National Investment Corporation of the National Bank of Kazakhstan JSC

Financial Statements

for the year ended 31 December 2016

Contents

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Independent Auditors' Report

To Shareholder and Board of Directors of National Investment Corporation of the National Bank of Kazakhstan JSC

Opinion

We have audited the financial statements of National Investment Corporation of the National Bank of Kazakhstan JSC (the "Company"), which comprise the statement of financial position as at 31 December 2016, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"s). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

Auditors' Responsibilities for the Audit of the Financial Statements, continued

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

The engagement partner on the audit resulting in this independent auditors' report is:

Yelena Kim
Certified Auditor
of the Republic of Kazakhstan,
Auditor's Qualification Certificate
No. МФ-0000042 of 8 August 2011

KPMG Audit LLC

State Licence to conduct audit # 0000021 dated 6 December 2006 issued by the Ministry of Finance of the Republic of Kazakhstan

Assel Khairova
General Director of KPMG Audit LLC
acting on the basis of the Charter

6 March 2017

	Note	2016 KZT'000	2015 KZT'000
Interest income	4	2,690,893	2,473,116
Operating expenses	5	(1,257,130)	(1,251,678)
Commission income from services provided	6	2,666	2,716
Other expenses		(26,868)	(34,896)
Profit before income tax		**1,409,561**	**1,189,258**
Income tax benefit	7	38,627	31,579
Profit for the year		**1,448,188**	**1,220,837**
Other comprehensive income, net of income tax			
Items that are or may be reclassified subsequently to profit or loss:			
Revaluation reserve for available-for-sale financial assets:			
- Net change in fair value		(9,038)	(47,999)
Total items that are or may be reclassified subsequently to profit or loss		*(9,038)*	*(47,999)*
Other comprehensive income for the year, net of income tax		**(9,038)**	**(47,999)**
Total comprehensive income for the year		**1,439,150**	**1,172,838**

The financial statements as set out on pages 6 to 33 were approved by management on 6 March 2017 and were signed on its behalf by:

Birtanov Ye. A.
Chairman of the Board

Kishibayeva K. N.
Chief Accountant

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements.

	Note	2016 KZT'000	2015 KZT'000
ASSETS			
Cash and cash equivalents	8	2,956,525	2,222,086
Available-for-sale financial assets	9	653,950	662,989
Held-to-maturity investments	10	38,192,741	38,363,911
Property, equipment and intangible assets		40,424	36,131
Other assets		114,172	70,124
Total assets		**41,957,812**	**41,355,241**
LIABILITIES			
Other liabilities	11	508,345	311,670
Total liabilities		**508,345**	**311,670**
EQUITY	12		
Share capital		40,000,000	40,000,000
Additional paid-in capital		53,625	51,959
Revaluation reserve for available-for-sale financial assets		(52,352)	(43,314)
Retained earnings		1,448,194	1,034,926
Total equity		**41,449,467**	**41,043,571**
Total liabilities and equity		**41,957,812**	**41,355,241**

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements.

	2016 KZT'000	2015 KZT'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	2,862,068	883,084
Commission from trust management receipts	2,716	152,690
Other expenses payments	(26,873)	(34,896)
Personnel expenses paid	(614,805)	(651,385)
Operating expenses paid	(438,000)	(484,283)
Decrease (increase) in operating assets		
Amounts receivable under reverse repurchase agreements	-	120,000
Other assets	-	3,081
Net cash flows used in operating activities	**1,785,106**	**(11,709)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of held-to-maturity investments	-	(36,773,468)
Purchases of property, equipment and intangible assets	(15,747)	(32,229)
Net cash flows used in investing activities	**(15,747)**	**(36,805,697)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of dividends	(1,034,920)	-
Net cash used in financing activity	**(1,034,920)**	**-**
Net increase/(decrease) in cash and cash equivalents	**734,439**	**(36,817,406)**
Cash and cash equivalents as at the beginning of the year	2,222,086	39,039,492
Cash and cash equivalents as at the end of the year (Note 8)	**2,956,525**	**2,222,086**

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements.

KZT'000	**Share capital**	**Additional paid-in capital**	**Revaluation reserve for available-for-sale financial assets**	**Retained earnings**	**Total equity**
Balance as at 1 January 2015	40,000,000	43,732	4,685	(185,911)	39,862,506
Total comprehensive income					
Profit for the year	-	-	-	1,220,837	1,220,837
Other comprehensive income					
Items that are or may be reclassified subsequently to profit or loss:					
Net change in fair value of available-for-sale financial assets	-	-	(47,999)	-	(47,999)
Total items that are or may be reclassified subsequently to profit or loss	-	-	*(47,999)*	-	*(47,999)*
Total other comprehensive income	-	-	(47,999)	-	(47,999)
Total comprehensive income for the year	**-**	**-**	**(47,999)**	**1,220,837**	**1,172,838**
Transactions with owners, recorded directly in equity					
Gratuitously received property and services	-	8,227	-	-	8,227
Total transactions with owners	**-**	**8,227**	**-**	**-**	**8,227**
Balance as at 31 December 2015	**40,000,000**	**51,959**	**(43,314)**	**1,034,926**	**41,043,571**

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements.

KZT'000	Share capital	Additional paid-in capital	Revaluation reserve for available-for-sale financial assets	Retained earnings	Total equity
Balance as at 1 January 2016	40,000,000	51,959	(43,314)	1,034,926	41,043,571
Total comprehensive income					
Profit for the year	-	-	-	1,448,188	1,448,188
Other comprehensive income					
Items that are or may be reclassified subsequently to profit or loss:					
Net change in fair value of available-for-sale financial assets	-	-	(9,038)	-	(9,038)
Total items that are or may be reclassified subsequently to profit or loss	*-*	*-*	*(9,038)*	*-*	*(9,038)*
Total other comprehensive income	-	-	(9,038)	-	(9,038)
Total comprehensive income for the year	**-**	**-**	**(9,038)**	**1,448,188**	**1,439,150**
Transactions with owners, recorded directly in equity					
Gratuitously received property and services	-	1,666	-	-	1,666
Dividends paid	-	-	-	(1,034,920)	(1,034,920)
Total transactions with owners	**-**	**1,666**	**-**	**(1,034,920)**	**(1,033,254)**
Balance as at 31 December 2016	**40,000,000**	**53,625**	**(52,352)**	**1,448,194**	**41,449,467**

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements.

1 Background

(a) Organisation and operations

National Investment Corporation of the National Bank of Kazakhstan JSC (the "Company") was established in the Republic of Kazakhstan as a joint-stock company in 2012, state registration certificate of legal entity #№ 798-1910-06-AO dated 25 June 2012 (amended 31.01.2017).

Main activities of the Company are activities on trust management of the assets of the National Fund of the RK, golden-currency reserves of the National Bank of the Republic of Kazakhstan (the "NBRK"), pension assets and other assets, determined by laws of the RK.

The Company performed its activities on the securities market under a state license 4.1.4.110 dated 20 December 2012 on operations on the securities market. Due to the changes in the Law on the Securities market, starting from 15 May 2015 the Company performs its activities without the state license.

The Company's registered office is 136 Dostyk Avenue, 050051, Almaty, Republic of Kazakhstan.

The sole shareholder of the Company is the NBRK (the "Parent Company"). The majority of funding is from the Parent Company. As a result, the Company is economically dependent on the Parent Company. In addition, the Company's activities are closely linked with the Parent Company's requirements. Related party transactions are described in detail in Note 17.

In accordance with the agreement on trust management of the golden-currency reserves concluded between the Company and the NBRK on 18 June 2015 the NBRK established NICK Master Fund Ltd (the "Fund") for the purpose of realisation of the investment program in the alternative investments. The NBRK holds participating shares of the Fund with the value of USD 800,000 thousand (KZT 150,120,000 thousand) and receives economic benefits from the investments. The Company holds voting shares of the Fund with the value of USD 100 (KZT 19 thousand) and manages its assets. The value of shares were converted into KZT using the exchange rate at the date of transaction. In the statement of financial position these investments are recognised in other assets.

Despite the Company manages the Fund's assets it is not exposed to variable returns from the Fund as all the economic benefits from the investments made by the Fund are received directly by the NBRK. In fact, the Company acts as an agent as the linkage element between the power and returns is missing. Accordingly, the Fund is not consolidated by the Company in accordance with IFRS 10 *Consolidated Financial Statements*.

(b) Kazakhstan business environment

The Company's operations are primarily located in Kazakhstan. Consequently, the Company is exposed to the economic and financial markets of Kazakhstan which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Kazakhstan. In addition, the significant depreciation of the Kazakhstan tenge, and the reduction in the global price of oil, have increased the level of uncertainty in the business environment.

The financial statements reflect management's assessment of the impact of the Kazakhstan business environment on the operations and the financial position of the Company. The future business environment may differ from management's assessment

2 Basis of preparation

(a) Statement of compliance

The accompanying financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

2 Basis of preparation, continued

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except that available-for-sale financial assets are stated at fair value.

(c) Functional and presentation currency

The functional currency of the Company is the Kazakhstan tenge (KZT) as, being the national currency of the Republic of Kazakhstan, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The KZT is also the presentation currency for the purposes of these financial statements.

Financial information presented in KZT is rounded to the nearest thousand.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the following notes:

- consolidation of the Fund – Note 1(a);
- income tax benefit – Note 7;
- classification of held-to-maturity investments – Note 10;
- estimates of fair values of financial assets and liabilities – Note 18.

3 Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these financial statements, except as explained in note 3(j), which addresses changes in accounting policies.

(a) Foreign currency

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss.

3 Significant accounting policies, continued

(b) Cash and cash equivalents

Cash and cash equivalents include cash, the Company's current accounts held with the NBRK, and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Company in the management of short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(c) Financial instruments

(i) Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term;

- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;

- derivative financial instruments (except for a derivative that is a financial guarantee contract or a designated and effective hedging instruments) or,

- upon initial recognition, designated as at fair value through profit or loss.

The Company may designate financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;

- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,

- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loans and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the Company has an intention and ability to hold them for the foreseeable future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Company:

- intends to sell immediately or in the near term;

- upon initial recognition designates as at fair value through profit or loss;

- upon initial recognition designates as available-for-sale or,

- may not recover substantially all of its initial investment, other than because of credit deterioration.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Company has the positive intention and ability to hold to maturity, other than those that:

3 Significant accounting policies, continued

(c) Financial instruments, continued

(i) Classification, continued

- the Company upon initial recognition designates as at fair value through profit or loss;

- the Company designates as available-for-sale or,

- meet the definition of loans and receivables.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

(ii) Recognition

Financial assets and liabilities are recognised in the statement of financial position when the Company becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

(iii) Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on their sale or other disposal, except for:

- loans and receivables which are measured at amortised cost using the effective interest method;

- held-to-maturity investments that are measured at amortised cost using the effective interest method;

- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost.

(iv) Amortised cost

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

(v) Fair value measurement principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Company measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

3 Significant accounting policies, continued

(c) Financial instruments, continued

(v) Fair value measurement principles, continued

When there is no quoted price in an active market, the Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Company determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument, but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, the Company measures assets and long positions at the bid price and liabilities and short positions at the ask price.

(vi) Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognised as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in profit or loss;

- a gain or loss on an available-for-sale financial asset is recognised as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses on debt financial instruments available-for-sale) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. Interest in relation to an available-for-sale financial asset is recognised in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or liability is derecognised or impaired, and through the amortisation process.

(vii) Derecognition

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognised as a separate asset or liability in the statement of financial position. The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Company enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised.

3 Significant accounting policies, continued

(c) Financial instruments, continued

(vii) Derecognition, continued

In transactions where the Company neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

In transfers where control over the asset is retained, the Company continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

The Company writes off assets deemed to be uncollectible.

(viii) Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the statement of financial position and the counterparty liability included in amounts payable under repurchase agreement. The difference between the sale and repurchase prices represents interest expense and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repurchase agreements. The difference between the purchase and resale prices represents interest income and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

(ix) Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(d) Property, plant and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

(ii) Operating lease

Where the Company is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Company, the total lease payments are charged to profit or loss for the year (as lease expenses) on a straight-line basis over the period of the lease.

(iii) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

3 Significant accounting policies, continued

(d) Property, plant and equipment, continued

(iii) Depreciation, continued

- equipment 5 to 12 years;
- fixtures and fittings 5 to 25 years;
- motor vehicles 5 to 7 years;
- computer software 3 to 5 years.

(e) Intangible assets

Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 1 to 10 years.

(f) Impairment

The Company assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the Company determines the amount of any impairment loss.

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a loss event) and that event (or events) has had an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of financial asset or group of financial assets that the Company would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data related to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

In addition, for an investment in an equity security available-for-sale a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

(i) Financial assets carried at amortised cost

Financial assets carried at amortised cost consist principally of placements with banks and other receivables (receivables). The Company reviews its receivables to assess impairment on a regular basis.

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

If there is objective evidence that an impairment loss on a receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

3 Significant accounting policies, continued

(f) Impairment, continued

(i) Financial assets carried at amortised cost, continued

In some cases the observable data required to estimate the amount of an impairment loss on a receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a counterparty is in financial difficulties and there is little available historical data related to similar counterparties. In such cases, the Company uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognised in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

(ii) Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by transferring the cumulative loss that is recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(iii) Non-financial assets

Non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(g) Share capital

(i) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(ii) Dividends

The ability of the Company to declare and pay dividends is subject to the rules and regulations of Kazakhstan legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

3 Significant accounting policies, continued

(h) Taxation

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are not recognised for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(i) Income and expense recognition

Interest income and expense are recognised in profit or loss using the effective interest method.

Revenue from services rendered and other income and expense items are recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(j) Changes in accounting policies and presentation

The Company has adopted the following amendments to standards with a date of initial application of 1 January 2016: *Disclosure Initiative (Amendments to IAS 1).* These amendments clarify the materiality principle. In particular, it has been made explicit that companies should disaggregate line items in the statement of financial position and in the statement of profit or loss and other comprehensive income if this provides helpful information to users; and can aggregate line items in the statement of financial position and in the statement of profit or loss and other comprehensive income if the line items specified by IAS 1 are immaterial.

Following these amendments presentation of financial statements was changed as followers:

'000 KZT	**As previously reported**	**Reclassification**	**As reclassifconcolied**
Statement of financial position as at 31 December 2015			
Short-term commission receivable from the NBRK	2,716	(2,716)	-
Deferred tax asset	61,369	(61,369)	-
Other assets	6,039	64,085	70,124

3 Significant accounting policies, continued

(k) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2016, and are not applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Company plans to adopt these pronouncements when they become effective.

IFRS 9 ***Financial Instruments***

IFRS 9 *Financial Instruments*, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments*: *Recognition and Measurement*, and includes requirements for classification and measurement of financial instruments, impairment of financial assets and hedge accounting

(i) Classification and measurement

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated. Instead, the whole hybrid instrument is assessed for classification. Equity investments are measured at fair value.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

– the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and

– the remaining amount of change in the fair value is presented in profit or loss.

(ii) Impairment

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ model. The new impairment model applies to financial assets measured at amortised cost and FVOCI, lease receivables, certain loan commitments and financial guarantee contracts. The new impairment model generally requires to recognise expected credit losses in profit or loss for all financial assets, even those that are newly originated or acquired. Under IFRS 9, impairment is measured as either expected credit losses resulting from default events on the financial instrument that are possible within the next 12 months (‘12-month ECL’) or expected credit losses resulting from all possible default events over the expected life of the financial instrument (‘lifetime ECL’). Initial amount of expected credit losses recognised for a financial asset is equal to 12-month ECL (except for certain trade and lease receivables, and contract assets, or purchased or originated credit-impaired financial assets). If the credit risk on the financial instrument has increased significantly since initial recognition, the loss allowance is measured at an amount equal to lifetime ECL.

Financial assets for which 12-month ECL is recognised are considered to be in stage 1; financial assets that have experienced a significant increase in credit risk since initial recognition, but are not defaulted are considered to be in stage 2; and financial assets that are in default or otherwise credit-impaired are considered to be in stage 3.

3 Significant accounting policies, continued

(k) New standards and interpretations not yet adopted, continued

(ii) Impairment, continued

Measurement of expected credit losses is required to be unbiased and probability-weighted, should reflect the time value of money and incorporate reasonable and supportable information that is available without undue cost or effort about past events, current conditions and forecasts of future economic conditions. Under IFRS 9, credit losses are recognised earlier than under IAS 39, resulting in increased volatility in profit or loss. It will also tend to result in an increased impairment allowance, since all financial assets will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population with objective evidence of impairment identified under IAS 39.

Calculation of expected credit losses is likely to be based on the PDxLGDxEAD approach (at least for some portfolios), depending on the type of the exposure, stage at which the exposure is classified under IFRS 9, collective or individual assessment, etc.

(iii) Hedge accounting

The general hedge accounting requirements aim to simplify hedge accounting, aligning the hedge accounting more closely with risk management strategies. The standard does not explicitly address macro hedge accounting, which is being considered in a separate project. IFRS 9 includes an accounting policy choice to continue to apply the hedge accounting requirements of IAS 39.

(iv) Transition

The classification and measurement and impairment requirements are generally applied retrospectively (with some exemptions) by adjusting the opening retained earnings and reserves at the date of initial application, with no requirement to restate comparative periods.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018. Early adoption of the standard is permitted. The Company does not intend to adopt the standard earlier.

The Company has not started a formal assessment of potential impact on its financial statements resulting from the application of IFRS 9 neither has initiated any specific actions towards the preparation for implementation of IFRS 9. Accordingly, it is not practicable to estimate the impact that the application of IFRS 9 will have on the Company's financial statements.

IFRS 16 *Leases*

IFRS 16 *Leases* replaces the existing lease accounting guidance in IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, early adoption is permitted if IFRS 15 *Revenue from Contracts with Customers* is also adopted. The Company does not intend to adopt this standard early. The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 16.

Other amendments

The following new or amended standards are not expected to have a significant impact of the Company's financial statements.

- Disclosure Initiative (Amendments to IAS 7 *Statement of Cash Flows)*)
- Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12 *Income Taxes*).

4 Interest income

	2016 KZT'000	2015 KZT'000
Held-to-maturity investments	2,340,056	1,875,049
Cash and cash equivalents:		
Amounts receivable under reverse repurchase agreements	263,331	558,474
Interest on term deposits	48,006	-
Available-for-sale financial assets	39,500	39,593
	2,690,893	**2,473,116**

5 Operating expenses

	2016 KZT'000	2015 KZT'000
Salary and related taxes	811,444	799,485
Communications and information services	184,239	54,960
Business trips	71,847	112,575
Professional services	62,633	205,807
Training expenses	43,889	21,862
Taxes other than on income	24,383	20,222
Repairs and maintenance	16,508	134
Depreciation and amortisation	11,454	5,860
Transportation	7,119	6,080
Insurance	6,524	5,285
Stationery and office supplies	5,232	5,188
Representation expenses	3,701	3,115
Operating lease expense	2,938	6,913
Utilities	1,536	656
Security	1,393	2,510
Other	2,290	1,026
	1,257,130	**1,251,678**

6 Commission income from services provided

The entire amount of income from services provided relates to a management fee received under the agreement on trust management of the part of the golden currency reserves concluded with the NBRK in 2013. In 2016 the annual fee is accrued as a fixed amount of USD 8,000 converted into KZT using the official exchange rate of the NBRK at year end (2015: the annual fee is accrued as a fixed amount of USD 8,000 converted into KZT using the official exchange rate of the NBRK at year end).

7 Income tax benefit

	2016 KZT'000	2015 KZT'000
Movement in deferred tax assets due to origination and reversal of temporary differences	38,627	31,579
Total income tax benefit	**38,627**	**31,579**

In 2016, the applicable tax rate for current and deferred tax is 20% (2015: 20%).

7 Income tax benefit, continued

Reconciliation of effective tax rate for the year ended 31 December:

	2016 KZT'000	%	2015 KZT'000	%
Profit before income tax	**1,409,561**		**1,189,258**	
Income tax at the applicable tax rate	(281,912)	(20.0)	(237,852)	(20.0)
Non-taxable income on state securities	327,991	23.3	273,528	23.0
Non-deductible expenses	(7,452)	(0.5)	(4,097)	(0.3)
	38,627	**2.8**	**31,579**	**2.7**

Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets as at 31 December 2016 and 2015. Future tax benefits will only be realised if profits will be available against which unused tax losses can be utilised and there are no changes to the Kazakh law and regulations that adversely affect the Company's ability to claim deductions in future periods.

Movements in temporary differences during the years ended 31 December 2016 and 2015 are presented as follows.

KZT'000	Balance 1 January 2016	Recognised in profit or loss	Recognised in equity	Balance 31 December 2016
Property, equipment and intangible assets	(1,848)	(214)	-	(2,062)
Other liabilities	62,275	39,367	-	101,642
Tax loss carry-forwards	942	(525)	(417)	-
	61,369	**38,628**	**(417)**	**99,580**

KZT'000	Balance 1 January 2015	Recognised in profit or loss	Recognised in equity	Balance 31 December 2015
Property, equipment and intangible assets	71	(1,919)	-	(1,848)
Other liabilities	31,505	30,770	-	62,275
Tax loss carry-forwards	271	2,728	(2,057)	942
	31,847	**31,579**	**(2,057)**	**61,369**

Income tax recognised directly in equity

KZT'000	2016	2015
Gratuitously received services and property from the shareholder	417	2,057

8 Cash and cash equivalents

KZT'000	2016	2015
Nostro accounts with the NBRK	155,667	35,511
Amounts receivable under reverse repurchase agreements concluded on Kazakhstan Stock Exchange	2,800,858	2,186,575
Cash and cash equivalents	**2,956,525**	**2,222,086**

As at 31 December 2016 amounts receivable under reverse repurchase agreements were collateralised by the government securities of the Ministry of Finance of the Republic of Kazakhstan with a fair value of KZT 2,800,000 thousand.

As at the date of issuance of the financial statements amounts receivable under reverse repurchase agreements were fully repaid.

None of cash and cash equivalents are impaired or past due.

9 Available-for-sale financial assets

The entire amount of available-for-sale assets is represented by government securities of the Ministry of Finance of the Republic of Kazakhstan denominated in KZT rated BBB+.

None of available-for-sale financial assets are impaired or past due.

10 Held-to-maturity investments

The entire amount of held-to-maturity investments is represented by government securities of the Ministry of Finance of the Republic of Kazakhstan denominated in KZT with maturity in 2034 rated BBB+.

In accordance with the Investment Policy, the Company has intention and ability to hold these securities till their maturity. The published price quotations for substantially the same debt securities with identical terms are available from the local stock exchange.

None of held-to-maturity investments are impaired or past due.

11 Other liabilities

	2016 KZT'000	2015 KZT'000
Payables to suppliers	6,630	6,347
Short-term guarantee liabilities	-	195
Total other financial liabilities	**6,630**	**6,542**
Bonus and vacation reserves	501,715	305,076
Taxes and payments to the budget	-	52
Total other non financial liabilities	**501,715**	**305,128**
Total other liabilities	**508,345**	**311,670**

12 Share capital and reserves

(a) Issued capital

As at 31 December 2016 and 2015 the authorised, issued and outstanding share capital comprises 4,000,000 ordinary shares. All shares have a nominal value of KZT 10,000.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Company.

(b) Additional paid-in capital

Additional paid-in capital represents property, rent of office buildings and other services received on a gratuitous basis from the shareholder, net of income tax.

(c) Dividends

In accordance with the legislation of the Republic of Kazakhstan, the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with IFRS. A distribution cannot be made if this would result in negative equity or the Company's insolvency. In 2016, the Company declared and paid dividends in the amount of KZT 1,034,920 thousand, KZT 258.73 per one ordinary share. During 2015, no dividends were declared.

(d) Revaluation reserve for available-for-sale financial assets

The revaluation reserve for available-for-sale financial assets comprises the cumulative net change in the fair value, until the assets are derecognised or impaired.

13 Risk management

(a) Risk management policies and procedures

Management of risk is fundamental to the Company's business and forms an essential element of the Company's operations. The major risks faced by the Company are those related to market risk, credit risk and liquidity risk.

The risk management policies aim to identify, analyse and manage the risks faced by the Company, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Board of Directors has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Management Board is responsible for monitoring and implementation of risk mitigation measures and making sure that the Company operates within established risk parameters. The risk manager is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. Both external and internal risk factors are identified and managed throughout the Company's organisational structure.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices and foreign currency rates.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return, received for the risk assumed.

Overall authority for market risk is vested in the Department of Strategy and Risk management.

13 Risk management, continued

(b) Market risk, continued

(i) Interest-rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major financial instruments is as follows:

'000 KZT	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2016							
ASSETS							
Cash and cash equivalents	2,800,858	-	-	-	-	155,667	2,956,525
Financial assets available for sale	-	3,071	288,515	362,364	-	-	653,950
Held-to-maturity investments	-	1,590,443			36,602,298		38,192,741
Other assets	-	-	-	-	-	2,666	2,666
Total assets	**2,800,858**	**1,593,514**	**288,515**	**362,364**	**36,602,298**	**158,333**	**41,805,882**
LIABILITIES							
Other financial liabilities	-	-	-	-	-	6,630	6,630
Total liabilities	**-**	**-**	**-**	**-**	**-**	**6,630**	**6,630**
Net position	**2,800,858**	**1,593,514**	**288,515**	**362,364**	**36,602,298**	**151,703**	**41,799,252**
31 December 2015							
ASSETS							
Cash and cash equivalents	2,186,575	-	-	-	-	35,511	2,222,086
Available-for-sale financial assets	-	3,071	3,258	656,660	-	-	662,989
Held-to-maturity investments	-	1,590,443	-	-	36,773,468	-	38,363,911
Other assets	-	-	-	-	-	2,716	2,716
Total assets	**2,186,575**	**1,593,514**	**3,258**	**656,660**	**36,773,468**	**38,227**	**41,251,702**
LIABILITIES							
Other financial liabilities	-	-	-	-	-	6,542	6,542
Total liabilities	**-**	**-**	**-**	**-**	**-**	**6,542**	**6,542**
Net position	**2,186,575**	**1,593,514**	**3,258**	**656,660**	**36,773,468**	**31,685**	**41,245,160**

13 Risk management, continued

(b) Market risk, continued

(i) Interest-rate risk, continued

Average effective interest rate

The table below displays average effective interest rates for financial assets and financial liabilities as at 31 December 2016 and 2015:

	Average effective interest rate,% Tenge	
	2016	**2015**
Cash and cash equivalents:		
Amounts receivable under reverse repurchase agreements	11.18	61.24
Available-for-sale financial assets	5.64	5.64
Held-to-maturity investments	6.36	6.36

Interest rate sensitivity analysis

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2016 and 2015 and a simplified scenario of a 100 bp symmetrical fall or rise in all yield curves is as follows:

	2016	2015
	Equity KZT'000	**Equity KZT'000**
100 bp parallel fall	8,164	14,359
100 bp parallel rise	(7,987)	(13,926)

(ii) Currency risk

As at 31 December 2016 and 2015 the Company's assets and liabilities were denominated in Tenge.

(c) Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company has policies and procedures in place to manage credit exposures (both for recognised financial assets and unrecognised contractual commitments).

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the statement of financial position. As at 31 December 2016 and 2015 there were no financial assets past due or impaired.

The maximum exposure to credit risk from financial assets at the reporting date is as follows:

13 Risk management, continued

(c) Credit risk, continued

	2016 KZT'000	2015 KZT'000
ASSETS		
Cash and cash equivalents	2,956,525	2,222,086
Available-for-sale financial assets	653,950	662,989
Held-to-maturity investments	38,192,741	38,363,911
Other assets	2,666	2,716
Total maximum exposure to credit risk	**41,805,882**	**41,251,702**

Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Company's statement of financial position; or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

Similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements and securities borrowing and lending agreements.

The Company receives and accepts collateral in the form of cash and marketable securities in respect of the following transactions:

- Derivatives
- Repurchase and reverse repurchase agreements

This means that securities received/given as collateral can be pledged or sold during the term of the transaction but must be returned on maturity of the transaction. The terms also give each counterparty the right to terminate the related transitions upon the counterparty's failure to post collateral.

13 Risk management, continued

(c) Credit risk, continued

Offsetting financial assets and financial liabilities, continued

The table below shows financial assets and financial liabilities subject to enforceable master netting arrangements and similar arrangements as at 31 December 2016:

'000 KZT

				Related amounts not offset in the statement of financial position	
Types of financial assets	**Gross amounts of recognised financial asset**	**Gross amount of recognised financial asset offset in the statement of financial position**	**Net amount of financial assets presented in the statement of financial position**	**Financial instruments**	**Net amount**
Amounts receivable under reverse repurchase agreements	2,800,858	-	2,800,858	(2,800,000)	858
Total financial assets	**2,800,858**		**2,800,858**	**(2,800,000)**	**858**

The table below shows financial assets and financial liabilities subject to enforceable master netting arrangements and similar arrangements as at 31 December 2015:

'000 KZT

				Related amounts not offset in the statement of financial position	
Types of financial assets	**Gross amounts of recognised financial asset**	**Gross amount of recognised financial asset offset in the statement of financial position**	**Net amount of financial assets presented in the statement of financial position**	**Financial instruments**	**Net amount**
Amounts receivable under reverse repurchase agreements	2,186,575	-	2,186,575	(2,150,331)	36,244
Total financial assets	**2,186,575**	**-**	**2,186,575**	**(2,150,331)**	**36,244**

(d) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched, since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Company maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Management Board.

As at 31 December 2016 and 2015 the Company's financial assets exceeded financial liabilities and the Company did not have significant liquidity risk exposures.

14 Capital management

The Company has no formal policy for capital management but management seeks to maintain a sufficient capital base for meeting the Company's operational and strategic needs, and to maintain confidence of market participants. This is achieved with efficient cash management, constant monitoring of Company's revenues and profit, and long-term investment plans mainly financed by the Company's operating cash flows. With these measures the Company aims for steady profits growth.

Due to changes to the Laws on the Securities market during 2016 the Company operates without the state license, as a result, no any regulatory capital requirements are applicable as at 31 December 2016.

As at 31 December 2015 the Company had to maintain a ratio of liquid assets less liabilities to statutory minimum capital above the prescribed minimum level and was in compliance with the statutory capital ratio.

15 Contingencies

(a) Insurance

The insurance industry in the Republic of Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Company does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on its property or relating to operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

(b) Litigation

Management is unaware of any significant actual, pending or threatened claims against the Company.

(c) Taxation contingencies

The taxation system in the Republic of Kazakhstan is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the five subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

These circumstances may create tax risks in the Kazakhstan that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Kazakhstan tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position, if the authorities were successful in enforcing their interpretations, could be significant.

16 Trust management

The Company provides services on trust management of the assets to the Parent Company, whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer. The Company receives fee income for providing these services. Trust assets are not assets of the Company and are not recognised in the statement of financial position. The Company is not exposed to any credit risk related to such placements, as it does not guarantee these investments. As at 31 December 2016 the fair value of the assets under trust management is USD 809,826 thousand (KZT 270,233,611 thousand) (31 December 2015: USD 798,612 thousand (KZT 271,104,721 thousand).

17 Related party transactions

(a) Control relationships

As at 31 December 2016 and 2015, the Company is wholly-owned by the NBRK.

Publicly available financial statements are produced by the Company's Parent Company.

(b) Transactions with members of the key management personnel

Total remuneration included in personnel expenses for the years ended 31 December 2016 and 2015 is as follows:

	2016 KZT'000	2015 KZT'000
Salary expense	113,614	174,148
Salary related taxes	11,143	18,418
	124,757	**192,566**

The outstanding balances as of 31 December 2016 and 31 December 2015 with members of the key management personnel are as follows:

	2016 KZT'000	2015 KZT'000
Statement of financial position		
Other liabilities	57,133	53,575

(c) Transactions with other related parties

The outstanding balances as of 31 December 2016 and related profit or loss amounts of transactions with other related parties are as follows:

	Parent Company	Other subsidiaries of the Parent Company	State organisations	Total
	'000 KZT	'000 KZT	'000 KZT	'000 KZT
Statement of financial position				
ASSETS				
Cash and cash equivalents	2,956,525	-	-	2,956,525
Available-for-sale financial assets		-	653,950	653,950
Held-to-maturity investments		-	38,192,741	38,192,741
Deferred tax assets	2,666	-	99,580	102,246
EQUITY				
Revaluation reserve for available-for-sale financial assets	-	-	(52,352)	(52,352)
Profit or loss				
Interest income	-	-	2,690,893	2,690,893
Operating expenses	-	(26)	(76,421)	(76,447)
Commission income from services provided	2,666	19	7,172	9,857
Other expenses	(26,868)	-	-	(26,868)
Income tax benefit	-	-	38,627	38,627
Other comprehensive income, net of income tax				
Net change in fair value of available-for-sale financial assets	-	-	(9,038)	(9,038)

17 Related party transactions, continued

(c) Transactions with other related parties, continued

The outstanding balances as of 31 December 2015 and related profit or loss amounts of transactions with other related parties are as follows:

	Parent Company	Other subsidiaries of the Parent Company	State organisations	Total
	’000 KZT	’000 KZT	’000 KZT	’000 KZT
Statement of financial position				
ASSETS				
Cash and cash equivalents	2,222,086	-	-	2,222,086
Available-for-sale financial assets	-	-	662,989	662,989
Short-term commission receivable from the NBRK	2,716	-	-	2,716
Held-to-maturity investments	-	-	38,363,911	38,363,911
Deferred tax asset	-	-	61,369	61,369
EQUITY				
Revaluation reserve for available-for-sale financial assets		-	(43,314)	(43,314)
Profit or loss		-		
Interest income	-	-	2,473,116	2,473,116
Operating expenses	(6,576)	(46,136)	(71,495)	(124,207)
Commission income from services provided	2,716	-	-	2,716
Other expenses	(34,896)	-	-	(34,896)
Income tax benefit	-	-	31,579	31,579
Other comprehensive income, net of income tax				
Net change in fair value of available-for-sale financial assets	-	-	(47,999)	(47,999)

The majority of balances resulting from transactions with related parties mature within one year. Transactions with related parties are not secured.

18 Financial assets and liabilities fair values and accounting classifications

(a) Accounting classifications and fair values

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Company determines fair values using other valuation techniques. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

The estimated fair values of all financial instruments of the Company approximate their carrying values.

(b) Fair value hierarchy

The Company measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.

18 Financial assets and liabilities fair values and accounting classifications, continued

(b) Fair value hierarchy, continued

- Level 2: inputs other than quotes prices included within Level 1 that are observable either directly (i.e, as prices) or indirectly (i.e, derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The table below analyses financial instruments measured at fair value at 31 December 2016 and 2015, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position:

	2016 Level 2 KZT'000	2015 Level 2 KZT'000
Financial assets		
Available-for-sale financial assets	653,950	662,989
	653,950	**662,989**

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2016:

'000 KZT	Level 2	Total fair value	Total carrying amount
Assets			
Cash and cash equivalents	2,956,525	2,956,525	2,956,525
Held-to-maturity investments	35,630,908	35,630,908	38,192,741
Other assets - Short-term commission receivable from the NBRK	2,666	2,666	2,666

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2015:

'000 KZT	Level 2	Total fair value	Total carrying amount
Assets			
Cash and cash equivalents	2,185,842	2,185,842	2,222,086
Held-to-maturity investments	35,630,908	35,630,908	38,363,911
Other assets - Short-term commission receivable from the NBRK	2,716	2,716	2,716

19 Subsequent events

In line with the decision of the Investment Committee of the Company of 17 February 2017 (the Minutes No.185), the Company will transfer under trust management its own assets (the securities and part of cash) to the NBRK based on the trust management agreement No. 77НБ/15 of 01 March 2017 concluded between the Company and the NBRK.