Development through Investments' became the topic of the Annual Report for 2016. Having covered this topic, we would like to share our achievements for the benefit of the sustainable development of the country's agricultural sector as a whole, and for each Kazakhstani family in particular.

## Company Profile

KazAgroFinance JSC is a leader at the Kazakhstan leasing market, taking over 70%, and a unique company effectively combining the crediting and leasing activities in the agricultural sector. Over a half of all agricultural machines were imported to Kazakhstan under the financial support from KazAgroFinance, as well, we are the key operator on implementation of the large agricultural investment projects across Kazakhstan.

To date, owing to the long experience in the crediting and leasing market, the developed branch network and great human resources, KazAgroFinance has a powerful competence with the skillfully elaborated and well-established platform allowing the quality and effective implementation of the state programs in the agricultural sector.

Photo of the Project 'Akmola-Phoenix' LLP  
(Akmolinskaya oblast)



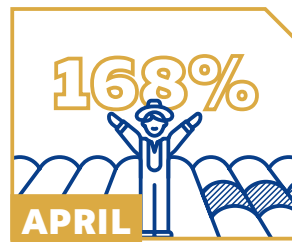
# Event Calendar for 2016



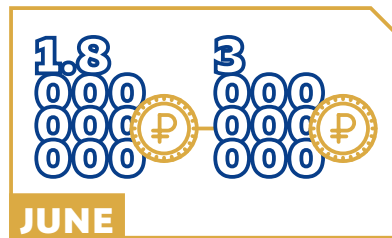
Participation in the International Specialized Agricultural Exhibition “AgriTek/FarmTek-2016” for 11<sup>th</sup> time



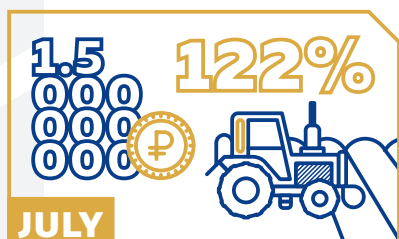
- The agreement on subsidizing of the part of interest rate to the Kazakhstani farmers was signed with the Government of the Republic of Belarus when purchasing of the machinery made in the Republic of Belarus (more details on page 29)
- Election of Azat Yerkinovich Mashabayev as a new Independent Director to the Board of Directors of KazAgroFinance JSC. The Independent Directors take 50% in the Board of Directors.
- Next participation in the annual international Astana Economic Forum “New Economic Reality: Diversification, Innovations and Economy of Knowledge”
- Signing of Facility Agreement with ROSEXIMBANK JSC for RUB 716 mln. with maturity of 7 years for purchase of 115 units of agricultural machinery to be further leased



The plan on financing of farmers for purchase of machinery for the spring field works was fulfilled for 168%



- Raising of RUB 1.8 bln. from Eurasian Development Bank for financing the supply of agricultural machinery
- Signing of Facility Agreement with Subsidiary of “Sberbank” JSC for KZT22 bln. or RUB 3 bln.



**JULY**

- Raising of RUB 1.5 bln. from Eurasian Development Bank for financing the supply of agricultural machinery
- Implementation of plan on financing of the farmers for purchase of machinery for the inter-season works was 122%



**OCTOBER-NOVEMBER**

- Signing of Strategic Cooperation Agreement with “Russian Export Centre” JSC within the mutual implementation of projects for supply of agricultural machinery by “Combine Factory “Rostselmash” LLC
- Signing of Facility Agreement with BOT Lease Co., Ltd for EUR8 mln. with maturity of 5 years for purchase of agricultural machinery to be further leased
- Successful floatation of KZT8 bln. bonds with tenor of 5 years among the wide range of investors



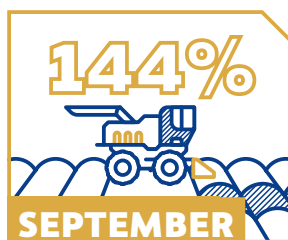
**AUGUST**

Signing of bilateral Facility Agreement with Commercial Bank “Citibank” JSC (Russia) on raising of RUB 1.8 bln. loan



**DECEMBER**

- Under the results of VI Annual Reports Competition arranged by RAEX KazAgroFinance JSC took 22nd position in the total report rating, 6th position among the financial companies and 3rd position in the nomination “Design and Printing”.
- At the year-end 54 Investment Projects were commissioned Kazakhstan-wide to the total amount of KZT36.1 bln. (more details on page 52)



**SEPTEMBER**

The plan on financing of agricultural machinery for harvesting campaign was fulfilled for 144%



# Top Management Address

## Chairman of the Board of Directors' Address

### *Dear Customers and Partners,*

The Head of State in his Message “Third Modernization of Kazakhstan: Global Competitiveness” defined the development of the country’s agricultural complex as one of important priorities of further development. Among the tasks of the new Governmental Program of Agricultural Sector Development for 2017-2021 is improving the level of technical equipping.

In view of this, KazAgroFinance JSC’s role as a leading company in the agricultural sector providing the high-tech agricultural machinery and equipment on leasing rises up.

Adjusting to the “new reality” terms, the Board of Directors is continuously working at improvement of the corporate management, introduction of the new solutions for customers, optimization of the business processes, as well as improvement of the quality of services rendered.

Taking into consideration the current economic situation, in August of the last year the adjusted Company Development Strategy was adopted, which included the new key performance indicators “Service Availability Index”, “Human Asset Index”, “NPL Level” and “Corporate Management Level” aimed at further effective management of owned assets in the market environment.

At the year-end 2016, the aggregate income of KazAgroFinance JSC exceeded KZT27 bln., having increased as compared to 2014 and 2015 by 38.7% and 12.5%, respectively. At that, the net income amounted to KZT3.2 bln.

The Company’s successful performance for the accounting period is supported by the efficiency of the strategy applied, significance of the set priorities, and allows looking for further sustainable development.

I’m confident that KazAgroFinance has all necessary resources for further development and fulfillment of tasks assigned to us!

*Sincerely,*  
**Aigul Mukhamadiyeva**  
**Chairman of the Board of Directors**  
**KazAgroFinance JSC**



**Aigul  
Mukhamadiyeva**

---

CHAIRMAN OF THE BOARD  
OF DIRECTORS KAZAGROFINANCE JSC

# Chairman of the Board Address

## *Dear Friends and Colleagues,*

I am delighted to provide you with the performance of KazAgroFinance JSC for 2016 and share our achievements and development prospects plan with you.

The last year for the next time proved the sustainability of our development model aimed at solving one of the main problems in agriculture – renewal of machine and tractor fleet.

Despite the global macroeconomic environment, we had confidently fulfilled the strategic tasks assigned to us and achieved the positive indicators, having ensured the dynamic development of the Company and the effective implementation of the tasks set by the Head of State.

As a result, we had commissioned 54 Investment Projects to the total amount of KZT36.1 bln. in the accounting period, purchased 3 119 units of agricultural machinery and equipment for KZT55.8 bln. At that, the machinery made in Kazakhstan took 28%. Our further efforts will be fostered at the support of the local agrarians.

It should be mentioned as well that to date the Company carries out the leasing activity at the expense of owned and raised funds. Thus, at year-end we had raised the funds as loans and issue of bonds to over KZT56 bln.

At the end of 2016, the initial issue of the KZT8 bln. local market bonds for the wide range of investors and tenor of 5 years took place. This deal was a winner in the category “Best Local Currency Bond Issue in Europe, Middle East and Africa” of the famous and reputable international magazine “EMEA Finance”, that is one more time proves the right track of our course.

At that, for improvement of the servicing quality and attraction of new customers we continue optimization of business processes, reduction of time for consideration of applications and set of documents, extension of list of special programs on leasing of machinery and equipment.

Achievements of 2016 became possible owing to the support from the Government and Holding “KazAgro”, trust of our partners and customers, as well as professional and concerted efforts of our team.

Let me express our gratitude to all partners and wish success to our farmers in future.

***Sincerely,  
Kanysh Izbastin  
Chairman of the Board  
KazAgroFinance JSC***



**Kanysh  
Izbastin**

---

CHAIRMAN OF THE BOARD  
KAZAGROFINANCE JSC





# 1.

## About Company

Development  
Through Investments:

**AGRICULTURAL MACHINERY**



Photo of the Project 'Akmola-Phoenix' LLP  
(Akmolinskaya oblast)



## FINANCIAL PERFORMANCE OF KAZAGROFINANCE:



**36.7** thous.  
units  
of agricultural machinery  
were purchased



**Each  
second**  
agricultural machine was  
imported to Kazakhstan  
via KAF leasing



Annual purchase of agricultural  
machinery had been increased  
**by 2 times**  
since 2000



The leaders in purchasing  
of agricultural machinery via KAF  
leasing are the farmers of  
**Akmolinskaya  
oblast**



Leased machinery  
covers over  
**5 mln.  
ha.**  
of lands under crop



## NAME

Joint Stock Company  
“KazAgroFinance”

## ESTABLISHED

December 28, 1999 in accordance with Decree of the Government of the Republic of Kazakhstan No.1777 “On Some Issues of Agriculture” dated November 24, 1999



facilitation in solving one of main problems in agriculture – renewal of technical fleet



“National Managing Holding  
“KazAgro” JSC



1. leasing activity
2. lending and providing services for entities of the agricultural sector
3. participation in implementation of the program aimed at the agricultural sector development



14 branches in all regions of Kazakhstan

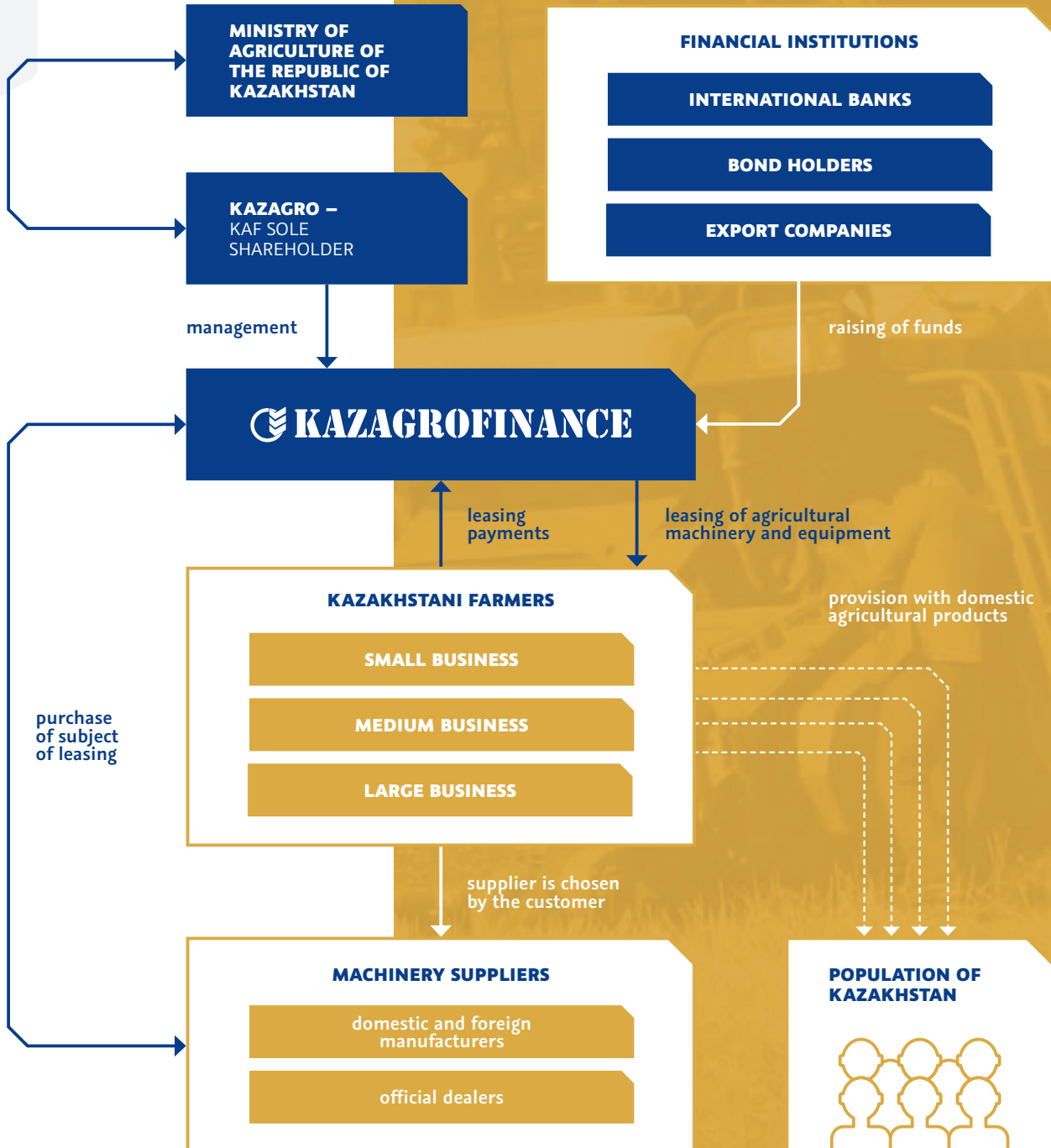


License by the Agency of the Republic of Kazakhstan for Regulation and Supervision of the Financial Market and Financial Organizations for banking borrowing operations in local currency (issued on March 31, 2006)



long-term IDR in foreign and local currencies – **BB+ / outlook “Stable”**

# Business Model to KazAgroFinance

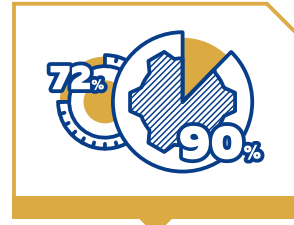




## 1. About Company



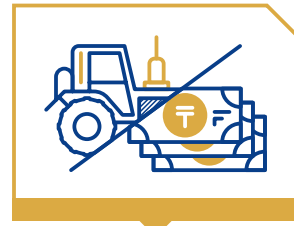
**High security** of loan portfolio as compared to the banking sector



General leasing market share in Kazakhstan – **68%**, at agricultural machinery leasing market – **over 90%\***



Over **17-year** experience and high skilled personnel



Applying of two financial instruments – **lending and leasing**



Company had been listed at the Kazakhstan Stock Exchange **over 10 years**



**High funding** in KZT, successful experience in raising the funds applying the market instruments



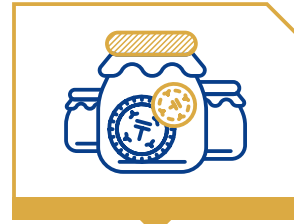
**High transparency** of activities and continuous improvement of corporate management \*\*



**long track** record with all leading suppliers of agricultural machinery and equipment across the globe



**high credit** rating level



Low share of general administrative costs to the loan portfolio – below the average level in the banking sector by **3 times\*\***

\* according to Rating Agency RAEX; \*\* according to analysis Deloitte TCF LLP

# Company Background

OVER THE YEARS AT THE KAZAKHSTANI LEASING MARKET, WE HAVE AMASSED ENOUGH EXPERIENCE IN FINANCING OF AGRICULTURAL SECTOR OF KAZAKHSTAN. WE WOULD LIKE TO BRING TO YOUR ATTENTION THE MOST OUTSTANDING MILESTONES AND SIGNIFICANT DATES FROM KAZAGROFINANCE JSC'S HISTORY.

**2007**

introduction of leasing of pedigree livestock for dairy farms

**2009**

Start of financing of the large Investment Projects

**2011**

Company participates in the breakthrough Program "Beef Export Potential Development"

**2015**

Corporate management of the Company was analyzed and the corporate management level was assigned for the first time

**1999**

Decree of the Government of the Republic of Kazakhstan on establishment of KazAgroFinance

**2000**

First experience in leasing of the foreign agricultural machinery

**2003-2005**

Creation of the first machine and tractor stations. Active participation of the Company in the largescale State Program "Year of Aul"

**2006**

KazAgroFinance becomes a part of the newly established National Managing Holding "KazAgro"

**2008**

International credit rating for the first time by Fitch (BBB-)

**2010**

First research of leasing market by Expert RA in Kazakhstan: KazAgroFinance recognized as a leader at the Kazakhstani leasing market

**2013**

Start of implementation of the projects within the Program for Development of Agricultural Sector of Kazakhstan "Agribusiness 2020". KazAgroFinance officially participates in the subsidizing program

**2016**

KazAgroFinance issues the local market bonds for the wide range of investors for KZT8 bln. and tenor of 5 years

# Company Development Strategy

The Company's Development Strategy covers objectives and tasks set forth in the state program documents as follows: Message of the Head of State to the People of Kazakhstan dated December 14, 2012 'Development Strategy -2050': New Political Line of Established State'; Development Program of Agricultural Sector in the Republic of Kazakhstan for 2013-2020 'Agribusiness - 2020', Development Strategy of Holding 'KazAgro' for 2011-2020.

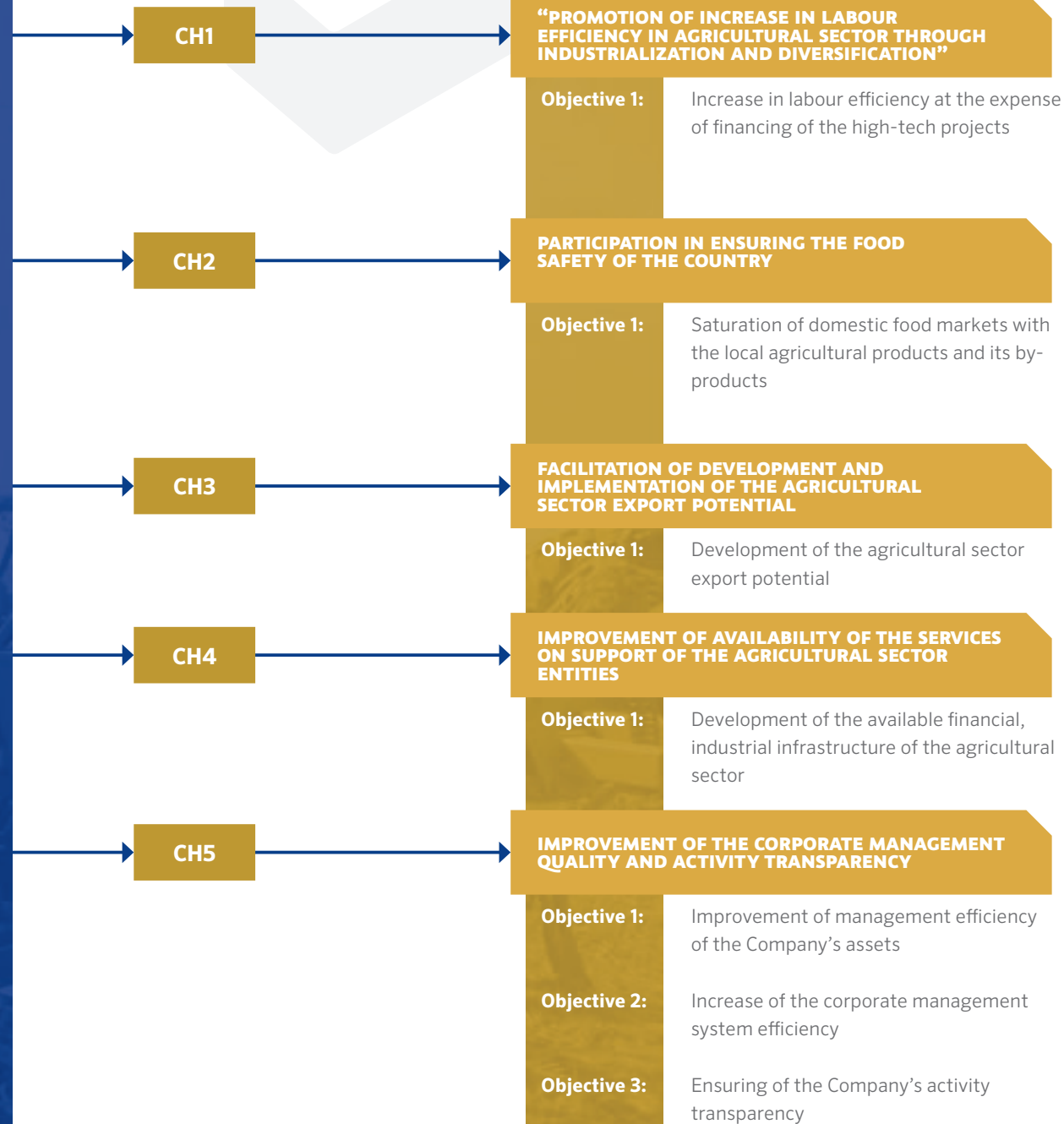
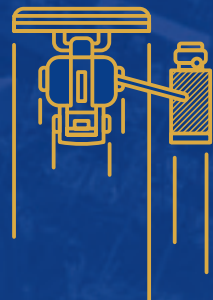
The Company's Strategy defines mission, strategic trends, objectives and tasks, key performance indicators for the period of up to 2020.

**Mission of KazAgroFinance JSC** is the technological renewal of agricultural sector by providing the agricultural producers with the affordable funds, as well as agricultural machinery and technological equipment on leasing basis.

**Vision of the Company by 2020** - a key financial and investment institution in the agricultural sector of Kazakhstan ensuring the efficient management of owned assets for supporting the development of the republic's agricultural sector by providing the affordable financial services and leasing activity on its technical and technological renewal based on operational excellence and reliability. The Company finances the implementation of the new high-tech production facilities for equipping with the technological facilities with full production cycle from the leading world producers.

## STRATEGY OF THE COMPANY CONSISTS OF FIVE STRATEGIC TRENDS AS FOLLOWS

### KAZAGROFINANCE STRATEGY



Due to changes in the terms of the national monetary policy, necessity to improve the corporate management in the Company, as well as the adequate evaluation of the performance, in 2016 the new key performance indicators of the Development Strategy had been introduced and the operating ones had been actualized.

Thus, the Company has elaborated a new KPI "Service Availability Index", which supposes the evaluation of the service availability level by comparing the Company's terms of financing to the average ones established among the competitive companies, as well attraction of the independent company for questioning for the farmers' satisfaction with the Company's services. The evaluation of this KPI will allow the Company to find out its weak spots and evaluate the quality of services rendered for taking the respective actions in future.

A new KPI "Human Asset Index", which is an arithmetic mean value of five indices such as index of involvement, performance, development, HR stability and the business process improvement index, had been introduced as well. Meanwhile, for improving the Company's activity in the corporate management a KPI "Improvement of Corporate Management Level" had been introduced, and for reducing the overdue and non-performing loans a KPI "Level of NPL" had been introduced.



# 2.

## Area of Focus

Development  
Through Investments:

**GREENHOUSES**



Photo of the Project 'BRB-APK' LLP  
(Almatinskaya oblast)



## FINANCIAL PERFORMANCE OF KAZAGROFINANCE:



Total capacity of  
**42.8 thous. tons**  
of vegetables  
per year



Construction of  
**21** greenhouses  
for  
**KZT 32 bln.**



**12%**  
% share of KAF's projects  
of the total tomato and  
cucumber consumption



Total area of all  
implemented greenhouses  
**86 ha.**



Cultivation of  
**200 tons**  
of vegetables each day  
during the midseason



KAZAGROFINANCE JSC WAS INITIALLY ESTABLISHED FOR THE PURPOSE OF RENEWAL OF THE MACHINE AND TRACTOR FLEET, AND THE KEY SERVICES ON LEASING OF AGRICULTURAL MACHINERY WERE RENDERED TO THE FARMERS, HOWEVER, IN 2009 THE COMPANY BECAME AN OPERATOR IMPLEMENTING THE LARGE INVESTMENT PROJECTS IN THE VILLAGE UNDER THE PRIORITY TRENDS, WHEREAFTER THE COMPANY BECAME A TRUE FINANCIAL INSTITUTION OF THE AGRICULTURAL SECTOR DEVELOPMENT.



## LINE OF PRODUCTS OF KAZAGROFINANCE

### FINANCIAL LEASING



Agricultural, special machinery not requiring installation



Vehicles for transportation of agricultural and fish products, biological assets



Reclamation machinery



Special machinery and equipment requiring / not requiring installation

### FINANCING OF INVESTMENT PROJECTS



Dairy farms



Reproducer farms



Feed production



Meat processing complexes



Poultry farms (meat and egg)



Fish farms



Feed yards



Greenhouses



Irrigation systems



Intensive orchards



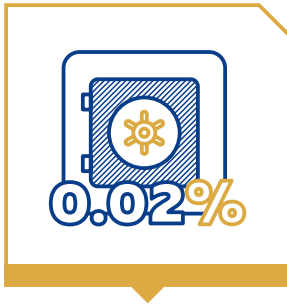
Fruit and vegetables storehouses



Granaries

## SPECIAL PROGRAMS

### EXPRESS LEASING



Subject of leasing: machinery value shall not exceed **0.02 %** of the Company's equity



Consideration term for the projects is **5 Business Days**



Minimum number of expertise: **Legal and credit analysis**



Major criteria of credit analysis is **the yield data**

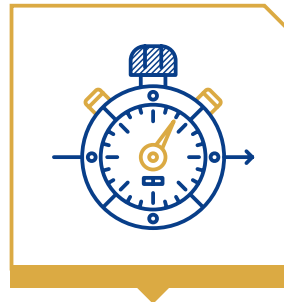
### MASTER LEASING



Subject of leasing: **In accordance with the product line**, except for equipment requiring installation



Submission and consideration of application **once a year** for opening the leasing line



**Prompt decision making** on conclusion of leasing contract within the approved line



**No liability for the Customer** to fully disburse the limit

## HARVEST



Subject of leasing:  
harvesters, grain dryers  
made **in Kazakhstan**



Discounted advance  
payment - **from 10 %** of  
machinery value



It is possible to make  
advance payment after  
obtaining the machinery  
and harvesting, but not  
**later than November 15** of  
current year

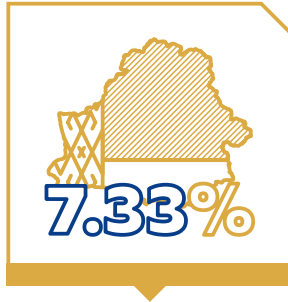


**Standard procedure** for  
processing of application  
and a set of documents

## MADE IN BELARUS



Subject of leasing:  
agricultural machinery and  
equipment made **in the  
Republic of Belarus**



**7.33%** of current interest  
rate on machinery in the  
Company is reimbursed by  
the Republic of Belarus



**Standard procedure** for  
processing of application  
and a set of documents



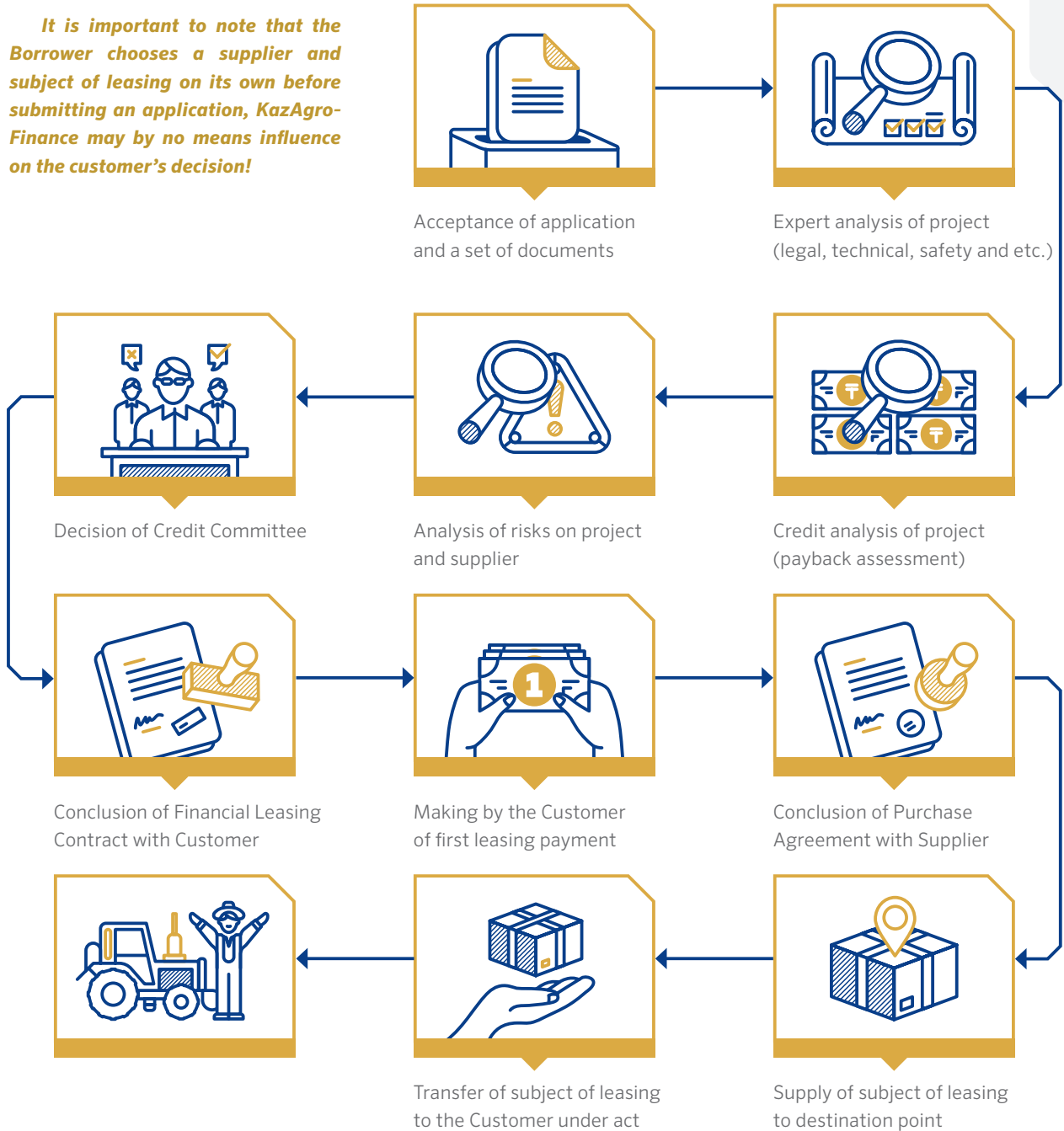
There is still a  
possibility to obtain  
**subsidies from the  
state**



## LEASING PROCEDURE

*It is important to note that the Borrower chooses a supplier and subject of leasing on its own before submitting an application, KazAgro-Finance may by no means influence on the customer's decision!*

Having chosen the leasing program, the customer prepares a set of documents required for obtaining the financing and submission of an application.



## 2. Area of Focus

The prepared set of documents is examined by the Company's expert subdivisions with due diligence for compliance with the set requirements and risk assessment on the project.

Pursuant to the Company's internal requirements, for reducing the various risks there are the certain requirements to the customer, subject of leasing and its supplier:

REQUIREMENTS TO CUSTOMERS	REQUIREMENTS TO SUBJECT OF LEASING	REQUIREMENTS TO SUPPLIER
<ul style="list-style-type: none"><li>• positive track record;</li><li>• positive credit story;</li><li>• high professional management;</li><li>• retrospective and projected solvency;</li><li>• profitable project and payback periods compatible with the financing periods of the project.</li></ul>	<ul style="list-style-type: none"><li>• shall be new and not previously used;</li><li>• shall comply with requirements of the established technical regulations;</li><li>• shall be supplied to the territory of Kazakhstan;</li><li>• shall be supported by the Certificate of Quality;</li><li>• shall be supported by the technical documents, quality warranty.</li></ul>	<ul style="list-style-type: none"><li>• shall have certificates/licenses required for manufacture and/or sales of machinery;</li><li>• shall have professional skills and experience of at least 6 months;</li><li>• shall provide warranty and post-warranty maintenance;</li><li>• shall not have any outstanding obligations towards the Company;</li><li>• shall not be listed in the register of bad participants of public procurement and in the list of unreliable suppliers.</li></ul>

### SUPPLIER BASE

In order the customers may search for the necessary suppliers, the automated base of the agricultural machinery suppliers had been introduced at the Company's corporate website [WWW.KAF.KZ](http://WWW.KAF.KZ) since 2013.

Any supplier may register at this base irrespective of the experience with the Company. To date, 577 suppliers from the different countries of the world are registered in this base




# We honor our customers' opinions!

The Company's team built over the years of its activity organizes its work, aiming, first-of-all, at the customers' demands, continuously

improving the Company's business processes for simplifying the financing procedure.

Annually, KazAgroFinance JSC carries out the customer interviewing for assessing the satisfaction with the Company's services. The research is performed by interviewing customers across Kazakhstan randomly.

The inquiry form provides the respondents with the opportunity to give their recommendations on improvement of the service quality. KazAgroFinance JSC make all possible efforts for response to the customers' requests.

Customer requests in 2015-2016	Actions taken by KazAgroFinance JSC in 2016
 <p>To simplify the consideration procedure and reduce the list of documents</p>	<p>The minimum set of documents to be provided by the Borrower at the decision-making stage was reduced to 9 documents. <i>To date, this is a minimum set of documents in accordance with the banking law requirements</i></p>
 <p>To reduce an interest rate</p>	<p>The interest rate was reduced <b>to 17.3% from 19%</b>; including the reduction of the interest rate on all leasing contracts made in 2016</p>
 <p>To accelerate the application processing term</p>	<p>The application processing term was reduced for leasing by 8 business days, which made <b>up 18 business days</b></p>

Moreover, if this assessment was previously carried out by the Company's efforts, then the Board of Directors made a decision to perform this assessment by the independent company for more fair assessment of our service quality. The key criteria were service availability, professional skills of specialists, adherence to the ethical norms in the relationships with the customers, timeliness of consideration of

projects/signing of contracts and quality of consultations.

At year-end 2016, the independent company interviewed over 500 agricultural producers across Kazakhstan, among which 70% are the Company's customers, 30% are those who applied to the Company, but did not obtain any financing due to some reasons. Under the results of interviewing the satisfaction was 88.8%.



Photo of the Project "Amankeldi" LLP  
(South-Kazakhstan oblast)







# 3.

## Market Review

Development  
Through Investments:

**DAIRY FARMS**



Photo of the Project 'Agrofirma Rodina' LLP  
(Akmolinskaya oblast)



» **FINANCIAL  
PERFORMANCE OF  
KAZAGROFINANCE:**

» **37** Commissioning of  
**dairy farms**  
for  
**KZT 41 bln.**

Total capacity of  
» **146.2 thous.  
tons**  
of milk and  
milk products

» **400 packages  
of milk**  
daily

» **26.7 thous.  
heads** – **20%**  
of pedigree cattle  
of the country's  
pedigree stock



IN OUR WORK, WE ALWAYS TAKE INTO CONSIDERATION THE CURRENT SITUATION IN THE AGRICULTURAL SECTOR, AS WELL AS AT THE LEASING MARKET IN KAZAKHSTAN. THIS SECTION PRESENTS THE ANALYSIS OF THE AGRICULTURAL SECTOR AND THE COMPETITIVE ADVANTAGES OF KAZAGROFINANCE JSC, WHICH ARE THE IMPORTANT FACTOR FOR SETTING THE GOALS AND TASKS, AS WELL AS THEIR SUBSEQUENT ACHIEVEMENT.

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## Agricultural Sector Analysis

The membership of Kazakhstan in the Eurasian Economic Union and the World Trade Organization, strengthening of the export positions of oil, meat sectors, defined for Kazakhstan the elaboration of a new policy of state regulation of the agricultural sector. The key objective of this Agricultural Sector Development Program for 2017-2020

was increase in the volumes of agricultural production facilities with the focus on the most popular types of food products and the export development of the processed agricultural products. Among the Program's tasks is improvement of technical equipping of the agricultural sector.

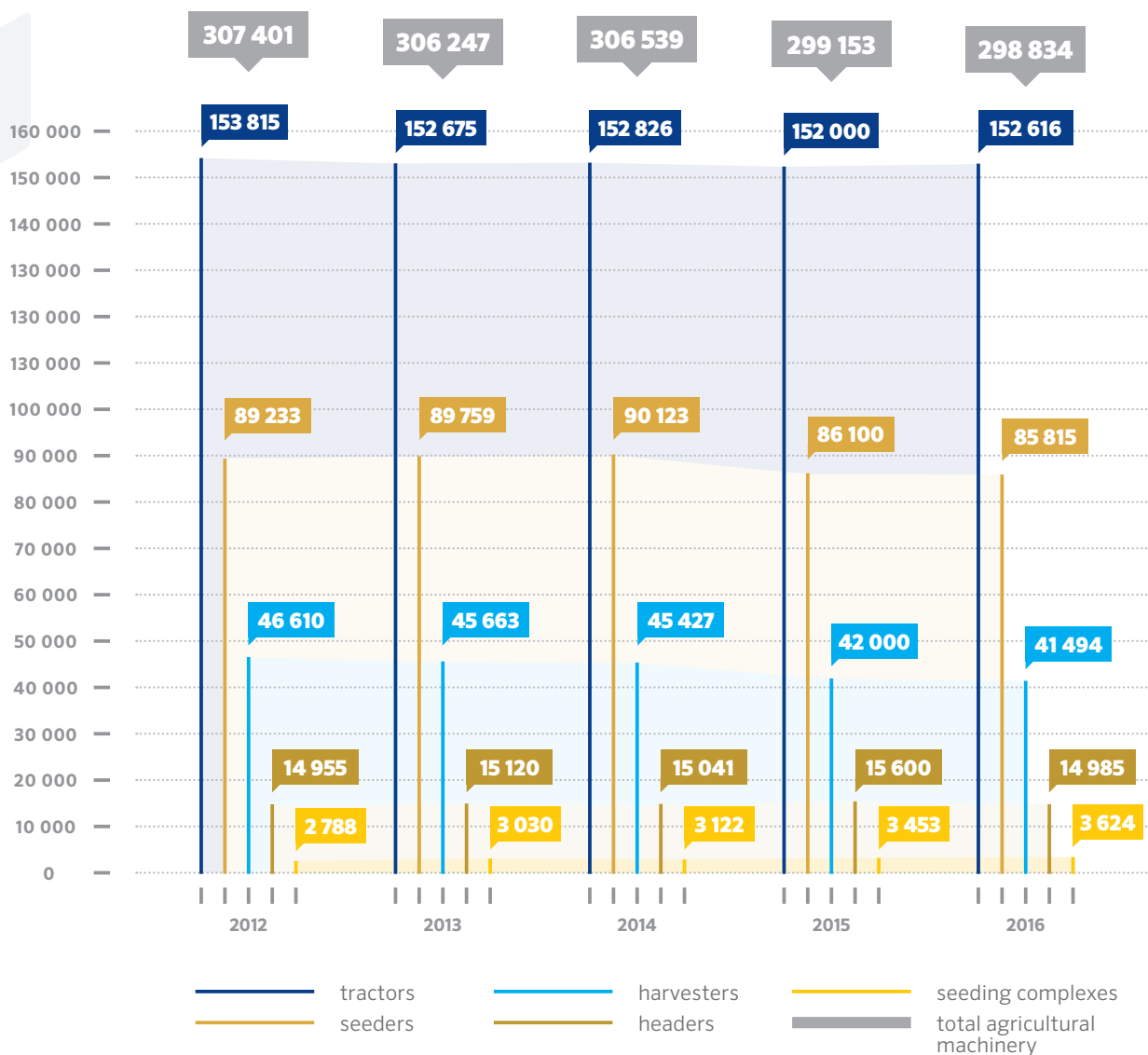
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## State of Fleet of Agricultural Machinery and Equipment

As of January 1, 2017, the fleet of main types of agricultural machinery is 298.5 thous. units, where the agricultural machinery with the

lifetime of over 15 years takes 79% (at the average amortization time of agricultural machinery being 10-12 years).

AVAILABILITY OF MAIN AGRICULTURAL MACHINERY IN KAZAKHSTAN, UNIT



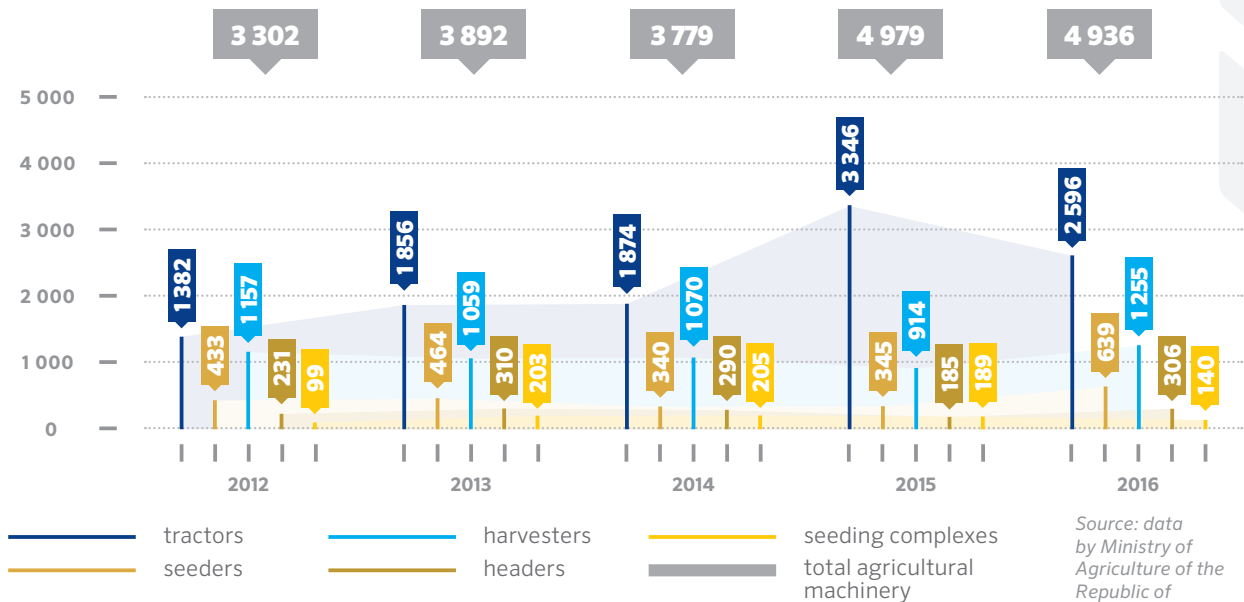
Source: data by Ministry of Agriculture of the Republic of Kazakhstan

The annual pace of renewal of agricultural machinery for the period under review ranges within 1.1%-1.7% (the required technological

renewal level in the developed countries is about 10-12% per year).



**PURCHASE OF MAIN AGRICULTURAL MACHINERY IN KAZAKHSTAN, UNIT**



However, the required service life differs from the actual lifetime of agricultural machinery. Namely, due to lack of working assets and opportunities for timely renewal the farmers use

the machinery longer than the established norms by 3-10 years. Thus, the actual need in renewal of agricultural machinery is a bit lower than the established one.

## Leasing Market

Some leasing market participants are inclined to believe that the consequences of the last devaluation continue affecting the leasing market in 2016 as well. At that, in addition to rise in price of subjects of leasing and decline in demand, the risk of deterioration in the Borrowers' solvency increases, and, as a consequence, the risk of deterioration in quality of the leasing portfolio increases as well.

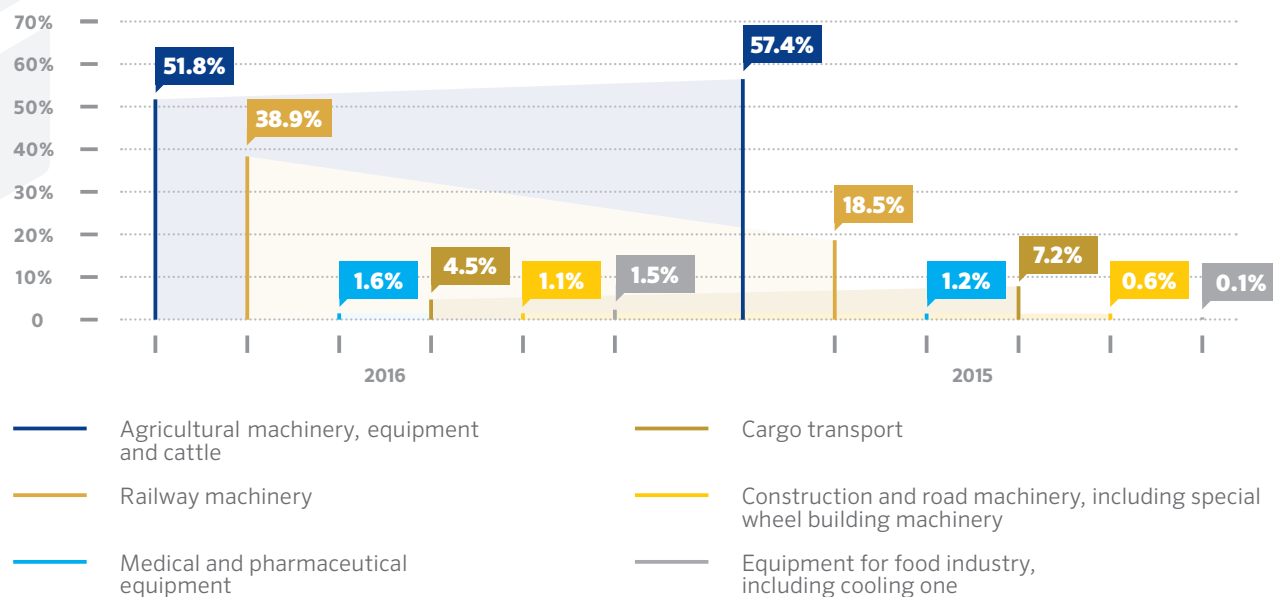
At that, among the players' tasks are improvement of quality and availability of leasing services, covering the increasing demands of the small and medium business entities.

According to research by RAEX, its participants take 80% of the leasing market, the largest players of leasing market of the Republic of Kazakhstan continue to be the quasi-public companies – KazAgroFinance JSC (share in the aggregate leasing portfolio is over 68%) and “BRK-Leasing” JSC (share - over 29%).

The core trend of financial leasing in the country is purchase of agricultural machinery and livestock, which share in the aggregate leasing portfolio is over 50%.

### 3. Market Review

#### BEHAVIOUR OF PURCHASE OF SUBJECTS OF LEASING IN NEW DEALS, %



Source: data by RAEX

Moreover, the Company analyzes the leasing market and the competitive environment based on the public information at the official internet resources of the Kazakhstani leasing companies quarterly. Thus, under the results of 2016 the average financing rate on all leasing companies was 15.4%, the average financing term was 4.3 year. Unlike other domestic leasing companies, only KazAgroFinance JSC provides a grace period for principal repayment up to 2 years,

and the leasing period is the maximum one at the market (up to 12 years).

The traditional profitability index of KazAgroFinance JSC and the financial companies was assessed as well. **The net interest spread** for KazAgroFinance JSC was **4.1%** that indicates the low share of all administrative costs to the loan portfolio (below the average level in the banking sector by 3 times).

Index	KAF	Second-tier banks	Leasing
Interest on profit	10,1%	10,6%	6,9%
Interest expenditure	4,7%	5,8%	3,9%
Interest Spread	5,4%	4,8%	3,0%
Share of general administrative costs to loan portfolio	1,3%	3,4%	4,0%
<b>Net interest spread</b>	<b>4,1%</b>	<b>1,4%</b>	
Debt/(D+E)	66,3%	88,9%	68,5%

Source: according to analysis Deloitte TCF LLP

## PEST-Analysis

To assess factors of macro environment the PEST-analysis, as an instrument designed for disclosure of political, economic, social and

technological aspects of exterior environment, which may affect making the strategic decisions by the Company, has been applied.

### POLITICAL

The orientation of the governmental policy towards the ensuring the national food safety is a priority for determination of further strategic trends of the Company. This factor stipulates the active participation of the Company in the state investment and other programs of the Government of the Republic of Kazakhstan aimed at the development of this sector.

### ECONOMIC

The insolvent demand and seasonal nature of agricultural works are the economic factors of risk of increasing the machinery return and insufficiency of funds with the agricultural producers. In these terms, the Company has to carry out the active recovery work with the non-performing projects. To improve the availability of the services the Company will participate in the elaboration of the schemes of support to the agricultural producers and accelerated application processing.

### SOCIAL

The prospect of increase in volumes of the national agricultural production facilities in the country and displacement of the imported goods are the factors having positive effect on further financing by the Company of the necessary fields in the agricultural sector. In this case the constant increase in population, changes in the population's food structure and the provision level of the average consumption physiological norms will be taken into account as well.

### TECHNOLOGICAL

The technical reequipping of the agricultural sector and increase in the ecological load stipulate the necessity to accumulate the database on the market of innovative equipment and machinery complying with the demand requirements. The developed information space factor makes the Company to develop IT-technologies and improve the process automation on continuing basis.



# SWOT-Analysis

## STRONG ASPECTS

1. Solid experience in leasing in the agricultural sector, including implementation of the large Investment Projects.
2. Wide customer base of agricultural producers in the republic.
3. Established partnership relations with domestic and world producers of agricultural machinery and equipment.
4. Essential assets and equity.
5. Experience in raising of borrowed funds at the international market for extension of financing;
6. Developed regional network: coverage of the utmost regions.
7. Skilled personnel.
8. Good quality of leasing portfolio (NPL ~ 10%).

## WEAK ASPECTS

1. Focus of the credit portfolio in the high risk sector.
2. Availability of collaterals with less liquidity due to the nature of this sector.
3. Insufficient level of the business process automation.

## OPPORTUNITIES

1. Orientation of the governmental policy towards the support of the agricultural sector increases the interest of population in the agribusiness.
2. Promotion of availability of the Company's services for the account of optimization and automation of business processes.
3. Extension of product line of financial services in accordance with the agribusiness needs.
4. Improvement of the human capital assets management system.
5. Improvement of the corporate management applying the world practices.

## THREATS

1. Financial instability at the international market that affects the fall in the paying capacity of potential customers and decrease in demand for machinery due to its rise in price.
2. Additional provisioning within introduction of IFRS 9 in 2018.



# 4.

Performance

Development  
Through Investments:

**INTENSIVE ORCHARDS**



Photo of the Project 'Alexander Garden' LLP  
(South-Kazakhstan oblast)



» **FINANCIAL  
PERFORMANCE OF  
KAZAGROFINANCE:**

Commissioning of  
 **12 Investment  
Projects**  
for **KZT 2.7 bln.**

Total capacity of the Projects  
 **18.4 thous.  
tons**  
of fruits per year

 **100 tons**  
of fruits per day  
each half a year

Total area  
of financed Projects  
 **762.5 ha.**



#### 4. Performance

# 10



## ACHIEVEMENTS OF KAZAGROFINANCE IN 2016



Invested in development of agricultural sector – **KZT66.7 bln.**



Leased **3 119** units of agricultural machinery for **KZT55.8 bln.**



Commissioned **54 Investment Projects** across Kazakhstan



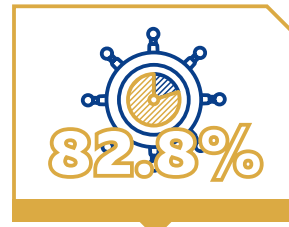
Domestic agricultural machinery in the total leasing volume took **28%**



Minimum set of documents for customers was reduced **to 9 from 12** documents



Application processing time was reduced by **8 business days** on leasing



Corporate management level achieved **82.8%** with planned **73.3%**



Winner under the category “Best Local Currency Bond Issue in Europe, Middle East and Africa” according to the data “EMEA Finance” magazine



Customer satisfaction index with the Company’s services was **88.8%**



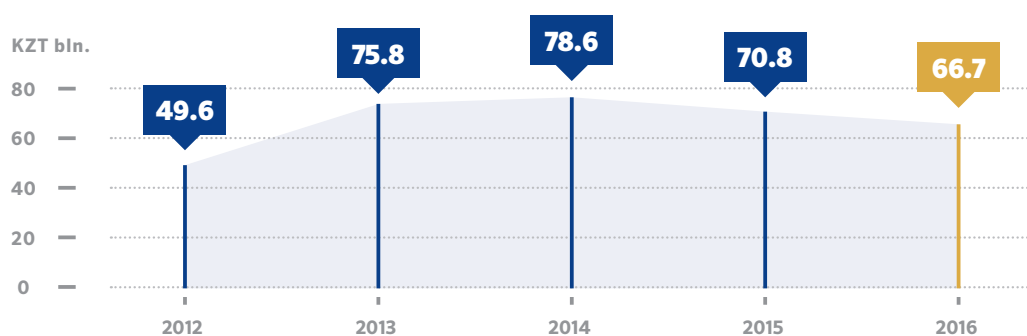
Net income amounted to **KZT3 228.6 mln** with planned KZT226.8 mln

THE PECULIARITY OF ACTIVITY AND KEY DISTINCTION OF KAZAGROFINANCE JSC FROM THE SECOND-TIER BANKS ARE THAT WE FINANCE THE PROJECTS IN THE AGRICULTURAL SECTOR ONLY, DESPITE OF HIGH RISKS AND LOW PROFITABILITY OF THE AGRICULTURE. AT PRESENT EACH SECOND AGRICULTURAL MACHINERY IMPORTED TO KAZAKHSTAN WAS PURCHASED UNDER THE FINANCIAL SUPPORT FROM KAZAGROFINANCE JSC.

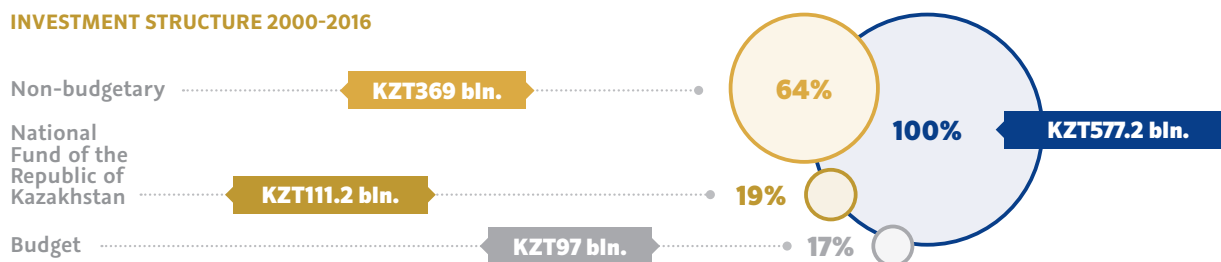
## Operating Results

### Investments

#### INVESTMENT 2000-2016



#### INVESTMENT STRUCTURE 2000-2016



During 2000-2016 KazAgroFinance JSC invested **KZT577.2 bln.** in the agricultural sector development.

It stands to mention that the Company, when investing in the agricultural sector along with its own funds, is actively raising the borrowings for extension of financing.

Having owned capital of KZT99.4 bln. as of 31.12.16, the borrowings amounted to KZT172.0 bln. That means that per each KZT1 invested by the shareholder and aimed at financing of the agricultural sector, the Company raised and invested KZT1.73 in the agricultural sector.

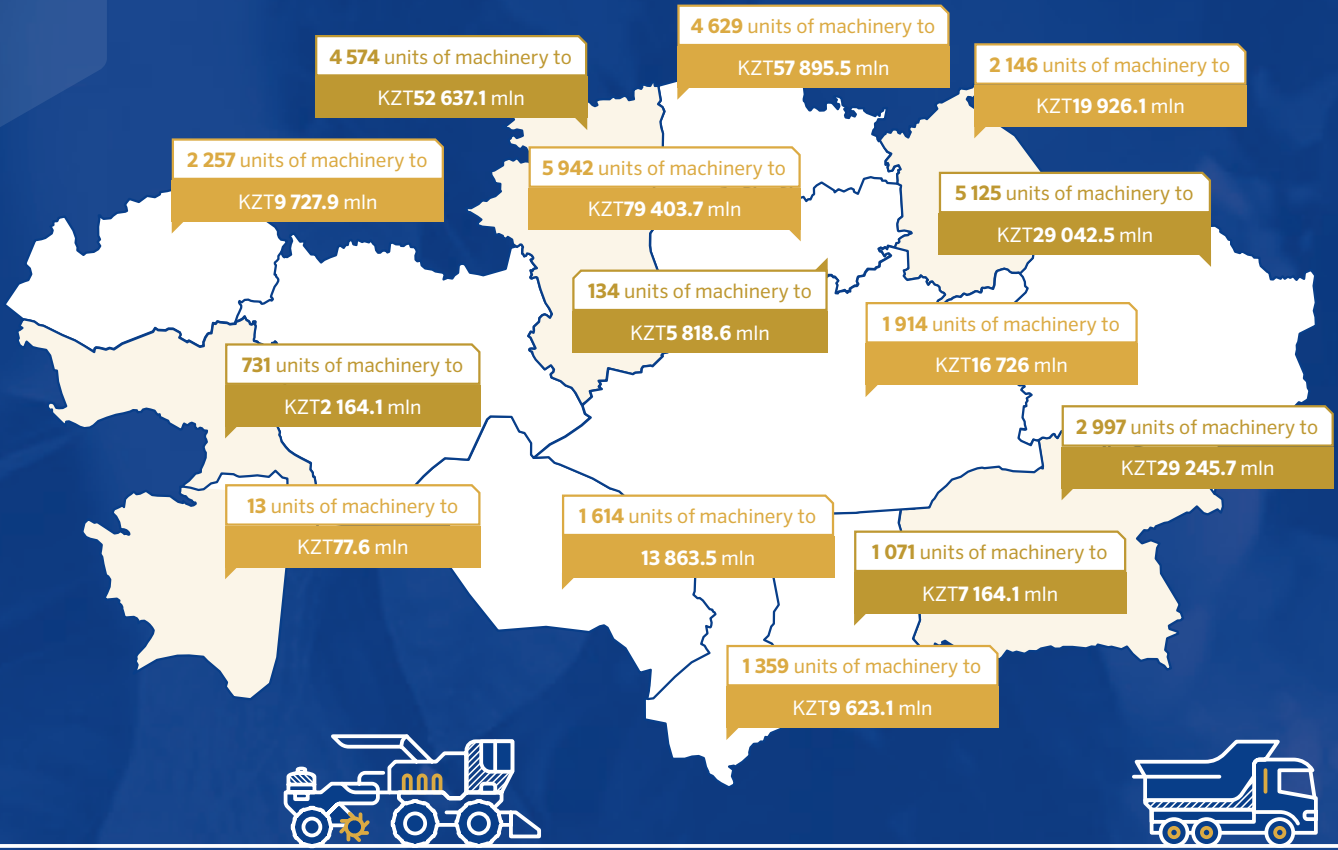
# Agricultural Machinery and Equipment

DESCRIPTION	2014		2015		2016		TOTAL 2000-2016	
	unit	amount	unit	amount	unit	amount	unit	amount
 seeding complexes	130	3 247	52	1 774	56	1 266	1 153	43 284
 tractors	1 477	11 144	1 334	10 732	962	11 963	10 895	66 215
 harvesters	735	21 681	594	19 200	490	24 085	9 521	172 137
 seeders	56	109	103	1 501	104	2 762	1 992	7 035
 other machinery	2 107	10 889	2 020	8 238	1 474	11 724	13 254	58 822
 equipment	89	10 700	92	16 083	33	3 960	428	53 045
<b>TOTAL</b>	<b>4 594</b>	<b>57 770</b>	<b>4 195</b>	<b>57 530</b>	<b>3 119</b>	<b>55 760</b>	<b>37 173</b>	<b>400 538</b>

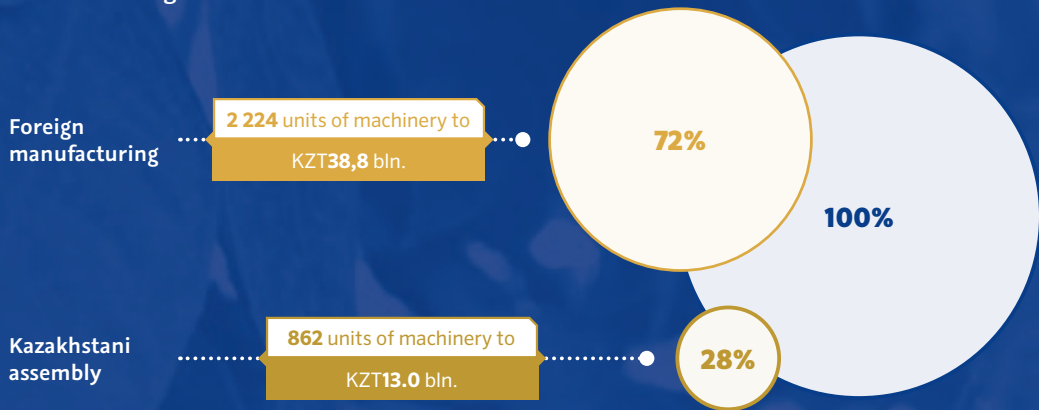




## MAP OF PURCHASING OF AGRICULTURAL MACHINERY BY OBLASTS



2016, the domestic agricultural machinery in the total leasing volume is 28%.



## IMPLEMENTATION OF INVESTMENT PROJECTS

In 2016, 54 Investment Projects, including 15 projects for the account of the National Fund of the Republic of Kazakhstan were commissioned, including:

- 7 granaries to the amount of KZT7 940.8 mln., total capacity of 116.5 thous. ton;
- 7 dairy farms to the amount of KZT5 168.1 mln., total capacity of 19.7 thous. ton. Within these Projects there were imported 4 000 head of cattle;
- 7 vegetable storehouses to the amount of KZT2 962.8 mln., total capacity of 41.5 thous. ton;
- 6 projects for agricultural product processing to the amount of KZT953.4 mln.;
- 6 projects for irrigation system creation for 401 ha to the total amount of KZT490.8 mln.;
- 4 pedigree reproducer farms to the amount of KZT607.2 mln. for 1 160 head of cattle;
- 4 intensive orchards for 151.5 ha to the total amount of KZT827.9 mln. and capacity of 5.1 thous. ton;
- 3 greenhouses for 18.2 ha to the amount of KZT9 001.9 mln. with the total capacity of 9.6 thous. ton;
- 3 projects for feed production to the amount of KZT1 305.9 mln., total capacity of 92.1 thous. ton;
- 3 feed yards to the amount of KZT1 993.3 mln., total capacity of KZT2.2 thous. ton. Within these Projects there were imported 5 200 head;
- 2 fish farming complexes to the amount of KZT2 465.3 mln., total capacity of 49 ton;
- 1 meat processing plant to the amount of KZT637.6 mln., total capacity of 0.8 thous. ton;
- 1 poultry farm to the amount of KZT1 719.2 mln., total capacity of 3.5 thous. ton.

During the implementation of the Program, under the financial support from the Company

to the total amount

435

INVESTMENT PROJECTS

were commissioned across Kazakhstan

236.7

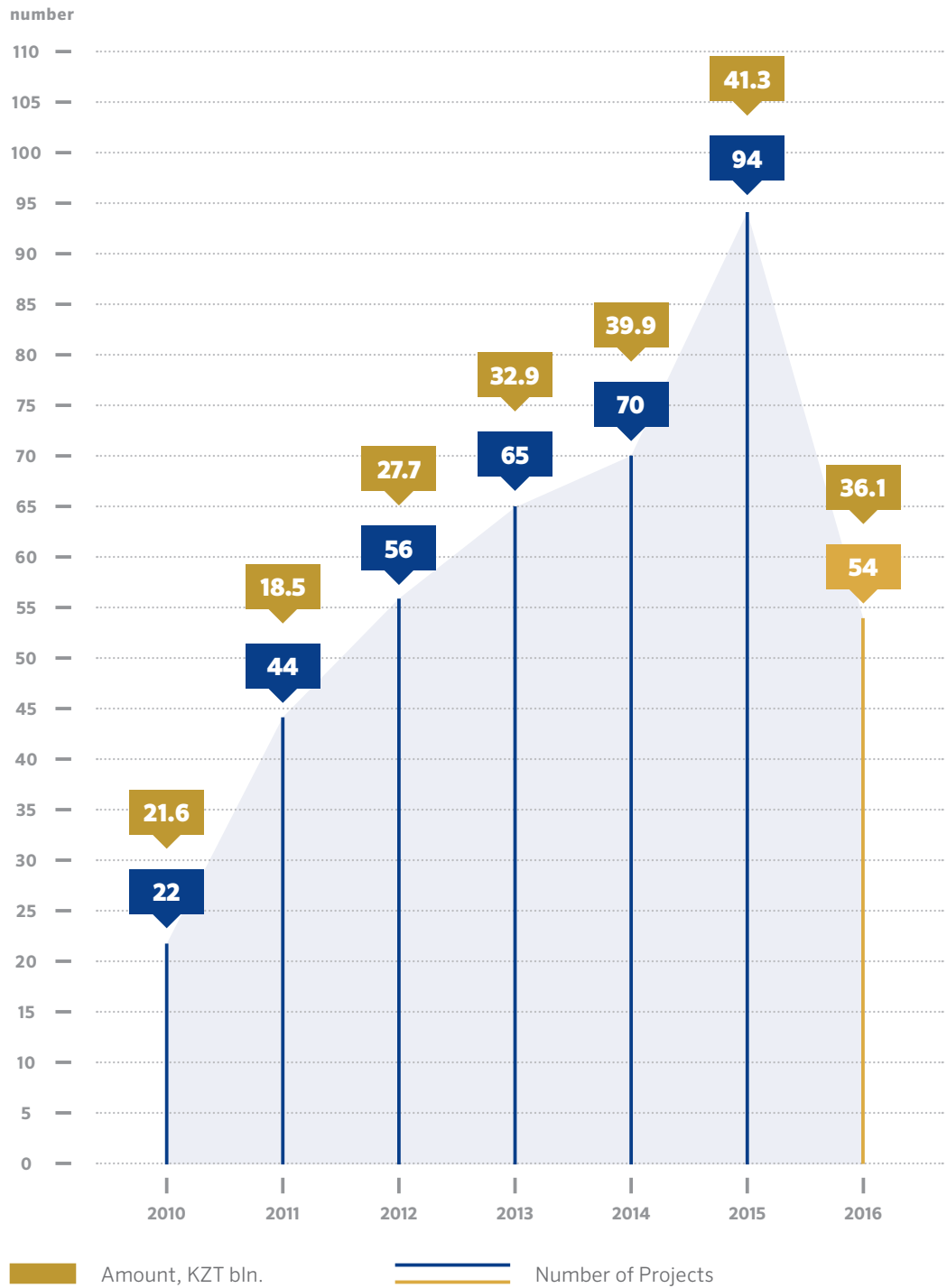
KZT BLN.

at that the volume of the Company's funds was

172.9

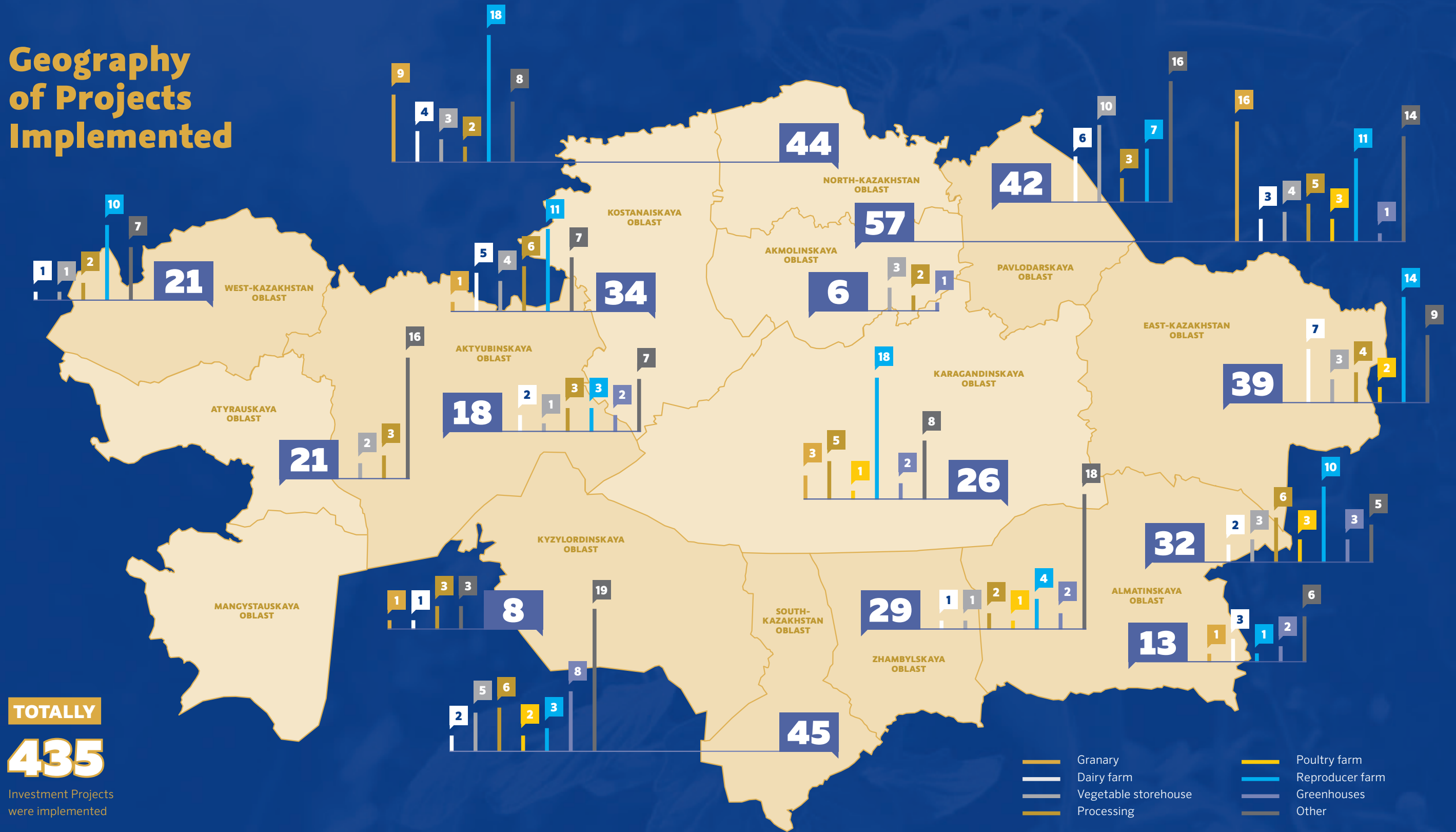
KZT BLN.

**INVESTMENT PROJECTS BY YEARS, KZT BLN.**

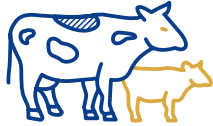




# Geography of Projects Implemented

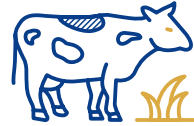


## IMPLEMENTATION RESULTS OF INVESTMENT PROJECTS 2009-2016



### REPRODUCER FARMS

- Creation of **99 pedigree reproducer farms for KZT32.1**
- Import of **48 403 head** of pedigree cattle
- The most adaptable breeds of cattle such as Angus and Hereford are mainly imported
- **10.1%** – share of KAF’s projects of the total pedigree stock of the country



### FEED YARDS

- Creation of **9 feed yards for KZT9.8 bln.**
- **22 064** cattle stalls
- Total capacity of the Projects – **7 926.2 ton of meat per year**



### MEAT PROCESSING

- Creation of **6 meat processing complexes for KZT6.0 bln.**
- Capacity of the Projects – **15 587 ton of meat and meat products per year**
- **3.7%** – share of KAF’s projects of the total beef consumption



### DAIRY FARMS

- Commissioning of **37 dairy farms for KZT41 bln.**
- Total capacity of **146.2 thous. ton** of milk and milk products
- **26.7 thous. head** of pedigree cattle – **20%** of the country’s pedigree stock
- **400** packages of milk daily



### POULTRY FARMS

- Commissioning of **18 Investment Projects for KZT35 mln.**
- Total capacity of **96.3 thous. ton** of poultry meat and **649.8 mln.** eggs per year
- **32.2%** – share of KAF’s projects of the total poultry meat consumption
- **14%** share of KAF’s projects of the total egg consumption



### FEED PRODUCTION

- Commissioning of **35 Investment Projects for KZT7.1 mln.**
- Total capacity of **318.1 thous. ton of feed per year**
- Meeting the demand for combined feed owing to the financed Projects is **12.7%**

## Development Through Investments



### GREENHOUSES

- Construction of **21 greenhouses** for **KZT32 bln.**
- Total capacity of **42.8 thous. ton** of vegetables per year
- Total area of all implemented greenhouses – **86 ha**
- Cultivation of **200 ton** of vegetables each day during the midseason
- **12%** share of KAF's projects of the total tomato and cucumber consumption



### IRRIGATION SYSTEMS

- Commissioning of **63 Investment Projects** for **KZT5.4 bln.**
- Total area of financing Projects – **8 638.2 ha**
- Total capacity of the Projects – **187.3 thous. ton** of agricultural products
- Cultivation of **514 ton** of agricultural products each day year around



### INTENSIVE ORCHARDS

- Commissioning of **12 Investment Projects** for **KZT2.7 bln.**
- Total capacity of the Projects – **18.4 thous. ton** of fruits per year
- Total area of financed Projects – **762.5 ha**
- **100 ton** of fruits per day each half a year



### VEGETABLE STOREHOUSES

- Commissioning of **43 Investment Projects** for **KZT16.5 mln.**
- Total capacity of **171.8 thous. ton** pf vegetables per year
- Creation of additional **998 work places** in the country
- **6.4 %** – share of financed Projects in the total potato consumption



### GRANARIES

- Commissioning of **28 Investment Projects** for **KZT22.0 bln.**
- Total capacity of **580.5 thous. ton** of grain per year
- Meeting of almost **20%** of need for granaries in the country



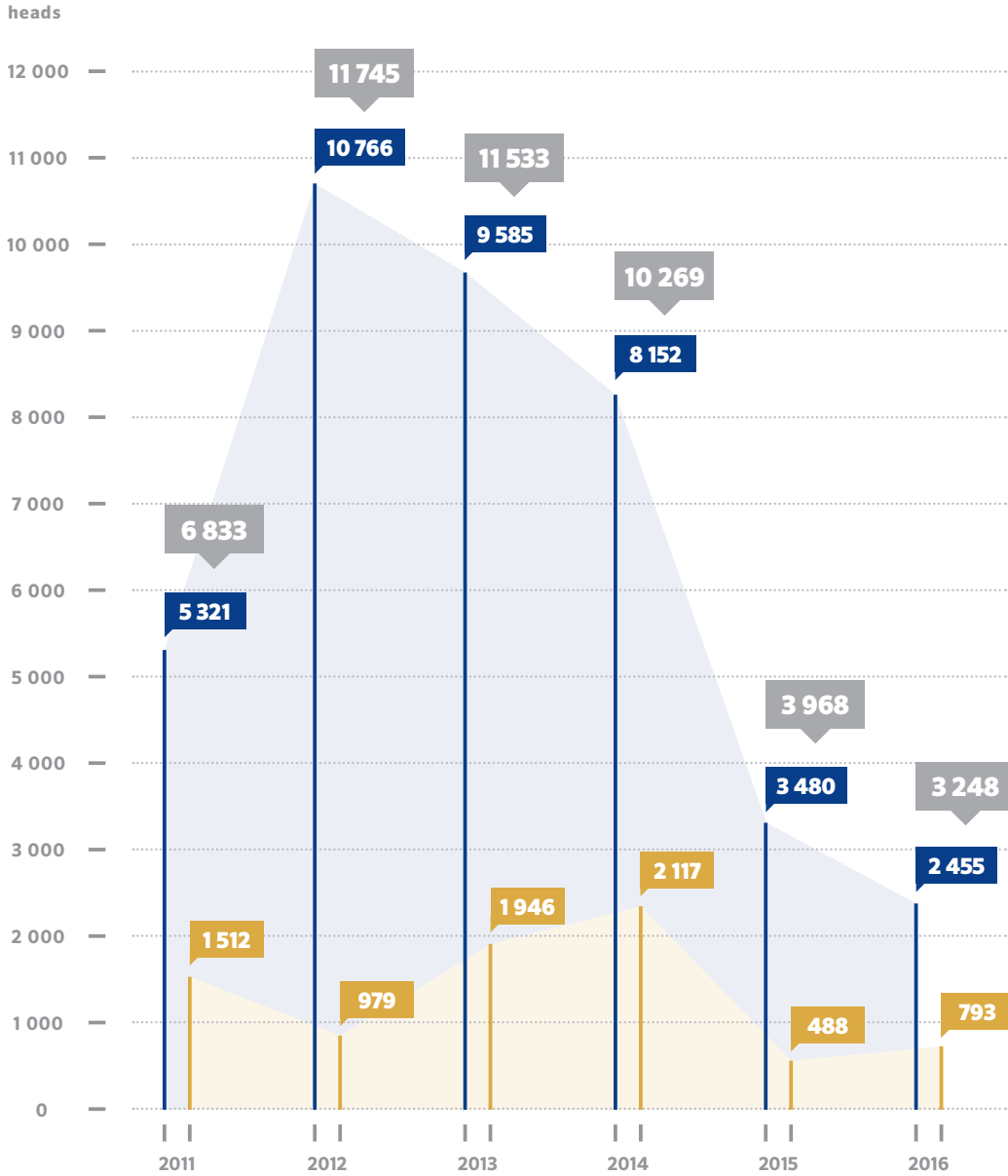
### FISH FARMING

- Commissioning of **6 Investment Projects** for **KZT4.7 bln.**
- Total capacity of **406.5 ton** of fish products per year
- Growing of over **1 ton** of fish per day



## Import of Pedigree Cattle

### QUANTITY OF IMPORTED CATTLE



— beef  
— dairy

*For 2011-2016 there were imported **47 596** head of cattle, including dairy cattle - **7 837**, pedigree beef cattle - **39 759** head.*

## Other Support to Agrarians

Within the implementation of the Interest Rate Subsidizing Program upon leasing of agricultural machinery, at year-end 2016 there were approved 1761 purchase agreements for 2 991 units of machinery to the amount of the principal balance of KZT27.2 bln. This measure allowed complying with one of the key performance indicators of the Development Strategy for 100.6%, while it is necessary to achieve 30.8% to the share of financing of the agricultural machinery purchase to the total purchase of agricultural machinery being subsidized (detailed information at p.60).

## International Cooperation

In 2016, the Company leased over 3 units of agricultural machinery and equipment purchased from the manufacturers/suppliers from 23 various countries worldwide. The main partner-countries under the results of the accounting year were Russian Federation, Republic of Belarus, Germany, and the Netherlands.

Totally, 738 units of machinery and equipment and 600 head of cattle were purchased from the Russian manufacturers/suppliers; 444 units of machinery and equipment were purchased from the Belorussian manufacturers/suppliers, 247 units of machinery and equipment and 600 head of cattle were purchased from the German suppliers, and 15 units of machinery and equipment were purchased from the Dutch suppliers for 2016.

Photo of the Project "Arkharly Maiburek" LLP (Almatinskaya oblast)



# Strategy Implementation

## Report on Achievement of Strategic KPI at Year-End 2016

Report on performance of the KazAgroFinance JSC's Development Strategy for 2016 was adopted at the meeting of the Company's Board of Directors No.6 dated May 11, 2016. Apart from

eighteen key performance indicators in 2016, 14 indicators were hit by 100 and more per cent, while 4 indicators were not achieved due to a number of good reasons.

### PERFORMANCE INDICATORS

KPI	2016 (plan)	2016 (actual)	% of plan implementation
Share of financing of the agricultural machinery purchase to the total purchase of agricultural machinery being subsidized, %	30.8	31.0	100.6
Performance of plan for implementation of investment trends ensuring import substitution and food safety of the country, %	100.0	111.6%	111.6
Performance of plan for implementation of investment trends ensuring development of the agricultural sector export potential, %	100.0	85.8%	85.8
Labour efficiency at the enterprises within the projects financed by the Company, thous. ton	3 300.0	3 184.0	96.5
Share of innovative production facilities in the total implemented Projects, %	38.0	84.6	222.7
Commissioning of grain storage capacities created for the account of the Companies resources, thous. ton/year	286.0	109.50	38.3
Volume of meat and meat products produced under the Projects financed by the Company's resources, ton	59 486.0	59 223.1	100.0
Volume of produced milk and milk products under the projects financed by the Company's resources, ton	76 558.0	139 204.5	181.8
Total value of the exported goods produced for the account of the Company's resources, KZT mln.	7 300.0	35 845.38	491.0

With regard to the indicator "Labour efficiency at the enterprises within the Projects financed by the Company", the deviation is related to the fact that some projects did not gain the expected profit due to the existing economic situation. The labour efficiency is calculated as a ratio of the gross profit to

a number of employees at the enterprise engaged in the core activity.

The indicators "Commissioning of grain storage capacities" and "Performance of plan for implementation of Investment Projects ensuring development of the agricultural sector export potential" were not achieved



#### 4. Performance

due to lack of allocation of favourable funds for financing of Investment Projects in 2016. Meanwhile, the Company had on approval

the required number of applications from the potential implementators of the Projects.

#### FINANCIAL PERFORMANCE

KPI	2016 (plan)	2016 (actual)	% of plan implementation
Performance of plan for raising by the Company of the funds with the financial institutions, % <b>(NEW)</b>	100	295,0	295,0
ROA, %	0.08	1.13	1 412.5
ROE, %	0.23	3.31	1 439.1
Maintenance of optimal level of reserves (provisions) made on the loan portfolio, %	12.0	10.89	110.2
NPL level (by the method of KPI calculation), % <b>(NEW)</b>	17.3	13.38	129.3

The great overachievement of target under ROA and ROE is stipulated by the increase in net income as a result of levelling the expected negative foreign exchange loss for the account of the effective reduction of the foreign exchange

liabilities (improvement of foreign exchange position), as well as savings on the interest expenditures in view of raising the borrowings at the rates actually below those planned by the Company in the budget.

#### CORPORATE DEVELOPMENT PERFORMANCE

KPI	2016 (plan)	2016 (actual)	% of plan implementation
Number of the Company's service users, entities (on a cumulative total)	10 183.0	11 478.0	112.7
Availability index of the Company's financial services and satisfaction of the Company's customers, % <b>(NEW)</b>	60.0	70.6	117.7
Automation level, % <b>(NEW)</b>	60.0	41.0	68.3
Corporate management improvement, % <b>(NEW)</b>	73.3%	82.9	113.0
Human asset index, % <b>(NEW)</b>	70.0%	76.6%	109.4
Annual increase in number of references on the Company's activity in the media	20.0	22.2	111.0

**(NEW)** – this symbol means the new KPIs of the Company's Development Strategy

Under the key performance indicator 'Automation Level' there is a deviation of the actual index from the planned one due to

incomplete introduction of the automated software modules according to the Company's Information Technology Development Strategy.

# Financial and Economic Performance

Total income for the accounting period amounted to KZT27 147.6 mln., with planned KZT24 860.6 mln. (performed at 109%), deviation of KZT2 286.9 mln., mainly, arose as a result of the following factors:

- revenues from sales amounted to KZT712.6 mln., since the exempt agricultural machinery, cattle and etc. were sold due to the termination of the financial leasing contracts in the accounting period;
- interest income amounted to KZT25 312.6 mln., with planned KZT24 852.8 mln. (performed at 102%) in the accounted period;
- other income was more than the planned one by KZT1 122.4 mln. owing to the foreign exchange difference, revaluation of subjects of leasing returned by the lessees, recognition of gains on reimbursement of profit loss, writing-off the indebtedness and fines from the suppliers.

Total expenses amounted to KZT24 423.7 mln., with planned KZT24 633.8 mln., performed at 99%, deviation was KZT210.1 mln.

**Net income amounted to KZT3 228.6 mln. with the planned net income of KZT226.8 mln.**

## Financial Performance Analysis

In 2016 the Company's comprehensive income was KZT27 147.6 mln., having increased as compared to 2014 and 2015 by 38.7% and 12.5% respectively. In 2016, the essential share in the revenue structure took the interest income being 93.2%.

The Company's expenditures in 2016 amounted to KZT24 423.7 mln., having increased as compared to 2014 by 42.6% and having reduced as compared to 2015 by 18.2%. In 2016, the most specific weight took the expenditures related to the interest payments being 50.6% and the expenditures on reserves (provisions) being 25.1% in the expenditure structure.

At year-end 2016 KazAgroFinance JSC gained the net income of KZT3 228.6 mln.

**KAZAGROFINANCE JSC INCOME AND EXPENDITURE BEHAVIOUR, KZT MLN.**

Indices	2015	2016	2016 in % to 2015
Income	24 132.5	27 147.6	112.5%
Expenditures	29 854.9	24 423.7	81.8%
Corporate income tax	-145.7	-504.8	346.5%
Net income	-5 576.7	3 228.6	-57.9%

**Financial Ratios**

As of January 1, 2017, the interest margin has increased to 5.23% from 5.18%. The interest spread in the accounting period, on the contrary showed the decrease to 3.07% from 3.19% to 3.07%. The return on assets and equity improved, having increased up to -0.21% and 3.31%, respectively, as a result of gaining by the Company of the net profit in the accounting period. The capital adequacy for the year changed slightly to 0.35% from 0.33% owing to excess of increase in capital over the increase in the total assets. Over the accounting period there is observed the increase in the current liquidity ratio due to reduction in liabilities, since the ratio is above the regulatory level. The absolute liquidity ratio is above the regulatory level, the quick liquidity ratio meets the regulatory level due to the reduction of liabilities.

The Company's current financial standing evidences its solvency and capability to perform its obligations towards the bond holders, at that there are the risks of deterioration in the financial standing due to the KZT weakening to USD.

**Income Statement**

For 2016, the Company gained a net income of KZT3 228.6 mln. against the loss of KZT5 576.7 mln. in 2015. The main factor of gaining profit was reduction of expenditures by KZT5 431.2 mln. or 18.2%, mainly due to the foreign exchange difference. If as a result of the local currency devaluation took place in 2015, the expenditures amounted to KZT10 489.4 mln., then in 2016 the profit of KZT290.8 mln. was gained on the foreign exchange difference.

***Audited Financial Statements prepared by Ernst&Young is placed in Section 8 of this Report, where you can find the details of the Company's financial performance at year-end 2016.***





# 5.

## Development Prospects

Development Through Investments:

**GRANARIES**

Photo of the Project 'Cereal Receiving Point 'Tonkeris' LLP (Akmolinskaya oblast)



## FINANCIAL PERFORMANCE OF KAZAGROFINANCE:



Commissioning of  
**28 Investment Projects**  
for  
**KZT 22 bln.**



Total capacity of  
**580.5 thous. tons**  
of grain per year



Meeting of almost  
**20%**  
of need for granaries in the country



## Development Prospects

To date, KazAgroFinance JSC is a leading financial institution providing the support to the farmers, therewith contributing to the development of the republic's agricultural sector.

The adopted in February State Program of Agricultural Sector Development up to 2021 is aimed, among other things, at improvement of the technical equipping of the agricultural sector. The primary goal of establishing KazAgroFinance was to provide the farmers with the new up-to-date agricultural machinery, and currently, it is necessary to foster all efforts on proceeding with the development of this type of activity.

The completion of the field program "Agribusiness - 2020" provides for reduction of financing of the investment trends for KazAgroFinance. During implementation of this Program KazAgroFinance made a great contribution to establishment of many

agricultural entities across Kazakhstan, and today, the country's population likes to consume the goods produced by our Projects. This shows the KazAgroFinance's success in achievement the tasks assigned to us.

Due to the current needs of agricultural sector, as well as adopting a new State Program of Agricultural Sector Development, the Company is planning to focus its activity on leasing of agricultural machinery. Thus, **in 2017 KazAgroFinance expects to allocate KZT35.3 bln. for renewal of the machine and tractor fleet of the country**, including for the spring filed campaign - KZT11.6 bln., purchase of mid-season machinery - KZT1.7 bln., harvesting machinery - KZT22 bln.

The established long experience in the agricultural sector, well-organized processes, skilled staff and the worldwide counterparty base allow the Company to introduce the competitive leasing products in the market

Photo of KazAgroFinance Central Office



## 5. Development Prospects

without favourable funding from the state. Thus, the year of 2016 showed that KazAgroFinance might successfully raise the funds applying such market instruments as direct loans, export financing, and issue of debt securities. For instance, in 2016 the Company had for the first time issued the bonds in the local currency – KZT. **In 2017, the Company expects to raise about KZT30.0 bln.**

It should not be left behind that the one-hundred-percent state participation in the equity allows KazAgroFinance JSC to maintain the high credit rating, however, even if the Company is transferred in the private sector, the proper asset management and making of the reliable strategic plans will allow the Company to sustain its competitive advantages.

We move more and more away from the concept “institution of development” and try to become competitive and attractive players at the leasing market. **The Company is planning to intensify the efforts on creation of the customer-oriented products, for that reason the new products and special financing programs will be launched in 2017 yet.** Moreover, the

optimization of business processes aimed at reducing the application processing time, simplifying the application procedures, increasing the transparency of application processing for the customers will be improved. In other words, we would like that each farmer may obtain a machinery on leasing for a few days and at that have access to the proper maintenance. Thus, in 2017 the service availability index is expected to be increased by 5%.

Some fundamentals for achievement of the stated goals have been already laid, for instance, in 2017 the Company will automate many processes as to the project administration, monitoring of customers and subjects of leasing, accrual of provisions and etc.

**KazAgroFinance will state all objectives and tasks above in its new Development Strategy for 2017-2026, which is now elaborated.** In the new Strategy the Company expects to focus on the promotion of the investment attractiveness, continuous quality improvement of leasing services and creation of new leasing products, meeting the consumer demand at most, as well as further corporate management development.

Photo of the Project “Social and Entrepreneurial Company Yertis Agro” (Pavlodarskaya oblast)







# 6.

## Corporate Management

Development  
Through Investments:

**IRRIGATION SYSTEMS**



Photo of the Project 'Kazakh Food Academy Plant 'Amiran' LLP (Almatinskaya oblast)



## FINANCIAL PERFORMANCE OF KAZAGROFINANCE:



Commissioning of  
**63** Investment Projects  
for **5.4** bln. KZT



Total capacity of the Projects  
**187.3** thous. tons  
of agricultural products



Cultivation of  
**514** tons  
of agricultural products  
each day year around



Total area of financing Projects  
**8 638.2** ha.



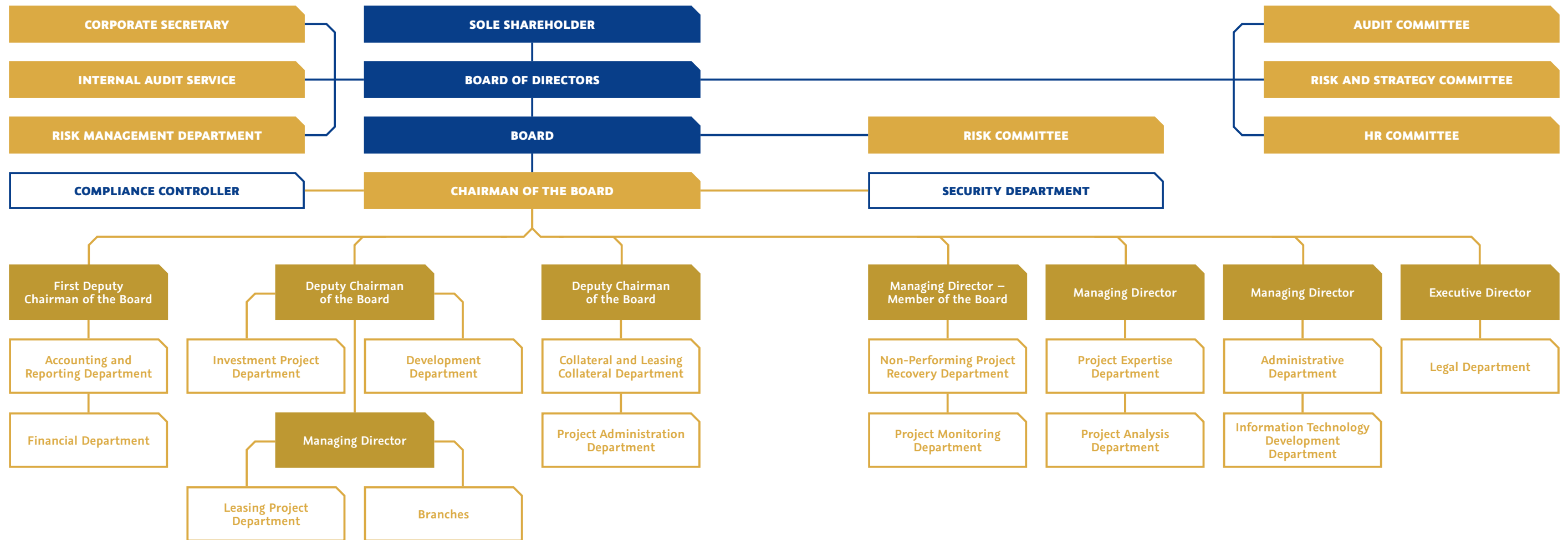
OUR COMPANY PAYS SPECIAL ATTENTION TO THE CONTINUOUS QUALITY IMPROVEMENT AND PROMOTION OF THE CORPORATE MANAGEMENT, BELIEVING IT IS ONE OF THE MOST NON-FINANCIAL FACTOR OF EFFECTIVENESS AND COMPETITIVENESS GROWTH.

The fundamental of the corporate management system of KazAgroFinance JSC is an aggregate of processes ensuring management and control over the Company's activity, including the relationships between its bodies.

Adhering to the common corporate management

principles, the institute of independent directors and Internal Audit Service work heavily, the committees with the Company's Board of Directors have been established, the Corporate Secretary perform its duties in KazAgroFinance.

## ORGANIZATIONAL STRUCTURE



In December, 2015, the Company approved the adjusted Corporate Management Code.



# Improvement of Corporate Management System

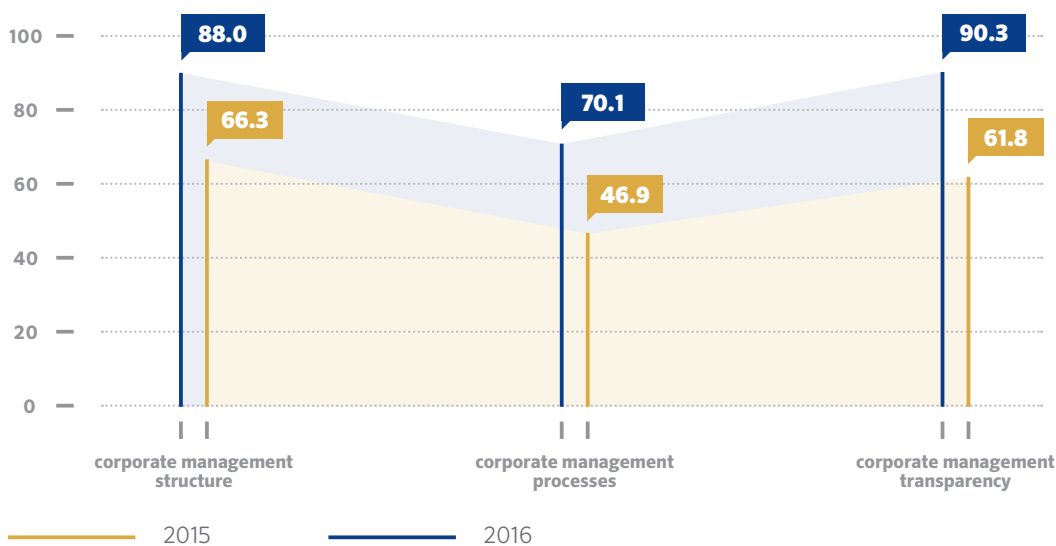
In 2015 the Company’s Sole Shareholder – Holding “KazAgro” approved the evaluation procedure for the subsidiaries’ corporate management. Taking into consideration that the best corporate management practice in the group of companies is implemented step-by-step, the current procedure is aimed, first-of-all, at building the corporate management system, and is more simplified as compared to the world standards. In 2017, the Holding expects to approve a new procedure for evaluation of the corporate management efficiency in the subsidiaries.

Under the results of diagnostics carried out in 2015, the corporate management level of KazAgroFinance JSC was estimated as “LOW” and was 58.3%.

For the purpose of improvement of the corporate management the Company elaborated the Action Plan for Corporate Management Improvement for 2016-2020, as well as a new key performance index “Corporate Management Improvement, %” is included in the adjusted Development Strategy.

Under the results of diagnostics of 2016 carried out by the Holding in accordance with the current procedure, the corporate management achieved an index “MIDDLE” – 82.8%. The strategic plan for this key index was performed for 113.0% in the accounting year.

**CORPORATE MANAGEMENT LEVEL, %**





58.3% → 82.8% \*

“LOW”

2015

“MIDDLE”

2016

\* assessed in accordance with the simplified procedure EA

## Corporate Management Principles

<p><b>PRINCIPLE OF THE SOLE SHAREHOLDER'S RIGHTS AND INTEREST PROTECTION</b></p>	<p>→ complied</p>	<p>The Company's corporate management ensures the protection and respect of rights and legal interests of the Sole Shareholder and promotes the Company's efficient activity.</p>
<p><b>PRINCIPLE OF THE COMPANY AND BOARD EFFECTIVE MANAGEMENT</b></p>	<p>→ complied</p>	<p>The Board of Directors' activity is based on the principles of respect of interests of the Sole Shareholder and the Company, reasonability, efficiency, activeness, good faith, fairness, accuracy and responsibility. The Board manages the Company's current activities for achieving the tasks and implementation of the Development Strategy.</p>
<p><b>PRINCIPLE OF THE COMPANY'S INDEPENDENT ACTIVITY</b></p>	<p>→ complied</p>	<p>Board is a collegial body managing the Company's current activities and entitled to make decisions on the issues not falling within the exclusive competence of the Sole Shareholder and the Board of Directors. The Board effectively and actually controls over the activity and is not subject to the interference of the Sole Shareholder and the state in the operating activity.</p>
<p><b>PRINCIPLE OF TRANSPARENCY AND OBJECTIVITY OF INFORMATION DISCLOSURE ON THE COMPANY'S ACTIVITY</b></p>	<p>→ complied</p>	<p>The Company ensures the timely disclosure to the Sole Shareholder and the interested parties the true information on the Company, including its financial standing, economical indices, its performance, ownership and management structure.</p>
<p><b>PRINCIPLE OF LEGITIMACY AND ETHICS</b></p>	<p>→ partially complied</p>	<p>The Company strictly adheres to the law of the republic of Kazakhstan, general business ethics principles, Charter, Corporate Management Code and its contractual obligations. In the meantime, in 2016 the infringement of this principle was determined.</p>
<p><b>PRINCIPLE OF RESPONSIBILITY TOWARDS THE INTERESTED PARTIES</b></p>	<p>→ complied</p>	<p>The Company recognizes and respects the rights of all interested parties and aspires to cooperation with such persons for its development and ensuring the financial sustainability.</p>

# Sole Shareholder



The Sole Shareholder of KazAgroFinance JSC is National Managing Holding “KazAgro” JSC created in accordance with the Decree of the President of the Republic of Kazakhstan No. 220 “On Some Issues of Agricultural Sector Development” dated December 11,

2006 and the Regulation of the Government of the Republic of Kazakhstan No.1247 “On Actions of Implementation of the Decree of the President of the Republic of Kazakhstan No.220 dated December 11, 2006” dated December 23, 2006.



Holding “KazAgro” JSC



Implementation of the State Policy for Promotion of the Agricultural Sector Industrial Development On Principles of Efficiency, Transparency and Efficient Corporate Management of the Holding’s Structures



- 1 Promotion of increase in labour efficiency in the agricultural sector through industrialization and diversification.
- 2 Participation in ensuring the country’s food safety.
- 3 Facilitation of development and implementation of the agricultural sector export potential.
- 4 Improvement of availability of services on support of the agricultural sector entity.
- 5 Improvement of corporate management quality and activity transparency of the Holding.

## 6. Corporate Management

Cooperation with Sole Shareholder is carried out based on the certain corporate procedures, which are regulated by the following documents:

<p><b>Charter</b></p>	<p><i>Approved by the decision of the Sole Shareholder – decision of the Board of National Managing Holding “KazAgro” JSC No.24 dated May 18, 2016</i></p>	<p>The Company’s Charter sets forth the duties, competence authority of the Company’s Sole Shareholder, procedure of placement of issues for its consideration, as well as procedure of providing information of its activity affecting its interest, as well as financial and administrative activities and performance of the Company</p>
<p><b>Corporate Management Code</b></p>	<p><i>Approved by the decision of the Sole Shareholder – decision of the Board of National Managing Holding “KazAgro” JSC No.49 dated July 29, 2015</i></p>	<p>Corporate Management Code provides for the procedure of the Company’s cooperation with the Sole Shareholder, procedure for the interrelated process management, as well as the Company’s dividend policy principles. The basic principle of the Company’s corporate management sets forth the principle of protection of the Sole Shareholder’s rights and interest</p>
<p><b>Regulations for Submitting the Periodic Reports</b></p>	<p><i>Approved by the decision of the Board of Directors No.29 dated December 25, 2013</i></p>	<p>Within implementation of these Regulations, the management reporting map was approved, in accordance with which the Sole Shareholder is informed by 61 reports on the Company’s activity periodically for making the efficient decisions by the Sole Shareholder and building the certain information flow between the Company and the Sole Shareholder. Under the results of the accounting period there were no complaints from the Sole Shareholder on non-submitting or violation of the terms of submitting the reports</p>
<p><b>Regulations for formation, agreement, approval, adjustments and monitoring of Development Plan and Budget</b></p>	<p><i>Approved by the Decision of the Board of Directors of the Company No. 4 dated April 26, 2016</i></p>	<p>These Regulations provide for the procedure of submitting the integrated reporting on complying with KPI of the Company’s Strategy, Development Plan and Budget quarterly and annually. In 2016 4 integrated reports were improved under the results of 2015 and reports for QI, II, III 2016</p>

## Board of Directors

As of January 1, 2017 the Company's Board of Directors consists of 6 persons. On May 18, 2016 the Sole Shareholder elected the third Independent Director - Azat Yerkinovich Mashabayev to the Company's Board of Directors. Increase in the share of Independent

### Board of Directors (as of 1.01.2017)



**Aigul  
Stakhanovna  
Mukhamadiyeva**

CHAIRMAN OF THE  
BOARD OF DIRECTORS

*Appointed to the Board of Directors by the Decision of the Sole Shareholder "National Managing Holding "KazAgro" JSC No.37 dated 17.06.2015*



**Kanysh  
Temirtayevich  
Izbastin**

MEMBER OF THE BOARD  
OF DIRECTORS

*Appointed to the Board of Directors by the Decision of the Sole Shareholder "National Managing Holding "KazAgro" JSC No.59 dated 10.09.2015*



**Kanat  
Sagyndykovich  
Zhaulymbayev**

MEMBER OF THE BOARD  
OF DIRECTORS

*Appointed to the Board of Directors by the Decision of the Sole Shareholder "National Managing Holding "KazAgro" JSC No.37 dated 17.06.2015*



## 6. Corporate Management

Directors up to 50% ensured the balance of the Board of Directors for meeting the Sole Shareholder's interest, as well as allowed making the committees of the Board of Directors in compliance with the international practice requirements.



**Rustem  
Zhomartovich  
Kurmanov**

INDEPENDENT DIRECTOR  
– MEMBER OF THE  
BOARD OF DIRECTORS

*Appointed to the Board of Directors by the Decision of the Sole Shareholder "National Managing Holding "KazAgro" JSC No.37 dated 17.06.2015*



**Yerlan  
Bakhitovich  
Orynbayev**

INDEPENDENT DIRECTOR  
– MEMBER OF THE  
BOARD OF DIRECTORS

*Appointed to the Board of Directors by the Decision of the Sole Shareholder "National Managing Holding "KazAgro" JSC No.37 dated 17.06.2015*



**Azat  
Yerkinovich  
Mashabayev**

INDEPENDENT DIRECTOR  
– MEMBER OF THE  
BOARD OF DIRECTORS

*Appointed to the Board of Directors by the Decision of the Sole Shareholder "National Managing Holding "KazAgro" JSC No.24 dated 18.05.2016*



**Aigul  
Stakhanovna  
Mukhamadiyeva**

**CHAIRMAN OF THE BOARD OF DIRECTORS OF “FUND FOR FINANCIAL SUPPORT OF AGRICULTURE” JSC, CHAIRMAN OF THE BOARD OF DIRECTORS OF “AGRARIAN CREDIT CORPORATION” JSC**

- *Date of birth: August 05, 1976.*
- *Holding of KazAgroFinance JSC’s shares – No.*
- *Joint appointment and membership in the Boards of Directors of other organizations at present – No.*
- *Holding of the Company’s suppliers and counterparties’ shares – No.*

**Education:**

- East-Kazakhstan State University, Faculty “Mathematics”, Qualification – Mathematician;
- High School of East-Kazakhstan State University (Master’s Program), Faculty “Mathematics”, Qualification – Master of Mathematics;
- Kazakh Transport and Communications Academy named after Tynyshpayev, faculty “Economics and Finance”, Qualification – Accountant – Economist.

**Work experience for the last three years:**

- November, 2014 – June, 2015 – Deputy Director General of Business Development, “Samruk-Kazyna” JSC, Astana;
- June, 2015 – present time – Deputy Chairman of the Board of “National Managing Holding “KazAgro” JSC, Astana.



**Kanysh  
Temirtayevich  
Izbastin**

**CHAIRMAN OF THE BOARD OF  
KAZAGROFINANCE JSC – MEMBER OF  
THE BOARD OF DIRECTORS**

- *Date of birth: April 20, 1981.*
- *Holding of KazAgroFinance JSC's shares - No.*
- *Joint appointment and membership in the Boards of Directors of other organizations at present - No.*
- *Holding of the Company's suppliers and counterparties' shares - No.*

**Education:**

- Moscow International Relations State University of Russian Ministry of Foreign Affairs;
- Central Asian University.

**Work experience for the last three years:**

- January, 2013 - September, 2015 - Managing Director "Fund of National Welfare "Samruk Kazyna" JSC;
- September, 2015 - present time - Chairman of the Board of KazAgro-Finance JSC.



**Kanat  
Sagyndykovich  
Zhaulymbayev**

MANAGING DIRECTOR OF NATIONAL  
MANAGING HOLDING “KAZAGRO” JSC –  
MEMBER OF THE BOARD OF DIRECTORS,  
REPRESENTATIVE OF SOLE SHAREHOLDER  
OF KAZAGROFINANCE JSC

- *Date of birth: September 24, 1981.*
- *Holding of KazAgroFinance JSC’s shares – No.*
- *Joint appointment and membership in the Boards of Directors of other organizations at present – No.*
- *Holding of the Company’s suppliers and counterparties’ shares – No.*

**Education:**

- Karaganda State University named after Y.A. Buketov;
- Master’s Program, Karaganda State University named after Y.A. Buketov;
- Institute of Actual Education (Bolashak).

**Work experience for the last three years:**

- November, 2012 – present time – Managing Director of “National Managing Holding “KazAgro” JSC.





**Rustem  
Zhomartovich  
Kurmanov**

**INDEPENDENT DIRECTOR – MEMBER OF THE BOARD OF DIRECTORS, CHAIRMAN OF THE SOCIAL ISSUES, HR AND REMUNERATION COMMITTEE OF THE BOARD OF DIRECTORS**

- *Date of birth: July 17, 1981.*
- *Holding of KazAgroFinance JSC's shares - No.*
- *Joint appointment and membership in the Boards of Directors of other organizations at present - No.*
- *Holding of the Company's suppliers and counterparties' shares - No.*

**Education:**

- Kokshetau State University named after S. Ualikhanov;
- Extra-mural Postgraduate Training Program, Kokshetau State University named after S. Ualikhanov.

**Work experience for the last three years:**

- 2009-2014 - Head of Administration of Department for Development of Processing Industry and Agrofood Markets, Acting Director of Development of Processing Industry and Agrofood Markets, Investment Policy Department, Chairman of the Committee for Veterinary Control and Supervision, Ministry of Agriculture of the Republic of Kazakhstan;
- February, 2015 - present time - Head of Front Office of the Agricultural Sector Committee, National Entrepreneurs Chamber of the Republic of Kazakhstan.



**Yerlan  
Bakhitovich  
Orynbayev**

**INDEPENDENT DIRECTOR – MEMBER  
OF THE BOARD OF DIRECTORS,  
CHAIRMAN OF THE INTERNAL AUDIT  
COMMITTEE OF THE BOARD OF  
DIRECTORS**

- *Date of birth: May 8, 1982.*
- *Holding of KazAgroFinance JSC's shares – No.*
- *Joint appointment and membership in the Boards of Directors of other organizations at present – No.*
- *Holding of the Company's suppliers and counterparties' shares – No.*

**Education:**

- 2005 – Karaganda State Technical University, Faculty “Economics and Management”.

**Work experience for the last three years:**

- November, 2012 – April, 2015 – Head of Internal Audit Service, “National Mining Company “Tau-Ken Samruk” JSC;
- April, 2015 – June, 2016 – Director of Corporate Management and Strategic Planning Department of National Mining Company “Tau-Ken Samruk” JSC.



**Azat  
Yerkinovich  
Mashabayev**

*Joint appointment and membership in the Boards of Directors of other organizations at present:*

- *Independent Director of “Kazakh-Tadjik Direct Investment Fund” JSC*
- *Independent Director of “Kazakh-Kyrgyz Direct Investment Fund” JSC*
- *Independent Director, Chairman of Audit and Strategy Committee of National Company Social and Entrepreneurial Corporation “Saryarka” JSC*

**INDEPENDENT DIRECTOR – MEMBER OF THE BOARD OF DIRECTORS, CHAIRMAN OF THE RISKS AND STRATEGIC PLANNING COMMITTEE OF THE BOARD OF DIRECTORS**

- *Date of birth: June 8, 1979.*
- *Holding of KazAgroFinance JSC’s shares – No.*
- *Holding of the Company’s suppliers and counterparties’ shares – No.*

**Education:**

- *Kazakh Economical University named after T. Ryskulov (Astana, Republic of Kazakhstan), Faculty “Accounting and Audit”;*
- *Bremen State University (Bremen, Federal Republic of Germany, Master’s Program of Law Faculty (LLM);*
- *Kazakh State University named after Al-Farabi (Almaty, Republic of Kazakhstan), Faculty “International Relations”, “International Law”.*

**Work experience for the last three years:**

- *November, 2014 – May, 2016 – Deputy Chairman of the Board “Kazpost” JSC;*
- *May, 2015 – present time – Independent Director of “Kazakh-Tadjik Direct Investment Fund” JSC, “Kazakh-Kyrgyz Direct Investment Fund” JSC;*
- *October, 2015 – present time – Independent Director, Chairman of Audit and Strategy Committee of National Company Social and Entrepreneurial Corporation “Saryarka” JSC;*
- *May, 2016 – November, 2016 – First Deputy Director General “EASTCOMTRANS” LLP;*
- *November, 2016 – present time – Sales Managing Director – Member of the Board of “Kazpost” JSC.*

# Risks and Strategic Planning Committee



**Azat  
Yerkinovich  
Mashabayev**

CHAIRMAN OF THE COMMITTEE

## Welcome Address of the Committee's Chairman

*Let me welcome you on behalf of the Risks and Strategic Planning Committee. The accounting period for KazAgroFinance JSC, to be sure, occurred to be fruitful. The Committee held 11 in-person meetings, at which 135 issues were considered.*

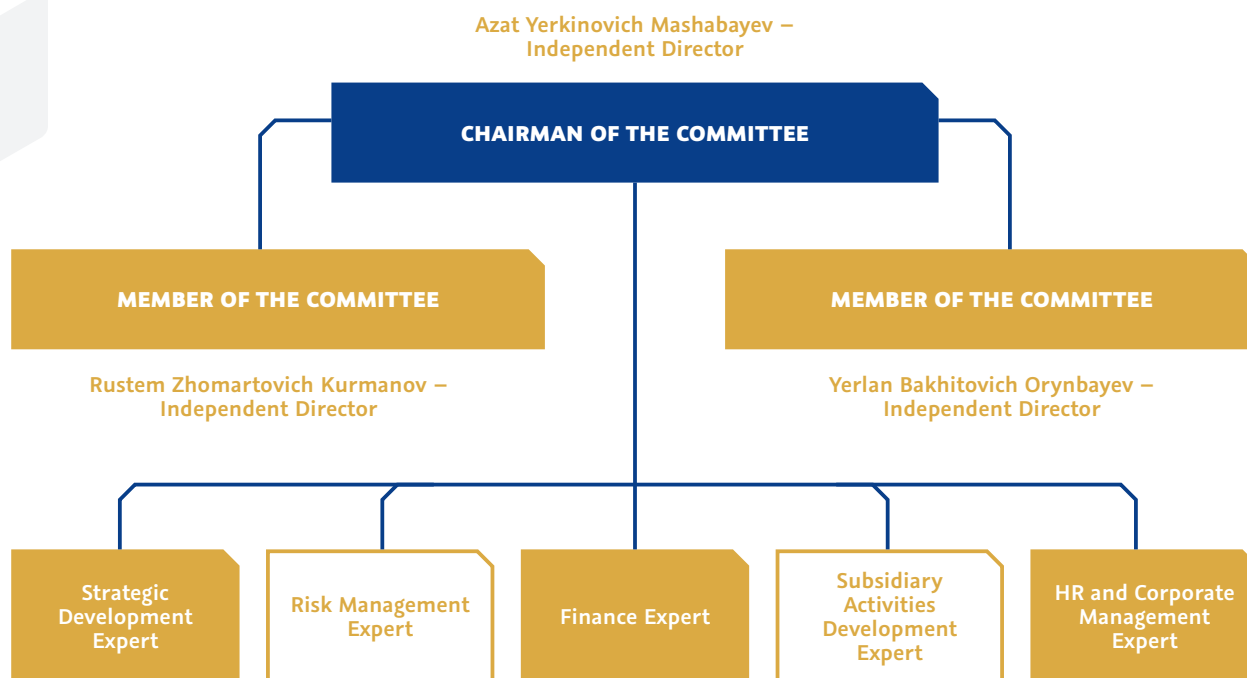
*The Company managed to achieve fourteen of eighteen key performance indicators of the Company's Development Strategy, minimize the risks related to the downturns in the world economy at most, raise the funds of about KZT44.9 bln.*

*Our efforts in 2017 will be fostered at promotion of the investment attractiveness and implementation of the key priorities of KazAgroFinance JSC.*

*Sincerely,  
Azat Yerkinovich Mashabayev  
Chairman Risks and Strategic  
Planning Committee*



**COMMITTEE STRUCTURE**



The Risks and Strategic Planning Committee was approved by the Decision of the in-person meeting of the Board of Directors of KazAgroFinance JSC No.9 dated 19.08.2016. The Committee consists of the Independent Directors, the experts in this Committee are the representatives of the Company's Sole Shareholder.

The responsibilities of the Risks and Strategic Planning Committee are preliminary consideration and submission of recommendations to the Board of Directors on the issues of strategic planning,

investment and innovative activities, internal control and risk management, reporting, activity assessment and etc.

**Members of the Committee:**

- Azat Yerkinovich Mashabayev, Independent Director – Chairman of the Committee;
- Rustem Zhomartovich Kurmanov, Independent Director – Member of the Committee;
- Yerlan Bakhitovich Orynbayev, Independent Director – Member of the Committee.

# Internal Audit Committee



**Yerlan  
Bakhitovich  
Orynbayev**

CHAIRMAN OF THE COMMITTEE

## Welcome Address of the Chairman of the Committee

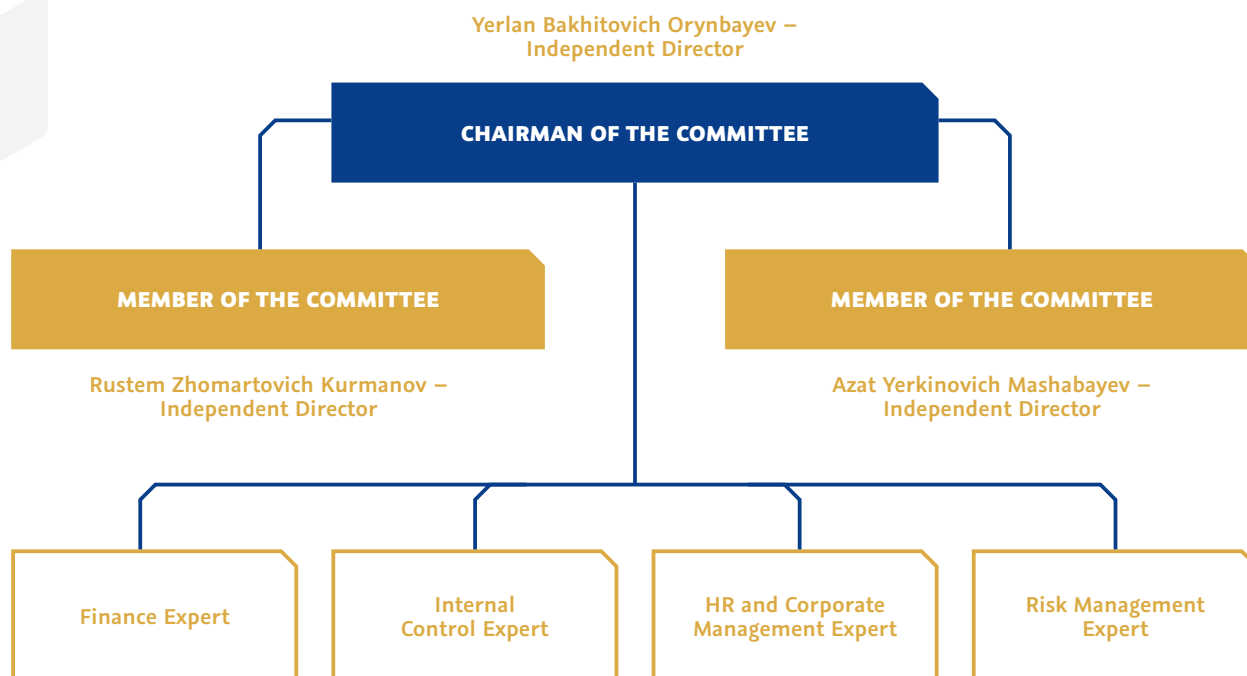
*At year-end 2016, the Committee held 10 in-person sessions, at which 41 issues related to the external and internal audit arrangement were considered.*

*Being aware of the importance of the tasks assigned to us, we aspire to put special emphasis and priority to the actions aimed at promotion of effectiveness of the external and internal audit duties.*

*I believe that during this period we have achieved the substantial progress, but we have to make some more efforts on effectiveness of the processes and control means to reach the desired achievements.*

*Sincerely,  
Yerlan Bakhitovich Orynbayev  
Chairman  
Internal Audit Committee*

**COMMITTEE STRUCTURE**



The Internal Audit Committee was approved by the Decision of the in-person meeting of the Board of Directors of KazAgroFinance JSC No.9 dated 19.08.2016. The Committee consists of the Independent Directors, the experts in this Committee are the representatives of the Company’s Sole Shareholder.

The responsibilities of the Internal Audit Committee are preliminary consideration and submission of recommendations to the Board of Directors on the issues of financial

statements, external audit, internal audit, law compliance, reporting and activity assessment and etc.

**Members of the Committee:**

- Yerlan Bakhitovich Orynbayev, Independent Director – Chairman of the Committee;
- Rustem Zhomartovich Kurmanov, Independent Director – Member of the Committee;
- Azat Yerkinovich Mashabayev, Independent Director – Member of the Committee.

# Social Issues, Human Resources and Remuneration Committee



**Rustem  
Zhomartovich  
Kurmanov**

CHAIRMAN OF THE COMMITTEE

## Welcome Speech of the Chairman of the Committee

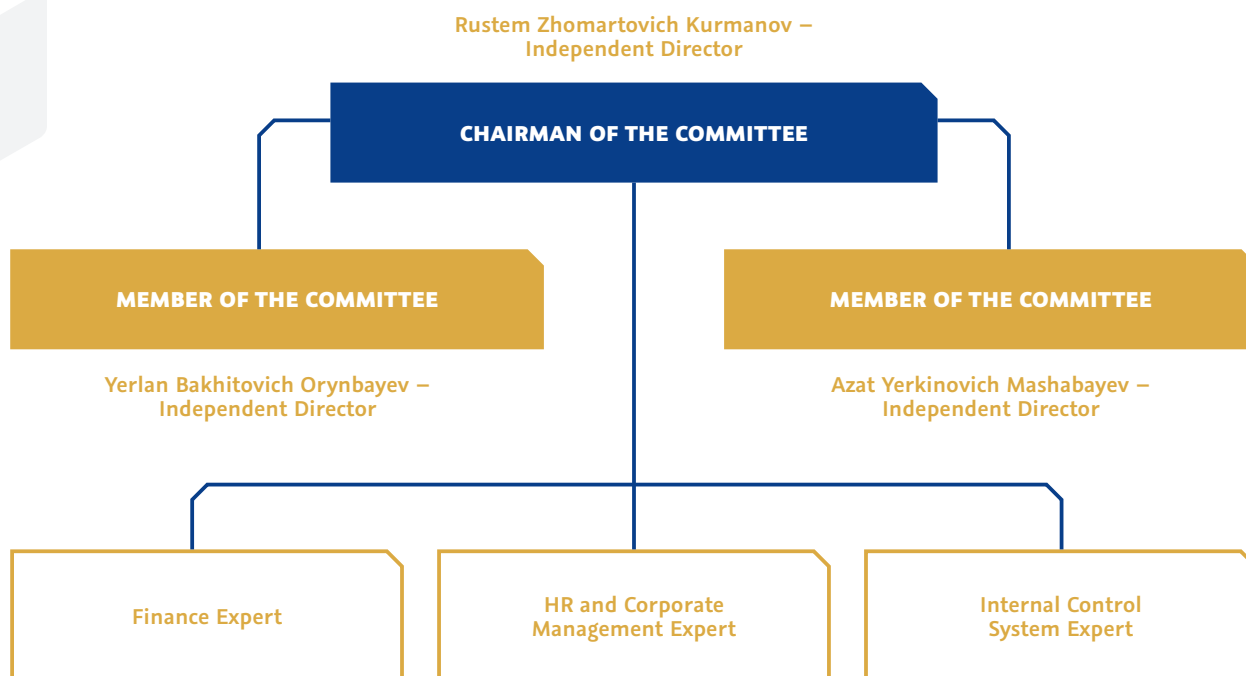
*In 2016 the Committee held 9 in-person meetings, at which 29 issues aimed at improvement of the employees' professional level, successor planning and solution of other social problems.*

*I believe that the mutual efforts undertaken in 2016, taking into consideration the essential experience of the Members of the Committee, allowed forming the fundamental necessary for the efficient and quality performance of the entrusted responsibility in accordance with the best international practice.*

*Sincerely,  
Rustem Zhomartovich Kurmanov  
Chairman Social Issues,  
Human Resources and  
Remuneration Committee*



**COMMITTEE STRUCTURE**



The Social Issues, Human Resources and Remuneration Committee was approved by the in-person meeting of the Board of Directors of KazAgroFinance JSC No.9 dated 19.08.2016. The Committee consists of the Independent Directors, the experts in this Committee are the representatives of the Company's Sole Shareholder.

The responsibilities of the Social Issues, Human Resources and Remuneration Committee are preliminary consideration and submission of recommendations to

the Board of Directors on the issues of the job specifications, candidate assessment, successor planning, activity, remuneration system and etc.

**Members of the Committee:**

- Rustem Zhomartovich Kurmanov, Independent Director - Chairman of the Committee;
- Yerlan Bakhitovich Orynbayev, Independent Director - Member of the Committee;
- Azat Yerkinovich Mashabayev, Independent Director - Member of the Committee.

# Activity of the Board of Directors and Its Committees

Totally, during 2016 14 meetings of the Board of Directors were held, at which 189 issues were considered.

All meetings were held in-person.

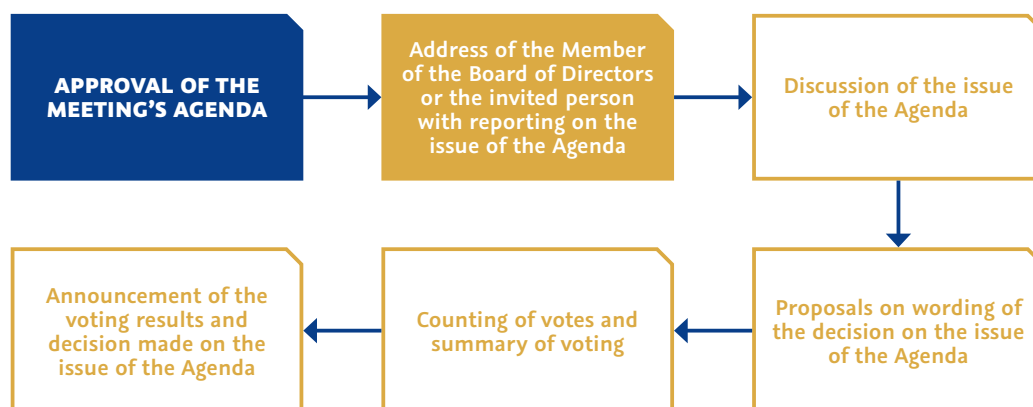
Description	Number of meetings in 2016	Number of issues considered
Board of Directors	14	189
Risks and Strategic Planning Committee	11	135
Internal Audit Committee	10	41
Social Issues, Human Resources and Remuneration Committee	9	29

## ATTENDANCE OF THE MEETINGS OF THE BOARD OF DIRECTORS

A.S. Mukhamadiyeva	K.T. Izbastin	K.S. Zhauymbayev	R.Z. Kurmanov	Y.B. Orynbayev	A.Y. Mashabayev
Attended 14 of 14 meetings	Attended 14 of 14 meetings	Attended 12 of 14 meetings	Attended 13 of 14 meetings	Attended 14 of 14 meetings	Attended 6 of 9 meetings

## PARTICIPATION OF INDEPENDENT DIRECTORS IN THE COMMITTEES' MEETINGS

Description	Y.B. Orynbayev	R.Z. Kurmanov	A.Y. Mashabayev
Internal Audit Committee	participated in 10 of 10 meetings	participated in 9 of 10 meetings	participated in 2 of 5 meetings
Risks and Strategic Planning Committee	participated in 11 of 11 meetings	participated in 9 of 10 meetings	participated in 2 of 6 meetings
Social Issues, Human Resources and Remuneration Committee	participated in 9 of 9 meetings	participated in 8 of 9 meetings	participated in 2 of 4 meetings

**DECISION-MAKING BY THE BOARD OF DIRECTORS**

**At year-end 2016, the Board of Directors KazAgroFinance JSC made the key decisions as follows:**

1. The following issues were submitted to the Sole Shareholder of KazAgroFinance JSC:
  - On approval of the Annual Financial Statements of KazAgroFinance JSC for 2015;
  - On determination of the procedure for distribution of KazAgroFinance JSC's net income for 2015;
  - On payment or non-payment of dividends for 2015 on ordinary shares of KazAgroFinance JSC and the dividend rate;
  - On approval of the Annual Report of KazAgroFinance JSC for 2015;
2. Performance Report on KazAgroFinance JSC's Development Strategy for 2015 was approved;
3. Performance Reports on KazAgroFinance JSC's Development Plan for 2015 and quarter reports for 2016 were approved;
4. Performance Report on KazAgroFinance JSC's Budget for 2015 was approved;
5. Performance Reports on KazAgroFinance JSC's Internal Audit Service (quarter, annual) were taken into account);
6. Amendments to KazAgroFinance JSC's Development Strategy for 2011-2020 were approved;
7. The adjusted KazAgroFinance JSC's Development Plan for 2016-2020 was approved;
8. KazAgroFinance JSC's Budget for 2017 was approved.
9. Plan of Actions on Improvement of the Corporate Management System for 2016-2020 was approved;
10. Plan of Adjusting and/or Preventing Actions to the Report on Performance Evaluation of the Corporate Risk Management System was approved;
11. Decisions on the first and second bond issues within KazAgroFinance JSC's Second Bond Issue for KZT38 350 000 000 (thirty-eight milliard three hundred and fifty million) was made;
12. The norms for the borrowing capacity index and financial stability of KazAgroFinance JSC for 2016 were approved;
13. The term of the Internal Audit Service of KazAgroFinance JSC was extended for 3 (three) years;
14. General Terms of Financing of KazAgroFinance JSC were approved;
15. Regulation on Remunerations, Bonuses and Social Security of KazAgroFinance JSC's employees were approved;
16. Internal Control System Policy was approved;
17. Rules for Disclosure of KazAgroFinance JSC's Activity and Protection of Trade and Business Secrets were approved;
18. Rules for Internal Control of Disposal and Use of Insider Information with KazAgroFinance JSC were approved;
19. Method for making the Strategic Plan of KazAgroFinance JSC's Internal Audit Service was approved.

# Job Evaluation and Remuneration of Board of Directors

## Job Evaluation of Board of Directors

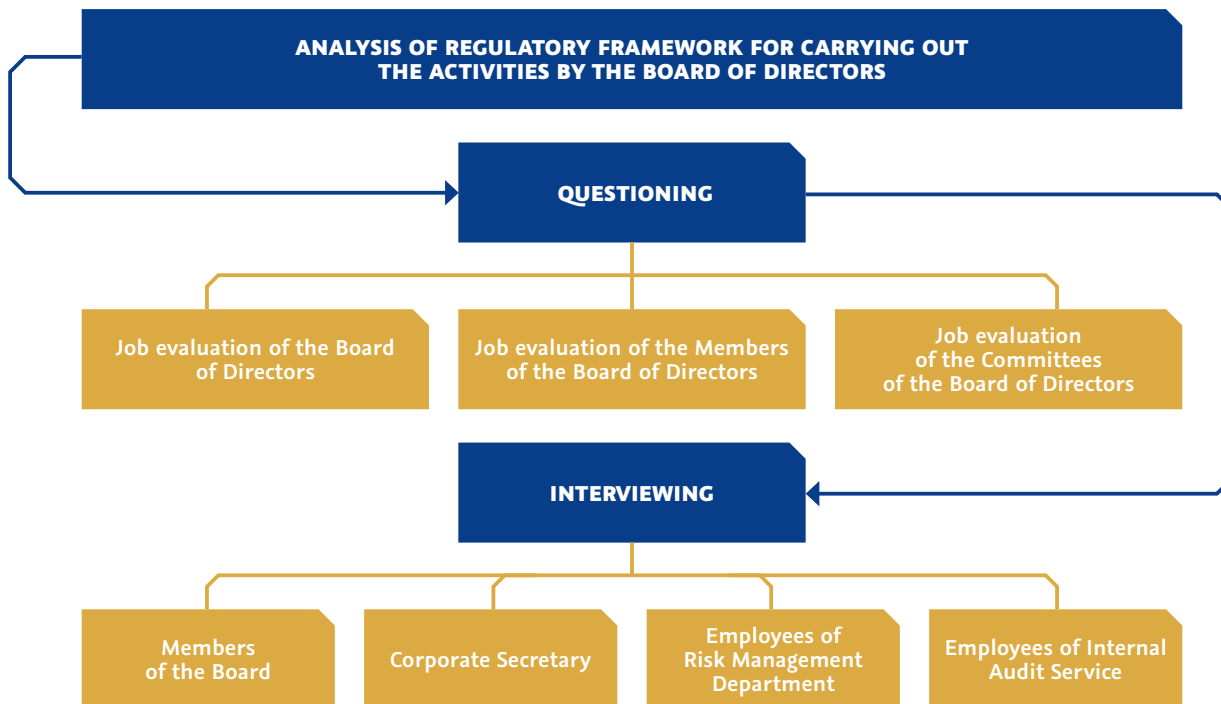
According to the Company’s Corporate Management Code, the Board of Directors’ job is evaluated annually.

At year-end 2016, the job evaluation of the Company’s Board of Directors was carried out by the Board of Directors on its own in accordance

with the approved method elaborated by National Managing Holding “KazAgro” JSC evaluating the Company’s internal normative base, questioning the Members of the Board of Directors and interviewing the Company’s interested employees.

The self-dependent evaluation of own job is an advanced instance of applying the world corporate management practice with the Company.

### STRUCTURE OF THE JOB EVALUATION OF THE BOARD OF DIRECTORS





Under the results of evaluation carried out, the Board of Directors arrived at the conclusion that the job of the Board of Directors and its Committees, as a whole, is on the right track of establishment and is at most tending to the constant activity improvement. The professionalism of the Board of Directors is highly appraised, the qualification complies with the goals and tasks assigned. The job of the Committees with the Board of Directors is efficient and simplifies the job of the Board of Directors itself.

Meanwhile, under the results of the evaluation, the trends for the Company's further development, in particular, the active participation of the Board of Directors in the following issues had been defined:

- updating of the Company's Development Strategy and the job evaluation of the Members of the Board;
- improvement of the corporate risk management system;
- improvement of the Company's internal audit;
- control over automation of the Company's information systems;
- improvement of cooperation procedures with the Sole Shareholder.

### Remuneration of the Board of Directors

The procedure for payment of remuneration to the Members of the Board of Directors is governed by the Regulation on KazAgroFinance JSC's Board of Directors, within which the payment of remuneration is defined only to the Independent Directors of the Company's Board of Directors.

The main remuneration components are fixed (constant value), which is determined by the decision of the Sole Shareholder and the additional bonuses (variable value), which depends on the membership and chairmanship in the Committees of the Board of Directors. If the Independent Director participates in less than a half of all in-present and meetings in absentia of the Board of Directors held, the remuneration shall not be paid.

The remuneration for 2016 is paid to the Independent Directors in accordance with the decision of the Company's Sole Shareholder.

Total bonuses amounted to KZT2 227 500.0.

Photo of the Project "Amankeldi" LLP (South-Kazakhstan oblast)



## Board

As of January 1, 2017 the Company's Board consists of 5 persons, including the Chairman of the Board, First Deputy Chairman of the Board, two Deputies Chairman of the Board and Managing Director.

### Board (as of 1.01.2017)



**Kanysh  
Temirtayevich  
Izbastin**

---

CHAIRMAN OF  
THE BOARD OF  
KAZAGROFINANCE JSC



**Ainur  
Gabdygaparovna  
Seitkasimova**

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FIRST DEPUTY  
CHAIRMAN OF THE  
BOARD – MEMBER OF  
THE BOARD



**Rustam  
Timurovich  
Karagoishin**

---

DEPUTY CHAIRMAN OF  
THE BOARD – MEMBER  
OF THE BOARD



**Kanat  
Ismatovich  
Tursynkulov**

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DEPUTY CHAIRMAN OF  
THE BOARD – MEMBER  
OF THE BOARD



**Assylkhan  
Bolatovich  
Dzhugashev**

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MANAGING DIRECTOR –  
MEMBER OF THE BOARD



**Kanysh  
Temirtayevich  
Izbastin**

**CHAIRMAN OF THE BOARD OF  
KAZAGROFINANCE JSC**

- *Date of birth: April 20, 1981.*
- *Holding of KazAgroFinance JSC's shares – No.*
- *Joint appointment and membership in the Boards of Directors of other organizations at present – No.*
- *Holding of the Company's suppliers and counterparties' shares – No.*

**Education:**

- Moscow International Relations State University of Russian Ministry of Foreign Affairs;
- Central Asian University.

**Work experience for the last three years:**

- January, 2013 – September, 2015 – Managing Director “Fund of National Welfare “Samruk Kazyna” JSC;
- September, 2015 – present time – Chairman of the Board of KazAgroFinance JSC.





**Ainur  
Gabdygaparovna  
Seitkasimova**

**Duties:**

Coordination of KazAgroFinance JSC's activities in financial and economical issues, assets and liabilities management, funds raising, accounting and reporting, as well as coordination of branches on financial and economical issues.

**FIRST DEPUTY CHAIRMAN OF THE  
BOARD OF KAZAGROFINANCE JSC**

- *Date of birth: September 16, 1976.*
- *Holding of KazAgroFinance JSC's shares - No.*
- *Joint appointment and membership in the Boards of Directors of other organizations at present - No.*
- *Holding of the Company's suppliers and counterparties' shares - No.*

**Education:**

- Karaganda State University, Specialty "Finance and Credit", Qualification "Economist";
- High Management School, State University High Economics School, Moscow city, MBA Degree, Specialty "Finance and Credit", Qualification "Master of Business Administration";
- Candidate of Economic Sciences.

**Work experience for the last three years:**

- October, 2013 - July, 2014 - Deputy Director General of Business Development of Fund of National Welfare "Samruk Kazyna" JSC, Member of the Supervisory Board of "Samruk-Kazyna Invest" LLP;
- June, 2015 - present time - First Deputy Chairman of the Board of KazAgroFinance JSC.



**Rustam  
Timurovich  
Karagoishin**

**DEPUTY CHAIRMAN OF THE BOARD OF  
KAZAGROFINANCE JSC**

- *Date of birth: September 06, 1983.*
- *Holding of KazAgroFinance JSC's shares – No.*
- *Joint appointment and membership in the Boards of Directors of other organizations at present – No.*
- *Holding of the Company's suppliers and counterparties' shares – No.*

**Education:**

- International Academy of Business (IAB);
- Kazakhstan Institute of Management, Economics and Preplanning (KIMEP).

**Work experience for the last three years:**

- October, 2013 – November, 2015 – Director General, “Sberbank Leasing Kazakhstan” LLP;
- November, 2015 – Deputy Chairman of the Board of KazAgroFinance JSC.

**Duties:**

Coordination of KazAgroFinance JSC's activities in credit and leasing issues as a whole and implementation of Investment Projects, strategic and corporate development, analytical efforts, as well as business process methodology.



**Kanat  
Ismatovich  
Tursynkulov**

**Duties:**

Direct coordination of KazAgroFinance JSC's activities on loan and collateral administration and monitoring of subjects of leasing.

**DEPUTY CHAIRMAN OF THE BOARD OF  
KAZAGROFINANCE JSC**

- *Date of birth: September 10, 1973.*
- *Holding of KazAgroFinance JSC's shares - No.*
- *Joint appointment and membership in the Boards of Directors of other organizations at present - No.*
- *Holding of the Company's suppliers and counterparties' shares - No.*

**Education:**

- Kazakh State Academy of Management.

**Work experience for the last three years:**

- August 2010 - July 2013 - Deputy Chairman of the Board of KazAgroProdukt JSC, Astana;
- July 2013 - December 2013 - Managing Director of KazAgroProdukt JSC, Astana;
- December 2013 - January 2015 - Managing Director - Chief of Staff of KazAgroProdukt JSC;
- January 2015 - till present - Deputy Chairman of the Board of KazAgroFinance JSC.



**Assylkhan  
Bolatovich  
Dzhugashev**

**MANAGING DIRECTOR – MEMBER OF  
THE BOARD OF KAZAGROFINANCE JSC**

- *Date of birth: January 31, 1981.*
- *Holding of KazAgroFinance JSC's shares – No.*
- *Joint appointment and membership in the Boards of Directors of other organizations at present – No.*
- *Holding of the Company's suppliers and counterparties' shares – No.*

**Education:**

- Kazakh Economical University named after T. Ryskulov, 2002, Economist.

**Work experience for the last three years:**

- May, 2011 – November, 2015 – Deputy Chairman of the Board of KazAgroFinance JSC;
- November, 2015 – present time – Managing Director of KazAgroFinance JSC.

**Duties:**

Direct coordination of KazAgroFinance JSC's activities on support of credit and non-performing projects.

## Board Activity

In 2016, the Board held 37 in-present meetings at intervals of each decade. Totally, 289 issues were considered at these meetings.

**ATTENDANCE OF THE BOARD'S MEETINGS**

K.T. Izbastin	A.G.Seitkasimova	R.T. Karagoishin	K.I. Tursynkulov	A.B. Dzhugashev
Attended 33 of 36 meetings of the Company's Board	Attended 36 meetings of the Company's Board	Attended 32 of 36 meetings of the Company's Board	Attended 25 of 36 meetings of the Company's Board	Attended 31 of 36 meetings of the Company's Board



## Main Decisions Made in 2016

THIS LIST DOES NOT INCLUDE THE PRELIMINARILY CONSIDERED ISSUES FALLING WITHIN THE COMPETENCE OF THE SOLE SHAREHOLDER AND THE BOARD OF DIRECTORS OF THE COMPANY.

1. limits and powers for the Credit Committees of KazAgroFinance JSC's branches on self-dependent making decisions were set;
2. quantity and personal staff of large and small credit committees, including the credit committees in the branches, was approved;
3. decision on making an agreement with the Government of the Republic of Belarus "On Terms of Providing the Lessees with the Goods Made in the Republic of Belarus to be Purchased in the Republic of Kazakhstan" was made;
4. Draft Performance Reports on Development Strategy, Plan, Budget At year-end 2015, as well as quarter reports for 2016 were approved;
5. Plan of Actions on Risk Minimization for 2016 was approved;
6. Non-Performing Loan Regulation was approved;
7. Project Support Regulation was approved;
8. Project Administration Regulation was approved;
9. Branch Activity Evaluation Procedure was approved;
10. Penalty Reduction Method was approved;
11. Instruction for the Program "Made in Belarus" and providing the service "Master-Leasing" was approved;
12. Qualification requirements to the managing directors not being the Member of the Board, Executive Director, Compliance Controller and employees of the structural subdivisions were approved.

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## Board Remuneration

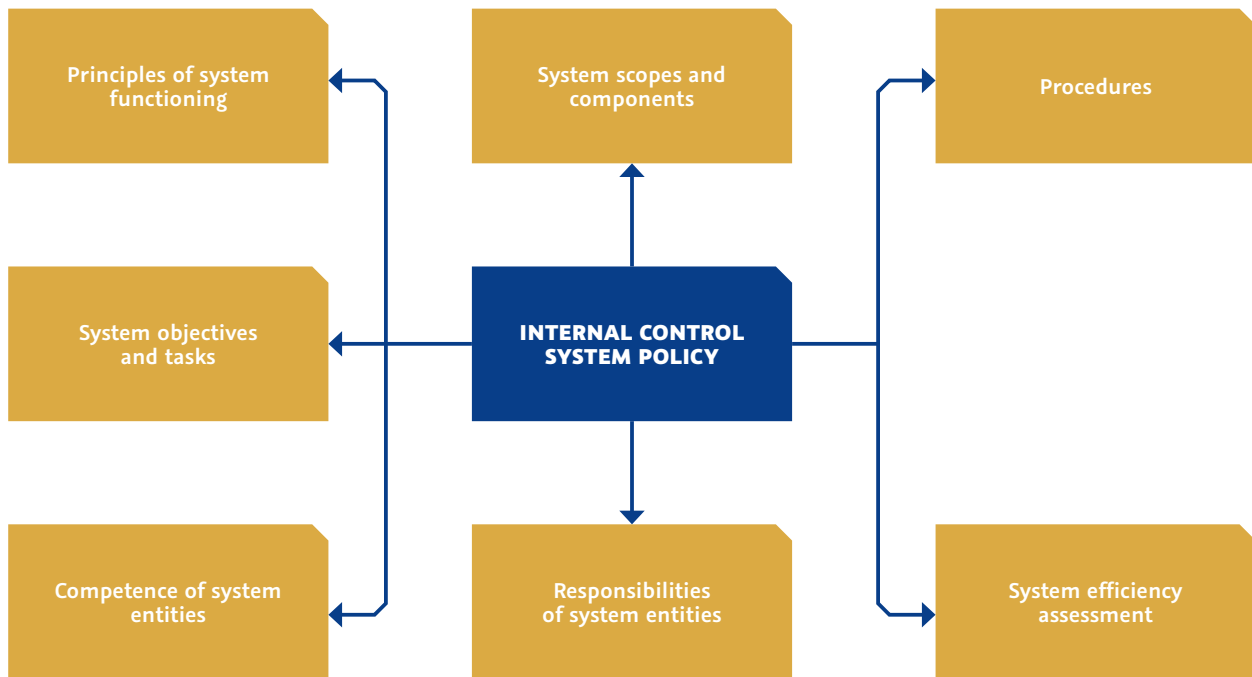
The Remuneration Policy of the Chairman and Members of the Board is governed by the Rules for Payment of Remuneration on the Basis of Year Performance to the Top Managers of KazAgroFinance JSC approved by the Decision of the Board of Directors No.30 dated December 29, 2014. The remuneration system includes the **unconditional** (profit, no budget overruns on administrative expenditures, rise in loan portfolio) and **conditional indices**

(performance of the Development Strategy KPI). At that, if even one of the unconditional indices is not achieved/violated, the bonuses will not be paid.

Since all unconditional indices have been achieved by the Company at year-end 2016, the aggregate remuneration to the top managers will be paid in accordance with KPIs under the results of accounting year according to the Board of Directors' decision.

# Internal Control System

The internal control system based on the Internal Control System Policy of KazAgroFinance JSC approved by the decision of the Board of Directors No.14 dated 28.12.2016 was introduced and is now operating in the Company.



For implementation of the Company's Internal Control System Policy the Internal Control System Improvement Plan for 2017-2018 was approved, including the following key actions:

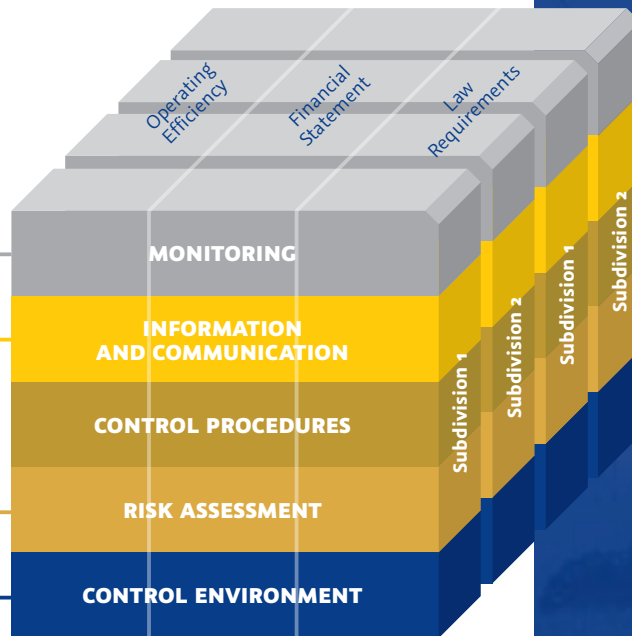
Approval of Implementation Rules for Internal Control System Policy	Approval of Plan of Control Actions	Approval of matrix and risks of controls	Assessment of efficiency of internal control system	Perfection and actualization of internal control rules for anti-money laundering/financing of terrorism prevention
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## INTERNAL CONTROL SYSTEM OF THE COMPANY IS BASED ON FIVE INTERDEPENDENT COMPONENTS:

- Efficiency assessment
- Continuous and periodic assessment
- Management and supervision
- Internal Audit

- Timely registration and transfer of essential information
- Information access
- Information flow

- Policies and procedures
- Action range



- General atmosphere
- Management style
- Assignment of powers and duties
- Management efficiency
- Control component foundation

- Detection of substantial risks
- Laying the basis for determination of control procedures

# Internal Audit Service

Since 2006, the Internal Audit Service subordinated to the Company's Board of Directors has been serving in the Company. The Service's activity is carried out in accordance with its Regulation and Internal Audit Procedure

Rules based on appliance of the Ethics Code, quality standards and internal auditors' activity standards established by the International Institute of Internal Auditors in arranging the Internal Audit Service's activity.

**RUN  
SINCE 2006**

Internal Audit Service is supervised by the Internal Audit Committee of the Board of Directors.

As of January 31, 2016 the staff and actual number of the Service was 4 people.

Head and employees of the Internal Audit Service are appointed by the Board of Directors.



Assistance to the Board of Directors and the Board in performance of their duties to achieve the Company's strategic goals.



Submission to the Board of Directors of the independent and objective guarantees and consultations aimed at improvement of the risk management system, internal control and corporate management of the Company.

**Annual Audit Plan  
was approved by the  
Decision of the Board  
of Directors No.12  
dated 09.11.2016**

*The audits covering 16 structural subdivisions of the Central Office and 2 branches of the Company (audit of credit and leasing activities, loan portfolio monitoring, bad debt processing and other) were carried out.*



***Under the results of audits carried out by the Internal Audit Service the respective recommendations were issued. The Service controls over the compliance with the recommendations and reports on the course of actions to the Internal Control Committee and the Board of Directors of the Company.***

### **Functions of Internal Audit Service:**

- Assessment of risks, adequacy and efficiency of internal control over the risks in corporate management, operating activity of the Company and its information systems;
- carrying out the assessment of the corporate risk management system in accordance with the established procedure;
- checking of compliance with the requirements of the law of the Republic of Kazakhstan, the Company's internal documents, as well as execution of the instructions of the authorized and supervising bodies, decisions of the Companies bodies and assessment of the systems created for compliance with these requirements;
- assessment of adequacy of the actions being applied by the Company's subdivision for ensuring the achievement of the goals

assigned to them within the Company's strategic objectives.

The Head of the Service is regularly reporting to the Internal Audit Committee and the Board of Directors of the Company on the results of internal audit. The Internal Audit Committee discusses the effectiveness of the internal audits with the Head of the Service.

Moreover, the Program for Warranty and Improvement of the Company's Service Quality is applied in the Company, according to which within 2016 the current and periodical surveys (assessments) of the Service's activity for its compliance with the Regulation on Service, professional standards, Professional Code of Conduct, as well as progress and efficiency of internal audit from the point of view of meeting the needs of the different groups of the Company's key persons, had been carried out.

Photo of the Project Agrofirma "Aktyk" JSC (Akmolinskaya oblast)



# Equity Holding Structure

As of 31.12.2016, the number of the Company's bought out shares or owned by its subsidiaries is:

- Ordinary shares - No;
- Preferred shares - No.
- Face value of the Company's ordinary share - KZT1 000 per one share.

There was no placement of shares in the accounting period. The changes in the shareholders holding the shares of 5 and more per cent of the shares placed did not take place. The initial public offering did not take place in the accounting period.

<b>1 000</b> KZT Face value per 1 ordinary share	<b>1 000</b> KZT Offering price per 1 share
<b>82 837 204</b> Number of declared ordinary shares	<b>82 837 204</b> Number of outstanding ordinary shares
<b>82 837 204 000</b> KZT Funds raised from the Issuer's shares placement	<b>cash</b> Way of payment of the Issuer's shares

## Dividends

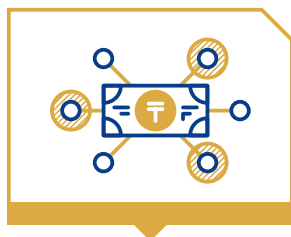
KazAgroFinance JSC's policy for objectives, principles, rate, form, terms and procedure of payment of dividends is defined in the Dividend Policy Regulation approved by the decision of the Sole Shareholder - Board of Holding "KazAgro" No.35 dated 20.06.2012.

Upon making the decision on payment of dividends, the Sole Shareholder relies upon the terms of their payment, as well as takes into account the rate of income gained for the accounting financial year and needs of the Company's activity development.

**MAIN PRINCIPLES OF THE COMPANY'S DIVIDEND POLICY**



Ensuring the motivation of the Board of the Company to achieve the planned net income and dividends



Elaboration of middle-term and long-term dividend policy in accordance with the main principles and approaches to formation of the Company's Dividend Policy



Strict adherence to the Sole Shareholder's rights set by the applicable law of the Republic of Kazakhstan, the Company's Charter, its internal documents and best corporate management practice



Consideration of the Sole Shareholder's interest and maximization of its assets



Balance of interests of the Company and Sole Shareholder when determining the rate of dividend payments



Compliance with the restrictions stipulated by the law of the Republic of Kazakhstan and the Company's Charter when making decision on dividend payments

**DATA ON DIVIDENDS PAID FOR LAST 3 YEARS**

DESCRIPTION	2014 (for 2013)	2015 (for 2014)	2016* (for 2015)
Dividend declared during the year, KZT thous.	2 705 114	2 855 932	-
Dividend paid during the year, KZT thous.	2 705 114	2 855 932	-

\* dividends for 2015 were not paid due to fact that the devaluation of the national currency in 2015 resulted in the negative financial performance



# 7.

# Risk Management

Development  
Through Investments:

**REPRODUCER FARMS**



Photo of the Project Farm "Zhana-Bereke"  
(Almatinskaya oblast)



## FINANCIAL PERFORMANCE OF KAZAGROFINANCE:



Creation of  
**99** pedigree  
reproducer farms  
for  
**32.1** KZT



Import of  
**48 403**  
head of pedigree  
cattle



**10.1%**  
share of KAF's projects  
of the total pedigree  
stock of the country



The most adaptable breeds of cattle such as  
**Angus and Hereford**  
are mainly imported



THE FORMALIZED, ELABORATED RISK MANAGEMENT SYSTEM DESIGNED FOR ENSURING THE ACCURATE IDENTIFICATION, EFFECTIVE MANAGEMENT AND CONSTANT RISK MONITORING AND AIMED AT ENSURING THE ACTIVITY STABILITY BY REDUCING THE NEGATIVE FACTORS ON THE COMPANY'S ACTIVITY, IS RUNNING ON IN THE COMPANY.

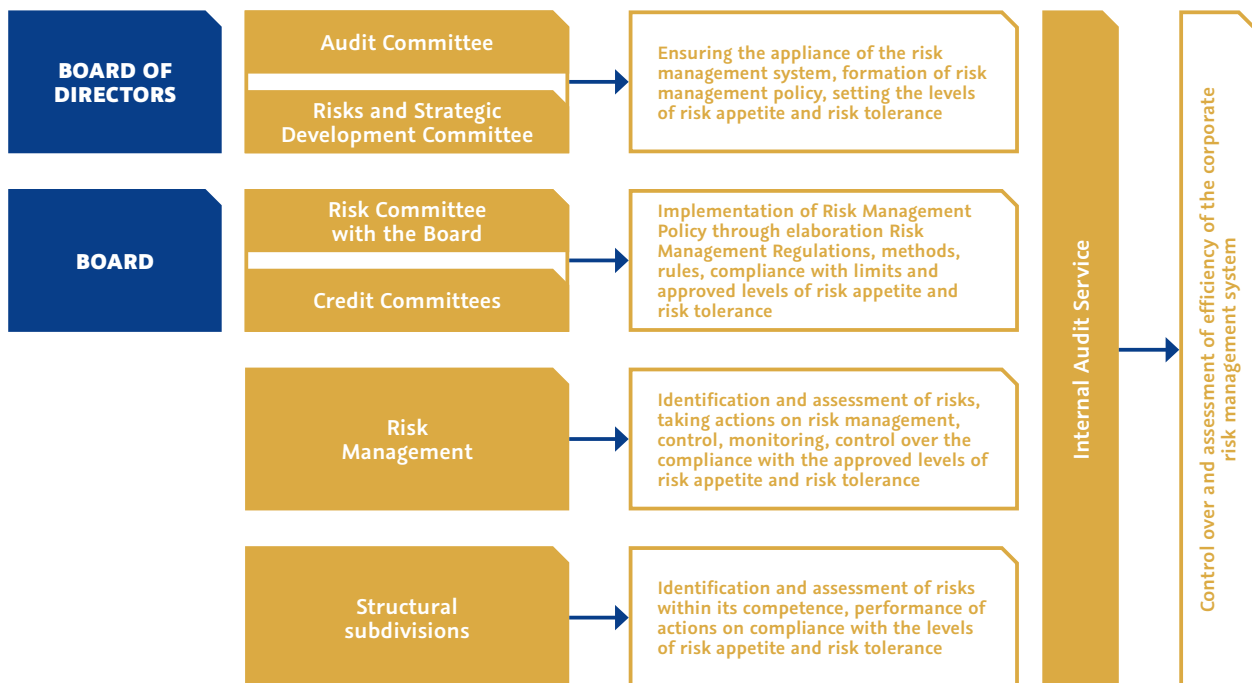
The risk management in the Company is a constant, continuous process and carried out at all levels involving the collegial bodies, authorized bodies, structural subdivisions and employees of the Company.

- regularity, structuredness and timeliness;
- awareness;
- work with uncertainty;
- adaptedness;
- transparency and complexity;
- feedback and iterative;
- continuous improvement.

**Main principles of the risk management system are:**

- creation and protection of the equity value;

**MAIN COMPONENTS OF THE RISK MANAGEMENT ORGANIZATIONAL STRUCTURE ARE**



Thus, the Company's risk management system is a set of interrelated components integrated in the single process, within which the Company's Board of Directors, top management and employees, at their level, participate in monitoring of the potential negative events and possibilities, which may affect the Company's activity, as well as managing these events within the risk level admissible for the key interested parties.

The Company regularly identifies the risks, assesses them and elaborates the actions on risk management as well. The Company carries out its activity taking into account the wide range of risks related to the business broken down into the categories: strategic risks, credit risks, financial risks, operating risks and legal risks.

### **The following are the substantial risks, which the Company was exposed to in 2016:**

**Credit Risk.** It is a risk of failure to perform the contractual obligations by a Borrower or a party to a deal with financial instruments. The credit risk is one of key types of risks in the Company's activity. Due to the fact that the Company's activity is focused on the financing of the agricultural sector, this type of risks may also appear through the field risks, including the seasonal natural and climatic condition risks, risks of changes in the world food market environment. For minimizing of the credit risks in 2016, the Company carried out the actions on the portfolio diversification, limit setting by products and fields, extended financial monitoring.

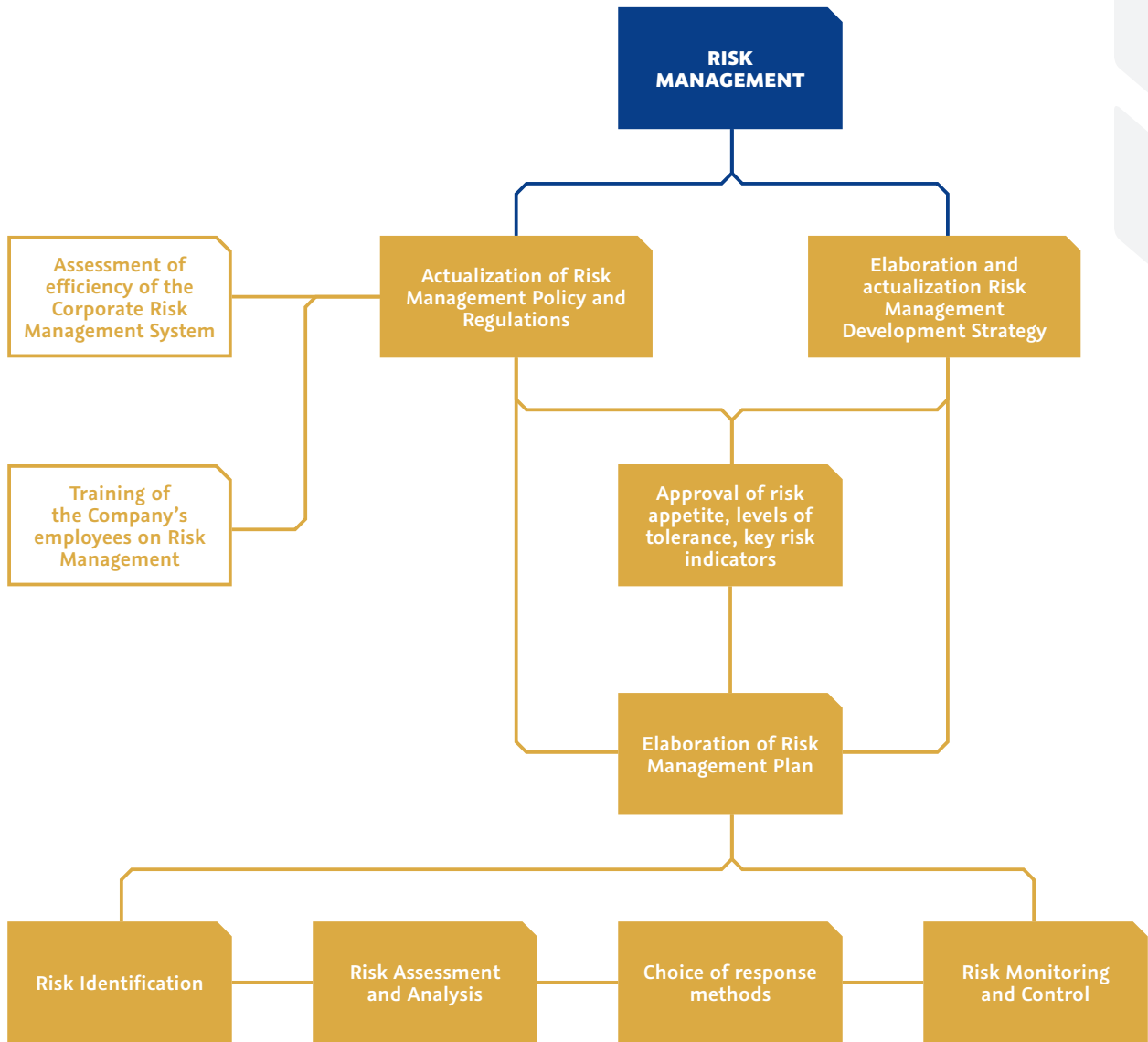
**Liquidity Loss Risk** is a risk that the Company may not perform its obligations on payments upon maturity in the common or unforeseen circumstances. For reducing this risk in 2016, the

Company diversified the sources of financing, optimized the balance structure for reducing the rate of non-performing, impaired assets, worked over the issues of raising the bridge facility.

**Exchange Risk** arises when performing the obligations on the credit agreements and contracts with the partners. This risk becomes essential to the Company due to the fact that the income is denominated in the national currency, while a part of the debt instruments are denominated in the foreign currencies (USD, EUR). For minimizing the dependence from the exchange rate fluctuations the Company monitors the foreign currency position, sets limits for the foreign currency position per each currency, refinances the foreign currency liabilities.

The efforts fostered in 2016 for development of the corporate risk management system are aimed at the extension of the methods of risk variables and elaboration of a set of response actions in the critical situation, which may ensure more efficient results. The active work on building the protection line for the potential risk prevention for the purpose of more synergy cooperation between all structural units of the Company within the corporate risk management system is carried out as well. As a result, the risk management system is being transformed to compliance with the world risk management standards such as ISO 31000:2009, COSO, FERMA.

In the meantime, in 2017 the development of the risk management system will be ensured by means of further improvement of the risk management regulations, in particular, it is expected to approve the corporate risk management standard, actualize the risk management policy, define the long-term development strategy for the corporate risk management system. As a result, the Company's risk management structure will be as follows:



Thus, the development of the Company's risk management system will be aimed at building of the quality corporate risk

management system complying with the up-to-date requirements and challenges of rapidly changing environment.



Photo of the Project 'Akmola-Phoenix' LLP  
(Akmolinskaya oblast)





# 8.

## Sustainable Development

Development  
Through Investments:

**VEGETABLE STOREHOUSES**



Photo of the Project 'ArUI Communication' LLP  
(Astana city)




» **FINANCIAL  
PERFORMANCE OF  
KAZAGROFINANCE:**

Commissioning of  
 **43 Investment  
Project**  
for **16.5 mln.**

Total capacity of  
 **171.8 thous.  
tons**  
of vegetables per year

 **6.4%**  
share of financed  
Projects in the total  
potato consumption

Creation of additional  
 **998 work  
places**  
in the country



STAFF IS A MAIN ASSET OF OUR COMPANY, AND THAT IS WHY WE ASPIRE, FIRST-OF-ALL, TO CREATE ALL NECESSARY CONDITIONS FOR THE SAFE AND COMFORTABLE WORKING ENVIRONMENT FOR OUR EMPLOYEES. MOREOVER, WE ENCOURAGE THE IMPLEMENTATION OF PROJECTS, WHICH AT MOST PROTECT THE ENVIRONMENT AND CONSTANTLY PARTICIPATE IN THE VARIOUS CHARITY ACTIONS.

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## HR and Social Policy

The fundamental of implementation of the HR Policy is availability of the efficient organizational structure and optimal staff. The high professionalism is supported and developed in the continuous employee training and further education system by the consecutive improvement of current knowledge and skills.

To assess the human capital assets in the Company a new key performance index

“Human Capital Asset Index” was set in the adjusted Development Strategy (see details at p.21, 61).

The Company hold team buildings on continuing basis, which is one of the best instruments for creation and improvement of the teamwork efficiency. In 2016, the Company held teambuilding at one of the financed enterprises Agrofirma “Rodina”.

Photo of KazAgroFinance Teambuilding  
(May, 2016)





## Safety and Labour Protection

The safety and labour protection is one of priorities of KazAgroFinance JSC and is considered to be an integral part of the Company's business system.

The preservation of health and life of the employees, creation of safe working

environment, injury prevention, improvement of working conditions, reduction of influence of the harmful and adverse factors, minimization of risks and dangers at the work places are the main tendencies of the Company's policy in the professional safety and labour protection.

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## Information Security Policy

In accordance with the approved Information Security Policy KazAgroFinance JSC determined the following trends:

1. **Physical security** is ensured by the specialized organization's full-time control with video monitoring in the controlled access premises and along the perimeter of the Company's building. Upon entry into employment the staff is notified on the compliance with the requirements of the Company's Information Security Policy and non-admission of leakage of the confidential information in the course of activity;
2. **Information systems and software security** is ensured by the comprehensive actions such as:
  - Anti-virus software with constant monitoring of all information processing devices;
  - Ensuring the audit of software and analysis of log files;

- Regular archiving of the data base;
- Software products applied in the Company are ensured by a set of actions on continuous support and optimization of business processes. The works on introduction of new algorithms in the software for the Company's risk detection in the credit and leasing activity are carried out.

## Environment Protection

KazAgroFinance JSC actively contributes to introduction and development of “green technologies” in the country’s agriculture, which protect the environment and health of people, facilitate saving of the natural resources, improve the production efficiency, and thus, the competitiveness of the products being made.

To date, at some of financing projects they apply such “green technologies” as reverse osmosis system – a unique water treatment system, reverse drainage system, bio complexes designated for manure and brood processing, pasture water supply, as well as the alternative power sources (wind generators and solar batteries).

## Sponsorship and Charity

KazAgroFinance JSC is an active participant of the social projects aimed at the support of

the most vulnerable social groups. For over 7 years we provide the sponsor support to the



## 8. Sustainable Development

sponsored children's home for the orphans and children without parental support located in Uryupinka village, Akkol region, Akmolinskaya oblast, giving the gifts to the children on the public holidays and organization of the leisure time during the holidays.

This year the Company's employees in cooperation with the management of the Children's Home have arranged a small exhibition and sale of handicrafts made by the children from the Children's Home in the hall of KazAgroFinance JSC. Just in a half an hour all handicrafts, made in quality and professional manner, were purchased by the Company's employees. At the expense of raised funds, a new TV set was purchased for the children, which they earned owing to their own efforts and talent.

Moreover, in celebration of 71-year anniversary from the day of the Great Victory, KazAgroFinance JSC's team arranged the charitable event "Warmest Congratulations and Kind Regards To Veterans". By joint efforts, the Company's employees raised the funds and prepared 34 sets with "warm gifts" (lap blankets and bed sets) for our dear Veterans

living in the capital, as well as the additional gifts in the regions by the employees of the Branches of KazAgroFinance JSC around the country. The token gifts in the celebration of the Victory's Day are first-of-all the dignities to the people defended our Motherland from the enemy invaders during the Great Patriotic War.

Photo of Greeting the Veterans by the KazAgroFinance Employees



# Financial Statements

for 2016

## STATEMENT OF FINANCIAL POSITION, THOUSANDS KZT

	Notes	2016	2015
<b>Assets</b>			
Cash and cash equivalents	5	22,989,891	23,874,332
Amounts due from credit institutions	6	662,881	2,549,777
Derivative financial assets	7	829,066	1,734,567
Loans to customers	8	54,841,601	59,739,798
Finance lease receivables	9	197,402,364	179,633,484
Assets held for sale	10	-	508,034
Property held for finance lease	11	5,292,406	7,594,407
Current corporate income tax prepaid	18	894,899	626,732
Property and equipment	12	1,010,749	1,078,038
Intangible assets		216,334	227,695
VAT and other taxes receivable	13	1,874,026	1,554,151
Advances paid	14	284,744	5,996,446
Other assets	20	484,261	180,819
<b>Total assets</b>		<b>286,783,222</b>	<b>285,298,280</b>



## Financial Statements

	Notes	2016	2015
<b>Liabilities</b>			
Amounts due to the Shareholder	15	85,638,633	104,286,082
Amounts due to credit institutions	16	39,556,372	30,424,302
Debt securities issued	17	46,841,139	38,624,394
Deferred corporate income tax liabilities	18	2,133,275	2,460,648
Advances received	19	2,502,225	4,760,927
Deferred VAT payable		2,945,520	2,533,534
Other liabilities	20	7,798,233	6,778,834
<b>Total liabilities</b>		<b>187,415,397</b>	<b>189,868,721</b>
<b>Equity</b>			
Share capital	22	82,837,204	82,837,204
Additional paid-in capital	22	23,282,853	22,248,866
Reserve funds	22	1,436,184	1,436,184
Reserve for notional distribution	22	(9,372,015)	(9,047,665)
Retained earnings / (accumulated deficit)		1,183,599	(2,045,030)
<b>Total equity</b>		<b>99,367,825</b>	<b>95,429,559</b>
<b>Total liabilities and equity</b>		<b>286,783,222</b>	<b>285,298,280</b>
<b>Book value per common share (in tenge)</b>	<b>22</b>	<b>1,196.94</b>	<b>1,149.26</b>

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

Izbastin Kanysh Temirtayevich



Chairman of the Management Board

Shodanova Gulnara Takisheva

Chief accountant

18 March 2017

## STATEMENT OF PROFIT OR LOSS, THOUSANDS KZT

	Notes	2016	2015
<b>Interest income</b>			
Finance lease receivables		17,788,390	14,918,315
Loans to customers		5,763,140	6,032,488
Amounts due from credit institutions		1,761,051	822,340
<b>Total interest income</b>		<b>25,312,581</b>	<b>21,773,143</b>
<b>Interest expenses</b>			
Amounts due to the Shareholder		(6,356,922)	(6,298,616)
Debt securities issued		(3,500,199)	(2,024,110)
Amounts due to credit institutions		(2,512,193)	(1,782,960)
<b>Total interest expenditure</b>		<b>(12,369,314)</b>	<b>(10,105,686)</b>
<b>Net interest income</b>		<b>12,943,267</b>	<b>11,667,457</b>
Allowance for impairment of loans to customers and finance lease receivables	8, 9	(6,187,708)	(4,611,789)
<b>Net interest income after allowance for impairment of loans to customers and finance lease receivables</b>		<b>6,755,559</b>	<b>7,055,668</b>
Net (losses)/gains from transactions with derivative financial assets	7	(947,531)	1,280,852
Net gains from transactions in foreign currencies		290,810	(10,489,402)
Other income	23	878,302	930,326
<b>Non-interest income</b>		<b>221,581</b>	<b>(8,278,224)</b>
Personnel expenses	24	(2,380,330)	(2,355,234)
Other operating expenses	24	(732,470)	(811,297)
Net loss from restructuring of loans to customers	25	(669,237)	(647,866)
Other impairment and provisions	26	(300,170)	(540,540)
Amortisation		(171,086)	(144,888)
<b>Non-interest expenses</b>		<b>(4,253,293)</b>	<b>(4,499,825)</b>
<b>Profit/(loss) before corporate income tax benefit</b>		<b>2,723,847</b>	<b>(5,722,381)</b>
Corporate income tax benefit		504,782	145,698
<b>Profit/(loss) for the year</b>		<b>3,228,629</b>	<b>(5,576,683)</b>

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

Izbastin Kanysh Temirtayevich



Chairman of the Management Board

Shodanova Gulnara Takishevna



Chief accountant

18 March 2017

**STATEMENT OF COMPREHENSIVE INCOME, THOUSANDS KZT**

	Notes	2016	2015
Profit/(loss) for the year		3,228,629	(5,576,683)
Other comprehensive income for the year		-	-
<b>Total comprehensive income/(loss) for the year</b>		<b>3,228,629</b>	<b>(5,576,683)</b>

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

Izbastin Kanysh Temirtayevich



Chairman of the Management Board

Shodanova Gulnara Takishevna

Chief accountant

18 March 2017

## STATEMENT OF CHANGES IN EQUITY, THOUSANDS KZT

	Share capital	Additional paid-in capital	Reserve funds	Reserve for notional distribution	Retained earnings / (accumulated deficit)	Total equity
<b>As at 31 December 2014</b>	<b>82,837,204</b>	<b>18,786,572</b>	<b>1,436,184</b>	<b>(7,885,776)</b>	<b>6,387,585</b>	<b>101,561,769</b>
Total comprehensive loss for the year	-	-	-	-	(5,576,683)	(5,576,683)
Gain on initial recognition of loans due to the Shareholder at fair value, net of tax (Note 22)	-	3,462,294	-	-	-	3,462,294
Dividends declared (Note 22)	-	-	-	-	(2,855,932)	(2,855,932)
Reserve for notional distribution for the year, net of tax (Note 22)	-	-	-	(1,161,889)	-	(1,161,889)
<b>As at 31 December 2015</b>	<b>82,837,204</b>	<b>22,248,866</b>	<b>1,436,184</b>	<b>(9,047,665)</b>	<b>(2,045,030)</b>	<b>95,429,559</b>
Total comprehensive income for the year	-	-	-	-	3,228,629	3,228,629
Gain on initial recognition of loans due to the Shareholder at fair value, net of tax (Note 22)	-	1,033,987	-	-	-	1,033,987
Reserve for notional distribution for the year, net of tax (Note 22)	-	-	-	(324,350)	-	(324,350)
<b>As at 31 December 2016</b>	<b>82,837,204</b>	<b>23,282,853</b>	<b>1,436,184</b>	<b>(9,372,015)</b>	<b>1,183,599</b>	<b>99,367,825</b>

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

Izbastin Kanysh Temirtayev



Chairman of the Management Board

Shodanova Gulnara Takisheva

Chief accountant

18 March 2017



## STATEMENT OF CASH FLOWS, THOUSANDS KZT

	Notes	2016	2015
<b>Cash flows from operating activities</b>			
Interest received		21,400,923	16,198,885
Interest paid		(7,556,872)	(3,917,832)
Realised gains less losses from transactions with derivative financial assets	7	70,223	15,008
Personnel expenses paid		(2,339,589)	(2,381,558)
Other operating expenses paid		(750,221)	(815,003)
Other income received		258,194	923,201
Realised losses less gains from dealing in foreign currencies		(130,688)	(386,220)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>10,951,970</b>	<b>9,636,481</b>
<i>Net decrease/(increase) in operating assets:</i>			
Amounts due from credit institutions		1,871,187	1,494,180
Derivative financial assets		-	111
Loans to customers		3,026,777	(5,464,672)
Finance lease receivables		(12,507,446)	(26,983,980)
Assets held for sale		-	5,895
Property held for finance lease		-	3,756,988
VAT and other taxes receivable		(319,875)	(265,808)
Advances paid		(120,144)	(1,330,499)
Other assets		(440,736)	(16,072)
<i>Net increase/(decrease) in operating liabilities:</i>			
Advances received		299,740	1,339,358
Other liabilities		1,383,809	(3,519,059)
<b>Net cash flows from / (used in) operating activities before corporate income tax</b>		<b>4,145,282</b>	<b>(21,347,077)</b>
Corporate income tax paid		(268,167)	(74,865)
<b>Net cash received from / (used in) operating activities</b>		<b>3,877,115</b>	<b>(21,421,942)</b>

## STATEMENT OF CASH FLOWS, THOUSANDS KZT (CONTINUE)

	Notes	2016	2015
<b>Cash flows from investing activities</b>			
Purchase of property and equipment and intangible assets		(93,142)	(192,866)
Proceeds from sale of property and equipment		1,682	-
<b>Net cash used in investing activities</b>		<b>(91,460)</b>	<b>(192,866)</b>
<b>Cash flows from financing activities</b>			
Proceeds from loans due to the Shareholder		5,504,093	24,883,416
Repayment of loans due to the Shareholder		(27,007,199)	(18,107,533)
Proceeds from loans due to credit institutions		26,712,535	6,901,367
Repayments of loans due to credit institutions		(17,621,359)	(14,365,824)
Proceeds from debt securities issued	17	8,000,000	19,984,542
Dividends paid to the Shareholder	22	-	(2,855,932)
<b>Net cash (used in) / received from financing activities</b>		<b>(4,411,930)</b>	<b>16,440,036</b>
Effect of exchange rate changes on cash and cash equivalents		(258,166)	5,523,279
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(884,441)</b>	<b>348,507</b>
Cash and cash equivalents, beginning of the year	5	23,874,332	23,525,825
<b>Cash and cash equivalents, end of the year</b>	<b>5</b>	<b>22,989,891</b>	<b>23,874,332</b>

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

Izbastin Kanysh Temirtayevich

Shodanova Gulnara Takishevna

18 March 2017



Chairman of the Management Board

Chief accountant

# Additional Information

## Glossary

<b>AP</b>	Agricultural producer
<b>AS</b>	Agricultural sector
<b>AML/FT</b>	Anti-money laundering, financing of terrorism, deception and corruption
<b>BD</b>	Board of Directors
<b>CM</b>	Corporate Management
<b>DF</b>	Dairy Farm
<b>EKO</b>	East-Kazakhstan oblast
<b>HR</b>	Human Resources
<b>IAS</b>	Internal Audit Service
<b>IFRS</b>	International Financial Reporting Standards
<b>KAF</b>	KazAgroFinance
<b>KPI</b>	Key Performance Indicator
<b>MA</b>	Ministry of Agriculture
<b>Media</b>	Mass Media
<b>NF RK</b>	National Fund of the Republic of Kazakhstan
<b>NKO</b>	North-Kazakhstan oblast
<b>NPL</b>	A loan on which the terms of the primary credit agreement are not complied with (Non-performing loan)
<b>RMD</b>	Risk Management Department
<b>ROA</b>	Return on assets
<b>ROE</b>	Return on equity
<b>SS</b>	Sole Shareholder
<b>SKO</b>	South-Kazakhstan oblast
<b>SFC</b>	Spring field campaign
<b>WKO</b>	West-Kazakhstan oblast
<b>WTO</b>	World Trade Organization

# Contacts



**Address:**

Republic of Kazakhstan, 010000,  
Astana city, 51, Kenesary St., VP-4

**Reception:**

+7 (7172) 58-04-37, 58-04-38

**Hotline:**

+7 (7172) 58-04-50

**Correspondence reception:**

+7 (7172) 55-65-33

**Fax:**

+7 (7172) 58-04-46

**Press Office:**

+7 (7172) 58-04-11

**Direct Investment:**

+7 (7172) 55-73-40

**Coordination with shareholder:**

+7 (7172) 58-04-51

**E-mail:**

mailbox@kaf.kz



**“Ernst and Young” LLP**

Republic of Kazakhstan, 050060,  
Almaty city, 77/7, Al-Farabi Ave.,  
Building “Yessentai Tower”

**Tel.:** +7 (727) 258-59-60

**Fax:** +7 (727) 258-59-61



# Company Branches

## Branch in Akmolinskaya oblast

Kokshetau, 96, Abai St., office 703, 704, 810

**Tel.:** 8 (7162) 91-00-31, 91-00-32,

**e-mail:** akm5@kaf.kz

## Branch in Almaty city

Almaty, 142, Bogenbai batyr St.,  
Business Centre Kaisar, 4 floor

**Tel.:** 8 (7272) 95-93-50, 95-93-51,

**e-mail:** credit\_alm2@kaf.kz

## Branch in Almatinskaya oblast

г. Талдықорған, ул. Абылай хана 125,

**Tel.:** 8 (7282) 55-86-80, 55-86-81,

**e-mail:** almaty@kaf.kz

## Branch in Aktyubinskaya oblast

Aktobe, 51/1, Abylkhair Khan Ave.

**Tel.:** 8 (7132) 92-11-80, 92-11-81,

**e-mail:** akt3@kaf.kz

## Branch in Atyrauskaya oblast

Atyrau, 13A, Satpayev St., 3 floor

**Tel.:** 8 (7122) 93-00-31, 93-00-32,

**e-mail:** atr@kaf.kz

## Branch in East-Kazakhstan oblast

Ust-kamenogorsk, 62, Satpayev Ave.

**Tel.:** 8 (7232) 49-24-77, 49-24-76,

**e-mail:** vko@kaf.kz

## Branch in Kostanaiskaya oblast

Kostanai, 1A, Bauman St.

**Tel.:** 8 (7142) 99-97-71, 99-97-72,

**e-mail:** kst3@kaf.kz

## Branch in Kyzylordinskaya oblast

Kyzylorda, 33, Kunayev St., 2 floor

**Tel.:** 8 (7242) 55-13-00, 55-13-02,

**e-mail:** kzl@kaf.kz

## Branch in North-Kazakhstan oblast

Petropavlovsk, 31A,  
Buketov St.

**Tel.:** 8 (7152) 63-10-30, 63-10-31,

**e-mail:** sko@kaf.kz

## Branch in South-Kazakhstan oblast

Shymkent, 119, Tolstoy St., 3 floor

**Tel.:** 8 (7252) 98-40-10, 98-40-11,

**e-mail:** uko@kaf.kz

## Branch in Zhambylskaya oblast

Taraz, 17, Suleimenov St.

**Tel.:** 8 (7262) 99-92-20, 99-92-23,

**e-mail:** tar@kaf.kz

## Branch in West-Kazakhstan oblast

Uralsk, 28, S. Datov St.

**Tel.:** 8 (7112) 96-00-30, 96-00-31,

**e-mail:** zko@kaf.kz

## Branch in Pavlodarskaya oblast

Pavlodar, 71B, Krupskaya St.

**Tel.:** 8 (7182) 77-00-66, 77-00-68,

**e-mail:** pvl@kaf.kz

## Branch in Karagandinskaya oblast

Karaganda, 53/1, Bukhar Zhyrau St.

**Tel.:** 8 (7212) 92-24-07, 92-24-08,

**e-mail:** krg@kaf.kz

