



Mortgage Organisation
Kazakhstan Mortgage Company JSC

Consolidated Financial Statements
for the year ended 31 December 2016

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Independent Auditors' Report

To the Board of Directors of Mortgage Organisation Kazakhstan Mortgage Company JSC

Opinion

We have audited the consolidated financial statements of Mortgage Organisation Kazakhstan Mortgage Company JSC (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated 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 Consolidated Financial Statements* section of our report. We are independent of the Group 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of loans to customers and finance lease receivables	
Please refer to the Notes 3 (l), 12 and 13 in the consolidated financial statements.	
The key audit matter	How the matter was addressed in our audit
<p>The assessment of the Group's estimate of impairment losses against loans to customers and finance lease receivables is considered to be a key audit matter due to the significance of loans to customers and finance lease receivables, and the significant judgments it requires the Group to make.</p> <p>Calculation of the collective loss allowance uses statistical models based on historical delinquency rates, and also requires the application of management judgement.</p>	<p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none"> - assessing the design and operating effectiveness of controls in respect of the Group's underwriting process, management review process over impaired loans; - re-performing calculations and agreeing a sample of data inputs to source documentation; - assessing whether the data used in the models is complete and accurate through testing a sample of relevant data fields and their aggregate amounts against data in the source systems; - challenging the appropriateness of the key assumptions used for collective impairment against our understanding of the Group and its recent performance. This involved recalculation of provisioning rates based on the Group's actual historic experience; - considering the adequacy of the Group's disclosures about credit risk, structure and quality of loan and finance lease portfolios and related impairment allowances.

Government grants	
Please refer to the Notes 3 (m), 20 and 21 in the consolidated financial statements.	
The key audit matter	How the matter was addressed in our audit
<p>During 2016 the Group received loans from the Parent Company in the amount of KZT 41,592,292 thousand, that bore an interest rate of 0.15% p.a. At initial recognition these loans were recognised at fair values measured by applying relevant market interest rates to discount the contractual future cash flows.</p> <p>The difference between the fair value and the consideration received of KZT 33,486,061 thousand was recognised as a government grant as the financing was received under government programs that required further transfer of benefits to the population of Kazakhstan through providing lending at preferential terms determined by the programs.</p> <p>Subsequent to initial recognition the Group allocates to profit and loss an amount corresponding to the benefits provided by means of low interest rate leases to the population meeting the criteria specified in the programs.</p> <p>We focused on this area due to judgment involved in the assessment of fair values of loans received and assessment of applicability of government grant accounting.</p>	<p>Our audit procedures in this area included among others:</p> <ul style="list-style-type: none"> - assessing whether the conditions attached to received loans represent government grant obligations; - evaluating the appropriateness of management's estimates of market rates applied to calculate fair values of the loans received at below-market rates by comparing with available market information; - recalculation of the amount of amortisation of the government grant obligations for the year based on utilisation patterns contained in respective government programs; - assessing whether the financial statement disclosures appropriately reflect the nature and extent of government grants recognised in the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the consolidated financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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



Ravshan Immatov
Certified Auditor
of the Republic of Kazakhstan,
Auditor's Qualification Certificate
No. МФ-000053 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

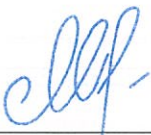


27 March 2017

Mortgage Organisation Kazakhstan Mortgage Company JSC
Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2016

	Note	2016 KZT'000	2015 KZT'000
Interest income	4	18,539,350	18,217,552
Interest expense	4	(9,010,568)	(11,084,491)
Net interest income		9,528,782	7,133,061
Fee and commission income		1,072	1,284
Fee and commission expense		(302,672)	(390,976)
Net fee and commission expense		(301,600)	(389,692)
Net gain on available-for-sale financial assets		-	2,294
Net foreign exchange (loss) gain		(186,927)	2,037,785
Net gain (loss) from repurchase of debt securities issued		4,978	(1,718)
Other operating income		761,912	425,293
Operating income		9,807,145	9,207,023
Impairment losses	5	(2,456,527)	(1,029,142)
Personnel expenses	6	(1,488,949)	(1,499,321)
General administrative expenses	7	(1,373,010)	(1,181,768)
Profit before income tax		4,488,659	5,496,792
Income tax expense	8	(1,399,395)	(1,670,970)
Profit for the year		3,089,264	3,825,822
Other comprehensive income (loss), net of income tax			
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Revaluation reserve for available-for-sale financial assets:			
- Net change in fair value		512,706	(986,355)
- Net change in fair value transferred to profit or loss		-	(2,294)
Other comprehensive income (loss) for the year, net of income tax		512,706	(988,649)
Total comprehensive income for the year		3,601,970	2,837,173
Basic and diluted earnings per share, in KZT	23(f)	555	688

The consolidated financial statements as set out on pages 8 to 60 were approved by Management on 27 March 2017 and were signed on its behalf by:


 Mukhamedzhanov A.B.
 Chairman of the Management Board




 Toktarkozha A.T.
 Chief Accountant

Mortgage Organisation Kazakhstan Mortgage Company JSC
Consolidated Statement of Financial Position as at 31 December 2016

	Note	2016 KZT'000	2015 KZT'000
ASSETS			
Cash and cash equivalents	9	38,665,521	26,811,589
Placements with banks and other financial institutions	10	167,534	17,337,140
Available-for-sale financial assets	11	11,089,637	13,960,071
Loans to customers	12	56,535,641	81,755,207
Finance lease receivables	13	74,921,988	31,434,418
Current tax asset		3,201,687	2,310,235
Advances paid for acquisition and construction of real estate	14	28,212,420	25,916,895
Assets to be transferred under finance lease agreements	15	24,221,971	26,503,605
Construction in progress	16	9,229,741	9,644,010
Property and equipment		2,186,810	1,743,083
Investment property		1,315,991	1,606,119
Deferred tax asset	8	-	83,847
Other assets	17	4,783,924	4,433,235
Total assets		254,532,865	243,539,454
LIABILITIES			
Debt securities issued	18	37,334,185	57,983,488
Subordinated debt securities issued	19	10,152,242	9,981,675
Other borrowed funds	20	35,159,984	40,060,673
Deferred income	21	109,964,767	78,088,020
Deferred tax liability	8	1,106,223	-
Other liabilities	22	9,813,706	10,025,810
Total liabilities		203,531,107	196,139,666
EQUITY			
	23		
Share capital		58,113,800	58,113,800
Share premium		12,661	12,661
Treasury shares		(2,597,522)	(2,597,522)
Additional paid-in capital		5,822,856	5,822,856
Reserve capital		2,734,447	2,734,447
Revaluation reserve for available-for-sale financial assets		(1,206,178)	(1,718,884)
Accumulated losses		(11,878,306)	(14,967,570)
Total equity		51,001,758	47,399,788
Total equity and liabilities		254,532,865	243,539,454

Mortgage Organisation Kazakhstan Mortgage Company JSC
Consolidated Statement of Cash Flows for the year ended 31 December 2016

	2016 KZT'000	2015 KZT'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	16,184,504	15,908,889
Interest payments	(6,611,235)	(8,774,182)
Fee and commission receipts	1,010	1,132
Fee and commission payments	(302,672)	(388,703)
Other income receipts	714,192	410,219
Personnel expenses payments	(1,153,692)	(1,220,695)
General administrative expenses payments	(1,127,837)	(1,353,477)
	7,704,270	4,583,183
(Increase) decrease in operating assets		
Placements with banks and other financial institutions	15,387,917	17,075,105
Loans to customers	24,968,326	12,904,195
Advances paid for acquisition and construction of real estate	(34,617,304)	(41,862,008)
Assets to be transferred under finance lease agreements	(9,124,200)	(33,042,819)
Construction in progress	(878,543)	(6,663,665)
Other assets	(706,675)	(1,511,378)
Increase in operating liabilities		
Other liabilities	1,224,295	1,659,011
Net cash from (used in) operating activities before income tax paid	3,958,086	(46,858,376)
Income tax paid	(1,100,777)	(1,007,242)
Cash flows from (used in) operations	2,857,309	(47,865,618)

Mortgage Organisation Kazakhstan Mortgage Company JSC
Consolidated Statement of Cash Flows for the year ended 31 December 2016

	2016 KZT'000	2015 KZT'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Redemption and sale of available-for-sale financial assets	3,481,687	4,458,389
Purchases of property, equipment and intangible assets	(549,726)	(129,711)
Sales of investment property	126,048	65,190
Cash flows from investing activities	3,058,009	4,393,868
CASH FLOWS FROM FINANCING ACTIVITIES		
Repurchase/redemption of debt securities issued	(21,414,874)	(32,494,767)
Receipts of other borrowed funds	41,592,292	92,500,000
Repayment of other borrowed funds	(14,416,667)	(3,633,333)
Dividends paid	-	(355,205)
Cash flows from financing activities	5,760,751	56,016,695
Net increase in cash and cash equivalents	11,676,069	12,544,945
Effect of changes in exchange rates on cash and cash equivalents	177,863	295,863
Cash and cash equivalents at the beginning of the year	26,811,589	13,970,781
Cash and cash equivalents at the end of the year (Note 9)	38,665,521	26,811,589

Mortgage Organisation Kazakhstan Mortgage Company JSC
Consolidated Statement of Changes in Equity for the year ended 31 December 2016

	Share capital	Share premium	Treasury shares	Additional paid in capital	Reserve capital	Revaluation reserve for available-for-sale financial assets	Accumulated losses	Total
KZT'000								
Balance as at 1 January 2015	58,113,800	12,661	(2,597,522)	5,822,856	2,734,447	(730,235)	(18,438,187)	44,917,820
Total comprehensive income								
Profit for the year	-	-	-	-	-	-	3,825,822	3,825,822
Other comprehensive income								
<i>Items that are or may be reclassified subsequently to profit or loss:</i>								
Net change in fair value of available-for-sale financial assets	-	-	-	-	-	(986,355)	-	(986,355)
Net change in fair value of available-for-sale financial assets transferred to profit or loss	-	-	-	-	-	(2,294)	-	(2,294)
Total other comprehensive income	-	-	-	-	-	(988,649)	-	(988,649)
Total comprehensive income for the year						(988,649)	3,825,822	2,837,173
Transactions with owners, recorded directly in equity								
Dividends paid	-	-	-	-	-	-	(355,205)	(355,205)
Balance as at 31 December 2015	58,113,800	12,661	(2,597,522)	5,822,856	2,734,447	(1,718,884)	(14,967,570)	47,399,788

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

Mortgage Organisation Kazakhstan Mortgage Company JSC
Consolidated Statement of Changes in Equity for the year ended 31 December 2016

	Share capital	Share premium	Treasury shares	Additional paid in capital	Reserve capital	Revaluation reserve for available-for-sale financial assets	Accumulated losses	Total
KZT'000								
Balance as at 1 January 2016	58,113,800	12,661	(2,597,522)	5,822,856	2,734,447	(1,718,884)	(14,967,570)	47,399,788
Total comprehensive income								
Profit for the year	-	-	-	-	-	-	3,089,264	3,089,264
Other comprehensive income								
<i>Items that are or may be reclassified subsequently to profit or loss:</i>								
Net change in fair value of available-for-sale financial assets	-	-	-	-	-	512,706	-	512,706
Total other comprehensive income	-	-	-	-	-	512,706	-	512,706
Total comprehensive income for the year								
Balance as at 31 December 2016	58,113,800	12,661	(2,597,522)	5,822,856	2,734,447	(1,206,178)	(11,878,306)	51,001,758

1 Background

(a) Organisation and operations

These consolidated financial statements include the financial statements of Mortgage Organisation Kazakhstan Mortgage Company JSC (the “Company”) and its fully-owned subsidiaries, United Payment Systems JSC and Kazakhstan Housing-Construction Corporation JSC (together referred to as the “Group”).

The Company was established on 29 December 2000 in accordance with the Decree #469 of the National Bank of the Republic of Kazakhstan (the “NBRK”) dated 20 December 2000. The principal activity of the Company is issuance of mortgage loans in accordance with the license of regulatory authorities. The Company may additionally perform trust, factoring, forfeiting and leasing operations.

On 12 April 2010 the Company obtained a banking license #5.1.69 on banking lending transactions.

The activities of the Company are regulated by the National Bank of the Republic of Kazakhstan.

The Company’s registered office is 98, Karasay Batyr st., 050012, Almaty, Kazakhstan. The Company has a representative office in Astana.

Under the realisation of the Program “Affordable Housing-2020” the Company established a subsidiary company, United Payment Systems LLC (state registration certificate of a legal entity № 1266-1910-02-TOO dated 9 July 2012). On 19 January 2015 the subsidiary company was reorganised from the form of the limited liability company to the form of the joint-stock company. The main functions of the subsidiary are communications with potential lessees, conclusion of rent and utilities (maintenance) agreements, collection and arrangement of lease payments and payments relating to servicing of current mortgage transactions, and control over completeness and timeliness of cash flows.

United Payment Systems LLC established a subsidiary in the form of the joint-stock company, Kazakhstan Housing-Construction Corporation JSC (state registration certificate of a legal entity № 1559-1910-02-AO dated 6 August 2012). The main functions of the subsidiary are organisation and holding tenders (biddings) for development of design and estimate documentation, construction and installation works, selection of a contracting construction and mounting organisation, support in carrying out state expert reviews, organisation of construction of rental houses, project finance, financing of construction of rental houses, engineering supervision on all stages of construction, acceptance and setting of houses into exploitation.

On 14 November 2014 the Management Board of Mortgage Organisation Kazakhstan Mortgage Company JSC approved a reorganisation plan, under which during 2015 Kazakhstan Housing-Construction Corporation JSC was merged with its parent company United Payment Systems JSC, which later was merged with its parent company, Mortgage Organisation Kazakhstan Mortgage Company JSC.

On 21 July 2015 Kazakhstan Housing-Construction Corporation JSC was merged with its parent company, United Payment Systems JSC. On 13 November 2015 United Payment Systems JSC merged with its parent company, Mortgage Organisation Kazakhstan Mortgage Company JSC.

(b) Shareholders

As at 31 December 2016 the Group is wholly-owned by the National Management Holding Baiterek JSC (“Baiterek”).

1 Background, continued

(c) Kazakhstan business environment

The Group's operations are primarily located in Kazakhstan. Consequently, the Group is exposed to the economic and financial markets 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 Kazakhstan. In addition, the recent significant depreciation of the Kazakhstan tenge, and the reduction in the global price of oil, have increased the level of uncertainty in the business environment.

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

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

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

(c) Functional and presentation currency

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

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

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

(d) Use of estimates and judgments

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

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

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

- Available-for-sale financial assets – Note 11;
- Loans to customers – Note 12;
- Other borrowed funds – Note 20.

3 Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these consolidated financial statements.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are investees controlled by the Group. The Group 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 particular, the Group consolidates investees that it controls on the basis of de facto circumstances. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

(b) Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments unless the difference is due to impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss; a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or qualifying cash flow hedges to the extent that the hedge is effective, which are recognised in other comprehensive income.

(c) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with other banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of short-term commitments. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

3 Significant accounting policies, continued

(d) Financial instruments

(i) Classification

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

- acquired or incurred principally for the purpose of selling or repurchasing in the near term
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking
- derivative financial instruments (except for a derivative that is a financial guarantee contract or a designated and effective hedging instruments) or,
- upon initial recognition, designated as at fair value through profit or loss.

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

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

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

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

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

- intends to sell immediately or in the near term
- upon initial recognition designates as at fair value through profit or loss
- upon initial recognition designates as available-for-sale or,
- may not recover substantially all of its initial investment, other than because of credit deterioration

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

- the Group upon initial recognition designates as at fair value through profit or loss
- the Group designates as available-for-sale or,
- meet the definition of loans and receivables.

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

3 Significant accounting policies, continued

(d) Financial instruments, continued

(ii) Recognition

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

(iii) Measurement

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

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

- loans and receivables which are measured at amortised cost using the effective interest rate method
- held-to-maturity investments which are measured at amortised cost using the effective interest rate method
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost.

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

(iv) Amortised cost

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

(v) Fair value measurement principles

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

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

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

3 Significant accounting policies, continued

(d) Financial instruments, continued

(v) Fair value measurement principles, continued

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

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

(vi) Gains and losses on subsequent measurement

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

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

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

(vii) Derecognition

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

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

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

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

If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

The Group writes off assets deemed to be uncollectible.

3 Significant accounting policies, continued

(d) Financial instruments, continued

(viii) Derivative financial instruments

Derivative financial instruments include swaps, forwards, futures, spot transactions and options in interest rates, foreign exchanges, precious metals and stock markets, and any combinations of these instruments.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognised immediately in profit or loss.

Derivatives may be embedded in another contractual arrangement (a host contract). An embedded derivative is separated from the host contract and is accounted for as a derivative if, and only if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the combined instrument is not measured at fair value with changes in fair value recognised in profit or loss. Derivatives embedded in financial assets or financial liabilities at fair value through profit or loss are not separated.

(ix) Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. The Group currently has a legally enforceable right to set off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the Group.

(e) Leases

The Group's lease transactions are classified as either financing or operating leases at inception in accordance with IAS 17 *Leases*.

Finance leases are leases that transfer substantially all the risks and rewards incident to ownership of an asset. Title may or may not eventually be transferred. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. The indicators for finance lease classification are:

- The lease transfers ownership of the asset to the lessee by the end of the lease term
- The lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised
- The lease term is for the major part of the economic life of the asset even if title is not transferred
- At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset, or
- The leased assets are of a specialised nature such that only the lessee can use them without major modifications being made.

The Group as a lessor initially measures finance leases at an amount equal to the net investment in the lease. Subsequently the recognition of finance income is based on a pattern reflecting a constant periodic rate of return on the Group's net investment in the finance lease.

3 Significant accounting policies, continued

(f) Foreclosed assets

Foreclosed assets are measured at the lower of cost and net realisable value. The cost of foreclosed assets is based on the specific identification principle and recorded at net book value of underlying lease at foreclosure date.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(g) Property and equipment

(i) Owned assets

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

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

(ii) Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated at the amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

(iii) Depreciation

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

Building	8-100 years
Computer equipment	2-10 years
Vehicles	5-7 years
Other	3-20 years

(h) Intangible assets

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

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

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 1 year for programme software to 20 years for licenses.

(i) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment property is measured at cost less accumulated depreciation and impairment losses.

When the use of a property changes such that it is reclassified as property and equipment, its carrying value at the date of reclassification becomes its cost for subsequent accounting.

3 Significant accounting policies, continued

(j) Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally, the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell.

(k) Inventories

Inventories include assets to be transferred under finance lease agreements and other inventory. Assets to be transferred under finance lease are real estate objects acquired by the Group and transferred to the lessees once the title of ownership on objects is obtained. Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(l) Impairment

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

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

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

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

(i) Financial assets carried at amortised cost

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

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

3 Significant accounting policies, continued

(I) Impairment, continued

(i) *Financial assets carried at amortised cost, continued*

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

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

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

When a loan is uncollectible, it is written off against the related allowance for loan impairment. The Group writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

(ii) *Financial assets carried at cost*

Financial assets carried at cost include unquoted equity instruments included in available-for-sale financial assets that are not carried at fair value because their fair value cannot be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognised in profit or loss and cannot be reversed.

(iii) *Available-for-sale financial assets*

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

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

3 Significant accounting policies, continued

(l) Impairment, continued

(iv) Non financial assets

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

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

(m) Government grants

Government grants are assistance by the Government, Government agencies and state-owned entities in the form of transfers of resources to the Group in return for past or future compliance with certain conditions relating to the operating activities of the Group. Government grants are not recognised until there is reasonable assurance that the Group 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 as a "deferred income" 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 determined as described in Note 3(d) (iii) and the proceeds received.

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

(n) Provisions

A provision is recognised in the consolidated statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(o) Share capital

(i) Ordinary shares

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

(ii) Treasury shares

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a decrease in equity.

3 Significant accounting policies, continued

(o) Share capital, continued

(iii) Dividends

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

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

(p) Taxation

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

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

Deferred tax assets and liabilities are recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are not recognised for the following temporary differences: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries, where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that taxable profit will be available against which the deductible temporary differences can be utilised.

(q) Income and expense recognition

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

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortised to interest income over the estimated life of the financial instrument using the effective interest rate method.

Other fees, commissions and other income and expense items are recognised in profit or loss when the corresponding service is provided.

Dividend income is recognised in profit or loss on the date that the dividend is declared.

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

3 Significant accounting policies, continued

(r) Segment reporting

An operating segment is a component of a Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same Group); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

(s) New standards and interpretations not yet adopted

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

(i) 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. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

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 recognize 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 recognized for a financial asset is equal to 12-month ECL (except for certain trade and lease receivables, and contract assets, or purchased or originated credit-impaired financial assets). If the credit risk on the financial instrument has increased significantly since initial recognition, the loss allowance is measured at an amount equal to lifetime ECL.

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

3 Significant accounting policies, continued

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

(i) IFRS 9 Financial instruments, continued

Impairment, continued

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

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

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 Group does not intend to adopt the standard earlier.

The Group has not started a formal assessment of potential impact on its consolidated 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 Group's consolidated financial statements.

(ii) 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 Group does not intend to adopt this standard early. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.

(iii) Other amendments

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

Disclosure Initiative (Amendments to IAS 7 *Statement of Cash Flows*)

Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12 *Income Taxes*).

4 Net interest income

	2016 KZT'000	2015 KZT'000
Interest income		
Loans to customers	6,489,073	8,661,771
Cash and cash equivalents	5,739,239	4,851,634
Finance lease receivables	3,692,457	1,226,104
Placements with banks and other financial institutions	1,409,922	2,024,128
Available-for-sale financial assets	1,139,911	1,099,695
Held-to-maturity investments	-	163,647
Reverse repurchase agreements	-	66,889
Other assets	68,748	123,684
	18,539,350	18,217,552
Interest expense		
Debt securities issued	(4,979,360)	(6,999,722)
Other borrowed funds	(2,958,898)	(3,083,564)
Subordinated debt securities issued	(970,566)	(972,010)
Recognition of discount on long-term receivable	(101,744)	(29,195)
	(9,010,568)	(11,084,491)
Net interest income	9,528,782	7,133,061

Included within various line items under interest income for the year ended 31 December 2016 is a total of KZT 1,082,826 thousand (2015: KZT 784,680 thousand) accrued on impaired financial assets.

5 Impairment losses

	2016 KZT'000	2015 KZT'000
Loans to customers (Note 12)	200,191	(280,868)
Finance lease receivables (Note 13)	(129,211)	(338,459)
Cash and cash equivalents (Note 9)	(2,525,730)	-
Available-for-sale financial assets (Note 11)	-	(370,743)
Held-to-maturity investments	-	(24,966)
Other assets (Note 17)	(1,777)	(14,106)
	(2,456,527)	(1,029,142)

6 Personnel expenses

	2016 KZT'000	2015 KZT'000
Employee compensation	1,360,418	1,359,531
Salary related taxes	128,531	139,790
	1,488,949	1,499,321

7 General administrative expenses

	2016 KZT'000	2015 KZT'000
Professional services	465,110	168,790
Taxes other than on income	207,669	415,340
Depreciation and amortisation	113,297	93,931
Advertising and marketing	93,948	136,888
Utilities	60,621	47,063
Technical services for software	45,000	36,533
Insurance of mortgage loans	44,314	10,528
Occupancy	42,165	37,672
Security	33,704	23,057
Travel	28,324	26,109
Repairs and maintenance	25,478	30,283
Outsourcing	24,010	16,253
Communications and information services	12,465	11,870
State duties	9,708	24,468
Other	167,197	102,983
	1,373,010	1,181,768

8 Income tax expense

	2016 KZT'000	2015 KZT'000
Current year tax expense	(209,325)	-
Deferred taxation movement due to origination and reversal of temporary differences and movement in valuation allowance	(1,190,070)	(1,670,970)
Total income tax expense	(1,399,395)	(1,670,970)

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

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

	2016 KZT'000	%	2015 KZT'000	%
Profit before income tax	4,488,659		5,496,792	
Income tax at the applicable tax rate	(897,732)	(20)	(1,099,358)	(20)
Tax exempt interest on securities	228,162	5	234,623	4
Non-deductible impairment losses	(531,344)	(12)	(149,655)	(3)
Other non-deductible expenses	(198,481)	(4)	(285,586)	(5)
Change in unrecognised deferred tax assets	-	-	(370,994)	(7)
	(1,399,395)	(31)	(1,670,970)	(31)

Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to a net deferred tax liability as at 31 December 2016 and a net deferred tax asset as at 31 December 2015. These deferred tax assets and liabilities are recognised in these consolidated financial statements.

8 Income tax expense, continued

Deferred tax asset and liability, continued

Movements in temporary differences during the year ended 31 December 2016 are presented as follows:

KZT'000	1 January 2016	Recognised in profit or loss	31 December 2016
Property and equipment	(48,223)	(84,166)	(132,389)
Available-for-sale financial assets	3,804	178	3,982
Other assets	3,677	6,600	10,277
Other borrowed funds	(16,659,503)	(6,350,524)	(23,010,027)
Deferred income	15,617,604	6,375,349	21,992,953
Other liabilities	36,271	(7,290)	28,981
Tax loss carry-forward	1,501,211	(1,130,217)	370,994
	454,841	(1,190,070)	(735,229)
Unrecognised deferred tax asset	(370,994)	-	(370,994)
	83,847	(1,190,070)	(1,106,223)

Movements in temporary differences during the year ended 31 December 2015 are presented as follows:

KZT'000	1 January 2015	Recognised in profit or loss	31 December 2015
Property and equipment	(2,071)	(46,152)	(48,223)
Available-for-sale financial assets	-	3,804	3,804
Held-to-maturity investments	372,456	(372,456)	-
Other assets	22,574	(18,897)	3,677
Other borrowed funds	(1,079,295)	(15,580,208)	(16,659,503)
Deferred income	-	15,617,604	15,617,604
Other liabilities	19,372	16,899	36,271
Tax loss carry-forward	2,421,781	(920,570)	1,501,211
	1,754,817	(1,299,976)	454,841
Unrecognised deferred tax asset	-	(370,994)	(370,994)
	1,754,817	(1,670,970)	83,847

9 Cash and cash equivalents

	2016 KZT'000	2015 KZT'000
Nostro accounts with banks		
- rated BB+	-	71,503
- rated BB	11,754,995	331
- rated BB-	198	27,241
- rated B+	28,346	7,932
- rated B	18,432,830	12,133,102
- rated B-	8,449,152	14,463,480
- rated D	2,525,730	-
- not rated	-	108,000
Total gross nostro accounts with other banks	41,191,251	26,811,589
Impairment allowance	(2,525,730)	-
Total net nostro accounts with banks	38,665,521	26,811,589
Total cash and cash equivalents	38,665,521	26,811,589

9 Cash and cash equivalents, continued

The credit ratings are presented by reference to the credit ratings of Standard&Poor's credit ratings agency or analogues of similar international agencies.

On 27 December 2016 the NBRK revoked the license of Kazinvestbank JSC (KIB) citing its repeated failures to process payments. As at 31 December 2016 the Group considers the nostro account held with KIB for the total amount of KZT 2,525,730 thousand fully impaired as based on its understanding of the KIB's current position it does not expect probable future cash flows from the assets.

As at 31 December 2016 the Group has four banks (2015: two banks) whose balances exceed 10% of equity. The gross value of these balances as at December 2016 is KZT 34,027,974 thousand (2015: KZT 15,282,914 thousand).

10 Placements with banks and other financial institutions

	2016 KZT'000	2015 KZT'000
- rated BBB	-	11,718,500
- rated B+	-	170,005
- rated B	-	5,448,635
- rated B-	167,534	-
	<u>167,534</u>	<u>17,337,140</u>

The credit ratings are presented by reference to the credit ratings of Standard&Poor's credit ratings agency or analogues of similar international agencies.

None of the balances are impaired or past due.

As at 31 December 2016 the Group placed term deposit with interest rate 6.3% per annum (2015: 6% to 9.5%) and which has maturity in March 2017 (2015: February 2016 to October 2016).

As at 31 December 2016 the Group has no banks (2015: one bank) whose balances exceed 10% of equity. The gross value of the balance as at 31 December 2015 was KZT 11,718,500 thousand.

11 Available-for-sale financial assets

	2016 KZT'000	2015 KZT'000
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	1,140,166	3,225,575
Corporate bonds rated BBB-	-	1,153,653
Corporate bonds rated from BB+ to BB-	1,289,855	1,839,440
Corporate bonds rated from B+ to B-	4,872,214	2,985,428
Corporate bonds not rated	5,342,941	6,311,514
	<u>12,645,176</u>	<u>15,515,610</u>
Impairment allowance	(1,555,539)	(1,555,539)
	<u>11,089,637</u>	<u>13,960,071</u>

The credit ratings are presented by reference to the credit ratings of Standard&Poor's credit ratings agency or analogues of similar international agencies.

Corporate bonds are interest-bearing securities, issued by local companies and banks. These securities are freely tradable on the Kazakhstan Stock Exchange ("KASE"), except for the bonds of Rosa JSC ("Rosa") and Kazakhstan Kagazy JSC ("KK") with gross amounts of KZT 437,743 thousand and KZT 1,117,796 thousand, respectively (31 December 2015: Rosa and KK of KZT 437,743 thousand and KZT 1,117,796 thousand, respectively). Rosa and KK bonds were excluded from trading on KASE on 2 October 2009 and 13 November 2015, respectively.

11 Available-for-sale financial assets, continued

As at 31 December 2016 and 2015 the Group considers bonds fully impaired as based on its understanding of the issuers' financial positions it does not expect probable future cash flows from the assets.

During the year ended 31 December 2015, the Group reclassified debt financial instruments from held-to-maturity investments to available-for-sale financial assets in the amount of KZT 6,703,614 thousand due to the sale of debt financial instruments from the held to-maturity investments portfolio prior to maturity. The Group is not allowed to classify any debt financial instruments as held-to-maturity during the two subsequent financial years.

Analysis of movements in the impairment allowance:

	2016 KZT'000	2015 KZT'000
Balance at the beginning of the year	1,555,539	437,743
Net charge	-	370,743
Transfer from held-to-maturity investments	-	1,212,139
Write-offs	-	(465,086)
Balance at the end of the year	1,555,539	1,555,539

12 Loans to customers

Loans to customers comprise mortgage loans purchased from commercial banks and credit institutions of the Republic of Kazakhstan and mortgage loans issued to individuals. The loans comprise KZT and USD denominated mortgage loans due from individuals located in the Republic of Kazakhstan.

	2016 KZT'000	2015 KZT'000
Mortgage loans	59,421,900	84,401,663
Accrued interest	676,436	1,118,529
Gross loans to customers	60,098,336	85,520,192
Impairment allowance	(3,562,695)	(3,764,985)
Net loans to customers	56,535,641	81,755,207

During the year ended 31 December 2016 the Group has not acquired mortgage loan portfolios from any commercial banks (2015: two commercial banks). The loans acquired during 2015 were recorded at their fair value totalling KZT 4,689,717 thousand.

12 Loans to customers, continued

(a) Credit quality of mortgage loans

The following table provides information on the credit quality of mortgage loans as at 31 December 2016 and 2015:

	2016 KZT'000	2015 KZT'000
Mortgage loans		
- not overdue	55,507,964	74,932,315
- overdue less than 30 days	1,809,108	3,058,975
- overdue 30-89 days	573,006	1,909,873
- overdue 90-179 days	453,656	1,892,090
- overdue 180-360 days	248,093	1,078,594
- overdue more than 360 days	1,506,509	2,648,345
Total loans to customers	60,098,336	85,520,192
Total impairment allowance on loans to customers	(3,562,695)	(3,764,985)
Total net loans to customers	56,535,641	81,755,207

As at 31 December 2016 carrying amounts of loans with full recourse and partial recourse to the seller were KZT 8,093,174 thousand and KZT 25,006,142 thousand, respectively (31 December 2015: KZT 10,409,749 thousand and KZT 44,369,625 thousand, respectively).

In accordance with agreements on partial recourse, the recourse options do not exceed 20-25% of the total principal amount of mortgage loans at the date of purchase of those loans.

(b) Key assumptions and judgements for estimating loan impairment

As described in Note 2, the Group uses its experience and judgment to estimate the amount of impairment loss for loans to customers.

The significant assumptions used in determining the impairment losses for mortgage loans include:

- mortgage loans with recourse overdue more than 60 days can be sold back by the Group at any time at their gross amount. Management believes that recourse counterparties are institutions of good reputation, with good credit standing
- other mortgage loans are subject to collective impairment assessment based on their past loss experience
- loss migration rates are constant and can be estimated based on the historical loss migration pattern for the past 24 months
- a delay of two years in obtaining proceeds from the foreclosure of collateral, which is not compensated by related interest income, and a discount of 68% to 96% to the originally appraised value if the property pledged is sold through court procedures (2015: 65% to 80%).

12 Loans to customers, continued

(b) Key assumptions and judgements for estimating loan impairment, continued

Movements in the loan impairment allowance for the year ended 31 December are as follows:

	2016 KZT'000	2015 KZT'000
Balance at the beginning of the year	3,764,985	3,484,117
Net (recovery) charge	(200,191)	280,868
Write-offs	(1,241)	-
Exchange differences on translation	(858)	-
Balance at the end of the year	3,562,695	3,764,985

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of estimated cash flows differs by plus/minus three percent, the impairment allowance on loans to customers as at 31 December 2016 would be KZT 1,696,069 thousand lower/higher (31 December 2015: KZT 2,452,656 thousand).

(c) Analysis of collateral

Mortgage loans are secured by the underlying housing real estate.

For loans with recourse to the seller, the commercial banks-partners are responsible for monitoring of collateral on a periodic basis according to requirements of the NBRK. The recoverability of these loans is primarily dependent on the creditworthiness of the borrowers and commercial banks-partners rather than the value of collateral, and the current value of the collateral does not impact the impairment assessment.

The following tables provide information on real estate collateral securing mortgage loans, net of impairment:

	Loans to customers, carrying amount	Fair value of collateral – for collateral assessed as of reporting date	Fair value of collateral – for collateral assessed as of loan inception date	Fair value of collateral not determined
31 December 2016				
KZT'000				
Not overdue loans	53,697,468	27,326,881	24,098,793	2,271,794
Overdue loans	2,838,173	1,562,912	1,230,996	44,265
	56,535,641	28,889,793	25,329,789	2,316,059
31 December 2015				
Not overdue loans	73,292,311	36,842,306	30,648,126	5,801,879
Overdue loans	8,462,896	3,851,105	2,860,509	1,751,282
	81,755,207	40,693,411	33,508,635	7,553,161

The table above excludes overcollateralisation.

The Group updates the appraised values of collateral obtained at inception of the loans to the current values considering the approximate changes in property values. The Group may also obtain specific individual valuation of collateral at each reporting date where there are indications of impairment.

Repossessed property

The Group obtains certain assets by taking possession of collateral for loans to retail customers. As at 31 December 2016, the carrying amount of such assets was KZT 1,860,732 thousand (2015: KZT 1,616,538 thousand), which consisted of investment property of KZT 991,700 thousand (2015: KZT 1,275,879 thousand) and other assets of KZT 869,032 thousand (2015: KZT 340,659 thousand).

The Group's policy is to sell these assets as soon as it is practicable, except for investment property.

12 Loans to customers, continued

(d) Asset securitisation

Loans to customers with the amount of principal of KZT 21,793,626 thousand (2015: KZT 25,907,249 thousand) serve as collateral for debt securities issued by the Group. As at 31 December 2016, the carrying amount of these debt securities is KZT 18,797,316 thousand (31 December 2015: KZT 17,967,562 thousand). Refer to Note 18.

(e) Significant credit exposures

As at 31 December 2016 the Group does not have any banks (2015: no banks) to whom the Group has recourse in respect of its purchased loans, whose loan exposures exceed 10% of equity.

(f) Loan maturities

The maturity of the loan portfolio is presented in Note 24(e), which shows the remaining period from the reporting date to the contractual maturity of the loans.

13 Finance lease receivables

The components of net investments in finance lease as at 31 December 2016 and 2015 are as follows:

	2016	2015
	KZT'000	KZT'000
Within one year	5,498,695	2,428,401
More than one year, but less than five years	21,978,822	9,759,623
More than five years	75,629,063	33,795,555
Minimum lease payments	103,106,580	45,983,579
Less unearned finance income:		
Less than one year	(2,494,462)	(1,249,325)
From one to five years	(9,421,510)	(4,737,830)
More than five years	(15,800,950)	(8,223,547)
Less unearned finance income, total	(27,716,922)	(14,210,702)
Less impairment allowance	(467,670)	(338,459)
Net investment in finance lease	74,921,988	31,434,418

The Group leases out housing real estate under Nurly Zhol and Own programme.

During 2016 in accordance with the Government's Decree #922 Nurly Zhol was renamed to Nurly Zher.

These lease agreements are classified as finance lease under IAS 17 because ownership of the assets gets transferred to lessees by the end of the lease term, and at the inception the present value of the minimum lease payments amounts to substantially all of the fair value of the leased assets.

The finance lease agreements for Own programme have a maturity term up to 20 years and bear nominal interest rates of 11.50% and 13.00%. The finance lease agreements for Nurly Zher have a maturity term of 20 years and monthly lease payments limited to KZT 1,120 per square meter for Almaty and Astana cities and KZT 924 per square meter in other regions.

13 Finance lease receivables, continued

(a) Credit quality of finance lease receivables

The following table provides information on credit quality of finance lease receivables as at 31 December 2016 and 2015:

	2016 KZT'000	2015 KZT'000
Finance lease receivables under Own Programme		
- not overdue	3,779,308	3,903,452
- overdue 30-89 days	13,607	-
- overdue 180-360 days	14,059	-
Total finance lease receivables under Own Programme	3,806,974	3,903,452
Impairment allowance on finance lease receivables under Own Programme	(17,961)	-
Net finance lease receivables under Own Programme	3,789,013	3,903,452
Finance lease receivables under Nurly Zher Programme		
- not overdue	68,535,299	26,385,575
- overdue less than 30 days	2,426,263	1,275,496
- overdue 30-89 days	551,727	197,242
- overdue 90-179 days	43,497	11,112
- overdue 180-360 days	11,223	-
- overdue more than 360 days	14,675	-
Total finance lease receivables under Nurly Zher Programme	71,582,684	27,869,425
Impairment allowance on finance lease receivables under Nurly Zher Programme	(449,709)	(338,459)
Net finance lease receivables under Nurly Zher Programme	71,132,975	27,530,966
Total finance lease receivables	75,389,658	31,772,877
Total impairment allowance on finance lease receivables	(467,670)	(338,459)
Total net finance lease receivables	74,921,988	31,434,418

Movements in the finance lease receivables impairment allowance for the year ended 31 December are as follows:

	2016 KZT'000	2015 KZT'000
Balance at the beginning of the year	338,459	-
Net charge	129,211	338,459
Balance at the end of the year	467,670	338,459

14 Advances paid for acquisition and construction of real estate

Advances paid for acquisition and construction of real estate comprise advances made by the Group for housing real estate to be acquired from third parties. The Group plans to lease it out under finance lease, once the legal title on the property passes to the Group.

As at 31 December 2016 the largest advance payment was made to Elitstroy Almaty LLP in the amount of KZT 11,032,390 thousand for construction of athletic village in Almaty under Nurly Zher programme (31 December 2015: Baiterek Development JSC in the amount of KZT 11,905,891 thousand for construction and property acquisition in Kyzylorda, Pavlodar and Aktobe cities).

15 Assets to be transferred under finance lease agreements

Assets to be transferred under finance lease agreements include housing real estate, which the Group intends to transfer to lessees in 2017.

The major portion of the assets relates to assets to be transferred under Nurly Zher programme.

As at 31 December 2016, the largest micro districts acquired by the Group locate in cities of Shymkent, Aktobe, Petropavlovsk, and Almaty in the total amount of KZT 21,930,991 thousand (2015: micro districts in cities of Shymkent, Aktobe, Taraz, Kyzylorda and Aktau in the total amount of KZT 20,797,332 thousand).

16 Construction in progress

Construction in progress represents capitalised costs incurred by the Group during construction of residential real estate in different regions of Kazakhstan as part of “Regions Development till 2020” program approved by the Decree #728 of the Government of the Republic of Kazakhstan dated 28 June 2014 and launched under the President’s “Nurly Zhol” Statement (currently “Nurly Zher”). The Group will lease out the constructed real estate under finance lease terms approved in this programme.

As at 31 December 2016 the largest construction projects relate to construction of micro districts “Assar” located in Shymkent and Zachagansk village in Uralsk in the amounts of KZT 2,983,500 thousand and KZT 2,983,480 thousand, respectively (2015: micro districts “SPMK-70” located in Kyzylorda and “Assar” in Shymkent in the amounts of KZT 2,689,464 thousand and KZT 2,592,679 thousand, respectively).

17 Other assets

	2016 KZT'000	2015 KZT'000
Receivables on loan acquisition transactions	2,851,703	2,742,768
Receivable from sale of assets held for sale	725,626	1,086,314
Other receivables	-	8,903
Total other financial assets	3,577,329	3,837,985
Foreclosed property	869,032	340,659
Intangible assets	136,715	115,245
Other prepayments	129,257	81,288
Inventory	34,816	30,522
Other	63,412	52,396
Impairment allowance	(26,637)	(24,860)
Total other non-financial assets	1,206,595	595,250
Total other assets	4,783,924	4,433,235

Receivable from sale of assets held for sale has been recognised at amortised cost in the consolidated statement of financial position, reflecting fair value of the receivable at origination in 2013. Fair value was calculated by discounting contractual future cash flows using an estimated market rate of interest of 12.5% p.a. The resulting discount of KZT 124,276 thousand arising at initial recognition was recognised as interest expense in the consolidated statement of profit or loss. During the year ended 31 December 2015, the parties concluded additional agreements further deferring the payments until the following year. During the year ended 31 December 2016, the parties terminated the contract and the Group concluded a new agreement with another party. This resulted in an additional discount of KZT 101,744 thousand and KZT 29,195 thousand, respectively, recognised in the consolidated statement of profit or loss.

Foreclosed property comprises real estate collateral accepted by the Group in exchange for its rights and obligations under impaired mortgage loans. The Group has not yet determined future use of this property, whether it is going to be sold or rented out.

17 Other assets, continued

Analysis of movements in the impairment allowance

	2016 KZT'000	2015 KZT'000
Balance at the beginning of the year	24,860	7,888
Net charge	1,777	14,106
Transfer due to merger with subsidiaries	-	2,866
Balance at the end of the year	26,637	24,860

18 Debt securities issued

Debt securities issued as at 31 December 2016 and 2015 comprised USD and KZT denominated bonds.

Emission	Maturity date	Nominal coupon rate	Effective rate	2016 KZT'000	2015 KZT'000
KZ2C0Y07E517	26.07.2020	8.5%	8.50%	10,350,981	10,346,821
KZ2C0Y08D913	23.12.2018	1.00%+NBRK refinancing rate (limited to maximum 10%, minimum 6%)	12.62%	8,950,306	8,504,529
KZ2C0Y05E503	26.07.2018	8.00%	8.00%	8,185,888	8,181,163
KZPC4Y10B547	15.01.2017	0.01%+floating inflation index (limited to 7.5%)	13.45%	5,161,471	4,805,618
KZPC2Y12B547	10.04.2017	0.01%+floating inflation index (limited to 7.5%)	7.42%	4,678,418	4,650,295
KZ2C0Y08E218	02.04.2020	7.00%	7.00%	7,121	7,121
KZ2C0Y05E529	26.07.2018	6.0%	0.00%	-	11,706,566
KZP02Y09C495	10.06.2016	0.7%+ floating inflation index (limited to 12.0%)	0.00%	-	9,781,375
				37,334,185	57,983,488

These obligations are secured by loan agreements with customers and the related real estate supporting these loans (Note 12) with a principal amount of KZT 21,793,626 thousand (2015: KZT 25,907,249 thousand).

The floating rate is based on the inflation index for the prior 12 months published by the Statistics Agency of the Republic of Kazakhstan and is revised semi-annually according to the date of issue.

19 Subordinated debt securities issued

Emission	Maturity date	Coupon rate	Effective rate	2016 KZT'000	2015 KZT'000
KZ2C0Y05E206	02.04.2017	8.00%	9.76%	10,152,242	9,981,675
				10,152,242	9,981,675

As at 31 December 2016 and 2015 subordinated debt securities issued comprise unsecured obligations of the Group. In case of bankruptcy, the repayment of the subordinated debt securities would be made after repayment in full of all other liabilities of the Group.

Subordinated bonds bear a fixed coupon rate.

20 Other borrowed funds

	2016	2015
	KZT'000	KZT'000
Loan from National Management Holding Baiterek JSC	24,075,406	14,687,024
Loans from banks of the Republic of Kazakhstan	7,153,257	21,725,945
Due to the Government of the Republic of Kazakhstan	3,931,321	3,647,704
	35,159,984	40,060,673

As at 31 December 2016 the Group has a loan from Halyk Saving Bank of Kazakhstan JSC with the principal amount of KZT 7,150,000 thousand which bears an interest of 8.2% and matures in 2017. During the year ended 31 December 2016, the Group partially repaid principal on a loan from Halyk Saving Bank of Kazakhstan JSC and fully repaid a loan from SB Sberbank JSC in accordance with the repayment schedules in amounts of KZT 7,150,000 thousand and KZT 7,266,667 thousand, respectively.

Amounts due to the Government of the Republic of Kazakhstan consist of a loan received in December 2007 from the Ministry of Finance of the Republic of Kazakhstan for the purchase of mortgage loans from second-tier banks. The loan carries a nominal interest rate of 0.1% per annum with principal repayable at maturity in December 2027. The fair value of the loan at initial recognition was estimated by discounting the contractual future cash flows of the loan using management's estimate of a long-term market borrowing rate for the Group of 8% p.a.

During the year ended 31 December 2016, the Group received a loan in two tranches for the total amount of KZT 41,592,292 thousand from the National Management Holding Baiterek JSC under the programme "Regions Development till 2020" approved by the Decree #728 of the Government of the Republic of Kazakhstan dated 28 June 2014 and launched under the President's "Nurly Zhol" Statement (renamed to "Nurly Zher"). As set out in the programme, the purpose of the loans is to finance construction and acquisition of housing real estate to be further leased out under operating and finance leases. The loan bears a nominal interest rate of 0.15% per annum and matures in January 2045. The repayment of principal is at maturity. At initial recognition the loans were recognised at fair value measured by applying relevant market interest rates ranging from 6.9% to 8.0% to discount the contractual future cash flows. The discount on this loan of KZT 33,486,061 thousand was recognised as deferred income (Note 21).

21 Deferred income

	2016	2015
	KZT'000	KZT'000
Balance at the beginning of the year	78,088,020	-
Deferred income from low-interest rate loans obtained during the period (Note 20)	33,486,061	78,543,224
Amortisation for the year	(1,609,314)	(455,204)
Balance at the end of the year	109,964,767	78,088,020

As at 31 December 2016 the Group recorded as deferred income the benefits of KZT 33,486,061 thousand (31 December 2015: KZT 78,543,224 thousand), provided by means of a low interest rate on the loans from National Management Holding Baiterek JSC. The benefits represent government grant and are to be allocated further by providing leases at favourable rates to population meeting the criteria specified in the programme.

22 Other liabilities

	2016 KZT'000	2015 KZT'000
Payable for rights on loans acquired	6,418,389	6,513,141
Interest strip payable	1,017,687	1,503,295
Prepaid loans	795,817	503,600
Loan portfolios servicing fee payable	29,643	42,818
Professional services	10,275	11,945
Total other financial liabilities	8,271,811	8,574,799
Contract enforcement fees payable	1,053,154	825,819
Payables to employees	142,345	181,703
Guarantee fees payable	103,414	239,230
Other taxes payable	19,928	62,031
Other non-financial liabilities	223,054	142,228
Total other non-financial liabilities	1,541,895	1,451,011
Total other liabilities	9,813,706	10,025,810

The amount payable for rights on loans acquired represents final instalments payable for certain acquired mortgage loans (Note 12). Part of the amount is due upon completion of transfer of the agreed volume of mortgage loans and part is pending completion of reconciliation process.

Interest strip payable represents obligation to return to the original loan issuer a portion of interest receivable on mortgage loan portfolios acquired from three banks during 2013-2015. The Group is obliged to pay 1.2-1.7% p.a. of the outstanding mortgage loan portfolio on a monthly basis. This balance does not meet criteria for offsetting and, thus, is recognised as a separate financial liability.

23 Share capital and reserves

(a) Issued capital and share premium

As at 31 December 2016 and 2015 authorised share capital comprises 13,681,600 ordinary shares, and issued and outstanding share capital comprises 5,811,380 shares, including treasury shares (Note (c) below). All shares have a nominal value of KZT 10 thousand.

(b) Dividends

In accordance with the legislation of the Republic of Kazakhstan, the Group's distributable reserves are limited to the balance of retained earnings as recorded in the Group's statutory financial statements prepared in accordance with IFRSs or profit for the period if there is an accumulated loss brought forward. A distribution cannot be made if this would result in negative equity or the Group's insolvency.

During the year ended 31 December 2016, no dividends were declared and paid relating to the previous year results of the Group (2015: dividends of KZT 355,205 thousand or KZT 63.87 per ordinary share).

(c) Treasury shares

As at 31 December 2016 and 2015 the Group held 250,000 of its own shares.

23 Share capital and reserves, continued

(d) Reserve capital

The Group has established a reserve capital in accordance with a decision of shareholders. As at 31 December 2016 and 2015 the reserve capital amounted to KZT 2,734,447 thousand. This reserve capital is available for distribution.

During the years ended 31 December 2016 and 2015 the shareholders did not make any transfer from accumulated losses to this reserve capital.

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

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

(f) Basic and diluted earnings per share

The calculation of basic and diluted earnings per share is based on the profit or loss for the year attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding during the year.

	2016	2015
Profit for the year, in thousand of KZT	3,089,264	3,825,822
Weighted average number of ordinary shares	5,561,380	5,561,380
Basic and diluted earnings per share, in KZT	555	688

There are no potentially dilutive shares for the years ended 31 December 2016 and 2015.

(g) Book value per share

Under the listing rules of the Kazakhstan Stock Exchange the Group should present book value per share in its consolidated financial statements. The book value per share is calculated dividing net assets less intangible assets by the number of outstanding ordinary shares. As at 31 December 2016 the book value per share was KZT 9,146.12 (2015: KZT 8,502.30).

24 Risk management

Management of risk is fundamental to the lending business and is an essential element of the Group's operations. The major risks faced by the Group are those related to market risk, which includes interest rate and currency risks, credit risk and liquidity risk.

(a) Risk management policies and procedures

The Group's risk management policies aim to identify, analyse and manage the risks faced by the Group, 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 Management Board has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Management Board of the Group is responsible for monitoring and implementation of risk mitigation measures and making sure that the Group operates within the established risk parameters. The Head of Risk Department of the Group is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks.

The Risk Management Committee develops proposals on assets/liabilities and risk management based on strategies, policies and procedures approved by the Management Board.

24 Risk management, continued

(a) Risk management policies and procedures, continued

Both external and internal risk factors are identified and managed throughout the Group's organisational structure. Particular attention is given to developing risk maps that are used to identify the full range of risk factors and serve as a basis for determining the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Management Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

(b) Market risk

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

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return on risk.

Overall authority for market risk is vested in the Risk Management Committee.

The Group manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits. These are monitored on a regular basis and reviewed and approved by the Management Board.

(i) Interest rate risk

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

24 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate gap analysis

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

KZT'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2016							
ASSETS							
Cash and cash equivalents	38,592,103	-	-	-	-	73,418	38,665,521
Placements with banks and other financial institutions	167,534	-	-	-	-	-	167,534
Available-for-sale financial assets	116,981	116,942	1,315,816	6,748,645	2,791,253	-	11,089,637
Loans to customers	1,540,935	7,399,520	1,926,029	16,804,382	28,864,775	-	56,535,641
Finance lease receivables	834,616	717,059	1,452,559	12,557,312	59,360,442	-	74,921,988
Other financial assets	-	-	-	-	-	3,577,329	3,577,329
Total assets	41,252,169	8,233,521	4,694,404	36,110,339	91,016,470	3,650,747	184,957,650
LIABILITIES							
Debt securities issued	5,800,260	13,628,845	-	17,905,080	-	-	37,334,185
Subordinated debt securities issued	-	10,152,242	-	-	-	-	10,152,242
Other borrowed funds	79,549	3,590,512	3,575,125	-	27,914,798	-	35,159,984
Other financial liabilities	-	-	-	-	-	8,271,811	8,271,811
Total liabilities	5,879,809	27,371,599	3,575,125	17,905,080	27,914,798	8,271,811	90,918,222
Net position	35,372,360	(19,138,078)	1,119,279	18,205,259	63,101,672	(4,621,064)	94,039,428

24 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate gap analysis, continued

KZT'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2015							
ASSETS							
Cash and cash equivalents	26,340,549	-	-	-	-	471,040	26,811,589
Placements with banks and other financial institutions	3,101,080	-	14,236,060	-	-	-	17,337,140
Available-for-sale financial assets	1,529,760	5,336,018	1,258,814	4,533,935	1,301,544	-	13,960,071
Loans to customers	1,817,659	10,453,408	2,791,134	22,948,205	43,744,801	-	81,755,207
Finance lease receivables	319,095	276,522	581,272	5,021,792	25,235,737	-	31,434,418
Other financial assets	-	-	-	-	-	3,837,985	3,837,985
Total assets	33,108,143	16,065,948	18,867,280	32,503,932	70,282,082	4,309,025	175,136,410
LIABILITIES							
Debt securities issued	5,739,230	22,936,320	-	29,307,938	-	-	57,983,488
Subordinated debt securities issued	-	197,778	-	9,783,897	-	-	9,981,675
Other borrowed funds	3,856,041	3,575,000	7,206,696	7,150,000	18,272,936	-	40,060,673
Other financial liabilities	-	-	-	-	-	8,574,799	8,574,799
Total liabilities	9,595,271	26,709,098	7,206,696	46,241,835	18,272,936	8,574,799	116,600,635
Net position	23,512,872	(10,643,150)	11,660,584	(13,737,903)	52,009,146	(4,265,774)	58,535,775

24 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2016 and 2015. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2016		2015	
	Average effective interest rate,		Average effective interest rate,	
	%		%	
	KZT	USD	KZT	USD
Interest bearing assets				
Cash and cash equivalents	11.03	1.00	13.72	3.50
Placement with banks and other financial institutions	-	6.30	9.50	6.05
Available-for-sale financial assets	10.64	-	7.56	-
Loans to customers	11.87	13.69	11.93	13.85
Finance lease receivables	3.54	-	4.17	-
Interest bearing liabilities				
Debt securities issued	10.02	-	10.00	-
Subordinated debt securities issued	9.76	-	9.76	-
Other borrowed funds	7.24	-	7.34	-

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

Interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period.

Interest rates sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of profit or loss and equity (net of taxes) to changes in interest rate (repricing risk) based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2016 and 2015 is as follows:

	2016		2015	
	KZT'000		KZT'000	
	Profit or loss	Equity	Profit or loss	Equity
100 bp parallel rise	(146,959)	(146,959)	(134,696)	(134,696)
100 bp parallel fall	146,959	146,959	134,696	134,696

24 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rates sensitivity analysis, continued

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

	2016		2015	
	KZT'000		KZT'000	
	Profit or loss	Equity	Profit or loss	Equity
100 bp parallel rise	-	(287,170)	-	(367,944)
100 bp parallel fall	-	302,659	-	389,936

(c) Currency risk

The Group has assets and liabilities denominated in USD.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group does not hedge its exposure to currency risk.

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2016 and 2015:

	USD	
	2016 KZT'000	2015 KZT'000
Assets		
Cash and cash equivalents	50,025	330,334
Placement with banks and other financial institutions	167,534	5,618,640
Loans to customers	1,958,489	12,422,513
Other assets	2,607,635	2,556,944
Total financial assets	4,783,683	20,928,431
Liabilities		
Debt securities issued	-	11,706,566
Other liabilities	4,702,747	4,826,602
Total financial liabilities	4,702,747	16,533,168
Net on and off balance sheet position	80,936	4,395,263

A change in the value of the KZT, as indicated below, against the following currencies at 31 December 2016 and 2015 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2016		2015	
	KZT'000		KZT'000	
	Profit or loss	Equity	Profit or loss	Equity
20% appreciation of USD against KZT	12,950	12,950	703,242	703,242
5% depreciation of USD against KZT	(3,237)	(3,237)	(175,811)	(175,811)

24 Risk management, continued

(d) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group has policies and procedures for the management of credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. The credit policy is reviewed and approved by the Management Board.

The Group's credit policy establishes:

- procedures for review and approval of loan credit applications
- methodology for the credit assessment of borrowers
- methodology for the credit assessment of counterparties, issuers and insurance companies
- methodology for the evaluation of collateral
- minimum financial and collateral requirements for loan approvals
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures.

The main task of credit risk management is the application of a weighted credit policy, considering profitability with safety of asset allocation at purchase of mortgage loans and control over position of loan portfolio based on in-depth, objective, complete and qualified monitoring.

Susceptibility to credit risk is controlled by obtaining high quality collateral, the receipt of a guarantees and obtaining recourse to the seller of the loans.

The Group's maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the consolidated statement of financial position and unrecognised contractual commitment amounts. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

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

	2016	2015
	KZT'000	KZT'000
ASSETS		
Cash and cash equivalents	38,665,521	26,811,589
Placements with banks and other financial institutions	167,534	17,337,140
Available-for-sale financial assets	11,089,637	13,960,071
Loans to customers	56,535,641	81,755,207
Finance lease receivables	74,921,988	31,434,418
Other financial assets	3,577,329	3,837,985
Total maximum exposure	184,957,650	175,136,410

For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers refer to Note 12.

As at 31 December 2016 and 2015 the Group has no debtors or groups of connected debtors, credit risk exposure to whom exceeds 10% of maximum credit risk exposure.

24 Risk management, continued

(e) Liquidity risk

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

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

The Group seeks to actively support a diversified and stable funding base comprising debt securities in issue, long-term and short-term loans from other banks, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy of the Group requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto
- maintaining a diverse range of funding sources
- managing the concentration and profile of debts
- maintaining debt financing plans
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow
- maintaining liquidity and funding contingency plans
- monitoring liquidity ratios against regulatory requirements.

The following tables show the undiscounted cash flows on the Group's financial liabilities on the basis of their earliest possible contractual maturity. The total gross amount outflow disclosed in the table is the contractual, undiscounted cash flow on the financial liability. The Group's expected cash flows on these financial liabilities may vary significantly from this analysis.

24 Risk management, continued

(e) Liquidity risk, continued

The liquidity position of the Group as at 31 December 2016 was as follows:

KZT'000	Demand and less than					Total gross amount outflow	Carrying amount
	1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years		
Non-derivative liabilities							
Debt securities issued	5,929,320	-	5,097,434	1,067,065	31,762,365	-	43,856,184
Subordinated debt securities issued	-	-	10,400,000	-	-	-	10,400,000
Other borrowed funds	86,250	146,575	3,750,213	3,816,845	840,633	147,697,628	156,338,144
Other financial liabilities	50,569	841,540	6,473,784	107,839	709,751	729,430	8,912,913
Total	6,066,139	988,115	25,721,431	4,991,749	33,312,749	148,427,058	219,507,241

The position of the Group as at 31 December 2015 was as follows:

KZT'000	Demand and less than					Total gross amount outflow	Carrying amount
	1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years		
Non-derivative liabilities							
Debt securities issued	1,181,946	-	11,026,668	1,608,614	56,477,394	-	70,294,622
Subordinated debt securities issued	-	-	400,000	400,000	10,400,000	-	11,200,000
Other borrowed funds	232,875	3,926,483	3,977,150	7,813,653	8,180,805	105,051,709	129,182,675
Other financial liabilities	440,302	198,800	80,221	6,668,897	1,044,741	1,142,171	9,575,132
Total	1,855,123	4,125,283	15,484,039	16,491,164	76,102,940	106,193,880	220,252,429

24 Risk management, continued

(e) Liquidity risk, continued

The table below shows an analysis, by contractual maturities, of the amounts recognised in the consolidated statement of financial position as at 31 December 2016:

Assets	Less than 1 month KZT'000	1 to 3 months KZT'000	3 months to 1 year KZT'000	1 to 5 years KZT'000	More than 5 years KZT'000	No maturity KZT'000	Total KZT'000
Cash and cash equivalents	38,665,521	-	-	-	-	-	38,665,521
Placements with banks and other financial institutions	889	166,645	-	-	-	-	167,534
Available-for-sale financial assets	58,392	58,589	1,432,758	6,748,645	2,791,253	-	11,089,637
Loans to customers	801,165	739,770	3,352,374	19,296,342	32,345,990	-	56,535,641
Finance lease receivables	359,948	474,668	2,169,618	12,557,312	59,360,442	-	74,921,988
Current tax asset	-	-	-	-	-	3,201,687	3,201,687
Advances paid for acquisition and construction of real estate	-	2,732,686	25,479,734	-	-	-	28,212,420
Assets to be transferred under finance lease agreements	-	-	-	-	-	24,221,971	24,221,971
Construction in progress	-	-	9,229,741	-	-	-	9,229,741
Property and equipment	-	-	-	-	-	2,186,810	2,186,810
Investment property	-	-	-	-	-	1,315,991	1,315,991
Other assets	19,117	97,350	3,637,438	1,504	3,071	1,025,444	4,783,924
Total assets	39,905,032	4,269,708	45,301,663	38,603,803	94,500,756	31,951,903	254,532,865
Liabilities							
Debt securities issued	5,800,260	-	4,692,984	26,840,941	-	-	37,334,185
Subordinated debt securities issued	-	-	10,152,242	-	-	-	10,152,242
Other borrowed funds	76,292	3,257	7,165,637	-	27,914,798	-	35,159,984
Deferred income	-	-	-	-	109,964,767	-	109,964,767
Deferred tax liability	-	-	-	-	1,106,223	-	1,106,223
Other liabilities	359,341	7,500,810	618,132	840,603	332,148	162,672	9,813,706
Total liabilities	6,235,893	7,504,067	22,628,995	27,681,544	139,317,936	162,672	203,531,107
Net position as at 31 December 2016	33,669,139	(3,234,359)	22,672,668	10,922,259	(44,817,180)	31,789,231	51,001,758
Net position as at 31 December 2015	27,184,331	1,703,580	21,077,382	(16,191,084)	(19,108,195)	32,733,774	47,399,788

24 Risk management, continued

(e) Liquidity risk, continued

The table below shows an analysis, by contractual maturities, of the amounts recognised in the consolidated statement of financial position as at 31 December 2015:

Assets	Less than 1 month KZT'000	1 to 3 months KZT'000	3 months to 1 year KZT'000	1 to 5 years KZT'000	More than 5 years KZT'000	No maturity KZT'000	Total KZT'000
Cash and cash equivalents	26,811,589	-	-	-	-	-	26,811,589
Placements with banks and other financial institutions	228,581	2,872,498	14,236,061	-	-	-	17,337,140
Available-for-sale financial assets	718,200	22,084	3,084,477	6,373,375	3,761,935	-	13,960,071
Loans to customers	1,006,129	1,048,306	4,752,474	26,190,387	48,757,911	-	81,755,207
Finance lease receivables	131,768	187,327	857,794	5,021,792	25,235,737	-	31,434,418
Current tax asset	-	-	-	-	-	2,310,235	2,310,235
Advances paid for acquisition and construction of real estate	-	273,880	13,826,120	11,816,895	-	-	25,916,895
Assets to be transferred under finance lease agreements	-	-	-	-	-	26,503,605	26,503,605
Construction in progress	-	-	9,644,010	-	-	-	9,644,010
Property and equipment	-	-	-	-	-	1,743,083	1,743,083
Investment property	-	-	-	-	-	1,606,119	1,606,119
Deferred tax asset	-	-	-	-	-	83,847	83,847
Other assets	19,180	1,158,007	2,764,212	1,504	3,447	486,885	4,433,235
Total assets	28,915,447	5,562,102	49,165,148	49,403,953	77,759,030	32,733,774	243,539,454
Liabilities							
Debt securities issued	1,023,760	-	9,841,581	47,118,147	-	-	57,983,488
Subordinated debt securities issued	-	-	197,778	9,783,897	-	-	9,981,675
Other borrowed funds	217,900	3,638,141	10,781,696	7,150,000	18,272,936	-	40,060,673
Deferred income	-	-	-	-	78,088,020	-	78,088,020
Other liabilities	489,456	220,381	7,266,711	1,542,993	506,269	-	10,025,810
Total liabilities	1,731,116	3,858,522	28,087,766	65,595,037	96,867,225	-	196,139,666
Net position as at 31 December 2015	27,184,331	1,703,580	21,077,382	(16,191,084)	(19,108,195)	32,733,774	47,399,788
Net position as at 31 December 2014	13,464,793	1,884,055	13,410,695	(49,095,807)	49,763,759	15,490,325	44,917,820

As at 31 December 2016 included in the category "More than 5 years" are overdue loans to customers and finance lease receivables with net book values of KZT 2,838,173 thousand and KZT 2,664,709 thousand, respectively (31 December 2015: KZT 6,822,892 thousand and KZT 1,145,391 thousand, respectively).

25 Capital management

The Company defines as capital the following items defined by statutory regulation as capital for mortgage companies:

Tier 1 capital, which is comprised of ordinary share capital, share premium, prior periods' statutory retained earnings, accumulated losses and reserves created thereof and preference shares (within 15% of ordinary share capital) less intangible assets and current year statutory losses;

Tier 2 capital is required for the purposes of calculation of total capital and is comprised of current year's statutory income, revaluation reserves, preference shares (in excess of 15% of ordinary share capital), qualifying subordinated liabilities and collective impairment allowance in the amount not exceeding 1.25% of credit risk-weighted assets.

Total capital, which is the sum of tier 1 capital and tier 2 capital (in the amount not exceeding tier 1 capital) less investments into equity or subordinated debt.

Various further limits and qualifying criteria are applied to the above elements of the capital base.

Under the current capital requirements set by the NBRK mortgage companies have to maintain:

- a ratio of tier 1 capital to total statutory assets (k1);
- a ratio of tier 1 capital to the sum of credit risk-weighted assets and contingent liabilities (k1-2);
- a ratio of total capital to the sum of credit risk-weighted assets and contingent liabilities and a quantitative measure of operational risk (k1-3).

	2016 KZT'000	2015 KZT'000
Tier 1 capital		
Share capital	55,528,939	55,528,939
General reserves	2,734,447	2,734,447
Additional paid-in capital	5,822,856	5,822,856
Intangible assets	(37,249)	-
Statutory accumulated losses for prior years	(14,967,570)	(18,788,692)
Total tier 1 capital	49,081,423	45,297,550
Tier 2 capital		
Reserves on revaluation of available-for-sale financial assets	(1,206,178)	(1,718,884)
Subordinated debt securities issued	1,990,893	3,913,559
Net profit for the year in accordance with the NBRK requirements	3,089,264	3,821,122
Total tier 2 capital	3,873,979	6,015,797
Total capital	52,955,402	51,313,347
Total statutory assets	254,532,865	243,539,454
Credit risk weighted assets and contingent liabilities	195,042,079	157,515,136
k1 ratio	19%	19%
k1-2 ratio	25%	29%
k1-3 ratio	27%	33%

25 Capital management, continued

As at 31 December 2016 and 2015 the minimum level of ratios as applicable to the Company are as follows:

- k1 – 6%
- k1-2 – 6%
- k1-3 – 12%.

26 Contingencies

(a) Insurance

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

(b) Litigation

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

(c) Taxation 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 consolidated 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 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 consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

27 Related party transactions

(a) Transactions with the members of the Management Board and Board of Directors

Total remuneration included in personnel expenses is as follows (refer to Note 6):

	<u>2016</u> <u>KZT'000</u>	<u>2015</u> <u>KZT'000</u>
Members of the Board of Directors	48,438	39,398
Members of the Management Board	85,885	88,963
	<u>134,323</u>	<u>128,361</u>

The above amounts include cash and non-cash benefits in respect of the members of the Management Board and Board of Directors.

The outstanding balances and average interest rates as at 31 December 2016 and 2015 for transactions with the members of the Management Board and the Board of Directors are as follows:

	<u>2016</u> <u>KZT'000</u>	<u>Average interest</u> <u>rate, %</u>	<u>2015</u> <u>KZT'000</u>	<u>Average interest</u> <u>rate, %</u>
Consolidated statement of financial position				
Loans to customers	16,646	10.72	7,629	8.50
Other liabilities	48,424	-	26,280	-

Amounts included in profit or loss in relation to transactions with the members of the Management Board and the Board of Directors for the year ended 31 December are as follows:

	<u>2016</u> <u>KZT'000</u>	<u>2015</u> <u>KZT'000</u>
Profit or loss		
Interest income	3,178	672

(b) Transaction with other related parties

Other related parties include Baiterek and its subsidiaries (together the "Baiterek Group") and other State organisations.

The amounts below are included in the statement of financial position, income statement and statement of comprehensive income for transactions with related parties as at 31 December 2016 and 2015:

	<u>2016</u> <u>KZT'000</u>	<u>2016</u> <u>KZT'000</u>	<u>2015</u> <u>KZT'000</u>	<u>2015</u> <u>KZT'000</u>
	<u>Baiterek</u> <u>Group</u>	<u>State</u> <u>organisations</u>	<u>Baiterek</u> <u>Group</u>	<u>State</u> <u>organisations</u>
Consolidated statement of profit or loss				
Interest income	701,021	198,277	218,500	277,051
Interest expense	(2,870,480)	(2,804,540)	(3,123,590)	(3,941,800)
Commission expense	-	(1,199)	-	(2,915)
Net foreign exchange loss	(88,861)	-	(12,075,385)	-
Net gain (loss) from repurchase of debt securities issued	4,972	-	(1,718)	-
Other income	5,044	21,569	6,977	9,432
General administrative expenses	(279,520)	(396,266)	(111,028)	(624,912)
Income tax expense	-	(1,399,395)	-	(1,670,970)
Other comprehensive loss				
Net change in fair value of available-for-sale financial assets	-	(18,437)	-	(172,472)

27 Related party transactions, continued

(b) Transaction with other related parties, continued

The balances with related parties as at 31 December 2016 include:

	Baiterek Group		State organisations	
	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %
Available-for-sale financial assets	-	-	2,430,021	6.60
Current tax asset	-	-	3,201,687	-
Other assets	1,007,820	-	79,262	-
Debt securities issued	7,486,498	11.09	23,866,262	9.65
Subordinated debt securities issued	-	-	3,396,179	9.76
Other borrowed funds	24,075,406	7.13	3,931,321	8.00
Deferred tax liability	-	-	1,106,223	-
Other liabilities	205,600	-	22,153	-
Revaluation reserve for available-for-sale financial assets	-	-	(315,991)	-

The balances with related parties as at 31 December 2015 include:

	Baiterek Group		State organisations	
	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %
Placements with banks and other financial institutions	11,718,500	9.50	-	-
Available-for-sale financial assets	-	-	4,379,229	6.06
Current tax asset	-	-	2,310,235	-
Advances paid for acquisition and construction of real estate	11,905,891	-	-	-
Deferred tax asset	-	-	83,847	-
Other assets	4	-	41,782	-
Debt securities issued	18,910,349	6.51	28,290,232	10.16
Subordinated debt securities issued	-	-	3,339,120	9.76
Other borrowed funds	14,687,024	7.01	3,647,704	8.00
Other liabilities	110,880	-	64,194	-
Revaluation reserve for available-for-sale financial assets	-	-	(297,554)	-

28 Financial assets and liabilities: fair values and accounting classification

(a) Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2016:

KZT'000	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	38,665,521	-	-	38,665,521	38,665,521
Placements with banks and other financial institutions	167,534	-	-	167,534	167,534
Available-for-sale financial assets	-	11,089,637	-	11,089,637	11,089,637
Loans to customers	56,535,641	-	-	56,535,641	55,427,563
Finance lease receivables	74,921,988	-	-	74,921,988	47,319,794
Other financial assets	3,577,329	-	-	3,577,329	3,577,329
	173,868,013	11,089,637	-	184,957,650	156,247,378
Debt securities issued	-	-	37,334,185	37,334,185	36,055,092
Subordinated debt securities issued	-	-	10,152,242	10,152,242	9,870,480
Other borrowed funds	-	-	35,159,984	35,159,984	34,029,467
Other financial liabilities	-	-	8,271,811	8,271,811	8,271,811
	-	-	90,918,222	90,918,222	88,226,850

28 Financial assets and liabilities: fair values and accounting classification, continued

(a) Accounting classifications and fair values, continued

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2015:

KZT'000	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	26,811,589	-	-	26,811,589	26,811,589
Placements with banks and other financial institutions	17,337,140	-	-	17,337,140	17,337,140
Available-for-sale financial assets	-	13,960,071	-	13,960,071	13,960,071
Loans to customers	81,755,207	-	-	81,755,207	79,653,830
Finance lease receivables	31,434,418	-	-	31,434,418	31,434,418
Other financial assets	3,837,985	-	-	3,837,985	3,837,985
	161,176,339	13,960,071	-	175,136,410	173,035,033
Debt securities issued	-	-	57,983,488	57,983,488	55,226,331
Subordinated debt securities issued	-	-	9,981,675	9,981,675	9,161,180
Other borrowed funds	-	-	40,060,673	40,060,673	38,599,256
Other financial liabilities	-	-	8,574,799	8,574,799	8,574,799
	-	-	116,600,635	116,600,635	111,561,566

28 Financial assets and liabilities: fair values and accounting classification, continued

(a) Accounting classifications and fair values, continued

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

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using other valuation techniques.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premium used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities.

For more complex instruments, the Group uses proprietary valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Example of instruments involving significant unobservable inputs includes certain loans and securities for which there is no active market.

The estimates of fair value are intended to approximate the amount for which a financial instrument can be exchanged between knowledgeable, willing parties in an arm's length transaction. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

(b) Fair value hierarchy

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

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

28 Financial assets and liabilities: fair values and accounting classification, continued

(b) Fair value hierarchy, continued

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

	2016 Level 2 KZT'000	2015 Level 2 KZT'000
Financial assets		
Available-for-sale financial assets	11,089,637	13,960,071
	11,089,637	13,960,071

As at 31 December 2016 and 2015 the Group does not have any financial instruments for which fair value is based on valuation techniques involving the use of non-market inputs.

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:

KZT'000	Level 2	Level 3	Total fair values	Total carrying amount
Assets				
Cash and cash equivalents	38,665,521	-	38,665,521	38,665,521
Placements with banks and other financial institutions	167,534	-	167,534	167,534
Loans to customers	55,181,335	246,228	55,427,563	56,535,641
Finance lease receivables	47,290,601	29,193	47,319,794	74,921,988
Liabilities				
Debt securities issued	36,055,092	-	36,055,092	37,334,185
Subordinated debt securities issued	9,870,480	-	9,870,480	10,152,242
Other borrowed funds	34,029,467	-	34,029,467	35,159,984

28 Financial assets and liabilities: fair values and accounting classification, continued

(b) Fair value hierarchy, continued

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:

KZT'000	Level 2	Level 3	Total fair values	Total carrying amount
Assets				
Cash and cash equivalents	26,811,589	-	26,811,589	26,811,589
Placements with banks and other financial institutions	17,337,140	-	17,337,140	17,337,140
Loans to customers	78,086,429	1,567,401	79,653,830	81,755,207
Finance lease receivables	31,434,418	-	31,434,418	31,434,418
Liabilities				
Debt securities issued	55,226,331	-	55,226,331	57,983,488
Subordinated debt securities issued	9,161,180	-	9,161,180	9,981,675
Other borrowed funds	38,599,256	-	38,599,256	40,060,673

29 Segment reporting

The Group's operations are highly integrated and constitute a single business segment for the purposes of IFRS 8 *Segment Reporting*. The Group's assets are concentrated in the Republic of Kazakhstan, and the Group's revenues are derived from operations in, and connected with, the Republic of Kazakhstan. The Chief Operating Decision Maker, in the case of the Group, the Chairman of the Management Board, only receives and reviews the information on the Group as a whole.