BAITEREK

**Baiterek National Managing Holding Joint Stock Company**

**International Financial Reporting Standards**
**Separate Financial Statements and**
**Independent Auditors' Report**

**31 December 2016**

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## INDEPENDENT AUDITORS' REPORT

## SEPARATE FINANCIAL STATEMENTS

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# Independent Auditors' Report

*To the Shareholder and Board of Directors of National Managing Holding Baiterek Joint Stock Company*

## *Opinion*

We have audited the separate financial statements of National Managing Holding Baiterek Joint Stock Company (the "Holding Company"), which comprise the separate statement of financial position as at 31 December 2016, the seperate 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 separate financial statements present fairly, in all material respects, the separate financial position of the Holding Company as at 31 December 2016, and its separate financial performance and its separate 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 ("ISAs"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Separate Financial Statements* section of our report. We are independent of the Holding 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 Separate Financial Statements*

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

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

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

### *Auditors' Responsibilities for the Audit of the Separate Financial Statements*

Our objectives are to obtain reasonable assurance about whether the separate 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 separate 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 separate 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 Holding 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 Holding 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 separate 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 Holding Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

### *Auditors' Responsibilities for the Audit of the Separate Financial Statements, continued*

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:

Ravshan Irmatov
Certified Auditor
of the Republic of Kazakhstan
Auditor's Qualification Certificate
No. МФ-0000053 of 6 January 2012

**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

17 April 2017

| *(In thousands of Kazakhstani Tenge)* | Note | 31 December 2016 | 31 December 2015 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 6 | 272,994 | 116,783 |
| Deposits | 7 | 16,404,361 | 11,586,577 |
| Loans to subsidiaries | 8 | 315,345,416 | 196,721,919 |
| Investments in subsidiaries | 9 | 819,782,161 | 773,782,161 |
| Property, plant and equipment | | 97,077 | 139,268 |
| Intangible assets | | 896,679 | 215,382 |
| Current income tax prepayment | | 708,508 | 250,751 |
| Other assets | | 260,231 | 686,690 |
| **TOTAL ASSETS** | | **1,153,767,427** | **983,499,531** |
| **LIABILITIES** | | | |
| Debt securities issued | 10 | 271,376,696 | 193,751,760 |
| Loans from the Government of the Republic of Kazakhstan | 11 | 39,567,430 | - |
| Deferred income tax liability | 18 | 781,722 | 513,526 |
| Other liabilities | | 1,152,186 | 609,673 |
| **TOTAL LIABILITIES** | | **312,878,034** | **194,874,959** |
| **EQUITY** | | | |
| Share capital | 12 | 802,318,712 | 758,318,712 |
| Retained earnings | | 38,570,681 | 30,305,860 |
| **TOTAL EQUITY** | | **840,889,393** | **788,624,572** |
| **TOTAL LIABILITIES AND EQUITY** | | **1,153,767,427** | **983,499,531** |

Approved by the Management on 17 April 2017 and were signed on its behalf by:

Yersain Yerbulatovich Khamitov
Managing Director -
Member of the Management Board

Байтерек
БСН130540020197

Kuralay Damirovna Yessengarayeva
Chief Accountant

| *(In thousands of Kazakhstani Tenge)* | Note | 2016 | 2015 |
|---|---|---|---|
| Interest income | 13 | 19,085,287 | 11,183,750 |
| Interest expense | 14 | (16,798,803) | (10,483,702) |
| **Net interest income** | | **2,286,484** | **700,048** |
| Dividends received | 15 | 8,523,885 | 24,367,476 |
| Other operating income | 16 | 1,537,104 | 1,628,917 |
| Administrative and other operating expenses | 17 | (3,814,456) | (3,045,565) |
| **Profit before income tax** | | **8,533,017** | **23,650,876** |
| Income tax expense | 18 | (268,196) | (228,574) |
| **PROFIT AND OTHER COMPREHENSIVE INCOME FOR THE YEAR** | | **8,264,821** | **23,422,302** |

| *(In thousands of Kazakhstani Tenge)* | **Note** | **Share capital** | **Retained earnings** | **Total** |
|---|---|---|---|---|
| **Balance at 1 January 2015** | | **718,318,712** | **6,883,558** | **725,202,270** |
| Profit for the year | | - | 23,422,302 | 23,422,302 |
| **Comprehensive income for the year** | | **-** | **23,422,302** | **23,422,302** |
| Share issue | 12 | 40,000,000 | - | 40,000,000 |
| **Balance at 31 December 2015** | | **758,318,712** | **30,305,860** | **788,624,572** |
| Profit for the year | | - | 8,264,821 | 8,264,821 |
| **Comprehensive income for the year** | | **-** | **8,264,821** | **8,264,821** |
| Share issue | 12 | 44,000,000 | - | 44,000,000 |
| **Balance at 31 December 2016** | | **802,318,712** | **38,570,681** | **840,889,393** |

| *(In thousands of Kazakhstani Tenge)* | **Note** | **2016** | **2015** |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest received | | 3,051,716 | 1,200,496 |
| Interest paid | | (708,345) | (404,251) |
| Dividends received | 15 | 8,523,885 | 24,367,476 |
| Staff costs paid | | (1,533,037) | (1,391,067) |
| Administrative and other operating expenses paid | | (1,758,801) | (2,026,056) |
| Income tax paid | | (457,757) | (181,439) |
| **Net cash flows from operating activities** | | **7,117,661** | **21,565,159** |
| **Cash flows from investing activities** | | | |
| Acquisition of property, plant and equipment | | (43,143) | (65,404) |
| Contribution to the capital of the subsidiaries | 9 | (46,000,000) | (55,400,000) |
| Acquisition of intangible assets | | (148,307) | (58,113) |
| Deposits placement | | (22,900,000) | (18,990,000) |
| Deposits repayment | | 18,130,000 | 9,830,000 |
| Loans to subsidiaries | 8 | (371,454,097) | (315,595,125) |
| **Net cash flows used in investing activities** | | **(422,415,547)** | **(380,278,642)** |
| **Cash flows from financing activities** | | | |
| Proceeds from debt securities issued | 10 | 254,500,000 | 315,595,125 |
| Receipts of loans from the Government of the Republic of Kazakhstan | 11 | 116,954,097 | - |
| Issue of ordinary shares | 12 | 44,000,000 | 40,000,000 |
| **Net cash flows from financing activities** | | **415,454,097** | **355,595,125** |
| **Net increase /(decrease) in cash and cash equivalents** | | **156,211** | **(3,118,358)** |
| Cash and cash equivalents at beginning of year | | 116,783 | 3,235,141 |
| **Cash and cash equivalents at end of year** | 6 | **272,994** | **116,783** |

## 1 Introduction

Baiterek National Managing Holding Joint Stock Company (the "Holding Company") was incorporated in accordance with the Decree of the President of the Republic of Kazakhstan dated 22 May 2013 No. 571 "On some measures for optimisation of the management system of development institutes and financial organisations, and development of the national economy" and the Decree of the Government of the Republic of Kazakhstan dated 25 May 2013 No. 516 "About measures for implementation of the Decree of the President of the Republic of Kazakhstan dated 22 May 2013 No. 571". As at 31 December 2016 and 2015, the ultimate controlling party of the Holding Company is the Government of the Republic of Kazakhstan.

The Holding Company is a direct shareholder of eleven subsidiaries (31 December 2015: eleven).

On 29 May 2013, the Holding Company and "Samruk-Kazyna" National Welfare Fund Joint Stock Company ("Samruk-Kazyna NWF") signed an agreement for the transfer of shares of the Development Bank of Kazakhstan JSC (the "DBK JSC"), the Investment Fund of Kazakhstan JSC (the "IFK JSC"), KazExportGrant Export Insurance Corporation JSC ("KEG JSC"), Damu Entrepreneurship Development Fund JSC ("Damu EDF JSC"), and Kazyna Capital Management JSC ("KCM JSC") in trust management without a right of subsequent repurchase, pursuant to which the Holding Company acted as a trust manager. During August and October 2013, Samruk-Kazyna NWF transferred shares of the above mentioned entities to the Committee for State Property and Privatisations in exchange for block of shares of other joint stock companies and property.

On 17 June 2013, the Holding Company and Committee for State Property and Privatisations of the Ministry of Finance of the Republic of Kazakhstan (the "Committee for State Property and Privatisations") signed an agreement on transfer of government shares of National Agency for Technological Development JSC ("NATD JSC"), Housing Construction Savings Bank of Kazakhstan JSC ("ZHSSBK JSC"), Kazakhstan Mortgage Company Mortgage Organisation JSC ("KMC JSC"), Housing Construction Guarantee Fund JSC ("HCGF JSC") and Baiterek Development JSC ("BD JSC") into trust management without a right of subsequent repurchase, pursuant to which the Holding Company acted as a trust manager.

During August and October 2013, the Committee for State Property and Privatisations made contributions to the Holding Company's share capital in the form of blocks of shares of ten above mentioned entities in exchange for the Holding Company's ordinary shares for the total amount of Tenge 632,615,460 thousand and made cash contribution of Tenge 30,486,550 thousand that the Holding Company contributed further to the share capital of DBK JSC and KCM JSC.

On 19 March 2014, the Holding Company jointly with "Kazakhstan Centre of Government-Private Partnership" JSC established "Kazakhstan Project Preparation Fund" LLP ("KPPF LLP"). The Holding Company made a cash contribution of Tenge 150,000 thousand to the charter capital of KPPF LLP amounting to 75% interest in KPPF LLP.

In accordance with Order No. 964 of the Committee for State Property and Privatisations of 2 October 2014, the Committee for Investments of the Ministry of Industry and New Technologies of the Republic of Kazakhstan transferred 26% of shares of KMC JSC to the Holding Company as a contribution to the share capital. The value of transaction amounted to Tenge 10,216,702 thousand, where the total number of shares of 10,216,701 having nominal value Tenge 1,000 per one share, and 1 share of nominal value Tenge 608 per one share were transferred.

During the year ended 31 December 2014, the Holding Company received a cash contribution of Tenge 45,000,000 thousand and made additional contributions to the share capital of KCM JSC and DBK JSC and charter capital of KPPF LLP.

During the year ended 31 December 2015, the Holding Company received a cash contribution of Tenge 40,000,000 thousand and made additional contributions to the share capital of DBK JSC and IFK JSC.

During the year ended 31 December 2016, the Holding Company received a cash contribution of Tenge 44,000,000 thousand and made additional contributions to the share capital of DBK JSC, KEG JSC, HCGF JSC and charter capital of KPPF LLP. Cash contribution to the charter capital of KPPF LLP increased the Holding Company's ownership to 97.70%.

***Principal activity***

The Holding Company's mission is support of sustainable economic development of the Republic of Kazakhstan in order to implement state policy and achieve the goals set by the "Strategy - 2050".

The Holding Company is actively involved in completing national strategic and social tasks through development institutions through the implementation of Nurly-Zhol State Program for Infrastructure Development in 2015-2019, "Nurly Zher" Housing Construction Program, State Program of the Industrial and Innovative Development of the Republic of Kazakhstan in 2015-2019, Unified Program for Business Support and Development "Business Road Map – 2020", Support Programmes for Local Producers, Support Programmes for Small and Medium Businesses ("SMB"), State Program "Performance - 2020", State Program for Development of Regions until 2020, State Program for Support of Domestic Producers, State Program for Financing of Small and Medium Businesses in Manufacturing Industry, State Program "Leaders of Competitiveness - National Champions", and President of the Republic of Kazakhstan Program "National Plan - 100 Specific Steps".

## 1 Introduction, continued

***Principal activity (continued)***

The Holding Company follows the key Government policies in the area of industrial and innovation development, promotion of national products export, development of small and medium sized entrepreneurship, implementation of tasks in developing housing sector and enhancing the people's welfare, as well as other goals set by the President and Government of the Republic of Kazakhstan.

Below are the major subsidiaries of the Holding Company:

| Name of subsidiary | Abbreviated name | Country of incorporation | Ownership, % 31 December 2016 | Ownership, % 31 December 2015 |
|---|---|---|---|---|
| Development Bank of Kazakhstan JSC | DBK JSC | Republic of Kazakhstan | 100.00 | 100.00 |
| Investment Fund of Kazakhstan JSC | IFK JSC | Republic of Kazakhstan | 100.00 | 100.00 |
| KazExportGarant Export Insurance Corporation JSC | KEG JSC | Republic of Kazakhstan | 100.00 | 100.00 |
| DAMU Entrepreneurship Development Fund JSC | Damu EDF JSC | Republic of Kazakhstan | 100.00 | 100.00 |
| National Agency for Technological Development JSC | NATD JSC | Republic of Kazakhstan | 100.00 | 100.00 |
| Kazyna Capital Management JSC | KCM JSC | Republic of Kazakhstan | 100.00 | 100.00 |
| Housing Construction Savings Bank of Kazakhstan JSC | ZHSSBK JSC | Republic of Kazakhstan | 100.00 | 100.00 |
| Mortgage Organisation Kazakhstan Mortgage Company JSC | KMC JSC | Republic of Kazakhstan | 100.00 | 100.00 |
| Housing Construction Guarantee Fund JSC (formerly Mortgage Guarantee Fund of Kazakhstan JSC) | HCGF JSC (formerly KFMGL JSC) | Republic of Kazakhstan | 100.00 | 100.00 |
| Baiterek Development JSC | BD JSC | Republic of Kazakhstan | 100.00 | 100.00 |
| Kazakhstan Project Preparation Fund LLP | KPPF LLP | Republic of Kazakhstan | 97.70 | 75.00 |

***Registered address and place of business.*** The Holding Company's registered address and place of business is: 8 Kunayev St., Block B, Astana, Republic of Kazakhstan.

***Presentation currency.*** These separate financial statements are presented in thousands Kazakhstani Tenge ("Tenge"), unless otherwise stated.

## 2 Operating environment of the Holding Company

The Holding Company's operations are primarily located in the Republic of Kazakhstan. Consequently, the Holding Company is exposed to the economic and financial markets of the Republic of Kazakhstan, which display emerging-market characteristics. Legal, tax and regulatory frameworks continue to develop, but are subject to varying interpretations and frequent changes that, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in the Republic of Kazakhstan. The separate financial statements reflect management's assessment of the impact of the Kazakhstan business environment on the operations and separate financial position of the Holding Company. The future business environment may differ from management's assessment.

## 3 Summary of significant accounting policies

**Basis of preparation.** These separate financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value. The principal accounting policies applied in the preparation of these separate financial statements are set out below.

In addition, the Holding Company has prepared the consolidated financial statements in accordance with IFRS of the Holding Company and its subsidiaries. The consolidated financial statements of the Holding Company is available from the Holding Company's office at the address: 8 Kunayev St., Block B, Astana, 010000, Republic of Kazakhstan.

## 3 Summary of Significant Accounting Policies (continued)

***Going concern.*** Management of the Holding Company has prepared these separate financial statements on a going concern basis.

***Financial instruments – key measurement terms.*** Depending on their classification financial instruments are carried at fair value or amortised cost. Description of those methods is presented below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to, and must be settled by, delivery of such unquoted equity instruments.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties.

Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the separate statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

## 3 Summary of Significant Accounting Policies (continued)

***Initial recognition of financial instruments.*** Trading securities, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Holding Company commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

The Holding Company uses discounted cash flow valuation techniques to determine the fair value of loans to related parties. Differences may arise between the fair value at initial recognition, which is considered to be the transaction price, and the amount determined at initial recognition using the valuation technique. Any such differences are initially recognised within other assets or other liabilities and are subsequently amortised on a straight line basis over the term of the loans to related parties.

***Derecognition of financial assets.*** The Holding Company derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Holding Company has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

***Cash and cash equivalents.*** Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include all interbank placements and deposits with other banks are with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

***Loans to subsidiaries.*** Loans issued to subsidiaries are recorded when the Holding Company advances money to purchase or originate an unquoted non-derivative receivable due on fixed or determinable dates, and has no intention of trading the receivable. Loans issued to subsidiaries are carried at amortised cost.

***Investments in subsidiaries.*** Subsidiaries are investees controlled by the Holding Company. The Holding Company controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In the separate financial statements prepared by the Holding Company investments in subsidiaries are stated at cost, less impairment. Cost of investments in subsidiaries is disclosed in Note 9.

***Property, plant and equipment.*** Property, plant and equipment are stated at cost less accumulated depreciation of premises and equipment and accumulated impairment losses, where required.

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of property, plant and equipment items are capitalised, and the replaced part is retired.

At the end of each reporting period management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the period. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the period (within other operating income or expenses).

## 3 Summary of Significant Accounting Policies (continued)

***Depreciation.*** Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

| | Useful life (in years) |
|---|---|
| Motor vehicles | 5 - 7 |
| Office and computer equipment | 2 - 10 |
| Other | 3 - 20 |

The residual value of an asset is the estimated amount that the Holding Company would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

***Intangible assets.*** The Holding Company's intangible assets have definite useful life and primarily include capitalised computer software and other licenses acquired. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Holding Company are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred.

Intangible assets are amortised on a straight line basis over the following expected useful lives assets:

| | Useful life (in years) |
|---|---|
| Software licenses and patents | 3 - 20 |
| Internally developed software | 1 - 14 |
| Other | 2 - 15 |

***Operating leases.*** Where the Holding 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 Holding Company, the total lease payments are charged to profit or loss for the year (rental expense) on a straight-line basis over the period of the lease.

Leases embedded in other agreements are separated if (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets and (b) the arrangement conveys a right to use the asset.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

***Income tax.*** Income taxes have been provided for in the separate financial statements in accordance with legislation enacted using tax rates and provision of law or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable income or losses are based on estimates where the separate financial statements are authorised prior to the filing of the relevant tax return. Taxes other than on income are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax assets and liabilities are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

***Uncertain tax positions.*** The Holding Company's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions of the Holding Company were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

## 3 Summary of Significant Accounting Policies (continued)

***Debt securities issued.*** Debt securities issued include bonds issued by the Holding Company in Kazakhstani Tenge. Debt securities issued are stated at amortised cost.

***Government grants.*** Government grants are assistance by the Government, Government agencies and state-owned entities in the form of transfers of resources to the Holding Company in return for past or future compliance with certain conditions relating to the operating activities of the Holding Company. Government grants are not recognised until there is reasonable assurance that the Holding Company will comply with the conditions attached to them and the grants will be received. If there are conditions that may require repayment, the grant is recognised in other liabilities.

The benefit of a government loan at a below-market rate of interest is treated as a government grant. The benefit of the below-market rate of interest is measured as the difference between the initial carrying value of the loan and the proceeds received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Holding Company recognises as expenses the related costs for which the grants are intended to compensate.

***Provisions for liabilities and charges.*** Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Holding Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

***Trade and other payables.*** Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

***Share capital.*** Ordinary shares, not subject to mandatory redemption, with discretionary dividends are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

***Income and expense recognition.*** Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Holding Company to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Holding Company will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Holding Company does not designate loan commitments as financial liabilities at fair value through profit or loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Loan syndication fees are recognised as income when the syndication has been completed and the Holding Company retains no part of the loan package for itself, or retains a part at the same effective interest rate as for the other participants.

***Foreign currency translation.*** The functional currency and presentation currency of the Holding Company is the national currency of the Republic of Kazakhstan, Kazakhstani Tenge.

***Staff costs and related contributions.*** Wages, salaries, contributions to the state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Holding Company. The Holding Company has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

***Presentation of the separate statement of financial position in order of liquidity.*** The Holding Company does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the separate statement of financial position. Instead, analysis of assets and liabilities by their expected and contractual maturities are presented in Note 19.

***Amendments of the separate financial statements after issue.*** The Holding Company's Board of Directors has the power to amend the separate financial statements after issue.

## 4 Critical accounting estimates and judgements in applying accounting policies

The Holding Company makes estimates and assumptions that affect the reported amounts and carrying amount of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the separate financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

***Tax legislation.*** Kazakhstani tax, currency and customs legislation is subject to varying interpretations (Note 18).

***Initial recognition of the borrowings and investments at the rates below market rates under the state development programs.*** Approach to accounting and evaluation of borrowings and loans to subsidiaries made under state programs of the economic development in 2016 is disclosed in Notes 8, 10 and 11.

***Initial recognition of related party transactions.*** In the normal course of business the Holding Company enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

## 5 New accounting pronouncements

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 separate financial statements. Of these pronouncements, potentially the following will have an impact on the separate financial position and performance of the Holding Company. The Holding Company plans to adopt these pronouncements when they become effective.

### (a) 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.

***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.

***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.

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.

## 5 New Accounting Pronouncements (continued)

***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.

***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 Holding Company does not intend to adopt the standard earlier.

The Holding Company has not started a formal assessment of potential impact on its separate 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 Holding Company's separate financial statements. Currently the Holding Company is in the process of development of IFRS 9 implementation plan.

### (b) 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 Holding Company does not intend to adopt this standard early. The Holding Company is assessing the potential impact on its separate financial statements resulting from the application of IFRS 16.

### (c) Other amendments

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

- IFRS 15 *Revenue from Contracts with Customers*
- *Disclosure Initiative* (Amendments to IAS 7 *Statement of Cash Flows*)
- *Recognition of Deferred Tax Assets for Unrealised Losses* (Amendments to IAS 12 *Income Taxes*)
- *Classification and Measurement of Share-based Payment Transactions* (Amendments to IFRS 2 *Share-Based Payment*).

## 6 Cash and cash equivalents

| *In thousands of Kazakhstani Tenge* | **31 December 2016** | **31 December 2015** |
|---|---|---|
| Current accounts | 272,994 | 116,783 |
| **Total cash and cash equivalents** | **272,994** | **116,783** |

The credit quality of cash and cash equivalents balances may be summarised based on Standard and Poor's ratings or Moody's or Fitch ratings as follows:

| *(In thousands of Kazakhstani Tenge)* | **31 December 2016** | **31 December 2015** |
|---|---|---|
| *Neither past due nor impaired* | | |
| - National Bank of the Republic of Kazakhstan ("NBRK") | 2 | 20,625 |
| - BB- to BB+ rated | 272,992 | 96,158 |
| **Total cash and cash equivalents** | **272,994** | **116,783** |

Interest rate analysis of cash and cash equivalents is disclosed in Note 19.

## 7 Deposits

| *(In thousands of Kazakhstani Tenge)* | **31 December 2016** | **31 December 2015** |
|---|---|---|
| Deposits | 16,404,361 | 11,586,577 |
| **Total deposits** | **16,404,361** | **11,586,577** |

Deposits are not collateralised. Analysis by credit quality of deposits at 31 December 2016 and 2015 is as follows:

| *(In thousands of Kazakhstani Tenge)* | **31 December 2016** | **31 December 2015** |
|---|---|---|
| *Neither past due nor impaired* | | |
| - BB- to BB+ rated | 4,302,003 | 4,462,573 |
| - B- to B+ rated | 12,102,358 | 7,124,004 |
| **Total deposits** | **16,404,361** | **11,586,577** |

## 8 Loans to subsidiaries

| | **Nominal value** | | **Carrying amount** | |
|---|---|---|---|---|
| *(In thousands of Kazakhstani Tenge)* | **31 December 2016** | **31 December 2015** | **31 December 2016** | **31 December 2015** |
| - DBK JSC | 347,861,805 | 235,000,000 | 116,995,582 | 72,877,160 |
| - BD JSC | 256,095,125 | 61,095,125 | 101,129,672 | 45,298,688 |
| - DAMU EDF JSC | 200,000,000 | 200,000,000 | 67,780,290 | 63,859,047 |
| - KMC JSC | 134,092,292 | 92,500,000 | 24,075,406 | 14,687,024 |
| - ZHSSBK JSC | 22,000,000 | - | 5,364,466 | - |
| **Total loans to subsidiaries** | **960,049,222** | **588,595,125** | **315,345,416** | **196,721,919** |

In 2016, the Holding Company provided loans to subsidiaries in the total amount of Tenge 371,454,097 thousand (in 2015: Tenge 315,595,125 thousand). The loans bear an interest rate of 0.08% and 0.15% p.a. and mature in 2026-2046.

In accordance with approved government programs, in 2016 the loans were provided on the following terms and conditions:

- Tenge 67,000,000 thousand loan to BD JSC at the rate of 0.15% p.a and with maturity in 20 years to purchase debt securities issued by the local executive authorities of the regions (cities of Astana and Almaty) for the purpose of construction of the housing real estate and its further purchase. The loan is renewed every 2 years during 20 years;

## 8 Loans to subsidiaries (continued)

- Tenge 113,000,000 thousand loan to BD JSC at the rate of 0.15% p.a and with maturity in 20 years to finance construction of the credit and rental housing ;

- Tenge 75,000,000 thousand loan to DBK JSC at the rate of 0.15% p.a and with maturity in 20 years to finance projects under the State Industrial and Innovation Development Program of the Republic of Kazakhstan for 2015-2019;

- Tenge 22,500,000 thousand loan to KMC JSC at the rate of 0.15% p.a and with maturity in 20 years to finance construction and purchase of the housing real estate for its further rent;

- Tenge 22,000,000 thousand loan to ZHSSBK JSC at the rate of 0.15% p.a and with maturity in 20 years to provide loans to depositors of the bank to buy out the housing real estate;

- Tenge 19,092,292 thousand loan to KMC JSC at the rate of 0.15% p.a and with maturity in 20 years to finance construction of the housing real estate and its further rent;

- Tenge 15,000,000 thousand loan to BD JSC at the rate of 0.15% p.a and with maturity in 20 years to finance construction of real estates and a shopping and leisure centre on the territory of the International Specialised Exhibition EXPO-2017 in Astana;

- Tenge 15,000,000 thousand loan to DBK JSC at the rate of 0.15% p.a and with maturity in 20 years to finance export and pre-export lending;

- Tenge 12,861,805 thousand loan to DBK JSC at the rate of 0.08% p.a and with maturity in 20 years for on-lending DBK-Leasing JSC at an interest rate of 0.10% p.a. to renovate the passenger car fleet;

- Tenge 10,000,000 thousand loan to DBK JSC at the rate of 0.15% p.a and with maturity in 10 years for on-lending DBK-Leasing JSC at an interest rate of 0.20% p.a. and maturity of 10 years to provide long-term lease financing under the Unified Program for Business Support and Development “Business Road Map – 2020”.

In accordance with approved government programs, in 2015 the loans were provided on the following terms and conditions:

- Tenge 92,500,000 thousand loan to KMC JSC at the rate of 0.15% p.a and with maturity in 10 years to finance construction and purchase of housing real estate for its further rent;

- Tenge 85,000,000 thousand loan to DBK JSC at the rate of 0.15% p.a and with maturity in 10 years to provide financing to domestic car and passenger car manufacturers as well as export and pre-export lending using the leasing and/or lending instruments;

- Tenge 50,000,000 thousand loan to DBK JSC at the rate of 0.15% p.a and with maturity in 10 years to place funds in commercial banks of the Republic of Kazakhstan at the rate of no more than 2.00% p.a. to finance large businesses in the processing industry. No more than 50% of funds are to be used to refinance loans previously issued by commercial banks to large businesses, no more than 25% - to finance working capital loans issued by commercial banks, and no less than 25% - to finance new projects of the large businesses;

- Tenge 50,000,000 thousand loan to Damu EDF JSC at the rate of 0.15% p.a and with maturity in 10 years to place funds in commercial banks of the Republic of Kazakhstan at the rate of no more than 2.00% p.a. to finance small and medium enterprises in the manufacturing industry;

- Tenge 38,095,125 thousand loan to BD JSC at the rate of 0.15% p.a and with maturity in 20 years to finance construction of the real estates and a shopping and leisure centre on the territory of the International Specialised Exhibition EXPO-2017 in Astana.

At initial recognition the loans were recognised at fair value measured by applying relevant market interest rates varying from 6.89% to 10.30% p.a. (in 2015: from 5.93% to 7.12% p.a.) to discount their future cash flows. The Holding Company recognised a difference of Tenge 268,816,387 thousand (in 2015: Tenge 221,957,694 thousand) between a fair value and a nominal value as a loss, at initial recognition of loans provided to subsidiaries at a below-market interest rates and reported the difference in profit or loss. These loans were financed through bonds issue and funds of the republican budget denominated in Tenge at interest rates varying from 0.05% to 0.10% p.a. (in 2015: 0.10% p.a.) maturing in 2026-2046 (Note 10). All of the issues of bonds were acquired by the National Bank of the Republic of Kazakhstan using the funds of the National Fund of the Republic of Kazakhstan. The differences of Tenge 192,194,206 thousand (in 2015: Tenge 223,590,219 thousand) and Tenge 78,157,983 thousand (in 2015: nil) between a fair value at initial recognition and nominal value of bonds and loans from the government of the Republic of Kazakhstan were therefore, recognised in profit or loss as a government grant to correspond with the Holding Company’s loss on initial recognition of loans to subsidiaries (Note 16).

## 9 Investment in subsidiaries

The table below summarises the movements in the carrying amount of the Holding Company's investment in subsidiaries in 2016:

| *(In thousands of Kazakhstani Tenge)* | **1 January 2016** | **Contribution** | **31 December 2016** |
|---|---|---|---|
| Carrying amount: | | | |
| DBK JSC | 333,515,793 | 20,000,000 | 353,515,793 |
| KCM JSC | 104,696,686 | - | 104,696,686 |
| ZHSSBK JSC | 95,159,603 | - | 95,159,603 |
| DAMU EDF JSC | 78,925,794 | - | 78,925,794 |
| BD JSC | 47,732,078 | - | 47,732,078 |
| KMC JSC | 38,482,233 | - | 38,482,233 |
| IFK JSC | 34,339,971 | - | 34,339,971 |
| KEG JSC | 13,018,407 | 14,000,000 | 27,018,407 |
| NATD JSC | 25,533,132 | - | 25,533,132 |
| HCGF JSC | 2,228,464 | 10,000,000 | 12,228,464 |
| KPPF LLP | 150,000 | 2,000,000 | 2,150,000 |
| **Total investments in subsidiaries** | **773,782,161** | **46,000,000** | **819,782,161** |

The table below summarises the movements in the carrying amount of the Holding Company's investment in subsidiaries in 2015:

| *(In thousands of Kazakhstani Tenge)* | **1 January 2015** | **Contribution** | **31 December 2015** |
|---|---|---|---|
| Carrying amount: | | | |
| DBK JSC | 293,515,793 | 40,000,000 | 333,515,793 |
| KCM JSC | 104,696,686 | - | 104,696,686 |
| ZHSSBK JSC | 95,159,603 | - | 95,159,603 |
| DAMU EDF JSC | 78,925,794 | - | 78,925,794 |
| BD JSC | 47,732,078 | - | 47,732,078 |
| KMC JSC | 38,482,233 | - | 38,482,233 |
| IFK JSC | 18,939,971 | 15,400,000 | 34,339,971 |
| NATD JSC | 25,533,132 | - | 25,533,132 |
| KEG JSC | 13,018,407 | - | 13,018,407 |
| HCGF JSC | 2,228,464 | - | 2,228,464 |
| KPPF LLP | 150,000 | - | 150,000 |
| **Total investments in subsidiaries** | **718,382,161** | **55,400,000** | **773,782,161** |

## 10 Debt securities issued

| *(In thousands of Kazakhstani Tenge)* | | | **Nominal value** | | **Carrying amount** | |
|---|---|---|---|---|---|---|
| | **Placement date** | **Maturity date** | **31 December 2016** | **31 December 2015** | **31 December 2016** | **31 December 2015** |
| KZ2C0Y20F251 | 25.03.2016 | 25.03.2036 | 202,000,000 | - | 54,075,664 | - |
| KZP01Y20E920 | 13.03.2015, 31.03.2015 | 13.03.2035 | 170,000,000 | 170,000,000 | 54,427,305 | 51,189,243 |
| KZ2C0Y20E676 | 15.04.2014 | 15.04.2034 | 100,000,000 | 100,000,000 | 34,266,875 | 32,242,695 |
| KZ2C0Y20E775 | 10.12.2014 | 10.12.2034 | 100,000,000 | 100,000,000 | 32,985,990 | 31,043,928 |
| KZP01Y30E879 | 21.01.2015, 16.02.2015 | 21.01.2045 | 92,500,000 | 92,500,000 | 15,509,686 | 14,600,543 |
| KZ2C0Y20E742 | 30.10.2014 | 30.10.2034 | 50,000,000 | 50,000,000 | 16,238,471 | 15,263,674 |
| KZP02Y20E738 | 26.03.2015 | 26.03.2035 | 38,095,125 | 38,095,125 | 27,962,930 | 26,432,207 |
| KZP01Y20E730 | 15.07.2014 | 15.07.2034 | 23,000,000 | 23,000,000 | 19,670,611 | 18,681,421 |
| KZP02Y30E877 | 29.01.2016 | 29.01.2046 | 22,500,000 | - | 3,892,909 | - |
| KZP02Y20E928 | 29.09.2015 | 29.09.2035 | 15,000,000 | 15,000,000 | 4,573,249 | 4,298,049 |
| KZ2C0Y20F236 | 03.02.2016 | 03.02.2036 | 15,000,000 | - | 4,368,147 | - |
| KZP03Y20E736 | 09.03.2016 | 09.03.2036 | 15,000,000 | - | 3,404,859 | - |
| | | | **843,095,125** | **588,595,125** | **271,376,696** | **193,751,760** |

## 10 Debt securities issued (continued)

As at 31 December 2016 and 2015, the Holding Company's debt securities issued are not listed.

In 2016, the Holding Company issued the bonds for the total amount of Tenge 254,500,000 thousand (in 2015: Tenge 315,595,125 thousand):

- unsecured coupon bonds with nominal value of Tenge 22,500,000 thousand issued on 29 January 2016, with a coupon rate of 0.10% p.a. which mature in January 2046. The funds will be used to finance construction and purchase of the housing real estate and it further rent;

- unsecured coupon bonds with nominal value of Tenge 15,000,000 thousand issued on 3 February 2016, with a coupon rate of 0.10% p.a. which mature in February 2036. The funds will be used to finance export and pre-export lending;

- unsecured coupon bonds with nominal value of Tenge 15,000,000 thousand issued on 9 March 2016, with a coupon rate of 0.10% p.a. which mature in March 2036. Borrowings will be used to finance construction of the real estates and a shopping and leisure centre on the territory of the International Specialised Exhibition EXPO-2017 in Astana;

- unsecured coupon bonds with nominal value of Tenge 202,000,000 thousand issued on 25 March 2016, with a coupon rate of 0.10% p.a. which mature in March 2036. Out of the total issue proceeds, Tenge 113,000,000 thousand will be used to finance construction of rental mortgage housing; Tenge 22,000,000 thousand will be used to finance loans to depositors of ZHSSBK JSC to buy out the housing real estate; Tenge 67,000,000 thousand will be used to finance purchase of debt securities issued by the local executive authorities of the regions (cities of Astana and Almaty) for the purpose of construction of the housing real estate and its further purchase;

- unsecured coupon bonds with nominal value of Tenge 170,000,000 thousand, issued in two tranches of Tenge 100,000,000 thousand and Tenge 70,000,000 thousand, issued on 13 and 31 March 2015, respectively with a coupon rate of 0.10% p.a. which mature in March 2035. Out of the total issue proceeds, Tenge 70,000,000 thousand will be used to finance domestic car and passenger car manufacturers as well as export and pre-export lending using the leasing and/or lending instruments; Tenge 50,000,000 thousand will be used to finance small and medium enterprises in the processing industry; and another Tenge 50,000,000 thousand will be used to finance large businesses;

- unsecured coupon bonds with nominal value of Tenge 92,500,000 thousand, issued in two tranches of Tenge 50,600,000 thousand and Tenge 41,900,000 thousand, issued on 21 January 2015 and 16 February 2015, respectively with a coupon rate of 0.10% p.a. which mature in January 2045. The funds are attracted to finance construction and purchase of the housing real estate and it further rent;

- unsecured coupon bonds with nominal value of Tenge 38,095,125 thousand issued on 26 March 2015, with a coupon rate of 0.10% p.a. which mature in March 2035. The Holding Company expects to pay off the bonds in June 2022 by exercising a call option. All borrowings from bonds issue will be used to finance construction of the real estates and a shopping and leisure centre on the territory of the International Specialised Exhibition EXPO-2017 in Astana;

- unsecured coupon bonds with nominal value of Tenge 15,000,000 thousand issued on 29 September 2015, with a coupon rate of 0.10% p.a. which mature in September 2035. Borrowings will be used to finance domestic car and passenger car manufacturers as well as export and pre-export lending using the leasing and/or lending instruments;

- unsecured coupon bonds with nominal value of Tenge 100,000,000 thousand issued on 15 April 2014, with a coupon rate of 0.10% p.a. which mature in April 2034. Out of the total issue proceeds, Tenge 50,000,000 thousand will be used to finance small and medium enterprises in the manufacturing industry, while another Tenge 50,000,000 will be used to refinance existing loans of borrowers not participating in the program of state support to small and medium enterprises adopted before;

- unsecured coupon bonds with nominal value of Tenge 100,000,000 thousand issued on 10 December 2014, with a coupon rate of 0.10% p.a. which mature in December 2034. Out of the total issue proceeds, Tenge 50,000,000 thousand will be used to finance small and medium enterprises in the manufacturing industry, while another Tenge 50,000,000 will be used to finance large businesses in the processing industry;

- unsecured coupon bonds with nominal value of Tenge 50,000,000 thousand issued on 30 October 2014, with a coupon rate of 0.10% p.a. which mature in October 2034. The borrowings will be used to finance projects under the State Program of Industrial and Innovation Development of the Republic of Kazakhstan for 2015-2019 ("SPIID-2");

- unsecured coupon bonds with nominal value of Tenge 23,000,000 thousand issued on 15 July 2014, with a coupon rate of 0.10% p.a. which mature in July 2034. The Holding Company expects to pay off the bonds in January 2020, in accordance with early redemption right. Borrowings will be used to finance construction of the real estates and a shopping and leisure centre on the territory of the International Specialised Exhibition EXPO-2017 in Astana.

All of the bond issued in 2015 and 2016 were acquired in full by the National Bank of the Republic of Kazakhstan using proceeds of the National Fund of the Republic of Kazakhstan.

## 10 Debt securities issued (continued)

As a part of implementation of programs of state support and development, the Management Council of the National Fund of the Republic of Kazakhstan sets conditions of financing in the form of interest rates, financing schedule and related requirements for both the Holding Company, its subsidiaries, commercial banks as the agents of the programs as well as for the ultimate recipients of the funds. In addition, the Government has approved special conditions, under which the Holding Company's subsidiaries may provide further financing to commercial banks and companies. For this reason, the difference that had arisen upon valuation of bonds purchased by the NBRK using proceeds of the National Fund of the Republic of Kazakhstan in 2016 at fair value at the issue date, was recognised as a government grant, also taking into account that the NBRK acted as the state agent and not in the interests of the Holding Company's ultimate shareholder, since all terms of the loans had been agreed on at the Government level in the decree concerning the financing of the above-mentioned programs, and the Government as the Holding Company's shareholder does not expect that direct economic benefits will be available to it, as the ultimate beneficiaries of the benefits are the recipient entities under the programs. Thus, in 2016 the Holding Company reported income of Tenge 192,194,206 thousand (2015: Tenge 223,590,219 thousand) as the government grant, which was recognised in other operating income in the separate statement of profit or loss and other comprehensive income (Note 16). The Holding Company applied the market interest rates varying from 6.51% to 8.29% p.a. (2015: from 5.93% to 7.01% p.a.) to determine the fair value of issued bonds upon initial recognition.

## 11 Loans from the Government of the Republic of Kazakhstan

| | **Nominal value** | | **Carrying amount** | |
|---|---|---|---|---|
| *(In thousands of Kazakhstani Tenge)* | **31 December 2016** | **31 December 2015** | **31 December 2016** | **31 December 2015** |
| Ministry of Finance of the Republic of Kazakhstan | 116,954,097 | - | 39,567,430 | - |
| **Total loans from the Government of the Republic of Kazakhstan** | **116,954,097** | **-** | **39,567,430** | **-** |

During 2016, the Holding Company received loans from the Ministry of Finance of the Republic of Kazakhstan in the total amount of Tenge 116,954,097 thousand:

- a loan of Tenge 19,092,292 thousand has been provided at the interest rate of 0.10% p.a. and has maturity of 30 years. All borrowed funds are intended to finance construction of apartment houses that will be subsequently rented out;

- a loan of Tenge 75,000,000 thousand has been provided at the interest rate of 0.10% p.a. and has maturity of 20 years. The borrowed funds are intended to lend the Holding Company's subsidiary - DBK JSC to finance the investment projects as a part of implementation of the State Program of the Industrial and Innovative Development of the Republic of Kazakhstan for 2015-2019;

- a loan of Tenge 10,000,000 thousand has been provided at the interest rate of 0.10% p.a. and has maturity of 10 years. The borrowed funds are intended to lend the Holding Company's subsidiary - DBK JSC for further lending of DBK-Leasing JSC to provide a long-term lease financing under the Unified Program for Business Support and Development "Business Road Map – 2020";

- a loan of Tenge 12,861,805 thousand has been provided at the interest rate of 0.05% p.a. and has maturity of 20 years. All borrowed funds are intended to finance the Holding Company's subsidiary - DBK JSC for further lending of DBK-Leasing JSC to finance the renewal of passenger car fleet.

During 2016, the Holding Company stated income of Tenge 78,157,983 thousand as government grants (2015: nil), recognised in other operating income in the separate statement of profit or loss and other comprehensive income. The Holding Company used estimated market interest rates of 8.00% – 10.30% p.a. to measure the fair value of the loans received from the Government of the Republic of Kazakhstan at initial recognition by discounting their future contractual cash flows.

## 12 Share capital

| *(In thousands of Kazakhstani Tenge, except for number of shares)* | **31 December 2016** | **31 December 2015** |
|---|---|---|
| Authorised ordinary shares | 5,000,086,550 | 5,000,086,550 |
| Ordinary shares registered but not placed | (4,197,767,838) | (4,241,767,838) |
| **Total issued shares paid** | **802,318,712** | **758,318,712** |
| Par value per share, in Tenge | 1,000 | 1,000 |
| **Issued share capital paid** | **802,318,712** | **758,318,712** |

Each ordinary share carries one vote.

During 2016, the Holding Company received three cash contributions for a total amount of Tenge 44,000,000 thousand to share capital (2015: one cash contribution of Tenge 40,000,000 thousand).

## 13 Interest income

| *(In thousands of Kazakhstani Tenge)* | **2016** | **2015** |
|---|---|---|
| Loans to subsidiaries | 17,042,733 | 10,496,357 |
| Deposits | 2,042,554 | 687,393 |
| **Total interest income** | **19,085,287** | **11,183,750** |

Interest income for the year ended 31 December 2016 includes Tenge 15,821,572 thousand (2015: Tenge 9,727,648 thousand) resulting from unwinding of discount which has arisen upon initial recognition of loans to subsidiaries (Note 8).

## 14 Interest expense

| *(In thousands of Kazakhstani Tenge)* | **2016** | **2015** |
|---|---|---|
| Debt securities issued | 16,027,487 | 10,483,702 |
| Loans from the Government of the Republic of Kazakhstan | 771,316 | - |
| **Total interest expense** | **16,798,803** | **10,483,702** |

Interest expense on debt securities issued for the year ended 31 December 2016 includes Tenge 15,237,967 thousand (2015: Tenge 9,958,471 thousand) resulting from unwinding of discount which has arisen upon initial recognition of debt securities issued (Note 10).

Interest expense on loans from the Government of the Republic of Kazakhstan for the year ended 31 December 2016 includes Tenge 744,974 thousand (2015: nil), resulting from unwinding of discount which has arisen upon initial recognition of loans from the Government of the Republic of Kazakhstan (Note 11).

## 15 Dividends Received

| *(In thousands of Kazakhstani Tenge)* | **2016** | **2015** |
|---|---|---|
| BD JSC | 2,185,954 | 6,077,385 |
| Damu EDF JSC | 2,000,075 | 3,742,830 |
| DBK JSC | 1,710,930 | 3,378,450 |
| KCM JSC | 1,500,000 | 3,400,425 |
| KEG JSC | 784,222 | 189,171 |
| NATD JSC | 342,704 | 57,915 |
| ZHSSBK JSC | - | 7,166,095 |
| KMC JSC | - | 355,205 |
| **Total dividends received** | **8,523,885** | **24,367,476** |

## 16 Other operating income

| *(In thousands of Kazakhstani Tenge)* | 2016 | 2015 |
|---|---|---|
| Loss at initial recognition of loans to subsidiaries at a market-below interest rates (Note 8) | (268,816,387) | (221,957,694) |
| Government grant (Notes 10 and 11) | 270,352,189 | 223,590,219 |
| Other | 1,302 | (3,608) |
| **Total other operating income** | **1,537,104** | **1,628,917** |

## 17 Administrative and Other Operating Expenses

| *(In thousands of Kazakhstani Tenge)* | 2016 | 2015 |
|---|---|---|
| Staff costs | 1,533,037 | 1,453,905 |
| Consulting services | 620,545 | 310,914 |
| Administrative expense of the Board of Directors | 321,088 | 226,804 |
| Operating lease expense | 277,180 | 251,820 |
| Charity and sponsorship | 248,003 | 32,996 |
| Outsourcing costs | 198,709 | 194,734 |
| Advertising and marketing services | 98,538 | 124,783 |
| Amortisation of software and other intangible assets | 88,249 | 47,648 |
| Depreciation of property, plant and equipment | 81,159 | 63,452 |
| Business trip expenses | 63,083 | 53,495 |
| Other costs related to property, plant and equipment | 57,945 | 94,163 |
| Communication services | 39,172 | 26,849 |
| Insurance costs | 30,494 | 34,008 |
| Staff training, conferences | 20,795 | 42,839 |
| Costs for stationary printing products, branding products | 19,986 | 30,423 |
| Other | 116,473 | 56,732 |
| **Total administrative and other operating expenses** | **3,814,456** | **3,045,565** |

## 18 Income tax

Income tax expense recorded in profit or loss for the period comprises the following:

| *(In thousands of Kazakhstani Tenge)* | 2016 | 2015 |
|---|---|---|
| Current income tax expense | - | - |
| Change in deferred tax liabilities due to origination and reversal of temporary differences | 268,196 | 228,574 |
| **Total income tax expense** | **268,196** | **228,574** |

The income tax rate applicable to the Holding Company's 2016 income is 20% (2015: 20%). For the year ended 31 December 2016, the Holding Company had offset the taxes payable against the withholding tax on interest income on bank deposits to the amount of Tenge 299,215 thousand (2015: Tenge 95,102 thousand).

Reconciliation between the expected and the actual taxation charge is provided below:

| *(In thousands of Kazakhstani Tenge)* | 2016 | % | 2015 | % |
|---|---|---|---|---|
| **Profit before income tax** | **8,533,017** | **100** | **23,650,876** | **100** |
| Income tax at the applicable tax rate | 1,706,603 | 20 | 4,730,175 | 20 |
| Dividends received which are non-taxable | (1,704,777) | (20) | (4,873,495) | (21) |
| Unrecognised deferred tax assets | 200,006 | 2 | 366,544 | 2 |
| Non-deductible expenses | 66,364 | 1 | 5,350 | 0 |
| **Income tax expense** | **268,196** | **3** | **228,574** | **1** |

## 18 Income tax (continued)

Differences between IFRS and statutory taxation regulations in the Republic of Kazakhstan give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The deductible temporary differences do not expire under current tax legislation. The tax loss carry-forwards expire in 2024-2026.

The tax effect of the movements in these temporary differences is detailed below, and is recorded at the rate of 20% (2015: 20%).

| *(In thousands of Kazakhstani Tenge)* | 1 January 2016 | Recognised in profit or loss | 31 December 2016 |
|---|---|---|---|
| **Tax effect of deductible/(taxable) temporary differences** | | | |
| Property, plant and equipment | (14,036) | 9,175 | (4,861) |
| Loans to subsidiaries | 78,427,810 | 50,598,926 | 129,026,736 |
| Debt securities issued | (79,002,559) | (50,873,814) | (129,876,373) |
| Other liabilities | 75,259 | (2,483) | 72,776 |
| Tax loss carried forward | 810,546 | 200,006 | 1,010,552 |
| **Net deferred tax asset before recoverability assessment** | **297,020** | **(68,190)** | **228,830** |
| Recognised deferred tax asset | 78,503,069 | 50,596,443 | 129,099,512 |
| Recognised deferred tax liability | (79,016,595) | (50,864,639) | (129,881,234) |
| **Net deferred income tax liability** | **(513,526)** | **(268,196)** | **(781,722)** |

| *(In thousands of Kazakhstani Tenge)* | 1 January 2015 | Recognised in profit or loss | 31 December 2015 |
|---|---|---|---|
| **Tax effect of deductible/(taxable) temporary differences** | | | |
| Property, plant and equipment | (19,569) | 5,533 | (14,036) |
| Loans to subsidiaries | 35,981,801 | 42,446,009 | 78,427,810 |
| Debt securities issued | (36,275,631) | (42,726,928) | (79,002,559) |
| Other liabilities | 28,447 | 46,812 | 75,259 |
| Tax loss carried forward | 444,002 | 366,544 | 810,546 |
| **Net deferred tax asset before recoverability assessment** | **159,050** | **137,970** | **297,020** |
| Recognised deferred tax asset | 36,010,248 | 42,492,821 | 78,503,069 |
| Recognised deferred tax liability | (36,295,200) | (42,721,395) | (79,016,595) |
| **Net deferred income tax liability** | **(284,952)** | **(228,574)** | **(513,526)** |

## 19 Financial risk management

**Risk management rules and procedures of the Holding Company.** The Holding Company's risk management policies aim to identify, analyse and manage the risks faced by the Holding 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 risk management policy has the following objectives:

- to establish the effective comprehensive system and integrated process of risk management as an element of the Holding Company's governance, and continuously improve the Holding Company's activities based on the unified standardised approach to the risk management methods and procedures;
- to ensure that the Holding Company assumes acceptable risks adequate to the scale of its activities;
- to define the retaining ability and provide for efficient management of accepted risks;
- to identify risks in a timely manner;
- to mitigate losses and reduce operating costs to cover potential losses.

***Risk management structure.*** The risk management structure of the Holding Company comprises risk management at several levels with engagement of the following bodies and structural units of the Holding Company: Board of Directors, Management Board, Committee of Asset and Liability Management, Risk Management Department, Internal Audit Function, collective bodies and other structural units.

*Board of Directors.* The first level of the risk management process is represented by the Board of Directors of the Holding Company. The Board of Directors takes full responsibility for proper operation of risk management control system, management of key risks and corporate risk management system. The Board of Directors defined the objectives of the Holding Company's activities and approves documents related to risk management.

*Management Board.* The second level of the risk management process is represented by the Management Board of the Holding Company. The Management Board is responsible for establishment of efficient risk management system and risk control structure to provide for compliance with the corporate policy requirement. The Management Board is liable for creation of "risk consciousness" culture which reflects risk management and risk management philosophy of the Holding Company. In addition, the Management Board also bears liability for implementation of the efficient risk management system where all employees have a clearly defined responsibility for risk management and are accountable for proper execution of their duties. The Management Board is authorised to execute a part of their functions in risk management area through establishment of respective committees.

*The Audit Committee of the Board of Directors.* The Audit Committee of the Board of Directors is a standing advisory body of the Holding Company's Board of Directors, established to enhance efficiency and quality of work of the Board of Directors through preparing recommendations for the Board of Directors related to establishment of the effective control system over the Holding Company's financial and economic operations (including completeness and accuracy of the financial statements), monitoring of reliability and efficiency of the internal control and risk management systems and execution of the documents related to corporate governance, and control of independence of the external audit and internal audit function.

*Risk Management Department*. The third level of the risk management process is represented by the Risk Management Department which objectives include overall risk management and legal compliance monitoring, as well as control over implementation of general principles and methods of identification, assessment, management of and reporting on financial and non-financial risks.

*Internal Audit Function.* In course of risk management, the Internal Audit Function of the Holding Company audits risk management procedures and risk assessment methods and develops proposals aimed at improvement of efficiency of risk management procedures. The Internal Audit provides reports on risk management system to the Board of Directors of the Holding Company and performs other functions in accordance with the approved regulatory documents.

*Structural units.* One of the key elements in the risk management structure is structural units of the Holding Company which are represented by each employee. Structural units (risk owners) play the key role in the risk management process. The Holding Company's employees address and manage risks on a daily basis, and control the potential effect of risk on their business. Structural units are responsible for implementation of the risk management action plan, timely identification and communication of major risk in their business areas and development of proposals for risk management to be included into the action plan.

## 19 Financial risk management (continued)

**Credit risk.** The Holding Company takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the lending and other transactions with counterparties of the Holding Company and its subsidiaries giving rise to financial assets.

The Holding Company's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the separate statement of financial position. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. No collateral and other credit enhancements exist as at 31 December 2016 and 31 December 2015.

The Holding Company controls credit risk by placing limits on transactions with counterparties, including limits on the level of risk accepted in relation to one counteragent, or groups of counteragents, based on the Regulations for Management of Financial Assets and Liabilities of Baiterek National Managing Holding Joint Stock Company.

None of financial assets are impaired or past due as at 31 December 2016 and 31 December 2015.

***Credit risk concentration.*** The Holding Company's cash and deposit balances at 31 December 2016 were placed with seven banks (31 December 2015: nine banks). That does not expose the Holding Company to significant credit concentration risk.

Concentration of Loans to subsidiaries is disclosed in Note 8.

**Currency risk.** As at 31 December 2016 and 31 December 2015, the Holding Company has no significant foreign currency exposure.

**Market risk** is the risk of changes in Holding Company's income or cost of its portfolios due to changes in market prices, including foreign exchange and interest rates. The Holding Company's market risk consists of currency risk, interest rate risk. Market risks arise from open positions in currency, interest rates and equity products, all of which are exposed to general and specific market movements.

The market risk management objectives are to manage and control that exposure to market risk does not fall out of the acceptable parameters, ensuring the optimisation of profitability obtained for risk accepted.

Overall responsibility for the market risk management is imposed on the Management Board, headed by the Chairman of the Management Board. Management Board set limits with respect to the market risk based on recommendations received from Risk Management Department.

The Holding Company manages market risk through setting limits on open positions with respect to the value of portfolio on individual financial instruments, terms of changes in interest rates, currency position, limits for losses, and regular monitoring of their observance, the results of which are reviewed and approved by the Management Board.

**Interest rate risk** is the risk of changes in the Holding Company's income or cost of its portfolios of financial instruments due to changes in interest rates.

The Holding Company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its separate financial position and cash flows. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise.

Interest rate risk arises, when available or forecasted assets with definite maturity are higher or lower upon value compared to available or forecasted liabilities with similar maturity. Interest rate risk management is based on the principles of full coverage of costs: resulting interest income should cover costs for raising and placement of funds and provide for net profit generation and competitiveness.

## 19 Financial risk management (continued)

The table below summarises the Holding Company's exposure to interest rate risk as at 31 December 2016. The table presents the aggregated amounts of the Holding Company's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

| *(In thousands of Kazakhstani Tenge)* | **Demand and less than 1 month** | **From 1 to 6 months** | **From 6 to 12 months** | **More than 1 year** | **Interest-free** | **Total** |
|---|---|---|---|---|---|---|
| **At 31 December 2016** | | | | | | |
| Total financial assets | 76,291 | 4,637,236 | 9,895,593 | 317,140,657 | 272,994 | 332,022,771 |
| Total financial liabilities | (50,291) | (214,809) | (11,667) | (310,667,359) | (581,108) | (311,525,234) |
| **Net interest sensitivity gap at 31 December 2016** | **26,000** | **4,422,427** | **9,883,926** | **6,473,298** | **(308,114)** | **20,497,537** |

The table below summarises the Holding Company's exposure to interest rate risk as at 31 December 2015. The table presents the aggregated amounts of the Holding Company's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

| *(In thousands of Kazakhstani Tenge)* | **Demand and less than 1 month** | **From 1 to 6 months** | **From 6 to 12 months** | **More than 1 year** | **Interest-free** | **Total** |
|---|---|---|---|---|---|---|
| **At 31 December 2015** | | | | | | |
| Total financial assets | 76,577 | 265,842 | 11,510,000 | 196,456,077 | 116,783 | 208,425,279 |
| Total financial liabilities | - | (169,432) | - | (193,582,328) | (279,211) | (194,030,971) |
| **Net interest sensitivity gap at 31 December 2015** | **76,577** | **96,410** | **11,510,000** | **2,873,749** | **(162,428)** | **14,394,308** |

An analysis of the sensitivity of profit or loss (net of taxes) to changes in interest rates (repricing risk), based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and restated positions of interest-bearing assets and liabilities existing as at 31 December 2016 is as follows:

| *(In thousands of Kazakhstani Tenge)* | **2016** | **2015** |
|---|---|---|
| 100 bp parallel rise | 45,028 | 24,153 |
| 100 bp parallel fall | (45,028) | (24,153) |

The Holding Company monitors interest rates for its financial instruments. The table below summarises interest rates at the respective reporting date based on reports.

| *In weighted-average % p.a.* | **31 December 2016** | **31 December 2015** |
|---|---|---|
| **Assets** | | |
| Deposits | 12.71% | 9.17% |
| Loans to subsidiaries | 7.02% | 6.43% |
| **Liabilities** | | |
| Debt securities issued | 7.02% | 6.43% |

## 19 Financial risk management (continued)

**Liquidity** of financial assets and liabilities is presented in the table above. Contractual payments under the financial liabilities exceed their carrying amount by the sum of non-amortised discount of future interest expenses. As at 31 December 2016 the contractual payments on the issued debt securities amount to Tenge 859,125,643 thousand, including nominal value of Tenge 843,095,125 thousand with maturity in 2034 and 2046, and total future interest of Tenge 16,030,518 thousand payable on annual basis. As at 31 December 2015 the contractual payments on the issued debt securities amount to Tenge 599,973,393 thousand, including nominal value of Tenge 588,595,125 thousand with maturity in 2034 and 2045, and future interest of Tenge 11,378,268 thousand payable on annual basis.

**Capital management.** The Holding Company treats capital as net assets attributable to the Holding Company's owners. The Holding Company is not subject to the regulatory capital requirements.

**Legal risks.** The Holding Company is exposed to legal risk, when there is the probability of occurrence of an adverse legislation change, incorrect legislation application, non-observance of internal documents, when decisions are made, untimely notification of state authorised bodies (in different situations: when documents are prepared, when legally significant actions are committed, etc.).

The Holding Company manages legal risk through monitoring of legislation changes, monitoring of orders implementation, professional development of legal department employees, engagement of consultants.

## 20 Contingencies

***Legal proceedings.*** From time to time and in the normal course of business, claims against the Holding Company and its subsidiaries may be received. On the basis of its own estimates and internal professional advice, management is of the opinion that no material losses will be incurred in respect of claims, and accordingly no provision has been made in these separate financial statements.

***Tax contingencies.*** The taxation system in 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, including opinions with respect to IFRS treatment of revenues, expenses and other items in the financial statements. Taxes are subject to review and investigation by various levels of authorities, which have the authority to impose severe fines and interest charges. A tax year generally remains open for review by the tax authorities for five subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

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

***Operating lease commitments.*** The Holding Company has a number of buildings and vehicles under operating lease. Lease is mainly executed for the initial period of one year with the option to renew upon expiry of the said period. Lease payments are usually increased annually to reflect market terms of lease. Lease does not include contingent lease.

## 21 Related party transactions

Parties are generally considered to be related if the parties are under common control, or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The Government of the Republic of Kazakhstan has significant influence over the Holding Company since it is the ultimate controlling party. The Holding Company has decided to apply an exemption from disclosure of individually insignificant transactions and outstanding balances with state owned entities.

The balances as at 31 December 2016 for transactions with related parties are as follows:

| *(In thousands of Kazakhstani Tenge)* | **Subsidiaries** | **Transactions with state owned entities** |
|---|---|---|
| Cash and cash equivalents | - | 2 |
| Investments in subsidiaries | 819,782,161 | - |
| Loans to subsidiaries | 315,345,416 | - |
| Current income tax prepayment | - | 708,508 |
| Debt securities issued | - | (271,376,696) |
| Loans from the Government of the Republic of Kazakhstan | - | (39,567,430) |
| Deferred income tax liability | - | (781,722) |
| Other liabilities | - | (80,729) |

The income and expense items on the related party transactions for 2016 were as follows:

| *(In thousands of Kazakhstani Tenge)* | **Subsidiaries** | **Transactions with state owned entities** |
|---|---|---|
| Interest income | 17,042,551 | - |
| Interest expense | - | (16,798,621) |
| Dividends received | 8,523,885 | - |
| Other operating (expense)/income | (268,816,387) | 270,352,189 |
| Administrative and other operating expenses | - | (660,045) |
| Income tax expense | - | (268,196) |

The balances as at 31 December 2015 for transactions with related parties are as follows:

| *(In thousands of Kazakhstani Tenge)* | **Subsidiaries** | **Transactions with state owned entities** |
|---|---|---|
| Cash and cash equivalents | - | 20,625 |
| Investments in subsidiaries | 773,782,161 | - |
| Loans to subsidiaries | 196,721,919 | - |
| Current income tax prepayment | - | 250,751 |
| Debt securities issued | - | (193,751,760) |
| Loans from the Government of the Republic of Kazakhstan | - | - |
| Deferred income tax liability | - | (513,526) |
| Other liabilities | - | (87,114) |

The income and expense items on the related party transactions for 2015 were as follows:

| *(In thousands of Kazakhstani Tenge)* | **Subsidiaries** | **Transactions with state owned entities** |
|---|---|---|
| Interest income | 10,496,357 | - |
| Interest expense | - | (10,483,702) |
| Dividends received | 24,367,476 | - |
| Other operating (expense)/income | (221,957,694) | 223,590,219 |
| Administrative and other operating expenses | - | (600,348) |
| Income tax expense | - | (228,574) |

## 21 Related party transactions (continued)

Total remuneration to the members of the Management Board and Board of Directors is as follows:

| *(In thousands of Kazakhstani Tenge)* | 2016 | 2015 |
|---|---|---|
| Members of the Board of Directors | 281,844 | 195,191 |
| Members of the Management Board | 183,164 | 156,352 |
| **Total** | **465,008** | **351,543** |

## 22 Fair value

***Determination of fair values.*** A number of the Holding Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and for disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

When measuring the fair value of an asset or a liability, the Holding Company uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Holding Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

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:

| *(In thousands of Kazakhstani Tenge)* | Level 2 | Total fair value | Total carrying amount |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 272,994 | 272,994 | 272,994 |
| Deposits | 16,404,361 | 16,404,361 | 16,404,361 |
| Loans to subsidiaries | 230,228,009 | 230,228,009 | 315,345,416 |
| **Liabilities** | | | |
| Debt securities issued | 186,902,803 | 186,902,803 | 271,376,696 |
| Loans from the Government of the Republic of Kazakhstan | 38,728,219 | 38,728,219 | 39,567,430 |

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:

| *(In thousands of Kazakhstani Tenge)* | Level 2 | Total fair values | Total carrying amount |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 116,783 | 116,783 | 116,783 |
| Deposits | 11,586,577 | 11,586,577 | 11,586,577 |
| Loans to subsidiaries | 196,721,919 | 196,721,919 | 196,721,919 |
| **Liabilities** | | | |
| Debt securities issued | 193,751,760 | 193,751,760 | 193,751,760 |

## 23 Subsequent events

In March 2017 the Holding Company received a cash contribution of KZT 13,900,000 thousand to its share capital for subsequent contribution to the share capital of its subsidiary – KEG JSC – in the amount of KZT 13,900,000 thousand to support the domestic exporters.

In March 2017, in accordance with the Law of the Republic of Kazakhstan “On the National Budget for 2017-2019”, the Holding Company received a loan of 17,500,000 thousand at the expense of the national budget funds to provide the long-term lease financing as a part of the Unified Program for Business Support and Development “Business Roadmap 2020”; the loan bears an interest rate of 0.10% per annum and has maturity of 10 years. The borrowed funds have been provided in the form of a loan to the Holding’s subsidiary – DBK JSC for a term of 10 years and at the interest rate of 0.15% per annum for the above purposes.

In March 2017 KEG JSC was re-registered due to change of its name into ESK “KazakhExport” JSC.

In April 2017, in accordance with the Law of the Republic of Kazakhstan “On Republican Budget for 2017-2019”, the Holding Company received a loan of Tenge18,600,000 thousand at the interest rate of 0.05% per annum, with maturity of 20 years, from the Republican budget, to finance renewal of the passenger car fleet. The borrowed funds have been provided to the Holding Company’s subsidiary DBK JSC in the form of a loan at the interest rate of 0.08% per annum, with maturity of 20 years, for the above stated purposes.